



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

AMENDED MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, June 27, 2014
8:30 a.m., Arizona Time

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:33 a.m., Arizona Time.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Mike Smarik, Vice-chair
Mr. Brian McNeil
Professor Dennis Hoffman
Mr. Jeff Tyne
Dr. Richard Jacob
Mr. Tom Connelly

Absent: Mr. Kevin McCarthy
Mr. Marc Boatwright

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the May 23, 2014 Public Meeting and Executive Session of the ASRS Board

Motion: Professor Dennis Hoffman moved to approve the Minutes of the May 23, 2014 Public Meeting and Executive Session of the ASRS Board. Mr. Tom Connelly seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

3. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Ms. Alice Schireman's Appeal of Survivor Benefits

Ms. Diana Day, Assistant Attorney General, Solicitor General Section, was present for agenda items #3, #4 and #5, to provide legal advice to the Board, if requested.

Mr. Charles Grube, Assistant Attorney General, Senior Agency Counsel, provided an explanation of Ms. Alice Schireman's appeal, stating Ms. Schireman appealed the denial of survivor benefits on the account of her husband, Mr. Alvin Schireman, after ASRS staff determined there were no remaining benefits payable. The appeal was heard by the Office of Administrative Hearings, which upheld the Director's determination that there were no survivor benefits payable on Mr. Alvin Schireman's ASRS account. Mr. Grube explained to the Board their options of: 1) accepting the ruling of the

Administrative Law Judge, 2) rejecting the ruling of the Administrative Law Judge, or 3) modifying the ruling of the Administrative Law Judge.

Ms. Schireman addressed the Board telephonically regarding her appeal. Mr. Manos asked the Board for further questions regarding the appeal; but there were none.

Motion: Mr. Tom Connelly moved to accept the ruling of the Administrative Law Judge to uphold the ASRS Director's determination that there were no survivor benefits payable on Mr. Alvin Schireman's ASRS account. Professor Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

4. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Mr. Arthur Gross' Appeal of His Calculated Retirement Benefit

Mr. Grube, summarized the appeal of Mr. Gross, stating the appeal was regarding Mr. Gross' retirement benefit calculation. Mr. Gross believed the ASRS should utilize only his most recent eleven months of earned salary in his benefit calculation and not salary data associated with his purchase of previous service.

A secondary issue arose during the course of the appeal when the ASRS discovered it had mistakenly calculated Mr. Gross' retirement benefit utilizing a thirty-six month calculation based on Mr. Gross' most recent membership date instead of the appropriate sixty month calculation. The ASRS discovered a solution to this secondary issue which would allow Mr. Gross a thirty-six month calculation, rendering a higher retirement benefit. Mr. Grube then explained the Board's options.

Mr. Gross addressed the Board stating he originally had a question regarding the method used to calculate his average monthly salary and then praised staff for responding to his questions and explaining and clarifying the process to him. Mr. Gross asked the Board to accept the staff-offered solution, which is a modification to the Administrative Law Judge's decision.

Ms. Jenna Orozco responded to Trustee questions and explained the staff-offered solution. Ms. Orozco explained the ASRS could offer Mr. Gross an increased benefit by reallocating his service purchase of Other Public Service to the purchase of his Forfeited Service instead. This method would increase his overall service and also allow the ASRS to calculate his benefit based on a thirty-six month calculation.

Motion: Dr. Richard Jacob moved that the Board accept the ruling of the Administrative Law Judge with the alteration as suggested by staff. Mr. Mike Smarik seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

5. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Mr. Adam Morris' Appeal of Requested Contributions Not Withheld

Mr. Grube explained Mr. Morris' appeal. Mr. Morris contacted the ASRS about receiving ASRS service credit and associated benefits for his employment period with Glendale Elementary School District. The ASRS issued Contributions Not Withheld (CNW) invoices for some of the time and Mr. Morris appealed, requesting to purchase the remainder of the time. Because neither Mr. Morris nor the District were able to supply records to substantiate Mr. Morris' hours, the ASRS declined the additional service purchase. The appeal was heard by the Office of Administrative Hearings, which upheld the Director's determination there was insufficient documentation to issue additional CNW invoices. The Judge noted in Conclusion of Law No. 6 the ASRS method in determining CNWs was favorable to the Appellant. Mr. Grube then explained the Board's options.

Neither Mr. Morris nor a representative were present at the Board meeting. There were no questions from the Trustees.

Motion: Professor Dennis Hoffman moved to accept the ruling of the Administrative Law Judge to uphold the ASRS Director's determination there was insufficient documentation to issue additional CNW invoices. Mr. Brian McNeil seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the Actuarial Audits of the
a. Pension Plan and Health Benefit Supplement Program
b. Long Term Disability (LTD) Plan
c. System

Mr. Paul Matson, Director, introduced the item by explaining the ASRS conducts an actuarial audit every five years. The most recent audit of the June 30, 2013 actuarial valuations was completed by Gabriel Roeder Smith & Company (GRS). Mr. Ryan Falls, Senior Consultant & Actuary, GRS, explained their audit process and presented their findings. Additionally, Mr. Charlie Chittenden, Buck Consultants, the contracted ASRS Actuary, provided Buck's response to the audit.

The Audit Summary of Findings was: "Based on our review of the census data, experience study documents, liability replication, liability calculations for a sample of members, and the actuarial valuation reports, we believe the June 30, 2013 actuarial valuations of the ASRS retirement programs are reasonable, are based on appropriate assumptions and methods, and the reports generally comply with the Actuarial Standards of Practice."

Mr. Falls offered his recommendations, stating the ASRS has very sound actuarial valuations and appropriate assumptions. Mr. Falls, Mr. Chittenden and Mr. Matson answered questions from the Trustees regarding the recommendations.

Mr. Matson outlined further Board meeting discussions, stating that at a meeting before this November, when the June 30, 2014 actuarial valuation is presented, the Board will discuss the audit recommendations and the implementation time frame. Mr. Matson indicated that several pro forma analyses would likely be presented including PUC vs. EAN.

7. Presentation, Discussion, and Appropriate Action Regarding ASRS Investment Program Updates

Mr. Gary Dokes, Chief Investment Officer, addressed the Board regarding ASRS investment program updates for the period ending May 31, 2014, highlighting specific areas of interest and concern. Mr. Dokes presented information on the following items: ASRS Fund Positioning, IMD Investment House Views – June 2014, Asset Class Committee Activities, Tactical Portfolio Positioning, Strategic Asset Allocation (SAA) Policy Implementation, IMD Projects, and Research and Initiatives.

8. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program Q1/2014

Mr. Allan Martin, Consultant, NEPC, addressed the Board regarding NEPC's independent reporting, monitoring, and oversight of the ASRS Investment Program including Total Fund performance through March 31, 2014.

The Total Fund Performance for the period ending March 31, 2014 is:

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	2.3%	13.8%	9.6%	15.9%	7.0%	10.0%
Interim SAA Policy*	2.4%	13.9%	9.5%	15.7%	6.9%	9.8%
Excess Return	-0.1%	-0.1%	0.1%	0.2%	0.1%	0.2%

*Interim SAA Policy: 25% S&P 500/5% S&P 400/5% S&P 600/14% MSCI EAFE/3% MSCI EAFE Small Cap/6% MSCI, Emerging Markets/6% Russell 2000 (lagged one quarter)/15% Barclays Capital Aggregate/5% Barclays Capital High, Yield/4% JP Morgan GBI-EM Global Diversified/2% S&P/LSTA Levered Loan Index + 250 basis points (lagged one quarter)/6% NCREIF ODCE (lagged one quarter)/4% Dow Jones/UBS Commodities Index,

Note: Interim SAA Policy includes a proration of 1% Private Equity, 1% Private Debt, and 2% Real Estate, which are unfunded. Private Equity was prorated to domestic equity; Real Estate was prorated to domestic equity and fixed income; Private Debt was prorated to fixed income.

9. Presentation, Discussion, and Appropriate Action Regarding Board Elections

Mr. Tom Manos introduced the item, reminding Trustees the Board Governance Policy Handbook requires an annual election of the Board Chair and Vice-chair. Mr. Manos stated he came to the decision not to remain Chair, believing it is good governance for the Chair and Vice-chair to rotate occasionally. Mr. Manos said that in the three years he has been Chair, he has been more than satisfied with some of the changes the Board has made.

Motion: Mr. Tom Manos moved to nominate Mr. Kevin McCarthy as ASRS Board Chair with his term to begin July 1, 2014. Mr. Mike Smarik seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

Motion: Mr. Tom Connelly moved to nominate Mr. Mike Smarik to continue serving as ASRS Board Vice-chair. Professor Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

10. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Matson commented the ASRS is restructuring the Securities Lending Program and stated that after taking ourselves out of the market because of the previous potential risks, staff created a program structure with a lower risk profile.

Mr. Matson also commented on the ASRS cash flow and how staff monitors both the internal and external cash flows, each of which is approximately -3% of total fund value. He also stated he is pleased, based upon the CIO's report, to see that staff is aware of the need for very efficient cash management.

The last item Mr. Matson discussed was the Sunset Audit currently being conducted by the Arizona Office of the Auditor General. The audit field work is expected to be completed by December, 2014, with the final report expected approximately May of 2015. The key audited areas include the financial condition of the ASRS, the sustainability of the ASRS, the Investment Management Program, as well as stakeholder inquiries which include salary spiking and the Investment Management Incentive Compensation Program.

Mr. Brian McNeil referenced the Employers Reporting memo in the Director's report and asked about the bankruptcy collection process for ASRS Employers. Mr. Matson said the State Treasurers Office is used for the collection process but often with small employers there is insufficient money for collection. Mr. Matson will follow up with Mr. McNeil on the ASRS priority standing as a payee in the collection process for employers.

11. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings

a. Operations and Audit Committee (OAC)

Mr. Jeff Tyne, Chair, said the next OAC meeting will be held on August 12, 2014. Agenda items will include risk management discussions of the IT security audit, the FY16 budget and a review of audits from the Internal Audit Division.

b. External Affairs Committee (EAC)

Mr. Tom Manos said the next EAC meeting will be held on September 12, 2014.

c. Investment Committee (IC)

Mr. Tom Connelly, Chair, said the next IC meeting, held on August 18, 2014, will begin at 1 p.m. to provide ample time for a roundtable of outside speakers discussing possible alternative sources of investment returns.

12. Board Requests for Agenda Items

No requests were made.

13. Call to the Public

No members of the public requested to speak.

14. The next ASRS Board meeting is scheduled for Friday, August 22, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

15. Adjournment of the ASRS Board

Mr. Tom Manos adjourned the June 27, 2014 Board meeting at 10:40 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Gayle Williams
Board Administrator

Date

Paul Matson
Director

Date