

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

**February 26, 2014**

**MINUTES**

Present: Mr. Brian Tobin, Chairman, Trustee  
Mr. Gregory Ferguson, Vice Chairman, Trustee  
Mr. Jeff McHenry, Trustee  
Ms. Randie Stein, Trustee  
Mr. Richard Petrenka, Trustee  
Mr. Lauren Kingry, Trustee  
Mr. William Davis, Trustee

Others Present: Mr. Jim Hacking, Administrator  
Mr. Jared Smout, Deputy Administrator  
Mr. Ryan Parham, Chief Investment Officer – Excused  
Mr. Marty Anderson, Deputy Chief Investment Officer  
Ms. Ivy Voss, Assistant Attorney General  
Mr. Shan Chen, Lead Portfolio Manager - Excused  
Mr. Mark Steed, Lead Portfolio Manager and Chief of Staff  
Ms. Vaida Maleckaite, Investment Operations Analyst  
Mr. Mark Lundin, Deputy Chief Investment Officer  
Ms. Leslie Clark, Senior Financial Accountant/Great Plains DBA  
Mr. Marc Lieberman, Fiduciary Counsel, Kutak Rock  
Mr. Allan Martin, Partner, NEPC, LLC  
Ms. Bridget Feeley, Internal Audit and Compliance Officer

1. Call to Order; Roll Call; Opening remarks

*Mr. Brian P. Tobin  
Chairman*

Mr. Tobin called the meeting to order at 1:00 p.m.

2. Call to the Public.

This is the time for the public to comment. Members of the Board of Trustees may not discuss items that are not specifically identified on the agenda, except to address criticism from the public. Therefore, pursuant to A.R.S. § 38-431.01(H), the Board of Trustees' reaction to any public comment is limited to addressing criticism or recommending that the Board of Trustees or Staff respond or study such comment or schedule the subject matter for further consideration at a later date after appropriate notice.

There was no reply to the Call to the Public.

3. Appropriate **Action** for approval of the items on the Consent Agenda (documentation concerning the matters on the consent agenda may be reviewed at the PSPRS office). Any matter on the Consent Agenda will be removed from the Consent Agenda and discussed as a regular agenda item upon the request of any member of the Board of Trustees.
- a. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Theodore Borek.
  - b. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Pam S. Cole.
  - c. Acceptance of Elected Officials' Retirement Plan of termination of normal retirement benefit of Tom C. Cole.
  - d. Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Selma Davis.
  - e. Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Warren M. Gentry.
  - f. Acceptance of Elected Officials' Retirement Plan of termination of normal retirement benefit of Arthur Hubbard, Sr.
  - g. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Margaret Maxwell.
  - h. Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Colleen Newman.
  - i. Acceptance of Elected Officials' Retirement Plan of termination of normal retirement benefit of Lela G. Steffey.
  - j. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Warren Steffy.
  - k. Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Fredrick Steiner, Jr.
  - l. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Gerard W. Stuart, Jr.
  - m. Acceptance of Transfer Between State Retirement Systems of Olivia Valdez.
  - n. Acceptance of Transfer Between State Retirement Systems of Richard Allen Paterson.
  - o. Acceptance of Transfer Between State Retirement Systems of Jeffrey Hutchison.
  - p. Acceptance of Transfer Between State Retirement Systems of David Blue.
  - q. Acceptance of Transfer Between State Retirement Systems of Frederick W. Bair.
  - r. Acceptance of Transfer Between State Retirement Systems of Samantha A. Soumokil.
  - s. Acceptance of Transfer Between State Retirement Systems of Eric B. Brown.
  - t. Acceptance of Transfer Between State Retirement Systems of Timothy J. Cornelius.
  - u. Acceptance of Transfer Between State Retirement Systems of Robert Reyes.
  - v. Acceptance of Transfer Between State Retirement Systems of Barbara Snider.
  - w. Acceptance of Transfer Between State Retirement Systems of Mark Thorn.
  - x. Acceptance of Transfer Between State Retirement Systems of Eric J. Lobstein.
  - y. Acceptance of Transfer Between State Retirement Systems of Aaron J. Thomas.
  - z. Acceptance of Transfer Between State Retirement Systems of Katherine Kragnes.

- aa. Acceptance of Transfer Between State Retirement Systems of James Ford, Jr.
- bb. Acceptance of Transfer Between State Retirement Systems of Melody Boudreau.
- cc. Acceptance of Transfer Between State Retirement Systems of Rebecca Tillman.
- dd. Acceptance of Transfer Between State Retirement Systems of Stephen Court.
- ee. Acceptance of Transfer Between State Retirement Systems of Robert Granillo.
- ff. Acceptance of Transfer Between State Retirement Systems of Daniel Hancock.
- gg. Acceptance of Transfer Between State Retirement Systems of Steve Boltz.

<b>MOTION: 1 – 2/26/14</b>	At 1:01 p.m.
<b>Motion:</b>	To move to approve the Consent Agenda as presented.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Mr. Petrenka
<b>Discussion:</b>	None.
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

4. Appropriate **Action** regarding the Minutes of the January 15, 2014 Meeting of the PSPRS Board of Trustees.

*Mr. Brian P. Tobin*

<b>MOTION: 2 – 2/26/14</b>	At 1:03 p.m.
<b>Motion:</b>	To approve the Minutes of the January 15, 2014 Meeting of the PSPRS Board of Trustees with the corrections discussed below.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Mr. Petrenka
<b>Discussion:</b>	Regarding Motion 7 on page 6, Mr. Petrenka made the motion and Mr. McHenry seconded it. Regarding Motion 3 on page 8, it does not require a second since it was recommended by the Operations, Governance Policy and Audit Committee.
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

**Report by Mr. Richard Petrenka, Chairman of the Investment Committee, regarding agenda items 5. through 12., which were discussed at the Investment Committee meeting held today, February 26, 2014, on or after 10:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.**

5. Report by Investment Department Staff and discussion regarding the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of the December 2013 month-end and a written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

*Ms. Vaida Maleckaite*  
*Sr. Investment Operations Analyst*

For the month of December, the Trust was up 64 basis points versus the benchmark which rose 1%. The Fiscal Year-to-Date value of the Trust rose 7.7% as compared with the benchmark which increased by 8.5%. For the calendar year the Trust was 40 basis points over the benchmark.

6. Report by Investment Department Staff regarding Portfolio Risk for the Period-Ended December, 2013.

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

The report by Mr. Lundin included topics regarding volatility, value at risk, comparison of risk to historical levels, stress test results and lessons from the past. There was also discussion of risk adjusted returns by sub portfolios of the Trust and a review of the new investment program over the past five years.

7. Presentation and discussion by NEPC regarding portfolio performance for the fourth calendar quarter of 2013.

*Mr. Alan Martin, Partner  
NEPC, LLC*

Mr. Martin presented an overview of the economic environment in the U.S., Europe, and China. He noted that the U.S. equity market is very strong and the international market is satisfactory. However, he added that emerging markets have had negative returns recently. The PSPRS return for one year was 13.3%; for three years the return was 7.7% and for five years the return was 10.4%. The fund's performance over 5 years of 10.4% ranks PSPRS in the fourth quartile of a peer universe group. Asset allocation for the Trust operates within the policy ranges established.

8. Presentation and discussion regarding the role of leverage in institutional investment portfolios.

*Mr. Mark Lundin*

Tabled until the next meeting.

9. Report and discussion by the Chief of Staff regarding the progress of special projects.

*Mr. Mark Steed  
Lead Portfolio Manager and Chief of Staff*

A written report regarding core projects was in the written information given to the Board members for their review.

10. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to \$40 million direct and \$30 million in co-investment with Lubert-Adler or its affiliates, in the Lubert Adler Fund VII, L.P. or appropriate feeders, blockers or associated or parallel funds of same, subject to final Staff and legal due diligence.

*Mr. Marty Anderson  
Deputy-Chief Investment Officer*

On the Consent Agenda for the Investment Committee.

11. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to \$30 million direct and \$20 million in co-investment with Walton Street Capital, LLC or its affiliates, in the Walton Street Real Estate Fund VII, L.P. or appropriate feeders, blockers or associated or parallel funds of same, subject to final Staff and legal due diligence.

*Mr. Marty Anderson*

On the Consent Agenda for the Investment Committee.

12. Report by the Chief Investment Officer regarding Manager Selections for which Staff has completed legal and other due diligence.

*Mr. Ryan Parham*

On the Consent Agenda for the Investment Committee.

13. Presentation and discussion by Investment Department Staff and Specialty Consultants regarding the annual Fixed Income and Credit Opportunities Overview and Strategic Plan.

*Mr. Mark Steed*

*Mr. Alan Martin, Partner  
NEPC, LLC*

Markets show signs of moderate U.S. recovery while the European markets are not consistent with underlying conditions. Despite weak fundamentals, investors see less credit risk. The historic and prospective role of fixed income performance was discussed and an assessment of manager performance was presented. 2014 Fixed Income recommendations were outlined.

The purpose of the Opportunistic Credit Portfolio is to provide investment exposure to a combination of liquid and illiquid credit or debt related vehicles that are expected to generate current income and capital appreciation in relative value, distress and opportunistic areas. This portfolio has 85% U. S. exposure. There was discussion regarding assessment of managers, opportunistic recommendations and pacing.

14. Report by the System's Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions as of December 31, 2013.

*Ms. Bridget Feeley  
Internal Audit and Compliance Officer*

Ms. Feeley reported that, as of December 31, 2013, we are in compliance with our investment policies. There was discussion with respect to an instance of double counting of real estate assets because of a failure to remove from the BNY Mellon records the APEX portfolio assets after they had been transferred to Desert Troon Companies (DTC) for management and later disposition. There was also discussion of the protections that need to be in place in the future to prevent this.

Also discussed were security class action suits and the \$5.8 million in settlement income that has been earned from the System's participation in such suits. There is an opportunity to build that revenue into the System's annual administrative budget.

**Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 15. through 23., which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, February 26, 2014, on or after 11:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.**

15. Presentation of the Month-to-Date Budget Report for FY 2014 and possible **Action** on same.

*Mr. John Hendricks  
Manager of Finance and Accounting*

For the Year-to-Date, PSPRS is under budget by \$549,000, but it is forecast by Fiscal Year End to be over budget by \$440,000.

16. Update on the progress of the Local Board Training Program and discussion and possible **Action** regarding the same.

*Mr. Robert Ortega  
Local Board Training Coordinator and Human Resources Manager  
Mr. Don Mineer  
Local Board Training Specialist*

This was a written report which included a copy of the monthly newsletter.

17. Presentation of the "Requests for Local Board Rehearing" Report for the current month.

*Mr. Jim Hacking  
Administrator*

There are two outstanding requests for local Board rehearings.

18. Review and discussion regarding the February, 2014 Kutak Rock and other law firms' billings for legal services performed in January, 2014.

*Mr. Jim Hacking*

Payment of \$190,123.86 for legal billings for services performed in January, 2014 was approved by the Operations, Governance Policy and Audit Committee.

19. Report and possible **Action** on the FY 2014 Compliance and Internal Audit Plan.

*Ms. Bridget Feeley*

Ms Feeley gave an updated summary of work on the Compliance and Internal Audit Plan. That included a progress update of the hiring of a new internal auditor; the results review of the shared drive access (no exceptions found); and the staff participation in the HIPPA training program. Ms Feeley also indicated that the scope of review of investment management fees has significantly changed and expanded. That has resulted in delay in completion of the project. The members of the Board requested a short range plan to be presented in March or April.

20. Status report on the filling of the position of In-House Investment Counsel.

*Mr. Jim Hacking*

Negotiations are continuing with a possible candidate but if the negotiations fail, the process will be reopened.

21. Status report and possible **Recommendation** with respect to legislative bills or other proposals affecting the CORP, EORP and PSPRS, including HB2060, HB2203, HB2058 and HCR2001.

*Mr. Jim Hacking  
Mr. Jared Smout  
Deputy Administrator*

Mr. Doug Cole of HighGround and Ms. Dianne McAllister of Public Policy Partners presented an overview of legislative bills that could impact EORP, CORP and PSPRS. Among other proposals, they reported on HB2060, the PSPRS oversight bill that would put the System under the state procurement rules. They indicated that there is a proposed amendment that would exempt investment related contracts and legal services from the state procurement process.

<b>MOTION: 3 – 2/26/14</b>	At 1:45 p.m.
<b>Motion:</b>	To take a position in opposition to HB2060.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Mr. McHenry
<b>Discussion:</b>	Mr. Petrenka discussed the investment ramifications of the bill; Mr. Ferguson stated that the proponents want to appropriate our own money to us for more oversight. This he said is of concern. Mr. Lieberman voiced concern regarding the legal requirement that limits investments, and Mr. Cole pointed out how difficult it would be to comply with HB2060, given that PSPRS has 240 employer groups within the Plan. Additionally, Mr. Hacking discussed contingencies for litigation expenses and how difficult it would be to try to anticipate twelve months in advance what amounts would be needed to fund the cost of litigation. Ms. Stein questioned how the state procurement code would handle local Boards as opposed to one pooled system. Mr. Tobin said he had told the House Committee, during the hearing of HB2060, about the very competent work of the Board and Staff at PSPRS.
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

Mr. Cole and Ms McAllister also spoke about HB2203. They said that the bill as drafted would add to additional members to the PSPRS Board and would decrease the term of office from five to three years. They indicated that an amendment may be added to the bill to leave the term of office unchanged at five years.

<b>MOTION: 4 – 2/26/14</b>	At 2:05 p.m.
<b>Motion:</b>	To oppose HB2203 and proposed amendment.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Mr. McHenry
<b>Discussion:</b>	Mr. Petrenka said that he is concerned that a Board member representative of a political subdivision would be able to enforce policy on a Board that is ruled by state statutes. He said that a Board member must act in accordance with state statutes and consistent with fiduciary responsibilities and cannot be influenced by politics.
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

Discussion regarding legislative recommendations will be conducted by staff with the Operations Committee.

With respect to the PSPRS Employer Liability bill, HB2693, which deals with death or catastrophic disability, Mr. Ferguson stated that this is a local Board issue and not a shared duty. There was discussion regarding an amendment that takes out catastrophic disability from the bill's language but introduces a pool plan element into a multi Board situation. Ms. Stein stated that the employer groups should weigh in on this.

<b>MOTION: 5 – 2/26/14</b>	At 2:23 p.m.
<b>Motion:</b>	To be neutral on HB2693 and our responsibility to administer the fund and ask the lobbyist to convey to the policymakers that the definition of killed in the line of duty is subject to interpretation differently by the local Boards.
<b>Moved by:</b>	Mr. Kingry
<b>Seconded by:</b>	Ms. Stein
<b>Discussion:</b>	None.
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

There was some discussion of HCR2001 which would put on the ballot for voter approval an amendment to the State Constitution that would allow member contribution rates to be increased and benefits to be reduced if the public retirement systems' financial stability is in jeopardy.

Mr. Cole and Ms McAllister concluded by describing SB1284, which would allow correctional officers to voluntarily participate in the Cancer Insurance Program at the cost of the employee. It includes a pre-existing condition clause.

22. Status report on the sending of the security issue notice to the membership.  
*Mr. Jim Hacking*

Notices have been sent and we have contracted with LifeLock to provide personal information protection for those members who want it. A notice is on the PSPRS website for retirees and actives. To date 2,500 people of a possible 51,000 have signed up for LifeLock protection. The cutoff date is March 31, 2014.



23. Discussion of draft personnel policies and possible **Action** to include them in the Personnel Manual.

*Mr. Jim Hacking*

The Operations, Governance Policy and Audit Committee approved additions to the Personnel Manual regarding how departures of employees and staff access to information are handled.

<b>MOTION: 7 – 2/26/14</b>	At 3:53 p.m.
<b>Motion:</b>	To accept the recommendation of the Operations, Governance Policy and Audit Committee to implement two additional guidelines as presented regarding how departure of employees are handled and staff access to information.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	N/A
<b>Discussion:</b>	Mr. Petrenka stated that having member information on a separate server would add an additional real firewall of protection.
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

24. Discussion and appropriate **Action** regarding Board of Trustee member requests to participate in training, educational and due diligence opportunities.

*Mr. Brian P. Tobin*

There were no requests.

25. Discussion and possible **Action** regarding Board direction to waive or not waive the attorney client privilege as to certain communications between the System and its counsel.

*Mr. Brian P. Tobin*

<b>MOTION: 8 – 2/26/14</b>	At 3:58 p.m.
<b>Motion:</b>	To move to waive attorney client privilege as to certain communications between the System and its counsel, as discussed and reviewed in Executive Session, and release these three documents so they are available to the public. These documents relate to the Desert Troon valuation issue and include the Majority Report, the Minority Report, the response to the Minority Report (and certain other items).
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Mr. McHenry
<b>Discussion:</b>	There was a question as to timing and a suggestion to wait for additional legal advice.
<b>In Favor:</b>	<b>In Favor:</b> Mr. Petrenka, Mr. McHenry, Mr. Ferguson and Mr. Tobin
	<b>Opposed:</b> Mr. Davis, Mr. Kingry, Ms. Stein
<b>Motion:</b>	Passes 4 to 3

26. Discussion and consultation with legal counsel and Staff and possible **Action** regarding IRS determination letter requests, proposed legislation, investment matters, ongoing, contemplated or threatened legal action involving the Trust and Plans, including vendor disputes, public record requests, personnel matters and actual or potential litigation and claims based on contract, tort or statute, including matters involving, judges Thompson and Hall, retired judges Fields and Lankford, retired police officers Rappleyea and Everson, active police officers Parker, Griego, Manganiello and Robles, Jack Cross, Anton Orlich, the Pivotal Group, the Seldins, Stroh Ranch Development, Timbervest, Jennifer Wright and Desert Troon Companies, as well as claims raised by the survivors of deceased fire fighters John Percin, Jr., Sean Misner and Garret Zuppiger. The Board may vote to discuss these matters in Executive Session pursuant to A.R.S. §§ 38-431.03(A) (1), (2), (3), (4) and (7) as set forth in item 27.
27. **The Board of Trustees may vote to go into Executive Session (which will not be open to the public) to discuss matters pursuant to A.R.S. §§ 38-431.03(A) (1), (2), (3), (4) and (7), as applicable, including to obtain legal advice from the Board's attorneys on any matter listed on the agenda, including:**
- a. Status report from Ben Cooper of Steptoe & Johnson LLP regarding the four (4) lawsuits challenging provisions of Senate Bill 1609, which lawsuits involve judges Thompson and Hall, retired judges Fields and Lankford, retired police officers Rappleyea and Everson, and police officers Parker, Griego, Manganiello and Robles, as authorized by A.R.S. § 38-431.03(A)(4).
  - b. Discussion with legal counsel (and possible recommendation to the Board of Trustees) regarding IRS determination letter requests and legal developments, claims and issues (including settlement discussions) involving investment-related public record requests as well as the Trust and Plans' contracts and investments, including legal matters concerning the Trust's custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venturers (as well as any investments managed by the Trust's investment managers or joint venturers), as authorized by A.R.S. §§ 38-431.03(A) (2), (3), (4) & (7). Matters discussed may include claims or potential claims by, against or involving (or issues concerning) Stroh Ranch Development, Timbervest, the Pivotal Group, Desert Troon Companies and/or Millard and Scott Seldin. Discussion may also include the Trust's negotiations regarding disposition of its joint venture real estate portfolios, as authorized by A.R.S. § 38-431.03(A)(7).
  - c. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans or Trust not otherwise referenced above, including internal investigations, public record requests, and actual or potential litigation and claims based on contract, tort or statute, including claims involving Jack Cross, Anton Orlich and Jennifer Wright, as well as claims raised by the survivors of deceased fire fighters John Percin, Jr., Sean Misner, and Garret Zuppiger, all as authorized by A.R.S. §§ 38-431.03(A) (2), (3) and (4).
  - d. Discussion with legal counsel regarding waiver of the attorney-client privilege as to certain privileged communications between the System and its counsel, pursuant to A.R.S. §§ 38-431.03(A) (2), (3) and (4).

<b>MOTION: 6 – 2/26/14</b>	At 2:38 p.m.
<b>Motion:</b>	To recess Open Session and enter Executive Session regarding Agenda item 27.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Mr. Davis
<b>Discussion:</b>	None.
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

28. Set the next meeting date. (*Currently scheduled for Wednesday, March 26, 2014.*)

The next meeting will be held on Wednesday, March 26, 2014.

29. Adjournment.

The meeting was adjourned at 4:04 p.m.

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Brian P. Tobin, Chairman

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Gregory Ferguson, Trustee,  
Vice Chairman

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Randie A. Stein, Trustee

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Jeff Allen McHenry, Trustee

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Richard J. Petrenka, Trustee

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Lauren Kingry, Trustee

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William C. Davis, Trustee