

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

November 28, 2012

MINUTES

Mr. Brian Tobin, Trustee, Chairman
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
Mr. Jim Hacking, Administrator
Mr. Marty Anderson, Deputy Chief Investment Officer
Mr. Jared Smout, Deputy Administrator
Mr. Andrew Carriker, Chief Investment Counsel
Mr. Paul Corens, Senior Portfolio Manager
Mr. Anton Orlich, Lead Portfolio Manager
Mr. Mark Steed, Lead Portfolio Manager
Ms. Vaida Maleckaite, Investment Operations Analyst
Ms. Michele Weigand, Senior Contracts Specialist
Ms. Ivy Voss, Assistant Attorney General
Ms. Bridget Feeley, Internal Audit and Compliance Officer
Mr. Marc Lieberman, Partner, Kutak Rock
Mr. Allan Martin, Partner, NEPC, LLC
Mr. Doug Cole, Highground
Ms. Dianne McAllister, Public Policy Partners

1. Call to Order; Roll Call; Opening remarks.....Mr. Brian Tobin
.....Chairman

The meeting was called to order by Chairman Tobin at 1:05 p.m.

2. Appropriate **Action** for approval of 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 termination of normal benefit of Edgar B. Acuna
 - b. Acceptance of Elected Officials Retirement Plan of termination of survivor benefit of Sarah Alexander
 - c. Acceptance of Elected Officials Retirement Plan of termination of normal benefit of William Konopnicki
 - d. Acceptance of Elected Officials Retirement Plan of normal benefit of H. Philip Lieberman
 - e. Acceptance of Elected Officials Retirement Plan of normal benefit of Russell K. Pearce

- f. Acceptance of Elected Officials Retirement Plan of termination of early benefit of Shirley Ann Plaster
- g. Acceptance of Transfer Between State Retirement Systems of Robert Woodhull
- h. Acceptance of Transfer Between State Retirement Systems of Steven L. Perrotta
- i. Acceptance of Transfer Between State Retirement Systems of Robert Lee
- j. Acceptance of Transfer Between State Retirement Systems of Francis G. Bayless
- k. Acceptance of Transfer Between State Retirement Systems of Steve K. Porter
- l. Acceptance of Transfer Between State Retirement Systems of John P. Risch
- m. Acceptance of Transfer Between State Retirement Systems of Michael Iacona
- n. Acceptance of Transfer Between State Retirement Systems of Todd Hopper
- o. Acceptance of Transfer Between State Retirement Systems of Nolan Palmer
- p. Acceptance of Transfer Between State Retirement Systems of Daniel Dubois
- q. Acceptance of Transfer Between State Retirement Systems of Ryan Mras
- r. Acceptance of Transfer Between State Retirement Systems of Tim Woodward
- s. Acceptance of Transfer Between State Retirement Systems of Kate Fuchtman

MOTION: 11-34-12 At 1:05 p.m.
Motion: To approve the Consent Agenda as presented.
Moved by: Mr. Ferguson
Seconded by: Mr. McHenry
Discussion: None
In Favor: Unanimous
Motion: Passes

- 3. Discussion and appropriate **Action** upon the EORP disability application of Court Commissioner Karen J. Nygaard.....Mr. Brian Tobin

MOTION: 11-35-12 At 1:07 p.m.
Motion: Based on statutory requirements and findings of physicians, the Board awards a disability retirement to Court Commissioner Karen J. Nygaard of EORP with such disability retirement to commence December 1, 2012.
Moved by: Mr. Ferguson
Seconded by: Mr. McHenry
Discussion: Ms. Stein asked if Staff could confirm that the physicians were qualified to give their opinions and Staff responded that the physicians had the qualifications to do so.
In Favor: Unanimous
Motion: Passes

- 4. Appropriate **Action** regarding the Minutes of the October 31, 2012 Meeting of the PSPRS Board of Trustees.....Mr. Brian Tobin

MOTION: 11-36-12	At 1:07 p.m.
Motion:	To accept as presented the Minutes of the October 31, 2012 Meeting of PSPRS Board of Trustees.
Moved by:	Mr. McHenry
Seconded by:	Mr. Ferguson
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

Report by Mr. Richard Petrenka, Chairman of the Investment Committee, regarding agenda items 5. through 10. which were discussed at the Investment Committee meeting held today, November 28, 2012, 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 Ended and Fiscal Year-to-Date performance of the portfolio.....Mr. Anton Orlich
.....Lead Portfolio Manager

Mr. Orlich reported that the absolute return for the month of October was negative 19 basis points [bps] which outperformed the benchmark by 10 bps. For the Fiscal Year-to-Date, the absolute return is positive by 3.48%; but that return underperformed the benchmark by 48 bps. For October, five asset classes outperformed their benchmarks; these were international equities, private equity, credit opportunities, absolute return and real assets. Two asset classes, U.S. Equities and Risk Parity, had negative absolute returns, but outperformed their benchmarks. Real Estate had a positive return of 6 bps and two asset classes – Fixed Income and GTAA -- had negative returns and underperformed their benchmarks. All four GTAA managers had negative returns. Asset allocations are in line with their targets and there are no asset classes outside of the Board of Trustees’ approved ranges.

Mr. Parham introduced Ms. Vaida Maleckaite who will work on the operations side of the investment team and build out the risk control processes with the staff.

- 6. Presentation by Investment Department staff and NEPC, LLC representatives regarding the Fixed Income asset class.....Mr. Mark Steed
.....Sr. Portfolio Manager
.....Mr. Allan Martin
.....Partner, NEPC, LLC

Mr. Martin presented a review of the Fixed Income asset class. He pointed out that interest rates have been declining for a long time and that 10 year government bonds are at their lowest yields in history. That means that they will no longer provide the median returns of the past. He added, however, that in poor markets bonds will provide tail protection. He concluded by noting that the Fixed income asset class includes a diversified set of portfolios that are themselves diversified because they include securities that are categorized by geographic locations, credit quality and issuer type; some include securities that are inflation-linked.

Mr. Steed described the performance of specific portfolio managers. Discussions were held regarding monthly downside volatility and the expected return behavior of the

portfolio as compared to the S&P 500.

7. Manager Selection Report by Investment Department Staff and possible discussion regarding transfer of certain assets formerly owned by DTR1, LLC (an entity jointly owned by the Trust and Desert Troon Limited) to the Trust's wholly-owned entity, DTR1C, LLC, which assets include both commercial and retail properties
.....Mr. Ryan Parham
.....Chief Investment Officer

Mr. Parham explained that any time there is a change in an investment manager (either selection or de-selection) staff goes through a specific manager selection process. Staff has the obligation to document the change and prepare their due diligence. Due diligence is also required from the specialty consultant. The general consultant approves the choice of manager and the target allocation after having also conducted their own due diligence. With respect to the Troon asset transfer, this process has been completed and all the necessary approvals were obtained.

To deleverage the portfolio and stabilize the assets so that there is no further reduction in value, Staff has repositioned those assets so they can begin to appreciate as the real estate market recovers here in Arizona and the Southwest. There are two pools of assets; the first one is owned by PSPRS and the second owned by both Troon and PSPRS. For some of the assets in this second pool, equity investors required Troon to put up capital to pay off the debt and PSPRS has the same obligation. Due to the erosion of the value of those assets and since Troon did not want to renege on those assets, PSPRS required them to give up the same amount of equity in assets with strong cash flows and move them from the joint PSPRS/Troon portfolio to the 100% PSPRS portion of the portfolio. The net transaction is even. We gain the future cash flows to service the debt of the DTR1, LLC portfolio. Other details were discussed and members of the Board were invited to contact Mr. Parham for further information regarding the legacy real estate holdings.

8. Manager Selection Report by Investment Department Staff and possible discussion regarding an additional investment of up to \$30 million in Fundamental Partners II, L.P.Mr. Ryan Parham

Mr. Parham noted that this fund buys municipal bonds to obtain control of physical assets; the debt is then extinguished and the asset are repositioned for disposition. This particular investment is in the Real Assets portfolio.

9. Manager Selection Report by Investment Department Staff and possible discussion regarding the full redemption of assets currently invested in GAM US Institutional Trading II L.P.Mr. Ryan Parham

Mr. Parham explained that the GAM portfolio is an alpha-seeking engine and that it is included in the Domestic Equity asset class. However, the portfolio has not performed anywhere near expectations, therefore, the staff, after conducting the necessary review and obtaining the necessary approvals, undertook to redeem the System's remaining assets to end the relationship. After concluding that the portable alpha portfolio program has been greatly reduced as a result of this action, he conducted a discussion about the fundamentals of portable alpha.

10. Report by NEPC representative(s) on the First Fiscal Quarter (Third Calendar Quarter) Performance of the System.....Mr. Allan Martin, Partner
Mr. Don Stracke, Sr. Consultant
NEPC, LLC

Mr. Martin reported that the third quarter ended September 30, 2012 in an environment where the markets have fluctuated with considerable volatility. GDP growth has been in the 1.5% to 3% range, inflation is low, interest rates are very low and corporate profits are high. The real estate market has stabilized, yet the economy is barely growing, such that the rate of job growth is very low.

Mr. Martin stressed that, in this low return market environment, it is very difficult to earn 7.85%. With high uncertainty and limited high return opportunities, limiting risk and maintaining a fully diversified asset allocation remain very important. He described some ways to invest in a low return risk on/risk off world.

Mr. Martin then gave a summary of total fund performance. Over the last year, the portfolio earned 9.6% which exceeded the 7.85% target. If it had earned what the index has earned over the same period, the return would have been 11.4%. However, PSPRS had a significant amount of recourse debt which is not reflected in the real estate valuation. The real estate portfolio continues to reduce the value of the total portfolio. There were \$653 million in net gains for the twelve months ended 9/30/12. The three year earnings were 7.3% but without real estate the net would have been 9.3%. The overall result of the assumed rate on a risk adjusted basis is in the top 40%. He discussed risk/return trade-off and reviewed the total fund attribution analysis.

The U.S. Equity portfolio was reviewed as was the contribution of each manager in that portfolio. The total fund performance was reviewed in detail.

11. Report by the System's Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions as of June 30, 2012.....
Ms. Bridget Feeley
Internal Audit and Compliance Officer

The portfolio as of 10/31/12 was in compliance with the Amended and Restated Statement of Investment Policies. All approvals for the new transactions discussed in agenda items 7, 8, and 9 have been received, reviewed and verified to be complete.

12. Report and possible **Action** on FY 2013 Compliance and Internal Audit Plan.....
Ms. Bridget Feeley

Ms. Feeley said the Iran/Sudan Report has been started and the Internal Audit Plan has been updated.

13. Discussion and consultation with legal counsel and Staff and possible **Action** regarding 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 BNY Mellon, judges Thompson and Hall, retired judges Fields and Lankford, retired police officers Rappleyea and Everson, active police officers Parker, Griego, Manganiello and Robles, Cross, the Pivotal Group, the Seldins, Bank of America and Stroh Ranch Development. 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 23.

Mr. Doug Cole and Ms. Dianne McAllister informed the members of the board regarding the changes in the Arizona House and Senate. They are working with the Legislature's staff and providing projections from the PSPRS actuaries on changing the Elected Officials' Retirement Plan from a Defined Benefit to a Defined Contribution Plan for new hires. This would only apply to the future members of EORP. A question and answer period followed this report.

14. 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.

The Call to the Public remained unanswered.

15. **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. Discussion with respect to the extension of the Administrator's Employment Agreement and a possible adjustment in compensation, as authorized by A.R.S. § 38-431.03(A)(1).
- b. 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).
- c. Discussion with legal counsel (and possible recommendation to the Board of Trustees) about 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) BNY Mellon, Stroh Ranch Development, The Pivotal Group, Bank of America, 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).
- d. 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 the

one involving Jack Cross, pursuant to A.R.S. §§ 38-431.03(A) (2), (3) and (4).

MOTION: 11-37-12	At 2:50 p.m.
Motion:	To recess Open Session and enter Executive Session to discuss agenda items 15a, b and d and 23.
Moved by:	Mr. Ferguson
Seconded by:	Mr. Petrenka
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee regarding agenda items 12. through 20. which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, November 28, 2012, on or after 11:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

16. Presentation of the Month-to-Date Budget Report for FY 2013 and possible **Action** on same Mr. John Hendricks
..... Manager of Finance and Accounting

The Board members were asked by Mr. Ferguson if they had any questions regarding the budget and there were none.

17. Presentation and discussion of the calculation of the current Investment Department Incentive Compensation payments for FY 2012 and the results of the calculations
..... Mr. John Hendricks

A detailed step-by-step explanation of the current Investment Department Incentive Compensation payment calculation was presented to the Board by Mr. Hendricks. Hypothetical examples were discussed and Mr. Hacking stated that any changes to this program have to be made prior to July 1 of next year.

18. Written 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

The information was in the materials mailed to the Board of Trustees.

19. Presentation of the "Requests for Local Board Rehearing" Report for the current month Mr. Jim Hacking
..... Administrator

This was an information only item.

20. Review, discussion and possible **Action** regarding the November 2012 Kutak Rock and other law firms' billings for legal services performed in October 2012
..... Mr. Jim Hacking

MOTION: 11-38-12	At 3:55 p.m.
Motion:	To accept the approval by the Operations, Governance Policy and Audit Committee of the November 2012 Kutak Rock and other law firms' billings for legal services performed in October 2012.
Moved by:	Mr. Ferguson
Seconded by:	<i>As recommended by the Operations, Governance Policy and Audit Committee.</i>
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

21. Review, discussion and appropriate **Action** on policies regarding the acceptance of the Pre-tax Payroll Deduction Agreement (PDA) payments for service purchases in PSPRS, EORP and CORP.....Mr. Jared Smout
.....Deputy Administrator

MOTION: 11-39-12	At 3:57 p.m.
Motion:	To adopt the three policies as presented for Pre-tax Payroll Deduction Agreement (PDA) payments for service purchases in PSPRS, EORP and CORP.
Moved by:	Mr. Ferguson
Seconded by:	<i>As recommended by the Operations, Governance Policy and Audit Committee.</i>
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

22. Status report on, and **Action** with respect to the options available for producing electronic Board of Trustee meeting materials.....Mr. Tom Willard
.....System Development Manager
.....Mr. Sam Meier
.....IT Network Specialist

Mr. Ferguson told the Board that the staff, after thorough review, has recommended that we proceed to acquire Agenda Quick software in order to be able to prepare and send electronically Board meeting materials. After discussion it was clear that all members of the Board were in favor of proceeding as recommended by the staff.

MOTION: 11-40-12	At 3:59 p.m.
Motion:	The Board of Trustees authorized Staff to proceed with Agenda Quick to prepare and send materials for the Board.
Moved by:	Mr. Ferguson
Seconded by:	<i>As recommended by the Operations, Governance Policy and Audit Committee.</i>
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

A discussion was held as to what types of devices would be utilized and Mr. Hacking will report back to the Board at the next meeting.

23. Discussion and **Action** with respect to the extension of the Administrator’s Employment Agreement and a possible adjustment in compensation.....Mr. Brian Tobin

MOTION: 11-41-12	At 4:01 p.m.
Motion:	To go forward with the agreement as presented.
Moved by:	Mr. Petrenka
Seconded by:	Ms. Stein
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

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

There were no requests.

- 24.a. Discussion and possible **Action** regarding the schedule for the monthly meeting.
.....Mr. Brian Tobin

The conversation is to continue for alternatives and be presented at the December 2012 meeting. Tuesdays and the third Thursday of the month are to be considered.

25. 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.

The Call to the Public went unanswered.

26. Set the next meeting date. (Currently scheduled for Wednesday, December 19, 2012.)

The meeting is scheduled for Wednesday, December 19, 2012.

27. Adjournment

The meeting was adjourned at 4:07 p.m.

Brian P. Tobin, Chairman

**Gregory Ferguson, Trustee,
Vice Chairman**

Randie A. Stein, Trustee

Jeff Allen McHenry, Trustee

Richard J. Petrenka, Trustee

Lauren Kingry, Trustee

William C. Davis, Trustee