CALL TO ORDER; ROLL CALL; OPENING REMARKS

The meeting was called to order at 1:02 p.m. by Chairman Tobin. All seven Board members were present. The Board was cautioned to remember that the meeting is being viewed live on “Go to Meeting” and that they should therefore use the microphones when speaking.

1. 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 Transfer Between State Retirement Systems of John Sutto.
   b. Acceptance of Transfer Between State Retirement Systems of Grace Marin-Woolsey.
   c. Acceptance of Transfer Between State Retirement Systems of Brian Swan.
   d. Acceptance of Transfer Between State Retirement Systems of Jeffrey Flocken.
   e. Acceptance of Transfer Between State Retirement Systems of Jason Milne.
f. Acceptance of Transfer Between State Retirement Systems of Jennifer Crothers.

g. Acceptance of Transfer Between State Retirement Systems of Pete Ramos.

h. Acceptance of Transfer Between State Retirement Systems of Michael Para.

i. Acceptance of Transfer Between State Retirement Systems of James Shultz.

j. Acceptance of Transfer Between State Retirement Systems of Elioardio Pompa.

k. Acceptance of Transfer Between State Retirement Systems of Bryan Richards.

l. Acceptance of Transfer Between State Retirement Systems of David Ware.

m. Acceptance of Transfer Between State Retirement Systems of Charles Higgins.

n. Acceptance of Transfer Between State Retirement Systems of Matthew Stapley.

o. Acceptance of Transfer Between State Retirement Systems of Pamela Swearingin.

p. Acceptance of Transfer Between State Retirement Systems of Lynn Smith.

q. Acceptance of Transfer Between State Retirement Systems of Kendall Moreland.

r. Acceptance of Transfer Between State Retirement Systems of Douglas Poage.

s. Acceptance of Transfer Between State Retirement Systems of James Mc Guffin.

t. Acceptance of Transfer Between State Retirement Systems of Bradley Leakey.

u. Acceptance of Transfer Between State Retirement Systems of Thomas Stokes.

v. Acceptance of Transfer Between State Retirement Systems of Tara Diaz.

w. Acceptance of Transfer Between State Retirement Systems of Troy Arthur.

x. Acceptance of Transfer Between State Retirement Systems of Christopher Toth.

y. Acceptance of Transfer Between State Retirement Systems of William Burney.

z. Acceptance of Transfer Between State Retirement Systems of Antonette Hommel.

aa. Acceptance of Transfer Between State Retirement Systems of Jerry Gannon.

bb. Acceptance of Transfer Between State Retirement Systems of Jaime Escobedo.

cc. Acceptance of Transfer Between State Retirement Systems of Teresa Harvey.

dd. Acceptance of Transfer Between State Retirement Systems of Alan Laitisch.

ee. Acceptance of Transfer Between State Retirement Systems of Michael Fulleton.

ff. Acceptance of Transfer Between State Retirement Systems of Patrick Daily.

gg. Acceptance of Transfer Between State Retirement Systems of Joe Margardino.

hh. Acceptance of Transfer Between State Retirement Systems of Robert Seils.

ii. Acceptance of Transfer Between State Retirement Systems of Steven Scott.

jj. Acceptance of Transfer Between State Retirement Systems of Michael Colvin.

kk. Acceptance of Transfer Between State Retirement Systems of Mark Franzen.

ll. Acceptance of Transfer Between State Retirement Systems of Clayton Thompson.

mm. Acceptance of Transfer Between State Retirement Systems of Kirk Redfern.

nn. Acceptance of Transfer Between State Retirement Systems of John Day.

oo. Acceptance of Transfer Between State Retirement Systems of Jeff Brandenberger.

pp. Acceptance of Transfer Between State Retirement Systems of Mark De Bruyckere.

qq. Acceptance of Transfer Between State Retirement Systems of Julie Shelley.

rr. Acceptance of Transfer Between State Retirement Systems of Galen Reifsneider.

ss. Acceptance of Transfer Between State Retirement Systems of Scott Rash.

tt. Acceptance of Transfer Between State Retirement Systems of Troy Lewis.

uu. Acceptance of Transfer Between State Retirement Systems of Samuel Goddard.


ww. Acceptance of Transfer Between State Retirement Systems of Oscar Cortez.


zz. Acceptance of Elected Officials’ Retirement Plan of normal split benefit of Cora Romine.

aaa. Acceptance of Elected Officials’ Retirement Plan of normal split benefit of John Ore.

bbb. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Bertha Chilcoat.


ddd. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Thomas Hardin.
fff. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Thomas Wing.
hhh. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Manuel Alvarez.
iii. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Ray Barnes.
kkk. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Robert Caccamo.
nnn. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Barbara Leff.

2. (Agenda item #12) Status report regarding Fiscal Year 2011 legislative initiatives and possible Recommendation(s)……………………………………………………………………..Mr. Jim Hacking Administrator

Mr. Doug Cole of HighGround summarized the status of the PSPRS legislation. He stated that PSPRS has three reform bills that have been introduced in the House under Rep. Robson’s name. Rep. Robson is Chair of the Employment and Regulatory Affairs Committee. At this point in time, we have not seen Speaker Adams’ promised “pension reform” bill nor have we seen the reform bill that is to be the end product of the weekly stakeholder meetings held in the Senate. Therefore, we expect to see at least five reform bills – namely the three initiated by the Board, and those that will be produced by Speaker Adams in the House and another one in the Senate.

Two other PSPRS bills have been introduced in the Senate by Senator Yarbrough. One addresses technical issues and the other makes explicit certain powers of the PSPRS Board. Mr. Cole also told the Board that every Friday at 10 a.m. there is a stakeholder meeting for the PSPRS constituent group representatives and representatives of the Arizona State Retirement System (ASRS).

3. Appropriate Action regarding the Minutes of the December 6, 2010 Meeting of the PSPRS Board of Trustees………………………………………………………………………..Mr. Brian Tobin

MOTION 1-77-11 At 1:04 p.m.
Motion: To move acceptance of the Consent Agenda as presented.
Moved by: Mr. Maguire
Seconded by: Ms. Roediger
Discussion: None
In Favor: Unanimous
Motion Passes: Passes

MOTION 1-78-11 At 1:11 p.m.
Motion: Move to approve the Minutes for December 6, 2010 as distributed.
Moved by: Mr. Maguire
Seconded by: Mr. Dunne
Discussion: None
In Favor: Unanimous
Motion Passes: Passes

Page 3 of 6
Minutes of the Board of Trustees 1-26-2011
4. Appropriate Action regarding the Minutes of the December 15, 2010 Meeting of the PSPRS Board of Trustees………………………………………………………………………………………………………………….Mr. Brian Tobin

MOTION 1-79-11 At 1:11 p.m.
Motion: To move acceptance of December 15, 2010 Minutes as distributed.
Moved by: Mr. Maguire
Seconded by: Mr. Dunne
Discussion: None
In Favor: Unanimous
Motion Passes: Passes

5. Appropriate Action regarding the Minutes of the December 21, 2010 Meeting of the PSPRS Board of Trustees and the Minutes of the December 29, 2010 Meeting of the PSPRS Board of Trustees …………………………………………………………………………………..Mr. Brian Tobin

MOTION 1-80-11 At 1:12 p.m.
Motion: To move acceptance of the December 21 and December 29, 2010 Minutes as distributed.
Moved by: Mr. Maguire
Seconded by: Ms. Roediger
Discussion: None
In Favor: Unanimous
Motion Passes: Passes

Report by the Investment Committee regarding Agenda Items 5 through 11 which were discussed at its meeting held today, January 26, 2011, at 10 a.m., and possible ACTION on the Committee’s RECOMMENDATIONS to the Board regarding same.

6. (Agenda item #5) Clarification by Chief Investment Officer Ryan Parham and discussion among the Trustees and staff, concerning the Board’s authorization for an investment in the Bridgewater All Weather Portfolio II (authorized by the Board of Trustees on November 17, 2010 by Motion 11-41-10)), and request by Mr. Parham (and possible appropriate Action) that the Board of Trustees authorize an investment of up to $70 million in the All Weather Portfolio, LLC managed by Bridgewater Associates in lieu of the previously authorized investment of up to $70 million in the Bridgewater All Weather Portfolio II, Ltd………………………………………………………………………………………………………………….Mr. Ryan Parham

Mr. Parham explained that the Board authorized Staff to invest up to $70 million in the Bridgewater All Weather Portfolio II, Ltd. He said that, as Staff moved forward with negotiations, it was determined that there were distinct advantages to investing in All Weather Portfolio LLC, an onshore fund. He said these are structural issues and not exposure issues and that while the Board previously approved the investment in the Fund or appropriate feeders or blockers, in this case it was determined that the feeders were not the same and Staff did not believe they had the authority to move forward without clarification. Mr. Martin added that the All Weather portfolio is a risk parody portfolio and is not designed to take advantage of market opportunities but rather it is a risk spreading portfolio and they do have the right in certain circumstances to make a market call. He said NEPC supports the staff’s recommendation but wants to be sure the Board is aware of this provision.

Ms. Roediger reported that the Investment Committee recommends to the Board the approval of this authorization.
Mr. Tobin recognized the recommendation of the Investment Committee and asked if there were any discussion on the recommendation. Hearing none he called for the vote.

**MOTION 1-81-11**

**Motion:**
At 1:15 p.m. To authorize an investment of up to $70 million in the All Weather Portfolio, LLC managed by Bridgewater Associates in lieu of the previously authorized investment in the Bridgewater All Weather Portfolio II, Ltd.

**Moved by:**
None

**Seconded by:**
Unanimous

**Discussion:**
None

**In Favor:**
Unanimous

**Motion Passes:**
Passes

7. (Agenda item #8) Presentation by Investment Department Staff, Albourne America and representatives of EIF Management LLC, or their affiliates, and discussion and appropriate Action regarding a possible investment of up to $40 million in the EIF United States Power Fund IV L.P. or appropriate feeders, blockers, or associated or parallel funds of same………………………………………………………………………………...….Mr. Marty Anderson……………………………………………………………………………Deputy Chief Investment Officer…………………………………………………………………………………………..Mr. John Shearman……………………………………………………………………………………………………………………………..James Wieder…………………………………………………………………………………………………………………………………………….. John Buehler, Herb Magid……………………………………………..………………. Managing Partners, EIF Management LLC

Mr. Anderson stated that EIF is a closed end fund that is investing in power production and transmission. The recommended investment would be included in the Real Assets category as the staff builds out that portfolio. He said this investment will provide new exposure to a unique market -- namely power generation -- which is very fragmented. He added that this manager has a long track record of demonstrated performance in this strategy.

Mr. Shearman said Albourne thinks this is a really interesting opportunity given the state of the industry in the U.S. and the fragmentation that exists. He said that what Albourne likes about EIF is their opportunity split between Brownfield and Greenfield. From a structural perspective, Albourne thinks there is more value to be added from Greenfield and also more complexity. He said EIF is an established market player that has been around for a long time, with investments made over 20 years in 33 states. He said the opportunity will expand PSPRS' Real Assets exposure, specifically in the U.S. power and electric-utility market. This investment is expected to have a medium to low correlation with the wider PSPRS portfolio. He said Albourne has known EIF for about 5 years and has done a lot of research on their front office and their strategy. He said they have shown a proven track record of success and should generate good returns for the Trust.

John Buehler and Herbert Magid, Managing EIF Partners, presented an overview of the EIF United States Power Fund IV L.P. He said EIF started what they believe to be the first private equity power fund in 1987. He said EIF started what they believe to be the first private equity power fund in 1987. He said they are focused on power generation and transmission in the U.S. and their principle relationship is with the Utility Industry. He said that one important source of strength in this marketplace is found in enforceability of the long term contracts for power. They execute them on behalf of equity owners in projects and the contracts specify the spread that will be paid for producing capacity when asked to pay it. He added that the contracts also...
specify the type of fuel that will be used to generate electricity. He said they now have about 5000 operating assets reflected in their long term contracts and as far as they can tell by their research not a single one of those contracts has been abrogated by either party. He said one of the reasons they focus on the U.S. is because of the enforceability of the contracts. He said to date they have raised about $3.5 billion of equity capital from a diverse group of institutional investors both inside and outside the U.S.

Mr. Magid described the market that they invest in and how EIF developed its strategy. He said that the company focuses on the wholesale market, contracting with regulated, good credit, long term entities. He said their funds typically average, on an operating project, 5% to 10% current yield in the first few years going to 10% to 15% in the later years; so they have a mix of yield and capital appreciation. He discussed the basis of their strategy and said a blend of 40% to 50% construction and 40% to 50% in operating assets makes the best sense with good current yield and risk diversification. He summarized the results of their previous three funds and said they were comfortable with their goal of 20% net, which he said is supported by the marketplace.

With reference to their comments regarding the 3 to 4 year outlook and the market for coal and nuclear, Mr. McHenry asked if they see things improving for nuclear in the longer term or do they think that reliance on nuclear will continue to decrease. Mr. Magid responded that nuclear can be a perfect solution to our energy needs since it can be operated in good circumstances without environmental contamination and that it has been very successful in the past. Unfortunately, nuclear generating plants have very substantial lead times before a facility is up and operating. He pointed that in the U.S., no new nuclear project has been licensed since 1978. Today, the process of bringing new nuclear capacity on line requires upwards of 10 years from start to finish. There are some areas of the country that are still skittish about nuclear power and that makes it difficult to build in those places; but nuclear could be a wonderful answer to the dilemma that we find ourselves in today.

With respect to coal, Mr. Magid pointed out that coal has been the backbone of the U.S. power generation and that it is still the largest indigenous fuel. However, there are issues with respect to climate change and as a result of concerns about climate change, we have had almost a complete stoppage in terms of building new coal fired plants. But he added that research is being done with respect to converting coal into gas and operating the project as a gas fired project and then storing the output. He concluded by saying that nuclear power will return to favor over the next decade and a half and that we will get back to coal as well. We are just trying to sort out the costs to begin both types of projects.

Mr. McHenry asked whether EIF would consider offering PSPRS a seat on its Advisory Committee if the System moves forward with the proposed investment. Mr. Magid responded yes.

Mr. Tobin asked what they foresee as the supply of natural gas in the future, given the increasing use of natural gas. He pointed out that at some point, the additions to the natural gas supply will begin to decline and the price will begin to incline. Mr. Magid responded that he really does not know the answer but that experts in shale gas believe the supply needs for the next 20 years will be met at a $4 to 5 price.

Ms. Roediger reported that the Investment Committee recommends an investment of up to $40 million in the EIF United States Power Fund IV L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Mr. Tobin recognized the recommendation from the Investment Committee and asked if there was
any further discussion. Hearing none he called for the vote.

### MOTION 1-82-11

**Motion:** To authorize an investment of up to $40 million in the EIF United States Power Fund IV L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

**Moved by:**

**Seconded by:**

**Discussion:** None

**In Favor:** Unanimous

**Motion Passes:** Passes

8. (Agenda item #6) Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio update…………………Mr. Marty Anderson

Mr. Anderson distributed the Performance as of 12/31/2010. He said that the Staff just got the latest NCREIF update which comes out on a lagging quarterly basis so this final report was not available for inclusion in the mailing for this Board meeting. He said December was good on an absolute basis but on a relative basis we lost a little ground due to the write-down of the real estate in the Troon portfolio. On a relative basis the Total Fund ended the month at -65 basis points; however, the real estate write-off cost 77 basis points so, net of the real estate write-off, the portfolio was positive for the month. The GTAA portfolio has been a strong diversifier and positive in return. He said year-to-date the total portfolio is up 21 basis points.

9. (Agenda item #7) Presentation by Investment Department Staff, Albourne America LLC, and representatives of West Face Capital Inc. or their affiliates (who may attend by phone), and discussion and appropriate **Action** regarding a possible investment of up to $40 million in the West Face Long Term Opportunities Global Master Limited Partnership or appropriate feeders, blockers, or associated or parallel funds of same……………………………..….Mr. Marty Anderson ……………………………………………………………………………………Mr. John Shearman ………………………………………………………………………………..Greg Bowland, Peter Fraser ……………………………………………………………..co-CIO’s, West Face Capital Inc.

Ms. Roediger reported that representatives of West Face Capital presented this investment via conference call to the Investment Committee at its earlier meeting. She said that the Investment Staff and Albourne would provide a summary of the investment for the Board.

Mr. Anderson described the West Face Long Term Opportunities fund. He said West Face is a hedge fund structure, investing in corporate distressed opportunities and that the Investment Staff recommends this investment for the Credit Opportunities asset class. He said that the asset class is slightly over allocated, but Staff is preparing for some realizations from some of the structured product and RMBS managers and that, as a result, there will be significant cash coming back to the System. He said the Staff is looking to use that cash to emphasize the corporate side of distressed debt and credit opportunities. He said that West Face would be unique relative to the current holdings in this portfolio as they are based in Toronto and have a Canadian focused strategy. He said they are “the” player in Canadian stressed markets and thus the Staff is looking to them to provide a different opportunity set within the portfolio.

Mr. Shearman, Albourne America LLC said that they think highly of this manager and described West Face’s strategy as a concentrated, high conviction, opportunistic approach to event driven investing. He said that this opportunity will not overlap current positions as the focus is
predominantly Canadian with a significant emphasis on natural resources. He said the portfolio is long biased with some hedging and quite concentrated and that it is catalyst driven. He said that while this is a portfolio that might bounce around a bit in the markets in reality all the positions in it will have very well defined catalysts with a focus on a real margin of safety in the investment. He said Albourne has done full due diligence on this manager and they rate them very highly. Albourne found no material due diligence issues. He said this will be a very diversifying addition to the portfolio. He concluded by saying that the company has an experienced team with a long track record.

Mr. Ferguson noted that this fund has only been in existence for three years and asked if there was any standard or rule regarding an emerging manager. Mr. Parham responded that the Trust does not have a formal written policy regarding emerging managers but that the Investment Staff looks at emerging managers very carefully. He said the track record of the managers predates this fund significantly and that Albourne has addressed this issue. When Investment Staff members look at groups that are somewhat new, they look at the track records of the individual managers before they came together. That was one of the things the Staff focused on in doing its due diligence in this case. Mr. Shearman added that that is one of the things Albourne looked at very carefully too and that they found real continuity in the investment style of the managers.

Ms. Roediger reported that the Investment Committee recommends an investment of up to $40 million in the West Face Long Term Opportunities Global Master Limited Partnership or associated or parallel funds of same.

Mr. Tobin recognized the recommendation from the Investment Committee and asked if there were any further discussion. Hearing none he called for the vote.

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<th>MOTION 1-83-11</th>
<th>At 1:50 p.m.</th>
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<tr>
<td>Motion:</td>
<td>To authorize an investment of up to $40 million in the West Face Long Term Opportunities Global Master Limited Partnership or appropriate feeders, blockers, or associated or parallel funds of same.</td>
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<td>Moved by:</td>
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<td>Seconded by:</td>
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<td>Discussion:</td>
<td>None</td>
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<tr>
<td>In Favor:</td>
<td>Unanimous</td>
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<td>Motion Passes:</td>
<td>Passes</td>
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Mr. Parham explained that the DTR1 C pool is a pool of legacy real estate assets with respect to which the Trust owns 100% of the equity. The assets are concentrated in Arizona and the Southwest and continue to suffer stress. The assets include residential, commercial and retail properties and the cost of carrying the debt is difficult for these assets. The Troon representatives and Staff recommend that the Trust pay off some of this debt. This debt is full recourse debt for which the Trust would be responsible for any deficiency; therefore, the recommendation is that up to $20 million be allocated to pay down debt on these assets. He said that the assets continue to recover from the very low points achieved in the last few years and that we need to continue to maintain them and move forward prudently with a view to achieving reasonable dispositions that will improve the current market value of the assets. He said that Staff expects to expend $10
Mr. Tobin recognized the recommendation from the Investment Committee and asked if there was any further discussion. Hearing none he called for the vote.

**MOTION 1-84-11**

At 1:55 p.m.

Motion: To authorize an additional allocation of up to $20 million in the DTRI C pool of assets managed by Desert Troon

Moved by: None

Seconded by: None

Discussion: None

In Favor: Unanimous

Motion Passes: Passes

Ms. Roediger reported that the Investment Committee recommends to the Board the approval of an allocation of up to $20 million in the DTRI C pool of assets managed by Desert Troon.

Mr. Maguire asked who calculates the collateral and how often they reset the 102% and 105%. Mr. Stracke said that is done on a daily basis by the lending agent based on computerized pricing systems that exist on Wall Street and that the collateral transfer is done on a daily basis.

Ms. Roediger asked Mr. Stracke if he felt, given the risk, it was worthwhile to continue the program. Mr. Stracke responded that he does and NEPC as and firm does as long as securities lending is viewed as a means for offsetting administrative costs and not as an investment management activity and causes the investor to become very aggressive in the collateral pool, since that would bring with it the type of dramatic risks that were seen in 2008.

Mr. Maguire asked if there was any further discussion. Hearing none he called for the vote.

**MOTION 1-84-11**

At 1:55 p.m.

Motion: To authorize an additional allocation of up to $20 million in the DTRI C pool of assets managed by Desert Troon

Moved by: None

Seconded by: None

Discussion: None

In Favor: Unanimous

Motion Passes: Passes
Ms. Feeley reported there were no compliance issues noted after review of the portfolio as of December 31, 2010. Annually, we are required to review the portfolio to determine if we have any investments in terrorist nations, like Iran or Sudan, that do not comply with Arizona laws. That review has been completed. All deadlines for December and January have been met. Based on review of the portfolio, no action is required of the Investment Department since we are within our compliance requirements.

13. (Agenda item # 19) Presentation, discussion and possible Recommendation regarding compliance and internal audit. Ms. Bridget Feeley

Internal Audit and Compliance Officer

See the above report in item # 12 by Ms. Feeley.

14. (Agenda item #29) 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.

Mr. Tobin conducted a Call to the Public but no members of the public wished to address the Board.

Presentation by Mr. Brian Tobin, Committee Chairman of the Operations, Governance Policy and Audit Committee regarding Recommendations and Actions taken on agenda items 12-19 that were discussed during the meeting held today, January 26, 2011 at 11 a.m. and possible appropriate ACTION regarding same.

15. Status report regarding Fiscal Year 2011 legislative initiatives and possible Recommendation(s). Mr. Jim Hacking

Administrator

Mr. Hacking resumed the legislative report where Mr. Doug Cole left off at the beginning of the meeting. The bills reflecting the changes approved by the Board with respect to the PSPRS Plan and the application of those changes to the CORP and EORP Plans have been drafted and introduced. They were assigned the following bill numbers: HB 2198 (EORP), HB 2199 (PSPRS) and HB 2200 (CORP). Due to the pressure of time constraints, legislative counsel made some drafting errors that will have to be corrected if the proposals are moved forward. However, should they come up in committee for hearing, amendments will be offered to correct the existing defects. Whether or not these bills come up for hearing remains to be seen. At the moment, things appear to be a bit chaotic.

Mr. Hacking told the Board that House Speaker Adams was expected to introduce these three PSPRS legislative initiatives; but instead, he decided to develop his own proposal which will be disclosed at some point in the near future.

In the Senate, the situation is equally unclear. We have two Senate files open, one for a minor administrative bill that will expand the Board of Trustees’ explicit power to enter into employment agreements with certain key staff of the agency. The proposal has been drafted and the bill will be introduced shortly. Mr. Hacking stated that it is his understanding that Senator Yarbrough, the
Chair of the Senate Finance Committee, will introduce that bill. Also, an administrative bill has been drafted that includes a miscellaneous set of relatively minor changes. However, legislative counsel made a number of drafting errors that will require that the proposal be redrafted or that an amendment be developed to correct the deficiencies.

The Senate Finance Committee, under Senator Yarbrough, has organized a series of weekly stakeholder group meetings, the object of which is to try to get the interest groups served by the PSPRS Plans to come to a common agreement as to what needs to be done to improve the financial status of those Plans. So far, there has been little progress.

16. Presentation of the Quarterly Year-to-Date Budget Report for the second quarter of FY 2011 and possible Recommendation ………………………………………………………………………..Ms. Karen Lewis
   Accounting Manager

Mr. Tobin reported that during the Operations, Governance Policy and Audit Committee meeting held this morning, Ms. Lewis stated we are close to our budget target as indicated in the report printed 12/31/10. Since that 12/31/10 report, there have been other expenses which were unanticipated, such as extra actuarial work by Gabriel Roeder & Smith. The committee asked for a monthly budget report and instructed staff to look for savings.

17. Presentation of the Quarterly Operations Report for the second quarter of FY 2011 and possible Recommendation ………………………………………………………….……….…Ms. Tracey Peterson
   Chief Operating Officer

Ms. Peterson summarized the high points of the report which included the following trends:
- retirements are increasing;
- refunds are increasing;
- members entering DROP are increasing; and
- contributions decreasing slightly even though employer rates have increased

We expect a continued increase in retirements and in the number of persons entering DROP. Through this fiscal year alone, we have had over 400 people enter DROP, which is well ahead of this time the last fiscal year.

18. Presentation, discussion and possible Recommendation that the Board of Trustees approve the posting on the System’s website of legal guidance (prepared by the System’s counsel) concerning Disability Retirement Applications for PSPRS Members Participating in the Deferred Retirement Option Plan (DROP)……………………………………………………………………..Mr. Jim Hacking

Mr. Tobin reported that legal guidance for the local boards to follow regarding the process for handling disability applications in conjunction with DROP exit strategies will be posted on the PSPRS website.

19. Written presentation of the compliance/audit strategy for the Local Board Network and possible Recommendation……………………………………………………………………..Mr. Robert Ortega
   Local Board Training Coordinator

Mr. Tobin summarized the discussion that was held during the committee meeting. In that meeting, Mr. Ortega and Mr. Ron Snodgrass reported there are still issues regarding training and compliance at the local board level. Some are having difficulty managing their systems. Mr. Tobin asked Mr. Snodgrass and Mr. Ortega to come back in a couple of months with some recommendations on how to proceed. A discussion was held that an important function of the
local boards is review of disabilities which are technical in nature. Since many boards to not have a lot of experience doing them, there was a discussion of possible alternatives to that part of the local board process. Staff was directed to research other U.S. pension plans and possibly make some recommendations to the committee regarding alternative processes for the review of disabilities at the local board level.

20. Written update on the progress of the Local Board Training Program and discussion and possible Recommendation………………………………………………………Mr. Robert Ortega

Please refer to number 19 above.

21. Review, Discussion and possible Recommendation regarding the January 2011 bill for legal services performed in December 2010 ……………………………………..Mr. Jim Hacking

Mr. Hacking stated that the January legal bill for work that was completed in December 2010 was about $73,000. Mr. Lieberman of Kutak Rock stated that the firm wrote off about $2000 for one legal item in the billing.

22. Discussion and possible Recommendation regarding the legal authority of the Board to delegate limited investment authority to Staff……………………………………………..………Mr. Jim Hacking

The Board was referred to § 38-848 (D) by Mr. Hacking. The language of the statute gives the Board authority to delegate authority to investment management and to the Administrator. This authority was used by the Board to give to the Investment Department staff some very limited authority to approve new, but small investment opportunities in the funds in which we have had prior investments where the opportunities arise on relatively short notice and have to be acted upon very quickly.

Mr. Parham clarified the discussion by saying that in some situations there is an advantage to being nimble. We do not want to be quick and nimble on a one hundred million dollar investment. But there are niche opportunities where we can pick up small investments. The investment cannot be made if the consultant, staff or a member of the Investment Committee do not like it. The fact that we do not have to call a formal meeting and post notices gives us the opportunity to be nimble with smaller investment opportunities. The maximum size of the investment is defined and the size of the fund is defined. Our ability to close in two to three days is critical.

Mr. Maguire voiced concern that there is no authority in the statute for a member of the Board to act. There is only the Board acting as a unit or the Board can delegate to staff as appropriate.

Mr. Lieberman asked to table this agenda item until the next meeting in order to conduct more research.

23. Report and discussion regarding the status of the legal services RFP process and possible Action with respect to the recommendation(s) from the Board’s Ad Hoc Committee for Legal Services

MOTION 1-85-11  At 2:38 p.m.
Motion:     To approve payment of the January billing for legal services.
Moved by:  Mr. Maguire
Seconded by:  Ms. Roediger
Discussion: None
In Favor: Unanimous
Motion Passes: Passes
Services, reflecting the results of the December 13th interviews conducted by the Committee with representatives of the Jennings, Strouss & Salmon, Ballard Spahr, Kutak Rock and Steptoe & Johnson law firms, which are under consideration for the role of General Counsel and Recommendations from the RFP Screening Committee (which includes the Administrator, Assistant Administrators, and Mr. Alan Maguire) with respect to the following law firms that are under consideration for legal service roles other than General Counsel: Ballard Spahr LLP, Charles Whetstine, PC, Cooley LLP, Foster Pepper PLLC, Goodwin Procter, Ice Miller LLP, Jackson Walker LLP, Kutak Rock LLP, Morrison Foerster LLP, Pillsbury Winthrop Shaw Pittman LLP, Ropes & Gray LLP, Steptoe & Johnson LLP, Strasburger & Price, LLP........Mr. Alan Maguire

Mr. Maguire commented that the purpose of the Ad Hoc Committee was to interview law firms that had responded to the RFP and recommend to the full Board regarding selection of external law firms to provide general counsel services to the Board of Trustees. The committee interviewed representatives of four firms and recommended that three of the firms to be retained in the general counsel category.

As part of the RFP process, four categories were created: general counsel, tax, pension and investment services. The objective is to have a menu of firms with expertise that would be available to PSPRS on an “as needed” basis.

<table>
<thead>
<tr>
<th>MOTION 1-86-11</th>
<th>At 2:51 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To approve the committee recommendation for the role of <strong>general counsel</strong>: Ballard Spahr LLP, Kutak Rock LLP and Steptoe &amp; Johnson LLP.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Maguire</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>None</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion Passes:</td>
<td>Passes</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>MOTION 1-87-11</th>
<th>At 2:55 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To accept the recommendations of the screening committee for law firms chosen to provide pension, tax and investment advice. <strong>Pension</strong>: Ballard Spahr LLP, Charles Whetstine, PC, Ice Miller LLP, Jackson Walker LLP Kutak Rock LLP and Steptoe &amp; Johnson LLP. <strong>Tax</strong>: Ballard Spahr LLP, Charles Whetstine, PC, Ice Miller LLP, Jackson Walker LLP Kutak Rock LLP, Steptoe &amp; Johnson LLP and Strasburger &amp; Price LLP. <strong>Investments</strong>: Cooley LLP, Foster Pepper PLLC, Goodwin Procter, Jackson Walker LLP, Kutak Rock LLP, Morrison Foerster LLP, Pillsbury Winthrop Shaw Pittman LLP, Ropes &amp; Gray LLP,</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Maguire</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Ferguson</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion Passes:</td>
<td>Passes</td>
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</table>

Mr. Hacking stated that the next step is approval by the Attorney General’s office for PSPRS to use these law firms. As soon as we have that, we will enter into negotiations with these firms in order to conclude contracts before we can begin to make use of their services. Each firm will have a different contract.

Mr. Parham informed the Board that it will be difficult the Investment Department staff to have to get Board authorization to use a particular law firm for an investment-related engagement, since...
much of the legal work is done before an investment opportunity is brought to the Board for consideration. He would appreciate having the authority for the Investment Department staff to select the most appropriate firm from the approved list, barring anything that is exceptional. He added that the staff is not trying to usurp the authority of the Board; but it would really slow down the selection process if board approval of a particular firm has to be obtained in advance. Mr. Hacking stated that it is the Board’s prerogative to delegate responsibility. Mr. Maguire stated this should be added to the next agenda in order to discuss the topic at greater length.

24. Appropriate Action regarding the December 13 and 15, 2010 and January 13, 2011 Ad Hoc Committee meeting Minutes…………………………………………Mr. Alan Maguire
Chairman of the Ad Hoc Committee

<table>
<thead>
<tr>
<th>MOTION 1-88-11</th>
<th>At 2:50 p.m.</th>
</tr>
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<tbody>
<tr>
<td>Motion:</td>
<td>To approve the Minutes of the Ad Hoc Committee meetings held December 13 and 15, 2010 and January 13, 2011.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Tobin</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Ms. Stein</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion Passes:</td>
<td>Passes</td>
</tr>
</tbody>
</table>

25. Report, discussion and possible Action and/or Recommendation(s) regarding FY 2011 legislative initiatives………………………………………………………………….Mr. Jim Hacking

See item #15.

26. Presentation, discussion and appropriate Action regarding Uniform Model Local Board Rules of Procedure. …………………………………………………………………………Mr. Jim Hacking

Mr. Hacking told the Board that the Uniform Model Local Board Rules of Procedure were developed to enable local boards to use these rules without having to develop a set of their own. Mr. Lieberman added that Kutak Rock had input from the Board, Ms. Tracey Peterson and Mr. Ron Snodgrass. The rules will need to be updated periodically. We require a set of rules (but not necessarily our set of rules) for each local board. If a board has rules, their rules control; but if they do not have rules of their own, they must use our rules.

Mr. Ferguson told the Board that he has some suggestions and concerns. He suggested that prescribed forms be attached as appendices. The requirement in the Model Rules that the Maricopa County Superior Court must be used for reviews of administrative actions is a concern for reasons of convenience and proximity to the local board. The old rules simply stated that the Supreme Court must be used for such reviews without specifying the Superior Court of a particular county. He suggested that the county designation be left blank in the Model Rules instead of specifying Maricopa County. He also questioned why the Rules require the use of both a psychiatrist and a psychologist. Why not have only a psychiatrist? The statutes require it to be a physician (psychiatrist), but that costs more. Most of the work could be done by a psychologist and then validated by a physician in order to keep expenses down. Mr. Maguire stated that these Model Rules are amendable by the local board prior to their being adopted.

Mr. Lieberman stated there are no uniform local board rules for the Corrections Officer Retirement Plan.
A discussion was held regarding possible liability due to the fact that there are no Uniform Local Board Rules of Procedure for the Corrections Officer Retirement Plan. Mr. Lieberman stated that we need to talk to the lobbyists to see if a set of amendable rules can be imposed on CORP either in this session or the next session. Ms. Stein thought that this could be a tool for local board training.

MOTION 1-89-11
At 3:15 p.m.
Motion: To approve the Model Rules as presented with modification on pages 15 and 19 to say “Superior Court” without reference to any specific county.
Moved by: Mr. Ferguson
Seconded by: 
Discussion: None
In Favor: Unanimous
Motion Passes: Passes

27. Presentation, discussion and appropriate Action regarding PSPRS Policy Regarding Review of Local Board Actions..............................................Mr. Jim Hacking

An explanation was given to the Board by Mr. Hacking that the restatement of policy governing review of local board decisions was completed in order to make thing less rigid and bureaucratic. More flexibility was added without sacrificing any of the essential elements of the review process to be conducted by the administrative office of PSPRS.

Ms. Peterson added that the most significant change is in paragraph 19. There a standard was added whereby we will request a rehearing of a local board decision only if there is no evidence supporting the Local Board’s decision or such decision appears to be legally incorrect.

MOTION 1-90-11
At 3:23 p.m.
Motion: To adopt the amended PSPRS Policy Regarding Review of Local Board Actions.
Moved by: Mr. Maguire
Seconded by: Mr. Dunne
Discussion: None
In Favor: Unanimous
Motion Passes: Passes

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

MOTION 1-91-11
At 3:24 p.m.
Motion: To approve attendance at the Information Management Network Annual Beneficial Owners’ International Securities Lending Summit February 13-16, 2011.
Moved by: Mr. Maguire
Seconded by: Mr. Dunne
Discussion: None
In Favor: Unanimous
Motion Passes: Passes

Regarding the following two agenda items, pursuant to A.R.S. §§ 38-431.03(A) (3), (4) and (7), notice is hereby given to the Trustees of the PSPRS Board and the general public that the PSPRS Board may vote to go into Executive Session, which will not be open to the public.

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Minutes of the Board of Trustees 1-26-2011
29. Discussion with, and Appropriate Instruction by, the Board of Trustees to legal counsel regarding those matters referenced in agenda item 26 below, including those matters pertaining to investments or contracts, legislative initiatives, or ongoing or threatened legal actions involving the Arizona PSPRS Trust, the System, or the System’s sister plans (EORP or CORP) and/or involving matters pertaining to Huggins, Miller, Martin, Cross, Welker, Pivotal Group, Stroh Ranch Development, SDI, Desert Troon, IRS determination letters, Seldin, Parker, and Loftus and Appropriate Action regarding same..........................................................Mr. Marc Lieberman
Partner, Kutak Rock

30. The Board of Trustees may vote to go into Executive Session to discuss matters pursuant to A.R.S §§ 38-431.03(A) (3), (4), and (7) including to obtain legal advice from the Board’s attorney on any matter listed on the agenda, including:

   a. Discussion with legal counsel regarding legal issues, and settlement discussions, if any, arising in connection with the Arizona PSPRS Trust’s real estate, private equity, hedge loan and other investments, including those managed (or formerly managed) by the Pivotal Group, ApexCapital Management, and Desert Troon Limited, pursuant to A.R.S. §§ 38-431.03(A)(3), (4) and (7), and including claims raised by Millard and Scott Seldin with respect to an indirect investment in Anthology.

   b. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Arizona PSPRS Trust, the System or the System’s sister plans (EORP or CORP), including contemplated internal investigations, investment related matters, EEOC claims, and actual or potential litigation and claims, including claims involving Huggins, Cross, Miller, Martin, Welker, Pivotal Group, Stroh Ranch Development, SDI, Desert Troon, Seldin, Parker, and Loftus pursuant to A.R.S. §§ 38-431.03(A)(3), (4), and (7).

MOTION 1-92-11
At 3:25 p.m.
Motion: To enter Executive Session regarding agenda item 27.
Moved by: Mr. Tobin
Seconded by: Mr. Maguire
Discussion: None
In Favor: Unanimous
Motion Passes: Passes

MOTION 1-93-11
At 3:31 p.m.
Motion: To resume Open Session.
Moved by: Mr. Tobin
Seconded by: Discussion: None
In Favor: Unanimous
Motion Passes: Passes

31. 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

Minutes of the Board of Trustees 1-26-2011
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.

32. Set the next meeting date.

The next meeting is scheduled for February 23, 2011 at 1:00 p.m.

33. Adjournment

Mr. Tobin thanked the Board and Staff for their work during December and Mr. Maguire thanked Mr. Tobin for his leadership in that process.

<table>
<thead>
<tr>
<th>MOTION 1-94-11</th>
<th>At 3:33 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To adjourn the meeting.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Maguire</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Ferguson</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
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<td>In Favor:</td>
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<td>Motion Passes:</td>
<td>Passes</td>
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______________________________
Brian Tobin, Trustee, Chairman

______________________________
Lori Roediger, Trustee, Vice Chairperson

______________________________
Greg Ferguson, Trustee

______________________________
Jeff McHenry, Trustee

______________________________
Tim Dunne, Trustee

______________________________
Alan Maguire, Trustee

______________________________
Randie Stein, Trustee