

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

ANNUAL MEETING – SEPTEMBER 21 and 22, 2011

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 – Excused
Mr. Jim Hacking, Administrator
Mr. Ryan Parham, Assistant Administrator / Chief Investment Officer
Mr. Jared Smout, Deputy Administrator
Mr. Marty Anderson, Deputy Chief Investment Officer
Mr. Pascal Stalder, Deputy Chief Investment Officer – Risk
Mr. Anton Orlich, Senior Analyst
Mr. Paul Corens, Senior Investment Analyst
Mr. Mark Selfridge, Senior Investment Analyst
Mr. Shan Chen, Senior Analyst
Mr. Mark Steed, Senior Analyst
Ms. Michele Weigand, Senior Contracts Specialist
Ms. Manika Rastogi, Investment Intern
Mr. Dana David, Assistant Attorney General
Ms. Bridget Feeley, Internal Audit and Compliance Officer
Mr. Paul Hemmes, Training/Audio Visual Specialist
Mr. John Hendricks, Accounting Manager
Mr. Allan Martin, Partner, NEPC Inc.
Mr. Don Stracke, Senior Consultant, NEPC, Inc.
Mr. Jay Rose, Partner, StepStone Group
Mr. Weichou Su, Partner, StepStone Group
Mr. Tom Keck, Partner, StepStone Group
Mr. Lincoln Smith, Senior Portfolio Analyst, Albourne America LLC
Mr. Marc Lieberman, Partner, Kutak Rock

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

Chairman Tobin called the meeting to order at 1:00 p.m. He recognized Mr. Tim Dunne and Ms. Lori Roediger for their years of service on the PSPRS Board of Trustees.

2. Appropriate **Action** for approval of the items set forth in 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 death benefit payout to Diedra West Cooper Brunner

- b. Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Vera Slaughter
- c. Acceptance of Elected Officials' Retirement Plan of termination of normal benefit of Camilo V. Ahumada
- d. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Grace Ahumada
- e. Acceptance of Transfer Between State Retirement Systems of Peter Chavez
- f. Acceptance of Transfer Between State Retirement Systems of Sherrick Bader
- g. Acceptance of Transfer Between State Retirement Systems of Brian Joseph
- h. Acceptance of Transfer Between State Retirement Systems of Nolan Collins
- i. Acceptance of Transfer Between State Retirement Systems of Roberta Primera
- j. Acceptance of Transfer Between State Retirement Systems of Blake Tirman
- k. Acceptance of Transfer Between State Retirement Systems of John De La Mater
- l. Acceptance of Transfer Between State Retirement Systems of Jeffrey Eavenson
- m. Acceptance of Transfer Between State Retirement Systems of Tyson Esquibel
- n. Acceptance of Transfer Between State Retirement Systems of Tammy Klingler
- o. Acceptance of Transfer Between State Retirement Systems of Pamela Swearingin
- p. Acceptance of Transfer Between State Retirement Systems of Jessica Lurkins
- q. Acceptance of Transfer Between State Retirement Systems of Roger McDowell
- r. Acceptance of Transfer Between State Retirement Systems of Brittani Caudillo
- s. Acceptance of Transfer Between State Retirement Systems of William Scheckel
- t. Acceptance of Transfer Between State Retirement Systems of Mary Garduno
- u. Acceptance of Transfer Between State Retirement Systems of Adam Hoster
- v. Acceptance of Transfer Between State Retirement Systems of Anthony Konesky
- w. Acceptance of Transfer Between State Retirement Systems of Sergio Virgillo
- x. Acceptance of Transfer Between State Retirement Systems of Lucia Lozoya
- y. Acceptance of Transfer Between State Retirement Systems of Roland Tipton
- z. Acceptance of Transfer Between State Retirement Systems of Irene Sanchez

MOTION: 9-37-11	At 1:02 p.m. on September 21, 2011
Motion:	To approve the consent agenda as presented.
Moved by:	Mr. Ferguson
Seconded by:	Mr. McHenry
Discussion:	None
In Favor:	Unanimous – Mr. Kingry was excused and did not vote.
Motion:	Passes

3. Appropriate **Action** regarding the Minutes of the August 31, 2011 Meeting of the PSPRS Board of Trustees.....Mr. Brian Tobin

MOTION: 9-38-11	At 1:02 p.m. on September 21, 2011
Motion:	To approve the Minutes of the August 31, 2011 Meeting of the PSPRS Board of Trustees as presented.
Moved by:	Mr. Ferguson
Seconded by:	Mr. McHenry
Discussion:	None
In Favor:	Unanimous – Mr. Kingry was excused and did not vote.
Motion:	Passes

Report by Mr. Petrenka, Chairman of the Investment Committee, regarding agenda items 4 through 13 which were discussed at the Investment Committee meeting held September 21, 2011, on or after 10:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

4. Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio updateMr. Mark Selfridge
.....Senior Analyst

It was reported by Mr. Selfridge that at the end of the month the total fund performance was -2.1% as compared to the benchmark performance of -2.9%. For the fiscal year-to-date, performance of the total fund was -2.24% compared to the benchmark of -3.26%. The negative performance was driven by equities. For the calendar year-to-date, fund performance was 2.16% compared to the benchmark performance of 0.93%. Real estate and real assets made positive contributions to the total fund. Mr. Petrenka asked Staff to speak with NEPC regarding the issue of the UBS situation in ETFs in the marketplace and report back to the Board.

5. Presentation by Investment Department Staff and StepStone Group representatives and discussion and possible **Action** regarding an investment of up to \$30 million in Trustbridge Partners IV, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Trustbridge Partners or its affiliates.....Mr. Shan Chen
.....Senior Analyst
.....Messrs Jay Rose and Weichou Su
.....Partners, StepStone Group

Mr. Chen introduced Mr. Su who summarized the background of Trustbridge Partners which has a team experienced in operations and networking. In most of their deals, they are the sole investor (16 of 21 deals). They know the marketplace trends and that knowledge has helped to produce excellent returns in their first three funds. Trustbridge focuses on consumer sales, new internet technology, and health care. They have strong U.S. institutional based limited partners. Mr. Chen stated that Trustbridge has exposure to China's fast growing economy and due to China's control of currency, PSPRS uses the type of alternative investments that Trustbridge offers to get exposure.

MOTION: 9-39-11	At 1:16 p.m. on September 21, 2011
Motion:	To accept the recommendation of the Investment Committee to invest up to \$30 million in Trustbridge Partners IV, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Trustbridge Partners or its affiliate.
Moved by:	Mr. Petrenka
Seconded by:	
Discussion:	None
In Favor:	Unanimous – Mr. Kingry was excused and did not vote.
Motion:	Passes

6. Presentation by Investment Department Staff and StepStone Group representatives and discussion and possible **Action** regarding an investment of up to \$30 million in Vivo Ventures Fund VII, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by and Vivo Ventures or its affiliates.....Mr. Shan Chen
..... Messrs Jay Rose and Weichou Su

Mr. Chen explained that this is a late stage venture capital fund focused on health care and pharmaceuticals in the U.S. with a strong exposure to China. The team of professionals with advanced degrees in technology and medicine has industrial knowledge and experience which is unique and hard for competitors to copy. Two thirds of their investments are in the U.S. and one third in China which has the fastest growing middle class in the world with the desire for world class medical products and treatments. U.S. companies are looking to get their products into

China. Vivo Ventures knows when a company is through the second stage of FDA approval and they know the success rates of companies that may be depressed due to market downturns or a special incident which leads to the purchasing of the company at a low value and to an exit within twelve months for an early return.

Mr. Parham stated this investment would fall into the Asian geographical exposure.

MOTION: 9-40-11	At 1:25 p.m. on September 21, 2011
Motion:	To accept the recommendation of the Investment Committee to invest up to \$30 million in Vivo Ventures Fund VII, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by and Vivo Ventures or its affiliates.
Moved by:	Mr. Petrenka
Seconded by:	
Discussion:	None
In Favor:	Unanimous – Mr. Kingry was excused and did not vote.
Motion:	Passes

7. Presentation by Investment Department Staff and Albourne America LLC representatives and discussion and possible **Action** regarding an investment of up to \$25 million in JPMorgan AIRRO India SideCar Fund US, LLC. or appropriate feeders, blockers, or associated or parallel funds of same managed by J.P. Morgan Investment Management Inc. or any of its affiliates.....Mr. Paul Corens
..... Senior Analyst
.....Messrs. Lincoln Smith and John Shearman
.....Albourne America, LLC

Mr. Anderson stated that two years ago the Board approved an investment in JP Morgan's AIRRO Fund for investing in Pan Asian (China, Korea, India) infrastructure which now exceeds the scope of available capital. This SideCar fund provides an opportunity to co-invest in ownership of toll road concessions and toll road maintenance and construction. Due diligence has been completed by Staff. Mr. Shearman summarized the due diligence conducted by Albourne in July 2009 and indicated that they have followed this project since that time and continue to like it. Their team is cautious in underwriting and they mitigate risk. India has a large infrastructure and if their needs are not addressed, their growth potential will be limited. The partners in this project need to keep in mind that this is an emerging market and there are risks in emerging markets. The risk is mitigated by a good JP Morgan team to source and underwrite the projects. Step in prudently and recognize the risks with the expectation of commensurate returns. Ms. Manika Rastogi provided the Board with first hand positive information regarding India.

MOTION: 9-41-11	At 1:34 p.m. on September 21, 2011
Motion:	To accept the recommendation of the Investment Committee to invest up to \$25 million in JPMorgan AIRRO India SideCar Fund US, LLC. or appropriate feeders, blockers, or associated or parallel funds of same managed by J.P. Morgan Investment Management Inc. or any of its affiliates.
Moved by:	Mr. Petrenka
Seconded by:	
Discussion:	None
In Favor:	Unanimous – Mr. Kingry was excused and did not vote.
Motion:	Passes

8. Presentation by Investment Department Staff and NEPC, LLC representatives and discussion

regarding Risk Parity.....Mr. Ryan Parham
Chief Investment Officer
Mr. Allan Martin
Partner, NEPC, LLC

Mr. Parham spoke to the Board regarding the stress on our portfolio during economic regimes that are either in environments of high growth and high inflation or low growth and high inflation. Risk parity is the process of rebalancing the portfolio for which a separate allocation may be created and over time assets will be put into this allocation that will continue to rebalance the portfolio. Mr. Martin added one way to balance risk and yet not give up value is through leverage which achieves the same return with lower risk. This topic will be discussed during the second day of the Annual Meeting.

9. Discussion of the System's asset allocation.....Mr. Ryan Parham

Mr. Parham recommended consideration of a review of the portfolio's asset allocation to be conducted by NEPC. Mr. Petrenka stated that the Investment Committee voted to proceed with the asset allocation study during their meeting this morning.

10. Report by Investment Department Staff representatives and discussion regarding Risk.....
Mr. Pascal Stalder
Deputy Chief Investment Officer – Risk

Risk can be studied through data sources developed on the types of exposures in the portfolio. There are exposures and sub exposures in currencies and countries. Mr. Stalder went on to list the top ten holdings and each of their top five sub holdings. The portfolio has 20% non-U.S. country or currency holdings. In the future, discussions will be held regarding liquidity structure of the portfolio, volatility, correlation structure, market and economic risk, and risk versus return structure.

The development of a risk dashboard is the goal of Staff in order to give a pictorial analysis of what is going on in the portfolio. Mr. Petrenka inquired about measuring the stability of governments. He also inquired about fraud risk, and Mr. Stalder responded that two ways to mitigate risk are through diversification and insurance policies. Mr. Parham added that some more economic resources will be added in the future.

11. Presentation by Investment Department Staff representatives and discussion regarding the Due Diligence process.....Mr. Marty Anderson
Deputy Chief Investment Officer

Mr. Anderson told the Board that a key element of risk mitigation from a micro point of view involves Staff, consultants, legal staff, and background investigation specialists who go behind the scenes on an on-going basis. Reviews are conducted top down and bottom up. The Staff process begins with our ideas, consultant ideas, various databases, internal reviews, contact with placement agents and manager referrals which leads to the next step. External review consists of independent asset class consultants, outside legal counsel and background investigations of entities, principals, and key personnel. Valuation consultants and appraisers are also used.

Mr. Lieberman complimented Staff as being able to walk away from deals that do not check out following a large amount of work. Mr. Martin of NEPC added this is one of the best review processes he has seen. He mentioned an accounting firm that goes out to do compliance testing prior to completion of a deal but this could easily be seen as overkill.

12. Report by Investment Department Staff on the fiscal health of the PSPRS Cancer Insurance Program.....Mr. Ryan Parham
.....Mr. Mark Selfridge

A summary of the PSPRS Cancer Insurance Plan was given by Mr. Parham. Last year the return of 20.3% was mostly due to the 60% equity exposure that the Plan has. The difficulty is that we have not had enough experience with the Plan regarding contributions and liabilities in order to do an asset liability study which would then drive an asset allocation study. He suggested discussing this with NEPC and Staff in order to make a proposal for further diversification which could improve this portfolio. It was noted that we cannot co-mingle the Cancer Insurance funds with the Trust, but he suggested that the staff work on ways to diversify for more efficiency and less risk for better returns.

13. Report by the System's Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings, and transactions as of August 31, 2011.....Ms. Bridget Feeley
..... Internal Audit and Compliance Officer

Ms. Feeley stated that we are in compliance except for the internally managed fixed income portfolio which has a 5% threshold for investment in any one asset. The Security Mutual Life Insurance investment continues to exceed this 5% threshold by a little over \$500,000. Mr. Parham stated that he anticipates meeting with Mr. Petrenka regarding the internally managed fixed income portfolio and said as we spend it down, this portfolio will become less diversified and more concentrated. They will explore selling some portion of the investment in Security Mutual Life Insurance which is a good company with a 9% return. This asset is extremely illiquid and we do not want to take actions that would adversely impact the portfolio and that are prompted by an arbitrary compliance measure. However, we do own the whole issue and therefore it will be discussed with Mr. Petrenka.

Presentation by Mr. Greg Ferguson, Committee Chairman of the Operations, Governance Policy and Audit Committee and possible Action regarding the recommendations made during the meeting held September 21, 2011 on or after 10:00 a.m. on agenda items 14 through 21.

14. Presentation of the Month-to-Date Budget Report for FY 2011 and possible **Action** on same.....Mr. John Hendricks
.....Accounting Manager

Mr. Hendricks explained that there are two reports regarding different views of the budget. One shows the budget for the full fiscal year and the other shows the budget on a year-to-date basis. The budget for FY 2012 does not show a lot of activity at this point. He added that the Operations, Governance Policy, and Audit Committee requested both reports be given on a monthly basis.

15. Status report on the filling of vacant staff positions.....Mr. Jim Hacking

Mr. Hacking gave a summary of the status of the vacant positions. The two call center positions have been filled; the open position in the Active Members Servicer Group has been filled as has the open position on the IT Operations Group. Following recruitment for the Local Board Outreach position, this position has been filled from within PSPRS. During this search, a decision was made to identify a consultant who could design some new "tools" for communication. The open position in the Benefits Department (that was the result of Don Mineer's moving to the Local Board Outreach position) has been posted internally and externally and the position of Deputy Administrator has been filled by Mr. Jared Smout who had previously worked for PSPRS for 14 years in a variety of positions and then left to earn another Master's degree in Public Administration. The topic of in-house legal counsel will be addressed later in this agenda.

Mr. Smout stated he is grateful for the opportunity to work at PSPRS once again.

16. Discussion of, and possible **Recommendations** with respect to, the elements for a possible administrative bill for the 2012 legislative session and preview of the other possible legislative initiatives.....Mr. Jim Hacking

Mr. Hacking reported that Mr. Dana David has completed the first drafts of the three proposed 2012 bills for the coming legislative session. There is an administrative bill, a bill to enable the use of swaps in the investment of Plan assets (by exempting PSPRS from the requirements of a state statute), and a bill to allow PSPRS to avoid having to include a variety of cumbersome disclosures in contracts the System enters into with portfolio managers. In a number of cases, these required disclosures have prevented investment relationships from being consummated. It is believed this same bill was vetoed last year due to lack of understanding of its purpose and why it is needed. The final drafts for all three bills will be ready prior to the October meeting.

17. Written update on the progress of the Local Board Training Program and discussion and possible **Action** regarding same.....Mr. Robert Ortega
.....Local Board Training Coordinator

Mr. Ortega's written report was in the mailing materials for the members of the PSPRS Board of Trustees.

18. Review, discussion and possible **Action** regarding the September 2011 bill for legal services performed in August 2011.....Mr. Jim Hacking

MOTION: 9-42-11	At 2:56 p.m. on September 21, 2011
Motion:	To accept the recommendation of the Operations, Governance Policy and Audit Committee to approve the September 2011 bill for legal services performed in August 2011.
Moved by:	Mr. Petrenka
Seconded by:	
Discussion:	None
In Favor:	Unanimous – Mr. Kingry was excused and did not vote.
Motion:	Passes

19. Report, discussion and possible **Action** regarding the search for in-house legal counselMr. Jim Hacking

Mr. Hacking stated that Staff had recommended three candidates for the second round of interviews to be conducted by the Ad Hoc Committee of the Board. However, one of those candidates has dropped out but the other two will be interviewed next week – hopefully in time to make a recommendation for the next Board of Trustees meeting.

20. Discussion of upcoming and recently completed projects of the PSPRS Systems Development Department, as well as an explanation of Standardization of languages and toolsets.....Mr. Tom Willard
.....Systems Development Manager

Mr. Willard reported that Staff is working on standardization of languages and toolsets. Recently completed projects include a rewrite of the Member's Only Website and Contribution system. Also completed are the Three Year Estimator on the Local Board site and within the PSPRS internal

EPIC database. Under development is a contribution II internet site and enhanced security on the internal PSPRS EPIC database. Future work will include the internet portion of the Local Board Training Site so that new hires and new retirements can be processed online using workflow, and enhanced web security.

21. Report, discussion and possible **Action** regarding compliance and internal audit.....Ms. Bridget Feeley
.....Internal Audit and Compliance Officer

Ms. Feeley reported that there were no compliance issues to report.

22. Discussion and possible **Action** with respect to the structure and responsibilities of the Board's Committees.....Mr. Brian Tobin

Chairman Tobin said he has spoken individually to each of the Board members in an effort not to duplicate topics in the Committee and Board meetings. A Committee does not need to report to the Board until ready to do so as long as they do not take action. If action needs to be taken, a Committee member will report to the full Board with a recommendation for appropriate action on the applicable agenda item. Mr. Petrenka suggested members outside of each Committee forward questions regarding mailing materials prior to the Committee meeting. Mr. Tobin stated that this will begin with the next meeting agendas. Ms. Stein asked that the references in the PSPRS Governance Policy to special advisers be removed.

23. Presentation by Dana David with respect to the requirements of the Open Meeting Laws relative to the Board of Trustees Ad Hoc and other Committee meetings.....Dana David
.....Assistant Attorney General

Mr. David stated this is on the Executive Session agenda for review later in the meeting.

24. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans, including vendor disputes, public record requests, and actual or potential litigation and claims based on contract, tort or statute, including those involving Bank of America, judges Thompson and Hall, retired judges Fields and Lankford, Huggins, Cross, Martin, Welker, the Pivotal Group, U.S. Bank, the Seldins, Stroh Ranch Development, and Loftus. The Board may vote to discuss these matters in Executive Session pursuant to A.R.S. §§ 38-431.03(A) (2), (3), and (4), as set forth in item 25.

25. **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)(2), (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 (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' 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),and (4). Matters discussed may include claims by Bank of America, Stroh Ranch Development, The Pivotal Group, U.S. Bank and/or Millard and Scott Seldin.

- b. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans, including internal investigations, public record requests, and actual or potential litigation and claims based on contract, tort or statute, including those involving Huggins, Cross, Martin, Welker, and Loftus pursuant to A.R.S. §§ 38-431.03(A) (2), (3) & (4).
- c. Discussion with legal counsel with respect to the requirements of the Open Meeting Laws relative to the Board of Trustees ad hoc and other Committee meetings pursuant to A.R.S. § 38-431.03(A)(3).

MOTION: 9-43-11	At 4:00 p.m. on September 21, 2011
Motion:	To recess Open Session and enter Executive Session.
Moved by:	Mr. Ferguson
Seconded by:	Mr. Petrenka
Discussion:	None
In Favor:	Unanimous – Mr. Kingry excused and did not vote.
Motion:	Passes

26. 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 be heard.

MOTION: 9-44-11	At 4:20 p.m. on September 21, 2011
Motion:	To recess the meeting until 9:00 a.m. September 22, 2011.
Moved by:	Mr. Ferguson
Seconded by:	Mr. Petrenka
Discussion:	None
In Favor:	Unanimous – Mr. Kingry was excused and did not vote.
Motion:	Passes

Second day of the Annual Meeting – September 22, 2011

- 27. Presentation by the Specialty Consultant for Real Estate, ORG Portfolio Management, regarding the System's Real Estate portfolio and an overview of market conditions and economic forecasts.....Mr. Ed Schwartz
.....Partners, ORG Portfolio Management

Mr. Schwartz told the Board that since ORG started with PSPRS four years ago, the real estate portfolio has progressed from single family residential investments to a broader, diversified and more institutional portfolio. The annualized return for the four years was 7.8% as of June 30, 2011. The portfolio outperformed both the NCREIF Property Index and the NCREIF ODCE Index for the year-to-date. For the three year period, the portfolio beat the NCREIF (National Counsel of Real Estate Investment Fiduciaries) ODCE (Open Ended Diversified Core Returns) Index but underperformed the NCREIF Property Index. The real estate portfolio is well diversified across all

property types based on both current market value and original commitment by sector, by international exposure and by only U.S. exposure. The U. S. real estate market has been through several transformations including a decline in values of up to 40% off the peak of 2007 to the trough in 2009, a recovery of values in 2010-2011 to 15-20% off the peak of 2007, and decline in nationwide occupancy rates and rents from peak levels. The majority of sales volume has occurred in the top 15 markets with demand for core properties in the top tier of markets.

Europe has a significantly larger amount of non-performing loans to restructure as compared to the U.S. China and India continue with rapid economic growth. Japan's growth slowed due to the recent earthquake and the recovery from the global financial crisis.

28. Presentation by the Specialty Consultant for Hedge Funds, Albourne America, regarding the System's Hedge Fund investments and an overview of market conditions and economic forecasts.....Messrs. John Shearman and Lincoln Smith
..... Albourne America

Mr. Smith and Mr. Shearman spoke regarding the definition of hedge fund risk, how hedge fund risk is different, and how to navigate the risk landscape. Hedge fund investments are sold through private placements and currently can operate pursuant to exceptions from Security and Exchange Commission registration requirements and use a variety of investment strategies. A common objective is to generate returns uncorrelated with Boarder financial markets in order to dampen volatility without constraining the overall return target of the total portfolio. The four strategies of hedge fund investments are: capitalizing on mispricing of related securities or financial instruments; focusing on securities that can benefit from the occurrence of an extraordinary transaction or event; investing in log/short strategies; and investing that is directional in nature. Albourne views hedge funds as a business model not an asset class. It is another way to invest in the asset classes PSPRS has in the portfolio. Because by its nature hedge fund risk is different, by adding uncorrelated hedge funds, portfolio returns can increase and risk can decrease.

A traditional fund will simple try to beat the market, but hedge funds will try for absolute returns regardless of the market and can make money when the market goes down due to the ability to go long and short. Short selling is selling financial securities the seller does not own in the hope of repurchasing them later at a lower price. This strategy can utilize mispricing between related instruments and is market neutral. Risk can be mitigated and almost eliminated by thorough due diligence processes initially and on an on-going basis. In depth and ongoing analysis identifies managers that are able to extract alpha over the long term. The due diligence processes used by Albourne and the PSPRS Staff were described. Refer to agenda item #11.

29. Presentation by the Specialty Consultant for Private Equity, StepStone Group, regarding the System's Private Equity portfolio and an overview of market conditions and economic forecasts.....Messrs Jay Rose and Tom Keck
.....Partners, StepStone Group

Mr. Rose told the Board that StepStone has long worked with private equity and looking back from June 30, 2011 to 2002, \$1.2 billion has been committed to 41 partnerships, \$144 million in distributions have been received with \$93 million within the trailing twelve months for an annualized internal rate of return of 8.6%. From March 31, 2010 to March 31, 2011 the annual return was 20.5%. StepStone looks at a total exposure by vintage year, performance relative to public markets, commitment pace, sector exposure, geographic exposure, and cash flow analysis by year.

In the secondary markets private equity investments generally produced superior risk adjusted returns. In Europe, capital investors need to be patient; they need strategic advice and Europe

needs private equity. There is a lot of intrinsic demand; so look for increased productivity of European assets. Emerging markets are growing rapidly and have sustainable market economies. There is lower penetration in Asia which implies room for growth. Small and mid market buyouts which focus on 90% of companies in the U.S., saw only a small amount of capital being raised by private equity funds in the last three years; but these had a higher average return than those of large and mega buyout funds.

30. Presentation by the General Consultant for the System, NEPC LLC, regarding the System's Public Markets investments and an overview of market conditions and economic forecasts.....Messrs. Allan Martin and Don Stracke
.....NEPC, LLC

Messrs. Martin and Stracke stated that the most important function of the Board of Trustees is establishing long term asset allocation. Mr. Martin discussed the process of developing asset allocation targets, which involves the allocation of assets across a spectrum of investments to achieve an expected return at an expected level of risk. Consideration is to be given to actuarially required returns, funded status, liquidity needs, time horizon and risk tolerance in order to pay liabilities. Also to be considered are current and future market conditions, correlation assumptions between asset class returns by measuring similarity and dissimilarity between asset classes. The search is for strategies/asset classes that have low correlation to stocks and bonds with a primary focus on uncorrelated return streams. In the next couple of months a review will be conducted of the path to improved returns and lower volatility.

A discussion was held regarding risk which is a downside phenomenon. Opportunities are limited in traditional asset classes and we must use reasonable exposures to illiquidity and increased exposure to emerging markets. At this time global uncertainty remains high and expected returns will be lower. Staff and the Board will review goals for the total Fund, rerun an asset/liability study, evaluate allocations including expected returns and expected risk, continue to monitor the Fund and evaluate potential allocations for risk parity. Over the long term the conservative risk balanced portfolio works out.

31. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans, including vendor disputes, public record requests, and actual or potential litigation and claims based on contract, tort or statute, including those involving Bank of America, judges Thompson and Hall, retired judges Fields and Lankford, Huggins, Cross, Martin, Welker, the Pivotal Group, U.S. Bank, the Seldins, Stroh Ranch Development, and Loftus. The Board may vote to discuss these matters in Executive Session pursuant to A.R.S. §§ 38-431.03(A) (2), (3), and (4), as set forth in item 32.

The members of the Board did not hold an Executive Session on September 22, 2011.

32. **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)(2), (3), (4) and (7) including to obtain legal advice from the Board's attorney on any matter listed on the agenda, including:**
- d. 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' 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),and (4). Matters discussed may include claims by Bank of America, Stroh Ranch Development, The Pivotal Group, U.S. Bank and/or Millard and Scott Seldin.

- e. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans, including internal investigations, public record requests, and actual or potential litigation and claims based on contract, tort or statute, including those involving Huggins, Cross, Martin, Welker, and Loftus pursuant to A.R.S. §§ 38-431.03(A)(2), (3) & (4).
- f. Discussion with legal counsel with respect to the requirements of the Open Meeting Laws relative to the Board of Trustees ad hoc and other Committee meetings pursuant to A.R.S. § 38-431.03(A)(3).

33. 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. Tom Calkwell of Albourne America told the Board that the Albourne team has worked with the Arizona account for four years with favorable comments about the team, its business model and their due diligence process. Mr. Parham added that PSPRS considers Albourne to be a top performing consulting firm.

34. Set the next meeting date. (Currently scheduled for Wednesday, October 26, 2011)

35. Appropriate **Action** regarding the Joinder Agreement with Huachuca Police Department.....
.....Mr. Brian Tobin

MOTION: 9-45-11	At 12:17 p.m. on September 22, 2011
Motion:	To approve the Joinder Agreement with Huachuca Police Department.
Moved by:	Mr. McHenryH
Seconded by:	Mr. Ferguson
Discussion:	None
In Favor:	Unanimous – Mr. Kingry was excused and did not vote.
Motion:	Passes

36. Adjournment

MOTION: 9-46-11	At 12:20 p.m. on September 22, 2011
Motion:	To adjourn the meeting.
Moved by:	
Seconded by:	
Discussion:	None
In Favor:	Unanimous – Mr. Kingry was excused and did not vote.
Motion:	Passes

Brian Tobin, Trustee, Chairman

Greg Ferguson, Trustee, Vice Chairman

Randie Stein, Trustee

Jeff Mc Henry, Trustee

Richard Petrenka, Trustee

EXCUSED

Lauren Kingry, Trustee