

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

February 23, 2011

MINUTES

Mr. Brian Tobin, Trustee, Chairman
Ms. Lori Roediger, Trustee, Vice Chairperson
Mr. Tim Dunne, Trustee
Mr. Gregory Ferguson, Trustee
Mr. Alan Maguire, Trustee
Mr. Jeff McHenry, Trustee
Ms. Randie Stein, Trustee
Mr. Jim Hacking, Administrator
Ms. Tracey Peterson, Assistant Administrator, COO
Mr. Mark Steed, Senior Analyst
Mr. Paul Corens, Alternatives Investment Analyst
Mr. Shan Chen, Investment Analyst
Ms. Gail Nova, Administration Manager
Ms. Bridget Feeley, Internal Audit and Compliance Officer
Mr. Paul Hemmes, Training/Audio Visual Specialist
Mr. Don Stracke, Sr. Consultant, New England Pension
Consultants ("NEPC")
Mr. Tom Cawkwell, Partner, Albourne America LLC
Mr. Marc Lieberman, Partner, Kutak Rock
Ms. Karen Lewis, Accounting Manager
Mr. Doug Cole, HighGround
Ms. Dianne McAllister, Public Policy Partners

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

1. 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 Transfer Between State Retirement Systems of Raphael King.
 - b. Acceptance of Transfer Between State Retirement Systems of Ronalf Kopf.
 - c. Acceptance of Transfer Between State Retirement Systems of Mark Metelski.
 - d. Acceptance of Transfer Between State Retirement Systems of Michael Cuestas.
 - e. Acceptance of Transfer Between State Retirement Systems of Rogene Small.
 - f. Acceptance of Transfer Between State Retirement Systems of Darren Emfinger.
 - g. Acceptance of Transfer Between State Retirement Systems of Kirby Mayberry.
 - h. Acceptance of Transfer Between State Retirement Systems of Mark Franzen.
 - i. Acceptance of Transfer Between State Retirement Systems of John Teefy.
 - j. Acceptance of Transfer Between State Retirement Systems of Karen Vance.
 - k. Acceptance of Transfer Between State Retirement Systems of Sean Connell.
 - l. Acceptance of Transfer Between State Retirement Systems of Thomas Gibson.

- m. Acceptance of Transfer Between State Retirement Systems of John Boone.
- n. Acceptance of Transfer Between State Retirement Systems of Oscar Chavez.
- o. Acceptance of Transfer Between State Retirement Systems of Timothy Bolger.
- p. Acceptance of Transfer Between State Retirement Systems of Emilien Sapon.
- q. Acceptance of Transfer Between State Retirement Systems of Justin Smith.
- r. Acceptance of Transfer Between State Retirement Systems of James Haas.
- s. Acceptance of Transfer Between State Retirement Systems of Marc Vens.
- t. Acceptance of Transfer Between State Retirement Systems of David Pallas.
- u. Acceptance of Transfer Between State Retirement Systems of Shawn Twitchell.
- v. Acceptance of Transfer Between State Retirement Systems of Tom O'Halleran.
- w. Acceptance of Transfer Between State Retirement Systems of Russell Scherer.
- x. Acceptance of Transfer Between State Retirement Systems of Jeffrey Helter.
- y. Acceptance of Transfer Between State Retirement Systems of Cynthia Stratton.
- z. Acceptance of Transfer Between State Retirement Systems of Philip Haller.
- aa. Acceptance of Transfer Between State Retirement Systems of Greg Bargar.
- bb. Acceptance of Transfer Between State Retirement Systems of Douglas Matulis.
- cc. Acceptance of Transfer Between State Retirement Systems of David Adams.
- dd. Acceptance of Transfer Between State Retirement Systems of Robert Russ.
- ee. Acceptance of Transfer Between State Retirement Systems of Thomas Tieman.
- ff. Acceptance of Transfer Between State Retirement Systems of Pamela Swearingin.
- gg. Acceptance of Transfer Between State Retirement Systems of Frank Padgett.
- hh. Acceptance of Transfer Between State Retirement Systems of Lee Shaw.
- ii. Acceptance of Transfer Between State Retirement Systems of William Grisco.
- jj. Acceptance of Elected Officials' Retirement Plan of termination of normal benefit of Robert Usdane.
- kk. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Marsha Usdane.
- ll. Acceptance of Elected Officials' Retirement Plan of normal benefit of Thomas Boone.
- mm. Acceptance of Elected Officials' Retirement Plan of normal benefit of William Konopnicki.
- nn. Acceptance of Elected Officials' Retirement Plan of normal benefit of James Wells.
- oo. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Dana Campbell Saylor.
- pp. Acceptance of Elected Officials' Retirement Plan of normal benefit of Vicki Hunt.
- qq. Acceptance of Elected Officials' Retirement Plan of normal benefit of Samuel Goddard.
- rr. Acceptance of Elected Officials' Retirement Plan of normal benefit of Glenn Gill.
- ss. Acceptance of Elected Officials' Retirement Plan of normal benefit of J. Brian Lamb.
- tt. Acceptance of Elected Officials' Retirement Plan of termination of normal benefit of William Steiert.

MOTION: 2-95-11	At 1:03 p.m.
Motion:	To approve the consent agenda as presented.
Moved by:	Mr. Maguire
Seconded by:	Ms. Roediger
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

- 2. Appropriate **Action** regarding corrected Minutes of the December 29, 2011 Meeting of the PSPRS Board of Trustees.....Mr. Brian Tobin

MOTION: 2-96-11	At 1:04 p.m.
Motion:	To approve the Minutes of the December 29, 2010 Board of Trustees Meeting as distributed.
Moved by:	Mr. Maguire
Seconded by:	Mr. Dunne
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

- Appropriate **Action** regarding the Minutes of the January 26, 2011 Meeting of the PSPRS Board of Trustees.....Mr. Brian Tobin

Tabled until the next Board of Trustees meeting.

- (Agenda Item 10) Status report regarding Fiscal Year 2011 legislative initiatives and possible **Recommendations**.....Mr. Jim Hacking
Administrator

An introduction was made by Mr. Hacking of lobbyists Ms. Dianne McAllister and Mr. Doug Cole. Mr. Cole of HighGround informed the Board this is the crossover period. The Senate bills go to the House and visa versa. He stated SB 1609 was heard today and in that hearing and in the hearing on HB 2726, the constituent groups were able to speak to the respective committees. Both bills passed. The three bills initiated by PSPRS that were introduced in the House were not moved forward. The Speaker introduced HB 2726 in order to align the House bill with the proposal by the Board of Trustees and at the same time make it actuarially and constitutionally sound. The System's administrative bills which were introduced in the Senate as SB 1316 and SB 1317 are out of committee and are being heard today by the Senate acting as a Committee of the Whole (COW). SB 1609, introduced the evening of February 21, 2011 is out of committee as of this morning with floor amendments. HB 2413, the CORP Accidental Disability bill, has not been voted on at this time.

Mr. Cole stated that the Senate and House "pension reform" bills have the core principles the Board of Trustees proposed. However, he is not certain what the final bill will include. He thanked the Board for their neutrality and the actuarial work that is available to the Board, constituents and the legislature.

- (Agenda Item 4) Discussion and **Action** upon the EORP disability application of Judge Joseph Heilman.....Mr. Brian Tobin

MOTION: 2-97-11	At 1:48 p.m.
Motion:	To grant a disability retirement benefit under Elected Officials' Retirement Plan to Judge Joseph B. Heilman.
Moved by:	Mr. Maguire
Seconded by:	Mr. Ferguson
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

Presentation by Ms. Lori Roediger, Chairperson of the Investment Committee, regarding Agenda Items 5 through 9 which were discussed at its meeting held today, February 23, 2011, on or after 10 a.m., and possible Action on the Committee's Recommendations to the Board regarding same.

- 6. Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio update.Mr. Mark Steed
.....Senior Analyst

Mr. Steed reported there was a slight under performance relative to the benchmark for the month of January with the Trust up about 80 bps and the benchmark up 100 bps. He said the most notable disparity was in the private equity portfolio. He noted that the private equity valuations had not yet been received and that Staff expects to pick up some ground once those are received but there will be a lag. He said the portfolio is conservatively positioned and in a bull market like this, it is expected that the portfolio will underperform because the risk is adjusted on the downside.

- 7. Presentation by Investment Department Staff, StepStone Group and representatives of Cortec Group or their affiliates and discussion and appropriate **Action** regarding a possible investment of up to \$30 million in the Cortec Group Fund V, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.....Mr. Shan Chen
.....Investment Analyst
.....Mr. Jay Rose
.....Partner, StepStone Group
.....Mr. David Schnadig
.....Mr. Jeffrey Lipsitz
.....Managing Partners, Cortec Group

Mr. Chen presented a short introduction to the Cortec Group which was founded in 1984. The firm seeks to make controlling investments in buyouts and recapitalization of profitable lower middle-market businesses where Cortec can add value. He said what differentiates them from other buy-out firms is that they have in-house operating partners and a high level of engagement after they close a deal. He said that, based on the due diligence on the firm conducted by the Investment Staff and StepStone representatives, the Investment Staff and StepStone are recommending and investment of up to \$30 million in the Cortec Group Fund V to be included in the Private Equity portfolio.

Mr. Rose reported tha, in performing its due diligence, what StepStone focuses on are: 1) the management team or the investment professionals; 2) the strategy; 3) the track record; and 4) the legal terms and conditions. He said StepStone has known the Cortec group for almost a year. He said StepStone became more excited about this opportunity as they spent time on the governance and the incentive structures. He said the firm is lead by six partners, three of whom are managing partners. He said on average, they have had about 12 years together which reflects great tenure as they have already worked through a generational transfer that started back in 2000. He said StepStone analyzed mostly Funds III and IV in their due diligence efforts but they did look back to the inception with the team and the track record and found the returns to be quite strong. He said their strategy is buy and add to lower middle market profitable companies where they seek to invest \$25 to \$100 million in equity. The targeted industries are manufacturing, distribution and specialty service type businesses, focusing on enterprises with values ranging from \$30 million up to about \$300 million. This is what Cortec has done in Funds III and IV and it what they are proposing to do for Fund V. He said their inception to date returns on an annualized basis have been about 45% net with a total value multiple that is 1.9x. He said if you look at just

Funds III and IV, the track record has produced a net annualized rate of return of about 21% as of June 30, 2010 and that's a net total value multiple of 1.8x. He said StepStone looked at the terms and conditions of the Fund V limited partnership agreement which StepStone found to be "L.P. friendly" and aligned with the Trust as a potential L.P. He said there is a 100% management fee off-set or credit for any ancillary deal transaction or monitoring fees.

Messrs. David Schnadig and Jeffrey Lipsitz, Managing Partners at the Cortec Group, gave an overview that focused on how their business model differs from others. He said their strategy is to buy good companies that have specific areas of value add opportunity. The characteristics they look for include: 1) ownership transition where they facilitate the transition from an entrepreneur who is looking to retire and does not have an infrastructure or team in place to take over; 2) flat businesses that need a change in strategy, which often goes hand-in-hand with a senior management change; and 3) businesses that have grown rapidly but do not have the infrastructure, processes, or personnel to take them to the next level. He said they are a U.S. centric investor in the lower middle market space and they market their capability to invest in these types of businesses to use their operating experience and knowledge base to take on these risks in order to generate out-sized returns relative to the market.

An area where they have specific expertise is medical products and services. They focus on value priced consumer products that don't have seasonality and can generate very high returns as well as quality to the consumer.

Mr. Lipsitz said they interact very frequently with their teams and visit their companies monthly for a day and a half. They will spend the first afternoon trying to understand the big picture issues. The next day, they typically meet for eight hours with all the key functional area reports and they review everything area by area. He said they interact frequently, both via phone and onsite, to remain close to their portfolio companies and drive change so they can create bigger, better businesses with strong management teams that either financial or strategic buyers will want to acquire.

Mr. Schnadig said the same team that led their Funds III and IV will lead Fund V and its investments. Their interests are aligned with their investors and as a group they have collectively committed \$20 million of their own capital. He said their cap for Fund V is \$600 million, which they hope to hit next month with their final closing.

Ms. Roediger reported that the Investment Committee recommends an investment of up to \$30 million in the Cortec Group Fund V, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Mr. Tobin recognized the recommendation from the Investment Committee and asked if there was any further discussion. Hearing none he called for the vote.

MOTION: 2-98-11	At 1:33 p.m.
Motion:	To approve an investment of up to \$30 million in the Cortec Group Fund V, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.
Moved by:	
Seconded by:	
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

- 8. Presentation by Investment Department Staff, Albourne America LLC and representatives of Red Kite Explorer or their affiliates, and discussion and appropriate **Action** regarding a possible investment of up to \$40 million in the Red Kite Explorer Fund, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.....Mr. Paul Corens
.....Alternatives Investment Analyst
.....Mr. Tom Cawkwell
.....Partner, Albourne America LLC
..... Okar Lewnowski, III, Principle and Mr. Chris von Strasser, Investor Relations
..... Red Kite Explorer

Mr. Corens presented a brief overview of the Red Kite Explorer Fund, a focused strategy that is designed to achieve superior risk adjusted returns with a low correlation to other asset classes. Red Kite is a metals merchant which purchases, ships, processes, stores, finances and sells physical metal. He said that the fund is a mining private finance fund, designed to finance new and existing mining operations. The fund implements its strategy by structuring private loans secured by metal off-take agreements, physical metals or hard assets such as equipment or real estate. The fund returned 24% in 2009. Staff is recommending this fund for an investment of up to \$40 million. The investment will be added to the Real Asset portfolio.

Mr. Tom Cawkwell, Albourne America, stated that Albourne supports the recommended investment. He said that the Albourne’s commodities team has known the principals at Red Kite for the last 10 years, even prior to the founding of Red Kite, and they have spent time validating the structure of the team, the market opportunity, and the competitive environment. He said this is a large market with limited competition and in the current environment there is an increasing demand for capital which Red Kite is well placed to provide.

Messrs. Chris von Strasser and Oskar Lewnowski of Red Kite presented an overview of their investment strategy and the firm’s background, and they discussed why they are in a position to offer their services and why there is so relatively little competition in their space. Mr. Lewowski said they are a metals merchant that sells to customers globally. He said they provide mining companies with a time-tested funding solution which is called offtake financing which is basically a two stop service where the two components – metal offtakes and financing arrangements are very closely related. He said because this is a loan fund, they have some upside participation to commodity prices as a real asset allocation but they have a much greater degree of downside protection than you would have through equity exposure to commodities.

Mr. Strasser said that there are about 4000 junior mining companies in the world. Many of them are located very far from the users so the smaller mines have historically, relied upon the merchants or the large mining companies to help them sell their metal to the global market which they do not have the infrastructure or capability to access on their own. The role they play is to take over about a third of the mines’ business operations to sell, ship, hedge and insure the metal offtake. Red Kite enters into offtake agreements with the junior mines, whereby they promise to provide some form of transportation, be it a truck, rail car or barge, at the mine on a regular periodic basis to ship all the metal the mine produces and sell it on their behalf. These agreements are for all the metal the mine produces and extend for “life-of-mine” which is typically 8 to 15 years. They do not guarantee a price for the metal but rather a margin.

Ms. Roediger reported that the Investment Committee recommends an investment of up to \$40 million in the Red Kite Explorer Fund, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Mr. Tobin recognized the recommendation from the Investment Committee and asked if there was any further discussion. Hearing none he called for the vote.

MOTION: 2-99-11	At 1:39 p.m.
Motion:	To approve an investment of up to \$40 million in the Red Kite Explorer Fund, L.P. or appropriate feeders, blockers, or associated or parallel funds of same
Moved by:	
Seconded by:	
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

- 9. Update by the Chief Investment Officer regarding the Fourth Calendar Quarter/Second Fiscal Quarter Performance Update.Mr. Ryan Parham
.....Chief Investment Officer

This item was tabled.

- 10. Report by Compliance Auditor and discussion regarding investment compliance, holdings and transactions as of January 31, 2011.Ms. Bridget Feeley
..... Internal Audit and Compliance Auditor

Ms. Feeley reported that she had reviewed the portfolio and, at January 31, 2011, the portfolio was fully in compliance with the restrictions on the portfolio. She said that the Iran, Sudan and terrorist countries report that was required as of January 31, 2011 had been completed and that the Trust had no exposure and no need to divest any holdings. She said that the fixed income report stated that the Trust was out of compliance in that area. However, when she reviewed the portfolio she found a number had been transposed in the spreadsheet which gave the out-of-compliance result but with the necessary correction the portfolio is in compliance.

Presentation by Mr. Brian Tobin, Committee Chairman of the Operations, Governance Policy and Audit Committee regarding Recommendations/Action on agenda items 10 through 14 that were discussed during the meeting held today, February 23, 2011 on or after 11 a.m. and possible appropriate Action regarding same.

- 11. Presentation of the Month-to-Date Budget Report for FY 2011 and possible **Recommendations**.
.....Karen Lewis
Accounting Manager

Mr. Tobin said there are some areas where we have exceeded the budget, but as a whole, we are 2% under budget as of seven months ended January 31, 2011. Due to some budgeted expenditures in the IT Department, those will probably take us to an over budget status by the next meeting. Other areas in which we are over budget are legal and actuarial services.

- 12. Update regarding the number of applications for Deferred Retirement Option Plan and possible **Recommendation**..... Ms. Tracey Peterson
Chief Operating Officer

As reported during the committee meeting, Ms. Peterson stated that so far this year over 400 new DROP applications have been received, which is twice the number for the entire prior fiscal year. Seven hundred additional applications could be received before fiscal year-end but newly developed processing by Mr. John Hendricks should help with the processing of the DROP applications.

- 13. Written update on the progress of the Local Board Training Program and discussion and possible **Recommendation**.....Mr. Robert Ortega

A report written by Mr. Ortega was in the packet of meeting information sent to the Board prior to this meeting.

- 14. Review and discussion and appropriate **Action** regarding the February 2011 bill for legal services performed in January 2011.....Mr. Jim Hacking

Mr. Tobin stated the committee approved payment of the bill for legal services so that no action is necessary.

- 15. Report, discussion and appropriate **Action** regarding FY 2011 legislative initiatives.....Mr. Jim Hacking

Mr. Hacking continued the presentation regarding legislative initiatives in item 4 of the Minutes. He presented the actuarial projections for the bills being processed by the House and Senate (SB 1609 and HB 2726) comparing them with the “baseline projection” (if nothing changes), focusing on the year 2030. He stated that the Board had set a goal of having the Plans funded at 80% or higher not later than 2030 with a probability of achieving that goal by that date of 75% or higher.

PSPRS – Year 2030

Baseline: If nothing were done, by 2030, the Plan would have a 70.3% funding ratio and an aggregate employer contribution rate of 43.8%.

SB 1609 – by Year 2030, 79.5% funding ratio
30.4% aggregate employer contribution rate

HB 2726 – by Year 2030, 73.7% funding ratio
19.6% aggregate employer contribution rate

CORP – Year 2030

Baseline: If nothing were done, by 2030 the Plan would have a 75.2% funding ratio and an aggregate employer contribution rate of 20.2%.

SB 1609 – by Year 2030, 79.6% funding ratio
by Year 2030, 11.9% contribution requirement

HB 2726 – by Year 2030, 79.7% funding ratio
by year 2030, 10.4% contribution requirement

EORP – Year 2030

Baseline: If nothing were done, by 2030 the plan would have a 67.9% funding ratio and an aggregate employer contribution rate of 45.1%

SB 1609 – by Year 20310, 73.9% funding ratio
by Year 2030, 30.5% contribution rate

HB 2726 – by Year 2030, 62.7% funding ration
By Year 2030, 17.7% contribution requirement

Discussion was held with the members of the Board and Mr. Hacking. The Board wishes to provide educational information to facilitate a rational discussion and a reasonable decision. The decision to provide actuarial projections as they are requested and needed has led to clarification and refinement of the proposals in the legislative process.

- 16. Discussion and appropriate **Action** regarding the establishment of criteria to be used in connection with the selection of Board-approved law firms for specific assignments and delegation of authority to the Administrator and/or Assistant Administrators for making such a selections.....Mr. Jim Hacking
Mr. Ryan Parham

Mr. Hacking stated we would like to use these firms on an “as needed” basis for general counsel, pension, tax, and investments services. But first we need to make sure all firms can be added to the Attorney Generals’ list of approved law firms. A letter with extensive documentation was sent to the Attorney General’s Office regarding our RFP process. We can use those that are currently on the AG’s list, but we need to have some clarification from the Board in order for staff to determine which firms to use in each particular case. Often this determination will need to be made prior to action by the Board. The staff will need some direction in order to select from the approved list.

Mr. Maguire suggested empowering the staff to select cost effective and competent firms for which the staff will be held accountable. Over time the expertise of the staff in selecting law firms will grow due to the quality of legal work and the responsiveness of the firms and over time some will drop off the approved list or will simply not be used.

Mr. Tobin asked for a review of the governance manual regarding the fiduciary charter and indicated that the Board must weigh in on selection of fiduciary counsel for assignments.

- 17. Discussion with the Board of Trustees and possible appropriate **Action** regarding the addition of Foley & Lardner LLP to the list of Board-approved law firms for investment related services.....Mr. Ryan Parham

It was stated by Mr. Steed that, at last month’s Board meeting, this law firm was inadvertently left off the list of approved law firms for investment related services.

MOTION: 2-100-11	At 2:41 p.m.
Motion:	To approve the addition of Foley & Lardner LLP to the list of Board approved law firms for investment related services.
Moved by:	Mr. Maguire
Seconded by:	Mr. Ferguson
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

18. Report on the process to obtain the Arizona Attorney General's approval for PSPRS' use of the law firms selected by the Board of Trustees at the January 26, 2011 meeting and at today's meeting.....Mr. Jim Hacking

See item 16 of the minutes.

19. Discussion with legal counsel regarding the right of the Board of Trustees to delegate authority to one or two of its seven members, in consultation with staff, to approve certain investments made by a company in which the System has an indirect interest, and appropriate **Action** regarding same. **Discussion of this matter may be held in Executive Session, which will not be open to the public, in accordance with A.R.S. § 38-431.03(A)(3) and as otherwise described in agenda item 25(c)**..... Jim Hacking

This item was held in Executive Session.

20. Discussion and possible **Action** regarding extension of the contract with Kutak Rock through June 30, 2011.....Mr. Jim Hacking

MOTION: 2-101-11	At 2:43 p.m.
Motion:	To approve the extension of the contract with Kutak Rock through June 30, 2011.
Moved by:	Mr. Ferguson
Seconded by:	Ms. Stein
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

21. Discussion and possible **Action** to approve, disapprove or modify the actuarial assumptions pertaining to the assumed rate of return for fiscal year 2012 and the assumed rate of inflation, the salary and payroll growth assumptions, and the actuarial methodology for fiscal year 2011.....Mr. Jim Hacking

Mr. Hacking told the Board that last September 15, 2010 the actuary, Gabriel Roeder & Smith (GRS) suggested to the Board that in fiscal year 2012, the rate of return assumption should be lowered to 8.0%. The Board lowered the rate of return assumption for fiscal year 2011 from 8.5% to 8.25% prior to the start of the current fiscal year. However, no changes were made in the salary growth and inflation assumptions or in the actuarial methodology. Instead, it was expected that at some point during fiscal year 2011, the Board would consider making such changes. GRS had recommended the salary growth assumption be reduced for fiscal year 2011 for the PSPRS and

CORP Plans from 5.5% to 4.5% and for EORP from 5% to 4%. In conjunction with those changes, the inflation assumption would need to be adjusted by a like amount which would make it 3.5% for PSPRS and CORP and 3% for EORP. The actuaries had also recommended that, for fiscal year 2011, the actuarial methodology be changed from Projected Unit Credit (PUC) to Entry Age Normal (EAN), which is the methodology most widely used by public retirement systems.

Mr. Hacking also pointed out that the Board would need to act soon if it is inclined to approve the actuaries' recommendation to lower the assumed earnings rate from the current 8.25% to 8%, since this might influence how current members will act with respect to exercising any right they might now have to enter the Deferred Retirement Option Plan (DROP) this fiscal year, as opposed to waiting until next year. He added that DROP accounts are credited with interest at the assumed earnings rate that is in effect at the time they enter the program.

Mr. Maguire observed that one of the most important fiduciary duties the Board has is the establishment of appropriate actuarial assumptions, since the Board has independent discretion in this regard. Many decisions are statute driven and many others are shared by the state policy makers and the Board. But that is not the case with the setting of the actuarial assumptions and the selection of actuarial methodology. Mr. Maguire suggested calling a special Board meeting with the actuaries in attendance to discuss the assumptions and methodology. He believes that our Plans may be out of sync with other public retirement systems around the country.

Members of the Board indicated that they would like to see discussed at a meeting with the actuaries:

- A comparison of the PSPRS assumptions with those used by other public and private plans.
- The performance of PSPRS' past assumptions relative to what actually occurred.
- How the PUC methodology compares with the EAN methodology.
- How the current COLA structure may influence the selection of the assumed earnings rate.
- What happens when there are more retirees than active contributors.

It was pointed out that if the COLA structure remains the same as it is today, the rate of return that will support the underlying Plans will be far less than the assumed rate of return. The GRS actuaries had indicated last September that, under the current structure, instead of the Plans receiving an annual average rate of return of 8.5%, they actually will receive only an average return of 6.5% to 6.7%. The remainder will be diverted to the COLA Reserve accounts.

22. Discussion of and appropriate **Action** regarding a possible search for an in-house legal counsel.
.....Mr. Jim Hacking

Mr. Hacking described the responsibilities of an in-house legal counsel. Those duties would include reviewing local board decisions, advising the Board with respect to Open Meeting and FOIA rules and providing the staff with statutory interpretations and guidance in handling case matters. Mr. Hacking indicated that if PSPRS is to begin a process to identify possible qualified candidates for the role of in-house counsel, a subset of the Board should be involved, since anyone acting in that capacity will have extensive interaction with the Board.

Mr. Ferguson said he thought the Operations Committee had decided in the past not to seek an in-house counsel. However, Mr. Hacking replied that some consideration had been given to bringing a specific person into this role, but at that time the person who was under consideration had salary requirements that precluded the possibility of PSPRS entering into such a relationship.

This time, the System would be seeking qualified candidates with no particular individual in mind. A position description would be developed and an appropriate salary range would be defined before a recruiting process begins.

Mr. Ferguson replied that he not inclined to proceed with this. But Mr. Maguire pointed out that using in-house counsel is a cost effective way to handle routine matters.

MOTION: 2-102-11	At 3:06 p.m.
Motion:	To move forward with the process of developing a job description, pursuing candidates in the Operations, Governance Policy and Audit Committee and returning to the full Board with their findings.
Moved by:	Ms. Stein
Seconded by:	Mr. Maguire
Discussion:	None
In favor/Opposed	In favor: Ms. Stein, Mr. Maguire, Mr. Dunne, Ms. Roediger, Mr. McHenry. Mr. Tobin. Opposed: Mr. Ferguson
Motion:	Passes

23. 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.

No members of the public wished to address the Board.

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

MOTION: 2-103-11	At 3:07p.m.
Motion:	To approve Mr. Tobin's attendance on March 13, 2011 at the IMN Public Funds Conference and the night of March 13, 2011 his attendance at the awards presentation for Mid-Size Public Fund of the Year. To approve Mr. Tobin's attendance at the NEPC Client Workshop March 21,22, 2011 in Tempe, AZ.
Moved by:	Mr. Maguire
Seconded by:	Mr. Ferguson
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

MOTION: 2-104-11	At 3.10 p.m.
Motion:	To add to the permanent list of approved conferences/educational sessions, the International Foundation of Employee Benefit Plans (IFEBC).
Moved by:	Mr. Maguire
Seconded by:	Ms. Roediger
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

Regarding the following two agenda items, pursuant to A.R.S. §§ 38-431.03(A) (3), (4) and (7), notice is hereby given to the Trustees of the PSPRS Board and the general public that the PSPRS Board may vote to go into Executive Session, which will not be open to the public.

- 25. Discussion with and Appropriate Instruction by the Board of Trustees to legal counsel regarding those matters referenced in agenda item 25 below, including matters pertaining to investments or contracts, legislative initiatives, or ongoing or threatened legal actions involving the Arizona PSPRS Trust, the System, or the System's sister plans (EORP or CORP) and/or involving matters pertaining to Huggins, Miller, Martin, Cross, Welker, Pivotal Group, Stroh Ranch Development, SDI, Desert Troon, IRS determination letters, Seldin, Parker, and Loftus and Appropriate **Action** regarding same.....Mr. Marc Lieberman
Partner, Kutak Rock

MOTION: 2-105-11	At 3:10p.m.
Motion:	To recess Open Session and enter Executive Session on Agenda items 19, 24, and 25.
Moved by:	Mr. Maguire
Seconded by:	Ms. Roediger
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

Resume Open Session following Executive Session.

MOTION: 2-106-11	At 4:03 p.m.
Motion:	To move that legal counsel, working with staff, develop a modification of procedures such that designated members of the Board may consult with staff prior to making a decision regarding investments with ORG and StepStone.
Moved by:	Mr. Maguire
Seconded by:	Mr. Ferguson
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

26. The Board of Trustees may vote to go into Executive Session to discuss matters pursuant to A.R.S §§ 38-431.03(A) (3), (4), and (7) including to obtain legal advice from the Board's attorney on any matter listed on the agenda, including:
- a. Discussion with legal counsel regarding legal issues, and settlement discussions, if any, arising in connection with the Arizona PSPRS Trust's real estate, private equity, hedge, loan and other investments, including those managed (or formerly managed) by the Pivotal Group, ApexCapital Management, and Desert Troon Limited, pursuant to A.R.S. §§ 38-431.03(A)(3), (4) and (7), and including claims raised by Millard and Scott Seldin with respect to an indirect investment in Anthology.
 - b. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Arizona PSPRS Trust, the System or the System's sister plans (EORP or CORP), including contemplated internal investigations, investment related matters, EEOC claims, and actual or potential litigation and claims, including those involving Huggins, Cross, Miller, Martin, Welker, Pivotal Group, Stroh Ranch Development, SDI, Desert Troon, Seldin, Parker, and Loftus pursuant to A.R.S. §§ 38-431.03(A) (3), (4), and (7).
 - c. Discussion and consultation with legal counsel regarding the right of the Board of Trustees to delegate authority to one or two of its seven members, in consultation with staff, to approve certain investments made by a company in which the System has an indirect interest, as authorized by A.R.S. § 38-431.03(A)(3).

27. Set the next meeting date.

The next regularly scheduled Board of Trustees meeting will be held on March 30, 2011.

28. Adjournment

MOTION: 2-107-11 At 4:04 p.m.
Motion: To adjourn the meeting.
Moved by: Mr. Dunne
Seconded by: Ms. Roediger
Discussion: None
In Favor: Unanimous
Motion: Passes

 Brian Tobin, Trustee, Chairman

 Lori Roediger, Trustee, Vice Chairperson

 Tim Dunne, Trustee

 Greg Ferguson, Trustee

 Alan Maguire, Trustee

 Jeff McHenry, Trustee

 Randie Stein, Trustee

