MEMBERS PRESENT:  Ms. Cathleen Gleason, Chairperson
Ms. Elizabeth Bissa, Vice Chairperson
Mr. Frank Barriga, Board Member
Mr. Jim Flanagan, Board Member, Retiree Representative
Ms. Barbara Lang, Board Member
Mr. Rick Naimark, Board Member
Ms. Linda Reidenbach, Board Member, Citizen Representative
Ms. Janet Smith, Board Member
Mr. Bob Wingenroth, Board Member

ABSENT:  None

ALSO PRESENT:  Ms. Donna Buelow, Retirement Program Administrator
Ms. Paula Whisel, Recording Secretary
Ms. Jackie Temple, COPERS
Mr. Greg Fitchet, COPERS
Atty. Cassie Langford, Yoder & Langford
Atty. Elaine Cardwell, Law Department
Mr. Ryan Harvey, R.V. Kuhns & Associates
Mr. Roman Nemtsov, R.V. Kuhns & Associates
Mr. Russ Kuhns, R.V. Kuhns & Associates (via telephone)
Ms. Barbara Coppage, City Auditor Department
Ms. Jodi Nicholson, Finance Department
Ms. Donna Lewis, City of Phoenix Retirees Association
Ms. Barbara Kellogg, City of Phoenix Retirees Association
Ms. Debbie Baker, Supervisory, Professional, and Technical Employees’ Association (ASPTEA)

1. Call to Order

Chairperson Gleason called the meeting to order at 9:36 a.m. She stated Mr. Naimark would join the meeting in progress.

2. Approval Meeting Minutes

   a) April 23, 2008 (Regular Meeting)
   b) May 20, 2008 (Charter Amendment/Policies & Procedures Committee Meeting)
   c) May 20, 2008 (Legal Review Committee Meeting)

Mr. Wingenroth moved approval of the meeting minutes. Mr. Barriga seconded the motion. The motion carried unanimously.
Ms. Smith moved to convene in executive session at 9:37 a.m. for discussion of item 3. Ms. Lang seconded the motion. The motion carried unanimously. [Executive Session took place]

Mr. Naimark entered the room during the executive session.

The Board convened in open session at 10:01 a.m.

3. **Consideration of Report from Yoder & Langford Regarding Recommendations for the Board Regarding Compliance with New Internal Revenue Code Regulations Concerning Appropriate Retirement Ages and the Arizona Constitutional Restrictions on Modifications on Benefits; Consideration of Possible Preparation of Internal Revenue Service Filings**

Ms. Bissa moved to accept the legal advice and to develop a plan document for a possible Internal Revenue Service re-determination letter request. Mr. Barriga seconded the motion. The motion carried unanimously.

Atty. Langford and Atty. Cardwell left the room.

4. **Presentation of Audit Report – City of Phoenix Audit Department**

Ms. Barbara Coppage approached the table.

Ms. Coppage stated the purpose of the audit had been to determine if COPERS had adequate internal controls. She stated this type of an audit was performed every year. She stated the period reviewed was February 2007 through January 2008. She stated the areas reviewed were survivor benefits, disability pensions, refunds, buybacks, purchase of service, transfers, investment fee payments and outstanding warrants. She stated COPERS had adequate controls to ensure retirement related transactions were processed accurately. She thanked the COPERS staff for their cooperation during the audit.

Ms. Lang asked if the term “service years” used in the report was intended to relate to the multiplier used in the calculation of benefits. Ms. Buelow stated “service years” referred to the multiplier, also known as the benefit ratio.

Ms. Coppage left the room.

5. **Consideration of Disability Assessment Committee (DAC) Recommendation for Employee Member – Amber Cole**

Chairperson Gleason stated Ms. Bissa had taken part in the interview process for an employee member of the Disability Assessment Committee.

Ms. Bissa stated the DAC had interviewed three candidates. She stated each of the candidates had been qualified to fill the vacancy. She stated the DAC recommended Ms. Cole to serve on the committee.

Ms. Buelow stated Ms. Cole currently works in the Budget & Research Department. She stated Ms. Cole had previously worked in the Retirement Office.

Mr. Barriga moved to accept the DAC’s recommendation of Ms. Cole for employee member. Ms. Reidenbach seconded the motion. The motion carried unanimously.
6. **Proxy Vote Reports**

Chairperson Gleason stated the proxy vote reports were informational.

a) AXA Rosenberg – 1st Quarter 2008  
b) Cramer Rosenthal McGlynn – 1st Quarter 2008  
c) Eagle Asset Management – 1st Quarter 2008

Atty. Cardwell entered the room.

7. **Consideration of Correspondence from R.V. Kuhns & Associates Regarding International Equity Benchmark**

Mr. Harvey stated staff had received correspondence from GMO indicating they were changing their benchmark to one published by Morgan Stanley Capital International (MSCI). He stated the MSCI index was the one the Board had seen in the R.V. Kuhns & Associates’ reports. He stated no action was required by the Board.

8. **Consideration of Long/Short Equity Allocation – Presentation by R.V. Kuhns & Associates**

Mr. Harvey stated his presentation would explain why an investor would want to have long/short equity strategies in a portfolio. He stated with the inclusion of a long/short equity allocation the portfolio would be able to achieve higher returns with lower risk. He stated the long only equity strategy had an assumed return at 8% per year with a volatility measure, or standard deviation, of 16.5% per year. He stated the long/short equities strategy had an assumed return of 8.25% per year with 12% standard deviation.

Mr. Harvey stated R.V. Kuhns & Associates recommended the inclusion of a long/short strategy through hedge funds. He stated hedge funds were a simple vehicle type for an investment. He stated hedge funds were more unconstrained in their approach than traditional investors. He stated the universe of 10,000 hedge funds segmented by strategy type showed long/short equity funds accounted for 57% of managers. Mr. Harvey stated these managers maintain both long and short positions in equity securities across capitalization and style spectrums. He stated the portfolios can be net long, net short or market neutral.

Mr. Harvey stated R.V. Kuhns & Associates recommends accessing the long/short equity strategy through a fund-of-funds approach, in which a hedge fund invests in many other hedge funds. He stated a fund-of-funds manager usually invests in 30 to 60 underlying managers. He stated the managers were attempting to profit from their skill as opposed to the market’s direction. He stated the managers usually follow an absolute return goal rather than attempting to outperform relative to a benchmark.

Mr. Flanagan asked how the COPERS’ fund would decrease risk by entering into the strategy. Mr. Harvey stated a long/short equity strategy was a good diversifier because it was poorly correlated with other asset classes. He stated the strategy might be individually risky but when introduced to the whole portfolio the low correlation reduces the overall portfolio risk.
Mr. Harvey stated with a single mandate to a fund-of-funds manager the plan would get instant diversification. He stated the fund-of-fund manager would seek the best long-short equity hedge fund managers.

Mr. Harvey stated an advantage of the fund-of-funds approach is the outsourcing of manager search, selection, due diligence, risk management and reporting to experienced and skilled personnel. He stated R.V. Kuhns & Associates also performs investment and operational due diligence reviews. He stated more than half of the hedge funds which fail do so because of operational reasons as opposed to bad investment decisions. He stated having accountants in place at the fund-of-funds level was important.

Mr. Harvey stated fund-of-funds managers had access to competitive, difficult to access managers. He stated having one set of documents rather than having 60 sets of documents was an advantage.

Mr. Harvey stated the chief disadvantage of the long/short hedge fund-of-funds strategy was the fees. He stated a fund-of-funds manager charges an extra layer of fees over and above the fees charged by each underlying hedge fund manager. He stated the underlying managers charge fees higher than what the Board has experienced. He stated fees were typically one percent to two percent of assets per year plus 20% of the profits generated. He stated typically fund-of-funds managers charge another one percent for the work of finding the hedge fund managers. He stated this was an expensive asset class and the return and risk assumptions reflect the fees.

Mr. Harvey stated another disadvantage of the long/short hedge fund-of-funds strategy was the Board would have no control over hedge fund manager selection. He stated Board control would be limited to the hiring and retention decision of the fund-of-funds manager. He stated typically the asset and performance reporting would come from the fund-of-funds manager. He stated typically the fund-of-funds manager will not disclose the names of the managers inside the fund. Ms. Buelow stated this was an issue a lot of the public funds faced. She asked Mr. Harvey he felt the transparency level had improved. Mr. Harvey stated transparency was better now than it had been, but he did not expect it to change until demand slackens for alternative investments like hedge funds. Ms. Buelow asked if the managers would release a summary of holdings. Mr. Harvey stated the amount of information released would vary by manager.

Mr. Flanagan asked how many fund-of-funds managers were in business. Mr. Harvey stated he would guess there are about 1,000 fund-of-funds managers but only a handful had been around for more than a few years.

Mr. Harvey stated over a 25-year period the average hedge fund manager returned about 17% annualized. He stated during that same time period bonds returned 8.54% annualized and stocks returned 12.16% annualized. He stated only about 40% of the hedge fund performance could be explained by movements in the stock market.

Chairperson Gleason stated a legal opinion from Atty. Lieberman previously reviewed by the Board indicated they could invest in a long/short strategy. Ms. Buelow stated previously Atty. Lieberman of Kutak Rock had also reviewed a broad definition of hedge funds, along the lines of the global macro type of hedge funds. She stated R.V. Kuhns & Associates was describing a much more narrow definition of a hedge fund. She stated if the Board felt they would like to move forward with this type of investment strategy it would be her recommendation the Board direct the Law Department to ask Atty.
Lieberman to conduct a review and provide an opinion whether he feels it would be an acceptable investment under the Charter.

9. **Consideration of Real Estate Portfolio Diversification - Presentation by R.V. Kuhns & Associates**

Mr. Harvey stated the portfolio currently held one type of real estate investments, core real estate with a target allocation of 10%. He stated R.V. Kuhns & Associates was recommending expanding the overall allocation to real estate from 10% to 15%. He stated R.V. Kuhns & Associates also recommended the Board diversify the real estate holdings through a 7% allocation to core real estate and the introduction of a 5% allocation to value added real estate and a 3% allocation to opportunistic real estate.

Mr. Nemtsov stated he was an associate consultant with R.V. Kuhns & Associates who focused only on real estate investments.

Mr. Nemtsov stated the mechanisms to invest in real estate were through open-ended and closed-ended funds. He stated open-ended funds have the ability to fund or redeem capital within 90 to 120 days. He stated if the Board adopted the reduction in the core real estate allocation from 10% to 7% it would take 90 to 120 days to reallocate the funds. He stated the closed-ended funds require a contractual commitment of capital for 7 to 12 years. He stated there would be an approximate four-year investment period during which the manager purchases properties. He stated during the remainder of the investment period the manager performs added activities. He stated after the appropriate time period the properties are liquidated and there is a return of capital.

Mr. Nemtsov stated real estate produces returns in two main ways, through income and appreciation. He stated with core open-ended funds typically the majority of the returns come from income. He stated during the past few years the majority of the return had come from appreciation.

Mr. Nemtsov stated closed-ended real estate funds were typically value-added and opportunistic in nature. He stated an example of a value-added real estate investment would be the purchase of a building which was 50% occupied and the manager would perform the value added activities to increase the occupancy. He stated once the occupancy had increased and the value of the building increased the building would be sold. He stated while the value added activity was occurring the investor receives a portion of income return from the building. He stated there were very little income returns with the opportunistic real estate strategy. He stated typically any development project would classify as an opportunistic real estate investment. He stated typically value-added and opportunistic real estate strategies had more leverage than core real estate strategies.

Mr. Nemtsov stated property values had begun to decline, but vacancies were still at historically low levels. He stated with commercial real estate any distress in the market is seen at the manager level not at the property level primarily due to over-leveraging.

Mr. Nemtsov stated there had been a dislocation in the debt market. He stated there has been a lot of development in the mezzanine funds area because a very attractive yield can be charged on the debt.
Mr. Nemtsov stated the asset allocation discussion was coming at an appropriate time. He stated a majority of the core real estate returns were supposed to come from income not appreciation. He stated the fund had benefited from the appreciation because Morgan Stanley had returned 14% in one year. He stated 8% to 9% per year returns from core real estate were more typical. He stated JP Morgan had returned 8.5% for one year. He stated he expected core fund returns to be flat to negative in the coming year. He stated R.V. Kuhns & Associates recommends a diversified opportunistic strategy with global holdings. He stated in the value-added real estate strategy the best opportunity was in the mezzanine space.

Chairperson Gleason stated it sounded like it was a good time for COPERS to enter into these strategies. Mr. Nemtsov stated with these types of funds the capital was locked up for 7 to 12 years so an investor had to make sure it was viable.

Mr. Naimark asked what return and risk assumptions were used for the individual real estate strategies. Mr. Harvey stated core real estate had a return assumption of 7.25%, value-added real estate had a return assumption of 10% and opportunistic real estate has a return assumption of 12%. He stated core real estate had a risk assumption of 9.25%, value-added real estate had a risk assumption of 18.5% and opportunistic real estate had a risk assumption of 27.75%. He stated R.V. Kuhns & Associates had been conservative and implied higher volatility than the Board would likely ever encounter.

Mr. Harvey stated if the Board adopted the investment strategies, the funding would take place over a three or four year period as the manager found properties to develop. He stated the whole experience was about a 12 year period. He stated there was a secondary market for involvement in these types of strategies, but there would be a significant loss if this market was used. Mr. Nemtsov stated currently there were limited investors in the secondary market but he expected more to enter the market.

Mr. Flanagan asked if there was an index used for these strategies. Mr. Nemtsov stated indexes were published by the National Council of Real Estate Investment Fiduciaries (NACREIF). He stated there was a NACREIF value-added index and a NACREIF opportunistic index.

Mr. Flanagan asked how the overall risk to the plan would decrease if the new strategies had risk assumptions of 12% and 27%. Mr. Harvey stated the proposed funding would come from domestic equities with risk assumptions between 16% and 20%. He stated R.V. Kuhns & Associates was recommending a 3% allocation to the opportunistic real estate asset class with a 27% risk assumption.

Ms. Buelow stated R.V. Kuhns & Associates had labeled the recommended strategies as global private equity real estate. She stated previously Atty. Lieberman had reviewed a broad definition of private equity. She stated if the Board felt they would like to move forward with these types of investment strategies it would be her recommendation the Board direct the Law Department to ask Atty. Lieberman to conduct a review and provide an opinion whether he feels it would be an acceptable investment under the Charter.

Mr. Nemtsov stated the name comes from the structure of the fund. He stated it had a private equity structure because of the way the fees were structured.

10. **Consideration of Possible Revision of Target Asset Allocation - Presentation by R.V. Kuhns & Associates**
Chairperson Gleason stated R.V. Kuhns & Associates had suggested a two phase process from the current allocation to the new allocation. Mr. Harvey stated the reason for two phases was due to the nature of value-added and opportunistic real estate investments, which required gradual funding.

Chairperson Gleason asked when phase 2 of the asset allocation would be completed. Mr. Nemtsov stated the investment period was typically three to four years. Mr. Harvey stated R.V. Kuhns & Associates’ recommendation was in line with the thoughtful leadership institutions, which have had these types of strategies in their portfolios for a long time. He stated the recommendation was to increase the return and reduce the risk the fund through the reduction of the allocation to large and small-cap U.S. equities. He stated R.V. Kuhns & Associates recommended reducing the large cap target allocation from 25% to 16% and the small/mid cap allocation from 13% to 9%. He stated R.V. Kuhns & Associates also recommended to marginally reduce the fixed income allocation, diversify the real estate allocation and introduce the long/short equity strategy.

Mr. Naimark moved to adopt the recommended target asset allocation of 16% large cap U.S. equity, 9% small/mid cap U.S. equity, 17% broad international equity, 4% developed small/mid cap international equity, 19% U.S. core fixed income, 10% real return, 7% core real estate, 5% value-added real estate, 3% opportunistic real estate, and 10% long/short equity contingent upon a legal review. Mr. Barriga seconded the motion. The motion carried unanimously.

11. **Consideration of Possible Request for Legal Opinion Regarding Investment Authority for Long/Short Equity Hedge Fund of Funds and Real Estate Diversification**

Mr. Naimark moved to request a legal review regarding whether long/short equity hedge fund-of-funds and global private equity value-added and opportunistic real estate assets classes were permissive investments under the Charter. Ms. Bissa seconded the motion.

Mr. Naimark stated it was his recommendation the Law Department refer the assignment to Atty. Lieberman of Kutak Rock because of the previous work he had completed for the Board on permissive investments under the Charter. Atty. Cardwell stated it would make sense to have Atty. Lieberman complete the assignment because he had provided the prior legal opinions.

Chairperson Gleason called for the vote. The motion carried unanimously.

12. **Consideration of Direction to R.V. Kuhns & Associates Regarding Possible Long/Short Equity Hedge Fund of Funds Manager(s) and Real Estate Manager(s)**

Chairperson Gleason asked if a search could be initiated while the Board was waiting for the legal opinions. Ms. Buelow stated R.V. Kuhns & Associates had recommended the searches be initiated while the Board waited for the legal opinions.

Mr. Naimark moved to direct R.V. Kuhns & Associates to initiate searches for potential managers in the long/short equity hedge fund-of-funds and global private equity value-added and opportunistic real estate assets classes. Mr. Barriga seconded the motion. The motion carried unanimously.

13. **Recognition of 2007 Employee Excellence Award – Libby Bissa**
Chairperson Gleason stated Ms. Bissa had been part of a team which received a 2007 Employee Excellence Award. Ms. Bissa stated she had been part of the Domestic Violence Fatality Review Committee. She stated the committee had reviewed domestic violence fatalities and prepared an in-depth review. She stated the report was the first of its kind.

The Board congratulated Ms. Bissa on her award.
Mr. Harvey and Mr. Nemtsov left the room.

14. **Consideration of Cancellation of July 23, 2008 Board Meeting**

It was a consensus of the Board to cancel the July 23, 2008 meeting.

15. **Consideration of Request for Transfer of Member Account Balance from COPERS to Public Safety Personnel Retirement System (PSPRS)**

Ms. Buelow stated a revised copy of Mr. Franklin’s documentation had been distributed.

Mr. Barriga moved approval of the transfer request. Ms. Bissa seconded the motion. The motion carried unanimously.

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<tr>
<th>Member</th>
<th>Amount</th>
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<tr>
<td>Brandon Franklin</td>
<td>$649.02</td>
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16. **Consideration of Requests for Transfer of Member Credited Service from COPERS to Arizona State Retirement System (ASRS)**

Ms. Bissa moved approval of the transfer request. Ms. Reidenbach seconded the motion. The motion carried unanimously.

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<thead>
<tr>
<th>Member</th>
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<tr>
<td>Coreen Wagner</td>
<td>$79,882.16</td>
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17. **Consideration of Requests for Purchase of In-State/Out-of-State Public Service Credits Pursuant to Board Policy 180**

Mr. Barriga moved approval of the service purchase requests. Mr. Wingenroth seconded the motion. The motion carried unanimously.

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<tr>
<td>Andrew Furga</td>
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<td>Jay Green</td>
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<td>Elvira Hidalgo</td>
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<td>Dewell Howell</td>
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<td>Roy Jones</td>
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<td>Chris Olivas</td>
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18. **Bills to be Paid**

Ms. Bissa moved approval of payment of the bills. Mr. Barriga seconded the motion. The motion carried unanimously.

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<td>Professional Services</td>
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<td>State Street Corporation</td>
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<tr>
<td>April 2008 Fees</td>
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June 25, 2008
19. **Refunds - (through May 31, 2008)**

Chairperson Gleason stated this item was informational.

20. **Pension Payroll – June 1, 2008**

Chairperson Gleason stated this item was informational.

21. **Treasurer’s Report as of May 31, 2008**

Chairperson Gleason stated this item was informational.

22. **Pending Legal Opinions**

Chairperson Gleason stated this item was informational.

23. **Administrator’s Report**

   a) **Continuing Education Report**

   Ms. Buelow stated the report was informational.

   b) **Update on Actuarial Audit**

   Ms. Buelow stated the contract with Milliman had been completed. She stated there had been one significant contract issue. She stated standard city contracts require the vendor to be liable for “negligence.” She stated Milliman would not accept the standard. She stated staff worked in consultation with the Law Department and Chairperson Gleason and reached a decision to accept a “gross negligence” standard due to the scope of the contract and the limited length of the contract with Milliman.

   c) **Update on City Auditor’s Request for Proposal for Review of COPERS**

   Ms. Buelow stated the City Auditor had completed the request for proposal (RFP) process. She stated there were three viable candidates. She stated it was likely the selection committee was going to interview two of the vendors. She stated interviews would likely be held within the next six weeks.

   d) **Update on Board Request to City Attorney Regarding Yoder & Langford Contract and Possible Assignments**

   Ms. Buelow stated staff has been told the Yoder & Langford contract had been approved. She stated Atty. Langford would support the Board on the Excess Benefit Arrangement Trust, normal retirement age issue and IRS filings.

24. **Discussion with Attorney to Consider Position and Instruct Attorney Regarding Lawsuit CV2002-020383 Regarding Former and Current Head Start Workers**
No action was taken.

25. **Discussion with Attorney Regarding COPERS v. Carroll/Stephens, Maricopa Superior Court Case CV2006-011541**

Ms. Buelow stated this legal issue had been resolved. No action was taken.

26. **Future Agenda Items**

No future agenda items were brought forward.

27. **Call to the Public**

There was no response to the call.

28. **Next Board Meeting:**

Special – Wednesday, August 20, 2008 at 9:30 a.m.
Regular – Wednesday, August 27, 2008 at 9:30 a.m.

Chairperson Gleason stated this item was informational.

29. **Close Session**

The meeting adjourned at 11:27 a.m.

________________________________________________

Donna M. Buelow                      Paula Whisel
Retirement Program Administrator     Recording Secretary

APPROVED:

________________________________________________

Ms. Cathleen Gleason, Chairperson
COPERS Retirement Board