

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

**February 25, 2015**

**MINUTES**

Present: Mr. Lauren Kingry, Chairman, Trustee  
Mr. Richard Petrenka, Vice Chairman, Trustee  
Mr. William Davis, Trustee

Others Present: Mr. Marty Anderson, Deputy Investment Officer  
Mr. Shan Chen, Lead Portfolio Manager  
Mr. Mark Lundin, Deputy Chief Investment Officer – Risk  
Ms. Vaida Maleckaite, Sr. Investment Operations Analyst  
Mr. Allan Martin, Partner, NEPC, LLC  
Mr. Marc Lieberman, Fiduciary Counsel, Kutak Rock  
Ms. Jennifer Eichholz, In-House Counsel, PSPRS  
Ms. Bridget Feeley, Internal Audit and Compliance Officer  
Mr. Ian Aaker, Stepstone Group LLC  
Mr. David Hutchings, Albourne America LLC  
Mr. John Kettlich, Stepstone Group LLC

1. Call to Order, Roll Call, Opening remarks.

*Mr. Lauren Kingry  
Committee Chairman*

The meeting was called to order at 10:20 a.m. by Chairman Kingry.

2. Review, discussion and possible Action to approve Investment Committee Minutes from January 21, 2015.

*Mr. Lauren Kingry*

<b>MOTION:1-2/25/15</b>	At 10:31 a.m.
<b>Motion:</b>	Move to approve the Investment Committee Minutes from January 21, 2015.
<b>Moved by:</b>	Mr. Petrenka
<b>Seconded by:</b>	Mr. Davis
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

3. Discussion of monthly review of Management Fees.

*Ms. Bridget Feeley  
Internal Audit and Compliance Officer*

Five management fees were reviewed and one, Orion Mine Finance Funds 1A LP, billed fees for both the first and second quarters all at once, when the contract actually calls for payment each quarter in advance. The company agreed this should be corrected. In the future, if Ms. Feeley has no report, then she will just submit documentation to that effect.

4. Report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of December 31, 2014; and (ii) written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

*Ms. Vaida Maleckaite  
Sr. Investment Operations Analyst*

On December 31, 2014, the net assessed valuation of the Fund was \$8.1 billion. Regarding month ending December 31, 2014, the Fund was down 18 basis points and the benchmark was down 56 basis points. Positive attribution came from Credit Opportunities, Private Equity, and Risk Parity. For the fourth quarter, the Fund's return was 1.14%, as compared to the benchmark which was 1.13%. Performing well were Credit Opportunities, Fixed Income, and Risk Parity. For the Fiscal Year-to-Date, the assets were up 64 basis points, as compared to the benchmark which increased by 44 basis points. For the Calendar Year-to-Date, we outperformed the benchmark by 100 basis points which was an increase of 6.36% for the Fund due to strong performances in Credit Opportunities, Risk Parity, Private Equity, Absolute Return, and GTAA.

A question and answer period was held regarding more benchmark return report information for the past years which will be discussed during a review of asset allocations. Movement of cash was discussed. Mr. Kingry asked how often benchmarks are reviewed; and Mr. Anderson replied that benchmarks are reviewed on an ongoing fiscal-year basis. In the Spring, a re-evaluation will be done with the assistance of NEPC.

5. Report by Investment Department Staff regarding Portfolio Risk as of February 13, 2015.

*Mr. Mark Lundin  
Deputy Chief Investment Officer - Risk*

The month of December was flat for PSPRS and most markets. The most negative contributor was the strength of the U. S. dollar. The U. S. economy continued to expand and Central Bank tightening is foreseen for some time in 2015. The drop in oil prices may have contributed to global growth in the past few months. There were few notable changes in volatility and value-at-risk since the last meeting. Volatility has been creeping down for some time and, over all, the value-at-risk contribution for public and private equities remains the greatest portfolio risk. Small cap stock exposure has been decreased.

6. Presentation and discussion by Investment Department Staff and Specialty Consultants regarding the annual Overview and Strategic Plan for the Private Equity portfolio.

*Mr. Shan Chen  
Lead Portfolio Manager  
Mr. Ian Aaker*

*Mr. John Kettnich  
Stepstone Group LLC  
Mr. David Hutchings  
Albourne America LLC*

A full report will be presented during the Board of Trustees meeting. Messrs. Chen, Aaker, Kettnich and Hutchings presented highlights of their future report. There are 62 funds and 37 managers in the Private Equity portfolio. Cash flow in 2013 was (65) million and in 2014 it was \$47 million. In 2014 there were 8 direct commitments of \$175 million and 3 co-investments of \$55 million. All new commitments are re-ups with existing managers. Vintage year and geographical exposures were discussed. IRR is 1.16% to total value paid in. IRR and multiple are in positive territory and are steadily trending upward. The committee members and presenters discussed the pacing model, monthly net cash in-flow, current market environment of private equity, the active deal environment, buy-outs and performance, and make-up of the private equity portfolio. The private equity market around the world is growing which makes it difficult to invest due to demand. Future performance expectations of the private equity market were presented. The back office work provides meaningful insights and opportunities for negotiations.

7. Report from NEPC regarding the investment performance of the Arizona PSPRS Trust for the last calendar Quarter ending December 31, 2014.

*Mr. Allan Martin, Partner  
NEPC, LLC*

Over the last twelve months the Fund fell short of surpassing the 7.85% assumed rate of return with a return of 6.4%. At the end of the period the Fund's assets totaled \$8 billion which is an increase of approximately \$350 million from a year ago. Over the last three years the return was 9.6% per annum. Performance for the five year period is 8.0% ranking in the fourth quartile of the peer group universe. Due to low volatility, we will hold up better than our peers. All asset allocations are within range. Items discussed include risk and PSPRS' statistics as compared to the peer universe and the five year outlook.

Positive performance was attributed to the following portfolios: Fixed Income, GTAA, Credit Opportunities, Private Equity and Fixed EX Credit Opportunities. Negative performance was attributed to Non-U. S. Equities. The members of the committee reviewed a report regarding managers and a question and answer period was held about the return rate of the Real Asset portfolio, its life cycle, real estate strategy, the Real Estate portfolio structure and the current Real Estate portfolio as compared to the Legacy Real Estate portfolio.

8. Upon the request of any member of the Committee, presentation by staff and possible discussion with the members of the Committee about the following manager selection matters:
  - a. Manager Selection Report by Investment Department Staff and possible discussion regarding an additional investment of up to \$20 million direct

investment, for a total investment of up to \$50 million direct investment with Alcion Capital III, L.P., or its affiliates, in the Alcion Partners Fund Real Estate Fund III, L.P., Fund, subject to final Staff and legal due diligence.

*Mr. Marty Anderson  
Deputy Chief Investment Officer*

- b. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to \$30 million direct investment and an allocation of up to \$20 million for co-investment with Baring Private Equity Asia Group Limited, or its affiliates, in the BPE Asia Real Estate Fund, LP., subject to final Staff and legal due diligence.

*Mr. Marty Anderson  
Deputy Chief Investment Officer*

- c. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to \$40 million direct investment and an allocation of up to \$20 million for co-investment with Vivo Ventures LLC, or its affiliates, in Vivo Capital Fund VIII, L.P., subject to final Staff and legal due diligence.

*Mr. Shan Chen  
Lead Portfolio Manager-Private Equity*

Discussion was held regarding other options and opportunities to be considered in reporting on the process of Manager Selection. Mr. Anderson stated Alcion, already in the portfolio, is a good investment due to cash flow so we are potentially increasing our investment by \$20 million. Baring, over the last five years, has a team that works well together in which PSPRS has confidence.

In the near future, Messrs. Parham, Anderson, and Kingry will be reviewing how the potential funds are reported after they close. Mr. Kingry would also like a report, in the future, of how many funds compete for each mandate.

9. Upon the request of any member of the Committee, presentation by Staff and possible discussion with the members of the Committee regarding the full redemption of Global Ascent, Ltd., under the Hedge Fund Redemption Policy.

*Mr. Mark Lundin  
Deputy Chief Investment Officer-GTAA  
Mr. Martin Anderson  
Deputy Chief Investment Officer*

Pursuant to the Investment Policy, we have submitted a full redemption letter due to weak performance, declining confidence and better alternatives in our pipeline. The original commitment in Global Ascent was \$200 million. There is a hold-back of 5 percent, or \$2.5 million. The redemption process should take 30 days.

10. Closed Transaction Report for the period January 26, 2015, through February 13, 2015.

*Jennifer Eichholz, Esq.  
In-House Investment Counsel*

- a. Alcion Real Estate Partners Fund III, LP; Date Closed: January 30, 2015

- b. Brightwood Capital Fund III; Date Closed: February 3, 2015
- c. GMO Benchmark Free Allocation Fund; Date Closed: February 2, 2015

GMO Benchmark Free Allocation Fund is an \$80 million investment in the GTAA portfolio. For Alcion Real Estate Partners Fund III, LP we increased our investment by \$20 million. Brightwood Capital Fund III is a new investment in the Credit Opportunities portfolio.

- 11. Schedule next meeting. (*Calendared for March 25, 2015*)

The next meeting will be held on March 25, 2015.

- 12. Call to the Public:

There was no response to the Call to the Public.

- 13. Adjournment

The meeting was adjourned at 12:30 p.m.

/s/

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Mr. Lauren Kingry, Chairman