PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM  
BOARD OF TRUSTEES MEETING  
March 26, 2014  

MINUTES  

Present: Mr. Brian Tobin, Chairman, Trustee  
Mr. Gregory Ferguson, Vice Chairman, Trustee  
Mr. Jeff McHenry, Trustee  
Ms. Randie Stein, Trustee – Excused from 1:19 p.m. to 2:35 p.m.  
Mr. Richard Petrenka, Trustee  
Mr. Lauren Kingry, Trustee - Excused  
Mr. William Davis, Trustee  

Others Present: Mr. Jim Hacking, Administrator  
Mr. Jared Smout, Deputy Administrator  
Mr. Ryan Parham, Chief Investment Officer  
Mr. Marty Anderson, Deputy Chief Investment Officer  
Ms. Ivy Voss, Assistant Attorney General  
Mr. Shan Chen, Lead Portfolio Manager - Excused  
Mr. Mark Steed, Lead Portfolio Manager and Chief of Staff  
Ms. Vaida Maleckaitaite, Investment Operations Analyst  
Mr. Mark Lundin, Deputy Chief Investment Officer  
Ms. Leslie Clark, Senior Financial Accountant/Great Plains DBA  
Mr. Marc Lieberman, Fiduciary Counsel, Kutak Rock  
Mr. Don Stracke, Senior Consultant, NEPC, LLC  
Ms. Bridget Feeley, Internal Audit and Compliance Officer  
Ms. Dianne McAllister, Public Policy Partners  
Mr. Mark White, Albourne Partners  

1. Call to Order; Roll Call; Opening remarks  

Mr. Brian P. Tobin  
Chairman  

The meeting was called to order by Chairman Tobin at 1:00 p.m.  

2. 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.
3. Appropriate **Action** for approval of the items on 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.

   b. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Carolyn Hathaway.
   d. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of Edgar E. Wilker.
   e. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Ruth C. Wilker.
   f. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of Tony Nawfel.
   g. Acceptance of Transfer Between State Retirement Systems of Ted Direen.
   h. Acceptance of Transfer Between State Retirement Systems of Eric Davis.
   i. Acceptance of Transfer Between State Retirement Systems of Joe R. Mason.
   j. Acceptance of Transfer Between State Retirement Systems of Victor Hambrick.
   k. Acceptance of Transfer Between State Retirement Systems of Bernie Bronson.
   l. Acceptance of Transfer Between State Retirement Systems of Gregory Ruiz.
   m. Acceptance of Transfer Between State Retirement Systems of Steven Paul.
   n. Acceptance of Transfer Between State Retirement Systems of Warren Voight.
   o. Acceptance of Transfer Between State Retirement Systems of Jeff Smith.
   q. Acceptance of Transfer Between State Retirement Systems of Mary E. Dolciame.
   r. Acceptance of Transfer Between State Retirement Systems of Rich Van Galder, Jr.
   s. Acceptance of Transfer Between State Retirement Systems of Cynthia Benson.
   t. Acceptance of Transfer Between State Retirement Systems of Theodore Forgach.
   u. Acceptance of Transfer Between State Retirement Systems of Jeffrey Bell.
   v. Acceptance of Transfer Between State Retirement Systems of Fernando Icedo.
   w. Acceptance of Transfer Between State Retirement Systems of John Dyess.
   x. Acceptance of Transfer Between State Retirement Systems of Herbert Groll, Jr.
   y. Acceptance of Transfer Between State Retirement Systems of Toye Nash.
   z. Acceptance of Transfer Between State Retirement Systems of Anna Begay.
   aa. Acceptance of Transfer Between State Retirement Systems of Mark Pooley.
   bb. Acceptance of Transfer Between State Retirement Systems of Michael Barnes.
   ff. Acceptance of Transfer Between State Retirement Systems of Kim Boardman.
   gg. Acceptance of Transfer Between State Retirement Systems of Ernest Carson.
MOTION: 1 – 3/26/14
Motion: To move to approve the Consent Agenda as presented.
Moved by: Mr. Ferguson
Seconded by: Mr. Petrenka
Discussion: None.
In Favor: Unanimous
Motion: Passes

4. Appropriate Action regarding the Minutes of the February 26, 2014 and March 7, 2014, Regular and Special Meetings of the PSPRS Board of Trustees.

Mr. Brian P. Tobin

MOTION: 2 – 3/26/14
Motion: To move to approve the Minutes of the February 26, 2014 PSPRS Board of Trustees as presented.
Moved by: Mr. Ferguson
Seconded by: Mr. Petrenka
Discussion: None.
In Favor: Unanimous
Motion: Passes

5. Appropriate Action regarding the Second Amendment to Joinder Agreement with the Rio Verde Fire District.

Mr. Brian P. Tobin

MOTION: 3 – 3/26/14
Motion: To approve the Second Amendment to Joinder Agreement with the Rio Verde Fire District.
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 6. through 11., which were discussed at the Investment Committee meeting held today, March 26, 2014, on or after 10:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

6. Report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of January 31, 2014; (ii) a written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program; and (iii) an overview of the securities lending program.

Ms. Vaida Maleckaite
Sr. Investment Operations Analyst
For the Month-to-Date, performance of the Trust performance was down 1.09% as compared to the performance of the benchmark which decreased 1.19%. Regarding the Fiscal Year-to-Date, the Trust was up 6.53% which was 70 basis points lower than the benchmark. For the Calendar Year-to-Date the Trust increased by 9.91% which was 82 basis points above the benchmark of 9.09%.


   Mr. Mark Lundin  
   Deputy Chief Investment Officer – Risk

This report was presented to the Investment Committee Meeting this morning and there are no areas of concern at this time.

8. Presentation and discussion regarding the role of leverage in institutional investment portfolios.

   Mr. Mark Lundin

Mr. Parham reported that there have been and will be more conversations with the Investment Committee and then at another meeting, Mr. Lundin will make a presentation to the Board regarding leverage and the role of leverage in institutional investment portfolios.

9. Presentation and discussion by Investment Department Staff and Specialty Consultants regarding the annual Overview and Strategic Plan for the Real Assets portfolio.

   Mr. Marty Anderson  
   Deputy Chief Investment Officer

Mr. Anderson and Mr. White of Albourne presented the Overview and Strategic Plan for the Real Assets Portfolio. This portfolio was designed to provide inflation protection with a mix of assets in order to earn an attractive rate of return while waiting for an inflationary environment to occur. A description was given as to how investments are made in real assets such as timber, infrastructure, commodities, mining and farmland. Staff is still building this portfolio with the help of the System’s investment consultants. Also discussed were the benefits of real assets, performance as a volatility damper, liquid and illiquid real assets, portfolio fit, benchmarks and challenges. A question and answer period was held.

10. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to $40 million with ORG Portfolio Management or its affiliates in the AZ Real Estate Secondary Opportunity Fund, subject to final Staff and legal due diligence.

   Mr. Marty Anderson

Mr. Petrenka noted that this was a consent item.

11. Report by the Chief Investment Officer regarding Manager Selections for which Staff has completed legal and other due diligence.

   Mr. Ryan Parham
This was a consent item.


   Ms. Bridget Feeley
   Internal Audit and Compliance Officer

Ms Feeley reported that all the asset class portfolios in compliance with respect to their asset allocation targets and ranges.

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 13. through 21., which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, March 26, 2014, on or after 11:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

13. Presentation of the Month-to-Date Budget Report for FY 2014 and possible Action on same.

   Mr. John Hendricks
   Manager of Finance and Accounting

PSPRS is projected to be 5.05% over budget at the end of the fiscal year, due to legal expenditures.

14. 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

The Local Board Training Report was in the packet of information for the meeting.

15. Presentation of the "Requests for Local Board Rehearing" Report for the current month.

   Mr. Jim Hacking
   Administrator

Mr. Hacking reported that there are two outstanding requests. One will be resolved quickly and for the other request, clarification needs to be made as to the nature of the condition of the individual with the use of a new Independent Medical Examination.


   Mr. Jim Hacking

The Operations, Governance Policy and Audit Committee voted to pay the March, 2014 legal billings in the amount of $180,784.54.


   Ms. Bridget Feeley
Ms. Feeley reported that the Internal Audit Plan has been updated. She also gave a report on her review of staff access to the shared drive (the “S” drive) to assess the new restrictions that had been incorporated by the IT staff. She told the Board that her review was complete and that her report contained no exceptions. As a final matter, she discussed the development of a new insider trading policy for the investment staff.

18. Update on member information security issue.

Mr. Jared A. Smout  
Deputy Administrator

Mr. Smout reported that there are just over 6,000 members enrolled in the LifeLock program for information security protection.

19. Discussion regarding the member database and the server that supports it; and presentation and discussion with respect to the review of internal security that was conducted by the IT Operations staff.

Mr. Jim Hacking  
Mr. Alex Neff  
Systems Engineer

The written internal security report was discussed during the Operations, Governance Policy and Audit Committee meeting which was held this morning. The Shared Drive is on a separate server.

20. Status report and discussion about the Fire Fighter and Peace Officer Cancer Insurance Policy Program and possible Action regarding the notification process and premium.

Mr. Jared A. Smout  
Ms. Bonnie Brown  
Retired Members Manager

Mr. Smout reported that there is a reserve of $22 million and that there is no change in the Fire Fighter and Peace Officer Cancer insurance annual premium of $50.

21. Update on legislation relating to PSPRS-administered Plans.

Mr. Jared A. Smout

Ms. Dianne McAllister of Public Policy Partners presented the legislative update. She reported that HB2060, the PSPRS oversight bill has been killed for this session. She also reported that a decision was made not to move forward with HB2203, which would have changed the make-up of the PSPRS Board. She finished by saying that HB2058, which would limit the amount of compensation that would be “pensionable” to $150,000 per year, is continuing to move through the legislative process.


Mr. Jim Hacking
Mr. Hacking reported that legislative staff and policy makers had requested an analysis of what the employer contribution rate should be to support the now closed EORP defined benefit plan (DB) and the newly opened EORP defined contribution plan in order to fully pay off the DB’s unfunded liability within thirty years. The current statutory rate of 23.5% of payroll to be paid over the next thirty years by employers was set by legislation enacted last session. At the time legislature was considering that legislation, the PSPRS staff made policymakers aware of a number of risks that could cause the statutory 23.5% employer rate to rise. One of those risks involved the Arizona Supreme Court’s overturning any of the key components of the pension reform bill, SB 1609. Since the Arizona Supreme Court has now acted in the Fields case to declare unconstitutional the COLA changes that were made by SB1609, the legislature will now have to act to increase the EORP employer contribution rate. Mr. Hacking reported that GRS, the System’s actuary, has projected that the employer fixed rate to be paid over thirty years will need to be at least 32% as a result of the Fields case. He added that the Supreme Court will have to address other SB1609 changes when it has the Hall case before it. He finished by saying that if the legislature wants to be prudent, they should take the GRS actuary’s advice and set the new statutory rate not at 32% but at 37.5% to provide a cushion just in case some of the actuarial assumptions turn out to be overly optimistic. A copy of this GRS report has been sent to legislature.

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

   Brian P. Tobin

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<thead>
<tr>
<th>MOTION: 4 – 3/26/14</th>
<th>At 2:58 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To move to approve travel, registration and per diem for Ms. Stein to attend the Association of Public Pension Plan Auditor's Conference.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Tobin</td>
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<tr>
<td>Seconded by:</td>
<td>Mr. Petrenka</td>
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<tr>
<td>Discussion:</td>
<td>None.</td>
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<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
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24. Discussion and consultation with legal counsel and Staff and possible Action regarding IRS determination letter requests, 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, judges Thompson and Hall, retired judges Fields and Lankford, retired police officers Rappleyea and Everson, active police officers Parker, Griego, Manganiello and Robles, Jack Cross, Anton Orlich, the Pivotal Group, the Seldins, Stroh Ranch Development, Timbervest, Jennifer Wright, Desert Troon Companies and Judicial Watch, as well as claims raised by the survivors of deceased fire fighters John Percin, Jr., Sean Misner and Garret Zuppiger. 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 25.
25. 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) regarding IRS determination letter requests and 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 custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venturers (as well as any investments managed by the Trust’s 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) Stroh Ranch Development, Timbervest, the Pivotal Group, Desert Troon Companies, Judicial Watch 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 claims involving Jack Cross, Anton Orlich and Jennifer Wright, as well as claims raised by the survivors of deceased fire fighters John Percin, Jr., Sean Misner, and Garret Zuppiger, all as authorized by A.R.S. §§38-431.03(A) (2), (3) and (4).

   | MOTION: 4 – 3/26/14 | At 2:59 p.m. |
   | Motion: | To move to enter Executive Session regarding items 25 a, b, and c. |
   | Moved by: | Mr. Ferguson |
   | Seconded by: | Mr. McHenry |
   | Discussion: | None. |
   | In Favor: | Unanimous |
   | Motion: | Passes |

26. Set the next meeting date. (Currently scheduled for Wednesday, April 23, 2014.)

The next meeting will be held on Wednesday, April 23, 2014.
27. Adjournment.

The meeting was adjourned at 5:20 p.m.

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Brian P. Tobin, Chairman

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Gregory Ferguson, Trustee, Randie A. Stein, Trustee
Vice Chairman

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Jeff Allen McHenry, Trustee Richard J. Petrenka, Trustee

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EXCUSED
Lauren Kingry, Trustee William C. Davis, Trustee

Board of Trustees Meeting
March 26, 2014