

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

June 22, 2011

**MINUTES**

Members	Mr. Alan Maguire, Acting Chair
Present:	Mr. Richard Petrenka, Trustee
	Mr. Lauren Kingry, Trustee
Others	Mr. Marty Anderson, Deputy Chief Investment Officer
Present:	Mr. Pascal Stalder, Risk Officer
	Mr. Paul Corens, Alternatives Investment Analyst
	Mr. Mark Steed, Senior Analyst
	Mr. Shan Chen, Investment Analyst
	Mr. Mark Selfridge, Investment Analyst
	Ms. Bridget Feeley, Internal Audit and Compliance Officer
	Mr. Allan Martin, Partner, NEPC, Inc.
	Mr. Ed Schwartz, Partner, ORG Portfolio Management
	Mr. Lincoln Smith, Consultant, Albourne America, LLC
	Mr. Jay Rose, Partner, StepStone Group
	Mr. John Shearman, Albourne America, LLC
	Ms. Michele Weigand, Contracts Paralegal

1. Call to Order, Roll Call, Opening remarks.....  
.....Mr. Alan Maguire  
.....Committee Chairman

The meeting was called to order by Chairman Maguire at 9:00 a.m.

2. Review, discussion and possible approval of Investment Committee Minutes from May 25, 2011.....Mr. Alan Maguire

<b>MOTION: 6-38-11</b>	At 9:01 a.m.
<b>Motion:</b>	To approve the Investment Committee Minutes from May 25, 2011.
<b>Moved by:</b>	Mr. Richard Petrenka
<b>Seconded by:</b>	Mr. Lauren 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 update.....Mr. Mark Selfridge  
.....Investment Analyst

Mr. Mark Selfridge reported the total PSPRS portfolio returned -0.59% for the month ending May 31, 2011 which trailed the benchmark return of -.38%. Fiscal year-to-date the total portfolio returned 19.06% relative to the benchmark return of 17.97%.

4. Presentation by Investment Department Staff and StepStone Group representatives and discussion and possible **Recommendation** regarding a possible investment of up to \$20 million in the Berkshire Fund VIII, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Berkshire Partners, LLC or its affiliates.  
.....Mr. Mark Steed  
.....Senior Analyst  
.....Mr. Jay Rose  
.....Partner, StepStone Group

Mr. Marty Anderson stated Berkshire Fund VIII, L.P. is part of the growth equity sector. Mr. Mark Steed described the managing firm as a Boston based private equity firm specializing in the middle market that reaches across multiple industries focusing on market leaders. Their internal rate of return is almost 29% across all of their funds. This performance is attributable to their due diligence process, their conservative posture, and their focus on their core competencies. Mr. Steed continued by saying PSPRS began looking at this investment four years ago; three years ago Staff and our consultants targeted Berkshire which led to conversations that began eighteen months ago.

Mr. Maguire suggested that, during the PSPRS Annual Meeting, the members of the Board would benefit from a review of our due diligence process. Mr. Jay Rose of StepStone Group said this is a \$4 billion fund with fourteen managing directors and a strong culture with high growth prospects. It has a 40% earnings growth and a 60% multiple expansion. Their transactions come from auctions and individual deals due to past relationships.

<b>MOTION: 6-39-11</b>	At 9:34 a.m.
<b>Motion:</b>	To recommend to the full Board a possible investment of up to \$20 million in the Berkshire Fund VIII, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Berkshire Partners, LLC or its affiliates.
<b>Moved by:</b>	Mr. Richard Petrenka
<b>Seconded by:</b>	Mr. Lauren Kingry
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

5. Presentation by Investment Department Staff and ORG Portfolio Management representatives and discussion and possible **Recommendation** regarding a possible investment of up to \$30 million in the Greenfield Acquisition Partners VI, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Greenfield Partners, LLC or its affiliates.....Mr. Paul Corens  
.....Alternatives Investment Analyst  
.....Mr. Ed Schwartz  
.....Partner, ORG Portfolio Management

Mr. Anderson reminded the committee members that PSPRS already has an investment in the Greenfield Partners V, L.P. Mr. Ed Schwartz, Partner, ORG Portfolio Management added that this is a unique fund primarily invested in distressed real estate loans taken

over by the FDIC in second tier markets with a focus on industrial buildings, senior housing, limited service hotels in areas with good market opportunities. The investments are primarily in the United States but with some exposure outside of the U.S.

<b>MOTION: 6-40-11</b>	At 9:49 a.m.
<b>Motion:</b>	To recommend to the full Board a possible investment of up to \$30 million in the Greenfield Acquisition Partners VI, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Greenfield Partners, LLC or its affiliates.
<b>Moved by:</b>	Mr. Richard Petrenka
<b>Seconded by:</b>	Mr. Lauren Kingry
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

6. Presentation by Investment Department Staff and Albourne America representatives and discussion and possible **Recommendation** regarding a possible investment of up to \$50 million divided between (i) a direct investment of \$25 million in and (ii) co-investments of up to \$25 million with, the Pacific Alliance Asia Special Situations L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Pacific Alliance Group or its affiliates.....Mr. Shan Chen  
.....Investment Analyst  
.....Messrs. John Shearman and Lincoln Smith  
.....Albourne America

An introduction was made by Mr. Anderson who explained that this fund focuses on distressed debt across Asia. Pacific Alliance Asia Special Situations L.P. is seeking different opportunities to extend what has worked in the past to another marketplace. Mr. Shan Chen said this is in the credit opportunity part of the asset allocation. There is a return target of 25% with about a 20% net return. Their strategy and track record is good. Mr. Lincoln Smith of Albourne America added that this will involve overflow from their hedge fund portfolio and that Albourne has known Pacific Alliance since 2002. Pacific Alliance Asia has made use of market dislocations and 30% of the portfolio is in secondary loans which do not have much competition. Business is primarily centered in China, Japan, and Australia.

Questions of Staff and Albourne by Mr. Petrenka centered on the track record of Pacific Alliance Asia and Mr. Maguire inquired as to the difference between the two \$25 million allocations. Mr. Kingry asked about the credit opportunities as to how much is domestic and how much is foreign. Mr. Anderson replied that almost all of it is foreign.

<b>MOTION: 6-41-11</b>	At 10:15 a.m.
<b>Motion:</b>	To recommend to the full Board a possible investment of up to \$50 million divided between (i) a direct investment of \$25 million in and (ii) co-investments of up to \$25 million with, the Pacific Alliance Asia Special Situations L.P. or appropriate feeders, blockers or associated or parallel funds of same managed by Pacific Alliance Group or its affiliates.
<b>Moved by:</b>	Mr. Richard Petrenka
<b>Seconded by:</b>	Mr. Lauren Kingry
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

7. Presentation by Investment Department Staff and ORG Portfolio Management representatives and discussion and possible **Recommendation** regarding a possible investment of up to \$16 million in the DT Fund 3, L.L.C. managed by Desert Troon Limited, LLC. ....Mr. Marty Anderson  
.....Deputy Chief Investment Officer  
.....Mr. Ed Schwartz

Mr. Anderson stated that DT Fund 3, L.L.C. has been created as a separate general partnership with the Trust taking an ownership in that piece. The Trust is contributing \$16 million and Troon is contributing \$4 million.

Mr. Ed Schwartz said this will make the Trust's money work better with having already established a relationship with Troon. This fund will bridge the gap between those with the deal flow and those with the money. The PSPRS side will be made up of the Staff and Mr. Schwartz of ORG. Troon and Staff will work on the investment opportunities and ORG and Staff will review the opportunities. Troon, while Southwest based, will extend beyond this geographic area.

Mr. Maguire inquired about the type of projects to be funded. Mr. Schwartz replied that we have to decide, along with the operator, by looking at their deal flow, and then identifying projects which are very different from our other investments. Mr. Petrenka asked if our management fees were offset by the amount of work Staff has to do and the response by Mr. Schwartz was yes. Mr. Maguire inquired as to whether decisions will come back to the Board and Mr. Anderson replied the Staff will report back to the Board.

<b>MOTION: 6-42-11</b>	At 10:40 a.m.
<b>Motion:</b>	To recommend to the full Board a possible investment of up to \$16 million in the DT Fund 3, L.L.C. managed by Desert Troon Limited, LLC.
<b>Moved by:</b>	Mr. Richard Petrenka
<b>Seconded by:</b>	Mr. Lauren Kingry
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

8. Presentation by NEPC, LLC representatives and discussion regarding the PSPRS Equity Plan.....Mr. Allan Martin  
.....Partner, NEPC, LLC

A presentation was made by Mr. Allan Martin, Partner, NEPC, LLC on the key issues surrounding global equity versus a U.S./ Non-U.S. structure, active versus passive management, capitalization allocation, growth versus value and hedged versus long only. Also to be discussed are portable alpha and equity long/short strategies. He stated that we need to selectively try to add value over the forecasted index returns through prudent selection of active managers or strategies. NEPC believes there is no one correct answer and that it depends upon investment program characteristics, asset class and market environments.

Regarding global equity versus U.S./Non-U.S. structure, it is suggested that regional equity specialists be used by employing managers with separately managed domestic and international mandates. As to active versus passive, employ active managers in less efficient asset classes where there are larger, more heterogeneous opportunity sets to add alpha. Perhaps consideration should be given to a higher allocation to emerging markets due to expected risk/return profile. As to growth versus value, remain neutral over the long-term due to negligible return differences, since this would involve market timing. More information regarding portable alpha and equity long/short will be presented during the PSPRS meeting in August, 2011. Hedged strategies provide equity exposure as opposed to cash exposure while minimizing draw downs.

9. Presentation by Investment Department Staff and NEPC, LLC. representatives and discussion and possible **Recommendation** regarding a possible additional investment of up to \$25 million in the GAM U.S. Institutional Trading II, L.P. managed by GAM U.S.A Inc. which will bring the total initial capital invested in that Fund to up to \$100 million.....Mr. Marty Anderson  
.....Deputy Chief Investment Officer  
.....Mr. Don Stracke  
.....Senior Consultant, NEPC, LLC

Mr. Martin stated that GAM is one of three managers to generate portable alpha and deliver LIBOR +. Mr. Anderson explained PSPRS is exiting an investment in Front Point and will receive \$98 million back from this source. Of the \$98 million, \$25 million will be invested in GAM and the rest will be utilized for rebalancing.

**MOTION: 6-43-11**

At 11:30 a.m.

**Motion:**

To recommend to the full Board a possible additional investment of up to \$25 million in the GAM U.S. Institutional Trading II, L.P. managed by GAM

	U.S.A. Inc. which will bring the total initial capital invested in that Fund up to \$100 million.
<b>Moved by:</b>	Mr. Richard Petrenka
<b>Seconded by:</b>	Mr. Lauren Kingry
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

10. Report by Investment Department Staff representatives and discussion regarding the redemption of assets from the Hawker Capital Harrier Fund.....  
.....Mr. Marty Anderson

Hawker Capital Harrier Fund is a hedge fund with commodity exposure that has experienced negative returns. A notice for full redemption has been given with the authorization of our Administrator. Currently PSPRS does not have a policy where money can be redeemed and reinvested in a timely and flexible manner in order to avoid needless loss of capital.

Mr. John Stearman of Albourne America stated, previously, Hawker had an excellent record with which Albourne was comfortable. Hawker has spent a lot of time on risk management, but lost money and tried to remedy the loss, but it did not work out. They worried about preserving capital and they may continue to lose money or come back. It is not uncommon for a company to have to learn how to work through a problem. Albourne feels it is time for us to pull our money out but it is not a black and white decision. We can expect to receive \$17 million. Albourne has other alternatives, about which it has no reservations, where we can put this money to work.

Mr. Maguire stated that we need to discuss the difference between defunding a manager and firing a manager. Is it a Staff or Board of Trustees decision? We need to determine how to handle redemptions in the future. He suggested that Staff prepare a write up for a future meeting regarding these types of decisions, just as new investments are written up by Staff.

Mr. Petrenka stated that very often, time is of the essence and PSPRS needs to be nimble on both the purchase and redemption sides.

Mr. Anderson said that a draft policy will be presented during the next Board of Trustees meeting.

11. Report by the System's Compliance Auditor and discussion regarding investment compliance, holdings, and transactions as of May 31, 2011. ....  
.....Ms. Bridget Feeley  
..... Internal Audit and Compliance Auditor

Ms. Feeley stated that the portfolio, as of May 31, 2011, was reviewed and there were no compliance issues identified.

12. Schedule next meeting. (*Calendared for July 27th*)

The next meeting will begin at 9:00 a.m. on Wednesday, July 27, 2011

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.

Chairman Maguire made a call to the public and no one wished to comment.

14. Adjournment

<b>MOTION: 6-44-11</b>	At 12:01 p.m.
<b>Motion:</b>	To adjourn the meeting.
<b>Moved by:</b>	Mr. Lauren Kingry
<b>Seconded by:</b>	Mr. Richard Petrenka
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

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Mr. Alan Maguire, Chair, Trustee

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Mr. Richard Petrenka, Trustee

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Mr. Lauren Kingry, Trustee