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**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
CORRECTIONS OFFICER RETIREMENT PLAN
ELECTED OFFICIALS' RETIREMENT PLAN**

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Administration

Jared A. Smout
Administrator
Ryan Parham
Assistant Administrator-CIO

September 4, 2015

Mark Melnychuk
Gallagher Fiduciary Advisors, LLC
3600 American Blvd West, Suite 500
Bloomington, MN 55431

Dear Mr. Melnychuk:

The Public Safety Personnel Retirement System (System) is pleased to receive Gallagher Fiduciary Advisors, LLC's positive findings regarding the System's investment strategies and believes there is little to add. Some recommendations presented below merely encourage the System to continue with existing practices. In these cases, the System affirms its commitment to such practices. Gallagher Fiduciary Advisors, LLC's remaining recommendations are valuable and the System will implement those recommendations without complications.

Task 1.c recommendation: *Gallagher recommends that the System consider including consecutive calendar year performance for the most recent ten years, as well as the inception to date returns in its quarterly investment reporting.*

Agency Response: The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

Task 1.h recommendations:

1. Given the poor performance of the overall real estate portfolio, in particular the Joint Venture investments, Gallagher recommends that the System staff continue to work with its specialty consultants to review and possibly restructure the portfolio as feasible.

Agency Response: As Gallagher Fiduciary Advisors, LLC discuss in their report, the System restructured the Joint-Venture Real Estate portfolio and is working with legal counsel and external consultants towards a resolution for the remaining assets. Therefore, the finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

2. The System should continue to monitor performance of the Trust and the underlying strategies and adjust its asset allocation and restructure asset classes as appropriate and reasonable.

Agency Response: The System will continue to monitor performance. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

Task 2.a recommendation: *The Fund Due Diligence procedure was approved in 2014 and our review shows that it is due to be reviewed in 2015. Gallagher recommends following the annual review schedule that is listed and documenting each annual review.*

Agency Response: The System will continue to update procedures on an annual basis. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

Task 2.b recommendations:

1. Gallagher recommends creating an Executive Summary for each partnership that reflects the twelve areas of focus outlined in the due diligence process (FDD2014). The summary should indicate that each area has been reviewed and completed as outlined in the process document. The summary should be included in all due diligence records, in both electronic and hard copy form, as appropriate.

Agency Response: The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

2. The Internal Audit and Compliance Officer should review, at least annually, each investment that has been approved by the Administrator, Staff and consultants for the System portfolio. The scope of this review should mirror that of the internal process documented in the Review of Investment Due Diligence Report dated March 18, 2013. Future annual reviews should be presented to the Board of Trustees.

Agency Response: The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

3. Gallagher recommends updating and revising the due diligence procedures on an annual basis. In the next revision of the procedure outlined in FDD2014, Gallagher specifically recommends:

a. Expand the staff memo to specifically include information on how the investment was identified and selected for due diligence.

b. Include a note in the FDD2014 procedure that very clearly specifies that the Meeting Scorecard is only relevant for new firms where the System does not have an existing relationship.

c. When making an additional investment with an existing manager relationship, ask the investment manager to verify, in writing, any material changes to the firm or investment process since the time of the most recent investment by the System.

d. Either remove or clarify the reference to Board of Trustees meetings as appropriate.

Agency Response: The finding of the Gallagher Fiduciary Advisors, LLC is agreed to

and the audit recommendation will be implemented.

Task 2.c recommendations:

1. The System should continue to utilize outside firms in the legal review of fund terms and documents, as appropriate, and focus on key legal partners as opposed to casting a wide net with several approved vendors.

Agency Response: The System will continue to focus on key legal partners. Therefore, the finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

2. The System should periodically review each service provider which can help ensure that the firms continue to serve in the best interest of the Trust. Gallagher recommends that such a review be conducted at least every three years.

Agency Response: The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

Task 2.d recommendations:

1. Gallagher recommends the System continue with its commitment to regularly update and improve its due diligence procedures, particularly in light of the decision-making responsibilities that have been granted to the Administrator, Staff and consultants for the System's portfolio.

Agency Response: The System will continue to update its procedures. Therefore, the finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented

2. A periodic review of all service providers (both investment advisors and legal representation) would help to ensure that the System continues to receive high-quality guidance and advice at a reasonable cost. Gallagher recommends that these reviews be conducted at least every three years.

Agency Response: The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented

Task 3.a recommendation: *The documented procedures mentioned in Section 3.a should include a standard method for documentation of fee negotiation. The documentation should match what is already being done, including the proposed fees from the manager before negotiation, the System office proposed fee structure, and the final agreement.*

Agency Response: Gallagher Fiduciary Advisors, LLC discusses the positive economic impact of Staff's active stance toward negotiating business terms. Simply documenting that practice is easily done. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

Task 3.b recommendation: *The documented procedures mentioned in Section 3.a should include a standard method for documentation of fee negotiation. The documentation should match what is already being done, including the proposed fees from the manager before negotiation, the System office proposed fee structure, and the final agreement.*

Agency Response: This recommendation is identical to the previous recommendation. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

Task 3.c recommendation: *Gallagher recommends that the System begin by giving a person or group responsibility for fee policy and negotiations. Once established, this group can also be tasked with documenting procedures that include the best practices outlined by the GFOA. The group should draft a formal report on fee negotiations to be completed prior to the execution of each investment agreement.*

Agency Response: This recommendation is directionally similar to the previous recommendations in this section. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

Task 3.d recommendation: *Gallagher recommends the documentation of fee negotiations should include acknowledgement of where the manager fee ranks compared to an appropriate peer group. Above-median fees should be justified by the perceived ability of the manager to add value over the appropriate benchmark.*

Agency Response: The System will continue to evaluate a manager's fee relative to their peer group. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.

Respectfully,

Jared Smout
Administrator

cc: Ms. Debra Davenport, Auditor General