

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

July 25, 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 - Excused
Mr. Lauren Kingry, Trustee – Excused at 3:37 p.m.
Mr. William Davis, Trustee
Mr. Jim Hacking, Administrator
Mr. Ryan Parham, Assistant Administrator / Chief Investment Officer
Mr. Jared Smout, Deputy Administrator
Mr. Anton Orlich, Portfolio Manager
Mr. Paul Corens, Portfolio Manager
Mr. Mark Selfridge, Portfolio Manager
Mr. Shan Chen, Portfolio Manager
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. Don Stracke, Senior Consultant, NEPC, LLC
Mr. Jay Rose, Partner, StepStone Group
Mr. Jonathan Berns, Partner, ORG Portfolio Management

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

The meeting was called to order by Chairman Tobin at 1:00 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 early normal benefit of Andrew Hurwitz
 - b. Acceptance of Elected Officials' Retirement Plan of early normal benefit of Al W. White
 - c. Acceptance of Transfer Between State Retirement Systems of Veneranda Heffern
 - d. Acceptance of Transfer Between State Retirement Systems of Donna Ruth Hudson
 - e. Acceptance of Transfer Between State Retirement Systems of Josh Hughes
 - f. Acceptance of Transfer Between State Retirement Systems of John R. Jones

- g. Acceptance of Transfer Between State Retirement Systems of Evangeline Chatt
- h. Acceptance of Transfer Between State Retirement Systems of Jeanne Garcia-Riley
- i. Acceptance of Transfer Between State Retirement Systems of Dillon Russell
- j. Acceptance of Transfer Between State Retirement Systems of Susan Emore

MOTION: 7-2-12	At 1:01 p.m.
Motion:	To approve the Consent Agenda.
Moved by:	Mr. Ferguson
Seconded by:	Mr. Kingry
Discussion:	None
In Favor:	Unanimous – Mr. Petrenka was excused
Motion:	Passes

3. Appropriate **Action** regarding the Agreement with Mohave Valley Fire District to participate in the Supplemental Defined Contribution Plan.....Mr. Brian Tobin

MOTION: 7-3-12	At 1:02 p.m.
Motion:	To approve the Agreement with Mohave Valley Fire District to participate in the Supplemental Defined Contribution Plan.
Moved by:	Mr. Ferguson
Seconded by:	Ms. Stein
Discussion:	None
In Favor:	Unanimous – Mr. Petrenka was excused
Motion:	Passes

4. Appropriate **Action** regarding the Minutes of the June 27, 2012 meeting of the PSPRS Board of Trustees.....Mr. Brian Tobin

MOTION: 7-4-12	At 1:02 p.m.
Motion:	To approve the amended Minutes of the June 27 meeting of the PSPRS Board of Trustees with an amendment to show that items #2 and #11d were seconded by Ms. Stein.
Moved by:	Mr. Ferguson
Seconded by:	Ms. Stein
Discussion:	None
In Favor:	Unanimous – Mr. Petrenka was excused
Motion:	Passes

Report by Mr. Lauren Kingry, Vice Chairman of the Investment Committee, regarding agenda items 5. through 9. which were discussed at the Investment Committee meeting held today, July 25, 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/portfolio.....Mr. Paul Corens
.....Portfolio Manager

The summary of the Month Ended and the Fiscal Year-to-Date performance of the portfolio was given by Mr. Corens. He reported that as of June 30, gross of fees, the preliminary figures on an absolute basis show that the Trust was up 137 basis points ("bps") as compared to the benchmark, which was up 221 bps. For the fiscal year, on an absolute basis, the Trust declined 27 bps as compared to the benchmark which increased 267 bps. Total fund return, excluding joint venture legacy real estate was positive at 27 bps. Legacy real estate managers are reporting positive improvements in the Arizona real estate markets and believe a solid bottom has been reached. That means we should see some gains in asset value for these legacy residential real estate holdings going forward. For the past fiscal year, on an absolute basis and relative basis, the asset class within the Trust's portfolios which demonstrates the best performance was private equity with 380 bps of out-performance and the second best performance, on a relative basis, was in the absolute return portfolio.

6. Presentation by Investment Department Staff and ORG Portfolio Management representatives and discussion and possible **Action** regarding an investment of up to \$10 million in Iron Point Real Estate II, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Iron Point, LLC and/or its affiliates.....
..... Mr. Mark Selfridge
..... Portfolio Manager
..... Mr. Jonathan Berns, Partner
..... ORG Portfolio Management

Mr. Selfridge reported that in August of 2008, PSPRS invested in Iron Point Real Estate I and that this investment has performed well. It has met expectations with a net IRR of 12%. Regarding Iron Point Real Estate II, the following sectors will be targeted. They include domestic distressed real estate, senior assisted living facilities, mission critical data centers, and affordable multi-family housing.

Mr. Berns of ORG added that the Iron Point team is seasoned and most of the team has been with the company since 1992. Since their inception, they have done well, despite the tough real estate market in the most recent years.

MOTION: 7-5-12	At 1:16 p.m.
Motion:	To approve an investment of up to \$10 million in Iron Point Real Estate II, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Iron Point, LLC and/or its affiliates.
Moved by:	Mr. Kingry
Seconded by:	<i>(Recommended by the Investment Committee.)</i>
Discussion:	None
In Favor:	Unanimous – Mr. Petrenka was excused
Motion:	Passes

- 7a. Report and possible Action regarding an intra-month redemption notice sent by Ryan Parham, CIO of the PSPRS to GAM.....Mr. Ryan Parham

Mr. Parham told the Board that he sent a notice to redeem \$75 million to the hedge fund, GAM, to reduce exposure. He asked whether the Board wished to instruct him to withdraw the notice of redemption.

No action was taken; therefore the redemption notice will not be withdrawn.

7. Presentation by Investment Department Staff and StepStone Group representatives and discussion and possible **Action** regarding an investment of up to \$20 million in Avalon Ventures Fund X, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by and Avalon Ventures and/or its affiliates.....
.....Mr. Shan Chen
.....Portfolio Manager
.....Mr. Jay Rose, Partner
.....StepStone Group

Mr. Shan Chen stated that this investment, if approved, would be placed in the private equity portfolio as a venture capital allocation. This Avalon Ventures Fund will specialize in early stage technology and life sciences investments. Avalon Ventures was founded in 1983 and the company's funds continue to outperform their benchmarks. Mr. Shan Chen reminded the Board that PSPRS is invested in Avalon's Fund IX. The company's focus is on acquisitions with lower valuations so that they pay less for early stage companies, they obtain a large percentage of ownership and they use a hands on approach. In the case of Fund X, Avalon's strategy is to invest in 17 to 20 technology and life sciences companies. They have well defined criteria for the companies that they select for investment.

Mr. Rose of StepStone Group added that Avalon has good sourcing techniques for early stage investments. He described their track record.

MOTION: 7-6-12	At 1:33 p.m.
Motion:	To approve an investment of up to \$20 million in Avalon Ventures Fund X, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by and Avalon Ventures and/or its affiliates.
Moved by:	Mr. Kingry
Seconded by:	<i>(Recommended by the Investment Committee.)</i>
Discussion:	None
In Favor:	Unanimous – Mr. Petrenka was excused.
Motion:	Passes

8. Presentation by Investment Department Staff and NEPC, LLC representatives and discussion and possible **Action** regarding an investment of up to \$70 million in SJC Onshore Direct Lending Fund II, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Czech Asset Management L.P and/or its affiliates.....
.....Mr. Shan Chen
.....Mr. Allan Martin, Partner
.....NEPC, LLC

Mr. Chen told the Board that in July 2010 PSPRS invested in SJC Onshore Direct Lending Fund I which has a 10.5% IRR. Investment in SJC Onshore Direct Lending Fund II is being proposed because Staff and the consultants find the conservative strategy pursued in Fund I to be very appealing. This second fund will have the same strategy, processes and staff. It will be a direct lending fund investing in 25

collateralized loans to commercial financial companies. The company's procedures are rigorous and they use an experienced team with an average of 23 years of experience. Mr. Stracke indicated that NEPC is in full support of Staff's recommendation for this investment. SJC makes middle market loans of \$50 million up to \$500 million. Senior secured notes are obtained with assets for collateral. SJC's managers are of high quality; there has been no turnover since the firm began; and their processes are disciplined and their sourcing is excellent.

Mr. Kingry added that SJC Onshore Direct Lending appears prepared for unforeseen circumstances.

MOTION: 7-7-12	At 1:45 p.m.
Motion:	To approve an investment of up to \$70 million in SJC Onshore Direct Lending Fund II, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Czech Asset Management L.P and/or its affiliates.
Moved by:	Mr. Kingry
Seconded by:	<i>(Recommended by the Investment Committee.)</i>
Discussion:	None
In Favor:	Unanimous – Mr. Petrenka was excused.
Motion:	Passes

9. Presentation by Investment Department Staff, and NEPC, LLC representatives and discussion and possible **Action** regarding certain proposed revisions to the Amended and Restated Statement of Investment Policy which, among other things, delegate authority to the Administrator to approve portfolio manager selection. Mr. Ryan Parham
..... Mr. Allan Martin

Mr. Parham reviewed with the Board of Trustees the proposed revisions to the Amended and Restated Statement of Investment Policies as discussed during an earlier Board meeting. The Board members had requested, in addition to changes that incorporate a new asset allocation and the new benchmarks, a revision to the process of selecting investment managers. Board members tasked Staff with the assignment of delegating the selection of outside investment managers to a combination of Staff and the System's investment consultants. On July 18, 2012 this was accomplished at a Board meeting that included four members of the Board, Staff, counsel from Kutak Rock and NEPC representatives. Mr. Parham summarized the draft proposal for the investment manager selection process. Authority would be delegated to the Administrator who would delegate it to the Chief Investment Officer ("CIO") in the following sequence. Staff, in consultation with the appropriate specialty investment, will identify a potential manager and conduct their normal due diligence. As that process is nearing completion, Staff will notify the members of the Board of the proposed selection by e-mail for their information. At that point, should any of the Board members have any specific knowledge of the manager that they think should be factored into the decision-making process, they would share that information with the CIO. That information would then be incorporated into the decision-making process. Staff would present the selection to the Administrator. The specialty consultant would have to concur with the recommendation and NEPC would have to indicate that the selection is consistent with policy, is being allocated to the relevant asset class and is consistent

with the plan for that asset class. Once the Administrator verifies Staff and consultant support, he will report the selection to the Board at the next regularly scheduled meeting. The draft policy also provides for the de-selection of managers. As part of the normal due diligence process, on-site visits to potential managers will continue to take place, but as a manager becomes a candidate for selection, the Staff will invite them to visit PSPRS to make a presentation to the investment team and to representatives of the consultants. Should any Board member wish to attend as non-participating members of the audience, they would be invited to do so. Mere attendance in the audience would not violate the open meeting laws. Once selected, the Administrator would cause either the CIO or the Compliance Officer to report on the selection, pass out any informational materials and explain the reasons for selection. The Compliance Officer would then verify the process is complete.

Mr. Lieberman added that in the rare instance that NEPC or the specialty consultant is not comfortable with the selection and Staff still wants to proceed with the selection, then the decision would then go to the Administrator for determination and he would have the option to say whether that matter should be considered by the Investment Committee of the Board. This new process for manager selection will free up the time of the Investment Committee so that it can focus its attention on investment strategy and “big picture” issues.

During the September meeting, the specialty consultants will meet with us and discuss their roles and their fiduciary duties. Specific changes to the draft policy were suggested by the Board.

MOTION: 7-8-12	At 2:14 p.m.
Motion:	To approve certain proposed revisions to the Amended and Restated Statement of Investment Policies which, among other things, delegate authority to the Administrator, Staff and consultants to approve the selection of portfolio managers.
Moved by:	Mr. Kingry
Seconded by:	<i>(Recommended by the Investment Committee.)</i>
Discussion:	Mr. Kingry stated the revisions are based on current personalities and that it is not generic. Mr. Parham responded that the policies are under the control of the Board and that the Board, at any point, can amend the policies. To be successful, this process presumes that there is in place a professional and informed Staff and investment consultants. It cannot then be corrupted. Each Board member can send appropriate information to the CIO who would then share it with the Staff and the consultants.
In Favor:	Unanimous – Mr. Petrenka was excused.
Motion:	Passes

10. 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

Ms. Feeley reported that because we are reducing the fixed income portfolio; two other holdings are now over the 5% threshold. Real estate is over the 12% threshold at 12.74%; but based on the anticipated approval of the new policies, which just happened, none of these will be out of compliance going forward. Mr. Tobin clarified that we are now in compliance because the new allocation became effective July 1, 2012.

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee regarding agenda items 11. through 18. which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, July 25, 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 2012 and possible **Action** on same Mr. John Hendricks
..... Manager of Finance and Accounting

Mr. Ferguson reported that for the fiscal year 2012 PSPRS was over budget by 7.81% due to \$500,000 in litigation fees and \$900,000 in investment legal costs.

12. 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

A written report was provided in the meeting materials for the Board of Trustees.

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

A written report was provided in the meeting materials for the Board of Trustees.

- 14.a. Review, discussion and possible **Action** regarding amendments to the Arizona Elected Officials' Retirement Plan (EORP) Administrative Hearing Procedures
..... Mr. Jim Hacking

The updated hearing procedures were approved by the Operations, Governance Policy and Audit Committee members; the amendments involved merely word changes to the document such as changing the term "Fund Manager" to "Board of Trustees."

MOTION: 7-9-12	At 2:19 p.m.
Motion:	To approve amendments to the Arizona Elected Officials' Retirement Plan (EORP) Administrative Hearing Procedures.
Moved by:	Mr. Ferguson
Seconded by:	<i>(Recommended by the Operations, Governance Policy and Audit Committee.)</i>
Discussion:	None
In Favor:	Unanimous – Mr. Petrenka was excused.
Motion:	Passes

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

Mr. Ferguson reported that action was taken by the Operations, Governance Policy and Operations Committee to approve the Kutak Rock July bill for legal services performed in June 2012 in the amount of \$81,369 and that the Board members have copy of the other legal fees.

15. Discussion of possible legislative initiatives during the 2013 session of the State Legislature.....Mr. Jim Hacking

Mr. Hacking said that the process for developing an administrative bill has begun; Staff have been asked for their recommendations by e-mail.

16. Status report and possible **Action** with respect to the PSPRS staff compensation review.....Mr. Jim Hacking

Mr. Hacking reported that Buck Consulting has begun the project; it should be completed before the end of September.

17. Discussion and possible **Action** regarding the Wells Fargo payroll disaster online file
.....Mr. Tom Willard
.....Systems Development Manager

Mr. Willard and Mr. Chase gave a description of how the previous month's pension payroll would be kept in a retention file to be used in the event that the succeeding month's pension payroll cannot be processed due to some disaster. They said that if a disaster occurred that would prevent a monthly payroll from being processed, the prior month's payroll, which is stored in a file off site, could be downloaded from storage to Wells Fargo which can run the pension payroll. The stored file would not include any one time payments that were made in the prior month. They indicated that someone, in addition to Staff, would have to be empowered to authorize the processing of the pension payroll using this procedure.

Mr. Hacking suggested that the responsibility should be assigned to a particular Board position so that, whoever is in that position, would have the authority to initiate the process. He indicated that this matter will be discussed further at a future meeting.

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

MOTION: 7-10-12	At 2:34 p.m.
Motion:	To recommend adoption of the FY 2013 Internal Audit Plan.
Moved by:	Mr. Ferguson
Seconded by:	<i>(Recommended by the Operations, Governance Policy and Audit Committee.)</i>
Discussion:	None
In Favor:	Unanimous – Mr. Petrenka was excused.
Motion:	Passes

19. Discussion and possible **Action** with respect to a proposed policy with respect to the issuance of audit and compliance reports.....Ms. Bridget Feeley
Ms. Stein asked whether what was being proposed is a policy or a procedure. Mr. Hacking responded that it is a procedure and that it will no longer involve processing these reports through counsel at Kutak Rock.

20. 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.

Mr. Jim Mann, Executive Director of the Fraternal Order of Police, told the Board that the F.O.P. members appreciate the communications they receive from the System in particular regarding SB 1116 and the statutory changes.

21. Discussion and possible **Action** with respect to the appointment of Mr. William Davis as a replacement for Mr. Brian Tobin as a member of the Investment Committee of the Board of Trustees.....Mr. Brian Tobin

MOTION: 7-11-12	At 2:43 p.m.
Motion:	To approve the appointment of Mr. William Davis as a replacement for Mr. Brian Tobin as a member of the Investment Committee of the Board of Trustees.
Moved by:	Mr. Tobin
Seconded by:	<i>No one seconded</i>
Discussion:	None
In Favor:	Unanimous – Mr. Petrenka was excused.
Motion:	Passes

22. 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.

23. Discussion and consultation with legal counsel and Staff regarding proposed legislation, investment matters, ongoing, contemplated or threatened legal action involving the 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 Judge Paul Katz, Huggins, retired police officers Rappleyea and Everson, active police officers Parker, Griego, Manganiello and Robles, Cross, the Pivotal Group, the Seldins, Stroh Ranch Development and Red Kite Explorer Fund. 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 24.
24. **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.
 - b. Discussion with legal counsel concerning the Administrator's Determination regarding Judge Paul Katz Claim for Health Insurance Subsidy.
 - 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 Plans' contracts and investments, including legal matters concerning the Plans' custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venturers (as well as any investments managed by the Plans' investment managers or joint venturers). The Board may vote to discuss these matters, wholly or in part, in Executive Session pursuant to 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, Red Kite Explorer Fund and/or Millard and Scott Seldin.
 - d. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans not otherwise referenced above, including internal investigations, public record requests, and actual or potential litigation and claims based on contract, tort or statute, including those involving Huggins & Cross, pursuant to A.R.S. §§ 38-431.03(A) (2), (3) and (4).

MOTION: 7-12-12	At 2:47 p.m.
Motion:	To recess Open Session and enter Executive Session.
Moved by:	Mr. McHenry
Seconded by:	Mr. Ferguson
Discussion:	None
In Favor:	Unanimous – Mr. Petrenka was excused.
Motion:	Passes

Open Session resumed at 3:37 p.m. The Administrator was directed to follow through with the recommendations from the Executive Session.

Mr. Kingry was excused at 3:37 p.m.

25. Set the next meeting date. (Currently scheduled for Wednesday, September 19, 2012 and Thursday, September 20, 2012.)
The meeting for both days was tentatively set to begin at 9:00 AM, if necessitated by the length of the agenda. The August Board of Trustees meeting is cancelled.
26. Adjournment

The meeting was adjourned at 3:42 p.m.

Brian Tobin, Chairman

Gregory Ferguson, Trustee,
Vice Chairman

Randie A. Stein, Trustee

Jeff Allen McHenry, Trustee

Richard J. Petrenka, Trustee-Excused

Lauren Kingry, Trustee

William C. Davis, Trustee