

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES INVESTMENT COMMITTEE MEETING

November 30, 2011

MINUTES

Mr. Richard J. Petrenka, Chair, Trustee
Mr. Lauren Kingry, Trustee
Mr. Brian Tobin, Trustee
Mr. Ryan Parham, Chief Investment Officer, Assistant Administrator
Mr. Marty Anderson, Deputy Chief Investment Officer
Mr. Pascal Stalder, Deputy Chief Investment Officer – Risk
Mr. Paul Corens, Senior Investment Analyst
Mr. Shan Chen, Senior Analyst
Mr. Mark Steed, Senior Investment Analyst
Mr. Anton Orlich, Senior Analyst
Ms. Michele Weigand, Senior Contracts Specialist
Mr. Don Stracke, Senior Consultant, NEPC, Inc,
Mr. Lincoln Smith, Senior Portfolio Analyst, Albourne America, LLC
Mr. Ed Schwartz, Partner, ORG Portfolio Management
Mr. Marc Lieberman, Partner, Kutak Rock
Messrs. Ami Goldfein, John Massad, Dan McLaughlin, Directors, KAM Advisors LLC
Mr. Scott Canon, President, Ranger Investment Management L.P.
Mr. Conrad Doenges, Portfolio Investment Manager, Ranger Investment Management L.P.

1. Call to Order, Roll Call, Opening remarks.....Mr. Richard J. Petrenka
.....Committee Chairman

The meeting was called to order by Chairman Petrenka at 10:07 a.m.

2. Review, discussion and possible approval of Investment Committee Minutes from
October 26, 2011.....Mr. Richard J. Petrenka

MOTION: 11-22-11	At 10:08 a.m.
Motion:	To approve the Investment Committee Minutes from October 26, 2011 as presented.
Moved by:	Mr. Tobin
Seconded by:	Mr. Kingry
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

3. Report by Investment Department Staff and discussion regarding the Month Ended and
Fiscal Year-to-Date performance/portfolioMr. Ryan Parham
.....Chief Investment Officer

Mr. Parham reported, as he had written in the Chief Investment Officer's comments in

the mailing for the fiscal year to date that during the month of October we moved from positive out performance to negative performance due to a tracking error in Mellon Beta. With the approval of the Board we began in late September to move the beta strategy to State Street. Staff has a concern regarding the asymmetry of the risk in equities and their responsibility is to protect the portfolio from losses. The concern began in September due to the continued problems in Europe, the continued U.S. government partisanship, and the weak data from China. It was decided not to replicate the beta portion of the portable alpha which means that we lost out in a month when equities rose 11%, however the riskiest portion of the portfolio was de-levered for this one period in time. It is expected the beta exposure will be replaced in the next few weeks. In January, the annual review of the asset ranges and the benchmarks will be conducted. Perhaps, at the same time, we will conduct a review of each investment manager. We rely on the quarterly NEPC reports which are more significant than the monthly reports.

4. Presentation by Investment Department Staff, Albourne America LLC and/or KAM Advisors LLC (or KKR Asset Management) representatives and discussion and possible **Recommendation** regarding an investment of up to \$60 million in KKR Equity Strategies L.P., or appropriate feeders, blockers, or associated or parallel funds of same
 -Mr. Anton Orlich
 -Senior Investment Analyst
 -Messrs. Lincoln Smith and John Shearman
 -Albourne America, LLC
 -Messrs. Ami Goldfein, John Massad and Dan McLaughlin
 -Directors, KAM Advisors LLC

It was explained by Mr. Parham we are taking the index exposures and going active in this space in order to move to more alpha seeking equity exposures. Mr. Stracke stated PSPRS is looking to an equity long/short fund to hopefully create a more even return. KKR Asset Management has a strong investment team with a long history of working together at Goldman Sachs. Staff and advisors are continuing their due diligence and review of the pricing structure regarding KKR Asset Management.

Mr. Dan McLaughlin added their group has been in the alternative investment space for over 35 years and has 14 offices around the globe in order to figure how to add value for their partner. He described the benefits of being part of KKR due to their high quality of infrastructure, firm operations processes, and experience which leads to creation and delivery of a portfolio that will generate equity-like returns with less volatility than the overall market. Mr. Ami Goldfein stated they focus on the risk parameters, think about the correlation of long/short equities, and to how returns are generated.

MOTION: 11-23-11	At 11:20 a.m.
Motion:	To recommend to the Board of Trustees approval of an investment of up to \$60 million in KKR Equity Strategies L.P., or appropriate feeders, blockers, or associated or parallel fund of same pending additional pricing work and due diligence.
Moved by:	Mr. Tobin
Seconded by:	Mr. Kingry
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

5. Presentation by Investment Department Staff, NEPC, LLC, and Ranger Investment Management L.P. representatives and discussion and possible **Recommendation** regarding an investment of up to \$70 million in a separately managed account in the Ranger Small Cap Strategy.....Mr. Anton Orlich
..... Messrs. Allan Martin and Don Stracke
.....NEPC, LLC
.....Mr. Scott Canon, President
.....Mr. Conrad Doenges, Portfolio Manager
..... Ranger Investment Management L.P.

As an introduction, Mr. Anton Orlich stated Mr. Don Stracke and NEPC brought this small cap growth exposure opportunity to PSPRS. Mr. Stracke added this is a neutral style approach for investing in small companies. Ranger Investment Management has a low turnover of their team, a long and good track record, excellent management tools, and managers who are willing to evolve. Their investment process is a proprietary scoring system allowing them to quickly sift through information in volatile markets. Their risk management tools allow swift analysis and they utilize forensic accountants as an additional resource.

Mr. Tobin inquired if Ranger Investment Management has key man provisions in every investment and Mr. Lieberman replied it depends of the deal. It is common in separately managed companies to invest in key man provisions. Regarding KKR Equity Strategies, key man provisions will be provided for the number two person.

Messrs. Doenges and Canon provided additional information they invest in small cap companies that are 100% employee owned with sustained growth opportunities, high quality capital structures, clean balance sheets, and superior returns. Also of importance are their management teams. They invest in companies with a market cap of \$2 billion or less. Ranger Investment Management has a very strong due diligence process and their opportunities and risks are reassessed on a continual basis. At any one time their holdings number between 40 and 60.

MOTION: 11-24-11 At 11:48 a.m.

Motion:	To recommend approval to the Board of Trustees of an investment of up to \$70 million in a separately managed account in the Ranger Small Cap Strategy
Moved by:	Mr. Kingry
Seconded by:	Mr. Tobin
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

6. Presentation by Investment Department Staff and ORG Portfolio Management representatives and discussion and possible **Recommendation** regarding a possible investment of up to \$20 million in the DTR1C, LLC and \$9 million in DTR1, LLC, each managed by Desert Troon Limited, LLC.....Mr. Ryan Parham
.....Mr. Ed Schwartz
.....Partner, ORG Portfolio Management

Mr. Parham summarized for the Committee that Arizona real estate has suffered more

than the rest of the real estate portfolio. DRT1 includes retail and residential properties. DRT1C includes commercial properties. We own 100% of those assets which are managed by Desert Troon. We are looking for approval of \$20 million to pay down a full recourse line of credit which we have guaranteed and \$9 million to pay down full recourse debt for retail and residential locations throughout the valley. By pulling the portfolio together, we hope return some gains on our equity and lever our potential returns as we contemplate taking a portion of Desert Troon's carry.

Mr. Parham continued by stating we would like to come closer to our 8% allocation in real estate by reducing the portfolio with a long term approach and look for joint venture opportunities. We will report on Desert Troon again in January or February and we suggest the members of the Board see some of the Desert Troon properties in person.

MOTION: 11-25-11	At 12:08 p.m.
Motion:	To recommend to the Board of Trustees approval of a possible investment of up to \$20 million in the DTR1C, LLC and \$9 million in DTR1, LLC, each managed by Desert Troon Limited, LLC.
Moved by:	Mr. Tobin
Seconded by:	Mr. Kingry
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

7. Report by Investment Department Staff representatives and discussion and possible **Recommendation** regarding due diligence of Trustbridge Partners IV, L.P. and / or its manager Trustbridge Partners.....Mr. Shan Chen
.....Senior Investment Analyst

When Staff was working of the due diligence of Trustbridge Partners IV, an e-mail was received involving the Trustbridge investments which lead us to put this investment on hold. Subsequent research indicated the person who sent the e-mail does not exist in our system and the e-mail address was created for this one e-mail. Further research was conducted by Lightstone, Steptoe, Trustbridge, Albourn, Kutak Rock, and Morrison Forester to find some minor compliance issues and customer complaints but no evidence of the fraud alleged in the e-mail. This was an isolated e-mail sent to no other Trustbridge investors. The deal closed just before Thanksgiving.

8. Report by Investment Department Staff and/or legal counsel, and discussion by them with the Committee (and possible recommendation by the Committee to the Board of Trustees) about recent legal developments and issues (including settlement discussions) involving the investments of the Arizona PSPRS Trust, the System or the System's sister plans (EORP or CORP) (collectively, the "Plans"). Such discussion (and recommendations) may include legal issues (and disputes involving) the Plans' custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venture partners (as well as any investments managed by the Plans' investment managers or joint venture partners). The Committee may vote to discuss these matters, including public record requests, in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(2),(3), (4), and (7) as set forth in item 9. Matters discussed may include claims by Bank of America, Stroh Ranch Development, The Pivotal Group, APEX Capital, U.S. Bank and/or Millard and Scott Seldin.

Mr. Lieberman reported last week one of the Desert Troon assets, the DHL International building, was lost to foreclosure. The building is no longer part of DTR1, LLCs. There is no remaining equity in it and Troon has written the asset down to zero. Troon had entered into good faith negotiations to try to resolve the deficiency. They allowed the deficiency to take place to get to a special servicer since the original servicer would not discuss this with us. In response to the settlement negotiations, where we made a good faith offer to pay more than the current appraised value of the building, since Troon has the potential of leasing the property to try and satisfy the new investment return, the response of the attorney on the other side, with a firm representing PSPRS for other matters, countered by asking for settlement far in excess of the debt on the building. PSPRS considers this a conflict and the opposing law firm stated there is not a conflict since they have not yet done business with PSPRS. DTR1 was sued by this firm in the amount of \$58 million in recourse debt. PSPRS thought their counter offer was in bad faith. Local counsel local counsel is not involved in this negotiation. Mr. Lieberman stated Ballard Spahr has sued DTRI for about \$58 million in recourse debt. DRT1 takes the position there is no recourse debt. PSPRS is exposed to 90% of the liability of this obligation of which we want the Board to be aware.

9. **Executive Session for Legal Matters.** Discussion with legal counsel (and possible recommendation to the Board of Trustees) about legal developments and issues (including settlement discussions) involving public record requests and the Plans' investments, including legal matters concerning the Plans' custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venture partners (as well as any investments managed by the Plans' investment managers or joint venture partners). The Investment Committee may vote to discuss these matters, wholly or in part, in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(2),(3),(4), and (7). Matters discussed may include claims by Bank of America, Stroh Ranch Development, The Pivotal Group, APEX Capital, U.S. Bank and/or Millard and Scott Seldin.

10. Schedule next meeting. (*Calendared for December 14, 2011*)

The decision regarding the next meeting date was deferred to the full Board meeting.

11. 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.

No members of the public wished to address the Committee.

12. Adjournment

MOTION: 11-26-11 At 12:19 p.m.

Motion: To adjourn the meeting.

Moved by: Mr. Tobin

Seconded by: Mr. Kingry

Discussion: None

In Favor: Unanimous

Motion: Passes

Mr. Richard J. Petrenka, Chair, Trustee

Mr. Lauren Kingry, Trustee

Mr. Brian Tobin, Trustee