

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

February 24, 2016

MINUTES

Present: Mr. Brian Tobin, Chairman, Trustee
Mr. Gregory Ferguson, Vice Chairman, Trustee
Mr. Richard Petrenka, Trustee
Mr. Jeff McHenry, Trustee
Ms. Randie Stein, Trustee
Mr. William Davis, Trustee

Others Present: Mr. Jared Smout, Administrator
Mr. Ryan Parham, Chief Investment Officer
Mr. Marty Anderson, Deputy Chief Investment Officer
Ms. Ivy N. Voss, Esq., Assistant Attorney General
Mr. Shan Chen, Lead Portfolio Manager
Mr. Mark Steed, Deputy CIO and Chief of Staff
Ms. Vaida Maleckaite, Investment Operations Analyst
Mr. Owen Zhao, Portfolio Manager
Mr. Jefferson Weston, Investment Analyst
Mr. Don Stracke, NEPC LLC
Ms. Bridget Feeley, Internal Audit and Compliance Officer
Ms. Ivy Voss, Assistant Attorney General
Ms. Jennifer Eichholz, Esq., In-House Investment Counsel
Ms. Rose Crutcher, Investment Paralegal
Mr. Paul Hemmes, Information Technology
Mr. John Hendricks, Manager of Finance and Accounting
Ms. Dianne McAllister, Public Policy Partners
Mr. Doug Cole, Public Policy Partners
Mr. Jim Keeler, Nationwide
Mr. Christian Palmer, Avant Strategies

1. Call to Order; Roll Call; Opening remarks.

*Mr. Brian P. Tobin
Chairman*

The meeting was called to order by Chairman Tobin at 1:05 p.m.

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 response to the Call to the Public.

3. 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 early retirement benefit of Madeline Hernandez.
- b. Acceptance of Elected Officials' Retirement Plan of early retirement benefit of Jay K. Parkison.
- c. Acceptance of Elected Officials' Retirement Plan of termination of early retirement benefit of William West, Jr.
- d. Acceptance of Transfer Between State Retirement Systems of Francis Hand, Jr.
- e. Acceptance of Transfer Between State Retirement Systems of Benjamin Marx.
- f. Acceptance of Transfer Between State Retirement Systems of Joshua Cameron.
- g. Acceptance of Transfer Between State Retirement Systems of Lyle Peeples.
- h. Acceptance of Transfer Between State Retirement Systems of Rodney States.
- i. Acceptance of Transfer Between State Retirement Systems of Michael Dirilo.
- j. Acceptance of Transfer Between State Retirement Systems of Irma Estrada.
- k. Acceptance of Transfer Between State Retirement Systems of Trevor Wallace.
- l. Acceptance of Transfer Between State Retirement Systems of Billy McDaniel.
- m. Acceptance of Transfer Between State Retirement Systems of Adam Shipley.
- n. Acceptance of Transfer Between State Retirement Systems of Justin White.
- o. Acceptance of Transfer Between State Retirement Systems of Richard Dreiling.
- p. Acceptance of Transfer Between State Retirement Systems of Sean Carney.
- q. Acceptance of Transfer Between State Retirement Systems of Jeanette Brawley.
- r. Acceptance of Transfer Between State Retirement Systems of Donna Swan.
- s. Approval of the Minutes of the January 20, 2016 Meeting of the PSPRS Board of Trustees.

Mr. Brian P. Tobin

MOTION:1-2/24/16	At 1:05 p.m.
Motion:	Move to approve the Consent Agenda as presented.
Moved by:	Mr. Ferguson
Seconded by:	Mr. McHenry
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

4. Discussion and appropriate **Action** with respect to the EORP disability application of Colten P. White.

Mr. Brian P. Tobin

Mr. Ferguson discussed with the Board possible development of a policy regarding procedures to be developed by PSPRS regarding workman's compensation system. Mr. Jim Mann, Executive Director of the Fraternal Order of Police, stated there have been some meetings and hearings regarding PTSD in order to look for a legislative solution for early intervention. Ms. Voss suggested this be handled in the statutes.

MOTION:2-2/24/16	At 1:49 p.m.
Motion:	Move to approve the application.
Moved by:	Mr. Petrenka
Seconded by:	Ms. Stein
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

5. Appointment of members to the Committees of the Board of Trustees.

Mr. Brian P. Tobin

Without objection, Chairman Tobin appointed Mr. Petrenka to serve as Chair of the Investment Committee. Without objection, Chairman Tobin appointed himself as a member of the Investment Committee.

Report by Mr. Lauren W. Kingry, Chairman of the Investment Committee, regarding agenda items 6. through 13., which were discussed at the Investment Committee meeting held today, February 24, 2016, on or after 10:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

6. Written report and possible discussion of monthly review of Management Fees.

*Ms. Bridget Feeley
Internal Audit and Compliance Officer*

A written report was provided with the monthly material, for which there were no questions.

7. Report by the System's Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions, as of December 31, 2015.

Ms. Bridget Feeley

A written report was provided with the monthly material, for which there were no questions.

8. Presentation and written report by Investment Department Staff regarding Portfolio Risk as of December 31, 2015.

*Mr. Owen Zhao
Portfolio Analyst - Risk*

A short discussion was held regarding risk, volatility and the position of our portfolio.

9. Presentation and 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 December 31, 2015; and (ii) written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

*Ms. Vaida Maleckaite
Sr. Investment Analyst*

Ms. Maleckaite described changes in reporting asset allocation and performance. Performance for the past ten years for the Trust and the Cancer Insurance Program will be reported upon and there are some changes in the equity trade report.

For the Calendar Year-to-Date, the net asset value of the Trust was \$8.3 billion, which is \$476 million more than a year ago. For the second quarter of the fiscal year, the return for the Trust was (-.86%), which outperformed the benchmark of (-1.02%). The three, five and ten year returns have not met the actuarial rate of return, but all were above our benchmarks for the same periods.

10. Presentation and discussion by NEPC representatives on the Second Fiscal Quarter (4th Calendar Quarter) investment performance and the 2015 Fiscal Year investment performance for the Arizona PSPRS Trust.

*Mr. Ryan Parham
Assistant Administrator and Chief Investment Officer
Mr. Allan Martin
NEPC, LLC.*

Mr. Don Stracke of NEPC made the presentation. He summarized the current economy and the market environment, where we are in the economic cycle, positioning of the portfolio and general action items for clients. For the Fiscal Year-to-Date, the total fund was down (-0.9%) and the benchmark was down (-1.2%) and ranked 10 of public funds. The one year performance, which ranked 6 of public funds, was +2.7% as compared to the benchmark, which was +1.1%. The three year return was 7.3% ranking 56 of public funds; the five year return was 6.4% with a rank of 78, and the ten year return was 4.7% ranking 94.

11. Presentation and discussion regarding current status of Capital Markets and projections for the future.

*Mr. Ryan Parham
Mr. Alan Martin*

Discussed were 2016 capital market observations which included actions for public funds regarding equities versus bonds, non-U.S. equity, emerging markets, core fixed income, and commodities. Impact and the challenge of assumptions and general client actions and considerations were presented. Observations regarding the U. S. economy

were discussed. A question and answer period included topics of asset allocation assumed earnings rates, volatility, assets versus liabilities.

12. Disclosure by Investment Department Staff of the following manager selection matters this period:
 - A. New and potential investments considered:
 1. Disclosure of a potential investment of up to \$50 million direct in a separately managed account (SMA) investing in various securities issued by Master Limited Partnerships in the energy sector, in the Real Assets portfolio, subject to final Staff and legal due diligence.
 2. Disclosure of a potential investment of up to \$50 million direct investment in a fund focusing on mid-market buyouts in the Private Equity portfolio, subject to final Staff and legal due diligence.
 - B. Disclosure of closed transactions:
 1. None this period.
 - C. Current investments considered for de-selection:
 1. None this period.
 - D. Disclosure of completed transactions:
 1. None this period.
 - E. Disclosure of transactions withdrawn from consideration:
 1. None this period.

Jennifer Eichholz, Esq.

13. Discussion and possible **Action** regarding minor clarification revisions to the PSPRS Investment Policy Statement.

Mr. Ryan Parham

Mr. Parham proposed a study session regarding same.

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 14. through 21., which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, February 24, 2016, on or after 11:00 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 2016 and possible Action on same.

*Mr. John Hendricks
Manager of Finance and Accounting*

PSPRS is under budget by 3.02% due to vacancy salary savings.

15. 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*

A written report was provided with the monthly material, for which there were no questions.

16. Presentation of the "Requests for Local Board Rehearing" Report for the current month.

*Mr. Jared A. Smout
Administrator*

There were six requests for local board rehearings.

17. Review and discussion regarding law firms' billings for legal services performed in January, 2016.

Mr. Jared A. Smout

The Operations, Governance Policy and Audit Committee approved payment of the law firms' billings for legal services performed in January, 2016 for the amount of \$60,211.59 which is lower than in the past.

18. Report and possible **Action** on FY 2016 Compliance and Internal Audit Plan.

Ms. Bridget Feeley

Review of the Cancer Insurance Plan has been completed, the internal audit manual is 75% complete and the review of the 2017 risk assessment has begun.

19. Review, discussion and possible **Action** with respect to the FY 2017 PSPRS Administrative Budget.

Mr. Jared A. Smout

During the Operations, Governance Policy and Audit Committee meeting, we discussed updating of contracts and staff reorganization due to pension obligation changes in reporting, GASB reporting becoming more involved and for outreach to local boards. Next month we will fine tune the budget. Mr. Petrenka suggested looking into the possibility of an investment accounting division to which Mr. Smout replied that will be included in the full package next month. Chairman Tobin and Mr. Ferguson directed concentration on filling the priority current open positions.

20. Review, discussion and possible **Action** on pending and passed legislative proposals for the 2016 legislative session including an administrative amendment bill.

Mr. Jared A. Smout

Mr. Doug Cole and Ms. Dianne McAllister reviewed pending and passed legislative proposals for the 2016 legislative session, including an administrative amendment bill. Directly involving PSPRS: HB 2019, HB 2074 and HB 2512 were summarized and discussed as was HB 2583 was discussed with the Board of Trustees. HB 2643, an administrative amendment bill is going to the floor tomorrow. SB 1152, the PSPRS, CORP and EORP continuation bill passed out of the Senate unanimously. SB 1160 and SB 1206 were summarized. SB 1428 regarding PSPRS modification was signed by the Governor on February 16. SB 1429 regarding a special election will be on the ballot initiative. SCR 1019 was approved by Legislative Council and Joint Legislative Budget Committee for the May 17 ballot to amend the Constitution to provide changes to public retirement systems.

Both HB 2583 and HB 2512 were discussed by the members of the Board.

21. Update and discussion on the progress of implementing the Auditor General Recommendations as agreed to in their Performance Audit and Sunset Review.

Mr. Jared A. Smout

The Auditor General is seeking a written response for the six month report by the end of March. The matrix regarding the recommendations has been updated.

22. Nationwide Retirement Solutions (NRS) Quarterly Administrative Review of the PSPRS Supplemental and EODCRS 401(a) Plans.

*Mr. Jim Keeler
Program Director
Nationwide Retirement Solutions*

Next month, the PSPRS Supplemental and EODCRS 401 (a) Plans will be reported upon separately. As of December 31, 2015, the balance was \$12,619,987.

23. Status report on the *Hall v. EORP* matter.

*Ivy N. Voss, Esq.
Assistant Attorney General*

Oral arguments regarding *Hall v. EORP* were heard last Thursday by an ad hoc panel. We are awaiting the results.

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

Mr. Brian P. Tobin

None.

25. Discussion and consultation with legal counsel and Staff and possible Action regarding IRS determination letter requests, proposed legislation, 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, retired judges Fields and Lankford, retired police officers Rappleyea and Everson, active police officers Parker, Griego, Manganiello and Robles, the Pivotal Group, the Seldins, Bank of America and Stroh Ranch Development and Timbervest. 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 26.

26. 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) and (4), 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 25, including but not limited to, those involving Anton Orlich, Andrew Carriker, Ken Fields, Mark Selfridge, Paul Corens, the Seldins and the status of lawsuits challenging provisions of S. B. 1609, as authorized by A.R.S. §§ 38-431.03(A) (2), (3).
- b. Update and discussion on the System Administrator position and other personnel matters, as authorized by A.R.S § 38-431.03(A)(1).

MOTION:3-2/24/16	At 3:36 p.m.
Motion:	Move to enter Executive Session.
Moved by:	Mr. Ferguson
Seconded by:	Ms. Davis
Discussion:	No business will be conducted following Executive Session.
In Favor:	Unanimous
Motion:	Passes

27. Schedule future meeting date(s). (*Currently scheduled for Wednesday, March 23, 2016.*)

The next meeting will be held on Wednesday, March 23, 2016.

28. Adjournment.

The meeting was adjourned at 4:00 p.m.

Brian P. Tobin, Chairman

Gregory Ferguson, Trustee,
Vice Chairman

Randie A. Stein, Trustee

Jeff Allen McHenry, Trustee

Richard J. Petrenka, Trustee

William C. Davis, Trustee