

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

September 19, 2012

MINUTES

Mr. Richard J. Petrenka, Chairman, Trustee
Mr. Lauren Kingry, Trustee, Vice Chairman - Excused
Mr. William Davis, Trustee
Mr. James Hacking, Administrator
Mr. Ryan Parham, Assistant Administrator / Chief Investment Officer
Mr. Martin Anderson, Deputy Chief Investment Officer
Mr. Andrew Carriker, Chief Investment Counsel
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. Bridget Feeley, Internal Audit and Compliance Officer
Ms. Michele Weigand, Senior Contracts Specialist
Mr. Allan Martin, Partner, NEPC, LLC
Mr. Don Stracke, Senior Consultant, NEPC, LLC
Mr. Jay Rose, Partner, StepStone Group
Mr. Ed Schwartz, Partner, ORG Portfolio Management

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

The meeting was called to order by Chairman Petrenka at 10:12 a.m.

2. Review, discussion and possible approval of Investment Committee Minutes from July 25, 2012.....Mr. Richard Petrenka

MOTION: 9-6-12	At 10:12 a.m.
Motion:	To accept the July 25, 2012 Investment Committee Minutes.
Moved by:	Mr. Davis
Seconded by:	<i>Mr. Petrenka was excused for the July 25, 2012 Investment Committee meeting and Mr. Kingry was excused for the September 19, 2012 Investment Committee meeting.</i>
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

3. Introduction by Investment Department Staff of Mr. Andrew Carriker, who has recently joined the System as Chief Investment Counsel.....Mr. Ryan Parham
Chief Investment Officer

Mr. Carriker was welcomed and he summarized his background which includes practicing corporate and securities law for the last eight years in Wilmington, Delaware.

4. Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio. **(TAB 8)**.....Mr. Marty Anderson
Deputy Chief Investment Officer

Mr. Anderson reported that the beginning of the 2013 fiscal year was positive in terms of investment performance. For the Month-to-Date, the total fund was up +1.43% as compared to the benchmark which was up +1.34%. Excluding the quarterly lag for the NCREIF, equity was right on the benchmark, absolute return was up 2.72%, real assets performed well but risk parity slightly underperformed.

5. Report by Investment Department and Compliance Department Staff and discussion regarding the Manager Selection Reporting and Compliance Check processes.
.....Mr. Ryan Parham
Ms. Bridget Feeley
Internal Audit and Compliance Officer

Mr. Parham stated that the new investment manager selection process requires the participation of the Investment Staff, the specialty consultant for the specific asset class, the general investment consultant and the Administrator. It was reported by Ms. Feeley that the selection process is in place and that it was followed appropriately for agenda item #6. The Internal Audit and Compliance Officer is to receive e-mail approvals or disapprovals from the required participants, documentation of approval or disapproval dates and then the Internal Audit and Compliance Officer must sign off upon completion of the process.

It was reported by Ms. Feeley there has been an issue in the credit opportunities portfolio where there was a mathematical error going back to 2010 of \$5.7 million. PSPRS will adjust the valuation in fiscal year 2013 and Mr. Parham will meet with this manager within the next two months. Their auditors have been changed and this firm is being monitored very closely by PSPRS and NEPC.

6. Report by Investment Department Staff and ORG Portfolio Management representatives and discussion regarding a \$10 million bridge loan extended to DT Lifestyle, L.L.C. (formerly known as DTR1B, LLC) on August 27, 2012. **(TAB 10)**.....Mr. Ryan Parham
Mr. Ed Schwartz
Partner, ORG Portfolio Management

There is an \$85 million line of credit to DT Lifestyle, L.L.C. from a local bank with full recourse debt to PSPRS and as part of that funding agreement; the System was required to pay down \$10 million of that line on or about 9/1/12. Staff negotiated the extension of this capital in the form of a bridge loan because Staff believe that pending transactions in the portfolio will result in a cash distribution that will pay the System back and enable deleveraging of the portfolio.

7. Report by Investment Department Staff and StepStone Group representatives and discussion regarding a \$0.66 million investment in a secondary opportunity to be held in the StepStone AZ Secondary Opportunity Fund.....Mr. Ryan Parham
Mr. Jay Rose
StepStone Group

The purpose of the StepStone AZ Secondary Opportunity Fund is to sweep together smaller pieces of distressed secondary investments that can be bought at a discount. StepStone completes the due diligence. It was recognized, three years ago, that the PSPRS staff could not do this efficiently because of the legal and underwriting expenses and because the small size of each investment would not justify the staff time that would be required. StepStone manages these secondary opportunities for the System, sweeping small pieces together at significant discounts. StepStone is aware of our specific investment requirements.

8. Presentation by Investment Department Staff and StepStone Group representatives and discussion and possible **Recommendation** regarding amending the investment process of the StepStone AZ Secondary Opportunities Fund , L.P. such that the General Partner is granted investment discretion for portfolio investments in which the Trust’s allocation to the investment is \$4 million dollars or less.....Mr. Ryan Parham
Mr. Jay Rose

Mr. Parham requested the authority to modify the existing relationship with StepStone in order to allocate to StepStone the right, at their discretion, to choose investments on their own and to deploy the remaining unfunded amount of \$3.8 million since the portfolio is diversified and the commitment is about 90% deployed. We would consider adding another \$10 million to this fund if there is a good supply of secondary iopportunities and if discounts exist.

MOTION: 9-7-12	At 10:42 a.m.
Motion:	To recommend that the Board of Trustees amend the investment process of the StepStone AZ Secondary Opportunities Fund , L.P. such that the General Partner would have the investment discretion for portfolio investments in which the Trust’s allocation to the investment is \$4 million dollars or less.
Moved by:	Mr. Davis
Seconded by:	Mr. Petrenka
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

9. Report by Investment Department Staff and discussion regarding the Arizona PSPRS Trust’s (the “Trust’s”) commitment of up to \$50 million in the Timbervest Crossover Fund III and the reduction of such commitment to \$30 million.....Mr. Ryan Parham

Mr. Parham told the Committee that PSPRS’ investment in Timbervest has done well. However, the Securities and Exchange Commission began an inquiry into Timbervest. It was decided to make a prudent reduction in the commitment to the Timbervest Crossover Fund until more clarity is achieved. Consequently, the staff is recommending

that our \$50 million commitment be reduced to \$30 million. Mr. Parham told the Committee that Timbervest has agreed to this. He also said that, as of this time, there are no pending SEC charges involving Timbervest or its personnel. The performance of the fund has been exceptional and, if approved, the recommendation will reduce our exposure by 40%.

10. Presentation by Investment Department Staff and Albourne America, L.L.C representatives and discussion regarding the Annual Plan detailing strategic objectives, pacing, and the means for implementation in the Real Asset portfolio. **(TAB 14)**.
.....Mr. Paul Corens
Portfolio Manager
Mr. Lincoln Smith
Senior Portfolio Analyst, Albourne America, LLC

The agenda item was tabled until the afternoon Board of Trustees meeting.

11. Presentation by Investment Department Staff and StepStone Group representatives and discussion regarding the Annual Plan detailing strategic objectives, pacing, and the means for implementation in the Private Equity portfolio **(TAB 15)**.....Mr. Shan Chen
Mr. Jay Rose

The agenda item was tabled until the afternoon Board of Trustees meeting.

12. Report by NEPC representative(s) on the Fourth Fiscal Quarter (Second Calendar Quarter) Performance of the System. **(TAB 16)**.....Mr. Allan Martin
Partner, NEPC, LLC

The agenda item was tabled until the afternoon Board of Trustees meeting.

13. 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 and public record requests) 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 14. Matters discussed may include claims or potential claims by or against or issues concerning BNY Mellon, DTR1, DTR1C, Stroh Ranch Development, Bank of America, Red Kite Explorer Fund, The Pivotal Group, U.S. Bank and/or Millard and Scott Seldin.
14. **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 matters involving DTR1, DTR1C or 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, Bank of America and/or Millard and Scott Seldin.

There was no Executive Session.

15. Schedule next meeting. (*Calendared for October 31, 2012*)

16. 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 comment.

17. Adjournment

MOTION: 9-8-12	At 10:57 a.m.
Motion:	To adjourn the meeting
Moved by:	Mr. Davis
Seconded by:	(<i>There was no second.</i>)
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

Mr. Richard Petrenka, Trustee, Chairman