

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

November 16, 2016

MINUTES

Present: Mr. Brian Tobin, Chairman, Trustee, Attended by phone at 1:44 p. m.
Mr. Gregory Ferguson, Vice Chairman, Trustee
Mr. Jeff McHenry, Trustee – attended telephonically
Ms. Randie Stein, Trustee
Mr. Richard Petrenka, Trustee
Mr. William Davis, Trustee

Others Present: Mr. Jared Smout, Administrator
Mr. Dave DeJonge, Deputy Administer
Mr. Ryan Parham, Chief Investment Officer
Ms. Ivy N. Voss, Esq., Assistant Attorney General
Mr. Marty Anderson, Deputy Chief Investment Officer
Mr. Shan Chen, Lead Portfolio Manager
Mr. Mark Steed, Deputy CIO and Chief of Staff
Mr. Jefferson Weston, Investment Analyst
Mr. Allan Martin, NEPC LLC
Ms. Bridget Feeley, Internal Audit and Compliance Officer
Ms. Jennifer Eichholz, Esq., In-House Investment Counsel
Ms. Rose Crutcher, Investment Paralegal
Mr. Paul Hemmes, Information Technology
Mr. Christian Palmer, Communications Director
Ms. Courtney McKinstry, HighGround
Mr. Doug Cole, Public Policy Partners
Messrs. Mark Buis, James D. Anderson, Francois Pieterse,
Gabriel, Roeder, Smith & Co.

1. Call to Order; Roll Call; Opening remarks

*Mr. Brian P. Tobin
Chairman*

The meeting was called to order at 1:00 p.m. by Chairman Tobin.

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 normal retirement benefit of Harold M. Gilbert, Jr.
- b. Acceptance of Elected Officials' Retirement Plan of termination of normal retirement benefit of Thomas O'Toole.
- c. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Elaine A. Senini O'Toole.
- d. Acceptance of Elected Officials' Retirement Plan of termination of normal retirement benefit of David Roberts.
- e. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Junith Roberts.
- f. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Mark Anderson.
- g. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Linda Arzoumanian.
- h. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Carmine Cornelio.
- i. Acceptance of Elected Officials' Retirement Plan of early retirement benefit of Dolores J. Doolittle.
- j. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Charles B. Hoskins.
- k. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of John S. Insalaco.
- l. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Arthur Markham.
- m. Acceptance of Transfer Between State Retirement Systems of Anthony Lupo.
- n. Acceptance of Transfer Between State Retirement Systems of Linda Walters.
- o. Acceptance of Transfer Between State Retirement Systems of Jason Harris.
- p. Acceptance of Transfer Between State Retirement Systems of Gregory Chmara.
- q. Acceptance of Transfer Between State Retirement Systems of Christopher Holden.
- r. Acceptance of Transfer Between State Retirement Systems of Andrew Woyna.
- s. Acceptance of Transfer Between State Retirement Systems of Jeffrey Fields.
- t. Acceptance of Transfer Between State Retirement Systems of Nicholas Adams.
- u. Acceptance of Transfer Between State Retirement Systems of Brett Mierendorf.
- v. Acceptance of Transfer Between State Retirement Systems of Holly Holland.
- w. Acceptance of Transfer Between State Retirement Systems of Christopher Fitzmaurice.
- x. Acceptance of Transfer Between State Retirement Systems of George Ramirez.
- y. Acceptance of Transfer Between State Retirement Systems of Ryan Bridges.
- z. Acceptance of Transfer Between State Retirement Systems of Richard Leathers.
- aa. Acceptance of Transfer Between State Retirement Systems of Sean Carney.
- bb. Acceptance of Transfer Between State Retirement Systems of Robert Evans.
- cc. Acceptance of Transfer Between State Retirement Systems of Lisa Stephenson.
- dd. Acceptance of Transfer Between State Retirement Systems of Blake Dunn.
- ee. Acceptance of Transfer Between State Retirement Systems of Eric Miller.
- ff. Acceptance of Transfer Between State Retirement Systems of David Maxwell.
- gg. Acceptance of Transfer Between State Retirement Systems of Joshua Rascon.
- hh. Approval of the Minutes of the following meetings: October 19, 2016 Meeting of the PSPRS Board of Trustees; October 19, 2016 Meeting of the Operations, Governance Policy and Audit Committee; and October 19, 2016 Meeting of the Investment Committee.

Mr. Brian P. Tobin

MOTION:1-11/16/16	At 1:01 p.m.
Motion:	To approve the Consent Agenda as presented.
Moved by:	Mr. Davis
Seconded by:	Mr. Petrenka
Discussion:	None
In Favor:	Unanimous
Motion:	Passes: Mr. Tobin – Excused; one vacant Board position

Report by Mr. Richard Petrenka, Chairman of the Investment Committee, regarding agenda items 4 and 5, and possible Action on the Committee’s recommendations to the Board regarding same.

- 4. Presentation and discussion by NEPC representative(s) on the 1st Fiscal Quarter (3rd Calendar Quarter) investment performance and the 2016 Fiscal Year investment performance for the Arizona PSPRS Trust.

*Mr. Allan Martin
NEPC, LLC.*

For the period ending September 30, 2016 (the 1st Fiscal Quarter), performance for the Trust was strong. Equities returned 4%, small cap stocks returned 9% and international stocks were up 6.9%. The return for one year regarding U. S. Equities was up 15%, emerging market was up 17% and real estate performance was strong. Return, gross of fees, increased 7.7%. For five years, the annualized return was 8.0%, for three years, the Trust returned 6.3%, and the annualized return for 10 years was 4.8%. The total assets of the Fund are \$8.7 billion. All allocations are within approved ranges. Volatility is lower due to lower exposure to equities and a more diversified portfolio. Review was held regarding individual managers for asset classes.

- 5. Disclosure by Investment Department Staff of the following manager selection matters:
 - A. New and potential investments considered this period:
 - 1. None.
 - B. Disclosure of terminated transactions for this period:
 - 1. None.
 - C. Disclosure of closed transactions for this period:
 - 1. **Magnetar Co-Investment: MTP Energy DE, LLC.** Date Closed: November 2, 2016. This investment was previously approved on June 25, 2014 and is allocated to PSPRS Asset Class: Real Assets (Energy).

This was the only closed transaction for this period.
 - D. Current investments considered for de-selection this period:
 - 1. None.
 - E. Disclosure of completed transactions for this period:
 - 1. None.

*Jennifer Eichholz, Esq.
In-House Investment Counsel*

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 6 through 9, and possible Action on the Committee’s recommendations to the Board regarding same.

- 6. Presentation of the Month-to-Date Budget Report for FY 2017 and possible **Action** on same.

*Mr. John Hendricks
Manager of Finance and Accounting*

PSPRS is currently under budget by 3.5% which is \$418,000.

7. Update and discussion on the actuarial audit.

*Mr. Dave DeJonge
Deputy Administrator*

Three nationally known actuarial firms with public pension plan experience have responded to our Request for Proposal. Following staff review and reference checks Cavanaugh and Macdonald was chosen as the actuarial.

8. Review and discussion regarding law firms' billings for legal services performed in October, 2016.
Mr. Jared A. Smout

MOTION:2-11/16/16	At 1:36 p.m.
Motion:	To approve payment of \$65,176.59 to the law firms for legal services performed in October, 2016.
Moved by:	Mr. Petrenka
Seconded by:	Ms. Stein
Discussion:	None
In Favor:	Unanimous
Motion:	Passes – Mr. Tobin was excused; One vacant board position

9. Review, discussion and possible **Action** on proposed, pending and passed legislative action.
Mr. Jared A. Smout

Discussion was held regarding the changes of the members of the state senate and state house of representatives. Senator Lesko is holding stakeholder meetings regarding PSPRS Tier 2B and working on CORP reform. Trustee Ferguson stated the cities and counties need to have CORP reform addressed.

10. Discussion and possible **Action** regarding the presentation by Gabriel, Roeder, Smith & Company (GRS) representatives regarding the results of the FY 2016 actuarial valuations for the PSPRS, CORP and EORP.

*Mr. Mark Buis, FSA, FCA, EA, MAAA
Senior Consultant
Mr. James D. Anderson, FSA, EA, MAAA
Senior Consultant
Mr. Francois Pieterse, A.S.A, M.A.A.A.
Consultant
Gabriel, Roeder, Smith & Company*

The topics discussed included evolving assumptions regarding mortality rates and investment returns. Financial economics and pension information were presented. Since 1965, life expectancy for males has increased 17.9% and females has increased by 20.3%. These rates were published in 2012. Other developing trends regarding mortality were presented.

A brief history of national trends regarding evolving investment return assumptions for public pension funds was provided. The median is now closer to 7.5% than 8%, with some systems below 7%. PSPRS investment return rate was reduced from 7.85% to 7.5%. Changes in the plan provisions for the PSPRS PBI/COLA due to SB 1428 were discussed, as was the impact of the Hall decision. The Hall decision regarding employer contributions has a different impact on PSPRS than for CORP and EORP.

Total Recommended Employer Contribution Rate

For PSPRS Tiers 1 and 2 for Fiscal Year (FY) ending June 30, 2017, the rate is 42.36% and the recommended rate for FY ending June 30, 2018 is 51.84%. For PSPRS Tier 3, where entry begins July 1, 2017, the recommended contribution rate for FY ending June 30, 2018 is 42.82%.

For CORP, the contribution rate for FY ending June 30, 2017 is 18.51% and the recommended rate for FY ending June 30, 2018 is 20.76%.

For EORP, the contribution rate for FY ending June 30, 2017 is 95.69% and the recommended rate for FY ending June 30, 2018 is 106.55%.

Discussion was held regarding changes in reports to reflect the impact of the Hall decision for either the June 30, 2016 or June 30, 2017 valuations. This is a Board of Trustees decision.

MOTION:4-11/16/16	At 2:49 p.m.
Motion:	To apply <u>Hall</u> to the closest valuations as we can to employers affected by the EORP Plan.
Moved by:	Mr. Tobin
Seconded by:	Ms. Stein
Discussion:	None
In Favor:	Unanimous
Motion:	Passes - One vacant board position

The remedies to the Hall case have not been finalized for PSPRS and CORP so the Board of Trustees will make a motion after hearing from counsel.

- 11. Presentation, discussion and appropriate **Action** regarding the PSPRS and CORP Revised Model Uniform Rules of Local Board Procedure.

Mr. Jared A. Smout

Due to statutory changes, PSPRS and CORP local board procedures have been revised. This review is performed every five years. The changes are not significant and are rather guidelines for local boards. The changes are legal statutory ones and local boards do not have to change their procedures.

MOTION:3-11/16/16	At 1:51 p.m.
Motion:	To approve the new rules
Moved by:	Mr. Ferguson
Seconded by:	Mr. Tobin
Discussion:	None
In Favor:	Unanimous
Motion:	Passes - One vacant board position

- 12. Discussion, review and possible **Action** on the performance of the Internal Audit and Compliance Officer.

Mr. Brian P. Tobin

13. Discussion and consultation with legal counsel and Staff and possible **Action** regarding 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. 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 14.
14. **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 13, 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. Discussion on the performance of the Internal Audit and Compliance Officer, as authorized by A.R.S. § 38-431.03(A)(1).
15. Schedule future meeting date(s). (*Currently scheduled for Wednesday, December 14, 2016.*)

There will not be a meeting of the Board of Trustees on the above date.
16. Adjournment.

The meeting was adjourned at 4:30 p.m.

Brian P. Tobin, Chairman