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

The meeting was called to order by Chairman Tobin at 1:01 P.M.

A. Recognition of Arizona Public Safety Personnel Retirement System’s for being chosen as Mid-Sized Public Plan of the Year by *Money Management Letter*.

Chairman Tobin attended the March 13, 2011 Annual Public Pension Fund ceremony and he accepted on behalf of the Board the award for Mid-Size Public Plan of the Year by *Money Management Letter*. This is the second time the System has been nominated for the award but it is the first time the award has been presented to PSPRS. On behalf of the Board, Mr. Tobin thanked the investment partners, consultants and Staff members.
B. Recognition of Pascal Stalder on joining the PSPRS Investment Staff.

Mr. Stalder was introduced to the Board by Chairman Tobin. In his role as Deputy CIO for Risk, he will build a risk infrastructure for the System.

1. **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.

   b. Acceptance of Transfer Between State Retirement Systems of Margaret Benny.
   c. Acceptance of Transfer Between State Retirement Systems of Edward Smith.
   d. Acceptance of Transfer Between State Retirement Systems of Brian Eekhoff.
   e. Acceptance of Transfer Between State Retirement Systems of Theodore Hernandez.
   f. Acceptance of Transfer Between State Retirement Systems of Joseph Yahner.
   g. Acceptance of Transfer Between State Retirement Systems of Stuart Clarke.
   h. Acceptance of Transfer Between State Retirement Systems of John Mure.
   i. Acceptance of Transfer Between State Retirement Systems of Michael Polombo.
   j. Acceptance of Transfer Between State Retirement Systems of Matthew Disbro.
   k. Acceptance of Transfer Between State Retirement Systems of Scott Melander.
   l. Acceptance of Transfer Between State Retirement Systems of Joseph Kalmbach.
   m. Acceptance of Transfer Between State Retirement Systems of Cristi Cost.
   n. Acceptance of Transfer Between State Retirement Systems of Donna Meinhart.
   o. Acceptance of Transfer Between State Retirement Systems of Mark Metelski.
   p. Acceptance of Transfer Between State Retirement Systems of Brent Coombs.
   q. Acceptance of Transfer Between State Retirement Systems of Dwayne Bader.
   r. Acceptance of Transfer Between State Retirement Systems of Robert Vaughan.
   s. Acceptance of Transfer Between State Retirement Systems of David Hickman.
   t. Acceptance of Transfer Between State Retirement Systems of Michael Mortensen.
   u. Acceptance of Transfer Between State Retirement Systems of Kevin Sanchez.
   v. Acceptance of Transfer Between State Retirement Systems of Kevin Collins.
   w. Acceptance of Transfer Between State Retirement Systems of John Kozeliski.
   x. Acceptance of Transfer Between State Retirement Systems of Paul Rooks.
   y. Acceptance of Transfer Between State Retirement Systems of Lorenzo Rivas.
   z. Acceptance of Transfer Between State Retirement Systems of Pio Damiano.
   bb. Acceptance of Transfer Between State Retirement Systems of Kenneth Rasile.
   cc. Acceptance of Transfer Between State Retirement Systems of Jody Munsey.
   dd. Acceptance of Transfer Between State Retirement Systems of Carrie Candler.
   ee. Acceptance of Transfer Between State Retirement Systems of Sandra Rodriguez.
   ff. Acceptance of Transfer Between State Retirement Systems of Jeffrey Bell.
   hh. Acceptance of Transfer Between State Retirement Systems of Charles Lewis.
   ii. Acceptance of Transfer Between State Retirement Systems of Kristin Hoffman.
   jj. Acceptance of Transfer Between State Retirement Systems of Edward Baranowski.
   kk. Acceptance of Transfer Between State Retirement Systems of Barbara Alexander.
   ll. Acceptance of Transfer Between State Retirement Systems of Arthur Casillas.
   mm. Acceptance of Transfer Between State Retirement Systems of Nicholas De Benedetto.
   nn. Acceptance of Transfer Between State Retirement Systems of Friend Walker.
   oo. Acceptance of Transfer Between State Retirement Systems of Timothy Norton.
   pp. Acceptance of Transfer Between State Retirement Systems of Christopher Hern.
Acceptance of Transfer Between State Retirement Systems of Forrest Conner.
Acceptance of Transfer Between State Retirement Systems of Collette Reddy.
Acceptance of Transfer Between State Retirement Systems of Berwyn Brown.
Acceptance of Transfer Between State Retirement Systems of Trent Crump.
Acceptance of Transfer Between State Retirement Systems of Tracy Montgomery.
Acceptance of Transfer Between State Retirement Systems of David Roybal.
Acceptance of Transfer Between State Retirement Systems of Lisa Ruggiero.
Acceptance of Transfer Between State Retirement Systems of John Summey.
Acceptance of Transfer Between State Retirement Systems of James Nelson.
Acceptance of Transfer Between State Retirement Systems of Robert Turner.
Acceptance of Transfer Between State Retirement Systems of Robert Blaylock.
Acceptance of Transfer Between State Retirement Systems of Kelvin Bartee.
Acceptance of Transfer Between State Retirement Systems of Larry Roe.
Acceptance of Transfer Between State Retirement Systems of Ronald Singleton.
Acceptance of Transfer Between State Retirement Systems of Robert Winner.
Acceptance of Transfer Between State Retirement Systems of Steven Weekley.
Acceptance of Transfer Between State Retirement Systems of Victor Rosado.
Acceptance of Transfer Between State Retirement Systems of Ronald Osborn.
Acceptance of Transfer Between State Retirement Systems of Harry Markely.
Acceptance of Elected Officials' Retirement Plan of termination of normal benefit of Robert Moody.
Acceptance of Elected Officials' Retirement Plan of normal benefit of Edward O. Burke.
Acceptance of Elected Officials' Retirement Plan of normal benefit of Robert Budoff.
Acceptance of Elected Officials' Retirement Plan of termination of normal benefit of Jack Ogg.
Acceptance of Elected Officials' Retirement Plan of survivor benefit of Angie Moody.
Acceptance of Elected Officials' Retirement Plan of termination of normal benefit of Daniel Schottel.
Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Mary R. Harris.

**MOTION: 3-113-11**  At 1:10 p.m.
Motion: To move the Consent Agenda as presented.
Moved by: Mr. Maguire
Seconded by: Mr. McHenry
Discussion: None
In Favor: Unanimous
Motion: Passes

2. Appropriate **Action** regarding a Joinder Agreement with Huachuca Police Department.

**MOTION: 3-114-11**  At 1:13 p.m.
Motion: To accept the Joinder Agreement with Huachuca Police Department.
Moved by: Mr. Ferguson
Seconded by: Mr. McHenry
Discussion: None
In Favor: Unanimous
Motion: Passes
3. Appropriate Action regarding the Minutes of the January 26, 2011 Meeting of the PSPRS Board of Trustees…………………………………………………………………………………………………………………………………………………………………………………………………Mr. Brian Tobin

MOTION: 3-115-11  At 1:14 p.m.
Motion: To approve the Minutes of the January 26, 2011 Meeting of the PSPRS Board of Trustees.
Moved by: Mr. Maguire
Seconded by: Mr. Ferguson
Discussion: None
In Favor: Unanimous
Motion: Passes

4. Appropriate Action regarding the Minutes of the February 23, 2011 Meeting of the PSPRS Board of Trustees…………………………………………………………………………………………………………………………………………………………………………………………………Mr. Brian Tobin

MOTION: 3-116-11  At 1:14 p.m.
Motion: To approve the Minutes of the February 23, 2011 Meeting of the PSPRS Board of Trustees.
Moved by: Mr. Maguire
Seconded by: Mr. Ferguson
Discussion: None
In Favor: Unanimous
Motion: Passes

Presentation by Mr. Tim Dunne, Vice Chair of the Investment Committee, regarding Agenda Items 5 through 12 which were discussed at its meeting held today, March 30, 2011, on or after 10 a.m., and possible Action on the Committee's Recommendations to the Board regarding same.

5. Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio update. ..................................................Mr. Marty Anderson ..................................................Deputy Chief Investment Officer

Mr. Anderson reported that, for the most recent month ending February 28, 2011, the Trust had strong absolute and relative performance. It was up 1.99% on a total fund basis and that percentage increase exceeded the benchmark by 34 basis points. He said that brings the total fund return to 15.86% for the fiscal year-to-date. He said the GTAA strategy, which was added to the portfolio last year, continues to be a nice contributor to total return along with the investments in the Absolute Return allocation.

He added that Private Equity underperformed its benchmark because it is measured against the Russell 3000 which reflects the some very strong performance the public equity markets have experienced recently. He concluded by saying that the System had positive results in the real estate portfolio and that this was a nice change from the recent pattern.
6. Presentation by Investment Department Staff, ORG Portfolio Management and representatives of Lubert-Adler Partners, L.P. or their affiliates, and discussion and possible Action regarding a possible investment of up to $30 million in the Lubert-Adler Real Estate Fund VI-B, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.  

Mr. Marty Anderson  
Mr. Ed Schwartz  
Mr. Dean Adler CEO  
Mr. Neill Faucett, Managing Principal  
Lubert-Adler Partners, L.P.

Mr. Anderson said that, going forward, the legacy of joint venture real estate investments will diminish as market conditions improve and we are able to liquidate them. Therefore, the Staff and consultants have been attempting to identify some new high quality real estate funds that we can invest in so as to maintain our real estate asset allocation target. He said Staff believes that the Lubert-Adler Real Estate Fund VI-B would provide the System with a well-timed opportunity to enter the commercial real estate market to take advantage of the distressed debt opportunities.

Mr. Schwartz gave a brief background description of Lubert-Adler. He said the Fund VI-B is a follow-on Fund to their earlier Fund VI which was started just as the financial crisis was starting to take hold. He said Lubert-Adler accommodated many of their existing investors and allowed them to reduce their commitments in Fund VI in exchange for the opportunity to participate in the new Fund VI-B. He said that by going into Fund VI-B, investors will not be investing in any legacy assets and they will not be charged any fees, since the fees are subsidized by the investors who were let out of Fund VI during that investment period. He said this is an opportunity to invest with an entrepreneurial group that will offer some unique opportunities in retail and multi-family rental housing.

Messrs. Dean Adler and Neill Faucett of Lubert-Adler Partners L.P. discussed their investment strategies which they believe give them a competitive edge and the ability to achieve superior returns. Mr. Adler said this is a very advantageous period to invest in real estate because from a risk standpoint we are in a de-leveraging period where the cost basis of assets is being brought down. So they believe they will be able to get into investments with very advantageous cost bases where they can apply their real estate skills. He said they believe they can put together a very attractive portfolio that addresses both return elements and risk mitigation elements.

Lubert-Adler was founded in 1997 and has over $6.3 billion in equity. The General Partners have invested over $245 million in the Funds. Mr. Adler discussed the firm’s specific strengths. He said they have 30 professionals, 20 of whom have 10 or more years of real estate experience. They start with the fundamentals of real estate and know how to add value. He said they have over 70 operating partners who have their own geographic and asset specific expertise from which Lubert-Adler benefits. He said that the Firm also leverages the shared infrastructure of Independence Capital Partners (ICP) and benefits from its relationship with other Funds within the ICP family. Collectively, ICP employs over 200 professionals and has over $12 billion under management.

Mr. Adler said that Fund VI-B is a $400 million co-investment Fund that they are implementing alongside of the existing Fund VI. He said the Fund’s invested assets date only from January 2010 and that the Trust would be coming into the Fund at a relatively low cost basis and would also benefit from the absence of management fees. He discussed some of the assets currently in the portfolio. He said they are very excited about commencing a relationship with PSPRS and building a true partnership. They believe that they have a very specific business plan that tends to focus on less competitive areas in order to acquire one-off assets on an individual basis. He said that 20% of Fund VI-B is already invested and that the Trust would be coming in at a favorable cost basis (relative to market value).
Mr. Dunne reported that the Investment Committee recommends to the full Board an investment of up to $30 million in the Lubert-Adler Real Estate Fund VI-B, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Chair Tobin recognized the Investment Committee’s recommendation and asked if there were any further discussion on the motion. Hearing none he called for the vote.

**MOTION: 3-117-11** At 1:34 p.m.
Motion: To approve an investment of up to $30 million in the Lubert-Adler Real Estate Fund VI-B, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.
Moved by: none
Seconded by: none
Discussion: none
In Favor: unanimous
Motion: Approved

7. **Status report and possible Recommendations on legislation pertaining to PSPRS including SB 1609**

Mr. Hacking informed the members of the Board that this item was discussed at the Operations, Governance Policy and Audit Committee meeting this morning. Mr. John Kaites and Ms. Dianne McAllister of Public Policy Partners along with Mr. Doug Cole of HighGround stated that bills pertaining to PSPRS are moving through legislature. SB 1316 and SB 1317, the PSPRS administration bills, have been approved in the Senate and are ready to go to the House Rules Committee and then on to Caucus, Committee of the Whole and 3rd reading. Mr. Tobin informed the lobbyists that the Operations Committee had raised a question regarding the Cost of Living Adjustment (COLA) in SB1609. Ms. McAllister and Mr. Hacking described the 2 part test included in SB1609. The first test requires the determination of the average annual rate of return over a number of years to be determined by the Board; the annual average return would have to exceed 9% for there to be a new in-flow of assets to the Plans’ Reserves. However, even if the annual average return is in excess of 9%, if the funding ratio is less than 70% there would be no transfer to the Reserves. If the annual average return is above 70% but is less than 80%, only one-fourth of the excess return over 9 percent would go to the Reserves. This second test that is tied to the funding ratios of the Plans is the COLA override that was adopted by the Board of Trustees and reflected in HB 2198, HB 2199 and HB 22000. Ms McAllister noted that the Board has the discretion to determine the number of years to use for the averaging mechanism.

Mr. Maguire stated we can work on this during the coming legislative sessions.

**MOTION: 3-118-11** At p.m.
Motion: To instruct the lobbyists to try to have the averaging process removed from the COLA provisions of SB 1609 and leave only the “COLA override” in place.
Moved by: Mr. Mc Henry
Seconded by: none
Discussion: none
In Favor: no second; the motion dies
Motion: No second; the motion dies

Mr. Tobin informed the lobbyists that the Operations Committee talked about the return to work provisions in SB1609 and the so-called “alternate contribution rate.” Two years ago PSPRS
Ministers for March 30, 2011

attempted to have the PSPRS Plan provisions changed to require a full year’s break in service before a retiree could return to employment with the same employer from which the retiree had retired. However, in the legislative process this one year requirement was reduced to 60 days. If PSPRS went to an alternate contribution rate, could encourage return to work situations. Mr. Hacking pointed out that PSPRS does not have the same return-to-work problems that the Arizona State Retirement System (ASRS) has. Mr. Kaites stated that this issue does not have a significant actuarial impact, but it does have a public perception impact.

MOTION: 3-119-11
At 2:05 p.m.

Motion: To move that the Board take a position that it would prefer a requirement of a one-year break in service before a retiree could return to employment with the same employer from which the retiree retired.

Mr. Petrenka proposed a friendly amendment to clarify that this would apply only in the “same employer” situation.

Moved by: Mr. Maguire
Seconded by: Mr. Petrenka
Discussion: Mr. Hacking stated that the one year separation would apply just to the same employer from which the person retired. Ms. Stein asked that the lobbyists make sure this will not be a “deal breaker.”

In Favor: Unanimous
Motion: Passes

8. 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 asked for members of the public to comment at this time regarding the proposed legislation. No members wished to speak.

9. Discussion and possible Action to approve, disapprove or modify the actuarial assumptions pertaining to the assumed rate of return for fiscal year 2012 and the assumed rate of inflation, salary and payroll growth assumptions, and actuarial methodology for fiscal year 2011…............................................................Mr. Jim Hacking

Ms. Cathy Nagy and Mr. Mark Buis of Gabriel, Roeder Smith and Company were available by phone to continue the discussion held by the Board on March 23, 2011. Mr. Hacking stated that the actuaries have recommended changes in the economic assumptions and that the Board has already begun to act on the assumed rate of return issue by reducing it from 8.5% to 8.25% for FY 2011 with a further reduction to 8.00% contemplated for FY 2012. Changes are also needed in the rate of inflation and salary growth assumptions, and in the actuarial methodology (i.e. changing from the Projected Unit Credit (PUC) to the Entry Age Normal (EAN)) for FY 2011.
One other matter that had come up at the Special Board meeting on March 23rd had to do with the annual average return that would be expected to flow to the underlying and underfunded Plans, given the periodic diversion of some of the excess return to the Plans’ Reserves. Mr. Hacking indicated that the actuaries had projected that the portion of the long-term annual average rate of return that would go to the underlying PSPRS Plan would be only 6.6-6.7% -- rather than the full 8.5% annual rate of return that is expected.

Given the new COLA provisions in SB1609 and given the Board’s “restrictive COLA” or COLA override, the actuaries were asked to recalculate what the annual average rate of return would be that would go to the underlying Plans. The actuaries performed that calculation and determined that the underlying Plans would get an annual average return of about 8%.

The Board focused on discussing the economic assumptions: the rate of return for FY 2012 and the inflation and salary growth assumptions for FY 2011. The experience study that will be done in FY’2012 will review these assumptions and also the demographic assumptions, including the mortality, disability, termination and retirement rates.

**MOTION: 3-120-11**  At 2:59 p.m.

**Motion:** To establish a rate of return of 8.00% for FY 2012.

**Moved by:** Mr. Maguire

**Seconded by:** Ms. Stein

**Discussion:** Mr. Maguire stated that, given that SB1609 will yield a long term rate of 8% rather than the 6.6% rate under the current COLA mechanism, he supports lowering the assumed rate to 8% for FY2012. If SB 1609 does not become law, he would not be comfortable with a rate as high at 8%, given the diversion of excess return to the Reserves. Mr. Stein and Mr. Ferguson agreed with Mr. Maguire. Mr. Dunn stated that it may be necessary to reduce the assumed rate even below 8% in the future, perhaps to 7.5% or even 7%.

**In Favor:** Unanimous

**Motion:** Passes

**MOTION: 3-121-11**  At 3:10 p.m.

**Motion:** To change the methodology from Projected Unit Credit (PUC) to Entry Age Normal (EAN).

**Moved by:** Mr. Maguire

**Seconded by:** Ms. Stein

**Discussion:** None

**In Favor:** Unanimous

**Motion:** Passes

Next the Board considered reducing the current salary growth assumption from 5.5% for PSPRS and CORP and 5.00% for EORP to 4.5% for PSPRS and CORP and 4.00% for EORP. The members discussed and understood that the salary growth assumption consists of an inflation component and a merit component.
Mr. Tobin stated the economic assumptions will be reviewed during the experience study next fiscal year and may be changed further depending on the results of the study.

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.

10. Discussion with and Appropriate Instruction by the Board of Trustees to legal counsel regarding those matters referenced in agenda item 35 below, including matters pertaining to investments or contracts, legislative initiatives, or ongoing or threatened legal actions or settlements involving the Arizona PSPRS Trust, the System, or the System’s sister plans (EORP or CORP) and/or involving matters pertaining to Huggins, Miller, Cross, Welker, IRS determination letters, Seldin, Loftus, Pivotal Group, Stroh Ranch Development, ApexCapital and, Desert Troon, and appropriate **Action** regarding same..........................................................Mr. Marc Lieberman  
Partner, Kutak Rock

11. 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, and actual or potential litigation and claims, including those involving Huggins, Cross, Miller, Martin, Welker, Pivotal Group, Stroh Ranch Development, Desert Troon, Seldin, and Loftus pursuant to A.R.S. §§ 38-431.03(A) (3), (4), and (7).

MOTION:  3-122-11  At 3:20 p.m.  
Motion: To reduce the current salary growth assumptions by 0.5% for PSPRS Plan, CORP, and EORP.  
Moved by: Mr. Ferguson  
Seconded by: Ms. Stein  
Discussion: None  
In Favor: Unanimous  
Motion: Passes  

MOTION:  3-123-11  At 4:00 p.m.  
Motion: To recess Open Session and enter Executive Session.  
Moved by: Mr. Dunne  
Seconded by: Mr. McHenry  
Discussion: None  
In Favor: Unanimous  
Motion: Passes
12. Report by the PSPRS Compliance Auditor and discussion regarding investment compliance, holdings, and transactions as of February 28, 2011………………………………Ms. Bridget Feeley ………………………………………………………………………………………………………Internal Audit and Compliance Auditor

Ms. Feeley reported that she reviewed the portfolio for the period ending February 28th and that no compliance issues were noted.

13. Presentation by Investment Department Staff, StepStone Group and Oaktree Capital Management, L.P. and discussion and possible Action regarding a possible investment of up to $60 million in the Oaktree European Principal Fund III, L.P. or appropriate feeders, blockers, or associated or parallel funds of same…………………………………….……………..…Mr. Shan Chen ………………………………………………………………………………………………………Mr. Jay Rose ………………………………………………………………………………………………………Mr. Talbot Carleton, Marketing and Client Services ……………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………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business model that enables them to exploit these European opportunities.

Mr. Dunne reported that the Investment Committee recommends to the full Board an investment of up to $60 million in the Oaktree European Principal Fund III, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Chairman Tobin recognized the Investment Committee’s recommendation and asked if there were any further discussion on the motion. Hearing none he called for the vote.

**MOTION: 3-125-11** At 2:33 p.m.

**Motion:** To approve an investment of up to $60 million in the Oaktree European Principal Fund III, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

**Moved by:**

**Seconded by:**

**Discussion:** none

**In Favor:** unanimous

**Motion:** Approved

14. Presentation by Investment Department Staff, Albourne America LLC and representatives of EJF Capital LLC or their affiliates and discussion and possible Action regarding a possible investment of up to $40 million in the EJF Debt Opportunities Fund L.P. (or the EJF Debt Opportunities Master Fund, L.P.) or appropriate feeders, blockers, or associated or parallel funds of same.

Mr. Corens gave a description of the EJF Debt Opportunities Fund, which is a hedge fund that targets opportunistic direct and indirect investments in public and private debt markets. It focuses on instruments affected by changes in the national financial regulatory environment. He said they focus on distressed corporate debt, mortgage REITs, bank trusts, deferred securities, and CMBS and RMBS debt. He said the Fund is targeting mid-teen returns and has met or exceeded that goal since 2008. He said Staff is recommending an investment of up to $40 million and if approved the investment will be held in the Credit Opportunities portfolio.

Mr. Lincoln Smith, from Albourne America, said that this investment was sourced by Staff but that Albourne did its own due diligence on the Fund and has found no material issues. He said EJF is an event driven Fund and, given the environment we are in, there are a large amount of regulatory changes on the horizon, including those that will result from the Frank-Dodds legislation. He expect banks will be forced to off-load a lot their securities and this will present a huge opportunity for entities that can provide capital.

Messrs. Neil Wilson, Manny Friedman and Jeff Hinkle of EJF Capital LLC gave an overview of their Firm and discussed the EJF Debt Opportunities Fund. Mr. Wilson said the Fund is a credit opportunity Fund and in March the performance has been a little over 2%. He said they have had a little over 27% annualized return since they started the strategy in June of 2008, with one down month which was February, 2009. He said they have a very diversified portfolio with over 100 positions with an average
size of about 1%. He said they are a hedged strategy and are net long; however, they do try to take out as much idiosyncratic as well as macro market risk as they can. They do this by going short on the equity if they are going long debt on a bank. They will hedge out currency risk and interest rate risk depending on where the markets are going.

Mr. Hinkle said the they try to put themselves in the shoes of the CEO or the management team of the various finance, insurance or real estate entities and from that perspective they try to figure out which outstanding debt securities and liabilities that they will ultimately want to redefine or take-out due to the changed regulatory or legislative environment. He said they are trying to use their expertise in financial, insurance and real estate entities and their existing relationships to purchase securities that will ultimately be taken out by these issuers. The exit strategy for these types of investments or acquisitions will often be the result of a direct negotiation back to those companies.

Mr. Friedman briefly explained why they get equity-like returns with a great deal of liquidity and with a turnover of about 150%. He said that they are working with a very large market, since it encompasses paper issued by almost every bank in the U.S. At the time this paper was issued the regulators allowed it to count as equity that could be leverage 16 to 1. It was therefore very cheap equity. However, because of new legislation, those securities can no longer count as equity and the banks now have to look at them as expensive deposits or get rid of them. He said the Firm’s goal is to buy this paper between 70 and 90 and hopefully have it taken out at par or close to par. He said there are enormous inefficiencies in this market and the driving force in all of this is the new legislative and regulatory environment.

Mr. Petrenka asked if their ratings composition profile typically runs at about 45% below investment grade. Mr. Friedman responded by saying that the average credit rating is Baa3 but the rating does not dictate how they invest. The way they look at the actual securities is more from a capital management/liability management perspective and not from a ratings standpoint. They really look at the underlying aspects and drill down individually.

Mr. Dunne reported that the Investment Committee recommends to the full Board an investment of up to $40 million in the EJF Debt Opportunities Fund L.P. (or the EJF Debt Opportunities Master Fund, L.P.) or appropriate feeders, blockers, or associated or parallel funds of same.

Chairman Tobin recognized the Investment Committee’s recommendation and asked if there were any further discussion on the motion. Hearing none he called for the vote.

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<thead>
<tr>
<th>MOTION: 3-126-11</th>
<th>At 2:25 p.m.</th>
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<tr>
<td>Motion:</td>
<td>To approve an investment of up to $40 million in the EJF Debt Opportunities Fund L.P. (or the EJF Debt Opportunities Master Fund, L.P.) 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>
<td>none</td>
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<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>Approved</td>
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</table>
15. Presentation by Investment Department Staff and StepStone Group and discussion and possible Action regarding a possible investment of up to $50 million in the ABRY Partners VII, L.P. or appropriate feeders, blockers, or associated or parallel funds of same. Mr. Ryan Parham…………………………………………………………………………………………………….Chief Investment Officer……………………………………………………………………………………………………..Mr. Jay Rose………………………………………………………………………………………………………………………………………….Partner, StepStone Group

Mr. Parham reported that the Trust currently participates in ABRY’s Fund V and through that participation we have an opportunity to potentially participate in Fund VII. He said it is expected that the Fund will be over-subscribed with their longtime existing investors. Staff has confirmed their due diligence and ABRY continues to be a top quartile performer across all timeframes. Andrew Banks made a presentation to the full Board last summer and discussed their strategy at length; since then, ABRY has continued right on course. He said Staff, along with StepStone, is recommending an allocation of up to $50 million in this Fund.

Mr. Rose said that there are many reasons why this is a four-times-over-subscribed fund. He said that ABRY has had the same team since Andrew Banks and Royce Yudkoff created it back in 1989. ABRY is the single best U.S. mid-market media communications player in the private equity industry. He said that there is no other entity that has come close to generating the returns that ABRY has. He added that if you were with them in 1989, you would have received more than a 41% annualized rate of return net of all fees and expenses.

Mr. Dunne reported that the Investment Committee recommends to the full Board an investment of up to $50 million in the ABRY Partners VII, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Chairman Tobin recognized the Investment Committee’s recommendation and asked if there were any further discussion on the motion. Hearing none he called for the vote.

MOTION: 3-127-11 At 2:43 p.m.
Motion: To approve an investment of up to $50 million in the ABRY Partners VII, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.
Moved by: none
Seconded by: none
Discussion: none
In Favor: unanimous
Motion: Approved

16. Report by New England Pension Consultants (NEPC) representative(s) on the Second Fiscal Quarter (Fourth Calendar Quarter) Performance of the System. Mr. Alan Martin
……………………………………………………………………………………………………………………………………………………………………………..Partner, NEPC

Mr. Martin referred to the NEPC written report, “Investment Performance Analysis through December 31, 2010” which had been distributed to the Board prior to the meeting. He reviewed economic conditions and pointed out that two indicators that are not improving are unemployment and the housing sector, including housing prices. He said that the environment is less optimistic than it had been at the start of this year and that has market implications for the portfolio which he discussed. He discussed their chart which appears at the end of the written report that is titled “The Effect of Real Estate on Returns” and said that if the Real Estate portfolio had earned the NCREIF return, the Total Fund would have earned 13.2% for the calendar year compared to the actual 10.3%.
Mr. Maguire said that he was glad to see this chart because it shows very clearly the cost of the real estate legacy properties and the drag they have had on the System’s investment return. Mr. Petrenka asked how the real estate ending-market value was arrived at. Mr. Martin responded that real estate and also private equity and hedge funds are priced by appraisal which are typically done with a lag so the numbers presented in the report reflect appraised values as of the end of September generally. He said not every holding in every portfolio is appraised at the same time. Mr. Anderson added that for the joint venture real estate held in the portfolio, a third of the holdings are formally appraised every year, but that if a transaction is to occur, then an appraisal is done at that time.

Mr. Martin gave a brief overview of the transition of the Trust’s equity and fixed income assets from internal management to external management. He said that, given the kind of market we are moving into, the Trust should move some of the indexed equity and fixed income back into active management. He said that we have started to do that with emerging market debt and we are now in the process of looking at small cap stocks and high yield managers. He reviewed the fourth quarter Plan highlights and said that over a 3 to 5 year cycle, the Fund will do better by having less in equities. He reviewed the Trust’s commitment to public equities and its total fund asset allocation and compared these with other public funds greater that have more than $1 billion under management. He concluded by doing a review of performance attribution.

17. Report by Investment Department Staff regarding the Arizona PSPRS Trust’s exposure to Japan. Mr. Mark Selfridge Investment Analyst

Mr. Selfridge reported that, with the recent earthquake and tsunami in Japan, the Investment Staff was prompted to do a review of the Trust’s portfolio exposure to Japan. He said 97% of the portfolio’s exposure to Japan is through the public equity markets but only 2.4% of the assets of the Total Fund are so exposed. He said we have limited private equity and real estate exposure but there has been no damages reported to those portfolios assets.

Presentation by Mr. Brian Tobin, Committee Chairman of the Operations, Governance Policy and Audit Committee regarding Recommendations/Action on agenda items 13 through 22 that were discussed during the meeting held today, March 30, 2011 on or after 10 a.m. and possible appropriate Action regarding same.

18. Presentation of the Month-to-Date Budget Report for FY 2011 and possible Recommendations. Karen Lewis Accounting Manager

Mr. Tobin stated this was a report and no action is required.

19. Written update on the progress of the Local Board Training Program, discussion and possible Recommendations. Mr. Robert Ortega Local Board Training Coordinator

Mr. Tobin stated this was a report and no action is required.

20. Review, discussion and appropriate Action regarding the March, 2011 bill for legal services performed in February 2011. Mr. Jim Hacking

Action was taken by Operations, Governance Policy and Audit Committee to approve payment.
21. Report, discussion and possible **Recommendations** regarding responses to the RFP for External Audit Services………………………………………………………………………………………………………Mr. Jim Hacking

Mr. Hacking reported that PSPRS received 4 responses to the RFP for External Audit Services. Three of the four responding firms had public fund experience. Given the pension reform legislation taking place this year, the familiarity that Heinfeld Meech has with the System and the downward revision they made in their fees, the decision was made to maintain continuity and offer a one-year contract extension to Heinfeld Meech with an option for the Board to extend the relationship for two additional one year periods. The other responses will be kept and in three years these firms will be asked to update their responses for use at that time. Mr. Tobin stated no action was needed since the Operations, Governance Policy and Audit Committee has authority to act on this item.

22. Discussion and possible **Recommendations** regarding revisions to the Board of Trustees Operations Policy……………………………………………………………………………………………..Mr. Jim Hacking

Due to changes in the state statutes last year, the Board of Trustees’ Operations Policy needs to be amended and on page 3, paragraph 24 a statement is needed that indicates that if more than three members of the Board are in attendance at a Committee meeting and even if the additional member(s) in attendance are not involved in the deliberations of the Committee, the Committee meeting must be noticed.

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<tr>
<th>MOTION: 3-128-11</th>
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<tr>
<td>Motion:</td>
<td>To approve the revisions to Governance Policy 5.03 as presented.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
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<td>Seconded by:</td>
<td>Mr. Petrenka</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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<td>Motion:</td>
<td>Passes</td>
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23. Report, discussion and possible **Recommendations** regarding log shipping and website development……………………………………………………………………………………………………Mr. Tom Willard Systems Development Manager

Mr. Tobin stated that Mr. Willard simply made a report and no action is required.

24. Report, demonstration, discussion and possible **Recommendations** regarding new PSPRS online retirement estimator……………………………………………………………………………………………………Mr. Tom Willard

Mr. Tobin stated this was a report and no action is required.

25. Discussion and possible **Recommendations** regarding revisions to the PSPRS logo and website…………………………………………………………………………………………………………….Mr. Paul Hemmes Training/Audio Visual Specialist

Mr. Tobin stated this was a report and no action is required.

26. Status report and possible **Action** on legislation pertaining to PSPRS, including SB 1609…………………………………………………………………………………………………………………………Mr. Jim Hacking

See item # 7 of the minutes.
27. Discussion and possible Action regarding the process for determining legislative initiatives........
                                                                                           Mr. Brian Tobin
This agenda item was tabled.

Mr. Maguire stepped out of the meeting and returned at 5:00 P.M.

28. Report regarding international travel taken by members of the Investment Staff, discussion and appropriate Action to approve such travel..................Mr. Ryan Parham

Mr. Ryan Parham informed that Board that he wishes to be in compliance with existing travel policies and was concerned when the Compliance Officer reminded him that in 2009, the policies were changed to require Board approval for any international business travel or subsequent ratification by the Board. Unfortunately, this information was brought to his attention one day prior to the departure of two staff members on an international due diligence trip. Mr. Parham then contacted the Administrator and the Chairman of the Board and asked if they would be willing to bring this to the Board during the next regularly scheduled meeting for ratification but that, if the Board failed to ratify the travel, Mr. Parham stated that he is willing to pay the cost.

**MOTION: 3-129-11** At 4:50 p.m.
Motion: To move ratification of the international travel.
Moved by: Mr. Ferguson
Seconded by: Mr. McHenry
Discussion: None
In Favor: Unanimous
Motion: Passes

29. Discussion and possible Action regarding modification to the PSPRS Governance Manual section regarding Travel Policy with respect to international travel..................Mr. Jim Hacking

**MOTION: 3-130-11** At 4:53 p.m.
Motion: To p. 2 of the Travel Policy in the PSPRS Governance Manual in sections 6c, 9c and 10 require the approval of the Administrator for travel by Staff.
Moved by: Mr. Ferguson
Seconded by: Mr. McHenry
Discussion: None
In Favor: Unanimous
Motion: Passes

30. Report on the process to obtain the Arizona Attorney General’s approval for PSPRS’ use of the law firms selected for use by the Board of Trustees at the January 26, 2011 meeting and at the February 23, 2011 meeting..............................................................Mr. Jim Hacking

Documentation regarding the law firms selected by the Board through an RFP process conducted by PSPRS was sent to the Arizona Attorney General’s office, since all firms must be approved by the AG to allow PSPRS to use them. Kutak Rock is already approved as is Ballard Spahr. However, approval is still needed for Steptoe & Johnson and the other law firms that do not have an Arizona presence. Marc Lieberman will work on this issue to get Steptoe & Johnson approved and then work to get the other law firms approved.
31. Report on the Auditor General’s review with respect to 2001-02 asset value losses and 2006 to present legal bills. ................................................................. Mr. Jim Hacking

Mr. Hacking informed the Board that due to certain disclosures and allegations made during a public meeting of the House Committee on Employment and Regulatory Reform, the Auditor General’s office is conducting a review of minutes, documents, calculations and other relevant materials relating to the losses in asset values that the System sustained in FY 2001 and FY 2002 and the billings for legal services from FY 2006 to the present. He indicated that the System’s staff is providing the documents requested and that the Auditor General’s staff has been provided work space for the conduct of their review.

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

No requests were made for training.

Mr. Maguire returned to the meeting.

33. Report, discussion and possible Recommendations regarding search for in-house legal counsel ................................................................. Mr. Jim Hacking

Mr. Hacking reported on the progress in the search for in-house legal counsel. He told the Board that a position description has been developed and that a memorandum which outlines a salary range of $97,600 to $178,800 has been written. Staff believes that the System could significantly reduce expenditures for legal services by employing a full-time in-house counsel which would reduce our having to use external counsel. This new position will be in the FY2012 budget. Mr. Maguire stated that it would be preferable to be able to hire someone with public pension and public law experience. He said that, according to the Arizona Bar, the average salary is $125,000 per year. The studies that were used by PSPRS staff to develop the salary range reflect attorneys with broader experience and more responsibility than this position would entail. This is a single agency counsel within the state and the salary range is extremely generous. However, Mr. Maguire acknowledged that the System can save money by hiring in-house counsel. Nevertheless, we must be sensitive to the public perception of the compensation level we apply to it. Mr. Ferguson agreed that the top of the salary range seems high.

| MOTION: 3-131-11 | At 5:08 p.m. |
| Motion: | To recommend moving forward with the job description and the memorandum recommendation. |
| Moved by: | Mr. McHenry |
| Seconded by: | |
| Discussion: | None |
| In Favor: | Unanimous |
| Motion: | Passes |

34. Election of Vice Chair of the PSPRS Board of Trustees .............................................. Mr. Brian Tobin
MOTION: 3-132-11  At 5:10 p.m.
Motion: To nominate Mr. Ferguson for Vice Chair of the Board of Trustees
Moved by: Mr. McHenry
Seconded by: Mr. Dunn
Discussion: None
In Favor: Unanimous
Motion: Passes

35. Appointment by the Chair of the Board of Trustees of the Chair of the Investment Committee………
.............................................................................................................................................................Mr. Brian Tobin

MOTION: 3-133-11  At 5:11 p.m.
Motion: To appoint Mr. Dunn as Chairman of the Investment Committee.
Moved by: Mr. Tobin
Seconded by: None
Discussion: None
In Favor: Unanimous
Motion: Passes

36. Possible appointment by the Chair of the Board of Trustees of the Vice-Chair of the Investment Committee and/or appointment of additional members to committees……………….Mr. Brian Tobin

MOTION: 3-134-11  At 5:12 p.m.
Motion: To appoint Mr. Dunne, Mr. Maguire and Mr. Petrenka to the Investment Committee
Moved by: Seconded by: None
Discussion: Unanimous
In Favor: Motion: Passes

MOTION: 3-135-11 At 5:12 p.m.
Motion: To appoint Mr. Mc Henry to the Operations, Governance Policy and Audit Committee to join Mr. Ferguson and Mr. Tobin
Moved by: Seconded by: None
Discussion: Unanimous
In Favor: Unanimous
Motion: Passes

37. 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 for March 30, 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.

This was the second call to the public for the meeting and no members of the public wished to speak.

38. Set the next meeting date.

The next meeting date will be April 27, 2011 at 1:00 P.M.

39. Adjournment

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<tr>
<th>MOTION: 3-136-11</th>
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<tr>
<td>Motion:</td>
<td>To adjourn the meeting</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Maguire</td>
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<tr>
<td>Seconded by:</td>
<td>Mr. Ferguson</td>
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<tr>
<td>Discussion:</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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Brian Tobin, Trustee, Chairman

Greg Ferguson, Trustee, Vice Chairman  Tim Dunne, Trustee

Richard Petrenka, Trustee  Alan Maguire, Trustee

Jeff McHenry, Trustee  Randie Stein, Trustee