

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM BOARD OF TRUSTEES INVESTMENT COMMITTEE MEETING

August 18, 2021

MINUTES

Present: Mr. Harry Papp, , Chairman - Remote
Mr. Alan Maguire, , Trustee - Remote
Mr. Dean Scheinert, , Trustee - Remote

Others Present: Mr. Mike Townsend, Administrator
Mr. Mark Steed, Chief Investment Officer
Mr. James Ko, Deputy Chief Investment Officer/Sr. Portfolio Manager - Remote
Ms. Cheryl Cohen, Investment Executive Assistant
Mr. Terence Thompson, Esq., Gallagher & Kennedy
Ms. Angela Egelhoff, Chief Compliance Officer
Ms. Cathleen Davis, Chief Internal Auditor
Mr. Allan Martin, Partner, NEPC, LLC - Remote
Mr. William Thatcher, Sr. Portfolio Manager - Remote
Mr. Bret Parke, Esq., Assistant Administrator/General Counsel - Remote
Mr. Don Stracke, Partner, NEPC, LLC - Remote
Mr. Kevin Chen, Investment Analyst - Remote
Mr. Shan Chen, Lead Portfolio Manager - Remote
Ms. Claudia Martinez, Executive Assistant - Remote
Ms. Jennifer Carlino, Esq., Investment Counsel - Remote
Ms. Katherine Boligitz, Investment Analyst - Remote
Ms. Laura Long, Sr. Investment Analyst - Remote
Ms. Rose Crutcher, Paralegal Investments - Remote
Ms. Sarah Grist,, Albourne Partners - Remote
Ms. Vaida Maleckaite, Investment Operations Director - Remote
Mr. Kurtis Chandler, Records Manager - Remote
Mr. Brandon Turner, Investment Analyst - Remote
Mr. Ed Schwartz, ORG Consultant - Remote
Mr. Clark Partridge, Sr. Executive Consultant - Remote
Mr. John Moorman, Chief Financial Officer - Remote
Mr. Michael Ajamie, Chief Technology Officer - Remote
Mr. Robert Parkes, Director Human Resources - Remote
Mr. Christian Palmer, Communications Director - Remote
Ms. Lynn Jahnke , Officer Manager - Remote
Mr. Ernesto Escobedo, Jr. Systems Engineer

Attendees: Ms. Dianne McCallister, Public Policy Partners, LLC
Daren Wunderle, Trustee, Trustee Auditor - Remote

Mr. Chris Shipley, Public Commenter - Remote
Mr. Kyle Moyer, Public Commenter - Remote
Ms. Randie Stein, Trustee Auditor - Remote
Mr. Scott McCarty, Trustee Auditor - Remote
Mr. Carl Richardson, Guest - Remote
Mr. Benjamin Sherry, Guest - Remote

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

The meeting was called to order by Chairman Papp at 10:02 A.M. The Pledge of Allegiance was recited and roll was called.

*Mr. Harry A. Papp
Investment Committee Chairman*

2. Review, discussion and possible **Action** to approve Investment Committee Minutes from July 20, 2021.

Chairman Harry Papp

Motion was made by Mr. Alan Maguire,, and seconded by Mr. Dean Scheinert,

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 physical presence of the public was not permitted.

4. Written report by Compliance Officer regarding quarterly investment manager compliance as of June 31, 2021.

Ms. Egelhoff reviewed and discussed the compliance report and Chairman Papp noted the report is to inform and not advise, the staff and committee will determine if action is needed. Trustee Scheinert asked about internal and external mandate wording on the form and Chairman Papp asked Ms. Egelhoff make minor edits to the form.

*Ms. Angela Egelhoff
Compliance Officer*

5. Review and possible discussion regarding each of the following Staff reports for the prior period.

*Mr. Mark Steed
Chief Investment Officer*

- a. Written report: Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of June 31, 2021.

Chairman Papp briefly discussed the overall performance of the Trust.

- b. Written report: PSPRS Trust's securities lending program (quarterly).

Chairman Papp noted the Securities Lending program is well controlled and the risk is monitored carefully.

- c. Written report: Firefighters and Peace Officers Cancer Insurance Program.

Chairman Papp reviewed and briefly discussed the materials, and noted we are ahead of the benchmark.

- d. Written report: Portfolio Risk as of June 31, 2021.

In June, we added the Vanguard Short-Term Inflation-Protected Securities ETF (VTIP) and SPDR Blackstone Senior Loan ETF (SRLN) to the Contractual Income - Core Bond and Public Holdings, which increased the portfolio weight by about 4% from 15% to 19%. As a result, the forecasted monthly volatility and VaR (95% confidence) for the Core Bond increased by 20 and 40 bps separately. The CI - Public Holdings' risk forecast was unavailable as SRLN was the only securities in this sub-portfolio. In addition, the risk estimates in most of the private portfolios were trending slightly lower than the last month, so the overall risk also decreased. Regarding the risk decomposition by asset class, the risk contribution from the Core Bond increased by 130 bps, as expected, while the contribution from the Special Credit dropped by 70 bps. Besides, there were no changes to the main risk drivers within each asset class except for the Diversifying Strategies. The 20+ year treasury bond appeared to have more impact on this asset class, so it replaced the commodity as the secondary risk driver. The stress testing results improved in several scenarios with the current portfolio composition, indicating the portfolio is well-positioned if similar stressed market conditions occur again. Also, the market upside and downside performance analysis showed that the Trust portfolio had a decent positive performance asymmetry.

- e. Written report: Global Financial Market Developments.

Earnings and Earnings Growth: The outlook for S&P 500 earnings improved in July; analysts expect a 43.7% increase for 2021. Earnings are expected to increase by 19.5% annually over the next three years. Economic reopenings and elevated household savings present a favorable backdrop to bolster earnings growth. Discount Rate: In the middle of 2020, the Federal Reserve voted to keep short-term rates near zero and indicated that rates would stay at this level through 2022. Today, there is a pick-up in expectations for rates to increase next year. The US 10-year Treasury yield surpassed 1.0% earlier this year and has remained above 1.0%. In isolation, a Fed rate hike poses a meaningful risk to equity price appreciation. Intrinsic Value: In July, we observed a higher near-term earnings outlook and a lower risk-free rate to boost intrinsic value for the S&P 500 index.

- f. Written report: Executed Transactions During Prior Period.

No discussion was held.

6. Presentation and possible **recommendation** regarding the asset allocation and benchmarks for the Cancer Insurance Plan.

Mr. Steed discussed some potential changes, confirm an investment time horizon, evaluate asset mix and portfolio risk/return profile, consider a standalone investment policy statement. Chairman Papp asked Mr. Steed to work with NEPC as a resource to develop a one page investment policy.

Mr. Mark Steed

7. Discussion regarding the management of excess employer contributions.

Chairman Papp commented as of June 30, 2021 the fund had approximately 14.3 billion and currently 16.8 billion. Mr. Steed discussed the increase of contributions, cash positions and advised they stay the course.

Mr. Mark Steed

8. Review and discussion of the Request for Proposal for external investment consultants.

Chairman Papp confirmed with Mr. Bret Parke of his review and approval of the RFP and instructed Mr. Steed and his staff to proceed with the RFP. Trustee Scheinert and Trustee Maguire commented individual relationships within the consultant company is just as important as the consultant company.

Mr. Mark Steed

9. **The Investment Committee 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.**

Committee entered Executive Session at 11:03 A.M.

Committee returned to public session at 11:43 A.M.

Motion was made by Mr. Alan Maguire,, and seconded by Mr. Dean Scheinert,

Vote: 3 - 0 Passed

- a. Discussion and consultation for legal advice with the attorney pertaining to potential federal tax policy changes for hedge funds, as authorized by A.R.S. § 38-431.03 (A) (3).
- b. Discussion and consultation for legal advice with the attorney pertaining to Israel boycott divestment under A.R.S. § 35-393 et seq., as authorized by A.R.S. § 38-431.03 (A) (3).

10. The Committee may discuss future dates for meetings and direct Staff to place matters on future agendas. The next meeting is currently calendared for September 17, 2021.

Chairman Papp noted he has a conflict with September meeting date and asked Ms. Cohen to check with committee members and staff for alternative date.

Chairman Harry A. Papp

11. Adjournment.

Chairman Harry A. Papp

Meeting adjourned at 11:44 A.M.

Motion was made by Mr. Dean Scheinert,, and seconded by Mr. Alan Maguire,

Vote: 3 - 0 Passed

Mr. Harry Papp, Trustee, Chairman