

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

June 27, 2012

MINUTES

Mr. Richard J. Petrenka, Chair, Trustee
Mr. Lauren Kingry, Trustee
Mr. Brian Tobin, Trustee - Excused
Mr. William Davis, Observer – attended at 12:00 p.m.
Mr. James Hacking, Administrator – left at 11:00 a.m.
Mr. Ryan Parham, Assistant Administrator / Chief Investment Officer
Mr. Jared Smout, Deputy Administrator
Mr. Marty Anderson, Deputy Chief Investment Officer
Mr. Pascal Stalder, Deputy Chief Investment Officer – Risk
Mr. Anton Orlich, Portfolio Manager
Mr. Paul Corens, Portfolio Manager
Mr. Shan Chen, Portfolio Manager
Mr. Mark Steed, Portfolio Manager
Mr. Mark Selfridge, Portfolio Manager
Ms. Michele Weigand, Senior Contracts Specialist
Mr. Allan Martin, Partner, NEPC, LLC
Mr. Timothy R. Bruce, Senior Research Consultant, NEPC, LLC
Mr. Ed Schwartz, Partner, ORG Portfolio Management
Mr. Josh Clark II, Managing Partner and Portfolio Manager, Southpoint Capital Advisors, L.P.
Mr. Keith Breslauer, Managing Director, Patron Capital Advisors LLP
Mr. Suchad Chiaranussati, Chairman, SC Capital Partners Private Limited

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

The meeting was called to order by Chairman Petrenka at 10:09 a.m.

2. Review, discussion and possible approval of Investment Committee Minutes from May 30, 2012.....Mr. Richard J. Petrenka

MOTION: 6-45-12	At 10:09 a.m.
Motion:	To approve the Investment Committee Minutes from May 30, 2012 as presented.
Moved by:	Mr. Kingry
Seconded by:	Mr. Petrenka
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/portfolio.....Mr. Martin Anderson
Deputy Chief Investment Officer

Mr. Anderson reported a positive relative performance for the month ended May 31, 2012. On an absolute basis, the portfolio was down -2.56 basis points (bps) as compared to the benchmark which was down -3.31 bps. We are working to cover the volatility of the portfolio. Regarding the Fiscal Year-to-Date, the portfolio is down 1.67 bps versus a positive benchmark. GTAA is up almost 6% Fiscal Year-to-Date and private equity with lagging quarterly returns has some positive results.

The members of the Committee requested an indication of profits in each asset class. NEPC will show a quarterly universe comparison to other large funds since we are trying to make a 7.85% rate of return. Mr. Martin stated that, on a relative basis, PSPRS is doing well; but at the end of the year probably will not have a positive return. However, PSPRS will be in the median for fund performance.

Mr. Parham added that equities for the Year-to-Date are down almost 9.96% while our total fund is down 1.67% which indicates the resiliency of the portfolio. For the last 3 years, real estate is down 8.56% while the benchmark is up 7.22% which the rest of the portfolio has almost overcome, again indicating the resilience of the portfolio.

Additionally, Mr. Martin said the PSPRS portfolio is less exposed to equities than other pension plans; therefore, more resilient in down markets with more protection from the alternative strategies so as to perform better in down markets as well in times of economic growth. Mr. Parham added that our legacy real estate portfolio is growing in value.

4. Presentation by Investment Department Staff, NEPC, LLC and Southpoint Capital Advisors L.P. representatives and discussion and possible **Recommendation** regarding an investment of up to \$60 million in Southpoint Qualified Fund L.P. or appropriate feeders, blockers, or associated or parallel funds of same.....Mr. Anton Orlich
.....Portfolio Manager
.....Messrs.. Timothy R. Bruce, Senior Research Consultant and Allan Martin, Partner
..... NEPC, LLC
.....Mr. John S. Clark II, Managing Partner and Portfolio Manager
.....Southpoint Capital Advisors, L.P.

This opportunity belongs in the equity portfolio since Southpoint Qualified Fund will go short on overvalued individual stocks and go long with undervalued individual stocks. The background of Southpoint's managers was discussed as was their bottom up investment approach and their technique of using strict values to pick undervalued companies.

Mr. Timothy Bruce of NEPC discussed the effect of compounding returns of this fund to produce an annualized 11% return versus the S & P return of 3.9%. Their book is built of the top 25 equities and Southpoint has set in place a process of digging in deeply to each position to understand the equity better than anyone else. Managers use a knowledge based approach towards diversification.

Mr. Orlich added that the portfolio has at a maximum a 1% exposure to a given active manager relative to the total fund and a 5% to 6% exposure in the equities portfolio to

any given manager. Mr. Josh Clark of Southpoint informed the Committee that the company began eight years ago. U.S. stocks are primarily in their long/short equity strategy. Southpoint is up 130 bps as compared to 30 bps for the market. In choosing stocks in which to go long, they focus on good businesses and buy them at a discount due to a short term hiccup. On the short side, they look for opportunities where things are not sustainable. The portfolio is built from the bottom up and they hold the investments for a while. Southpoint manages almost \$2 billion in assets.

MOTION: 6-46-12	At 11:06 a.m.
Motion:	To recommend to the Board of Trustees an investment of up to \$60 million in Southpoint Qualified Fund L.P. or appropriate feeders, blockers, or associated or parallel funds of same.
Moved by:	Mr. Kingry
Seconded by:	Mr. Petrenka
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

5. Presentation by the Investment Department Staff, ORG Portfolio Management and Patron Capital Advisors LLP representatives and discussion and possible **Recommendation** regarding an investment of up to €8 million in Patron Capital, L.P. IV or appropriate feeders, blockers, or associated or parallel funds of same.....Mr. Mark Selfridge
.....Portfolio Manager
.....Mr. Ed Schwartz
.....Partner, ORG Portfolio Management
.....Mr. Keith M. Breslauer
.....Managing Director, Patron Capital Advisors LLP

Mr. Selfridge gave a description of this opportunity which would be placed in the real estate portfolio. Some investments are income producing and some raise income by buying and selling real estate.

Mr. Ed Schwartz summarized ORG's research regarding Patron Capital which has good European exposure and is a value opportunistic player for attractive pricing and higher returns. During the financial crisis they performed very well and invested company money along side that of their investors. The term is for ten years with one year extensions for better exits, permitting the ability to cycle someone out.

Mr. Keith Breslauer founded the business about thirteen years ago and has been in the same type of business for twenty-five years. Patron has € 2.3 billion in equity in Western European distressed opportunities. Fund IV will be comprised of 70% U.S. based opportunities and the remainder in European and Asian investments. The majority of European countries are financially solvent and many countries have massive savings with cash in Europe looking for a home. We back borrowers or work with banks to buy direct assets without a lot of leverage, keeping low debt in order to be more agile. We have specialized teams by country and by product. Property managers report in daily and the in-house construction team refurbishes assets. Working with our joint venture

partners, we project a 20% gross return. Patron Capital has a strong professional team with a detailed succession plan.

MOTION: 6-47-12	At 11:51 a.m.
Motion:	To recommend to the Board of Trustees an investment of up to €8 million in Patron Capital, L.P. IV or appropriate feeders, blockers, or associated or parallel funds of same.
Moved by:	Mr. Kingry
Seconded by:	Mr. Petrenka
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

6. Presentation by Investment Department Staff, ORG Portfolio Management and SC Capital Partners Private Limited representatives and discussion and possible **Recommendation** regarding an investment of up to \$10 million in Real Estate Capital Asia Partners III L.P. or appropriate feeders, blockers, or associated or parallel funds of same.....Mr. Mark Selfridge
.....Mr. Ed Schwartz
.....Mr. Suchad Chiaranussati
.....Chairman, SC Capital Partners Private Limited

Mr. Selfridge described this opportunity which has a focus on emerging markets. Real Estate Capital Asia Partners, a successful and experienced investor, will invest along side of PSPRS. Due to conservative underwriting, they were successful throughout the financial crisis.

Mr. Chiaranussati indicated that the focus of this business is a Pan-Asian platform. They buy good assets from distressed sellers with a below market and a 55% loan-to-value approach. Assets are managed by Real Estate Capital Asia Partners themselves. Investments are made only in markets at the appropriate financial cycle.

MOTION: 6-48-12	At 12:10 p.m.
Motion:	To recommend to the Board of Trustees an investment of up to \$10 million in Real Estate Capital Asia Partners III L.P. or appropriate feeders, blockers, or associated or parallel funds of same.
Moved by:	Mr. Kingry
Seconded by:	Mr. Petrenka
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

7. Presentation by Investment Department Staff and NEPC, LLC representatives and discussion and possible **Recommendation** regarding moving (i) the All Weather Portfolio, LLC managed by Bridgewater Associates, L.P. and currently held in the Global

Tactical Asset Allocation portfolio and (ii) the assets in the separately managed account managed by Fisher, Francis, Trees and Watts currently held in the Real Assets portfolio, to the Risk Parity portfolio.....Mr. Ryan Parham
Chief Investment Officer
Mr. Allan Martin
Partner, NEPC, LLC

During the May Board of Trustees meeting, the new asset class of Risk Parity was established to be effective July 1, 2012. This is a bookkeeping matter. Risk Parity involves volatility and spreading risk in the portfolio. The members of the Committee requested thumbnail sketches to be added to the schematics.

MOTION: 6-49-12	At 12:16 p.m.
Motion:	To recommend to the Board of Trustees moving (i) the All Weather Portfolio, LLC managed by Bridgewater Associates, L.P. and currently held in the Global Tactical Asset Allocation portfolio and (ii) the assets in the separately managed account managed by Fisher, Francis, Trees and Watts currently held in the Real Assets portfolio, to the Risk Parity portfolio effective July 1, 2012.
Moved by:	Mr. Kingry
Seconded by:	Mr. Petrenka
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

8. Presentation by Investment Department Staff and NEPC, LLC representatives and discussion and possible **Recommendation** regarding moving the SJC Onshore Direct Lending Fund, L.P. currently held in the Fixed Income portfolio, to the Credit Opportunities portfolio.....Mr. Ryan Parham
Mr. Allan Martin

Mr. Steed stated that SJC is a direct lending fund and proposed moving it to the Credit Opportunities Portfolio to reflect what they do regarding illiquid loans.

MOTION: 6-50-12	At 12:20 p.m.
Motion:	To recommend to the Board of Trustees moving the SJC Onshore Direct Lending Fund, L.P. currently held in the Fixed Income portfolio, to the Credit Opportunities portfolio effective July 1, 2012.
Moved by:	Mr. Kingry
Seconded by:	Mr. Petrenka
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

9. Presentation by Investment Department Staff, and NEPC, LLC representatives and discussion and possible **Recommendation** regarding certain proposed revisions to the

Amended and Restated Statement of Investment Policy.....Mr. Ryan Parham
.....Mr. Allan Martin

Tabled.

10. Report by Investment Department Staff and NEPC. LLC and discussion regarding Counter-party Risk.....Mr. Ryan Parham
.....Mr. Martin Anderson
.....Mr. Allan Martin

Mr. Parham told the Committee that Staff will work with NEPC for a more comprehensive report to be made within the next few meetings. BNY Mellon underwrites risk for PSPRS. Counter-party risk is a relationship where there is a financial obligation by another party where the return is dependent on their ability to perform. If the security is not returned, BNY Mellon has the absolute obligation to cover that for us. We are fully collateralized.

11. 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 12. Matters discussed may include claims or potential claims by or against or issues concerning BNY Mellon, Stroh Ranch Development, Red Kite Explorer Fund, The Pivotal Group, U.S. Bank and/or Millard and Scott Seldin.
12. **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 BNY Mellon, Stroh Ranch Development, The Pivotal Group, U.S. Bank, Red Kite Explorer Fund and/or Millard and Scott Seldin.
13. Schedule next meeting. (*Calendared for July 25, 2012*)
14. 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.

15. Adjournment

MOTION: 6-51-12	At 12:26 p.m.
Motion:	To adjourn the meeting.
Moved by:	Mr. Kingry
Seconded by:	Mr. Petrenka
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

Richard J. Petrenka, Chairman