PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

January 16, 2013

MINUTES

Mr. Brian Tobin, Trustee, Chairman
Mr. Gregory Ferguson, Vice Chairman, Trustee
Mr. Jeff McHenry, Trustee
Ms. Randie Stein, Trustee – Excused – Attended at 2:11 p.m.
Mr. Richard Petrenka, Trustee
Mr. Lauren Kingry, Trustee
Mr. William Davis, Trustee
Mr. Jim Hacking, Administrator
Mr. Jared Smout, Deputy Administrator
Mr. Andrew Carriker, Chief Investment Counsel
Mr. Paul Corens, Lead Portfolio Manager
Mr. Anton Orlich, Lead Portfolio Manager
Mr. Mark Steed, Lead Portfolio Manager
Mr. Mark Selfridge, Lead Portfolio Manager
Ms. Michele Weigand, Senior Contracts Specialist
Mr. Sam Meier, IT Operations Manager
Mr. Marc Lieberman, Partner, Kutak Rock
Mr. Allan Martin, Partner, NEPC – Excused at 2:40 p.m.
Ms. Vaida Maleckaite, Investment Operations Analyst
Ms. Ivy Voss, Assistant Attorney General
Ms. Dianne McAllister – Public Policy Partners
Mr. John Kaites, Partner, Public Policy Partners

1. Call to Order; Roll Call; Opening remarks..................................................Mr. Brian Tobin
Chairman

2. Appropriate Action for approval of the Consent Agenda (documentation concerning the
matters on the consent agenda may be reviewed at the PSPRS office). Any matter on
the Consent Agenda will be removed from the Consent Agenda and discussed as a
regular agenda item upon the request of any member of the Board of Trustees.

a. Acceptance of Elected Officials Retirement Plan of normal retirement benefit of
John R. Armer
b. Acceptance of Elected Officials Retirement Plan of normal retirement benefit of
Pauline M. Begay
c. Acceptance of Elected Officials Retirement Plan of normal retirement benefit of
Marsha K. Bonham
d. Acceptance of Elected Officials Retirement Plan of normal retirement benefit of
Thomas W. Brady
e. Acceptance of Elected Officials Retirement Plan of early retirement benefit of R.
Fulton Brock
Acceptance of Elected Officials Retirement Plan of early retirement benefit of Gerald Brownlow
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Michael J. Burke
Acceptance of Elected Officials Retirement Plan of survivor benefit of Clarice Christensen
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Jimmy Claw
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Shirley Dawson
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Ann Day
Acceptance of Elected Officials Retirement Plan of early retirement benefit of Daisy Flores
Acceptance of Elected Officials Retirement Plan of termination of disability retirement of David J. Haas
Acceptance of Elected Officials Retirement Plan of early retirement benefit of Mark C. Herrington
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of L. Paul Larkin
Acceptance of Elected Officials Retirement Plan of early retirement benefit of Ann R. Littrell
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Laura B. Lytle
Acceptance of Elected Officials Retirement Plan of early retirement benefit of Sheila A. Madden
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Ralph Odgen
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Candace Denise Owens
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Caesar Ramirez
Acceptance of Elected Officials Retirement Plan of early retirement benefit of Orlanda F. Roberts
Acceptance of Elected Officials Retirement Plan of early retirement benefit of David P. Snider
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Thomas K. Sockwell
Acceptance of Elected Officials Retirement Plan of termination of normal retirement benefit of C. William Soderquist
Acceptance of Elected Officials Retirement Plan of survivor benefit of Christine H. Soderquist
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Donald Stapley
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Carlos E. Taylor, Jr.
Acceptance of Elected Officials Retirement Plan of early retirement benefit of Steven N. Tucker
Acceptance of Elected Officials Retirement Plan of normal retirement benefit of James P. Walsh
ee. Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Robert Gayle Weaver
ff. Acceptance of Elected Officials Retirement Plan of early retirement benefit of James P. Weiers
gg. Acceptance of Elected Officials Retirement Plan of normal retirement benefit of Gail A. Wight
hh. Acceptance of Transfer Between State Retirement Systems of Juan Huicochea Jr.
ii. Acceptance of Transfer Between State Retirement Systems of Kary Monteton
jj. Acceptance of Transfer Between State Retirement Systems of Kristen Minnick
kk. Acceptance of Transfer Between State Retirement Systems of Debra Cullen
ll. Acceptance of Transfer Between State Retirement Systems of Darlene Logan
mm. Acceptance of Transfer Between State Retirement Systems of Barry R. Jacobs

**MOTION: 1-46-13** At 1:02 p.m.
Motion: To approve the Consent Agenda.
Moved by: Mr. Ferguson
Seconded by: Mr. Kingry
Discussion: None
In Favor: Unanimous
Motion: Passes

3. **Appropriate Action** regarding the Minutes of the December 19, 2012 Meeting of the PSPRS Board of Trustees..........................................................Mr. Brian Tobin

**MOTION: 1-47-13** At 1:02 p.m.
Motion: To approve the Minutes of the December 19, 2012 Meeting of the PSPRS Board of Trustees.
Moved by: Mr. Ferguson
Seconded by: Mr. McHenry
Discussion: None
In Favor: Unanimous
Motion: Passes

Report by Mr. Richard Petrenka, Chairman of the Investment Committee, regarding agenda items 4. through 10. which were discussed at the Investment Committee meeting held today, January 16, 2013, on or after 10:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

4. **Report by Investment Department Staff and possible discussion regarding an intra-month redemption of assets from Gracie Zona L.P.**..........................................................Mr. Mark Steed  
..........................................................................................................................Lead Portfolio Manager

Mr. Steed reported that Staff submitted intra-month redemption notices to Gracie Zona L.P. and Viridian Fund, Ltd. The investment in Gracie Zona has decreased (-4.72%) since inception and Viridian has decreased (-1.25%) since inception. The redemption letter for Gracie Zona is effective February 2, 2013 and for Viridian, the letter is effective March 31, 2013. He said Investment Staff submitted the redemption notices due to potential material changes and that Staff will continue to monitor the event.
Mr. Martin of NEPC reported that with key person or other material changes, investors must be notified in order to give the investor a chance to conduct due diligence regarding a business changing event. This is not unusual and permits the investor to make a judgment as to whether or not to redeem before the effective date. Redemption notices might be rescinded.

The Board of Trustees requested that a Redemption Log be kept.

5. Report by Investment Department Staff and possible discussion regarding an intra-month redemption of assets from Viridian Fund, Ltd. Mr. Mark Steed

See Minutes item 4. above.

6. Manager Selection Report by Investment Department Staff and discussion regarding an investment of up to $30 million direct, with an additional $20 million for potential co-investment, in EnCap Investment L.P. Fund IX or any appropriate feeder, blocker, affiliated or parallel fund or subsidiary of the same, subject to final Staff and/or legal due diligence. Mr. Paul Corens

Mr. Corens reported that EnCap, which invests in U.S. gas and oil by underwriting teams that already have established investment opportunities will be held in the Real Assets portfolio. At this time they have 143 realized investments. Mr. Martin added that Albourne, StepStone, Staff and NEPC approve of this manager based upon PSPRS guidelines and procedures.

7. Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance of the portfolio. Mr. Paul Corens

The Trust was up 125 basis points as compared to the benchmark which was up 94 basis points for the month. Fiscal Year-to-Date, the Trust increased 6.01% versus 5.56% for the benchmark. Results for Real Assets and Real Estate were not available due to a lag in reporting for those asset classes. Since the monthly meeting schedule for the Board has been rescheduled to occur earlier in the month and final monthly closing numbers generally are not available from the Trust’s custodian the Board requested Staff present the performance report on a one month lag and to distribute the month just ended report the day of the meeting.

8. Presentation by Investment Department Staff and discussion regarding the Trust's investment in LSRC II S.À.R.L (Drug Royalty II) managed by DRI Capital, Inc. Mr. Mark Selfridge

Mr. Selfridge reported that the investment returns for LSRC II since 2009 have met Staff’s expectations. LSRC II purchases drug royalty streams based on drugs approved by regulators for use in medically necessary conditions. Their absolute returns have characteristics uncorrelated to public and private markets.
9. Presentation by Investment Department Staff and discussion regarding the Trust’s investment in KKR Equity Strategies L.P. managed by Kohlberg Kravis Roberts & Co. Mr. Anton Orlich, Lead Portfolio Manager

Mr. Orlich stated that this is the first anniversary of our investment in KKR Equity Strategies which is a long/short investor in the area of U.S. Equities. The return for the year was 7.26% versus a return of 3.99% for the benchmark. Our outlook for the next year is constructive.

10. Report by Investment Department Staff regarding Portfolio Risk for the Quarter Ended September 30, 2012 Mr. Mark Selfridge

Mr. Selfridge reported on the Trust’s currency exposures, geographic exposures, the top and bottom five performers within the portfolio for the past twelve months and the top ten investment positions. A discussion was held regarding liquidity and illiquidity as well as the earnings projections for private equity and real estate.

11. Report by the System’s Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions as of December 31, 2012 Ms. Bridget Feeley

Ms. Feeley was excused.

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 12. through 18. which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, January 16, 2013, on or after 11:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

12. Presentation of the Month-to-Date Budget Report for FY 2013 and possible Action on same Mr. John Hendricks, Manager of Finance and Accounting

The legal expenses are above the projected budget; however, the overage amounts are shrinking.

13. Update on the progress of the Local Board Training Program and discussion and possible Action regarding the same Mr. Robert Ortega, Local Board Training Coordinator and Human Resources Manager

Mr. Don Mineer, Local Board Training Specialist

An audit conducted in 2012 of the Local Boards revealed that 46 Local Boards have not submitted minutes and each of these Local Boards will be contacted by the Local Board Training Staff.
14. Presentation of the “Requests for Local Board Rehearing” Report for the current month
...........................................................................................................................................Mr. Jim Hacking
...........................................................................................................................................Administrator

The “Requests for Local Board Rehearing” Report was in the information provided the Board of Trustee members.

15. Review, discussion and possible Action regarding the January 2013 Kutak Rock and other law firms’ billings for legal services performed in December 2012
................................................................................................................................................Mr. Jim Hacking

The January 2013 Kutak Rock and other law firms’ billings for legal services performed in December 2012 was approved for payment by the Operations, Governance Policy and Audit Committee this morning.

16. Presentation and update of the changes to the administrative amendments bills for the 2013 legislative session and possible Action on same
................................................................................................................................................Mr. Jared Smout
................................................................................................................................................Deputy Administrator

Mr. Smout stated there have been no substantial changes to the administrative amendments bills from last month. Mr. Kaites and Ms. McAllister did say that the original draft bill was split into three bills -- one each for PSPRS, CORP and EORP. The biggest issue this session will be a proposal to close the existing EORP defined benefit plan and put all new hires in a defined contribution plan. Mr. Hacking added that we want to make sure that the PSPRS constituency groups have time to review the administrative amendments so as to give them opportunity for input prior to hearings.

17. Discussion and possible Action with respect to the device to be acquired to enable PSPRS Trustees (and necessary consultants and staff) to access Board-related agenda materials electronically
................................................................................................................................................Mr. Jim Hacking

The members of the Board were asked to pick one device from a list of recommended devices. Mr. Hacking said that the HP products are cost effective and were the top recommendation of the IT Staff. Discussion was held regarding laptops and tablets. It was suggested that each Board member have an e-mail address for PSPRS use only. An 11” MacBook Air with 64 gigabytes of storage was suggested. Mr. Lieberman advised keeping public and private correspondence separate.

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<tr>
<th>MOTION: 1-48-13</th>
<th>At 2:17 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To have Staff purchase 11” MacBook Air 64 gigabytes devices for those members of the Board who want them.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Petrenka</td>
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<tr>
<td>Seconded by:</td>
<td>Mr. Kingry</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
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<td>In Favor:</td>
<td>Unanimous</td>
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<tr>
<td>Motion:</td>
<td>Passes</td>
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18. Report and possible Action on FY 2013 Compliance and Internal Audit Plan
Ms. Bridget Feeley

Ms. Feeley was excused.

19. Review of the SB 1609 Study Committee Final Report and possible Action to comply with whatever may be required
Mr. Brian Tobin

Mr. Tobin, representing the PSPRS Board of Trustees and Mr. Kingry, representing the Board of Investments, participated in the SB1609 Study Committee meetings. Copies of the Final Report were sent to the Governor, the Senate President and the House Speaker. This report gives direction and information to lawmakers and recommendations to the elected officials. One item requires that the retirement plans report annually to the legislature the unfunded liability of the funds using a discount rate that reflects the cost of borrowing for the state (which is a new GASB rule). Another item requires a report that reflects the expected investment return for the plan. This information is already in the PSPRS Comprehensive Annual Financial Report. The retirement plans are to encourage contributing employers to use the DC plans provided by the state (rather than those of their own) for deferred compensation.

Also the report recommends that PSPRS examine the creation through legislation of regional Boards for determining disability claims to provide a more consistent and uniform method of determining eligibility. A regional approach is probably more logical than a single state-wide system. Chairman Tobin directed the Operations, Governance Policy and Audit Committee work on this topic.

The recommendations of the report were discussed for the purpose of clarification and Mr. Hacking will obtain input from all constituents.

20. Discussion and appropriate Action regarding Board of Trustee member requests to participate in training, educational and due diligence opportunities
Mr. Brian Tobin

There were no requests.

21. Discussion and consultation with legal counsel and Staff and possible Action regarding proposed legislation, investment matters, ongoing, contemplated or threatened legal action involving the Trust and Plans, including vendor disputes, public record requests, personnel matters and actual or potential litigation and claims based on contract, tort or statute, including matters involving BNY Mellon, judges Thompson and Hall, retired judges Fields and Lankford, retired police officers Rappleyea and Everson, active police officers Parker, Griego, Manganiello and Robles, Cross, the Pivotal Group, the Seldins, Bank of America and Stroh Ranch Development and Timbervest. The Board may vote to discuss these matters in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(1), (2), (3), (4) and (7) as set forth in item 22.
a. Discussion and possible **Action** to approve a proposed settlement with the Bank of New York Mellon to reduce the Trust’s annual fees paid the Bank in exchange for an extension of the Trust’s custody agreement with the Bank for an additional five years and the Trust’s release of claims relating to the Bank’s provision of certain services to the Trust. Notice: A copy of the settlement, if approved by the Board of Trustees, shall be available for public inspection at the Trust’s offices by all persons requesting a copy of same.

22. The Board of Trustees may vote to go into Executive Session (which will not be open to the public) to discuss matters pursuant to A.R.S. §§ 38-431.03(A) (1), (2), (3), (4) and (7), as applicable, including to obtain legal advice from the Board’s attorneys on any matter listed on the agenda, including:

a. Status report from Ben Cooper of Steptoe & Johnson LLP regarding the four (4) lawsuits challenging provisions of Senate Bill 1609, which lawsuits involve judges Thompson and Hall, retired judges Fields and Lankford, retired police officers Rappleyea and Everson, and police officers Parker, Griego, Manganiello and Robles, as authorized by A.R.S. § 38-431.03(A)(4).

b. Discussion with legal counsel (and possible recommendation to the Board of Trustees) about legal developments, claims and issues (including settlement discussions) involving investment-related public record requests as well as the Trust and Plans’ contracts and investments, including legal matters concerning the Trust’s and Plans’ custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venturers (as well as any investments managed by the Trust’s or Plans’ investment managers or joint venturers), as authorized by A.R.S. §§ 38-431.03(A) (2), (3), (4) & (7). Matters discussed may include claims or potential claims by, against or involving (or issues concerning) BNY Mellon, Stroh Ranch Development, Timbervest, The Pivotal Group, Bank of America, and/or Millard and Scott Seldin. Discussion may also include the Trust’s negotiations regarding disposition of its joint venture real estate portfolios, as authorized by A.R.S. § 38-431.03(A)(7).

c. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans or Trust not otherwise referenced above, including internal investigations, public record requests, and actual or potential litigation and claims based on contract, tort or statute, including one involving Jack Cross, pursuant to A.R.S. §§ 38-431.03(A) (2), (3) and (4).

d. Discussion about a proposed settlement with the Bank of New York Mellon to reduce the Trust’s annual fees paid the Bank in exchange for an extension of the Trust’s custody agreement with the Bank for an additional five years and the Trust’s release of claims relating to the Bank’s provision of certain services to the Trust. Notice: A copy of the settlement, if approved by the Board of Trustees, shall be available for public inspection at the Trust’s offices by all persons requesting a copy of same.
At 2:38 p.m.

**MOTION: 1-49-13**

**Motion:** To recess Open Session and enter Executive Session.

**Moved by:** Unknown

**Seconded by:** No second

**Discussion:** None

**In Favor:** Unanimous

**Motion:** Passes

At 3:12 p.m.

**MOTION: 1-50-13**

**Motion:** To approve the settlement with Bank of NY Mellon to reduce the Trust's annual fees paid to the bank in exchange for an extension of the Trust's custody agreement with the bank for an additional five years and the Trust's release of claim in relation to the Bank’s provision of certain services to the Trust all as specified in the copy of the settlement with the Trust’s Custodian of Records for review by the public.

**Moved by:** Mr. Ferguson

**Seconded by:** Mr. Mc Henry

**Discussion:** None

**In Favor:** Unanimous

**Motion:** Passes

23. **Call to the Public**

This is the time for the public to comment. Members of the Board of Trustees may not discuss items that are not specifically identified on the agenda, except to address criticism from the public. Therefore, pursuant to A.R.S. § 38-431.01(H), the Board of Trustees’ reaction to any public comment is limited to addressing criticism or recommending that the Board of Trustees or Staff respond or study such comment or schedule the subject matter for further consideration at a later date after appropriate notice.

There was no response to the Call to the Public.

24. **Set the next meeting date. (Currently scheduled for Wednesday, February 20, 2013.)**

The next meeting will be held on Wednesday, February 20, 2013.

25. **Adjournment**

The meeting was adjourned at 3:14 p.m.
Brian P. Tobin, Chairman

Gregory Ferguson, Trustee, Vice Chairman

Randie A. Stein, Trustee

Jeff Allen McHenry, Trustee

Richard J. Petrenka, Trustee

Lauren Kingry, Trustee

William C. Davis, Trustee