

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

September 28 and 29, 2017

MINUTES

*Members
Present:*

Mr. Brian P. Tobin, Chairman, Trustee
Mr. William T. Buividas, Vice Chairman, Trustee – 9-29-2017 Excused at 12:15 p.m.
Mr. William C. Davis, Trustee
Mr. Edward J. McNeill, Trustee – Excused
Mr. Harry A. Papp, Trustee – 9-28-2017 Excused at 11:00 a.m.; Returned at 1:00 p.m.
Mr. Bryan Raines, Trustee – 9-29-2017 Excused at 1:22 p.m.
Mr. Mike Scheidt, Trustee – 9-29-2017 Excused at 12:15 p.m.
Mr. Dean Scheinert, Trustee

Others Present:

Mr. Donald A. Smith, Jr. Trustee – Excused
Mr. Jared Smout, Administrator
Mr. Dave DeJonge, Deputy Administrator
Mr. Ryan Parham, Assistant Administrator and CIO
Ms. Ivy Voss, Assistant Attorney General
Mr. Mark Steed, Deputy CIO and Chief of Staff
Mr. Shan Chen, Lead Portfolio Manager
Mr. Owen Zhao, Portfolio Analyst
Mr. Jefferson Weston, Investment Analyst
Ms. Vaida Maleckaite, Director of Investment Services - Excused 09/29/2017
Mr. William Thatcher, Lead Portfolio Manager
Mr. Kevin Chen, Investment Accountant
Ms. Jennifer Eichholz, In-House Investment Counsel
Ms. Rose Crutcher, Investment Paralegal
Ms. Michelle Pechan, Paralegal - Excused 09/29/2017
Ms. Lisa Sweeting, Internal Auditor - Excused 09/29/2017
Mr. Timothy Jackson, Compliance Officer
Mr. Ruben Vargas, Records Officer
Ms. Patricia Shaner, Human Resources Director - Excused 09/29/2017
Mr. Christian Palmer, Communications Director
Mr. Paul Hemmes, Information Technology
Mr. Allan Martin, NEPC
Mr. Michael McDermott, Bank of New York Mellon
Mr. Mark Ricci, Bank of New York Mellon
Mr. Ed Schwartz, ORG
Mr. Jay Rose, Stepstone
Mr. Mark White, Albourne
Mr. John Shearman, Albourne
Ms. Dianne McAllister, Public Policy Partners
Mr. Doug Cole, HighGround
Mr. Paul Krake, View from the Peak
Mr. Tom Iannucci, Cortex - Facilitator
Mr. Chuck Grube, Assistant Arizona Attorney General
Ms. Dena Benjamin, Assistant Arizona Attorney General
Mr. Tom Hickey, Foley Lardner
Mr. Ken Strobeck, PSPRS Advisory Committee Chairman
Mr. Brandon White, Charlesbank
Mr. Kyle Kafka, Encap
Mr. Doug Monticciolo, Brevet Capital
Mr. Gerald A. Ronon, Lubert-Adler

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

*Mr. Brian P. Tobin
Chairman*

The meeting was called to order at 9:30 A.M. by Chairman Tobin which was followed by the Pledge of Allegiance and Roll Call. Chairman Tobin thanked Staff for their efforts and welcomed Mr. Harry A. Papp as the ninth member of the Board of Trustees.

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.

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 Cheryl Chase.
 - b. Acceptance of Elected Officials' Retirement Plan of termination of early retirement benefit of Gerard H. Overall.
 - c. Acceptance of Elected Officials' Retirement Plan of termination of normal retirement benefit of Francis X. Irr.
 - d. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Colleen McNally.
 - e. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Ronald Myers.
 - f. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of R. Jeffrey Woodburn.
 - g. Approval of the Minutes of the August 9, 2017 Special Meeting and August 22, 2017 Meeting of the PSPRS Board of Trustees.

Mr. Brian P. Tobin

MOTION:1-9/28/17	At 9:34 A.M.
Motion:	To approve the Consent Agenda as presented.
Moved by:	Mr. Raines
Seconded by:	Mr. Buividas
Discussion:	None
In Favor:	Unanimous; Messrs. McNeill and Smith - Excused
Motion:	Passes

4. Discussion and appropriate **Action** with respect to the EORP disability application of Jimmie Munoz.

Mr. Brian P. Tobin

MOTION:2-9/28/17	At 9:36 A.M.
Motion:	To approve the disability application of EORP member, Jimmie Munoz.
Moved by:	Mr. Davis
Seconded by:	Mr. Papp
Discussion:	None
In Favor:	Unanimous; Messrs. McNeill and Smith - Excused
Motion:	Passes

5. Administrator remarks, introduction of new staff.

*Mr. Jared A. Smout
Administrator*

Administrator Smout thanked Staff for their efforts for the preparation for of the Annual Meeting and for their diligence performing their duties regarding pension reform legislation. The new Compliance Officer, Internal Audit Officer and Records Officer were introduced to the Trustees.

6. Written report by Investment Department Staff regarding Portfolio Risk as of July 31, 2017.

*Mr. Owen Zhao
Portfolio Analyst - Risk*

Current status of volatility, value and risk regarding the Trust's portfolio was presented. Historic volatility decreased slightly and the forecasted volatility and value at risk remain the same. The PSPRS Trust is 67% less volatile than the market. Information about each asset class was displayed as to expected return, actual one year return, portfolio weight, and value at risk contribution. The drivers of asset class risk and portfolio risk were also displayed.

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 July 31, 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*

No discussion was held.

8. Presentation and discussion by NEPC and Chief Investment Officer on Year End investment performance.

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

For the Year End as of June 30, 2017, the seven year performance results have been presented. The current economic environment was described, including employment, inflation, Federal Funds rates, global and private equity, fixed income and real assets. The total fund performance numbers are net of manager fees.

Year 1	11.9%
Year 3	5.3%
Year 5	8.0%
Year 7	7.9%

Years 1 and 5 returns were more than the assumed rate of return. As of June 30, 2017, the market value of the trust was \$9,289,496,615.

Discussion was held regarding the legacy portion of the real estate portfolio. Topics included how to proceed with the remaining property currently valued at \$200 million, mitigating losses, risk and recovery options. Performance of the asset managers, asset allocation vs. targets (all are within policy range) and total fund risk/return vs. peers were also discussed.

9. Annual report by Investment Department Staff and service provider, and discussion regarding on the Trust's Securities Lending Program as of the first half of the 2017 calendar year (as of June 30, 2017).

*Ms. Vaida Maleckaite
Director of Investment Services
Mr. Michael McDermott
Mr. Mark Ricci
Bank of New York Mellon*

This program lends securities on a temporary basis to qualified buyers with cash collateral. The PSPRS service provider performs all of the work for the program, including risk management and compliance. Review of the program included information regarding cash collateral investment, risk management techniques and performance of the portfolio. For the AZ PSPRS Trust, average monthly earnings are \$308,455.09, with an average lending pool of \$2,381,724,585 and an average return on available assets of 15.47 basis points.

10. Round Table Discussion on Macro Economic Developments by certain investment partners.

*Mr. Ryan Parham
Mr. Ed Schwartz, ORG
Mr. Jay Rose, Stepstone
Mr. Allan Martin, NEPC
Mr. Mark White, Albourne
Mr. John Shearman, Albourne*

Discussion was held between four investment consultants who work alongside PSPRS as to how they achieve the objectives for the portfolio set by the Board for the Trust. StepStone's analyst spoke regarding the global private market platform and described their three stage investment process. The Trust's consultants utilize a collaborative process in working with the Trust's Investment Staff and partners. The representative of ORG summarized their philosophy and strategies for their consulting services regarding real estate. This included portfolio construction, research, and analysis, due diligence, investment monitoring and communication. Albourne provides independent research and advice regarding complicated assets in the area of alternative investments. Highlights of their hedge fund analysis included monitoring, assessing risk and due diligence. The fourth partner, NEPC, consults with businesses that have large pools of assets to develop investment policy, strategy, asset allocation, risk management, manager selection and research and monitoring and reporting.

Macroeconomic discussion topics included the question of how does the retail sector affect life today; the opportunities and challenges of robotics and artificial intelligence; and how the currency markets influence investments and recommendations. A conversation was held regarding the aforementioned topics influence on the allocation of assets.

11. Presentation of Operations Reports and possible **Action** on same.

*Mr. Dave DeJonge
Deputy Administrator*

Updates regarding software development, progress on the Defined Contribution Plan, strategic plan progress, employer/local board outreach program, human relations department and communication efforts were summarized.

12. Discussion and possible **Action** on the need to engage a public relations firm.
Mr. Jared A. Smout

Discussion was held regarding the need for additional communications assistance. Chairman Tobin directed that this be run through the Operations Committee and that other trustees are able to participate as desired.

13. Review, discussion and possible **Action** on pending and passed legislative actions and potential legislative proposals.
Mr. Jared A. Smout
Mr. Doug Cole, High Ground
Ms. Diane McAllister, Public Policy Partners

Mr. Doug Cole and Ms. Diane McAllister provided an update on various legislative matters.

14. Keynote address.
Mr. Paul Krake

Mr. Krake shared his views on macroeconomic developments in both domestic and international markets.

The first day of the Annual Meeting recessed at 4:44 p.m. on Thursday, September 28, 2017; and resumed on Friday, September 29, 2017 at 9:00 a.m.

15. Call to Order, Roll Call, Remarks by Chairman Tobin.
Mr. Brian Tobin

Day two was called to order by Chairman Tobin at 9:09 a.m.

A second Call to the Public was announced to which there was no reply.

16. Presentation and Panel Discussion regarding Fiduciary Duty, Effective Governance, Decision Making Processes and Risk Management Practices.
Mr. Tom Iannucci, Cortex - Facilitator
Chuck Grube, Esq., Assistant Arizona Attorney General
Dena Benjamin, Esq., Assistant Arizona Attorney General
Rex Nolan, Esq., Assistant Arizona Attorney General
Tom Hickey, Esq., Foley Lardner

Discussion was held regarding fiduciary duties, effective ethical conduct, and strong governance practices. Mr. Iannucci discussed the CFA Society Code of Conduct. Other topics included typical challenges to effective governance practices, obligations and duties to run the Plan and the business perspective regarding decision making, including typical challenges, important vs. urgent, clear roles and accountability. Act in good faith and best interests and act with prudence and reasonable care. Four case studies were topics of conversation between the Board and the panel members.

17. Open Meeting Law training.
Ivy Voss, Esq., Assistant Arizona Attorney General
Chuck Grube, Esq., Assistant Arizona Attorney General

The Open Meeting Law requires a public body to only do business in context of an open meeting. Some of the necessary steps include prior notice, an agenda, a Call to the Public and minutes. The laws can be violated in various ways.

18. Report / update on the System's Defined Contribution Committee.

*Mr. William T. Buividas
Vice Chairman
DC Committee Chairman*

The 401(a) PSPRS Defined Contribution Plan for Tier 3 is fully active. The Tier 2 plan was active on July 1, 2017 with a choice within 90 days for PSPRS members between the 401(a) Defined Contribution Plan or a Defined Benefit Plan. This committee oversees the Supplemental 401(a) Plan, the EORP Defined Contribution Plan and a new 401(a) Plan. A review was held regarding the enrollment process for Tier 3.

19. Report / update on the System's Advisory Committee.

*Mr. Ken Strobeck
Advisory Committee Chairman*

One task statutorily assigned to the committee is to select names for the 9th member of the Board of Trustees, which has been completed by the addition of Mr. Harry Papp to the Board. Also assigned by the Board of Trustees is the possible consolidation of the local boards. The recommendation being contemplated was one central Medical Board for those employers assigned to the risk pool (less than 250 members) and one for each of the 17 stand-alone plans that also have the option of going into the pooled plan. Mr. Buividas stated that the process was not an open one, since only one organization was invited to present their opinion to the Advisory Committee.

20. Panel discussion on Economics, Private Equity, Hedge Funds, Private Credit and Real Estate.

*Mr. Brandon White, Charlesbank
Mr. Kyle Kafka, Encap
Mr. Doug Monticciolo, Brevet Capital
Mr. Gerald A. Ronon, Lubert-Adler*

Each member gave a summary of their Fund. Mr. Thatcher asked the panel questions as follows: How do fees work in a typical private equity fund? If the price of the barrel of oil is now a lot less, does this reduction in price mean a reduction in opportunity? The number of government entities in financial trouble seems to be growing. Does this affect your business? There are retailers like Amazon and other on-line retailers, what does this have to do with real estate investment? What options do you see as development potential for your firm's opportunities? What are the most common concerns or questions you are getting from your investors?

Discussion was held regarding these issues.

21. 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 22.

22. **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 21, 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).

An Executive Session was not held.

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

Mr. Brian P. Tobin

Due to a lack of a quorum, this Agenda item was tabled.

24. Schedule future meeting date(s). (*Currently scheduled for Thursday, October 26, 2017.*)

The next meeting will be held on Thursday, October 26, 2017.

25. Adjournment.

The meeting was adjourned at 1:28 p.m.

Brian P. Tobin, Trustee, Chairman

William T. Buividas, Trustee,
Vice Chairman

William C. Davis, Trustee

EXCUSED

Edward J. McNeill, Trustee

Harry A. Papp, Trustee

Bryan Raines, Trustee

Mike Scheidt, Trustee

EXCUSED

Dean M. Scheinert, Trustee

Donald A. Smith, Jr., Trustee