

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

April 25, 2012

MINUTES

Mr. Richard J. Petrenka, Chair, Trustee  
Mr. Lauren Kingry, Trustee  
Mr. Brian Tobin, Trustee  
Mr. Ryan Parham, Assistant Administrator / Chief Investment Officer attended at 10:18 a.m.  
Mr. Marty Anderson, Deputy Chief Investment Officer  
Mr. Pascal Stalder, Deputy Chief Investment Officer – Risk  
Mr. Anton Orlich, Lead Investment Analyst  
Mr. Paul Corens, Senior Investment Analyst  
Mr. Shan Chen, Senior Investment Analyst  
Mr. Mark Steed, Lead Investment Analyst  
Mr. Mark Selfridge, Senior Investment Analyst  
Ms. Michele Weigand, Senior Contracts Specialist  
Ms. Bridget Feeley, Internal Audit and Compliance Officer  
Mr. Don Stracke, Senior Consultant, NEPC, LLC  
Mr. Lincoln Smith, Portfolio Analyst, Albourne America, LLC  
Mr. Jay Rose, Partner, StepStone Group  
Mr. Kristan Bodden, Helios Advisors LLC  
Messrs. John Eggemeyer, Managing Principal, Mr. J. Mikesell Thomas, Principal and Mr. Sundeep V. Rana Director Castle Creek Capital LLC  
Ms. Elise Hebb, Director Investor Relations, Madrona Venture Group, LLC  
Mr. Chad Nelson, Principal/Portfolio Manager, Thomson Horstmann and Bryant, Inc.

1. Call to Order, Roll Call, Opening remarks.....Mr. Richard J. Petrenka  
.....Committee Chairman  
  
Mr. Richard Petrenka, Committee Chairman called the meeting to order at 10:07 am.
2. Review, discussion and possible approval of Investment Committee Minutes from April 4, 2012.....Mr. Richard J. Petrenka

<b>MOTION: 4-41-12</b>	At 10:08 a.m.
<b>Motion:</b>	To approve the Investment Committee Minutes from April 4, 2012 as written.
<b>Moved by:</b>	Mr. Tobin
<b>Seconded by:</b>	Mr. Kingry
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

3. Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio.....Mr. Martin Anderson

.....Deputy Chief Investment Officer

Mr. Anderson reported that the performance for the Month Ended March 31, 2012 was good across the entire portfolio. The absolute performance was positive as was the return for private equity which will be reported four times per year. This includes the draw down structure real estate funds and real asset funds.

For the Fiscal Year-to-Date, performance was up 1.54%, but down 2.20% to the index on a relative basis. Equities performed close to the target range.

- 4. Presentation by Investment Department Staff, Albourne America LLC and Helios Advisors LLC representatives and discussion and possible **Recommendation** regarding an investment of up to \$30 million in a separately managed account in the Helios Maritime Strategy and / or affiliated strategies.....Mr. Paul Corens  
.....Senior Investment Analyst  
.....Mr. Lincoln Smith, Portfolio Analyst  
.....Albourne America, LLC  
.....Mr. Kristan Bodden  
..... Helios Advisors LLC

This possible investment was introduced by Mr. Paul Corens who stated that, if approved, this investment would fall within the credit opportunities asset class. Helios Maritime Strategy invests in maritime assets secured by mortgage type instruments. During 2007-2008, maritime assets became a distressed asset class and the Baltic Dry Index declined. Staff familiar with this type of market has analyzed Helios and agrees Helios has a good risk-related strategy and expects a good return in 2012. Since maritime assets are in distress, northern European banks have stopped lending; therefore there is a surplus of ships along with less demand for shipping. Ships that have better economic opportunities and better efficiency and that create less pollution are in high demand. Older ships are sitting unused.

Helios has full control of the assets so they can force a sale to an entity that can operate the asset. Mr. Lincoln Smith added that this is a credit type investment that would fit nicely in the credit opportunities asset class. A discussion was held regarding the types of cargo the ships carry and how this is written into their contracts.

Mr. Kristan Bodden stated that Helios is a value based investment shop with a hedge fund structure. They have, in their other funds, invested in equities, credits and direct commodities with a focus on basic industries. Shipping and maritime assets fits well with their other lines of work. The assets are stable and cash is stable; but the structure of working with these assets is deficient. We realized documentation can be corrected. Due to the credit crisis in Europe and the distress of the European banks, Helios has an opportunity in maritime assets to create an equity-like return with the safety of a bank loan. We have a mortgage on the assets and pledges from the parent companies. Cash cannot be released without our approval. This structure creates down side protection and Helios chooses the right jurisdiction in order to create control of the asset. Mr. Bodden described the large size of the assets and the leading edge technology of the assets. He concluded by adding that insurance contracts protect the assets against operator error and protect against environmental events.

<b>MOTION: 4-42-12</b>	At 10:46 a.m.
<b>Motion:</b>	To recommend to the Board of Trustees a possible investment of up to \$30 million in a separately managed account in the Helios Maritime Strategy and/or affiliated strategies.
<b>Moved by:</b>	Mr. Kingry
<b>Seconded by:</b>	Mr. Tobin
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

5. Presentation by Investment Department Staff, NEPC, LLC and Castle Creek Capital LLC representatives and discussion and possible **Recommendation** regarding an investment of up to \$30 million in Castle Creek AZ TARP Special Situations Fund, L.P.....Mr. Mark Steed  
.....Lead Investment Analyst  
.....Mr. Don Stracke  
.....Senior Consultant, NEPC, LLC  
.....Mr. John Eggemeyer, Managing Principal, Mr., J. Mikesell Thomas, Principal  
.....Mr. Sundeep V. Rana, Director  
.....Castle Creek Capital LLC

During the introduction of this agenda item, Mr. Steed stated that this is a private equity fund which will, if approved, be placed in the credit opportunities bucket. Castle Creek AZ TARP Special Situations Fund, L.P. specializes in small community banks in the regional bank space that are in the Troubled Asset Recovery Program (TARP). Last month the U.S. Treasury announced that they would like to unwind TARP positions in auctions. Staff has full discretion to decide if they want to participate in the auctions. Fees are paid if they win the auction and the bids will be conservative. Upon winning the auction, a dividend coupon is received and any discount received in nationwide auctions will produce an income stream. Castle Creek will conduct the due diligence since they are familiar with banks.

Mr. Eggemeyer added that the U.S. Administration and Treasury decided to liquidate the TARP assets through auctions as quickly as possible. Approximately 350 banks remain in the program which fits nicely with Castle Creek's program. The first auction was held three weeks ago and the valuations were consistent with their initial plans. The auction is of perpetual preferred stock. Mr. Eggemeyer stated that after completion of their due diligence a decision can be made to participate or not to participate in each auction. After the auction, we can manage the asset. The size of the auction is limited by current federal restrictions and Castle Creek analyzes the status of the banks unable to repay the TARP loans.

<b>MOTION: 4-43-12</b>	At 11:12 a.m.
<b>Motion:</b>	To recommend to the Board of Trustees a possible investment of up to \$30 million in Castle Creek AZ TARP Special Situations Fund, L.P.
<b>Moved by:</b>	Mr. Tobin
<b>Seconded by:</b>	Mr. Kingry
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

6. Presentation by Investment Department Staff, StepStone Group and Madrona Venture Group, LLC representatives and discussion and possible **Recommendation** regarding an investment of up to \$20 million in Madrona Venture Fund V, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.....Mr. Shan Chen  
 .....Senior Investment Analyst  
 .....Mr. Jay Rose  
 .....Partner, StepStone Group  
 Mr. Troy Cichos, Chief Financial Officer and Ms. Elise Hebb, Director Investor Relations  
 .....Madrona Venture Group, LLC

This agenda item was presented by Mr. Shan Chen, Mr. Jay Rose and Ms. Hebb. Madrona Venture Fund V, L.P. is an early stage venture capital firm concentrating in the field of internet technology. The advantages of their strategy are that they focus on early stage technology investments and they have a local focus in the Pacific Northwest region located near Seattle. In addition, they have a partnership with the University of Washington. The fund has a strong culture with little turnover. Madrona's first four funds performed in the top quartile and there will be 25-30 companies in Fund V. By focusing on early stage investments, the fund can build with a smaller capital base.

<b>MOTION: 4-44-12</b>	At 11:34 a.m.
<b>Motion:</b>	To recommend to the Board of Trustees a possible investment of up to \$20 million in Madrona Venture Fund V, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.
<b>Moved by:</b>	Mr. Kingry
<b>Seconded by:</b>	Mr. Tobin
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

7. Presentation by Investment Department Staff, NEPC, LLC and Thomson Horstmann and Bryant, Inc. ("THB") representatives and discussion and possible **Recommendation** regarding an investment of up to \$55 million in a separately managed account in the THB Micro Small Cap Strategy and \$15 million in a separately managed account in the THB Small Cap Strategy and/or affiliated strategies.....Mr. Anton Orlich  
 .....Mr. Don Stracke  
 .....Mr. Chad Nelson, Principal / Portfolio Manager  
 .....Thomson Horstmann and Bryant, Inc.

Mr. Stracke said NEPC supports Staff's recommendation to invest in separately managed accounts in the THB Micro Small Cap Strategy and in the THB Small Cap Strategy. Investment in micro-cap companies is recommended because insider ownership percentages are the highest for micro-caps, since they create a strong economic alignment with shareholders. 60% of micro-cap companies have zero debt. We want to move money from index funds to active management; so the money for this investment will come from our State Street Index account. Over time, micro-caps have a strong ability to beat the benchmark.

Messrs. Chad Nelson and Mr. Thomson Horstmann described the company, their experience, and their areas of expertise. The company is 100% employee owned. A

description was given of their informational advantage regarding inefficiencies that allow good returns in this smallest end of the investment universe.

<b>MOTION: 4-45-12</b>	At 11:51 a.m.
<b>Motion:</b>	To recommend to the Board of Trustees a possible investment of up to \$55 million in a separately managed account in the THB Micro Small Cap Strategy and \$15 million in a separately managed account in the THB Small Cap Strategy and/or affiliated strategies.
<b>Moved by:</b>	Mr. Tobin
<b>Seconded by:</b>	Mr. Kingry
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

8. Presentation by Investment Department Staff and Albourne America, LLC and discussion and possible **Recommendation** regarding the possible redemption of assets (liquidation of its Capital Account and other partnership interests) from Geosphere Fund L.P.....Mr. Paul Corens  
.....Senior Investment Analyst  
.....Mr. Lincoln Smith

Mr. Parham added some background regarding this agenda item. A redemption notice, as provided for in our investment policy, was sent intra month on April 19, 2012 as opposed to waiting for authorization at the monthly meetings of the Board and Investment Committee. The Board can instruct staff to rescind the notice. But if it does not, then the full redemption will be effective June 30, 2012. This redemption is not being made due to performance, but rather to preserve the Trust's right to remove its capital in light of other redemptions that are taking place. This is occurring due to choppy trading markets in 2011 and 2012 for equity and commodity based approaches. The market has been either flat or, as in this case, oscillating plus or minus 2%. Commodity values have gone away from fundamental drivers to macro market events which make it difficult to time and to create sufficient returns. We do not want to be the last to redeem our full investment.

We have made a small profit with this investment; so this is not about performance, but about our ability to exit in a timely and orderly fashion. Mr. Smith added that the expected return is still there, but risk is increased on the business side rather than the investment side which makes it best to leave the Geosphere Fund.

A discussion was held regarding when to get out of any hedge fund and Albourne stated that it depends on performance, expenses, risk, and market opportunities.

<b>MOTION: 4-46-12</b>	At 12:11 p.m.
<b>Motion:</b>	To recommend to the Board of Trustees ratification of the redemption of assets from the Geosphere Fund.
<b>Moved by:</b>	Mr. Tobin
<b>Seconded by:</b>	Mr. Kingry
<b>Discussion:</b>	None

<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

9. Presentation by Investment Department Staff and NEPC, LLC representatives and discussion and possible **Recommendation** regarding the approval of certain proposed revisions to the Asset Allocation ranges, targets, and benchmarks which are stated in Appendix I *Asset Allocation Policy*; and replacing and superseding those ranges, targets, and benchmarks.....Mr. Ryan Parham  
.....Mr. Don Stracke

Tabled until the Board of Trustees Meeting at 1:00 pm today.

10. 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 11. Matters discussed may include claims or potential claims by or against or issues concerning Bank of America, BNY Mellon, Stroh Ranch Development, The Pivotal Group, APEX Capital, U.S. Bank and/or Millard and Scott Seldin.
11. **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 or potential claims by or against or issues concerning Bank of America, BNY Mellon, Stroh Ranch Development, The Pivotal Group, APEX Capital, U.S. Bank and/or Millard and Scott Seldin.

An Executive Session was not called.

12. Schedule next meeting. (*Calendared for May 30, 2012*)
13. 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.

14. Adjournment

<b>MOTION: 4-47-12</b>	At 12:14 p.m.
<b>Motion:</b>	To adjourn the meeting.
<b>Moved by:</b>	Mr. Kingry
<b>Seconded by:</b>	Mr. Tobin
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

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Richard J. Petrenka, Chairman