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

The meeting was called to order on September 19, 2012 at 1:00 p.m. by Chairman Tobin who thanked the members of the Board for their participation in the Investment, Operations, Governance Policy and Audit Committee and Board of Trustee meetings. He thanked Staff for their support and announced that CIO Magazine named the 25 most influential pension consultants in the world and Mr. Allan Martin, Partner, NEPC was named number two.
2. **Appropriate Action** for approval of the Consent Agenda (documentation concerning the matters on the consent agenda may be reviewed at the PSPRS office). Any matter on the Consent Agenda will be removed from the Consent Agenda and discussed as a regular agenda item upon the request of any member of the Board of Trustees.

a. Acceptance of Elected Officials’ Retirement Plan of early retirement benefit of Maria Lui Alvillar
b. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Clark Munger
c. Acceptance of Elected Officials’ Retirement Plan of early retirement benefit of John E. Watson
d. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of John A. Buttrick
e. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Beverly D. Scott
   Acceptance of Elected Officials’ Retirement Plan of termination of early benefit of Lewis Tenney
f. Acceptance of Transfer Between State Retirement Systems of Fred Schultz
g. Acceptance of Transfer Between State Retirement Systems of Gary Comstock
h. Acceptance of Transfer Between State Retirement Systems of Jennifer Clemenshaw
i. Acceptance of Transfer Between State Retirement Systems of Deanna Barrier
j. Acceptance of Transfer Between State Retirement Systems of Melinda Kevitt
k. Acceptance of Transfer Between State Retirement Systems of Charles Cosgrove
l. Acceptance of Transfer Between State Retirement Systems of Thomas Bleichroth
m. Acceptance of Transfer Between State Retirement Systems of Mark Terry
n. Acceptance of Transfer Between State Retirement Systems of Timothy Eric Stewart
o. Acceptance of Transfer Between State Retirement Systems of William A. Clark
p. Acceptance of Transfer Between State Retirement Systems of Elizabeth Espinoza
q. Acceptance of Transfer Between State Retirement Systems of Octavio Barcelo
r. Acceptance of Transfer Between State Retirement Systems of Karen Crawford
s. Acceptance of Transfer Between State Retirement Systems of Judith A. Boyer
t. Acceptance of Transfer Between State Retirement Systems of Pamela Swearingin
u. Acceptance of Transfer Between State Retirement Systems of Donna Bauman
v. Acceptance of Transfer Between State Retirement Systems of Peter Michael
w. Acceptance of Transfer Between State Retirement Systems of Julie Werhnyak
x. Acceptance of Transfer Between State Retirement Systems of Erica Cochran
y. Acceptance of Transfer Between State Retirement Systems of Jaysan Casica
z. Acceptance of Transfer Between State Retirement Systems of Laura Long
aa. Acceptance of Transfer Between State Retirement Systems of Keith Kochis
bb. Acceptance of Transfer Between State Retirement Systems of Matthew Proto
cc. Acceptance of Transfer Between State Retirement Systems of Michael Lewis
dd. Acceptance of Transfer Between State Retirement Systems of Jessica Starkey-Bryson
ee. Acceptance of Transfer Between State Retirement Systems of Daniel Ruiz
ff. Acceptance of Transfer Between State Retirement Systems of Jason Taylor
gg. Acceptance of Transfer Between State Retirement Systems of Christa Salica
hh. Acceptance of Transfer Between State Retirement Systems of Barbara Wilding
ii. Acceptance of Transfer Between State Retirement Systems of David Chambers
jj. Acceptance of Transfer Between State Retirement Systems of James Laubmeier
kk. Acceptance of Transfer Between State Retirement Systems of Jeffrey Herbert
ll. Acceptance of Transfer Between State Retirement Systems of Glenn Owen
mm. Acceptance of Transfer Between State Retirement Systems of Diana St. John
nn. Acceptance of Transfer Between State Retirement Systems of Christi Delgadillo-Macias
oo. Acceptance of Transfer Between State Retirement Systems of Dwayne Evans
pp. Acceptance of Transfer Between State Retirement Systems of Kathleen Kennedy
qq. Acceptance of Transfer Between State Retirement Systems of Larry Battin
rr. Acceptance of Transfer Between State Retirement Systems of William Dillard
ss. Acceptance of Transfer Between State Retirement Systems of Brandon Huntley
tt. Acceptance of Transfer Between State Retirement Systems of Andrew Engleman
uu. Acceptance of Transfer Between State Retirement Systems of Hedger Smith
vv. Acceptance of Transfer Between State Retirement Systems of Gloria Espinoza
ww. Acceptance of Transfer Between State Retirement Systems of Duane D. Hoskin
xx. Acceptance of Transfer Between State Retirement Systems of Thad Smith
yy. Acceptance of Transfer Between State Retirement Systems of Leif Anderson

**MOTION: 9-13-12** At 1:05 p.m. on September 19, 2012

**Motion:** To approve the Consent Agenda as presented.

**Moved by:** Mr. Ferguson

**Seconded by:** Mr. Davis

**Discussion:** None

**In Favor:** Unanimous (Mr. Kingry was excused.)

**Motion:** Passes

3. Discussion and appropriate Action regarding the Termination of the Joinder Agreement with Graham County Attorney Investigators .............................................................. Mr. Brian Tobin

Mr. Smout said the termination of the Joinder Agreement is due to the fact that Graham County Attorney Investigators has assets but no liabilities. They have chosen to rescind their Joinder Agreement and PSPRS will return their assets.

**MOTION: 9-14-12** At 1:08 p.m. on September 19, 2012

**Motion:** To approve the Termination of the Joinder Agreement with Graham County Attorney Investigators.

**Moved by:** Mr. Ferguson

**Seconded by:** Mr. McHenry

**Discussion:** None

**In Favor:** Unanimous (Mr. Kingry was excused.)

**Motion:** Passes

4. Discussion and appropriate Action regarding the Termination of the Joinder Agreement with the Town of Miami Fire Department .............................................................. Mr. Brian Tobin

Mr. Smout said the termination of the Joinder Agreement is due to the fact that the Town of Miami Fire Department has assets but no liabilities. They have chosen to rescind their Joinder Agreement and PSPRS will return their assets.
At 1:09 p.m. on September 19, 2012

Motion: To approve the Termination of the Joinder Agreement with the Town of Miami Fire Department.

Moved by: Mr. Ferguson
Seconded by: Mr. Petrenka
Discussion: None
In Favor: Unanimous (Mr. Kingry was excused.)
Motion: Passes

At 1:09 p.m. on September 19, 2012

Motion: To approve the Minutes of the July 18, 2012 and July 25, 2012 Special and Regular meetings of the PSPRS Board of Trustees as presented.

Moved by: Mr. Ferguson
Seconded by: Mr. McHenry
Discussion: None
In Favor: Unanimous (Mr. Kingry was excused.)
Motion: Passes

At 1:10 p.m. on September 19, 2012

Motion: To approve the EORP disability application of Judge Janna L. Vanderpool.

Moved by: Mr. Petrenka
Seconded by: Ms. Stein
Discussion: None
In Favor: Unanimous (Mr. Kingry was excused.)
Motion: Passes

At 1:09 p.m. on September 19, 2012

Motion: To approve the EORP disability application of Judge Janna L. Vanderpool.

Moved by: Mr. Petrenka
Seconded by: Ms. Stein
Discussion: None
In Favor: Unanimous (Mr. Kingry was excused.)
Motion: Passes

Mr. Smout presented a review of fiduciary insurance provided by the Arizona Department of Administration (ADOA) for all the Arizona State Agencies. In addition to fiduciary insurance, ADOA purchases supplemental liability insurance for state agencies at a lower rate than PSPRS could obtain. State agencies are not authorized to purchase additional coverage and there are penalties should they do so. State liability coverage is extended to all state officers, agents and employees against any liabilities for acts or omissions while acting in authorized governmental capacities within the scope of their authorized duties. Should the need arise, a state agency can retain their customary outside legal counsel, if appropriate to the case. In the past, Risk Management provided
funds for legal defense beyond the limit commercial coverage would normally provide. Based on this information, Staff recommended forgoing any additional liability coverage and the Board of Trustees approved.

Mr. Ray DiCiccio, ADOA Risk Manager and Ms. Liz Pense, Claim Manager, State of Arizona, presided over a discussion with the members of the Board regarding hypothetical situations of what would and would not be covered by the state’s fiduciary insurance.

8. Introduction by Investment Department Staff of Mr. Andrew Carriker, who has recently joined the System as Chief Investment Counsel. Mr. Ryan Parham, Mr. Andrew Carriker

Mr. Carriker informed the Board of Trustees that he has relocated to Phoenix from Wilmington, Delaware where he had practiced corporate and securities law for eight years.

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

The return for the Month Ended of +1.43% was 9 basis points (bps) ahead of the benchmark and the NCREIF lags on a quarterly basis. Equities performed near the benchmark; Absolute Return was +2.72%; and Real Assets was ahead of the benchmark. For the Year-to-Date the Fund and the benchmark were up +2.3%.

10. Report by Investment Department and Compliance Department Staff and discussion regarding the Manager Selection Reporting and Compliance Check process. Mr. Ryan Parham, Ms. Bridget Feeley

Mr. Parham reminded the Board that the Manager Selection Policy was recently amended. Selection of managers is now made by the Staff with the concurrence of the specialty consultants. NEPC, the general fiduciary consultant, reviews the selection to determine if it is placed in the proper asset class and is within the ranges for that class. Final approval is provided by the Administrator and the process is tracked by the Compliance Officer.


Ms. Feeley added to the discussion of the new Manager Selection Policy by saying that each approval or disapproval is dated and after she signs off on the report it goes to the Board of Trustees.
12. Report by Investment Department Staff and ORG Portfolio Management representatives and discussion regarding a $10 million bridge loan extended to DT Lifestyle, L.L.C. (formerly known as DTR1B, LLC) on August 27, 2012. 

Mr. Ryan Parham, Chief Investment Officer
Mr. Ed Schwartz, Partner, ORG Portfolio Management

Mr. Parham informed the members of the Board that the $10 million, which was structured as a bridge loan, would be used to delever local real estate assets and pay down the existing line of credit.

13. Report by Investment Department Staff and StepStone Group representatives and discussion regarding a $0.66 million investment in a secondary opportunity to be held in the StepStone AZ Secondary Opportunity Fund.

Mr. Ryan Parham, Portfolio Manager
Mr. Jay Rose, StepStone Group

The StepStone AZ Secondary Opportunity Fund is an investment vehicle that sweeps together secondary investments that are acquired with significant discounts. StepStone has the ability to source and underwrite these deals very quickly. $85 million was committed in this fund and about $82 million is currently placed. Mr. Jay Rose added that PSPRS is able to buy this piece at a 38% discount and that if approved the PSPRS $600,000 investment would be equal to 14% of that piece. Mr. Parham added there is $3.8 million left to deploy in this fund.

14. Presentation by Investment Department Staff and StepStone Group representatives and discussion and possible Action regarding amending the investment process of the StepStone AZ Secondary Opportunities Fund, L.P. such that the General Partner, StepStone Group, is granted investment discretion for portfolio investments in which the Trust’s allocation to the investment is $4 million dollars or less.

Mr. Ryan Parham, Mr. Jay Rose

Mr. Parham told the Board that the staff recommends amending the investment process of the StepStone AZ Secondary Opportunities Fund, L.P. so that StepStone would have discretion with respect to investing the remaining uncommitted amount still available for this fund. Given the fact the portfolio is already diversified to the satisfaction of PSPRS staff, granting StepStone authority to fill out this portfolio at their discretion removes from us the burden of notifying the Board of small investments. It would be better use of the Board’s and Staff's time to have StepStone take responsibility for investing the remaining $3.8 million of uncommitted funds.
MOTION: 9-18-12  At 1:45 p.m. on September 19, 2012

Motion:  To approve amending the investment process of the StepStone AZ Secondary Opportunities Fund, L.P. such that the General Partner, StepStone Group, is granted investment discretion for portfolio investments in which the Trust’s allocation to the investment is $4 million dollars or less.

Moved by:  Mr. Petrenka
Seconded by:  (Recommended by the Investment Committee)
Discussion:  None
In Favor:  Unanimous (Mr. Kingry was excused.)
Motion:  Passes

15.  Report by Investment Department Staff and discussion regarding the Arizona PSPRS Trust’s (the “Trust’s”) commitment of up to $50 million in the Timbervest Crossover Fund III and the reduction of such commitment to $30 million.  Mr. Ryan Parham

Mr. Parham explained that Timbervest takes advantage of the Army Corps of Engineers amelioration program and finds potential wetlands and other environmentally sensitive areas to buy, remediate and sell to developers. The fund has performed well and PSPRS committed $50 million to the fund. However, he said that recently, the staff became aware that the SEC was reviewing Timbervest but so far no formal charges have been made. He added that there is to our knowledge no evidence of wrong doing. Nevertheless, as a matter of prudence and caution, we have asked Timbervest to reduce our investment commitment from $50 million to $30 million and Timbervest has agreed to do so.

16.  Presentation by Investment Department Staff and Albourne America, L.L.C representative and discussion regarding the Annual Plan detailing strategic objectives, pacing, and the means for implementation in the Real Asset portfolio.  Mr. Paul Corens

Mr. Corens described this portfolio as consisting of 24 diverse types of tangible assets. It was created in 2009 as a hedge against inflation and it has performed as expected up to this point in time. Now the staff see more opportunities so they are recommending changes in this portfolio for a more accurate description of what is in the category. Staff is recommending moving the TIPS component (Inflation Protection Bonds) to Marketable Securities, Timber to Natural Resources, and deleting Currency from this portfolio since it is a better fit in the Risk Parity portfolio. In addition, the staff is recommending adding Energy, and adding Special Situations. Mr. Corens discussed strategies over the next six to nine months, pacing analysis and benchmarks.
17. Presentation by the Fiduciary Consultant for the System, NEPC LLC, regarding the System’s Total Portfolio investments and an overview of market conditions and economic forecasts. Messrs. Allan Martin and Don Stracke

Mr. Martin reviewed NEPC’s role in supporting PSPRS. He described how they communicate with the specialty consultants, and how targets are developed for PSPRS. A description was given regarding the current investment environment, PSPRS’ portfolio positioning, and a proposed revision of the PSPRS Governance Plan in order to link investments and governance to add value to the portfolio.

18. Discussion and consultation with legal counsel and Staff regarding proposed legislation, investment matters, ongoing, contemplated or threatened legal action involving the Plans, including vendor disputes, public record requests, personnel matters and actual or potential litigation and claims based on contract, tort or statute, including matters involving BNY Mellon, DTR1, DTR1C, judges Thompson and Hall, retired judges Fields and Lankford, retired Judge Paul Katz, Huggins, retired police officers Rappleyea and Everson, active police officers Parker, Griego, Manganiello and Robles, Cross, the Pivotal Group, the Seldins, Stroh Ranch Development, Bank of America, and Red Kite Explorer Fund. The Board may vote to discuss these matters in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(1), (2), (3), (4) and (7) as set forth in item 42.

19. The Board of Trustees may vote to go into Executive Session (which will not be open to the public) to discuss matters pursuant to A.R.S. §§ 38-431.03(A) (1), (2), (3), (4) and (7), as applicable, including to obtain legal advice from the Board’s attorneys on any matter listed on the agenda, including:
   a. Status report from Ben Cooper of Steptoe & Johnson LLP regarding the four (4) lawsuits challenging provisions of Senate Bill 1609, which lawsuits involve judges Thompson and Hall, retired judges Fields and Lankford, retired police officers Rappleyea and Everson, and police officers Parker, Griego, Manganiello and Robles.
   b. Discussion with legal counsel (and possible recommendation to the Board of Trustees) about legal developments, claims and issues (including settlement discussions) involving investment-related public record requests as well as the Plans’ contracts and investments, including legal matters concerning the Plans’ custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venturers (as well as any investments managed by the Plans’ investment managers or joint venturers). The Board may vote to discuss these matters, wholly or in part, in Executive Session pursuant to A.R.S. §§ 38-431.03(A) (2), (3), (4) & (7). Matters discussed may include matters involving DTR1, DTR1C, or claims or potential claims by, against or involving (or issues concerning) BNY Mellon, Stroh Ranch Development, The Pivotal Group, Red Kite Explorer Fund, Bank of America and/or Millard and Scott Seldin.
c. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans not otherwise referenced above, including internal investigations, public record requests, and actual or potential litigation and claims based on contract, tort or statute, including those involving Huggins & Cross, pursuant to A.R.S. §§ 38-431.03(A) (2), (3) and (4).

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<thead>
<tr>
<th>MOTION: 9-19-12</th>
<th>At 3:00 p.m. on September 19, 2012</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To recess Open Session and enter Executive Session</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
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<td>Seconded by:</td>
<td>Mr. McHenry</td>
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<td>Discussion:</td>
<td>None</td>
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<tr>
<td>In Favor:</td>
<td>Unanimous (Mr. Kingry was excused.)</td>
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<tr>
<td>Motion:</td>
<td>Passes</td>
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20. Presentation by the Valley Ventures L.L.C. representative and discussion regarding the Trust's investment in Valley Ventures III L.P. and Valley Ventures III Annex L.P.

Mr. Ryan Parham
---------------------------------------------
Managing Member, Valley Ventures, LLC

Mr. Holliman informed the Board that their relationship with Valley Ventures goes back to 1993. He described their current environment, the portfolio and the status of the fund. Valley Ventures III L.P. was formed in 2002 and the Valley Ventures III Annex L.P. was formed in 2007. Their area of expertise is in early seed stage of venture capital strategies, principally in life sciences. Discussion was held regarding their plans to optimize the value of the fund’s assets to create liquidity. Mr. Holliman gave his predictions for the future of the fund’s investments. This was followed by a question and answer period.

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee regarding agenda items 21 through 37 which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, September 19, 2012, on or after 11:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

21. Presentation of the Month-to-Date Budget Report for FY 2012 and possible Action on same………………………………………………………….. ………….

Mr. John Hendricks
---------------------------------------------
Manager of Finance and Accounting

Mr. Hendricks presented the budget wrap up for FY 2012 and recommended amending the FY 2013 administrative budget by reducing it by $190,000 based on a number of recent changes. Mr. Ferguson described the discussion that was held in the Operations, Governance Policy and Audit Committee meeting this morning regarding budgeting for litigation-related costs and indicated that further amendments to the FY’13 budget may be necessary.
22. Written update on the progress of the Local Board Training Program and discussion and possible **Action** regarding the same  Mr. Robert Ortega  
Local Board Training Coordinator and Human Resources Manager  
Mr. Don Mineer  
Local Board Training Specialist

This report was included in the information sent to the members of the Board of Trustees.

23. Presentation of the Requests for Local Board Rehearing Report for the current month.  
Mr. Jim Hacking  
Administrator

This report was included in the information sent to the members of the Board of Trustees.

24. Review, discussion and possible **Action** regarding the August and September 2012 Kutak Rock and other law firms’ billings for legal services performed in July and August 2012.  
Mr. Jim Hacking

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<th>MOTION: 9-20-12</th>
<th>At 3:00 p.m. on September 19, 2012</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To approve payment of August and September 2012 Kutak Rock and other law firms’ billings for legal services performed in July and August 2012.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
</tr>
<tr>
<td>Seconded by:</td>
<td><em>(Recommend by the Operations, Governance Policy and Audit Committee)</em></td>
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<tr>
<td>Discussion:</td>
<td>None</td>
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<tr>
<td>In Favor:</td>
<td>Unanimous (Mr. Kingry was excused.)</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
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25. Discussion and possible **Action** regarding five percent (5%) employee retention payments as referenced in SB 1523 and appropriate **Action** for amendments to the FY 2013 PSPRS Administrative Budget relating to same  
Mr. Jim Hacking

Mr. Hacking explained that the personnel reform initiative, HB 2571 contemplated that a one-time payment equal to 5% of salary would be paid to any “covered” employee (civil service protected) who elects to become “uncovered” (an at will employee). The appropriation bill for all state agencies, SB 1523, provided that the state agencies must make the 5% payment to all uncovered employees. This created two issues for PSPRS. First, does this bill apply to PSPRS since PSPRS does not receive state appropriations and the PSPRS Staff members have always been at will employees? Second, is the payment of the 5% discretionary with the Board, since the cost of the payments would have to come from the PSPRS Trust assets? Mr. Hacking indicated that the the Office of the Attorney General has been asked for its opinion on these questions.

26. Discussion and possible Action regarding modifications to the Arizona PSPRS Trust’s Declaration of Trust to comply with certain new IRS requirements  
Mr. Jim Hacking
27. Presentation on, and discussion of, FY 2012 financial and investment related information

Mr. Hacking reported that, for FY 2012 the PSPRS investment return, gross of fees, was -32% as compared to the benchmark performance of 2.89%. For three out of the last five years PSPRS has experienced actuarial losses (i.e., returns less than the actuarial assumed rate of return) due to the poorly performing financial markets. The principal factors contributing to the FY’12 underperformance of the actual return relative to the benchmark return include: write downs in the valuation of residential real estate 161 bps), opportunity costs resulting from not moving indexed funds from BNY Mellon to State Street rapidly enough (66 bps), the use of an inappropriate index for the Credit Opportunities asset class (64 bps), and underperformance by the portable alpha portfolio managers (14 bps). The impact of the actuarial loss will be discussed with the Board when the actuaries present their valuation results at the October Board meeting. Mr. Hacking predicted that the funding ratios for both PSPRS and EORP likely be less than 60% as of the end of FY’12. As a result, employer contributions will continue to increase.

28. Report by the Administrator on his meetings with constituent and employer group representatives

Mr. Hacking met with constituent and employer groups in September and will meet with other groups in October. Employer and constituent informational meetings will be held as PSPRS normally does in December.

29. Status report and appropriate Action regarding the actuarial valuation of the Firefighter and Peace Officer Cancer Insurance Policy Program

Mr. Smout reported that the GRS actuaries recommended $28.52 as the premium for the program. The current premium is $50. He also said that the Firefighter and Peace Officer Cancer Insurance Policy Program has an $18 million reserve. No action was taken and it was recommended we gather more information and let the program age for more actuarial experience.

### MOTION: 9-21-12

At 4:19 p.m. on September 19, 2012

**Motion:** To accept the recommendation of the Operations, Governance Policy and Audit Committee regarding modifications to the Arizona PSPRS Trust’s Declaration of Trust to comply with certain new IRS requirements.

**Moved by:** Mr. Ferguson  
**Seconded by:** (Recommend by the Operations, Governance Policy and Audit Committee)

**Discussion:** None  
**In Favor:** Unanimous (Mr. Kingry was excused.)  
**Motion:** Passes
30. Status report on new GASB pronouncements ............................Mr. Jared A. Smout

Mr. Smout told the Board that the new GASB requirements will change financial reporting of pension liabilities in order to get everyone on a more common ground. We are working to get ahead of the curve for implementation next fiscal year; employers will implement new GASB requirements the following fiscal year.

31. Report and appropriate Action on FY 2013 Compliance and Internal Audit Plan .......... Ms. Bridget Feeley

Ms. Feeley reported that EPIC access control is adequate and looks very good. Mr. Tobin requested a review be conducted to see if we are on track with the governance requirements for the Board of Trustees.

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

Ms. Feeley reported that, as of August 31, 2012, the portfolio was in compliance. Within the Credit Opportunities portfolio there is an investment where we are taking a $5.7 million loss; this was the result of a mathematical error made by the general partner. Mr. Parham added that NEPC has been made aware of this and that the auditors for the general partner have been replaced. Ms. Feeley and he will visit this manager’s office before Christmas. The auditors for PSPRS have said that, since this loss is immaterial to our portfolio, we will recognize this in FY 2013; so there is no reason to restate our financials for FY’12.

Mr. Petrenka requested a review of counterparty risk on a regular basis at least once or twice per year.

33. 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. Michael DiGrasio of the Fraternal Order of Police said the 5% retention bonus for staff is well deserved and should be approved if it comes before the Board of Trustees.

Mr. Tobin recessed the meeting which will resume at 9:00 a.m. tomorrow, September 20, 2012.

Mr. Tobin resumed the meeting at 9:05 a.m. on September 20, 2012.
Mr. Tobin explained that today’s topics will give us an indication of where we are and where we are going in terms of asset management. The process of selecting investment managers has been delegated to Staff with final approval by the Administrator. In order to know what is working well or needs improvement in the portfolio, asset classes and ranges we will talk with the consultants regarding their areas of expertise and their fiduciary duties.

Mr. Petrenka thanked Staff for their focus on creating a good mix of investments.

Mr. Don Stracke reported that, as of June 30, 2012, Equities were down for the quarter, but were up for the fiscal year. But the Non-U.S. Equities portfolio performed poorly for the year. He also reported that the Fixed Income portfolio did well. Alternative Strategies had mixed results but so far in the new fiscal year, we have had more positive results. Mr. Stracke described the Euro zone crisis, trends in emerging markets, the U.S. fiscal environment, and a possible continuation of low interest rates for a prolonged period.

The PSPRS Trust’s investment return was low, partly as a result of the drag created by legacy real estate. The new asset allocation will move PSPRS toward new policy targets, but will still experience drag from the legacy real estate. Since 2007 the return to the Fund has been in excess of the investment policy. PSPRS results are ahead over a trailing five year period and results of the Trust are ahead of the policy over a five year rolling period. Value has decreased somewhat in the last year.

Discussion was held about asset classes, attribution effects relative to the allocation index for three months ending June 30, 2012 and for one and three years ending June 30, 2012.

Mr. Chen described the strategy for Private Equity management within a portfolio of 35 different managers, 39 Private Equity funds and 10 co-investment vehicles. He discussed last year’s activities and performance of a young program, pacing and future plans. A net IRR of 6.7% has been generated since the 2002 inception of the program. Diversification in this portfolio is by vintage year, geography, and investment method. Since it is important to find the right manager, Mr. Chen further described the manager selection process.
37. Presentation by one of the Specialty Consultants for Private Equity, StepStone Group, and discussion regarding the System’s Private Equity portfolio and an overview of market conditions and economic forecasts. Messrs. Jay Rose and Ian Aaker, Partner; Vice President (respectively) StepStone Group

Mr. Rose pointed out that, as of June 30, 2012 the net IRR for FY 2012 was 8.38%. He also gave a description of the individual partnerships by vintage year, net IRR, and performance relative to public markets by each manager. An explanation of pacing, sector diversification and total exposure by vintage year and geography was given as well. Mezzanine strategies, secondary investments and emerging market opportunities were described for the Board.

38. Presentation by the Specialty Consultant for Real Estate, ORG Portfolio Management, and discussion regarding the System’s Real Estate portfolio and an overview of market conditions and economic forecasts. Mr. Ed Schwartz, Partner, ORG Portfolio Management

The PSPRS real estate overview was presented by Mr. Ed Schwartz. The investment strategy is to correct structural issues inherent in the legacy portfolio in order to provide liquidity and property diversification by type, geography and vintage year. Mr. Schwartz talked about lessons learned from the past in real estate. He discussed core, value added, opportunistic and debt real estate strategies. Property type diversification examples are office, industrial, self storage, hotels, apartments, data centers, land and mixed use. A summary was given of occupancy rate by property sector, income returns, and the cyclical nature of real estate.

39. Presentation by the Specialty Consultant for Hedge Funds, Albourne America, LLC, and discussion regarding the System’s Hedge Fund investments within the total portfolio and an overview of market conditions and economic forecasts. Mr. Lincoln Smith, CFA, Mr. Tom Cawkwell, Head of Closed End Research, Mr. John Claisse, PhD, Head of Portfolio Advisory, Albourne America LLC

The Albourne representatives indicated that they are aware of their duties as fiduciaries. They gave a review of the Hedge Fund industry which has been impacted by the sovereign debt crisis, events of government intervention, and industry changes due to regulations. An explanation was presented of the four types of assets compromising hedge funds: relative value, directional, event driven, and long/short equity. Specific funds were reviewed and future strategies were outlined.

40. Presentation by the Specialty Consultant for Real Assets, Albourne America, LLC, and discussion regarding the System’s Real Assets portfolio and an overview of market conditions and economic forecasts. Mr. Lincoln Smith, CFA, Mr. Tom Cawkwell, Mr. John Claisse, PhD

The Albourne representatives reminded the Board that the Real Assets portfolio was launched in 2008 because of its low correlation to equities and bonds but its high correlation to inflation. Real assets are defined at physical assets that can be held for the long term, have a cash yield, low volatility, and, for some areas, high returns on an
opportunistic basis. Mr. Cawkwell discussed risks and returns, sub asset classes, long term drivers, short term trends and the return profile for the next five years. Real assets in the portfolio are generally priced in U.S. dollars and the types of assets include farmland, timber, infrastructure, core capital assets and commodities. The ten largest positions in the PSPRS Real Asset portfolio were described as were the new commitments in 2012 and plans for FY 2013.

41. Presentation by the Specialty Consultant for the System, NEPC LLC, regarding the System’s Credit Opportunities investments and an overview of market conditions and economic forecasts. Messrs. Allan Martin and Don Stracke, Partner; Senior Consultant (respectively) NEPC, LLC

Mr. Stracke reported that the Credit Opportunities asset class which started in 2008 was up 17.3% for each of the last three years as compared to the benchmark which was up 14%. Equity-like results have been achieved with a fixed income volatility level. He added that Euro zone banks must sell assets they are holding to maintain liquidity. He spoke regarding traditional credit investments, opportunistic credit investments, credit opportunity strategies, and U.S., Euro area and United Kingdom bank leverage. This was followed by a questions and answer period.

41a. Discussion regarding Board of Trustee meeting mailings. Mr. Jim Hacking

This agenda item was presented by Mr. Ferguson and Mr. McHenry since this topic was covered in the Operations, Governance Policy and Audit Committee meeting where they discussed using some form of electronic format or CDs instead of the hard copy mailings. Due to the amount of printing, time and materials we will look into secure options and compare the cost of all options. A further report and recommendation will be presented to the Board of Trustees within the next thirty to sixty days.

42. Declaration and appropriate Action by the Board of Trustees to ratify (i) the official total fund rate of return for the twelve months ending June 30, 2012 (net of fees) and (ii) the benchmark return for the same time period. Mr. Brian Tobin

Chairman Tobin reported that the total rate of return for the twelve months ending June 30, 2012 (net of fees) was -0.79% and the benchmark return for the same time period was 2.89%.
43. Discussion and appropriate **Action** to nominate and elect officers of the PSPRS Board of Trustees……………………………………………………………………Mr. Brian Tobin

<table>
<thead>
<tr>
<th>MOTION: 9-22-12</th>
<th>At 1:33 p.m. on September 20, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motion:</td>
<td>To continue the Board of Trustees, Investment Committee, and Operations, Governance Policy and Audit Committee officers as they are at the present.</td>
</tr>
<tr>
<td></td>
<td>Mr. Tobin – Chair of the Board of Trustees</td>
</tr>
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<td></td>
<td>Mr. Ferguson – Vice Chair of the Board of Trustees</td>
</tr>
<tr>
<td></td>
<td>Mr. Petrenka – Chair of the Investment Committee</td>
</tr>
<tr>
<td></td>
<td>Mr. Davis – Vice Chair of the Investment Committee</td>
</tr>
<tr>
<td></td>
<td>Mr. Ferguson – Chair of the Operations, Governance Policy and Audit Committee</td>
</tr>
<tr>
<td></td>
<td>Ms. Stein – Vice Chair of the Operations, Governance Policy and Audit Committee</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. McHenry</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Ms. Stein</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
</tbody>
</table>

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

There were no requests regarding training, educational and due diligence opportunities.

45. **Call to the Public**

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

There were no responses by members of the public to address the Board of Trustees. Chairman Tobin thanked the Board members for attending the meeting.

46. **Set the next meeting date.** (Currently scheduled for Wednesday, October 31, 2012.)

The meeting will be held on Wednesday, October 31, 2012.

47. **Adjournment**

The meeting was adjourned at 1:35 p.m. on September 20, 2012.