

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

February 10, 2021

MINUTES

Present: Chairman Mr. Harry Papp
Trustee Mr. Jim Ameduri
Trustee Mr. Dean Scheinert

Others Present: Mr. Allan Martin, Partner, NEPC, LLC
Mr. Bill Thatcher, Sr. Portfolio Manager
Mr. Don Stracke, Partner, NEPC, LLC
Mr. Ian Aaker, StepStone Group
Mr. James Ko, Sr. Portfolio Manager
Mr. Jefferson Weston, Investment Analyst
Mr. Mark Steed, Chief Investment Officer
Mr. Mike Smarik, Deputy Administrator
Mr. Mike Townsend, Administrator
Mr. Owen Zhao, Sr. Quantitative Investment & Risk Analyst
Mr. Shan Chen, Lead Portfolio Manager
Mr. Tim Jackson, Compliance Officer
Ms. Cheryl Cohen, Investments Executive Assistant
Ms. Jennifer Carlino, Esq., Investment Counsel
Ms. Katherine Boligitz, Investment Analyst
Ms. Laura Long, Sr. Investment Analyst
Ms. Rose Crutcher, Paralegal Investments
Ms. Vaida Maleckaite, Investment Operations Director
Ms. Vivian Padilla, Media & Publications Specialist

Attendees: Nate Weber, Trustee, Observe
Daren Wunderle, Trustee, Observe

1. Call to Order, Roll Call, Opening Remarks.

The meeting was called to order by Chairman Papp at 10:03 and roll was called.

*Mr. Harry A. Papp
Investment Committee Chairman*

2. Review, discussion and possible **Action** to approve Investment Committee Minutes from September 23, October 16, 2020.

Chairman Harry Papp

Moved by Trustee Mr. Dean Scheinert, seconded by Trustee Mr. Jim Ameduri

Vote: 3 - 0 Passed

Approve minutes for September 23, 2020 and October 16, 2020.

Vote: 3 - 0 Passed

3. Call to the Public:

This is the time for the public to comment. Members of the Committee may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. § 38-431.01 (H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism, or scheduling the matter for a later date for further consideration and possible recommendations to the Board of Trustees.

There was no response to the Call to the Public, due to COVID-19 19 physical presence of the public was not permitted.

4. Review, discussion and possible recommendation of the Board of Trustees Investment Disclosure Procedure, Annual Personal Investment Disclosure Form, and Governance Manual - 5.14 Code of Ethics update.

The annual procedure addresses potential conflicts between personal investments and business activity of the Board of Trustees and the PSPRS non-public investment portfolio. It is applicable to the Board of Trustees and administered by the Compliance Officer. The Annual Personal Investment Disclosure Form is now a two-page document that includes a section to disclose potential conflicts and an attestation that each Trustee understands the procedure and has made full disclosure. Three questions were added to address disclosing association with outside investment entities, alternative assets that could have indirect investments related to PSPRS investments, and trustee ownership of investments that PSPRS may be considering. A current listing of PSPRS non-public investment assets will be supplied to each Trustee every year in order to cross-reference with personal investments. In order to formalize the disclosure, an additional paragraph is recommended in a draft Governance Manual-5.14 Code of Ethics which describes the disclosure process generally and consequences for failure to disclose. The suggested motion is to move to recommend the full Board approve the Board of Trustees Investment Disclosure Procedure, Annual Personal Investment Disclosure Form, and Governance Manual-5.14 Code of Ethics update as presented (or amended by the Investment Committee).

*Mr. Tim Jackson
Compliance Officer*

5. Written report by Compliance Officer regarding quarterly investment manager compliance as of December 31, 2020.

There were two compliance issues identified related to investment management during the second quarter of fiscal year 2021. As of December 31, 2020, the asset allocation for private credit was 11.82%. This is 3.18% under the guideline of 15%. Investment staff are rebalancing the current allocations as opportunities become available during the current market situation. This is a carryover issue and was discussed with the Investment Committee at previous meetings. As of December 31, 2020, the asset allocation for cash was 5.86%. This is 0.86% over the upper range boundary of 5%. Investment staff is managing this issue in order to maintain cash at or as near to the upper boundary of the range as possible.

Mr. Tim Jackson

6. Written report and possible discussion regarding the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of December 31, 2020 and written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

Chairman Papp reviewed the reports, comments made regarding the 14.85% gross fees are impressive. Changes made to the asset classes are paying off. Assets, Managers are all performing well.

*Ms. Vaida Maleckaite
Director of Investment Services*

7. Written report regarding the Trust's Securities Lending program.

Chairman Papp reviewed the reports and commented the Security Lending program is well controlled.

Ms. Vaida Maleckaite

8. Written report and possible discussion regarding Portfolio Risk as of December 31, 2020.

The total Trust portfolio returned 9.7% year-to-date (14.9% Fiscal YTD) with 3.3% (11.3% annualized) volatility. Both the historical and forecasted risk measures remained the same, if not decreased, for every sub-portfolio. As a result, the total portfolio's VaR (95% confidence) forecast decreased by 20 bps to -2.9%. The tailing volatility indicated that the market volatility (7.5%) was at one of the highest levels. The Trust portfolio was positively correlated but at a much lower level (3.4%), which means the magnitude of our portfolio risks was considerably smaller. While there was no change to the primary risk drivers, public equities' risk contributions continued to rise - the U.S. and International increased by 1% separately. Besides, the current portfolio's stress testing results improved slightly as it captured more market upside than the average. In addition to the PSPRS Trust being: Top decile on risk-terms since 2009. Top quartile in efficiency (Sharpe Ratio) terms since 2010.

Mr. Owen Zhao

Sr. Quantitative Investment & Risk Analyst

9. Written report and discussion regarding Global Financial Market Developments.

Earnings and Earnings Growth: The outlook for earnings continues to improve; analysts expect a 24% increase for 2021. Earnings are expected to increase by 17% annually over the next three years. Discount Rate: On June 10th, the Federal Reserve voted to keep short-term rates near zero and indicated that rates will stay at this level through 2022. Expectations for a small rate hike are slowly entering the picture starting in November. In isolation, a Fed rate hike poses a meaningful risk to equity price appreciation. In January, we observed rising earnings estimates, a steeper yield curve, and a stable implied equity risk premium to hold intrinsic value steady.

Mr. James Ko

Portfolio Manager

Mr. Mark Steed

Chief Investment Officer

Mr. Allan Martin

NEPC, LLC

10. Written report on Executed Transactions During Prior Period.

No discussion was held.

Mr. Mark Steed

11. **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.**

12. The Committee may discuss future dates for meetings and direct Staff to place matters on future agendas. Next meeting currently calendared for March 24, 2021.

Chairman Harry A. Papp

13. Adjournment.

Meeting concluded at 11:24 A.M.

Chairman Harry A. Papp

Moved by Trustee Mr. Jim Ameduri, seconded by Trustee Mr. Dean Scheinert

Vote: 3 - 0 Passed

Mr. Harry Papp, Trustee, Chairman