

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

December 19, 2012

MINUTES

Mr. Brian Tobin, Trustee, Chairman
Mr. Gregory Ferguson, Vice Chairman, Trustee
Mr. Jeff McHenry, Trustee
Ms. Randie Stein, Trustee - Excused
Mr. Richard Petrenka, Trustee
Mr. Lauren Kingry, Trustee
Mr. William Davis, Trustee - Excused
Mr. Jim Hacking, Administrator
Mr. Ryan Parham, Chief Investment Officer/Assistant Administrator
Mr. Marty Anderson, Deputy Chief Investment Officer
Mr. Jared Smout, Deputy Administrator
Mr. Andrew Carriker, Chief Investment Counsel
Mr. Paul Corens, Lead Portfolio Manager
Mr. Anton Orlich, Lead Portfolio Manager
Mr. Mark Steed, Lead Portfolio Manager
Mr. Mark Selfridge, Lead Portfolio Manager
Ms. Michele Weigand, Senior Contracts Specialist
Ms. Vaida Maleckaite, Investment Operations Analyst
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

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

The meeting was called to order at 1:00 p.m. by Chairman Tobin.

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 survivor benefit of Gloria Acuna
 - b. Acceptance of Elected Officials Retirement Plan of termination of early split benefit of Lester J. Skrumbellos
 - c. Acceptance of Elected Officials Retirement Plan of termination of early split benefit of Marjorie Brown
 - d. Acceptance of Elected Officials Retirement Plan of termination of normal benefit of Ronald A. Christensen
 - e. Acceptance of Elected Officials Retirement Plan of survivor benefit of Cathy Konopnicki
 - f. Acceptance of Elected Officials Retirement Plan of termination of normal benefit of

C. William Soderquist

- g. Acceptance of Elected Officials Retirement Plan of termination of survivor benefit of Sandra Thompson
- h. Acceptance of Transfer Between State Retirement Systems of Chad A. Howard
- i. Acceptance of Transfer Between State Retirement Systems of Angela Haas
- j. Acceptance of Transfer Between State Retirement Systems of Kenneth Russell
- k. Acceptance of Transfer Between State Retirement Systems of Holly Holland
- l. Acceptance of Transfer Between State Retirement Systems of James Baumann
- m. Acceptance of Transfer Between State Retirement Systems of Daniel Wilson
- n. Acceptance of Transfer Between State Retirement Systems of Brandon Huntley
- o. Acceptance of Transfer Between State Retirement Systems of Melissa Rushing
- p. Acceptance of Transfer Between State Retirement Systems of John P. Geroulis
- q. Acceptance of Transfer Between State Retirement Systems of Lynne M. Paul
- r. Acceptance of Transfer Between State Retirement Systems of Brenda Richey
- s. Acceptance of Transfer Between State Retirement Systems of Michael Hoggard
- t. Acceptance of Transfer Between State Retirement Systems of Christopher Quattrini

MOTION: 12-42-12	At 1:01 p.m.
Motion:	To accept the Consent Agenda.
Moved by:	Mr. Ferguson
Seconded by:	Mr. McHenry
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

- 3. Appropriate **Action** regarding the Agreement to participate in the Supplemental Defined Contribution Plan with Ft. Mojave Mesa Fire District..... Mr. Brian Tobin

MOTION: 12-43-12	At 1: 02 p.m.
Motion:	To approve the agreement to participate in the Supplemental Defined Contribution Plan with Ft. Mojave Mesa Fire District.
Moved by:	Mr. Petrenka
Seconded by:	Mr. Ferguson
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

4. Appropriate **Action** regarding the Minutes of the November 28, 2012 Meeting of the PSPRS Board of Trustees.....Mr. Brian Tobin

MOTION: 12-44-12	At 1:03 p.m.
Motion:	To accept the Minutes of the November 28, 2012 Meeting of the PSPRS Board of Trustees as presented.
Moved by:	Mr. Petrenka
Seconded by:	Mr. Kingry
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

5. Report by external auditor, Heinfeld, Meech & Co., P.C., regarding independent audit of PSPRS, EORP, CORP, and the Fire Fighter and Peace Officer Cancer Insurance Policy program for fiscal year 2011-2012.....Mr. Corey Arvizu
.....Mr. Mike Hoerig
.....Partner, Heinfeld, Meech & Co., P.C.

Mr. Arvizu stated that Heinfeld, Meech & Co. specializes in audits of governmental entities. Regarding PSPRS, they worked on site for five weeks with a staff of three to four people during the FY 2011-12 audit. The completed audit of the financial statements has been reviewed and was issued on November 20, 2012. There were no disagreements with the financial statements or the presentation. No management report was issued, since there was nothing to report.

Mr. Hoerig added that they planned their procedures prior to being on site by speaking with management, staff, the internal auditor and the Board of Trustees. He listed the analytical procedures and the testing controls that were used. Also reviewed were Mellon's internal controls upon which PSPRS relies.

Additionally, said Mr. Arvizu, management and staff were very cooperative. In the future, there will be terminology changes in the financial report for FY 2013, in FY 2014, GASB reporting changes will be implemented and in FY 2015 new disclosures will be required for the financial statements of participating employers.

Report by Mr. Richard Petrenka, Chairman of the Investment Committee, regarding agenda items 5 through 8, which were discussed at the Investment Committee meeting held today, December 19, 2012, on or after 11:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

- 5a. Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance of the portfolio.....Mr. Mark Selfridge
.....Senior Portfolio Manager

As of November 30, 2012 the return for the Trust was a positive 1.16% as compared to its benchmark which was up only 0.59%. In terms of Fiscal Year-to-Date results, the Trust was up 4.68% versus 4.57% for the benchmark. Mr. Selfridge reported that the US Equity portfolio was up by 4.69% so far this fiscal year. However, the benchmark

was up by 5.21%. Non-U.S Equity was up by 9.55% while its benchmark was up by 9.87%. For the rest of the portfolio, with the exception of Real Assets, returns were better than the benchmark. The Report on the Fire Fighter and Peace Officer Cancer Insurance Fund portfolio was submitted in writing.

6. Manager Selection Report by Investment Department Staff and discussion regarding an investment of up to \$45 million in TowerBrook Investors IV, L.P. with an additional \$15 million reserved for potential co-investment.....Mr. Ryan Parham
.....Chief Investment Officer

TowerBrook Investors IV is the second TowerBrook fund in which the Trust has invested. This investment is in keeping with all required policies and approvals. Mr. Parham added that TowerBrook is one of the best Private Equity managers in our Private Equity asset class.

7. Report by Investment Department Staff highlighting investment managers in Asia.
.....Mr. Marty Anderson
.....Deputy Chief Investment Officer
.....Mr. Paul Corens
.....Senior Portfolio Manager

Mr. Anderson informed members of the Board that he and Mr. Corens visited about twenty investment managers scattered across Asia. Private Equity investments are a good way to take advantage of Asian market growth. Discussion was held regarding general Asian themes and existing themes in China and Japan. The property bubble in Hong Kong was discussed as were existing managers in the Trust's Private Equity portfolio and the Asian bond market.

Mr. Corens added specific information about J.P. Morgan AIRRO India's assets and the AIRRO India Sidecar. Specific details were presented about additional assets in the Asian portfolio.

8. Report by Investment Department Staff about current Risk reporting infrastructure and proposals for further development of same.....Mr. Ryan Parham

Mr. Parham reported that risk reporting will start in January, 2013. PSPRS is working with NEPC and their risk reporting system.

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

Ms. Feeley stated that investments, holdings and transactions as of 11/30/2012 were in compliance with the Investment Policies. The Manager Selection Report of TowerBrook was included on today's agenda but the investment in EnCap Investments, L.P. was not. Mr. Parham said that EnCap will be on the January, 2013 agenda. He said that with respect to the EnCap investment, staff wishes to be sure that we are in compliance with the Board's approval policies. The manager approval report will be in writing and the compliance report will be oral and written for the January Board meeting.

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

There were no formal audit reports this month.

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 10 through 17, which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, December 19, 2012, on or after 11:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

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

Mr. Ferguson reported that unplanned expenses for the past month were \$30 thousand for unexpected investment-related legal fees and \$9,250 for the AgendaQuick software and the training for the staff. Next year, the AgendaQuick charge will be \$6,500 for just the annual license.

12. 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

A written report was included in the meeting materials for members of the Board.

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

Mr. Ferguson said that there are five pending requests and one resolved request for local Board rehearings.

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

A motion was made during the Operations, Governance Policy and Audit Committee Meeting this morning to approve the December 2012 Kutak Rock and other law firms' billings for legal services performed in November 2012.

15. Presentation of draft proposal for an administrative amendments bill for the 2013 legislative session..... Mr. Jared Smout
..... Deputy Administrator

Mr. Smout told the Board that the administrative amendments bill is intended for language clarification and for the resolution of consistencies between the Plans. Staff assisted in reviewing the "Return to Work" statute to reorganize the contents in order to

make it easier for Staff and Local Boards to use while leaving the intent and purpose unchanged. The next step is to meet with legislative counsel regarding the drafting of the bill and then it will be introduced when the Legislature convenes.

- 16. Status report on the Strategic Plan including planned efforts to address the results of the Employee Engagement Survey.....Mr. Jared Smout

Mr. Smout said that we are revisiting our process for developing the annual Strategic Plan. With respect to the Employee Engagement Survey, he said that the biggest staff concern is compensation. But he noted that the report also focused on employee development, recognition and communication. He concluded by saying that we appear to be moving in the right direction and will want to have the changes that are approved reflected in the next administrative budget.

- 17. Demonstration of Agenda Quick as a means of producing and sending electronic Board meeting materialsMr. Tom Willard
.....System Development Manager
.....Mr. Sam Meier
.....IT Operations Manager

A description of the users' processes was given by Mr. Willard. Security is built into the AgendaQuick system. Sources of power will be added to the external conference room for the Board of Trustees and Staff to use for the meetings. Mr. Hacking added that he has canvassed the Board of Trustees for their preference with respect to devices that they can use for accessing the information and materials available on AgendaQuick. Research was completed by the IT staff regarding available computer options for use by members of the Board and the members were asked to look through the provided information in order to discuss what the consensus would be regarding the type of laptop computer which the staff will purchase for their use.

- 18. 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.

- 19. Discussion and possible **Action** regarding the schedule for the monthly meetings.Mr. Brian Tobin

Monthly meetings will be held the third Wednesday of the month except for the month in which NEPC holds their Client Conference.

MOTION: 12-45-12	At 2:13 p.m.
Motion:	To approve the 2013 schedule for the monthly Board meetings.
Moved by:	Mr. Ferguson
Seconded by:	Mr. Kingry
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

20. 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 and Timbervest. 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 21.
21. **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) 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, Timbervest, 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).
 - 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 one involving Jack Cross, pursuant to A.R.S. §§ 38-431.03(A) (2), (3) and (4).

The meeting remained in Open Session.

22. 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.

23. Set the next meeting date. (Currently scheduled for Wednesday, January 16, 2013.)

24. Adjournment

The meeting was adjourned at 2:15 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