

**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING**

January 31, 2018

MINUTES

Members Present:	Mr. Brian P. Tobin, Chairman, Trustee Mr. William T. Buividas, Vice Chairman, Trustee Mr. William C. Davis, Trustee – Excused at 4:35 p.m. Mr. Edward J. McNeill, Trustee Mr. Harry A. Papp, Trustee Mr. Bryan Raines, Trustee Mr. Mike Scheidt, Trustee Mr. Dean Scheinert, Trustee Mr. Donald A. Smith, Jr. Trustee
Others Present:	Mr. Jared Smout, Administrator Mr. Dave DeJonge, Deputy Administrator Mr. Ryan Parham, Assistant Administrator and CIO Ms. Ivy Voss, Assistant Attorney General Ms. Chrystal Angotti, Senior Executive Assistant Mr. Mark Steed, Deputy CIO and Chief of Staff Mr. Shan Chen, Lead Portfolio Manager Mr. Jefferson Weston, Investment Analyst Ms. Jennifer Eichholz, Chief In-House Investment Counsel Ms. Rose Crutcher, Investment Paralegal Mr. Timothy Jackson, Compliance Officer Ms. Patricia Shaner, Human Resources Director Mr. Christian Palmer, Communications Director Mr. Allan Martin, NEPC Ms. Dianne McAllister, Public Policy Partners Mr. Doug Cole, HighGround Mr. Marc Lieberman, Kutak Rock Mr. Ed Schwartz, ORG

1. Call to Order; Pledge of Allegiance; Roll Call; Opening remarks.

*Mr. Brian P. Tobin
Chairman*

The meeting was called to order at 12:38 P.M. by Chairman Tobin, which was followed by the Pledge of Allegiance and Roll Call.

2. Call to the Public.

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

There was no reply to the Call to the Public, which was stated at 1:10 P.M.

3. Introduction of Chrystal Angotti, who has recently joined the PSPRS as Senior Executive Assistant.
Mr. Jared A. Smout
Administrator

Ms. Angotti was introduced to the Board of Trustees at 1:20 P.M.

4. Appropriate **Action** for approval of the items on the Consent Agenda (documentation concerning the matters on the consent agenda may be reviewed at the PSPRS office). Any matter on the Consent Agenda will be removed from the Consent Agenda and discussed as a regular agenda item upon the request of any member of the Board of Trustees.
- a. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of James Blomo.
 - b. Acceptance of Elected Officials' Retirement Plan of termination of normal retirement benefit of Acension C. Canchola.
 - c. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Nick Castaneda.
 - d. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Alice D. Corpstein.
 - e. Acceptance of Elected Officials' Retirement Plan of termination of normal retirement benefit of Peter J. Corpstein.
 - f. Acceptance of Elected Officials' Retirement Plan of early retirement benefit of David W. Crozier.
 - g. Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Vivian S. Evans.
 - h. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Alfred M. Fenzel.
 - i. Acceptance of Elected Officials' Retirement Plan of termination of normal retirement benefit of J. Richard Hannah.
 - j. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Myra Harris.
 - k. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Melody Jones.
 - l. Acceptance of Elected Officials' Retirement Plan of termination of early retirement benefit of Michael D. Jones.
 - m. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Judith A. Joseph.
 - n. Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Lettie Pickrell.
 - o. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Steven S. Poe.
 - p. Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Joan Strand.
 - q. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Michael Whalen.
 - r. Acceptance of Transfer Between State Retirement Systems of David Zehring.
 - s. Acceptance of Transfer Between State Retirement Systems of Thomas Johannesen.
 - t. Acceptance of Transfer Between State Retirement Systems of Cheryl Mendoza.
 - u. Acceptance of Transfer Between State Retirement Systems of Kenneth Allmon.
 - v. Acceptance of Transfer Between State Retirement Systems of Anthony Hernandez.
 - w. Acceptance of Transfer Between State Retirement Systems of Richard Martinez.
 - x. Acceptance of Transfer Between State Retirement Systems of Michael Ballard.
 - y. Acceptance of Transfer Between State Retirement Systems of Julia Galusky.
 - z. Acceptance of Transfer Between State Retirement Systems of Christopher Cetwinski.
 - aa. Acceptance of Transfer Between State Retirement Systems of Todd Geisen.
 - bb. Acceptance of Transfer Between State Retirement Systems of James Herrick.
 - cc. Acceptance of Transfer Between State Retirement Systems of Jeff Plant.
 - dd. Acceptance of Transfer Between State Retirement Systems of Daniel J. Quirin.

- ee. Approval of the Minutes of the November 29, 2017 Meeting and Special Work Study Session Meeting of the PSPRS Board of Trustees.

Mr. Brian P. Tobin

MOTION: 3-1/31/18	At 1:22 P.M.
Motion:	To approve the Consent Agenda as presented.
Moved by:	Mr. McNeill
Seconded by:	Mr. Scheidt
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

5. Appropriate **Action** regarding Sun City Fire Department's appeal for approval of their request to increase their amortization period.

Mr. Jared A. Smout

MOTION: 4/31/18	At 1:26 P.M.
Motion:	To accept Sun City Fire Department's appeal for approval of their request to increase their amortization period.
Moved by:	Mr. Raines
Seconded by:	Mr. Buividas
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

Report by Mr. William Davis, Chairman of the Investment Committee, regarding agenda items 6 through 11 which were discussed at the Investment Committee meeting held today, January 31, 2018, on or after 9:30 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

6. Written report by Investment Department Staff regarding Portfolio Risk as of October 31, 2017 and November 30, 2017.

Mr. Owen Zhao
Portfolio Analyst - Risk

The written report indicates no significant changes. An oral report is provided on a quarterly basis.

7. Written report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of October 31, 2017 and November 30, 2017; and (ii) written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

Ms. Vaida Maleckaite
Director of Investment Services

See agenda item 8 below.

8. Presentation and discussion by NEPC representative(s) on multi-plan accounting / asset allocation strategy for the Arizona PSPRS Trust.

Mr. Allan Martin
NEPC, LLC.

The Arizona PSPRS Trust returned 11.4% for the fiscal year ended 06/31/2017. This return is attractive, but due to the appreciation of the public stock market, our portfolio performed lower than other pensions that have a larger amount of their portfolios invested in the public stock market. A discussion was held regarding 2018 assumptions for 5, 7, and 30 years and was applied to PSPRS total targets. Other topics included volatility, expected rate of return, risk, and the three PSPRS plans with their materially different asset structures. Consideration was given to conducting separate asset studies for each of the plans, and how to reflect the assets of each plan, since now the assets are pooled. Large plans can be unitized with different allocation choices through a custodian. To be worked out are the details of how to use separate allocations for each of the plans within one pool.

Mr. Martin reviewed performance over time of various asset classes, themes of economic cycles within and outside of the U.S., 5 and 7 year assumptions and expected returns for specific asset classes. The amount of risk in relationship to liabilities and volatility were subjects of discussion.

9. Presentation and discussion by Investment Department Staff regarding the proposed calendar for asset reviews in calendar year 2018.

*Mr. Ryan Parham
Assistant Administrator and Chief Investment Officer*

The goal is to finalize the asset allocations by June with changes being discussed by the Investment Committee and the Board prior to the June meeting.

10. Disclosure by Investment Department Staff of the following Manager Selection Matters:
 - A. New and Potential Investments Considered this Period:
 1. Disclosure of a potential investment of up to \$100 million for purposes of direct investment in a SMA with **Audax Senior Debt Fund**, in the Private Credit portfolio, subject to final Staff and legal due diligence.
 2. Disclosure of a potential investment of up to \$75 million for purposes of direct investment with **Stellus Capital Management in its Stellus Credit Fund II, L.P.**, in the Private Credit portfolio, subject to final Staff and legal due diligence.
 3. Disclosure of a potential investment of up to \$30 million direct and a reserve allocation of up to \$10 million for purposes of co-investment with **LightBay Investment Partners A, L.P.**, in the Private Equity portfolio, subject to final Staff and legal due diligence.
 4. Disclosure of a potential investment of up to \$75 million for purposes of direct investment in **Crestline Specialty Lending Fund II, L.P.**, in the Private Credit portfolio, subject to final Staff and legal due diligence.
 - B. Finalized and Executed Transactions During Prior Period:
 1. **KKR Revolving Credit Partners II, L.P. Fund**; Committed amount up to \$75 million; Date Closed: November 21, 2017. This investment is allocated to PSPRS Asset class: Private Credit.

No discussion was held.

11. Review, discussion and possible **Recommendations** on Governance Manual updates.

*Jennifer Eichholz, Esq.
Chief In-House Investment Counsel
Ivy Voss, Esq.
Assistant Attorney General*

One change was recommended, which will be discussed and brought back for action next month.

Presentation by Mr. Bryan Raines, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 12 through 17, which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, January 31, 2018, on or after 10:30 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

12. Review and discussion of staff operation reports.

*Mr. Dave DeJonge
Deputy Administrator*

- a. Operations Update Report
- b. Year to Date Budget Report
- c. Local Board & Employer Outreach Report
- d. Local Board Rehearing Report
- e. Law Firms' Billings for Legal Services
- f. HR Report
- g. Communication Efforts Report
- h. Strategic Plan Report

Staff reports were included in the information presented to the Board.

13. Review, discussion and possible **Action** related to Internal Audit Plan.

*Ms. Lisa Sweeting
Internal Auditor*

MOTION:-6/31/18	At 4:47 P.M.
Motion:	To approve the recommendation to accept the Internal Audit Plan.
Moved by:	Recommended by the Operations, Governance Policy and Audit Committee.
Seconded by:	----
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

14. Review and discussion of Auditor General's 24-Month Follow-Up Report.

Mr. Dave DeJonge

Most items in the Auditor General's report have been fulfilled and the rest are in progress.

15. Review and discussion of Vendor Management Procedures.

Mr. Dave DeJonge

This was tabled until February.

16. Review, discussion and possible **Recommendations** on COLA determinations.

Mr. Dave DeJonge

MOTION: 7-1/31/18	At 4:50 P.M.
Motion:	To approve the recommendation to use the calendar year and the All Urban Consumer CPI (CPI-U) when determining PSPRS COLAs.
Moved by:	Recommended by the Operations, Governance Policy and Audit Committee.
Seconded by:	----
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

17. Review, discussion and possible **Action** on pending and passed legislative actions and potential legislative proposals.

Mr. Jared A. Smout

The following bills were defined and discussed – H2357 EORP Employer Contributions; S1251 PSPRS Administrative Bill; S1292 EORP Cost-of-Living Adjustment. Additionally Ms. McAllister, Mr. Cole and Staff are watching other bills that may impact PSPRS, but that have not been initiated by us.

The Board and Staff are concerned regarding S1262 which gives legislators the ability to establish the assumed earnings rate without input from the Board of Trustees, staff and experts regarding the establishment of the employer contribution rate. The Board of Trustees is concerned and would like to voice strong opposition to the bill.

MOTION: 1-1/31/18	At 1:09 P.M.
Motion:	To oppose S1262.
Moved by:	Mr. Davis
Seconded by:	Mr. Papp
Discussion:	Discussion was held regarding the possible reasoning for the proposed bill and the flaws in the bill. Employer groups are engaged in the discussion of this topic.
In Favor:	Unanimous
Motion:	Passes

S1407 Pension Liability Prescott appropriated \$7.8 million to PSPRS to be deposited into the Prescott account regarding pension liability for the Prescott Hotshots regarding the Yarnell Fire.

18. Election of Officers of the PSPRS Board of Trustees and appointment of committee chairs; and Chairman to select trustees and others, as appropriate, to serve as chairs, co-chairs and Committee members, subject to Board ratification.

Mr. Brian P. Tobin

MOTION: 8-1/31/18	At 4:52 P.M.
Motion:	To nominate Mr. Brian Tobin as Chairman of the Board of Trustees for 2018.
Moved by:	Mr. Buividas
Seconded by:	By Acclamation
Discussion:	None
In Favor:	Selected by acclamation
Motion:	Passes

MOTION: 9-1/31/18	At 4:52 P.M.
Motion:	To nominate Mr. William Buividas as the 2018 Vice Chair of the Board of Trustees
Moved by:	Mr. Scheinert
Seconded by:	By Acclamation
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

Chairman Tobin appointed the following to the Investment Committee:

Mr. Smith – Chairman, to take office March 28. Mr. Davis to continue as Chair until then.
Mr. Buividas
Mr. Papp
Mr. Scheinert

Chairman Tobin appointed the following to the Operations, Governance and Audit Committee:

Mr. McNeill – Chairman
Mr. Raines
Mr. Scheidt

Chairman Tobin appointed the following to the Defined Contribution Committee:

Mr. Buividas – Chairman
Mr. Jeffries
Mr. Moore
Mr. McKinnon
Mr. Wunderle

MOTION: 10-1/31/18	At 4:54 P.M.
Motion:	To accept Chairman Tobin's committee and chair appointments
Moved by:	Mr. Buividas
Seconded by:	Mr. Scheidt
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

19. Report and possible **Action** from the EORP Subcommittee Working Group.

Mr. Brian P. Tobin

The EORP Subcommittee Working Group has drafted a letter to the Arizona legislature to put on record what the Board of Trustees is trying to do regarding legislation to improve the financial wellbeing of EORP.

MOTION: 2/31/18	At 1:20 P.M.
Motion:	To approve the letter in its current form to send to legislature giving them options.
Moved by:	Mr. Smith
Seconded by:	Mr. Scheidt
Discussion:	Reasons for the letter were explained to the Board and technical changes suggested.
In Favor:	Unanimous
Motion:	Passes

20. Report by external auditor, Heinfeld, Meech & Co., P.C., regarding independent audit of PSPRS, EORP, CORP, and the Fire Fighter and Peace Officer Cancer Insurance Policy program for fiscal year 2016-2017.

*Mr. Christopher Heinfeld
Senior Associate
Heinfeld, Meech & Co., P.C*

The phases of the audit were described which included planning, field work, and wrap-up. No findings needed to be communicated to management. The changes in the Comprehensive Annual Financial Report for this year were described. Comments and suggestions were communicated to management with no disagreements.

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

Mr. Brian P. Tobin

Ryan and Vaida are travelling to Pittsburgh to visit with our custodian bank about our securities lending program, among other things. Trustee Scheinert and Smith were invited to accompany them due to their interest in the securities lending program.

MOTION:11-1/31/18	At 4:56 P.M.
Motion:	To approve trip to Pittsburgh by Mr. Scheinert and Mr. Smith.
Moved by:	Mr. Buividas
Seconded by:	Mr. Scheidt
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

22. Discussion and consultation with legal counsel and Staff and possible **Action** regarding proposed legislation, real estate matters, investment matters, ongoing, contemplated or threatened legal action involving the Trust and Plans, including vendor disputes, public record requests, personnel matters and actual or potential litigation and claims based on contract, tort or statute, including matters involving, judges Thompson and Hall. 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 23.

23. **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 receive legal advice from the Board's attorneys on any matter listed on the agenda, including:**

- a. Discussion and consultation with legal counsel and Staff regarding matters arising from public record requests or subpoenas, and ongoing or threatened legal action or claims involving the Plans or Trust not otherwise referenced above in Item 22, including but not limited to those involving the status of lawsuits challenging provisions of SB1609, as authorized by A.R.S. §§ 38-431.03(A) (2), (3).
- b. Update and discussion on personnel matters, as authorized by A.R.S § 38-431.03(A) (1).

MOTION:5-5/31/18	At 2:30 P.M.
Motion:	To recess Open Session and enter Executive Session.
Moved by:	Mr. Raines
Seconded by:	Papp
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

Open session resumed at 4:35 P.M.

24. Possible **Action** on future meeting dates. (*Next meeting currently scheduled for Wednesday, February 28, 2018.*)

The next meeting will be held on February 28, 2018.

25. Adjournment.

The meeting was adjourned at 4:56 P.M.

Brian P. Tobin, Trustee, Chairman

William T. Buividas, Trustee,
Vice Chairman

William C. Davis, Trustee

Edward J. McNeill, Trustee

Harry A. Papp, Trustee

Bryan Raines, Trustee

Mike Scheidt, Trustee

Dean M. Scheinert, Trustee

Donald A. Smith, Jr., Trustee