Call to Order; Roll Call; Opening remarks

Chairman Tobin called the meeting to order at 1:05 p.m. He thanked past member of the Board of Trustees Mr. Tim Dunne for his service and a job well done. Mr. Lauren Kingry was welcomed by Chairman Tobin as a member of the Board of Trustees. A summary of his background was given by Mr. Kingry to the members of the Board.

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.

   a. Acceptance of Transfer Between State Retirement Systems of Linda Meraz.
   b. Acceptance of Transfer Between State Retirement Systems of Richard Potter.
   c. Acceptance of Transfer Between State Retirement Systems of Joycelyn Tagle.
d. Acceptance of Transfer Between State Retirement Systems of Christina Mc Kee.
e. Acceptance of Transfer Between State Retirement Systems of Deena Francis.
f. Acceptance of Transfer Between State Retirement Systems of Randon Kohlhase.
g. Acceptance of Transfer Between State Retirement Systems of Timothy Thomas.
h. Acceptance of Transfer Between State Retirement Systems of Kelly Heape.
i. Acceptance of Transfer Between State Retirement Systems of Brent Vermeer.
j. Acceptance of Transfer Between State Retirement Systems of Dave Munley.
k. Acceptance of Transfer Between State Retirement Systems of David Woodard.
l. Acceptance of Transfer Between State Retirement Systems of Patrick Kotecki.
m. Acceptance of Transfer Between State Retirement Systems of Joseph Tomory.
n. Acceptance of Transfer Between State Retirement Systems of Thomas Marquez.
o. Acceptance of Transfer Between State Retirement Systems of Renee De Freitas.
p. Acceptance of Transfer Between State Retirement Systems of Clark Schwartzkopf.
q. Acceptance of Transfer Between State Retirement Systems of Mark Nichols.
r. Acceptance of Transfer Between State Retirement Systems of Robert Russ.
s. Acceptance of Transfer Between State Retirement Systems of Ernestine Merino.
t. Acceptance of Transfer Between State Retirement Systems of Rick Phillips.
u. Acceptance of Transfer Between State Retirement Systems of Joseph Fiumara.
v. Acceptance of Transfer Between State Retirement Systems of Terry Staten.
w. Acceptance of Transfer Between State Retirement Systems of Mark Richardson.
x. Acceptance of Transfer Between State Retirement Systems of William Scheckel.
z. Acceptance of Transfer Between State Retirement Systems of Theodore Goehring.
aa. Acceptance of Transfer Between State Retirement Systems of Jeffrey Abts.
bb. Acceptance of Transfer Between State Retirement Systems of Dignus Best.
c. Acceptance of Transfer Between State Retirement Systems of John Ferrin.
dd. Acceptance of Transfer Between State Retirement Systems of Sean Sullivan.
e. Acceptance of Transfer Between State Retirement Systems of Pamela Swearingin.
ff. Acceptance of Transfer Between State Retirement Systems of Salvatore Freni.
gg. Acceptance of Transfer Between State Retirement Systems of Kevin Bennett.
hh. Acceptance of Transfer Between State Retirement Systems of Philip Hawk.
i. Acceptance of Transfer Between State Retirement Systems of James Burgett.
jj. Acceptance of Transfer Between State Retirement Systems of Robert Harry.
kk. Acceptance of Transfer Between State Retirement Systems of Laurel Burgett.
ll. Acceptance of Transfer Between State Retirement Systems of Robert Handy.
m. Acceptance of Transfer Between State Retirement Systems of James Greenlee.
nn. Acceptance of Transfer Between State Retirement Systems of Steven Schrimpf.
oo. Acceptance of Transfer Between State Retirement Systems of Patrick Wilson.
pp. Acceptance of Transfer Between State Retirement Systems of Marcel Spaulding.
qq. Acceptance of Transfer Between State Retirement Systems of Darci Nielsen.
rr. Acceptance of Transfer Between State Retirement Systems of William Lindvall.
s. Acceptance of Transfer Between State Retirement Systems of Bryan Soller.
t. Acceptance of Transfer Between State Retirement Systems of Daniel Long.
uu. Acceptance of Transfer Between State Retirement Systems of David Lundberg.
v. Acceptance of Transfer Between State Retirement Systems of Steven Blasko.
ww. Acceptance of Transfer Between State Retirement Systems of Daren Wunderle.
xx. Acceptance of Transfer Between State Retirement Systems of George Good.
yy. Acceptance of Transfer Between State Retirement Systems of Wilma Bishop.
zz. Acceptance of Transfer Between State Retirement Systems of Kelvin Smith.
aaa. Acceptance of Transfer Between State Retirement Systems of John Sharkey.
b. Acceptance of Transfer Between State Retirement Systems of Glen Vance.
ccc. Acceptance of Transfer Between State Retirement Systems of Aimee Willcoxson.
ddd. Acceptance of Elected Officials’ Retirement Plan of termination of normal benefit of Camilo Ahumada.

eee. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Anna Schottel.


hhh. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Daphne Coppinger.

iii. Acceptance of Elected Officials’ Retirement Plan of active death (died in office) of Armando Gandarilla.

jjj. Acceptance of Elected Officials’ Retirement Plan of death benefit payout to Anastasia Gandarilla.

kkk. Acceptance of Elected Officials’ Retirement Plan of termination of normal benefit of Lavere Connolly.

lll. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Wanda Connolly.


nnn. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Dean Martin.

MOTION: 4-137-11 At 1:09 p.m.
Motion: To move the Consent Agenda as presented.
Moved by: Mr. Maguire
Seconded by: Mr. Ferguson
Discussion: None
In Favor: Unanimous
Motion: Passes

2. Appropriate Action regarding the Minutes of the March 23, 2011 Meeting of the PSPRS Board of Trustees

MOTION: 4-138-11 At 1:10 p.m.
Motion: To move the minutes for March 23, 2011 as presented.
Moved by: Mr. Maguire
Seconded by: Mr. Ferguson
Discussion: None
In Favor: Unanimous
Motion: Passes

3. Appropriate Action regarding the Minutes of the March 30, 2011 Meeting of the PSPRS Board of Trustees

This agenda item was tabled until the May 25, 2011 Board of Trustees Meeting.

Presentation by Mr. Alan Maguire, Acting Chair of the Investment Committee, regarding Agenda Items 4 through 12 which were discussed at its meeting held today, April 27, 2011, on or after 10 a.m., and possible Action on the Committee’s Recommendations to the Board regarding same.

4. Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio update.
Mr. Maguire introduced Mr. Stalder to present Staff’s Month Ended and Fiscal Year-to-Date performance/portfolio update.

Mr. Stalder distributed the finalized Performance Report as of 3/31/11 (Gross of Fees) noting that this final report includes the NCREIF Index which was not available at the time the meeting materials were mailed. He said the Total Fund outperformed its benchmark by 50 basis points. He said the notable contributors to the outperformance were the Absolute Return and Credit Opportunities portfolios and the detractors were the Equities portfolio and the Real Estate portfolio. He said that for year-to-date the biggest contributors to outperformance have been the GTAA and Absolute Return portfolios. He said the Private Equity portfolio is immature so the disparity between the portfolio and the Russell 3000 is expected. He said the Real Estate portfolio is still going through major adjustments in terms of legacy properties and current investments.

5. Presentation by Investment Department Staff and New England Pension Consultants (“NEPC”) representatives and discussion and possible Action regarding the approval of a revision to Appendix IV INVESTMENT MANAGER REQUIREMENTS FOR INTERNALLY MANAGED FIXED INCOME PORTFOLIO of the PSPRS Amended and Restated Statement of Investment Policies.

Mr. Maguire introduced Mr. Parham to present the proposed revision to Appendix IV INVESTMENT MANAGER REQUIREMENTS FOR INTERNALLY MANAGED FIXED INCOME PORTFOLIO of the PSPRS Amended and Restated Statement of Investment Policies.

Mr. Parham referred members to the copy of the current Fixed Income Plan which was adopted by the Board about two years ago and the version of the existing policy with the recommended changes to that policy redlined. He said that Staff believes the revisions are necessitated by the fact that when the portfolio was an internally managed, it was appropriate to preclude any allocation to high yield fixed income investments. But now that a large and increasing portion of the fixed income portfolio is externally managed and the Board-approved plan for fixed income diversification includes a target of up to 10% for high yield, the policy document needs to be changed so that we can begin to implement the allocation.

Mr. Martin said the Board has approved a Fixed Income Plan and we have been in the process of filling out that structure and today we will have presentations from two managers to begin to fill out the allocation to high yield. The guidelines had not contemplated an investment in high yield in a concentrated way so NEPC and Staff corrected the guidelines to allow the execution of the strategic design and to make clear the guidelines with respect to the management of the internal portfolio. He said what you see in the document in front of you is a conservative set of guidelines for managing the internal portfolio and these are very consistent with the way it has been.

But starting with the bullet point that begins with “Up to fifty percent (50%) of the fixed income portfolio may be invested in non US investments” through the end of the document, there are guidelines that apply to the total portfolio. The revisions would allow for up to 20% of the fixed income portfolio to be invested in high yield strategies, with an average credit quality of CCC or better and that is a fairly liberal guideline for high yield securities. It is consistent with what one of the managers that will be presenting today does on an occasional bases. That guideline pertains specifically to high yield and allows the manager not to be in violation of the guidelines. He said the thought is to review and to modify the guidelines as appropriate.

Ms. Stein asked with regard to the provision, “No less than sixty (60%) of the total Fixed Income portfolio shall be invested in investment grade securities,” if that is underlying and overriding as she sees there is allowance for up to 20% in high yield. Mr Martin responded that the “No less than 60%” provision guarantees that you will never have less than 60% of the total fixed income portfolio in
investment grade fixed income securities.

6. Presentation by Investment Department Staff, Albourne America LLC and EQT VI Limited representatives, and discussion and possible Action regarding a possible investment of up to $40 million in the EQT VI (NO. 1) L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Mr. Maguire introduced Mr. Chen to present the possible investment.

Mr. Chen said this investment will be placed in the Private Equity portfolio. He said EQT Partners is a Nordic-based industrial holding company founded in 1994 by Investor AB and controlled by the Wallenberg family. He said they leverage their industrial and operational heritage, investing in and improving middle market businesses. EQT has generated good returns since 1995. He said four out of five of EQT’s prior funds are in the top quartile when compared to other European buy-out firms. He said both StepStone and Albourne have favorable opinions of EQT. He requested the Board approve Staff’s recommendation to invest up to $40 million in EQT VI.

David Hutchings, Albourne America, said he has known EQT since 1995 and has watch it grow, develop and institutionalize and expand from the Nordic region down into the Germanic speaking regions of Europe. He said he has had clients committed to every EQT fund since 1998. He said
Alboune’s London team has conducted full investment and operational due diligence on this team and they found them to be very satisfactory. He said very recently there have been some announcements of improvements to the terms and new exits. He said he has no hesitation in recommending this opportunity.

Mr. Sumeet Gulati, Partner (Munich Office) and Mr. James Wilson, Director of Investment Relations (North America), both of EQT, described the EQT VI buy-out fund. Mr. Gulati said the reason to invest with them is that they are active in the Northern European region and they have achieved a 58% gross IRR, 4.5 x multiple of cost. He said they have had no write-offs in the history of EQT’s buy-out funds which have invested in 54 companies with 32 exits. He said there are three elements that they feel make them distinct in their investment approach: their industrial focus, their team which is very entrepreneurial, and their consistent investment strategy which has been in place since the foundation of the firm. He said the Northern European region comprises the more healthy part of Europe: Sweden, Germany, Norway, Denmark, Finland and Poland. He said these countries have positive GDP growth in 2010, strong anticipation for growth in 2011, strong export orientation, low levels of national debt, flexible labor markets and political stability. He gave an overview of their industrial heritage, Investment strategy, investment criteria and investment team.

Mr. Gulati said they always steer their companies by having the Board chaired by an industrialist. The majority of Board members are industrialists and the EQT partners also hold a seat on the Board. He said there is communication between the CEO, the Chairman and the EQT Partner in charge on a weekly basis. He said everyone is invested in the deal and there is a strong alignment of interest. He said there is a clear delineation of responsibilities and full focus on creating the best value in the deal. He said that has helped the Firm to create a strong performance-oriented culture in the deals and companies they have acquired.

Mr. Maguire asked if there were any questions from members of the Board. Hearing none Mr. Maguire made a recommendation from the Investment Committee to the Board to approve an investment of up to $40 million in the EQT VI (NO. 1) L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Mr. Tobin accepted the Committee’s recommendations and called for the vote.

<table>
<thead>
<tr>
<th>MOTION: 4-140-11</th>
<th>At 1:30 p.m.</th>
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<tr>
<td>Motion:</td>
<td>To approve an investment of up to $40 million in the EQT VI (NO. 1) 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>
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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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<td>Motion:</td>
<td>Passes</td>
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7. Presentation by Investment Department Staff, NEPC and GoldenTree Asset Management L.P. representatives and discussion and possible Action regarding a possible investment of up to $50 million in the GoldenTree High Yield Value Master Unit Trust Fund or appropriate feeders, blockers, or associated or parallel funds of same.

Mr. Maguire introduced Mr. Steed to present the possible investment of up to $50 million in the GoldenTree High Yield Value Master Unit Trust Fund or appropriate feeders, blockers, or associated or parallel funds of same.
Mr. Steed said the Investment Staff is trying to build out the fixed income portfolio consistent with the Board’s approved Plan. He said that as Staff looked to allocate to high-yield, they recognized a move in the global economy towards a credit homogeneity whereby the market was segmenting assets into risky and non-risky classes with the risky assets doing quite well. He said it is a momentum market and Staff is not only concerned about the direction of the market but also about some of the systemic risks globally with monetary policy tightening and questionable fiscal conditions in some of the developed economies. He said that as Staff looked at high-yield, they looked for managers that had a top-down perspective on the market coupled with credit expertise that would enable them to find some of those idiosyncratic opportunities that exist for capital appreciation on the upside. He said several managers in the high-yield space have been interviewed over the past several months. He concluded by saying that he felt Golden Tree was an appropriate investment because the firm runs their portfolio with an absolute return perspective and a top down approach.

Mr. Stracke referenced NEPC’s investment summary which was included with the meeting materials. He briefly reviewed the Fixed Income Plan and said this investment will help to fill out the high yield allocation along with Gracie Capital investment (See below). He said one of the reason they focused on filling out the high yield allocation first was a belief that there are some opportunities in that market now and the market is less efficient, thus affording more opportunities to add value. He said rates have tightened over the last 12 to 18 months and are about 100 basis points below average; however, there is still about a 450 basis points spread over treasuries which is still pretty attractive, especially in a market where treasures are at about 320 basis points so the spread is 2x. He added that defaults have come down pretty dramatically.

Mr. Stracke discussed the search process conducted by NEPC in conjunction with Staff. He said the search started with NEPC’s Focused Placement List of 11 high yield bond managers. Through extensive analysis those were narrowed down to 4 mangers which Staff and NEPC viewed as offering the best combination of alpha generating potential and “fit” within the PSPRS structure. On-site due diligence meetings were performed with all four managers. Staff and NEPC concluded that GoldenTree was the the preferred choice for this mandate due to their deep credit skills, strong long-term track record, ability to invest selectively in different types of high yield instruments, and their proven willingness to partner with their clients.

Mr. Frank Benevento, Director of Client Development and Mr. Lee Kruter ,Portfolio Manager, both of GoldenTree Asset Management, described the GoldenTree High-Yield Value Fund. Mr. Benevento said GoldenTree was founded in 2000 and has $13.5 billion in assets under management. The firm has 180 employees and over 40 of those are investment professionals. He said they apply a consistent investment process across all of their mandates with a view to downside protection and making sure that asset value exceeds the value of the investment liabilities. He said they are a bottoms-up credit investor and use a top-down macroeconomic approach to try to protect capital when they feel markets are vulnerable. He said GoldenTree is 100% employee owned with 22 equity partners and one shared compensation pool so employee interests are aligned with those of their investors.

Mr. Benevento described the Value Fund’s strategy as long only, absolute return. He said the characteristics include: opportunistic allocation, asset class flexibility across bank debt and bonds, no active hedging or outright shorts, no gross or net leverage, and average asset coverage greater than 1.5x debt. He said that the average position size will generally be between 1 ½ to 3 % and that they do invest in the U.S. and Western Europe (generally between 20 to 25% European) with currency hedged to the USD.

Mr. Kruter gave an overview of their investment process. He said the target total return for this fund is 10% plus. They have a liquidity requirement and they do not like to own more than 15 to 20% of any individual security across all of GoldenTrees’ funds. He said one of the most important elements of their process is the asset coverage test which is a backwards 66% loan to value. He also said that it is
not what the public markets or private equity sponsors say a company is worth that they rely on; rather it is their own internal analysis that is done by people who have covered the market for 10 to 20 years that guides them. He said that once they find something that meets all of their criteria, then it becomes a catalyst driven process which can push the total return. He stressed that they constantly reevaluate the portfolio to make sure they have the optimal position sizes for each individual name. He said they have three reasons to sell: if a name hits its target, if a name gets over its target weight or if a situation changes with the position. He said since they are long only in their strategy, they manage risk with their cash positions based on where they think the best opportunities are.

Mr. Martin commented that it is very fortuitous that we have two managers in a row who play in somewhat the same space but play in that space very differently. He said the contrast will be fairly interesting and the one point to take away from this is that the Board has built a diversified asset allocation and has asked each manager to perform in a manner that is consistent with their style and strategy; that assures that in the aggregate, we will achieve the diversification that we were aiming to achieve over the long term. By contrast, the next manager that will be presenting to the Board at this meeting is expected to be more flexible because we are asking them to be more tactical and opportunistic; but we need our base in place to make that opportunistic move work in the overall picture. If every manager were allowed to drift wherever they choose, we could wake up one morning and find all our managers doing the same thing and that would undermine the whole diversification objective.

Mr. Maguire asked if there were any questions from the members of the Board and hearing none he said that the Investment Committee recommends an investment of up to $50 million in the GoldenTree High Yield Value Master Unit Trust Fund or appropriate feeders, blockers, or associated or parallel funds of same.

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

MOTION: 4-141-11

Motion: To approve an investment of up to $50 million in the GoldenTree High Yield Value Master Unit Trust Fund or appropriate feeders, blockers, or associated or parallel funds of same.

Moved by: None
Seconded by: Unanimous
Discussion: None
In Favor: Unanimous
Motion: Passes

8. Presentation by Investment Department Staff, Albourne America LLC and Gracie Capital LLC representatives and discussion and possible Action regarding a possible investment of up to $50 million in the Gracie Credit Opportunities Fund, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Mr. Maguire introduced Mr. Steed.

Mr. Steed said the basis for the GoldenTree investment is the same for this Fund, although the firm pursues a different strategy which Albourne will describe. He said Gracie is a relative value hedge fund with a macro overlay. He said that unlike GoldenTree, the Gracie hedge fund can take short positions and hedge some of the macro systemic risks. It complements GoldenTree very nicely. He said their long/short approach has caused the Fund to outperform long only high-yield and investment grade
indices by solid margins over the long term with negative beta and reduce volatility. He said that is what held Staff’s interest and that is why Staff is recommending Gracie to the Board today.

Mr. Lincoln Smith, from Albourne America, said they conducted both back and front office due diligence on Gracie and on the basis of that Albourne can recommend this investment. He said they are a relative value credit manager. Their differentiating factor is that they build their macro expectations on growth, default rates and interest rates and that shapes the gross exposure of the fund. He said the fund is managed opportunistically with a focus on liquidity and looks to capture the price movement of the various credit instruments rather than specifically having beta and play on carry. He said the fund invests mainly in North America but does have a sizeable portion in Europe and also allocations to Asia and South America.

Mr. James Palmisciano, CIO and Mr. Marc Friedman, COO, both of Gracie Capital, described the Gracie Credit Opportunities Fund. Mr. Palmisciano said Gracie is a long/short credit fund. Their idea is that the market is a five unit cycle and in 2 of those years you want to be short; in 2 you want to be careful; and one is normally a distressed period where you want to be long. He said their value proposition is that credit remains a very inefficient asset class and being able to play through this cycle can produce returns that they think are very good. He said their compound numbers are 12% but annualized volatility is around 5. He said the fund is currently about $2.2 billion and has been up 71 months out of 81. He said they have a small negative correlation to high yield returns and hedge fund index returns and they have a slightly positive correlation to the VIX which is usual in a credit fund.

Mr. Palmisciano gave an overview of their investment strategy and said they are single name focused and they look for corporate ideas on the long side and the short side but it depends on where you are in the cycle that really determines where the best ideas develop. He said it is an organic process to determine where you are in the credit cycle, but in terms of idea generation, they are agnostic about looking for the best idea and the best risk adjusted returns. He said they have an extreme focus on liquidity and they believe that, in the credit markets, liquidity is systemically underpriced so there are a lot of things that they do to manage the liquidity of their positions. He said in terms of their competitive advantage they focus on capital appreciation. They buy or short a credit position hoping the spread tightens for the price to go up or the spread widens for the price to go down. He said their carry on a monthly basis is still negative because they maintain a large short position. He said they are excited about both sides of the balance sheet. Last year they were predominately long, but with some concern that the sovereign debt crisis might get out of control; but now both sides of the balance sheet are really contributing. He said that the firm thinks that the opportunity set is ripe for things going both ways and they are excited about the prospects over the next couple of years.

Mr. Maguire said that the Investment Committee recommends an investment of up to $50 million in the Gracie Credit Opportunities Fund, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Mr. Tobin acknowledged the recommendation from the Committee and asked if the Board wished any further discussion. Hearing none he called for the vote.
9. Presentation by Investment Department Staff, Albourne America LLC and Goldman Sachs Asset Management (GSAM) representatives and discussion and possible Action regarding a possible investment of up to $60 million in the GSAM Hedge Fund Seeding Strategy:2011 LLC or appropriate feeders, blockers, or associated or parallel funds of same.

Mr. Maguire introduced Mr. Parham.

Mr. Parham said that Staff has been looking at hedge fund opportunities for about 3 ½ years and that Staff recognized that there were unique opportunities in hedge fund seeding; but the conversation with Goldman was disrupted when the markets collapsed. Staff recognizes that this may now be a really unique time to engage in hedge fund seeding due to some dislocations taking place in the market. He said that obviously seeding young hedge funds has risk as their strategies are unproven and they do not have institutional quality and back office support. He said the Staff believes Goldman is uniquely qualified for this kind of investment because they provide back office support, institutional quality, and the ability to attract other investors. He said Staff is recommending an investment of up to $60 million dollars in this seeding strategy and have negotiated terms which are particularly favorable.

Mr. Parham said that Albourne has to recue itself because the consulting firm represents other hedge funds; but he would like Mr. Shearman to discuss “seeding” and to venture an opinion about this opportunity along with NEPC.

Mr. Shearman said that the reason they have to step aside on this one is because their business model is such that they help investors monitor and manage their direct investments in hedge funds and some of their clients are fund of hedge funds so that puts them in a clear conflict of interest. However, he said they do have some remarks to make about this opportunity. He said that the environment for this type of investment is very attractive at this time and therefore this opportunity is certainly worth a serious examination. He said the benefit of seeding is that it brings two potential sources of alpha: the first being emerging managers who can be more nimble and who are fresh talent coming out of the investment banks as a result of the Volker Rule and the second being the opportunity to participate in the revenue streams as the manager grows.

Ms. Stephanie M. Ivy and Mr. Hugh Lawson, Vice Presidents of Goldman Sachs Asset Management, introduced themselves and briefly described their roles at GSAM where they both began in 1997. Ms. Ivy said that they view the System as a partner and this investment opportunity is one on which they have approached other investors only on a limited basis. She said there is a unique market opportunity for seeding funds and that is why they are raise a fund that will consist of 10 to 15 managers in the seeding space. The team that will focus on this investment is their hedge funds management group which has a track record of doing due diligence on managers going back to 1969. It is a very deep team consisting of over 100 professionals in 30 countries; this team has done the due diligence on over 4000 funds. She said they have an extensive due diligence process with a separate operational due diligence team that looks at the operations, trading, compliance, back office and all the other things that...
are very important particularly with hedge funds. She said they also have an independent risk management group that oversees the efforts of the hedge fund strategy team. She said the seeding fund offers the attractive economics of emerging managers which could potentially offer outsized returns but there is also the revenue sharing opportunity and the monetization event at the end of the life of the fund. She said they think it aligns interests properly.

Mr. Lawson said that the hedge fund industry actually survived the recent economic and financial market crisis better than many expected and that properly structured hedge funds actually served investors well. He said the industry now is back to about $1.9 trillion and they believe that probably in the next three to five years that number could easily be $3 to 4 trillion based on what they are seeing. He said about 80% of the net capital in-flow into the hedge fund industry over the last 3 years was concentrated on the top 30 hedge funds. Unfortunately, asset size can become a problem, especially when it comes to managing a hedge fund. He said there are plenty of hedge funds of modest size with experienced people who are looking to grow their business in an appropriate way but who have not benefitted from the recent in-flows of capital to the hedge funds. These are the kinds of hedge funds that they are focused on – funds with proven and talented managers but are in need of additional capital.

Mr. Lawson then reviewed their hedge fund seeding strategy and discussed the anatomy of a seed deal. He said that typically they would seed at least $50 million maybe and maybe a bit more for a larger fund in exchange for 15 to 20% of all of the revenue that the manager generates for 5 to 6 years. They will negotiate a clean exit at the end of 5 to 6 years. He said their base case return profile for this investment is mid to high teens.

Mr. Lawson said that on the question of risk there are two important mitigants: the due diligence process and negotiated kick-out rights with each manager which will give the fund preferential liquidity rights and the ability to retract L.P. capital which Goldman believes gives them meaningful downside protection. He also discussed the proposed terms of the hedge fund seeding strategy.

Ms. Stein asked Mr. Lawson if there were a single criteria that would be used in selecting the 10 to 15 managers that would be the recipients of the seed capital or if they would be looking for a diversified set of managers. Mr. Lawson responded by saying that the reason they are looking for 10 to 15 managers is that they do want to diversify their exposure, both by making sure they have different talent pools in the portfolio and also different strategies.

Mr. Tobin asked if we would be entering this fund at the beginning. Mr. Lawson confirmed that we would. He said that the commitment period is expected to be 3 years and then it would take up to another 3 years or so to fully realize the value.

Mr. Maguire said that the Investment Committee recommends an investment of up to $60 million in the GSAM Hedge Fund Seeding Strategy:2011 LLC or appropriate feeders, blockers, or associated or parallel funds of same.

Mr. Tobin acknowledged the recommendation by the Chair of the Investment Committee and asked if there were any further discussion. Hearing none he called for the vote.
10. Status report and possible **Recommendations** on legislation pertaining to PSPRS including SB 1609, SB1316, and SB1317……………………………………………………………………………………………………………..Mr. Jim Hacking

   An update was given by Mr. John Kaites of Public Policy Partners regarding the legislative session that ended on April 20, 2011 and he added that SB 1316, SB 1317, and SB 1609 are being reviewed today by the Governor’s Office. He noted that there may be a concern regarding the language in SB 1316 that would exempt PSPRS’ investment contracts from having to comply with the Sudan/Iran requirements that have proven to be burdensome. Mr. Ryan Parham, Chief Investment Officer, reminded Mr. Kaites that because of those Sudan/Iran requirements, PSPRS has missed out on a couple of attractive investment opportunities.

   Mr. Kaites stated that ideas that were embodied in the initial PSPRS legislation, HB 2198, HB 2199, and HB 2200 led to the formation of SB 1609. He also noted that as part of SB 1609, a committee is to be formed to study further changes to the System and one of the committee members will be a member of the PSPRS Board of Trustees. This committee must meet twice between now and the next legislative session.

11. Report by Investment Department Staff regarding ABRY Partners VII, L.P………..Mr. Ryan Parham

   Mr. Maguire introduced Mr. Parham.

   Mr. Parham reported that the Board had approved an investment in ABRY VII at an earlier meeting; but ABRY has notified Staff that we were given a zero allocation for this fund. He said that the System does have an investment in a prior ABRY fund and that at the time we consummated that transaction, ABRY confirmed that the System would have a preference in terms of an allocation to a subsequent fund. He indicated that Staff is not pleased that ABRY’s investment committee choose to give us a zero allocation for ABRY VII. He said that, although this Fund VII was wildly oversubscribed, we are still concerned that they did not live up to their earlier representations.

12. Report by Investment Department Staff regarding investments in Madrona Ventures Funds III and IV through the StepStone AZ Secondary Opportunities Fund.

   Mr. Maguire introduced Mr. Shan Chen.

   Mr. Chen reported that Staff conducted due diligence on Madrona and determined this was a good opportunity to buy a top quartile venture capital fund at a considerable discount. Given the time constraints and the size of the investment it was determined that the StepStone AZ Secondary Opportunities Fund was the best vehicle for this opportunity. The StepStone Fund was created to
sweep up these smaller opportunities that are attractively priced into a larger piece that will be meaningful for the total portfolio. StepStone conducted their own diligence and came back with a favorable recommendation. The total size of this opportunity is $10 million including a co-investment of $4 million.

13. Report by the PSPRS Compliance Auditor and discussion regarding investment compliance, holdings and transactions as of March 31, 2011……………………………Ms. Bridget Feeley ………………………………………………………………………………… Internal Audit and Compliance Auditor

Ms. Feeley reported that at the end of March we are in compliance in all material aspects.

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, April 27, 2011 on or after 10:30 a.m. and possible Action on the Committee’s Recommendations to the Board regarding same.

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

The budget projection for FY 2011 is that we will be 1.4% over budget by year end due to actuarial work for the legislature, legal invoicing, and unintended air conditioning expenses. Mr. Tobin asked staff to try to defer some expenses if possible.

15. Presentation, discussion and possible Recommendations regarding FY 2011/2012 PSPRS Strategic Plan………………………………………………………………………………Ms. Gail Nova Administration Manager

The initiatives were developed as a result of department managers having spoken with their staff members regarding the progress with respect to on-going initiatives and asking them for their ideas for future initiatives. The new projects will include creation of a comprehensive risk “dashboard” for the investment department, creation of a workflow program that will be company wide, implementing a document management system and the establishment of a call center. Progress on each initiative will be evaluated at midyear.

16. Presentation of the Quarterly Operations Report and possible Recommendations…………………Ms. Tracey Peterson Chief Operations Officer

For PSPRS and CORP there are 280 people entering DROP this quarter and there are 534 so far this fiscal year. There was a slight increase in contributions, but a smaller payroll due to vacancies and furloughs. For EORP a higher contribution rate resulted in payrolls remaining the same. With respect to the Fire Fighter and Peace Officer Cancer Insurance Plan, $338,247 in claims were paid so far this year.
Ms. Peterson stated that the aggregate contribution rates are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSPRS</td>
<td>20.89%</td>
<td>22.68%</td>
</tr>
<tr>
<td>CORP</td>
<td>8.57%</td>
<td>9.05%</td>
</tr>
<tr>
<td>EORP-cities, towns</td>
<td>29.79%</td>
<td>32.99%</td>
</tr>
<tr>
<td>EORP-state, counties</td>
<td>32.99%</td>
<td>17.96%</td>
</tr>
</tbody>
</table>

The alternate contribution rate effective 7/20/2011 will be 10.51%.
The alternation contribution rate effective 7/20/2011 will be 6.00%

The alternate contribution rate effective 7/20/2011 will be 14.47%.

17. Status report on the I.R.S. submission for the determination letters for the Supplemental Defined Contribution Plan and the Term Limited Plan, discussion and Recommendation

Ms. Tracey Peterson

Ms. Peterson informed the Board that the Operations, Governance Policy and Audit Committee recommended approving the changes that are needed for I.R.S. compliance purposes. Once we have the I.R.S. process complete, it may be possible to combine all the various Supplemental Plans and leave it to ASRS to administer.

**MOTION: 4-144-11**

At 2:53 p.m.

Motion: To approve the Plan document changes to make them I.R.S. compliant so that the Supplemental Plans can be transferred to ASRS.

Moved by: None

Seconded by: None

Discussion: None

In Favor: Unanimous

Motion: Passes

18. Discussion and possible Recommendations regarding the setting of the employer paid premium for FY 2012 for the Fire Fighter and Peace Officer Cancer Insurance Plan....Ms. Tracey Peterson

Through March 31, 2011 the Plan has $17.6 million in assets. So far this fiscal year only $338,247 in benefits has been paid. Last year the premium per person per year was reduced to $75. The Staff has recommended that there be no premium charged to the employers this next year for the program and that there be no allocation of costs to administer the program for the FY 2012. The costs to administer the program will simply be treated in the same way as all other administrative costs.
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 that this update was presented to the Subcommittee in written form.

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

MOTION: 4-145-11 At 2:56 p.m.
Motion: To approve a suspension of the Cancer Insurance premium payments for FY 2012 and to treat any expenses for the program in the same manner as other administrative expenses of the System.

Moved by: Seconded by: Discussion: In Favor: Motion:
None Unanimous Passes


………………………………………………………………………………Mr. Jim Hacking

Mr. Hacking informed the Board that he has been conferring with representatives from the Arizona Office of the Attorney General regarding the desire of the Board of Trustees to hire a qualified in-house legal counsel to reduce overall legal expenditures. A meeting will be held on April 28 to discuss this further and to consider all options.

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

Mr. Hemmes stated that during the Operations, Governance Policy and Audit Committee meeting held this morning, choices for the PSPRS logo were narrowed down from 7 to 3. These options will be refined further and returned to the Subcommittee during the May meeting.

23. Status report and possible Action on legislation pertaining to PSPRS including SB 1609, SB 1316 and SB1317…….. ………………………………………………………………………Mr. Jim Hacking

Refer to item #10 on the minutes.

MOTION: 4-146-11 At 2:59 p.m.
Motion: To approve the payment of the April 2011 bill for legal services performed in March 2011.

Moved by: Seconded by: Discussion: In Favor: Motion:
None Unanimous Passes
24. Discussion and possible Action regarding the process for determining legislative initiatives.........

This topic will be carried over to the May 25, 2011 meeting. Mr. Tobin stated that we may need to set legislative initiatives earlier than last year, to streamline the process, and to revise the timeline. Mr. Hacking noted that this past year we did not have the actuarial results for the legislative proposals until October which put us behind schedule.

25. 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

The Board was informed by Mr. Hacking that the representatives from the Arizona Office of the Attorney General will hopefully give an oral approval for our use of the 15 law firms selected for various services by the Board of Trustees at the January and February 2011 meetings. It is our understanding that the AG’s Office will not add these firms to their own approved list, but will approve them for our own use. Once that authorization is granted, we can enter into engagements with these firms.

26. 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 said that the Auditor General’s staff has been here a few days each week for the last three weeks and that they are continuing to ask for applicable documents which the PSPRS is supplying. Mr. Hacking will be given a status report on this review project tomorrow, April 28, 2011.

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

<table>
<thead>
<tr>
<th>MOTION: 4-147-11</th>
<th>At 3:04 p.m.</th>
</tr>
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<tbody>
<tr>
<td>Motion:</td>
<td>To recommend appointment of Mr. Alan Maguire as the Chairman of the Investment Committee.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. McHenry</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>MOTION: 4-148-11</th>
<th>At 3:07 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To recommend appointment of Mr. Petrenka as the Vice Chairman of the Investment Committee.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Maguire</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
</tbody>
</table>
28. 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 at this time.

**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.**

29. Discussion with and Appropriate Instruction by the Board of Trustees to legal counsel regarding those matters referenced in agenda item 29 below, including matters pertaining to investments or contracts, public records, 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) (collectively, the “Plans”) and/or involving matters pertaining to Huggins, Martin, Cross, Welker, IRS determination letters, Cooper, Seldin, Loftus, Pivotal Group, Stroh Ranch Development, ApexCapital and Desert Troon, and appropriate **Action** regarding same…………………………………………………………………. ………………Mr. Marc Lieberman

Mr. Michael Sillyman
Partners, Kutak Rock

An Executive Session was not called.

30. The Board of Trustees may vote to go into Executive Session to discuss matters pursuant to A.R.S §§ 38-431.03(A) (2), (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, contract negotiations, and settlement discussions, if any, arising in connection with the Plans’ real estate, private equity, hedge 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).

   b. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans, including internal investigations, public record requests, investment related matters, and actual or potential litigation and claims, including those involving Huggins, Cross, Martin, Welker, Cooper, Pivotal Group, Stroh Ranch Development, Seldin, and Loftus pursuant to A.R.S. §§ 38-431.03(A) (3), (4), and (7).

   c. Discussion and consultation with legal counsel and Staff regarding legal issues concerning (and status of) the Plans’ IRS determination letters.

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**MOTION: 4-149-11** At 3:09 p.m.

**Motion:** To appoint Mr. Lauren Kingry as a member of the Investment Committee.

**Moved by:** Mr. Ferguson

**Seconded by:** Mr. Maguire

**Discussion:** None

**In Favor:** Unanimous

**Motion:** 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 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.

No members of the public wished to comment.

32. Set the next meeting date.

The next meeting of the PSPRS Board of Trustees will be held at 1:00 p.m. on Wednesday, May 25, 2011.

33. Adjournment

<table>
<thead>
<tr>
<th>MOTION: 4-150-11</th>
<th>At 3:12 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. Petrenka</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
</tbody>
</table>

Brian Tobin, Trustee, Chairman

Greg Ferguson, Trustee, Vice Chairman

Randie Stein, Trustee

Richard Petrenka, Trustee

Alan Maguire, Trustee

Jeff Mc Henry, Trustee

Lauren Kingry, Trustee