



# ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson  
Director

## AGENDA

### NOTICE OF COMBINED PUBLIC MEETING AND EXECUTIVE SESSION OF THE ARIZONA STATE RETIREMENT SYSTEM BOARD

3300 North Central Avenue, 10<sup>th</sup> Floor Board Room  
Phoenix, AZ 85012

March 25, 2016  
8:30 a.m.

Pursuant to A.R.S. § 38-431.02 (F), notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Board and to the general public that the ASRS Board will hold a meeting open to the public on Friday, March 25, 2016, beginning at 8:30 a.m., in the 10<sup>th</sup> Floor Board Room of the ASRS offices at 3300 N. Central Avenue, Phoenix, Arizona 85012. Trustees of the Board may attend either in person or by telephone conference call.

The Chair may take public comment during any agenda item. If any member of the public wishes to speak to a particular agenda item, they should complete a "Request To Speak" form indicating the item and provide it to the Board Administrator.

Pursuant to A.R.S. § 38-431.03(A)(3), the ASRS Board of Trustees may vote to go into executive session, which will not be open to the public, for the purpose of obtaining legal advice on any item on the Agenda.

This meeting will be teleconferenced to the ASRS Tucson office at 4400 East Broadway Boulevard, Suite 200, Tucson, Arizona 85711.

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks.....Mr. Kevin McCarthy  
Board Chair
2. Approval of the Minutes of the February 26, 2016 Public Meeting of the ASRS Board  
(*estimated time 1 minute*) .....Mr. Kevin McCarthy
3. Presentation, Discussion, and Appropriate Action Regarding the 2016 ASRS Legislative  
Initiatives and Legislative Update (*estimated time 15 minutes*).....Mr. Patrick Klein  
Assistant Director External Affairs  
.....Mr. Nicholas Ponder  
Government Relations Officer

4. Presentation, Discussion, and Appropriate Action Regarding the Board Governance Policy Handbook Annual Responsibilities Review (*estimated time 15 minutes*)..... Mr. Paul Matson  
Director
  
5. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events (*estimated time 5 minutes*) ..... Mr. Paul Matson  
..... Mr. Anthony Guarino  
Deputy Director and Chief Operations Officer
  - A. 2015 Investments Report
  - B. 2015 Operations Report
  - C. 2015 Budget and Staffing Reports
  - D. 2015 Cash Flow Statement
  - E. 2015 Appeals Report
  - F. 2015 Employers Reporting
  
6. Presentation and Discussion Regarding Informational Updates from Prior and Upcoming Committee Meetings (*estimated time 15 minutes*)
  - a. Operations and Audit Committee (OAC) ..... Mr. Jeff Tyne, Chair  
..... Mr. Anthony Guarino  
*The next OAC Meeting will be held on April 12, 2016.*
  - b. External Affairs Committee (EAC)..... Dr. Richard Jacob, Chair  
..... Mr. Patrick Klein  
*The next EAC Meeting will be held on April 8, 2016.*
  - c. Investment Committee (IC) ..... Mr. Tom Connelly, Chair  
..... Mr. Karl Polen  
*The next IC Meeting will be held on April 25, 2016.*
  
7. Board Requests for Agenda Items (*estimated time 1 minute*)  
..... Mr. Kevin McCarthy
  
8. Call to the Public..... Mr. Kevin McCarthy  

Those wishing to address the ASRS Board are required to complete a Request to Speak form before the meeting indicating their desire to speak. Request to Speak forms are available at the sign-in desk and should be given to the Board Administrator. Trustees of the Board are prohibited by A.R.S. § 38-431.01(H) from discussing or taking legal action on matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the Board may direct staff to study and/or reschedule the matter for discussion and decision at a later date.
  
9. The next regular public ASRS Board meeting is scheduled for Friday, April 29, 2016, at 8:30 a.m., at 3300 N. Central Avenue, in the 10th Floor Board room, Phoenix, Arizona.

**The Board will take a 15 minute recess while the meeting moves to the 14<sup>th</sup> floor conference room, where the balance of the meeting and executive session will take place.**

*Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(1), notice is hereby given to Trustees of the ASRS Board and the general public that the ASRS Board shall vote to go into executive session, which will not be open to the public, for the purpose of the Director's annual review.*

10. Presentation, Discussion and Appropriate Action Regarding the 2015 review of the Director of the ASRS.....Mr. Kevin McCarthy

11. Adjournment of the ASRS Board.

A copy of the agenda background material provided to Board Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona and 4400 East Broadway Boulevard, Suite 200, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website (<https://www.azasrs.gov/web/BoardCommittees.do>) approximately 48 hours prior to the meeting.

Persons(s) with disabilities may request a reasonable accommodation such as a sign language interpreter or alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson, or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated March 18, 2016

ARIZONA STATE RETIREMENT SYSTEM

**SIGNED COPY OF FILE**

Melanie A. Alexander  
Board Administrator

**SIGNED COPY ON FILE**

Paul Matson  
Director

# Agenda Item #2



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson  
Director*

## MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, February 26, 2016  
8:30 a.m., MST

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Kevin McCarthy, Chair of the ASRS Board, called the meeting to order at 8:30 a.m., Arizona Time.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

### 1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Kevin McCarthy, Chair  
Mr. Jeff Tyne, Vice Chair  
Mr. Clark Partridge  
Professor Dennis Hoffman (via teleconference)  
Mr. Lorenzo Romero  
Dr. Richard Jacob  
Mr. Robert Wadsworth (arrived at 8:32 a.m.)  
Mr. Tom Connelly (via teleconference)  
Mr. Tom Manos

A quorum was present for the purpose of conducting business.

### 2. Approval of the Minutes of the January 29, 2016 Public Meeting and Executive Session of the ASRS Board

**Motion:** Dr. Richard Jacob moved to approve the Minutes of the January 29, 2016 Public Meeting and Executive Session of the ASRS Board. Mr. Jeff Tyne seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

### 3. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Cathy Davis' Appeal for a Retroactive Retirement Date

Ms. Jothi Beljan, Assistant Attorney General, requested Mr. Kevin McCarthy confirm Ms. Cathy Davis was not present, which he did. Ms. Beljan advised the Board if they needed legal advice she would get a colleague on the phone in the absence of Mr. Rex Nowlan, Agency Counsel Section Chief, Attorney General's Office. Ms. Beljan proceeded with providing a brief summary of the appeal to the Board and the ASRS' position. Ms. Davis filed an application for retirement

September 16, 2015, and is requesting a retroactive retirement date back to May, 2015 which is not allowable by statute. This decision was upheld by the Administrative Law Judge.

**Motion:** Mr. Tom Manos moved to accept the Administrative Law Judge's Decision. Mr. Clark Partridge seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

*Mr. Robert Wadsworth arrived at the meeting at 8:32 a.m. and participated in the vote.*

#### **4. Appropriate Action Regarding Mr. Donald Smith's Motion for Review and Reconsideration of Final Decision**

Ms. Jothi Beljan provided a brief summary of the motion for reconsideration process to the Board and recapped Mr. Donald Smith's appeal that the Board reviewed at the January 29, 2016 Board meeting. Ms. Beljan explained Mr. Smith disagrees with the ASRS' interpretation and implementation of the Domestic Relations Order (DRO) on his retirement account.

Mr. Rex Nowlan arrived to provide legal advice to the Board, if requested.

Mr. Smith was provided an opportunity to present his position. Mr. Smith requested the Board include in the numerator, the 1.2 years of service that was included in the denominator. Mr. Smith stated Mr. William Kluwin, Attorney at Law, contacted the ASRS Legal Department in 2002, and was advised the 1.2 years should be included in the numerator. Mr. Smith further stated he has attempted to modify the DRO unsuccessfully. The judge assigned to his case denied him, stating that if there was a problem with the DRO, it should have been modified 14 years ago, according to Mr. Smith.

Prior to making a motion, Mr. Clark Partridge expressed, while he understands and sympathizes with Mr. Smith's concerns, the Board is bound by the laws that define what a service credit is and how calculations are determined for DROs.

**Motion:** Mr. Clark Partridge moved to deny Mr. Donald Smith's request for review and reconsideration. Mr. Tom Manos seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

For the benefit of the new Trustees and Mr. Nowlan, Ms. Beljan took a moment to review the ASRS process when appeals come before the Board.

#### **5. Presentation Regarding PRIDE Award for Excellence**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Excellence award: Beth Roth; Jean Langston; Michelle Roshto and Robert Virgil; Hong Mayhew; Erin Higbee; and the AFIS conversion team – Debbie Motta, Lynne Latino John Maczko, Kristin Berry, Tonia Nemecek, Russ Levine, Bruce Pampel, and Joanne-Coppock-Scott.

The nominees were recognized by their peers as exemplifying the following PRIDE qualities of diversity:

- Surpass member, stakeholder and associate expectations

- Embrace positive changes in a manner which inspires others
- Demonstrate a willingness to go the extra mile to engender a positive public image that solidifies the perception the ASRS is a trusted brand that members, stakeholders and associates will recognize
- Create a motivated, healthy and productive work environment that celebrates and rewards the accomplishments and contributions of others
- Take a personal interest in promoting teamwork through effective use of communication methods within the ASRS to ensure the effective flow of information and knowledge (This includes verbal, non-verbal, written and technological communication techniques)
- Accept personal responsibility and challenges with enthusiasm

Mr. Guarino presented the PRIDE Award for Excellence to the award winner, Beth Roth.

## **6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Proposed Legislation for the 2016 Legislative Session**

Mr. Patrick Klein, Assistant Director, External Affairs Division, and Mr. Nick Ponder, Government Relations Officer, provided a brief update to the Board regarding the 2016 Legislative agenda.

The following bills were discussed:

- **HB2104: ASRS; Retention of Credited Service** – This bill passed through the House February 4, 2016. It was heard in the Senate Finance Committee February 24, 2016. An amendment was offered that relates to individuals who are elected or appointed and subject to term limits to ensure they are not having their pension suspended as a result of that appointment if they return to work within the 365-day timeframe from the day the originally retired.
- **HB2159: ASRS; Rulemaking Exemption** – This bill passed through the Government and Higher Education Committee February 4, 2016, and passed through the full House February 25, 2016. The bill is moving forward to the Senate.
- **HB2160: ASRS; Eligible Rollovers** – This bill passed through the full House February 16, 2016, and is moving forward to the Senate to be heard March 2, 2016.
- **HB2243: ASRS; LTD Program; Liability** – Since passing through the Government and Higher Education Committee January 28, 2016, the bill is currently being held up due to concerns from a couple of legislators. Mr. Ponder is hopeful this will move forward soon and all concerns can be addressed.
- **SB1037: ASRS; Board Delegation; Benefit Determinations** – This bill passed through the full Senate January 28, 2016, and is scheduled to be heard in the Government and Higher Education Committee March 3, 2016.
- **SB1038: ASRS; Reinstatement; Contribution Amount** – This bill passed through the full Senate January 28, 2016, and is scheduled to be heard in the Government and Higher Education Committee March 3, 2016.
- **SB1144: ASRS; Contributions; Adjustments** – This bill is scheduled to be heard in the Government and Higher Education Committee March 3, 2016.
- **SB1151: ASRS; Continuation** – This bill passed through the full Senate February 8, 2016, and is scheduled to be heard in the House Government and Higher Education Committee March 3, 2016.

The following are bills that affect the ASRS but not initiated by the ASRS:

- **HB2115: Public Employees; Misappropriation; Penalty** – This bill passed through the full House February 18, 2016, after an amendment was offered. The offered amendment removed the restriction of pension benefits. Also added into the amendment were dollar amounts that would identify into which felony class the misappropriation falls.
- **HB2157: ASRS; Political Subdivision Entities** – This bill passed through the Government and Higher Education Committee February 4, 2016. The bill is currently being held up in the full House and Mr. Ponder believes it will not have enough votes for a third read to move forward.
- **HB2583: Open Meetings; Audiovisual Recordings** – This bill requires all public bodies to provide a complete audiovisual recording of all meetings, including executive sessions, and are required to post the audiovisual recording of a meeting on its website within 24 hours after the meeting. This bill failed to pass in the House February 25, 2016.
- **HB2617: Israel; Boycotts; Contracts; Investments** – This bill prohibits public entities from entering into a contract with a company to acquire or dispose of services, supplies, information technology or construction unless the contract includes a written certification that the company is not currently engaged in, and agrees for the duration of the contract to not engage in, a boycott of Israel. This bill passed through the House February 17, 2016, and has been referred to the Senate.
- **HB2694: Hotel Employees; Room Access; Backgrounds** – This is a striker bill. All the language was struck from the original bill because the intent of HCR2040 was to remove pensions from the Constitutional resolution. This bill was scheduled to be heard in the House Appropriations Committee February 24, 2016, but was held. This was the last week for bills to be heard in the house; therefore, Mr. Ponder believes this bill is dead based on the feedback some of the legislators have received from other lobbyists.
- **HCR2040: State Monies; Prohibited Investments; Terrorism** – This bill was scheduled to be heard in the House COW February 25, 2016, and was held for the second time. Mr. Ponder believes this bill will not move forward either based on the feedback provided to the legislators.
- **SB1257: Misconduct Involving Weapons; Public Places** – This bill allows a person who possesses a valid concealed weapons permit to openly carry a weapon into a public establishment other than a vehicle, or craft, or at a public event. This bill continues to be held in the Senate COW. Mr. Ponder does not believe this will move forward as was the case last year.

Mr. Ponder closed by advising the Board that although the Public Safety Personnel Retirement System (PSPRS) language modifications do not relate to the ASRS, he would provide a summary or respond to any questions the Board may have regarding the bills. The Board had no questions.

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

Mr. Paul Matson, Director, introduced Mr. Dave Underwood, Assistant Chief Investment Officer who addressed the Board regarding the ASRS investment program updates for the period ending December 31, 2015, highlighting specific areas of interest and concern. Mr. Underwood presented information on the following items: ASRS Fund Positioning, Investment Management

Division (IMD) Investment House Views – February 2016, Asset Class Committee and Investment Committee Activities, IMD Fund Repositioning, Projects, Research and Initiatives. Also included was the State Street risk report for December 31, 2015.

*At approximately 9:36 a.m., phone connection was lost to all parties participating telephonically, to include Mr. Tom Connelly and Prof. Dennis Hoffman. The loss in phone connection was not immediately discovered but was resumed at the earliest possible time.*

#### **8. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program – Includes Total Fund Q4-15**

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 December 31, 2015.

As of December 31, 2015, the Total Fund's market value was approximately \$33.6 billion.

For the one-year period ending December 31, 2015, the Total Fund returned 1.3% (net of fees), outperforming the Interim SAA Policy by 1.7%. For the three-year period, the Total Fund produced a return of 8.3% per annum, outperforming the Interim SAA Policy by 1.6%. Over the past ten years, the Total Fund has returned 6.1% per annum, and since inception, the portfolio's performance is 9.7%.

*Prior to addressing Agenda Item #9, phone connection was resumed at 10:06 a.m. at which time Mr. Tom Connelly and Prof. Dennis Hoffman were reconnected to the meeting for participation.*

#### **9. Presentation, Discussion, and Appropriate Action Regarding Staff Recommended Updates to the ASRS Board Governance Policy Handbook**

Mr. Matson provided an overview of the Board Governance Policy Handbook and highlighted a few of the staff recommended changes. The changes highlighted were as follows:

- Page 3, #7 – reflects three new Strategic Investment Policies that have been created.
- Page 3, newly added #11 – states the Board will review the Actuarial Cost Allocation methodology every five years. Mr. Matson stated the Board has done this periodically, but the Office of the Auditor General suggested the ASRS have this documented.
- Page 8, #41 – states the ASRS Funding Policy (SIP007) will be reviewed, analyze, implemented and presented to the Board every three years or whenever a significant event impacts the policy.
- Page 15 – reflect updates addressing the staff reorganization of Employer Services and Communications within the ASRS who will now have a reporting function to the Operations and Audit Committee.

Mr. Matson offered to answer any questions the Board may have regarding the recommended updates. Dr. Richard Jacob asked if the Board Governance Policy Handbook would later be updated should the current legislation regarding an Appeals Committee be passed and Mr. Matson confirmed additional updates would be made.

**Motion:** Mr. Tom Manos moved to accept the revisions to the Board Governance Policy Handbook as presented. Mr. Tom Connelly seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

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

Mr. Paul Matson made the following announcements:

- The ASRS Tucson Office move was completed successfully February 16, 2016. The ASRS is in the process of selling the previous Tucson office building. The new building in which the Tucson office is located is a more professional and secure building, both physically and electronically, for the COOP (Continuity of Operations Plan) back-up systems.
- A Long Term Disability RFP has been issued and the ASRS will be reviewing responses over the next several weeks.
- An RFP is soon to be issued for the Deferred Compensation Plan (457 Plan). Although unrelated to the ASRS, Mr. Matson shared this information because as the Director of the ASRS, by statute, he is assigned to the Deferred Compensation Committee.
- Mr. Jeff Tyne, Chair, Operations and Audit Committee (OAC) expressed an interest in three health insurance topics which Mr. Matson advised will be presented at future OAC meetings and then later to the Board. The topics will include: ensuring the ASRS goals and objectives for the health insurance program are appropriate; developing a model to distribute retrospective rate adjustment funds; and determining whether the whole case underwriting perspective is or is not the appropriate direction the ASRS should be taking.

Mr. Matson concluded with the announcement of the departure of Mr. Gary Dokes, Chief Investment Officer (CIO), as he has accepted a position as CIO of a local charitable foundation. Mr. Matson expressed his happiness for Mr. Dokes and believes this is a great opportunity for Mr. Dokes to add value in a non-profit organization. Mr. Matson shared Mr. Dokes' employment statistics, followed by his significant accomplishments, while working at the ASRS as follows:

- Employed by the ASRS for 18+ years;
- Fixed Income Portfolio Manager for approximately 5 years;
- Chief Investment Officer for approximately 13 years;
- Oversaw the successful implementation of the private equities programs, private real estate programs, and opportunistic investments programs;
- Results of the investment program during his tenure:
  - Top 18<sup>th</sup> percentile for 1 year
  - Top 14<sup>th</sup> percentile for 3 years
  - Top 7<sup>th</sup> percentile for 5 years
  - Top 13<sup>th</sup> percentile for 10 years

Mr. Matson added, "Mr. Dokes' has been a very grateful colleague and his approach has been gracious when working with other staff and the Board. He has been dutiful in his role to the ASRS. He has always been a team player. And even though he still thinks of himself as a "bond" person, he is a full-fledged asset allocation expert, tactical asset allocation specialist and a portfolio construction specialist." Mr. Matson mentioned three of Mr. Dokes' character

attributes. Specifically, “Mr. Dokes is:

1. extremely honest;
2. extremely ethical; and
3. a gentleman.”

Mr. Matson stated that he is highly confident in making the following statement: “Gary has made a highly positive impact to the over \$30 billion ASRS investment fund, which is reflected in top tier rates of return and I am highly confident that he will remain a friend and colleague of the ASRS, to both staff members and Trustees.” Mr. Matson congratulated Mr. Dokes on his successes at the ASRS and his new role with the non-profit charitable organization. The Board and staff joined Mr. Matson in congratulating Mr. Dokes.

On behalf of the Board, Mr. Kevin McCarthy concurred with Mr. Matson’s remarks and thanked Mr. Dokes for his service to the ASRS. Mr. Dokes’ professionalism is appreciated and he is wished much success in his new venture.

Mr. Dokes thanked everyone for the kind words and added it has been a pleasure working for the ASRS and all will be missed. Mr. Dokes added he thinks the ASRS is the best pension system in the country and wished everyone the best.

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

### **a. Operations and Audit Committee (OAC)**

Mr. Jeff Tyne announced the next OAC meeting will be held on April 12, 2016 at 10:30 a.m. in the 14<sup>th</sup> floor conference room to discuss health insurance, long term disability contract award recommendations and various risk assessments.

### **b. External Affairs Committee (EAC)**

Dr. Richard Jacob announced the next EAC meeting will be held on March 11, 2016 at 10:30 a.m. in the 14<sup>th</sup> floor conference room to discuss updates on legislation and the regulatory agenda regarding rule making.

### **c. Investment Committee (IC)**

Mr. Tom Connelly announced the next IC meeting will be held on April 25, 2016 at 2:30 p.m. in the 14<sup>th</sup> floor conference room and the draft agenda is still in progress.

## **12. Board Requests for Agenda Items**

No requests were made.

## **13. Call to the Public**

No one from the public requested to speak.

**14. The next regular ASRS Board meeting is scheduled for Friday, March 25, 2016, at 8:30 a.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board Room, Phoenix, Arizona.**

*The Board took a recess from 10:30 a.m. to 10:40 a.m. to transition to the 14<sup>th</sup> floor conference room for the final agenda topic.*

*Mr. Tom Manos, Mr. Tom Connelly and Prof. Dennis Hoffman adjourned from the meeting prior to Agenda Item #15 and did not participate in the discussion.*

**15. Presentation, Discussion, and Appropriate Action Regarding the Board Governance Evaluations**

- a) Trustees' 2015 Self-Evaluation
- b) Board 2015 Self-Evaluation
- c) Critical Issues of 2016

The Overall Board Evaluation document taken from the Board Governance Policy Handbook prompts the Trustees to consider the following statements while reviewing their performance:

1. The Board maintains an effective oversight role with regard to benefits and investment issues.
2. The Board knows and understands the ASRS Strategic Plan, and reflects this understanding when addressing key issues throughout the year.
3. The Board engages in long-range strategic thinking and planning.
4. The Board has achieved the business objectives it set out to accomplish this past year.
5. The Board stays abreast of issues and trends affecting the ASRS, using this information to assess and guide the ASRS over the long term.
6. The Board conducts a comprehensive evaluation of the Director annually.
7. The Board ensures that new Trustees receive a prompt, thorough orientation.
8. Board meetings are conducted in a manner that ensures open communication, meaningful participation, and sound resolution of issues.
9. The Board meeting agendas are well-balanced, allowing time for the most critical issues.
10. The Board and Committee meetings are handled efficiently.
11. The Committees are effective, focusing on pertinent topics and allocating reasonable time.
12. The Board is well-educated on both benefit and investment issues.
13. The Board recognizes its policy-making role and reconsiders and revises policies as necessary.
14. The Board is consistently prepared for meetings.
15. The Board as a whole, and Trustees as individuals, evaluates their performance on an annual basis.
16. The Board reviews and adopts a reasonable operating budget that is followed and monitored throughout the year.
17. The Board periodically monitors investment performance and measures it against relevant benchmarks.
18. The Board periodically monitors service to members.
19. The Board comprehends and respects the difference between its policy-making role and the Director's management role.

20. Board goals, expectations, and concerns are promptly, candidly and effectively communicated to the Director.
21. The Board anticipates issues and does not often find itself reacting to “crisis” situations.

Mr. McCarthy identified one item that was scored as “sometimes,” which was item #9; however, all other scores were favorable, which is consistent with previous years. The Trustees discussed at some length a few of the overall comments submitted and items #9, and #12 from the Overall Board Evaluation document, offering input regarding effective meetings, oversight, and possessing an effective knowledge base. Trustees provided positive feedback regarding 2015 Board interactions.

Also discussed, for the future, was the need for Committee Chairs to take a more active role in generating meeting agendas, succession planning strategies for the agency and additional education for all Trustees in the areas of investment, operations and benefits.

Mr. Paul Matson shared with the Board, staff will be presenting, at a future meeting, the long-term strategic vision of key issues going forward. At the request of the Trustees, Mr. Matson also agreed to keep the Trustees informed of upcoming conferences that would be beneficial for them to attend.

#### **16. Adjournment of the ASRS Board**

**Motion:** Dr. Richard Jacob moved to adjourn the February 26, 2016 Board Meeting at 11:19 a.m. Mr. Jeff Tyne seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

ARIZONA STATE RETIREMENT SYSTEM

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Melanie A. Alexander  
Board Administrator

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Paul Matson  
Director

# Agenda Item #3



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## MEMORANDUM

**TO:** Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board

**FROM:** Mr. Paul Matson, Director  
Mr. Patrick Klein, Assistant Director, External Affairs  
Mr. Nick Ponder, Government Relations Officer

**DATE:** March 11, 2016

**RE:** **Agenda Item #3:** Presentation, Discussion and Appropriate Action Regarding the 2016 ASRS Legislative Initiatives and Legislative Update

### **Purpose**

To discuss the ASRS 2016 legislative initiatives as well as discuss legislative proposals by other organizations or persons that affect the ASRS.

### **Recommendation**

Information item only; no action required.

### **Background**

The ASRS staff has been working with legislative council, legislative staff, and legislators to move ASRS 2016 legislative initiatives forward.

An updated hard copy of the ASRS Bill Tracker will be provided at the meeting. The link to the most up-to-date bill tracker can be found any time at <https://www.azasrs.gov/content/legislation>.

# Agenda Item #4



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## MEMORANDUM

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**TO:** Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board

**FROM:** Mr. Paul Matson, Director

**DATE:** March 17, 2016

**RE:** **Agenda Item #4:** Presentation, Discussion, and Appropriate Action Regarding the Board Governance Policy Handbook Annual Responsibilities Review

### **Purpose**

To discuss the annual responsibilities laid out in the Board Governance Policy Handbook.

### **Recommendation**

Information item only; no action required.

### **Background**

The attached 2015 Major Annual Responsibilities report details the status of the annual responsibilities listed in the Board Governance Policy Handbook for the Board, the Board Committees, and the Director. It describes what action occurred and when each noted responsibility was completed.

**2015 MAJOR ANNUAL RESPONSIBILITIES  
LISTED IN BOARD GOVERNANCE POLICY HANDBOOK  
MARCH 2016 STATUS  
BOARD RESPONSIBILITIES**

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**1. *The Governance Handbook will be reviewed by the Board at least triennially.***

Staff recommended changes will be presented at the February 2016 Board meeting.

**2. *Conduct a Board self-evaluation in the first quarter of each calendar year, preceding the Director's evaluation.***

2014 review held at the April 2015 Board meeting.

2015 review materials given to Trustees at the December 2015 Board Meeting.

2015 review held at the February 2016 Board Meeting.

**3. *Evaluate the Director within the first quarter of the calendar year after the Board's self-evaluation.***

2014 Director Evaluation took place at the April 2015 Board meeting with additional discussions at the May 2015, December 2015, and January 2016, meetings regarding the Director's upcoming employment contract.

2015 Director Evaluation to be held at the March 2016 Board Meeting.

**4. *Adopt an annual schedule identifying the time and location of regular Board meetings.***

Completed at the October 2015 Board meeting.

**5. *Approve the selection, and termination, and oversee the performance of the following external service providers:***

**Plan actuary and actuarial auditors.**

A consulting actuary contract was awarded to Buck Consultants July 1, 2011. Alternate actuaries are contracted for special projects (which include actuarial auditing). The contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewal completed April 28, 2015, and the contract, if all renewals are exercised, will be exhausted on June 30, 2016.

**External financial auditor.**

The primary external financial auditor contract was awarded to CliftonLarsonAllen to commence work on the FY13 audit. Heinfeld, Meech & Company was also awarded a contract to serve as the secondary external financial auditor and for special projects as needed. The contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewals for CliftonLarsenAllen and Heinfeld, Meech & Company were completed December 9, 2015. The contract, if all renewals are exercised, will be exhausted on December 31, 2017.

**General investment consultant(s).**

The Board approved NEPC as ASRS General Investment Consultant in February 2014. The contract term is one year with the ASRS option to renew for up to four one-year periods. The annual renewal is due by March 9, 2016 and if all renewals are exercised, the contract will be exhausted by March 9, 2019.

Ongoing performance monitoring and Committee oversight is accomplished as part of the review of periodic presentations and reports.

**Third-party administration (TPA) providers for health and long-term disability.**

- 1) A new contract was approved by the Board and awarded for a retiree medical benefit program to UnitedHealthcare effective January 1, 2015. The contract is for one year with four annual renewals through December 31, 2020. A premium rate pass was negotiated with UnitedHealthcare during 2015 for Medicare and non-Medicare medical/prescription drug plans for calendar year (CY) 2016.

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- 2) A 2015 RFP selected WellDyneRx, the current discount card provider, to continue its services in CY2016. In addition to its benchmark prescription drug discount card program, WellDyneRx offers discounts for dental, hearing, MRI and imaging, and lab expenses.
- 3) LTD third-party administration contract was awarded July 1, 2011, to Sedgwick Claim Management Services, Inc. Contract Term is one year with the option to renew for four one-year periods. Annual renewal was completed early 2015, and the contract will be exhausted on June 30, 2016.
- 4) A 2015 RFP generated four bids for offering retiree dental plans. A recommendation was presented and approved by the OAC and the Board of Trustees in May 2015. Assurant Employee Benefits was awarded a contract for CY 2016 that reduced premiums for the two indemnity dental plans. Quarterly performance achievement of each TPA is monitored through the reporting of contractually-mandated standards. Other periodic reviews concerning, for example, processing of individual appeals, involvement in day-to-day operational issues, or assistance with marketing materials, are also conducted.

**6. *Review and approve macro-level strategic investment policies which guide the strategic vision for ASRS investments:***

- SIP001 Asset Allocation (PLAN)*
- SIP002 Fund Position and Rebalancing (PLAN)*
- SIP003 Asset Allocation (LTD)*
- SIP004 Fund Rebalancing (LTD)*
- SIP005 Securities Litigation*
- SIP006 Investment Manager Selection*

No changes to ASRS Strategic Investment Policies (SIP) 001-006 occurred in 2015. SIP007 Funding Policy was created and approved August 2015.

**7. *Conduct an annual actuarial valuation of the ASRS liabilities and submit the results to the Governor and state legislature as required by state law. (A.R.S. § 38-714)***

System, Plan, Health Insurance and LTD valuations presented at the December 2015 Board meeting. 2015 CAFR, which contains actuarial information, was submitted to the Governor and Legislature in December 2015.

**8. *Conduct an actuarial experience investigation study every five years, which assists in establishing actuarial funding methods and assumptions, benefit option factors, and an asset valuation method consistent with State law. (A.R.S. § 38-711)***

The experience investigation study is included in the current consulting actuary contract. The most recent study was conducted by Buck Consultants and was presented to the Board May 2013. The next experience study conducted will be through June 2017 and presented 2018.

**9. *Conduct an independent third-party audit of the actuarial funding of the ASRS benefits every five years.***

Gabriel Roeder Smith & Company conducted an audit of Buck Consultants and presented at the June 2014 Board Meeting. The next audit will be of actuarial reports through June 2018 and presented 2019.

**10. *Review, approve, and monitor the budget and budget change proposals.***

Reviewed the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plan for Fiscal Year FY 2015 and approved the ASRS Appropriated Budget Request and Estimated ASRS Administrative and Investment Spending Plans for FY 2016 and FY 2017 at the August 2014, Board

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meeting, with monthly status reports included in the Director's Report section of the Board packets. FY 2018 and FY 2019 to be approved at the August 2016 Board meeting.

***11. Ensure the integrity of the financial control and reporting system.***

Independent Auditor presented the June 30, 2015 CAFR at the December 2015 Board meeting.

***12. Biennially review the agency risk assessment document and risk management activities.***

Based on an internal audit on governance, the biennial risk assessment has been replaced with an ongoing, enterprise-wide risk assessment process. Risk assessments are periodically reported to the OAC (and also the IC if required). Staff provided its annual report on risk management at the January 2016, Board meeting.

***13. Biennially approve the internal audit plan.***

Internal Audit Biennial Audit Plan for FY 2016 and 2017 reviewed May 2015.

***14. Board working with the Director will adopt a set of strategic initiatives and evaluation criteria for the Director.***

The outcome of the ASRS Five-year Strategic Plan (2014-18) was presented at the September 2014 Board meeting. FY 2016 legislative initiatives were presented and approved September and December 2015.

The 2015 Director review is scheduled for the March 2016 Board meeting.

***15. Direct and oversee the long-term strategic planning process for the ASRS, including: adopting the vision, values, investment principles, and strategic goals of the ASRS; identifying and prioritizing strategic initiatives; measuring the success and progress of the Strategic Plan.***

The ASRS Five-Year Strategic Plan (2014-18) includes the following five priorities for the agency:

- Ensure Plan sustainability
- Optimize risk management
- Optimize investment organization and strategies
- Ensure outstanding customer service
- Ensure high productivity

August 2015, the Board approved the following proposed Strategic Topics for FY2016: Health Care (currently being reviewed by the OAC); Employer Service Paradigm (October 2015); Board Governance and Management Concepts and Practices (tentative March 2016); and Public Pension Landscape (national, state, local) (tentative April 2016).

In addition, discussion of the following scheduled annual updates of Strategic Priorities were discussed: Strategic Priority #3-Optimize Investment Organization and Strategies (December 2015), Strategic Priority #4-Ensure Outstanding Customer Service (October 2015), Strategic Priority #1-Ensure Plan Sustainability (December 2015), Strategic Priority #2-Optimize Risk Management (January 2016), and Strategic Priority #5-Ensure High Productivity (tentative February 2016).

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**Oversight**

***1. Member services, including all outreach education, walk-in counseling, member correspondence, and call center services and programs.***

Presented the ASRS' progress in its efforts to migrate members from manual transactions, physical contacts and mailings to online self-service at the March and December 2015 meetings.

***2. Technology services, including development, maintenance, security, performance, and compliance with state or industry standards.***

ASRS information technology security risks and initiatives were discussed at the March and December 2015 meetings.

***3. General accounting and financial reporting, including compliance with industry standards, investment accounting, payroll, accounts receivable and payable, pension payroll, and contribution reporting.***

May, 2015 a presentation was made to the OAC on the status of the Governmental Accounting Standards Board (GASB) 67 & 68 Reporting for Employers

***4. Collection and maintenance of member/employer accounts, including contributions, salaries and service, demographic data, and security.***

March, 2015 a presentation was made to the OAC regarding FY2016-2020 strategic initiatives related to data security, privacy programs and information technology development..

July, 2015 the results of the data security audit were presented to the OAC.

December, 2015 the OAC was provided an update regarding the ASRS current initiatives within operations to include: risk assessments (LTD, investment management, service purchase & contracts & procurement), information security efforts, information privacy efforts, employer customer service model, and technology development (Oracle Modernization & other development projects).

***5. Benefit administration, including calculations and disbursements for all benefit types.***

A risk assessment of fraud against a member account was reviewed at the August 2014 meeting.

***6. Strategic, agency-wide staffing issues.***

Compensation strategies and staffing conditions for FY 2015 were discussed at the July 2015 meeting.

***7. Administration and plan design of the ASRS health insurance program.***

- Retiree Medical Plans – A premium rate pass was negotiated with UnitedHealthcare during 2015 for Medicare and non-Medicare medical/prescription drug plans for calendar year 2016.
- Retrospective Rate Adjustment Agreement (RRAA) – A new RRAA was negotiated during 2015, retaining the 93% medical loss ratio (MLR) for 2016. In addition, a draft RRAA policy was prepared addressing a methodology for using the accumulated MLR reimbursements.
- Retiree Dental Plans – A 2015 Request for Proposals (RFP) generated four excellent bids for offering retiree dental plans. Significant discussions were held with the ASRS all-retiree Health Insurance Advisor Committee, which assisted on the RFP Evaluation Committee, which helped formulate a recommendation that was favorably received by the OAC and the Board of Trustees. Assurant Employee Benefits, the current dental plans provider, was awarded a contract for CY2016 that reduced premiums for the two indemnity dental plans.

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- Prescription Discount Card Program – A 2015 RFP selected WellDyneRx, the current discount card provider, to continue its services in CY2016. In addition to its benchmark prescription drug discount card program, WellDyneRx offers discounts for dental, hearing, MRI and imaging, and lab expenses.

***8. Administration and plan design of the ASRS long term disability program.***

The ASRS renewed the Sedgwick CMS fiscal year (FY) contract in early 2015 to June 30, 2016, granting a 3% increase in fees. This increase followed a 0% increase in FY2015, a 1.3% increase in FY2014, and a 0% increase in FY2013.

***9. Plan design of the ASRS 401(a) defined benefit plan.***

No Plan design issues were needed to be discussed at the OAC during 2015.

***10. Governance policies and practices.***

There were no proposed changes to the governance policies and practices in 2015.

***11. Review appropriated budget request proposals; ongoing administration of the ASRS appropriated budget and continuously appropriated budget.***

Approved and forwarded recommendation to the Board regarding FY 2016-2017 appropriated budget and continuously appropriated budget at the August 2014, OAC meeting.

Received an update regarding the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plans for FY 2015-2017 in July 2015.

***12. General contract management and procurement.***

The RFP responses for a five-year contract for ASRS Retiree Dental Benefits were reviewed April and May 2015 and discussed at the May 2015, OAC meeting and recommended to move to the Board for approval.

***13. Strategic initiatives approved by the Board affecting operations or administration.***

Agency Data Security, Privacy Programs and Information Technology Development were presented at the March 2015 meeting. Current Initiatives topic presented at the December 2015 meeting.

***14. The OAC will operate as the Audit Committee for the agency and will perform the necessary duties of an audit committee including:***

**Oversight of the agency's enterprise-wide risk management program.**

The data security audit was presented at the July 2015 meeting.

**Review and approval of the biennial Audit Plan.**

The Internal Audit Biennial Audit Plan for FY 2016-2017 was reviewed by the OAC and approved by the Board May 2015.

**Review and follow up on operational, investment, employer, and vendor audits.**

Internal and employer audits were provided at each OAC meeting during 2015.

**The OAC will use its discretion in reporting or making recommendations to the Board except in cases when Board action is required by governance policy (see Internal Audit Charter).**

No discretionary items were referred from the OAC to the Board in 2015.

***15. OAC actions requiring independent Board review.***

**Selection or removal of a vendor or vendors to administer the ASRS health insurance programs.**

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The RFP responses for a five-year contract for ASRS Retiree Dental Benefits were reviewed April and May 2015 were discussed at the May 2015 OAC meeting and recommended to move to the Board for approval May 2015.

**Selection or removal of a vendor to administer the ASRS long term disability program.**

There was no LTD vendor selection or removal in 2015; however, there is currently an outstanding LTD RFP.

**Selection or removal of the ASRS external or internal auditor.**

There was no external or internal auditor selection or removal in 2015.

**Biennial review of the agency's risk management program.**

A biennial audit plan for 2016-17 which was based in part on the Agency Risk Assessment, was provided to and accepted by the Board at the May 29, 2015 Board meeting based in part on the Agency Risk Assessment.

**Biennial approval of the internal audit plan.**

The next Internal Audit Biennial Audit Plan for FY 2016 and 2017 was reviewed by the OAC in May 2015 and recommended to move to the Board for approval.

**Appropriated budget request proposals.**

Approved and forwarded recommendation to the Board regarding FY 2016-2017 appropriated budget and continuously appropriated budget at the August 2014, OAC meeting.

Received an update regarding the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plans for FY 2015-2017 in July 2015.

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**Legislation**

***1. Work with the Director to identify legislative proposals to facilitate the efficient administration of ASRS operations and report committee recommendations to the Board.***

Conducted an assessment of staff and Board legislative suggestions in mid-summer 2014. Developed costs, strategies and legislative language that were recommended to the full Board in October 2014 for the 2015 session.

Key legislative items passed in 2015 were:

- Modify Arizona Revised Statute to reflect the outcome of the legal case Pendergast vs. ASRS as well as modify additional language originally passed with SB1609 but subject to additional litigation.
- Providing the ASRS Board authorization to change the actuarial funding methodology from Projected Unit Credit (PUC) to Entry Age Normal (EAN), at the Board's discretion, beginning June 30, 2016.
- Removal of a requirement for administrative rules required by two statutes and discovered during the ASRS Sunset Audit.
- Clarifying the definition of disability in LTD statutes, A.R.S. § 38-797.
- Federal conforming legislation.

***2. Review new legislation and plan design changes and report Committee findings and recommendations to the Board for action.***

Closely monitored legislation during the 52nd Legislature, First Regular Session that affected the ASRS but not proposed by the agency, reported findings and took action as appropriate.

Key legislative items that were not proposed by ASRS but agency were forced to address:

- An approach to allow the three state universities (Arizona State University, University of Arizona, and Northern Arizona University) to get out of the ASRS defined benefit plan. This proposal manifested itself in two bills, one in the house and one in the Senate. Although it did not pass, similar legislation can be expected in 2016.
- Allowing firearms to be carried into public buildings.
- Fire Districts would be permitted to determine if a fire chief employed with a fire district was performing hazardous or non-hazardous duty for the purposes of determining what retirement system he/she would belong to.

***3. Review and monitor Board and ASRS activity regarding state legislative matters to help ensure compliance with the Legislative Review Policy and state law prohibitions on Board advocacy for or against legislation for benefit modifications. (A.R.S. § 38-714)***

Advised the Board, through the agency's Assistant Attorney General, of statutory restrictions on advocacy.

***4. Oversee communicating the actuarial contribution requirements and administrative costs to the legislature and other relevant parties.***

Informed the Speaker of the House, the President of the Senate, the Governor's Office, as well as our assigned House and Senate committees, and our employers of the fund status and proposed contribution rates.

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**Administrative Rulemaking**

**1. Review practices and procedures for inclusion in administrative rules for the ASRS as required and consistent with state law.**

ASRS practices and procedures were reviewed for prioritization by staff and management in conjunction with the ASRS Rules Writer and the Regulatory Agenda for 2016 was prepared for approval by the EAC.

**2. Recommend to the Board the addition, deletion, or modification of administrative rules and substantive Board policies.**

In 2015, the ASRS amended the following 10 rules that became effective December 5, 2015: R2-8-104, Definitions; R2-8-115, Return of Contributions Upon Termination of Membership by Separation from All ASRS Employment by Other Than Retirement or Death; Payment of Survivor Benefits Upon the Death of a Member; R2-8-118, Application of Interest Rates; R2-8-120, Designating a Beneficiary; Spousal Consent to Designation; R2-8-123 Actuarial Assumptions and Actuarial Value of Assets; R2-8-126, Calculating Benefits; R2-8-401, Definitions; R2-8-501, Definitions; R2-8-601, Definitions; and R2-8-701, Definitions.

In May 2015, the ASRS submitted a five-year review report to the Governor's Regulatory Review Council (GRRC) on the rules contained in 2 A.A.C. 8, Articles 1, 4, and 5. GRRC approved the report on August 4, 2015. In submitting that report, the ASRS allowed the two remaining rules in 2 A.A.C. 8, Article 2, State Retirement Defined Contribution Program, to expire because the rules were no longer necessary. R2-8-207, Return of Contributions, is unnecessary because return of contributions is addressed for all members in R2-8-115 and with the expiration of R2-8-207, it is unnecessary to maintain a definitions section in R2-8-201.

In September 2015, the ASRS filed a Notice of Docket Opening with the Secretary of State, intending to amend the rules in 2 A.A.C. 8, Article 5, Purchasing Service Credit. The ASRS anticipates completing this rulemaking by filing a Notice of Final Rulemaking with the Secretary of State on approximately May 3, 2016.

Also in September 2015, the ASRS filed a Notice of Proposed Rulemaking with the Secretary of State, amending the following four rules in 2 A.A.C. 8, Article 1: R2-8-115, Return of Contributions Upon Termination of Membership by Separation from All ASRS Employment by Other Than Retirement or Death; Payment of Survivor Benefits Upon the Death of a Member; R2-8-118, Application of Interest Rates; R2-8-122, Remittance of contributions; and R2-8-126 Calculating Benefits. The ASRS anticipates completing this rulemaking by filing a Notice of Final Rulemaking with the Secretary of State on approximately January 5, 2016.

In October 2015, the ASRS filed a Notice of Docket Opening with the Secretary of State, intending to promulgate a new section, R2-8-116, to address remittance of the alternate contribution rate. The ASRS anticipates completing this rulemaking by filing a Notice of Final Rulemaking with the Secretary of State on approximately May 3, 2016.

In November 2015, the External Affairs Committee (EAC) approved the Regulatory Agenda for 2016 with the following rulemaking actions and reviews:

**Expected Rulemakings**

2 A.A.C. 8, Art. 1

- R2-8-116. Working After Retirement
- Return to Work (RTW) guide in rule?

2 A.A.C. 8, Art. 7, Contributions Not Withheld

2 A.A.C. 8, Art.2. (expired) Health Insurance

- Long-Term Disability

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- Premium Benefit Eligibility

2 A.A.C. 8, Art. 6, Public Participation in Rulemaking

2 A.A.C. 8, Art. 8, Overpayments

2 A.A.C. 8, Art. 3 (reserved) Membership

- Contributions
- Accrual of credited service (higher education credited service)
- Apportionment
- Delinquency
- Compensation
- 20/20 criteria and status changes—"intent" / "engaged"

#### **Five-Year-Review of Rules**

2 A.A.C. 8, Article 6

2 A.A.C. 8, Article 7

#### **Annual Communications Program**

- 1. Review the agency's annual communications program to ensure that members, employers, legislature, Governor's Office, and other constituents and interested parties are appropriately notified and/or informed about ASRS' activities, meetings, investments and other information.*

With the re-designed website completed in 2014, much of 2015 was spent reviewing and analyzing the site and making appropriate updates. The Web Steering Committee continues to meet to review and set best practices for the ASRS website. One significant upgrade included the addition of responsive design to the myASRS secure portion of the website. This upgrade allows for automatic re-sizing of the secure website on any device, such as smart phones.

Highlights of our 2015 overall communications projects:

- ASRS E-Newsletters. Sent January, June, September. More than 250,000 ASRS members have been reached through each of our e-news campaigns.
- *Your Retirement* newsletters. Three quarterly newsletters mailed to more than 130,000 retirees, beneficiaries and disabled members each quarter.
- Birthday Emails to active and inactive members. Began sending emails to members on their birthday in 2013 and continued daily in 2015, including introduction of a third e-card aimed specifically at retired members. The daily run averages about 650 with a birthday greeting and reminder to log in to their personal secure ASRS account to see their benefit information.
- 2015 Comprehensive Annual Financial Report (CAFR) and Popular Annual Financial Report (PAFR) produced by the Financial Services Division in November. Copies are provided to Governor's Office and key legislators.
- Publication of Retiree Health Insurance brochures for annual Open Enrollment and Initial Enrollment.
- Daily updates to the online ASRS Bill Tracker were made during the 2015 Legislative session.
- The Member Services Division continued to revise and add to the ASRS online video library with an enhanced presentation for online learning opportunities.
- Updated the ASRS Member Handbook and informational tri-fold brochures.
- Three editions of our *Employer Update* e-newsletters were delivered to 700-plus employer-partners.
- Multiple special subject emails were presented to our employers by the Employer Relations team.

Note: In mid-2015, organizational restructuring of the External Affairs Division split off Communications and a Public Affairs/Media Relations.

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Strategic Communications is now part of the Strategic Planning area, and Public Affairs/Media Relations is a direct report to the Director.

A new Communications Steering Committee, comprised of senior managers under the direction of the Deputy Director, Chief Operations Officer, has been meeting to set priorities and additional planning for the ASRS communications functions.

Additionally, new responsibilities in the area of Public Affairs continue to be developed.

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***1. Recommend to the Board the ASRS investment goals and objectives.***

Quarterly reviewed ASRS investment outcomes vs. ASRS investment goals and objectives.

***2. Recommend to the Board the ASRS strategic asset allocation policy which is expected to achieve the investment goals and objectives.***

The IC recommended a new Strategic Asset Allocation Policy which was approved by the Board in February 2015.

Modifications to existing Strategic Investment Policies (SIPs) 001, 002, 003, 004 and the addition of two new SIPs were approved at the November 2015 Investment Committee Meeting and are pending final approval by the full Board in Q-1 2016.

The Investment Committee approved changes to ASRS Real Estate Strategic Plan in August 2015, and was subsequently approved by the Board in September 2015.

***3. Recommend to the Board ASRS Strategic Investment Policies and review annually the ASRS Investment Policy Statement (IPS).***

Modifications to ASRS Investment Policy Statement (IPS) were reviewed by the IC in April 2015. The full Board approved these modifications at the May 2015 Board Meeting. Modifications reflected the development and implementation of the ASRS Cash Management Program, and provided greater clarity of verbiage in the investment cash considerations section.

***4. Review and recommend to the Board changes in investment-related sections of the ASRS Board Governance Policy Handbook.***

No changes were made to the Governance Policy Handbook.

***5. Review the Asset Class Committee's activities and asset class presentations.***

Reviewed and discussed the CIO's Investment Report (ASRS Market Value Reports, Asset Class Positioning, Investment House Views, IMD Projects/Initiatives/Research, and Asset Class Committee decisions); NEPC presented an independent review of ASRS Investment Program Oversight Report – both report presented at each IC meeting.

***6. Review recommendations regarding changes to asset class performance benchmarks. Subsequent approval by the Board is required.***

No asset class benchmark changes were recommended.

***7. Review the Tactical Fund Positioning/Portfolio Rebalancing actions.***

At each meeting, the IC reviewed tactical investment decisions that were made regarding Total Fund and asset class positioning. On a monthly basis, the Director and CIO provided the IC Chair and Board Chair with investment program updates. An Economic Dashboard and Market Information Report is also dissemination to all Trustees on a monthly basis.

***8. Recommend to the Board the selection, and termination of the ASRS general investment consultant(s) and oversee their performance.***

The Board approved NEPC as ASRS General Investment Consultant in February 2014. The contract term is one year with the ASRS option to renew for up to four one-year periods. The annual renewal is due by March 9, 2016 and if all renewals are exercised, the contract will expire on March 9, 2019.

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***9. Engage the Director and CIO regarding the Investment Management Division's organizational strategic planning.***

Director discussed the ASRS Investment Compensation Plan (ICP) designed to enhance ASRS Investment Management and performance of the Total Fund (March 2015).

***10. Receive and discuss annually ASRS investment risk reports.***

Discussed Total Fund risk management reports generated by an independent external risk vendor and securities lending market metrics generated by IMD staff. Risk reports were discussed at each IC meeting and included in the Director's section of the Board packet on a quarterly basis.

***11. Review annually the administration of the third-party administrator for the Supplemental Retirement Savings Plan (SRSP) and annually report to the Board.***

Reviewed the SRSP (October 2015).

***12. Review annually the administration of the third party administrator for the Supplemental Salary Deferral Plan (SSDP) and annually report to the board.***

Reviewed the SSDP (October 2015).

***13. Review annually the administration of the third-party administrator for the DC 38-955 Plan and annually report to the Board.***

The 38-955 DCPlan was closed effective January 21, 2015, with account balances being converted into IRAs or transferred to the ASRS defined benefit plan as service purchases for plan members. The 38-955 DC Plan Management Committee met on 02/19/15 to receive its final report from Nationwide Retirement Solutions, the plan administrator.

***14. Review and comment if necessary on audits related to investment management.***

Monthly independent audit compliance reports are conducted by ASRS Internal Audit and the ASRS Custody Bank. These pertain to the management of ASRS internally-managed equity and fixed portfolio trading, to compliance with portfolios' letters of direction and clarification and to compliance with state statutes.

***15. Receive and review asset class committee minutes.***

The Director's Asset Class Committee (ACC) minutes are disseminated to all IC members. The activities and decisions made by the ACC are also presented at each IC meeting and to the Board on a quarterly basis.

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**1. *Perform annual performance evaluations of those who have a direct reporting relationship to the Director.***

2015 evaluations to be completed March, 2016.

**2. *Conduct an annual actuarial valuation of the ASRS liabilities and submit the results to the Governor and State Legislature as required by State law. (A.R.S. § 38-714)***

System, Plan, Health Insurance and LTD actuarial valuations presented to Board at the December 2015 Board meeting.

2015 CAFR, which contains actuarial information, to be submitted to the Governor and Legislature December 2015.

**3. *Conduct an actuarial experience investigation study every five years.***

The next study to be completed in 2018.

**4. *Identify strategic issues involving the design or ongoing administration of the defined benefit plan, defined contribution system, health insurance program, long term disability program, the supplemental retirement savings plan, the supplemental salary deferral plan, and the DC 38-955 plan. Initiate analysis or action as appropriate.***

Director held Multi-chair meetings with the Board and Committee Chairs in February and August 2015.

Strategic topics discussed by the Board:

January, 2015 – Discussed the current performance and future strategic priorities of the Member Services Division.

February & March, 2015 – Received Board approval regarding the Asset Allocation Study recommendations.

March, 2015 – Review of the Board Governance Model & Fiduciary Role.

August, 2015 – Funding Policy approved by the Board. The policy aggregates both documented and undocumented concepts the ASRS has had with additional concepts and incorporates them into one policy.

October, 2015 – Discussed the current performance and future strategic priorities of Employer Services and provided the Board with an update on Strategic Plan Priority #4: Ensure Outstanding Customer Service.

December, 2015 – Provided the Board with updates regarding Strategic Plan Priority #3: Optimize Investment Organization and Strategies and Strategic Plan Priority #1: Ensure Plan sustainability.

May, 2015- Provided the OAC with the results of the ASRS Retiree Dental Benefits Program Request for Proposal.

May, 2015 – Provided the OAC with a presentation regarding the ASRS Retiree Health Insurance and Health Benefit Supplement Programs.

June, 2015 – Provided the OAC with a presentation regarding the ASRS Retiree Health Insurance Programs, the Health Benefit Supplement Program and the Retrospective Rate Adjustment Agreement Funds.

**5. *Assist the Board in reviewing and adopting actuarial assumptions, funding methods, benefit option factors and actuarial valuation methods for the ASRS.***

Reviewed actuarial assumptions and methods with Actuary during the preparation of valuation reports. System, Plan, Health Insurance and LTD valuations presented December 2015.

**2015 MAJOR ANNUAL RESPONSIBILITIES  
LISTED IN BOARD GOVERNANCE POLICY HANDBOOK  
MARCH 2016 STATUS  
DIRECTOR RESPONSIBILITIES**

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**6. *Oversee the preparation of the ASRS comprehensive annual financial report.***

2015 System's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2015 presented at the December 2015 Board meeting.

**7. *Administer the Supplemental Retirement Savings Plan (SRSP) and report to the Investment Committee (IC) annually.***

Facilitated SRSP Committee meetings on 02/19/15, 05/21/15, 09/10/15, 11/19/15, and 12/01/15. Reported to IC in October 2015.

**8. *Administer the Supplemental Salary Deferral Plan (SSDP) and report to the Investment Committee (IC) annually.***

Facilitated SSDP Committee meetings on 02/24/15, 05/21/15, 09/10/15, 11/19/15, and 12/01/15. Reported to IC in October 2015.

**9. *Administer the DC 38-955 Plan and report to the Investment Committee (IC) annually.***

The plan was closed effective January 21, 2015, with account balances being converted into IRAs or transferred to the ASRS defined benefit plan as service purchases for plan members. The 38-955 DC Plan Management Committee met on 02/19/15 to receive its final report from Nationwide Retirement Solutions, the plan administrator.

**10. *Arrange for an annual fiduciary education session for the Board.***

The Fiduciary training was held March 2015.

**11. *Assist the Board in soliciting and selecting the following external service providers:***

**Consulting actuaries and actuarial auditors**

A consulting actuary contract was awarded to Buck Consultants July 1, 2011. Alternate actuaries are contracted for special projects (which include actuarial auditing). Contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewal completed April 28, 2015, and the contract, if all renewals are exercised, will be exhausted on June 30, 2016.

**External financial auditor**

The primary external financial auditor contract was awarded to CliftonLarsonAllen to commence work on the FY 13 audit. Heinfeld, Meech & Company was also awarded a contract to serve as the secondary external financial auditor and for special projects as needed. Contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewals for CliftonLarsenAllen and Heinfeld, Meech & Company were completed December 9, 2015. The contract, if all renewals are exercised, will be exhausted on December 31, 2017.

**General investment consultants**

The Board approved NEPC as ASRS General Investment Consultant in February 2014. Annual renewal is due by March 9, 2016. If all renewals are exercised, the contract will be exhausted March 9, 2019.

**Third-party administration providers for health and long-term disability:**

A new contract was approved by the Board and awarded for a retiree medical benefit program to UnitedHealthcare effective January 1, 2015. The contract is for one year with four annual renewals through December 31, 2020. A premium rate pass was negotiated with UnitedHealthcare during 2015 for Medicare and non-Medicare medical/prescription drug plans for calendar year (CY) 2016.

**2015 MAJOR ANNUAL RESPONSIBILITIES  
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DIRECTOR RESPONSIBILITIES**

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A 2015 RFP selected WellDyneRx, the current discount card provider, to continue its services in CY2016. In addition to its benchmark prescription drug discount card program, WellDyneRx offers discounts for dental, hearing, MRI and imaging, and lab expenses.

LTD third-party administration contract was awarded July 1, 2011, to Sedgwick Claim Management Services, Inc. Contract Term is one year with the option to renew for four one-year periods. Annual renewal was completed July 1, 2014, and the contract, if all renewals are exercised, will be exhausted on June 30, 2016. The ASRS renewed the contract in early 2015 to June 30, 2016.

A 2015 RFP generated four bids for offering retiree dental plans. A recommendation was presented and approved by the OAC and the Board of Trustees in May 2015. Assurant Employee Benefits was awarded a contract for CY 2016 that reduced premiums for the two indemnity dental plans.

***12. Approve all contract extensions, including the following external service providers:***

**Consulting actuaries and actuarial auditors**

A consulting actuary contract was awarded to Buck Consultants July 1, 2011. Alternate actuaries are contracted for special projects (which include actuarial auditing). Contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewal completed April 28, 2015, and the contract, if all renewals are exercised, will be exhausted on June 30, 2016.

**External financial auditor**

The primary external financial auditor contract was awarded to CliftonLarsonAllen to commence work on the FY 13 audit. Heinfeld, Meech & Company was also awarded a contract to serve as the secondary external financial auditor and for special projects as needed. Contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewals for CliftonLarsenAllen and Heinfeld, Meech & Company were completed December 9, 2015. The contract, if all renewals are exercised, will be exhausted on December 31, 2017.

**General investment consultants**

The Board approved NEPC as ASRS General Investment Consultant in February 2014. Annual renewal is due by March 9, 2016. If all renewals are exercised, the contract will expire March 9, 2019.

**Third-party administration providers for health and long-term disability**

See the response to #11 above.

***13. Review and approve, with the consensus of the CIO, recommendations from ASRS Asset Class committees, to hire and terminate investment managers/partners.***

**Private Markets:**

Approved \$2.5 billion in commitments to 9 private market investments (4 private debt, 1 opportunistic debt and 4 private opportunistic equity) totaling \$2.5 billion.

Approved \$1.4 billion in commitments to 4 new real estate partnerships, \$450 million increase to 53 existing partnerships, and terminated the investment period for one manager resulting in a \$120 million reduction in commitment.

Approved \$677 million in commitments to 12 private equity partnerships.

**Public Markets:**

Liquidated and transferred approximately \$3.1 billion from the U.S. Equities per:

- \$1.3 billion in Non-U.S. EAFE asset sub-class
- \$1.8 billion used to fund internal (private markets) and external (cash management) cash-flows.

**2015 MAJOR ANNUAL RESPONSIBILITIES**  
**LISTED IN BOARD GOVERNANCE POLICY HANDBOOK**  
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**DIRECTOR RESPONSIBILITIES**

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Liquidated and transferred approximately \$600 million from the Non-U.S. EAFE-Small Cap and \$700 million from Non-U.S. Emerging Markets per:

- \$0.9 billion in Non-U.S. EAFE asset sub-class
- \$0.4 billion used to fund internal (private markets) and external (cash management) cash-flows.

Defunded three Domestic Equity active managers.

Defunded two Emerging Market Debt Managers.

Funded one Treasury (Long Duration) passive manager.

**Multi-Asset Class**

Liquidated/Reduced and transferred approximately \$2.1 billion and reallocated monies within the Fund

- Reducing one mandate by \$1.7 billion
- Defunding a second manager by \$0.4 billion

**Commodities:**

Reduced one mandate by \$250 million.

***14. Review and approve recommendations from ASRS Asset Class committees to hire and terminate Asset Class consultants. The Investment Committee must consent to the Director's recommendation before a primary consultant for an Asset Class committee is hired or terminated.***

No recommendations were made in 2015 to hire or terminate an Asset Class consultant.

***15. Approve the selection, extension and termination of the supplemental retirement savings plan (SRSP), the supplemental savings deferral plan (SSDP), and DC 38-955 plan investment options, and third-party administrators.***

A contract for administering the SRSP was awarded January 1, 2012 to Nationwide Retirement Solutions, Inc. Contract term is one year with the option to renew for four one-year periods. Annual renewal was completed November 30, 2015 and the contract, if all renewals are exercised, will be exhausted on December 31, 2016.

A 2015 RFP was issued for administrative, marketing, and investment services related to the SSDP. Nationwide Retirement Solutions (NRS) was awarded the contract to replace TIAA CREF. The transition to NRS occurred during the fall 2015 which involved approximately \$14.5 million in plan assets and affected about 650 plan participants.

On December 1, 2015, the plans' Management Committee moved to replace the Dreyfus Appreciation Fund investment option in both SRSP and SSDP with the PRIMECAP Odyssey Stock fund, a large core/growth Morningstar category fund. The Dreyfus Appreciation Fund performed in the bottom quartile for its 1, 3, and 5 year averages and placed in the third quartile for its 10 year average. Poor performance along with a portfolio manager change necessitated the investment option change.

***16. The Board is updated at least annually regarding the agency's progress addressing strategic priorities.***

Instead of all five strategic priorities being reported on in one meeting, staff provided updates individually as follows: Ensure Plan Sustainability (December 2015); Optimize Investment Organization and Strategies (December 2015); and Ensure Outstanding Customer Service (October 2015). The remaining two priorities update will be presented in 2016.

**2015 MAJOR ANNUAL RESPONSIBILITIES  
LISTED IN BOARD GOVERNANCE POLICY HANDBOOK  
MARCH 2016 STATUS  
DIRECTOR RESPONSIBILITIES**

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***17. In preparation for Board Meetings with Strategic Planning agendas, the Director will ask the Board Chair for direction on how to proceed in discussing, modifying, or developing strategic priorities.***

The Board discussed and approved the following strategic topics for FY2016:

- Health Care
- Strategic Plan Reporting: Priority #3-Optimize Investment Organization and Strategies
- Employer Service Paradigm
- Strategic Plan Reporting: Priority #4-Ensure Outstanding customer Service
- Strategic Plan Reporting: Priority #1-Ensure Plan Sustainability
- Strategic Plan Reporting: Priority #2-Optimize Risk Management
- Strategic Plan Reporting: Priority #5-Ensure High Productivity
- Board Governance and Management Concepts and Practices
- Public Pension Landscape (national, state, local)

***18. At least once annually, during Board meetings with Strategic Planning agendas, the Trustees and Director will determine:***

***Which strategic topics they would like discussed during the year.***

***The number of Board meetings they would like to devote to strategic planning.***

***Preferences for how strategic discussions should be facilitated.***

***To facilitate the discussion, the Director will provide trustees with a recap of:***

***\*Strategically-focused topics that have been discussed at prior Board and Committee meetings;***

***\*Strategically focused topics that have been requested by trustees, but not yet scheduled for discussion;***

***\*Strategically focused topics that the Director recommends be considered for discussion.***

This discussion occurred as part of the Strategic Plan annual report in May and August 2015. Strategically focused topics that were identified in these meetings will be scheduled for follow up discussion at future Board meetings.

**2015 MAJOR ANNUAL RESPONSIBILITIES**  
**LISTED IN BOARD GOVERNANCE POLICY HANDBOOK**  
**MARCH 2016 STATUS**  
**ADDITIONAL TRUSTEE REQUESTS**

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*Trustee Informational Sessions*

IMD facilitated a trustee information session regarding understanding the low volatility anomaly and the theory behind using systematic rebalancing to capture natural stock price volatility – March 26, 2015

# Agenda Item #5

## Director's Report

**5a - Investments**

**5b - Operations**

**5c - Budget & Staffing**

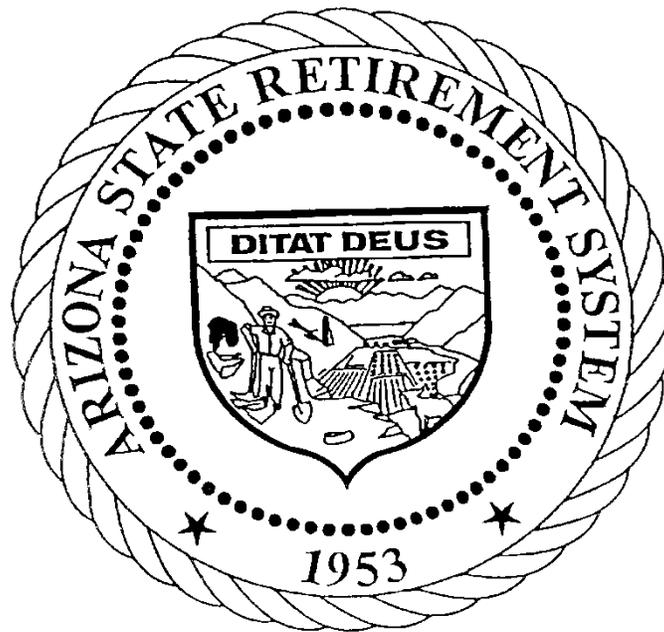
**5d - Cash Flow  
Statement**

**5e - Appeals**

**5f - Employers  
Reporting**

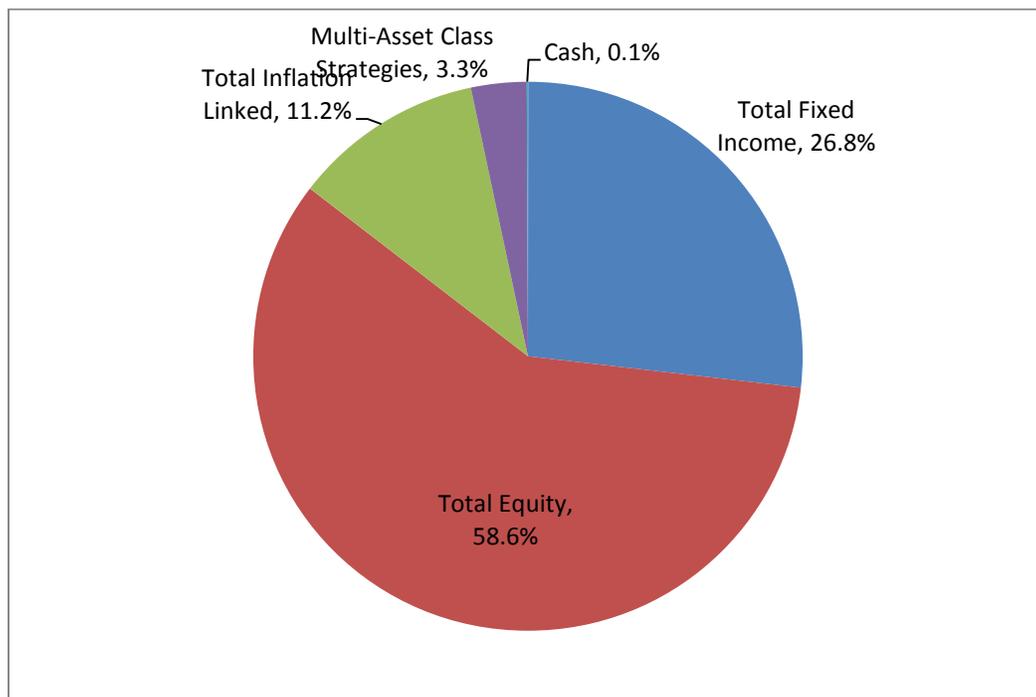
# Agenda Item #5a

## Director's Report Investments

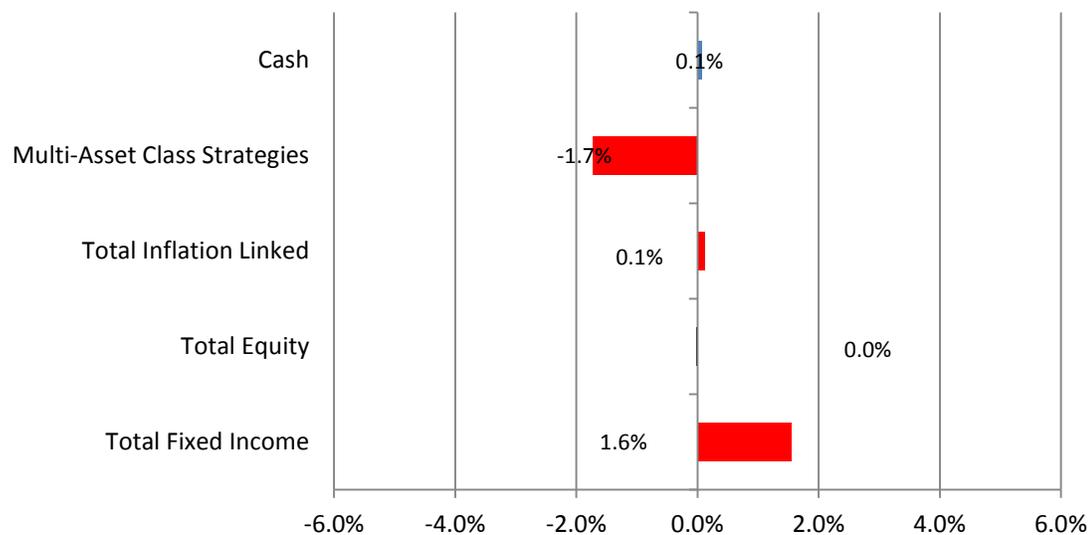


# TOTAL FUND POSITIONING 02/29/2016

## ACTUAL PORTFOLIO



## ACTUAL PORTFOLIO VS. INTERIM SAA POLICY \*



*\*The Interim SAA Policy is prorated thusly: Real Estate was prorated to domestic equity, international equity and fixed income, Private Equity was prorated to domestic equity, and Private Debt was prorated to core fixed income and U.S. high yield. All Private asset classes' market values are reported on a quarter-lag and adjusted to include the current quarter's cash flows.*

Pension (Plan, System, HBS Assets)

ASRS Market Value Report

Monday, February 29, 2016

Account Manager	Account Manager Style	Fixed Income		Equity		Inflation Linked	Multi-Asset	Total	Pct of Fund
		Active	Enh/Passive	Active	Enh/Passive				
State Street B&T: Boston	Tactical Cash (non-assetized)							0	0.00%
	Operating Cash (non-assetized)		22,675,486					22,675,486	0.07%
	<b>Cash Total</b>							<b>\$22,794,374</b>	<b>0.07%</b>
Blackrock: San Francisco	Treasuries (Long Duration)		381,895,353					381,895,353	1.18%
	<b>Treasuries (Long Duration) Total</b>							<b>\$381,895,353</b>	<b>1.18%</b>
Blackrock: San Francisco	Passive (Intermediate Gov Credit)		24,794,119					24,794,119	0.08%
Operating Cash (assetized)	US Treasuries		261,258,924					261,258,924	0.81%
ASRS: Phoenix	Enhanced Passive F2		1,910,079,916					1,910,079,916	5.89%
Blackrock: San Francisco	Passive (US Debt Index)		1,575,979,255					1,575,979,255	4.86%
	<b>Core Fixed Income Total</b>							<b>\$3,772,112,214.47</b>	<b>11.63%</b>
	<b>Interest Rate Sensitive</b>							<b>\$4,154,007,567.62</b>	<b>12.80%</b>
Columbia: Minneapolis	Active	674,392,074						674,392,074	2.08%
JP Morgan: Indianapolis	Active	334,572,037						334,572,037	1.03%
	<b>High Yield Fixed Income Total</b>							<b>\$1,008,977,869</b>	<b>3.11%</b>
	<b>Opportunistic Debt</b>	1,120,287,373						1,120,287,373	3.45%
	<b>Private Debt Total</b>	2,424,674,767						2,424,674,767	7.47%
	<b>Fixed Income Total</b>							<b>\$8,707,947,577</b>	<b>26.84%</b>
LSV: Chicago	Active (Value)			656,451,713				656,451,713	2.02%
ASRS: Phoenix	Passive E2			4,635,036,687				4,635,036,687	14.28%
ASRS: Phoenix	Enhanced Passive E7			577,270,998				577,270,998	1.78%
Operating Cash (assetized)	S&P 500			78,377,677				78,377,677	0.24%
ASRS: Phoenix	Enhanced Passive E8			559,838,928				559,838,928	1.73%
ASRS: Phoenix	Risk Factor Portfolio			533,920,352				533,920,352	1.65%
	<b>Large Cap Equity Total</b>							<b>\$7,041,387,462</b>	<b>21.70%</b>
	<b>Large Cap Policy</b>								<b>20.00%</b>
Wellington: Boston	Active (Core)			252,755,428				252,755,428	0.78%
ASRS: Phoenix	Passive E3 (Growth)			375,264,507				375,264,507	1.16%
Operating Cash (assetized)	Russell 2000			39,188,839				39,188,839	0.12%
ASRS: Phoenix	Passive E4 (Value)			335,671,111				335,671,111	1.03%
	<b>Mid Cap Equity Total</b>							<b>\$1,002,879,885</b>	<b>3.09%</b>
	<b>Mid Cap Policy</b>								<b>3.00%</b>
TimesSquare: New York	Active (Growth)			319,961,316				319,961,316	0.99%
Operating Cash (assetized)	Russell 2000			39,188,839				39,188,839	0.12%
DFA: Santa Monica	Active (Value)			250,361,529				250,361,529	0.77%
ASRS: Phoenix	Passive E6			301,516,819				301,516,819	0.93%
	<b>Small Cap Equity Total</b>							<b>\$911,028,503</b>	<b>2.81%</b>
	<b>U.S. Equity Total</b>							<b>\$8,955,295,850</b>	<b>27.60%</b>
	<b>US Equity Policy Range: 16% - 36%</b>								<b>26.00%</b>
Brandes: San Diego	Active (Value)			523,379,045				523,379,045	1.61%
American Century	Active (EAFE)			506,532,747				506,532,747	1.56%
Trinity Street	Active (EAFE)			293,707,337				293,707,337	0.91%
Operating Cash (assetized)	MSCI EAFE			83,602,856	83,602,856			83,602,856	0.26%
Thompson Siegel Walmsley	Active (EAFE)			269,490,944				269,490,944	0.83%
Blackrock: San Francisco	Passive (EAFE)			3,646,160,206				3,646,160,206	11.24%
	<b>Large Cap Developed Non-US Equity Total</b>							<b>\$5,523,497,480</b>	<b>16.41%</b>
	<b>Large Cap Developed Policy</b>								<b>17.00%</b>
AQR: Greenwich	Active (EAFE SC)			90,410,663				90,410,663	0.28%
DFA: Santa Monica	Active (EAFE SC)			93,960,224				93,960,224	0.29%
Franklin Templeton: San Mateo	Active (EAFE SC)			195,182,827				195,182,827	0.60%
Blackrock: San Francisco	Passive (EAFE SC)			233,199,476	233,199,476			233,199,476	0.72%
	<b>Small Cap Developed Non-US Equity Total</b>							<b>\$612,755,586</b>	<b>1.89%</b>
	<b>Small Cap Developed Policy</b>								<b>2.00%</b>
William Blair: Chicago	Active (EM)			314,424,824				314,424,824	0.97%
Eaton Vance: Boston	Active (EM)			242,799,821				242,799,821	0.75%
LSV: Chicago	Active (EM)			100,431,951				100,431,951	0.31%
Operating Cash (assetized)	MSCI EM			20,900,714	20,900,714			20,900,714	0.06%
Blackrock: San Francisco	Passive (EM)			279,006,875				279,006,875	0.86%
	<b>Emerging Markets Equity Total</b>							<b>\$957,564,185</b>	<b>2.95%</b>
	<b>Emerging Markets Policy</b>								<b>5.00%</b>
	<b>Non-US Equity Total</b>							<b>\$6,893,817,251</b>	<b>21.25%</b>
	<b>Non-US Equity Policy Range: 14% - 34%</b>								<b>24.00%</b>
	<b>Private Equity Total</b>			2,653,795,346				2,653,795,346	8.18%
	<b>Private Equity Policy Range: 6% - 10%</b>								<b>8.00%</b>
	<b>Opportunistic Equity</b>			514,890,366				514,890,366	1.59%
	<b>Opportunistic Equity Policy:</b>								<b>0.00%</b>
	<b>Equity Total</b>							<b>\$19,017,798,813</b>	<b>58.61%</b>
	<b>Total Equity Policy Range: 48% - 65%</b>								<b>58.00%</b>
Gresham: New York	Commodities Total					199,168,457		199,168,457	0.61%
	<b>Real Estate Total</b>					2,939,407,234		2,939,407,234	9.06%
	<b>Infrastructure Total</b>					316,552,365		316,552,365	0.98%
	<b>Farmland &amp; Timber Total</b>					182,760,272		182,760,272	0.56%
	<b>Inflation Linked Total</b>								<b>0.00%</b>
	<b>Farmland &amp; Timber Policy Range: 0% - 3%</b>								<b>0.56%</b>
	<b>Inflation Linked Policy Range: 10% - 16%</b>								<b>12.00%</b>
Bridgewater	Multi-Asset Class Strategies						1,061,477,761	1,061,477,761	3.27%
	<b>Multi-Asset Class Policy Range: 0% - 12%</b>								<b>5.00%</b>
	<b>TOTAL Amounts</b>	\$4,553,940,010	\$4,176,801,942	\$7,279,525,202	\$11,738,273,611	\$3,637,888,328	\$1,061,477,761	<b>\$32,447,906,853</b>	<b>Total Fund</b>
	<b>TOTAL Percent</b>	14.03%	12.87%	22.43%	36.18%	11.21%	3.27%		

Asset Class	Actual Portfolio	SAAP Target (Range)	Interim SAA* Adj Policy	Actual - Interim SAA** % diff	\$ diff	Policy Band check Actual - Adj Policy
Tactical Cash	0.00%	0% (0-3%)	0.00%	0.00%		
Cash	0.07%	0.00%	0.00%	0.07%	22,794,374	
Interest Rate Sensitive	12.80%	11%	13.14%	-0.33%		
High Yield	3.11%	4%	4.67%	-1.56%		
Opportunistic Debt	3.45%	0%	0.00%	3.45%	\$1,120,287,373	
Private Debt	7.47%	10% (8-12%)	7.47% (5-9%)	0.00%		
<b>Total Fixed Income</b>	<b>26.84%</b>	<b>26% (18-35%)</b>	<b>25.28% (18-35%)</b>	<b>1.55%</b>	<b>\$504,355,829</b>	<b>OK</b>
Large Cap	21.70%	20%	20.19%	1.51%	\$490,669,343	
Mid Cap	3.09%	3%	3.00%	0.09%	\$29,442,680	
Small Cap	2.81%	3%	3.00%	-0.19%	-\$62,408,703	
US Equity	<b>27.60%</b>	<b>26% (16-36%)</b>	<b>26.19% (16-36%)</b>	<b>1.41%</b>	<b>\$457,703,320</b>	<b>OK</b>
Developed Large Cap	16.41%	17%	17.27%	-0.87%	-\$281,207,886	
Developed Small Cap	1.89%	2%	2.00%	-0.11%	-\$36,202,551	
Emerging Markets	2.95%	5%	5.00%	-2.05%	-\$664,831,158	
Non-US Equity	<b>21.25%</b>	<b>24% (14-34%)</b>	<b>24.27% (14-34%)</b>	<b>-3.03%</b>	<b>-\$982,241,594</b>	<b>OK</b>
Private Equity	8.18%	8% (6-10%)	8.18%	0.00%	\$0	OK
Opportunistic Equity	1.59%	0%	0.00%	1.59%	\$514,890,366	OK
<b>Total Equity</b>	<b>58.61%</b>	<b>58% (48-65%)</b>	<b>58.64% (49-66%)</b>	<b>-0.03%</b>	<b>-\$9,647,909</b>	<b>OK</b>
Commodities	0.61%	2% (0-4%)	2.02%	-1.41%	-\$455,897,349	OK
Real Estate	9.06%	10% (8-12%)	9.06%	0.00%	\$0	OK
Infrastructure	0.98%	0% (0-3%)	0.00%	0.98%	\$316,552,365	OK
Farmland & Timber	0.56%	0% (0-3%)	0.00%	0.56%	\$182,760,272	OK
Opportunistic I/L	0.00%	0%	0.00%	0.00%	\$0	OK
<b>Total Inflation Linked</b>	<b>11.21%</b>	<b>12% (10-16%)</b>	<b>11.08% (9-13%)</b>	<b>0.13%</b>	<b>\$43,415,287</b>	<b>OK</b>
<b>Multi-Asset Strategies***</b>	<b>3.27%</b>	<b>5% (0-12%)</b>	<b>5% (0-12%)</b>	<b>-1.73%</b>	<b>-\$560,917,582</b>	<b>OK</b>
<b>Total</b>	<b>100.00%</b>	<b>100%</b>	<b>100.00%</b>	<b>0.00%</b>	<b>\$0</b>	

<b>Internally Managed Portfolios:</b>	<b>\$8,694,678,967</b>	<b>27%</b>
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\*Interim SAA includes a proration of unfunded Private Equity, Private Debt, and Real Estate  
\*\*Private Equity is prorated to domestic equity; Real Estate is prorated to equity, commodities, and fixed income; Private Debt is prorated to Interest Rate Sensitive and High Yield

**Opportunistic definitions:**  
An investment in a category that is not included in the ASRS Asset Allocation policy and represents an investment opportunity that is tactical in nature.  
Opportunistic investments have a 0% target (0%-10% range), regardless of asset class.

<b>Total Opportunistic</b>		
Opportunistic Debt	\$1,120,287,373	3.5%
Opportunistic Equity	\$514,890,366	1.6%
Opportunistic I/L	\$0	0.0%
	<b>\$1,635,177,739</b>	<b>5.0%</b>

ASRS Pension and HBS Assets  
Public Securities Markets  
Investment Managers Performance Summary



	Benchmark	Market Value (\$mil.)	1 Mth	3 Mth	1 Year	3 Year	5 Year	10 Year	ITD	Inception Date
<b>US EQUITY LARGE CAP</b>										
E2 MODEL	S&P 500 INDEX (DAILY)	4,635	-0.13	-6.63	-6.24	10.69	10.11	6.48	7.12	04-01-1997
Excess			0.00	-0.04	-0.05	-0.06	-0.03	0.04	0.07	
LSV ASSET MANAGEMENT	LSV CUSTOM INDEX	656	0.43	-8.37	-11.52	9.74	9.51	6.16	9.74	01-01-2003
Excess			-0.13	-2.41	-3.42	1.37	1.01	1.25	1.86	
E7	MSCI USA High Dividend Yield Index	577	0.87	-1.64	-1.12	11.00			11.70	08-01-2012
Excess			-0.02	-0.16	-0.25	-0.05			-0.04	
E8	MSCI USA Minimum Volatility Index	560	1.05	0.02	1.90	12.67			13.05	08-01-2012
Excess			-0.04	-0.18	-0.18	0.14			0.31	
<b>TOTAL US EQUITY LARGE CAP</b>	<b>S&amp;P 500 INDEX (DAILY)</b>	<b>6,429</b>	<b>0.11</b>	<b>-5.77</b>	<b>-5.62</b>	<b>10.78</b>	<b>10.04</b>	<b>6.47</b>	<b>7.23</b>	<b>06-01-2002</b>
Excess			0.25	0.81	0.57	0.03	-0.09	0.03	0.67	
<b>US EQUITY MID CAP</b>										
WELLINGTON MANAGEMENT COMPANY LLP	S&P 400 MIDCAP INDEX (DAILY)	253	1.42	-11.15	-10.54	10.57	8.64	7.84	10.15	07-01-2002
Excess			0.01	-2.81	-0.55	2.38	0.37	0.67	1.03	
E3 MODEL	S&P/CITIGROUP 400 GROWTH	375	0.60	-8.57	-8.14	8.71	8.66	8.35	7.81	12-01-2000
Excess			0.01	-0.11	-0.12	-0.02	0.15	0.49	0.50	
E4 MODEL	S&P/CITIGROUP 400 VALUE	336	2.23	-8.42	-12.29	7.42	7.88	6.64	9.03	07-01-2002
Excess			-0.02	-0.07	-0.08	-0.07	-0.09	0.24	0.17	
<b>TOTAL US EQUITY MID CAP</b>	<b>S&amp;P 400 MIDCAP INDEX (DAILY)</b>	<b>964</b>	<b>1.38</b>	<b>-9.22</b>	<b>-10.30</b>	<b>8.62</b>	<b>8.20</b>	<b>7.18</b>	<b>9.08</b>	<b>06-01-2002</b>
Excess			-0.03	-0.87	-0.32	0.43	-0.07	0.01	0.62	
<b>US EQUITY SMALL CAP</b>										
DIMENSIONAL FUND ADVISORS EQFD	DFA BLENDED BENCHMARK	250	2.17	-9.88	-12.97	6.55	6.81	5.86	10.67	09-01-1998
Excess			0.03	-1.11	-2.38	-1.45	-1.81	-0.39	0.76	
E6	S&P 600 SMALL CAP (DAILY)	302	1.10	-9.69	-8.91	9.05	9.25		6.64	02-01-2007
Excess			-0.02	-0.03	0.19	0.03	-0.08		0.32	
TIMESQUARE CAPITAL MANAGEMENT	TIMESQUARE BLENDED BENCHMARK	320	-0.81	-13.40	-13.49	6.47	9.01	8.67	10.06	04-01-2005
Excess			-0.10	2.29	3.28	-0.73	1.75	2.29	2.35	
<b>TOTAL US EQUITY SMALL CAP</b>	<b>ASRS SMALL CAP CUSTOM INDEX</b>	<b>872</b>	<b>0.69</b>	<b>-11.14</b>	<b>-11.77</b>	<b>7.23</b>	<b>8.23</b>	<b>6.78</b>	<b>9.12</b>	<b>06-01-2002</b>
Excess			-0.43	-1.48	-2.66	-1.80	-1.10	-0.07	0.69	



	Benchmark	Market Value (\$mil.)	1 Mth	3 Mth	1 Year	3 Year	5 Year	10 Year	ITD	Inception Date
<b>TOTAL US EQUITY</b>	<b>COMBINED DOMESTIC EQUITY INDEX</b>	<b>8,265</b>	<b>0.32</b>	<b>-6.73</b>	<b>-6.62</b>	<b>10.23</b>	<b>9.70</b>	<b>6.83</b>	<b>10.93</b>	<b>07-01-1975</b>
Excess			0.03	0.57	0.54	0.07	-0.08	0.07	-0.06	
<b>INTERNATIONAL DEVELOPED LARGE CAP</b>										
BRANDES INVESTMENT PARTNERS INT EQ	BRANDES CUSTOM INDEX	523	-1.39	-8.69	-12.52	4.51	1.58	2.17	7.96	10-01-1998
Excess			0.44	1.47	2.66	4.00	0.76	-0.57	2.91	
AMERICAN CENTURY	MSCI EAFE NET (BLENDED)	507	-2.81	-10.48	-12.72				-8.33	07-01-2014
Excess			-0.97	-0.32	2.46				2.92	
BGI EAFE INDEX	MSCI EAFE NET (BLENDED)	3,647	-1.79	-10.14	-14.93	0.62	0.83		5.80	07-01-2009
Excess			0.04	0.02	0.25	0.12	0.01		-0.01	
THOMSON, SIEGEL & WALMSLEY	MSCI EAFE NET (BLENDED)	269	-2.20	-10.26	-12.74				-9.65	07-01-2014
Excess			-0.37	-0.10	2.45				1.60	
TRINITY STREET	MSCI EAFE NET (BLENDED)	294	-1.58	-10.08	-11.46				-10.22	07-01-2014
Excess			0.25	0.08	3.72				1.03	
<b>TOTAL INTERNATIONAL DEVELOPED LARGE CAP</b>	<b>MSCI EAFE NET (BLENDED)</b>	<b>5,240</b>	<b>-1.86</b>	<b>-10.03</b>	<b>-14.30</b>	<b>0.63</b>	<b>0.75</b>			<b>09-01-2009</b>
Excess			-0.03	0.13	0.88	0.12	-0.07			
<b>INTERNATIONAL DEVELOPED SMALL CAP</b>										
AQR CAPITAL	MSCI EAFE SMALL CAP NET (BLENDED)	90	-0.97	-6.74	-2.31				6.33	06-01-2013
Excess			-0.85	0.56	3.14				1.74	
BLACKROCK EAFE SMALL CAP	MSCI EAFE SMALL CAP NET (BLENDED)	234	-0.13	-7.31	-5.40	5.34	3.99		9.03	06-01-2010
Excess			-0.01	-0.01	0.05	0.02	-0.15		-0.11	
DIMENSIONAL FUND ADVISORS INTL SC	MSCI EAFE SMALL CAP NET (BLENDED)	94	-0.07	-8.04	-11.74	2.25	1.09	2.50	3.90	09-01-2005
Excess			0.05	-0.74	-6.29	-3.07	-3.05	-0.91	-1.03	
FRANKLIN TEMPLETON INVESTMENTS	MSCI EAFE SMALL CAP NET (BLENDED)	195	-2.35	-10.26	-10.94	1.99			4.17	04-01-2011
Excess			-2.23	-2.96	-5.49	-3.33			-0.05	
<b>TOTAL INTERNATIONAL DEVELOPED SMALL CAP</b>	<b>MSCI EAFE SMALL CAP NET (BLENDED)</b>	<b>613</b>	<b>-0.96</b>	<b>-8.30</b>	<b>-8.04</b>	<b>3.96</b>	<b>4.13</b>		<b>6.18</b>	<b>10-01-2009</b>
Excess			-0.84	-1.00	-2.59	-1.36	-0.01		-0.67	
<b>INTERNATIONAL EMERGING MARKETS</b>										
BLACKROCK EMERGING MARKETS	MSCI EMF NET (BLENDED)	279	-0.19	-8.81	-23.57	-9.08	-5.62		-4.61	10-01-2010
Excess			-0.03	-0.09	-0.16	-0.27	-0.39		-0.37	
EATON VANCE EMERGING MARKET EQUITY	MSCI EMF NET (BLENDED)	244	0.94	-5.26	-21.41	-8.09	-4.66		-4.03	12-01-2010



	Benchmark	Market Value (\$mil.)	1 Mth	3 Mth	1 Year	3 Year	5 Year	10 Year	ITD	Inception Date
Excess			1.10	3.46	2.00	0.72	0.57		0.37	
LSV EMERGING MARKET EQUITY	MSCI EMF NET (BLENDED)	100	-0.04	-9.59	-26.84	-10.37	-5.79		-4.70	12-01-2010
Excess			0.13	-0.87	-3.43	-1.56	-0.56		-0.30	
WILLIAM BLAIR & COMPANY	MSCI EMF NET (BLENDED)	316	-1.59	-11.01	-23.44	-6.30	-1.76		-2.58	11-01-2010
Excess			-1.43	-2.29	-0.03	2.51	3.46		2.23	
<b>TOTAL INTERNATIONAL EMERGING MARKETS</b>	<b>MSCI EMF NET (BLENDED)</b>	<b>939</b>	<b>-0.36</b>	<b>-8.77</b>	<b>-23.53</b>	<b>-8.38</b>	<b>-4.57</b>		<b>-4.08</b>	<b>10-01-2010</b>
Excess			-0.20	-0.04	-0.12	0.43	0.66		0.16	
<b>TOTAL INTERNATIONAL EQUITY</b>	<b>INTERNATIONAL EQUITY INDEX</b>	<b>6,793</b>	<b>-1.58</b>	<b>-9.70</b>	<b>-15.16</b>	<b>-1.28</b>	<b>-0.31</b>	<b>1.52</b>	<b>5.45</b>	<b>04-01-1987</b>
Excess			-0.40	-0.29	0.95	0.03	0.00	-0.65	0.32	
<b>RISK FACTOR PORTFOLIO</b>										
RISK FACTOR PORTFOLIO		534	0.40	-6.13	-5.20				9.29	06-01-2013
<b>TOTAL EQUITY W/ RISK FACTOR OVERLAY</b>	<b>MSCI WORLD NET (BLENDED)</b>	<b>15,592</b>	<b>-0.51</b>	<b>-8.03</b>	<b>-10.71</b>	<b>5.42</b>	<b>5.87</b>	<b>4.81</b>	<b>5.90</b>	<b>01-01-1998</b>
Excess			0.23	0.29	0.30	-0.06	0.61	0.54	0.82	
<b>TOTAL EQUITY W/O RISK FACTOR</b>	<b>MSCI WORLD NET (BLENDED)</b>	<b>15,058</b>	<b>-0.54</b>	<b>-8.10</b>	<b>-10.88</b>	<b>5.35</b>	<b>5.82</b>	<b>4.79</b>	<b>5.89</b>	<b>01-01-1998</b>
Excess			0.20	0.23	0.12	-0.13	0.56	0.51	0.81	
<b>INTEREST RATE SENSITIVE</b>										
BLACKROCK LONG GOVT BONDS	Barclays Treasury Long (Daily)	382	2.99	8.03					8.29	09-01-2015
Excess			0.01	-0.11					-0.02	
BGI US DEBT FD	Barclays Aggregate (Daily)	1,578	0.67	1.79	1.58				3.34	05-01-2014
Excess			-0.04	0.03	0.08				0.15	
F2 MODEL	Barclays Aggregate (Daily)	1,910	0.70	1.74	1.85	2.52	3.88	4.96	5.42	10-01-2000
Excess			-0.01	-0.02	0.34	0.31	0.28	0.26	0.17	
BGI GOVT/CRDTBD INDEX	Barclays Gov/Credit Int (Daily)	25	0.47	1.42	1.94	1.77	2.98		4.48	11-01-2008
Excess			-0.02	0.05	0.11	0.13	0.12		0.10	
<b>INTEREST RATE SENSITIVE</b>	<b>Barclays Aggregate (Daily)</b>	<b>3,895</b>	<b>0.91</b>	<b>2.35</b>	<b>2.29</b>	<b>2.56</b>			<b>2.41</b>	<b>01-01-2013</b>
Excess			0.20	0.59	0.79	0.34			0.37	
<b>HIGH YIELD FIXED INCOME</b>										
COLUMBIA MANAGEMENT INV. ADVISORS, LLC	Barclays Corp High Yield (Daily)	674	1.23	-0.90	-2.69	3.19	5.66		7.86	10-01-2009
Excess			0.66	2.64	5.60	2.48	1.57		0.82	
JP MORGAN HIGH YIELD	Barclays Corp High Yield (Daily)	334	0.37	-3.33	-7.26				1.34	07-01-2013

ASRS Pension and HBS Assets  
Public Securities Markets  
Investment Managers Performance Summary



	Benchmark	Market Value (\$mil.)	1 Mth	3 Mth	1 Year	3 Year	5 Year	10 Year	ITD	Inception Date
Excess			-0.20	0.20	1.04				0.36	
<b>TOTAL HIGH YIELD FIXED INCOME</b>	<b>Barclays Corp High Yield (Daily)</b>	<b>1,009</b>	<b>0.95</b>	<b>-1.72</b>	<b>-4.26</b>	<b>2.41</b>	<b>4.96</b>		<b>7.22</b>	<b>10-01-2009</b>
Excess			0.37	1.82	4.04	1.69	0.87		0.18	
<b>TOTAL PUBLIC FIXED INCOME</b>	<b>ASRS CUSTOM FIXED INCOME BENCHMARK</b>	<b>4,904</b>	<b>0.91</b>	<b>1.50</b>	<b>0.67</b>	<b>1.19</b>	<b>3.39</b>	<b>4.84</b>	<b>8.23</b>	<b>07-01-1975</b>
Excess			0.10	1.37	4.03	1.45	1.11	0.79		
<b>MULTI-ASSET CLASS STRATEGIES</b>										
BRIDGEWATER ASSOCIATES GLBL TAA	BRIDGEWATER CUSTOM BENCHMARK	1,064	-4.11	-5.52	-8.64	6.11	7.39	7.41	7.80	01-01-2004
Excess			-4.12	-5.56	-7.56	-0.79	0.59	1.98	1.77	
<b>TOTAL MULTI-ASSET CLASS STRATEGIES</b>	<b>MULTI ASSET CUSTOM INDEX</b>	<b>1,064</b>	<b>-4.11</b>	<b>-5.52</b>	<b>-9.70</b>	<b>4.73</b>	<b>5.95</b>	<b>6.21</b>	<b>6.73</b>	<b>01-01-2004</b>
Excess			-4.12	-5.56	-7.45	-1.74	-0.60	0.90	0.80	
<b>GLOBAL INFLATION LINKED</b>										
GRESHAM	Bloomberg Commodity Index Total Return	199	-1.12	-7.25	-27.99	-17.83	-13.53		-7.98	09-01-2010
Excess			0.51	-0.99	-1.48	-0.12	0.91		1.37	
<b>TOTAL GLOBAL INFLATION LINKED</b>	<b>Bloomberg Commodity Index Total Return</b>	<b>199</b>	<b>-1.12</b>	<b>-7.25</b>	<b>-27.99</b>	<b>-17.82</b>	<b>-13.41</b>		<b>-7.92</b>	<b>02-01-2010</b>
Excess			0.51	-0.99	-1.48	-0.10	1.03		0.36	
<b>CASH ASSETIZATION</b>										
<b>TOTAL CASH ASSETIZATION</b>	<b>CASH ASSETIZATION CUSTOM INDEX</b>	<b>523</b>	<b>-0.18</b>	<b>-4.22</b>	<b>-8.88</b>				<b>-4.80</b>	<b>02-01-2015</b>
Excess			-0.30	-0.59	4.82				4.92	
<b>TOTAL PUBLIC MARKET</b>		<b>22,306</b>	<b>-0.37</b>	<b>-5.84</b>	<b>-8.66</b>	<b>4.01</b>	<b>4.92</b>		<b>7.48</b>	<b>10-01-2009</b>

ASRS Long Term Disability Assets  
Investment Managers Performance Summary



	Benchmark	Market Value (\$mil.)	1 Mth	3 Mth	YTD	1 Year	3 Year	5 Year	10 Year	ITD	Inception Date
<b>LTD</b>											
BLACKROCK - US DEBT FUND B	Barclays Aggregate (Daily)	36.8	0.66	1.78	2.13	1.50	2.21	3.63		3.59	01-01-2011
Excess			-0.05	0.01	0.03	0.00	-0.01	0.03		0.03	
BLACKROCK - US HIGH YIELD FUND B	Barclays Corp High Yield (Daily)	13.9	0.91	-2.95	-0.54	-8.34	0.68	3.93		4.54	01-01-2011
Excess			0.34	0.58	0.50	-0.05	-0.04	-0.16		-0.12	
BLACKROCK-LTD-EM BD INDX FD B	JPM GBI-EM Global Diversified Index	0.1	1.40	-0.76	1.74	-13.16	-10.29			-9.73	01-01-2013
Excess			-0.04	-0.29	-0.06	-0.65	-0.75			-0.77	
BLACKROCK - RUSSELL 1000 FUND B	RUSSELL 1000 (DAILY)	49.6	-0.02	-7.11	-5.40	-7.15	10.44	9.93		10.85	01-01-2011
Excess			0.01	0.01	0.02	0.06	0.01	0.02		0.02	
BLACKROCK - RUSSELL 2000 FUND B	RUSSELL 2000 (DAILY)	26.3	0.03	-13.32	-8.74	-14.75	5.92	6.29		7.15	01-01-2011
Excess			0.03	0.06	0.06	0.23	0.19	0.18		0.19	
BLACKROCK - EAFE INDEX FUND B	MSCI EAFE NET (BLENDED)	28.5	-1.83	-10.20	-8.94	-15.20	0.38	0.60		1.68	01-01-2011
Excess			-0.00	-0.04	-0.01	-0.02	-0.13	-0.22		-0.22	
BLACKROCK EAFE SMALL CAP FUND B	MSCI EAFE SMALL CAP NET (BLENDED)	3.7	-0.15	-7.34	-7.96	-5.45	5.34	4.00		4.49	01-01-2011
Excess			-0.03	-0.04	0.02	0.00	0.02	-0.14		-0.13	
BLACKROCK MSCI EMERGING MARKETS FUND B	MSCI EMF NET (BLENDED)	9.4	-0.15	-8.82	-6.66	-23.60	-9.14	-5.65		-6.14	01-01-2011
Excess			0.02	-0.10	-0.02	-0.19	-0.33	-0.42		-0.41	
BGI-LTD- R ESTATE FD	WILSHIRE RESI (DAILY)	21.2	-0.93	-2.86	-4.87	-3.62	8.19	9.19	5.47	6.96	01-01-2005
Excess			-0.10	-0.07	-0.22	-0.46	-0.43	-0.82	-0.49	-0.46	
BLACKROCK DJ UBS COMM FUND B	Bloomberg Commodity Index Total Return	2.8	-1.63	-6.40	-3.25	-26.65	-17.97	-14.73		-13.92	01-01-2011
Excess			0.00	-0.13	0.03	-0.14	-0.26	-0.30		-0.29	
LONG TERM DISABILITY - CASH	91 DAY TREASURY BILL (DAILY)	2.4	0.02	0.03	0.03	0.03	0.01	0.03	1.25	2.57	07-01-1995
Excess			-0.01	-0.03	0.00	-0.05	-0.05	-0.05	0.06	-0.05	
<b>TOTAL LTD</b>	<b>LTD POLICY INDEX</b>	<b>194.8</b>	<b>-0.18</b>	<b>-5.89</b>	<b>-4.53</b>	<b>-8.91</b>	<b>4.03</b>	<b>4.96</b>	<b>4.03</b>	<b>5.59</b>	<b>07-01-2002</b>

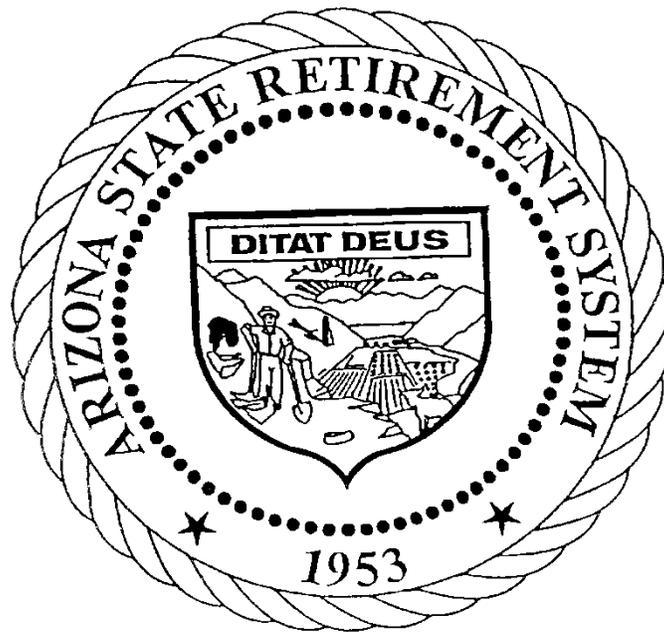
# Long Term Disability (LTD)

Monday, February 29, 2016

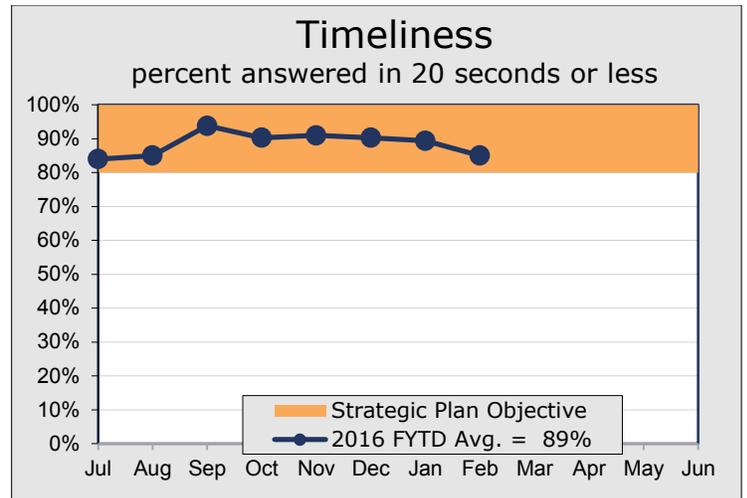
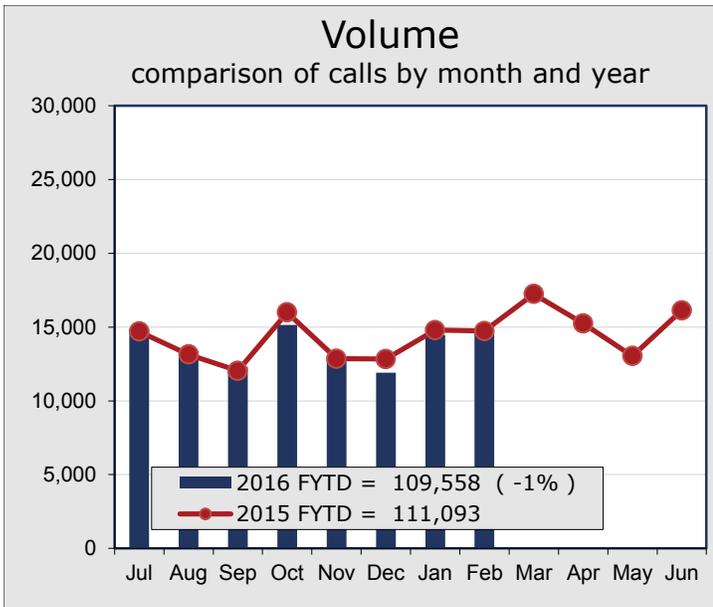
Account Manager	Account Manager Style	Fixed Income	Equity	Inflation Linked	Total	Pct of Fund	Target (Range)
StateStreet B&T: Boston	Cash	\$2,408,301			\$2,408,301	1.23%	
BlackRock: San Francisco	Fixed Core (Passive)	\$36,775,746			\$36,775,746	18.85%	19%
BlackRock: San Francisco	Fixed High Yield (Passive)	\$13,806,923			\$13,806,923	7.08%	7%
BlackRock: San Francisco	Emerging Market Debt (Passive)	\$116,214			\$116,214	0.06%	0%
						<b>25.98%</b>	<b>26% (19-36%)</b>
BlackRock: San Francisco	Russell 1000 (Passive)		\$50,009,300		\$50,009,300	25.63%	24%
BlackRock: San Francisco	Russell 2000 (Passive)		\$26,364,833		\$26,364,833	13.51%	12%
						<b>39.14%</b>	<b>36% (26-46%)</b>
BlackRock: San Francisco	EAFE (Passive)		\$28,524,199		\$28,524,199	14.62%	18%
BlackRock: San Francisco	EAFE SC (Passive)		\$3,694,600		\$3,694,600	1.89%	2%
BlackRock: San Francisco	Emerging Markets (Passive)		\$9,362,879		\$9,362,879	4.80%	5%
						<b>21.31%</b>	<b>25% (15-35%)</b>
BlackRock: San Francisco	Dow Jones UBS Commodities (Passive)			\$2,809,913	\$2,809,913	1.44%	2% (0-4%)
BlackRock: San Francisco	US Real Estate (Passive)			\$21,259,874	\$21,259,874	10.90%	11% (9-13%)
						<b>12.34%</b>	<b>13% (10-16%)</b>
	<b>TOTAL Amounts</b>	\$53,107,183	\$117,955,811	\$24,069,787	<b>\$195,132,782</b>		
	<b>TOTAL Percent</b>	27.22%	60.45%	12.34%			
<b>Actual Portfolio</b>		<b>27.22%</b>	<b>60.45%</b>	<b>12.34%</b>			
<b>Policy</b>		<b>26% (19-36%)</b>	<b>61% (51-68%)</b>	<b>13% (10-16%)</b>			

# Agenda Item #5b

## Director's Report Operations

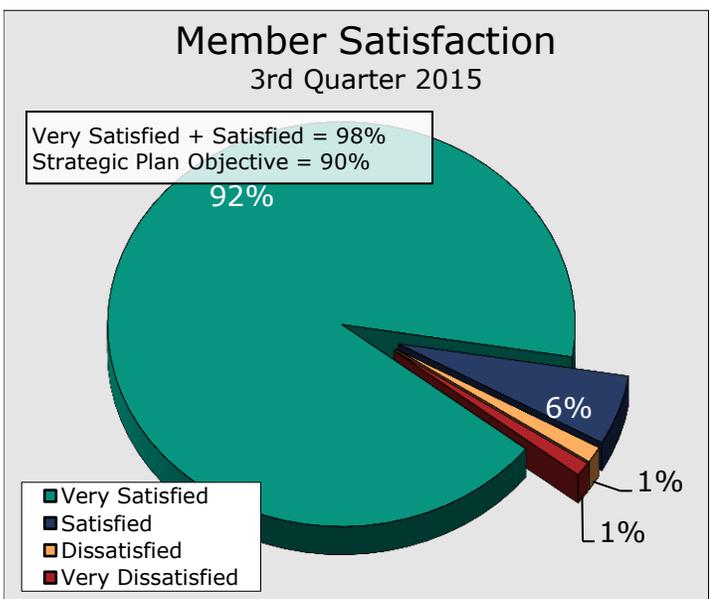
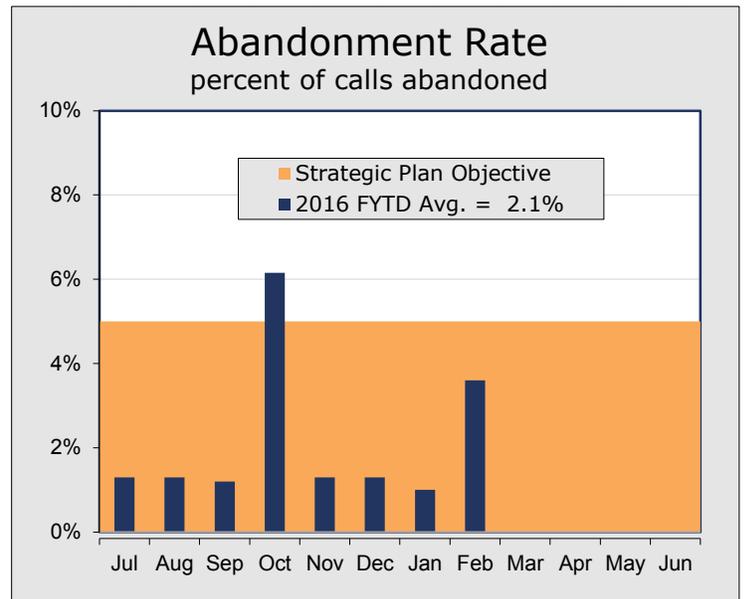
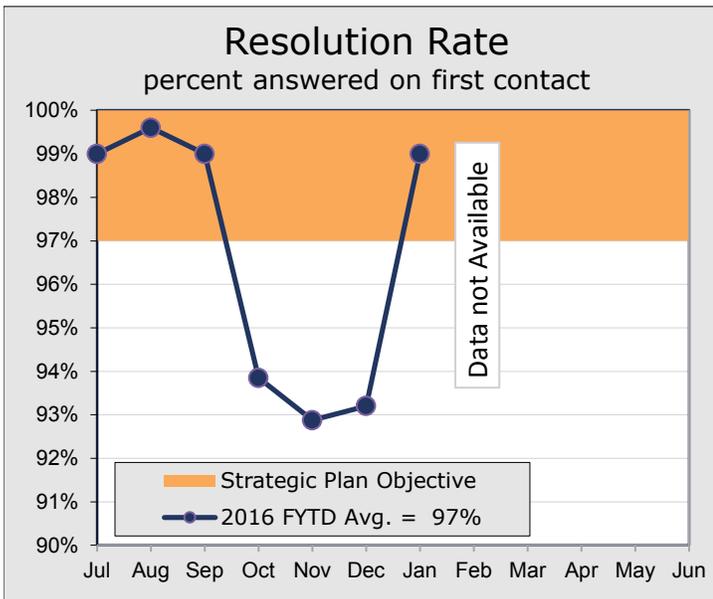


# Member Advisory Center: Phone

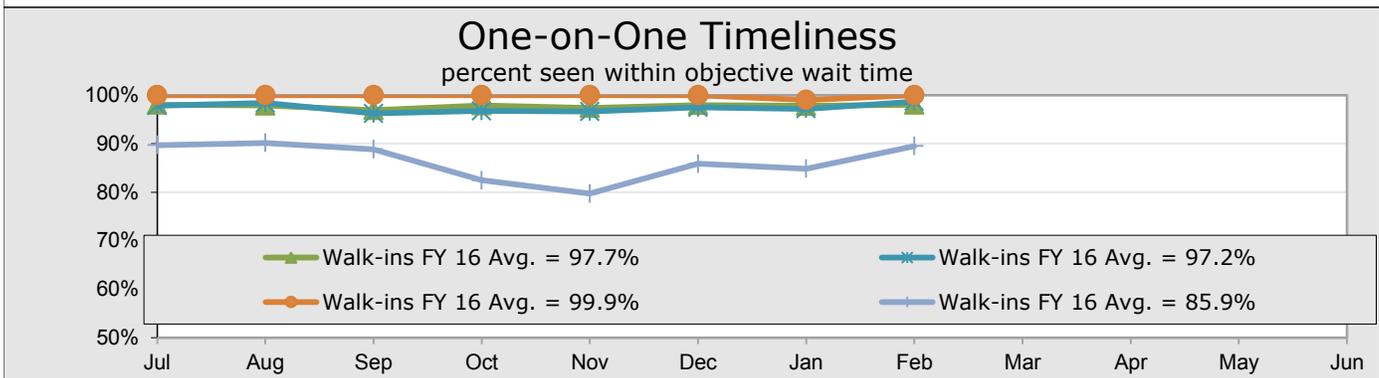
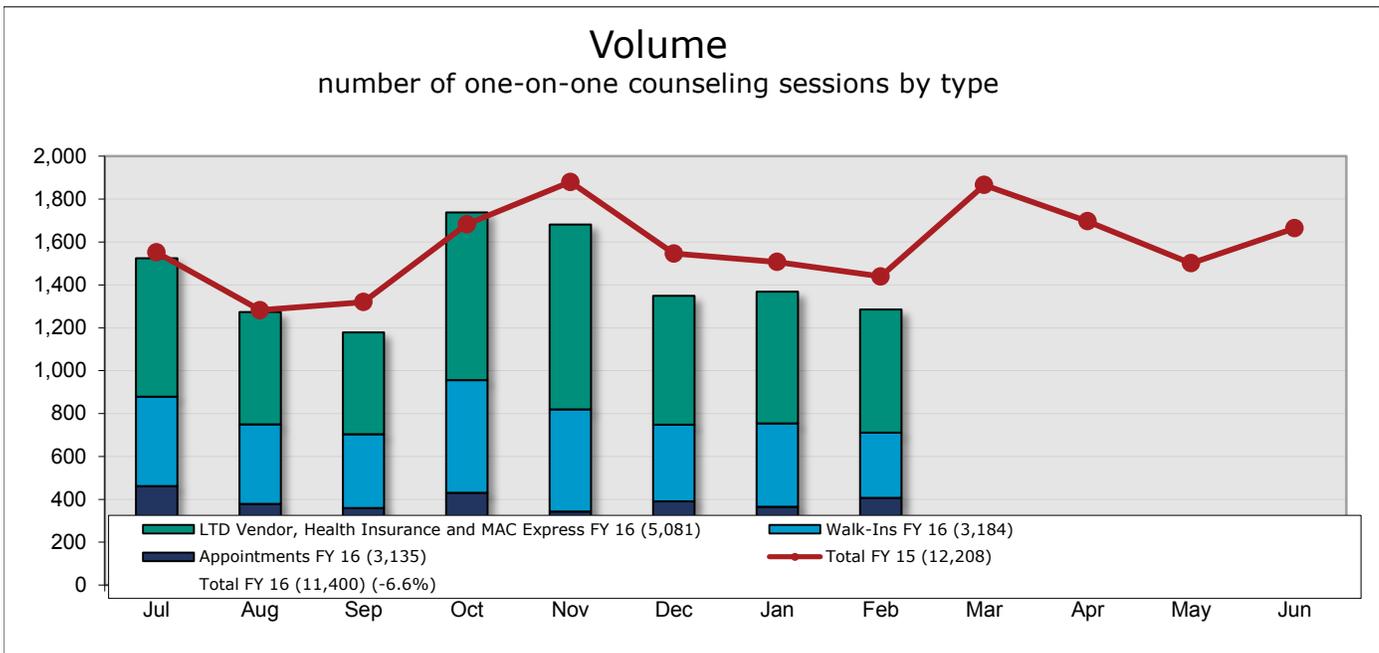


### Timeliness (average wait time in seconds)

Month	2016 FYTD Avg.	Strategic Plan Objective
Jul	20	20
Aug	20	20
Sep	7	20
Oct	DNA	20
Nov	DNA	20
Dec	DNA	20
Jan	DNA	20
Feb	DNA	20
Mar	-	20
Apr	-	20
May	-	20
Jun	-	20

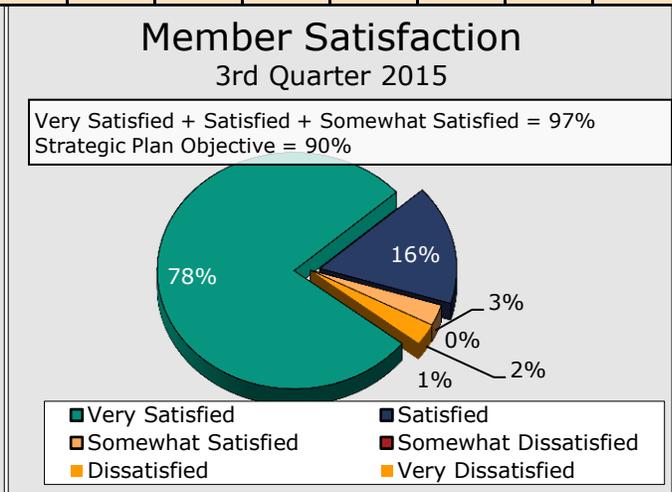
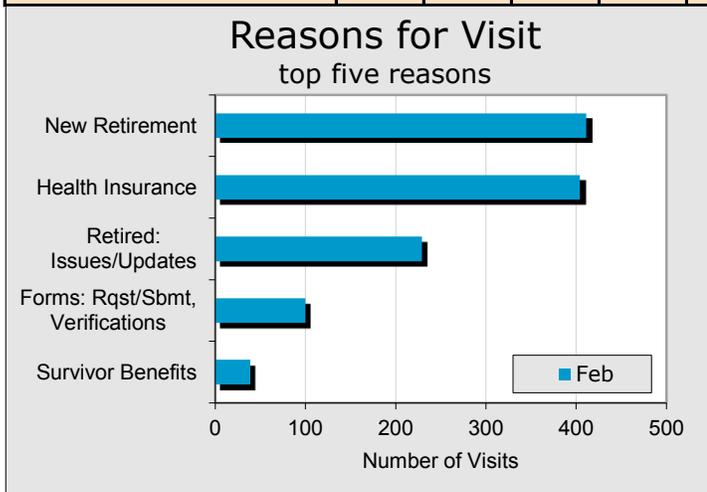


# Member Advisory Center: One-on-One

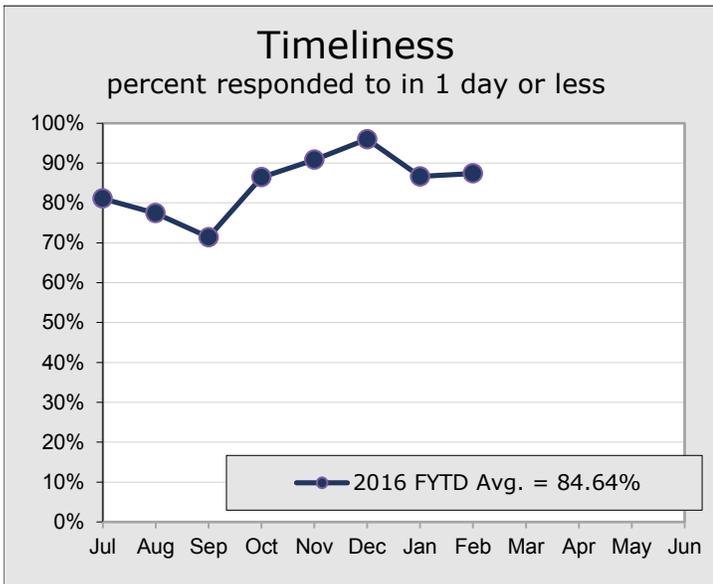
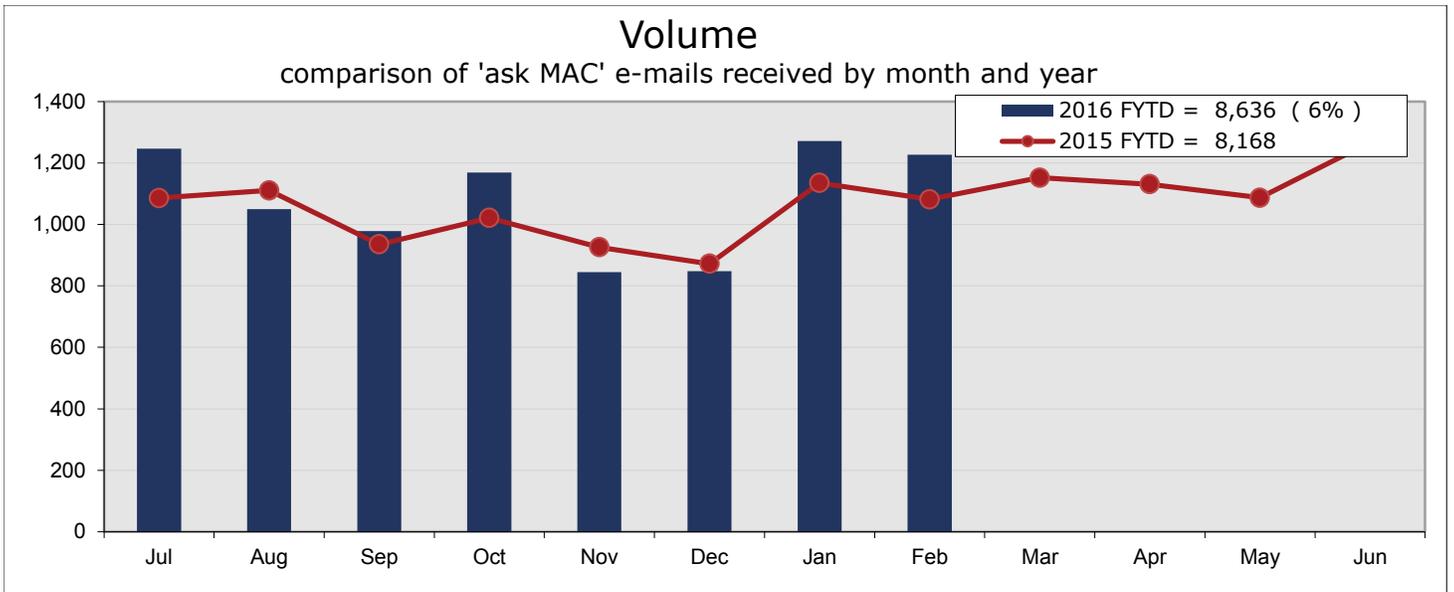


### Timeliness (average wait time in minutes)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Appointments	0	0	1	0	1	1	1	0				
Walk-Ins	5	5	7	5	5	4	7	4				
Reception/MAC Express	0	0	0	0	0	0	0	0				
Health Insurance	5	5	7	8	9	6	8	5				
LTD Vendor	0	0	0	n/a	n/a	n/a	n/a	n/a				

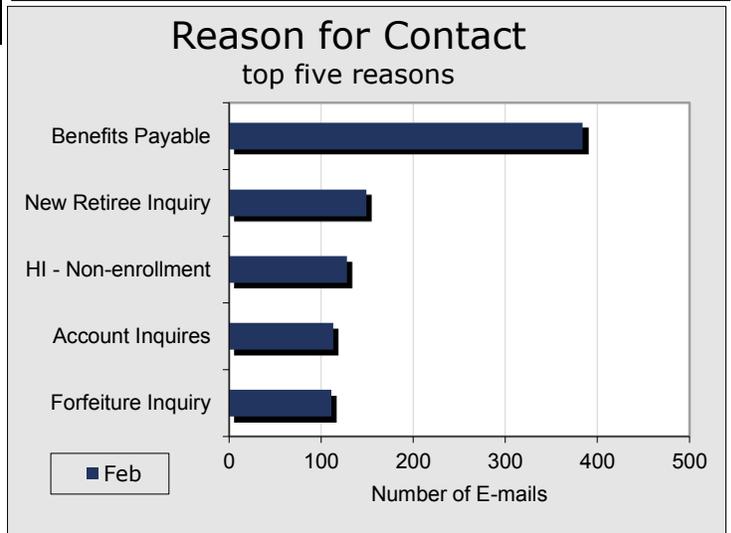
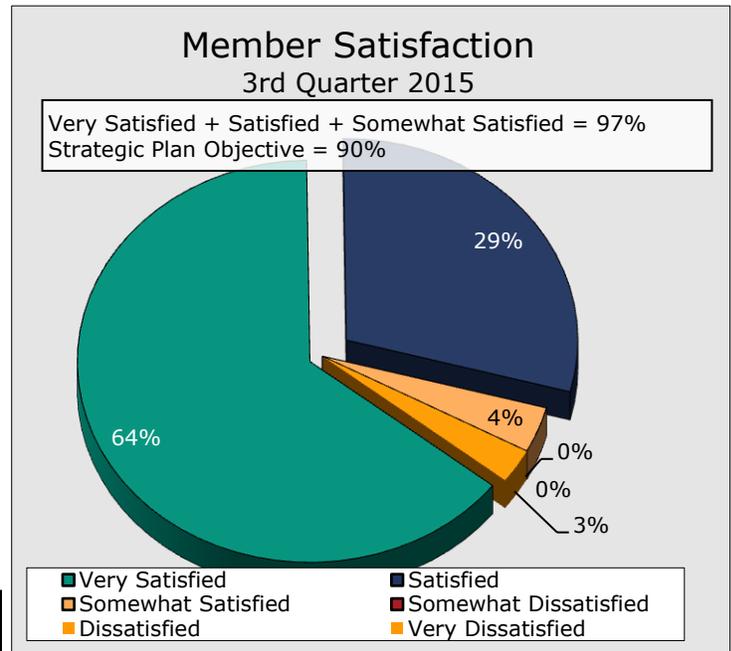


# Member Advisory Center: E-Mail



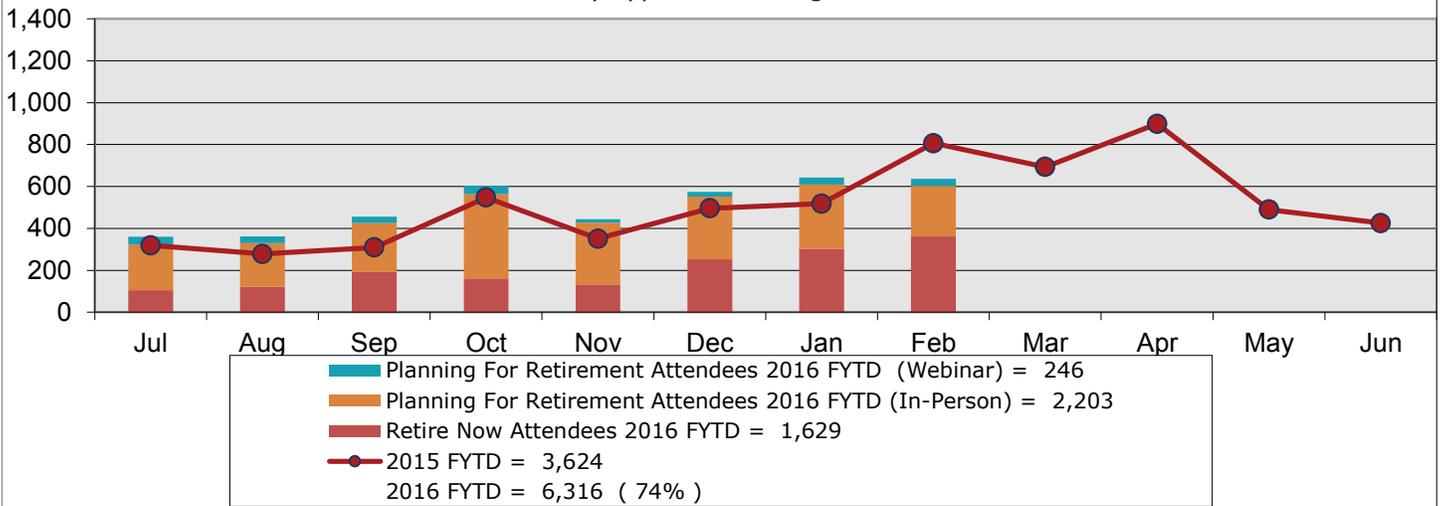
### Timeliness (average response in hours)

15	18	20	10	8	7	13	11				
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



# Outreach Education and Benefit Estimates

## Total Meeting Attendees by type of meeting

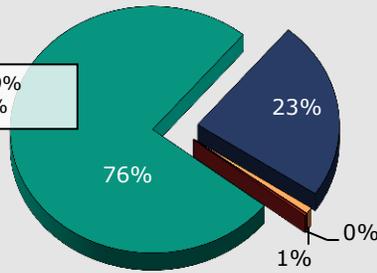


## Member Satisfaction

### Planning for Retirement Meetings 3rd Quarter 2015

Very Satisfied + Satisfied = 99%  
Strategic Plan Objective = 90%

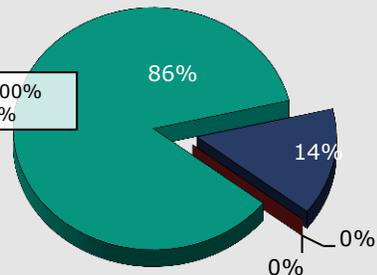
- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied



### Retire Now Meetings 1st Quarter 2015

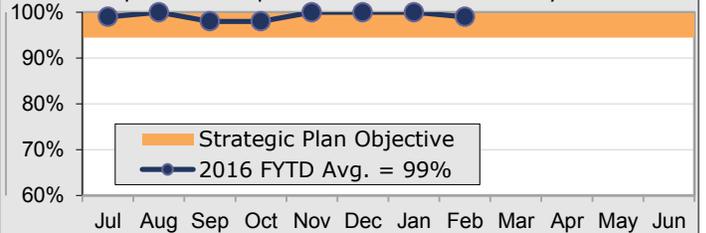
Very Satisfied + Satisfied = 100%  
Strategic Plan Objective = 90%

- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied



## Benefit Estimate Timeliness

percent completed within 3 business days



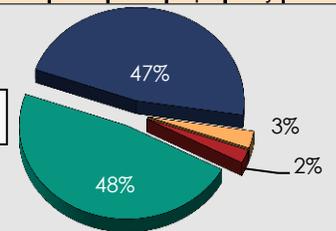
## Benefit Estimate Timeliness (average TAT in days)

Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Average TAT (days)	1	1	1	1	1	1	1	1	1	1	1	1

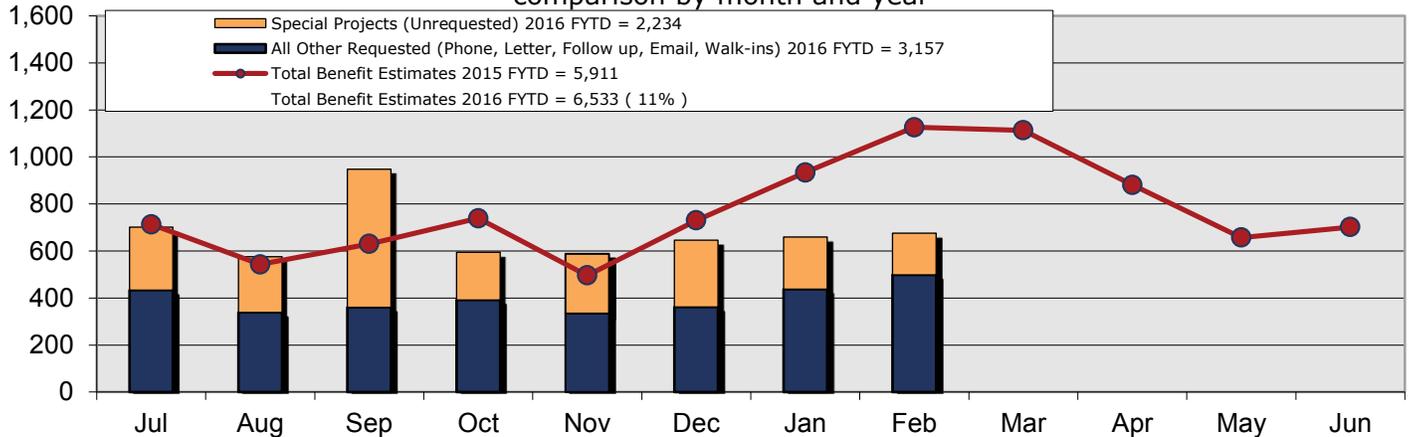
## Benefit Estimates 3rd Quarter 2015

Very Satisfied + Satisfied = 95%  
Strategic Plan Objective = 90%

- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied

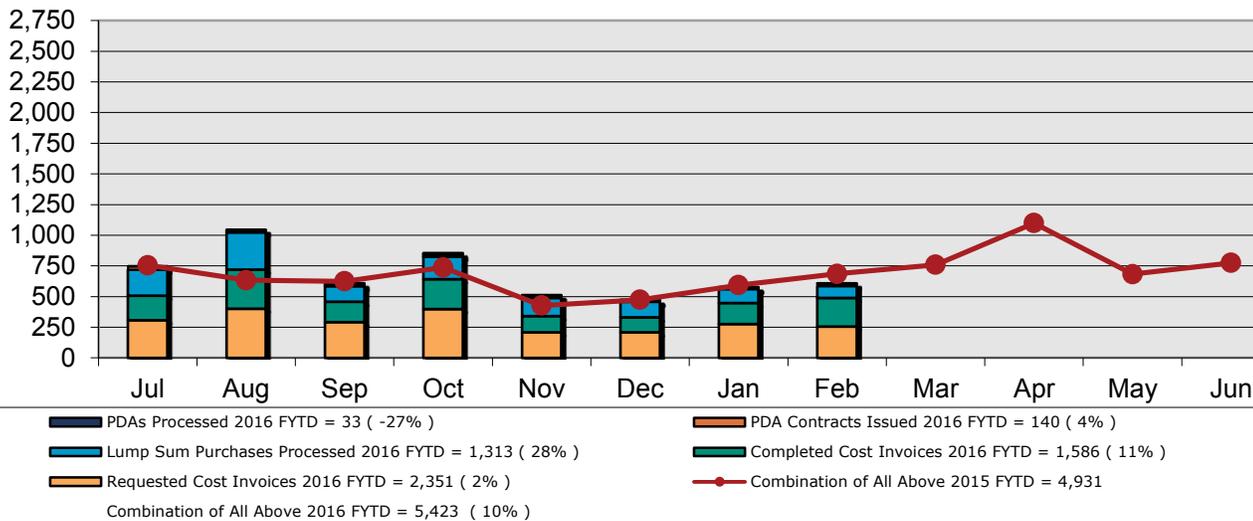


## Benefit Estimate Volume comparison by month and year



# Service Purchase

## Total Volume comparison by month and year



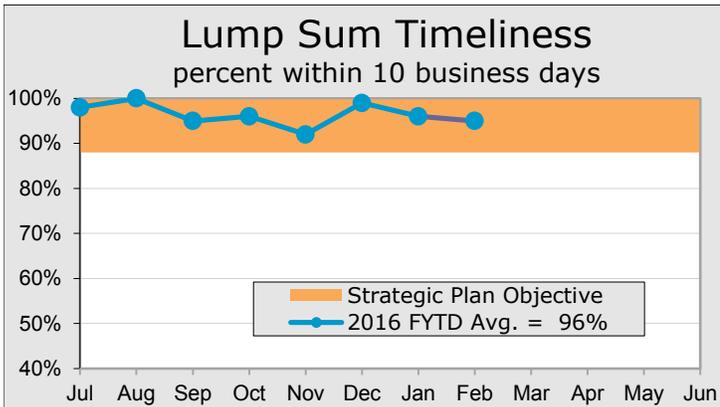
Requests Pending  
as of  
February 29,  
2016

Cost Invoices Pending

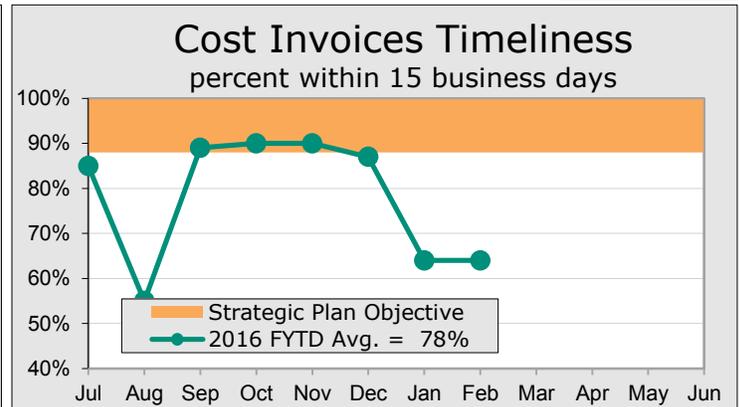
581

Payments Pending

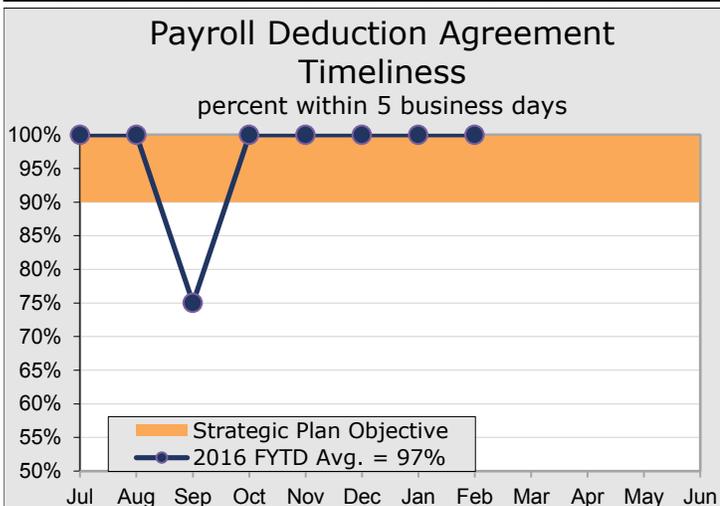
7



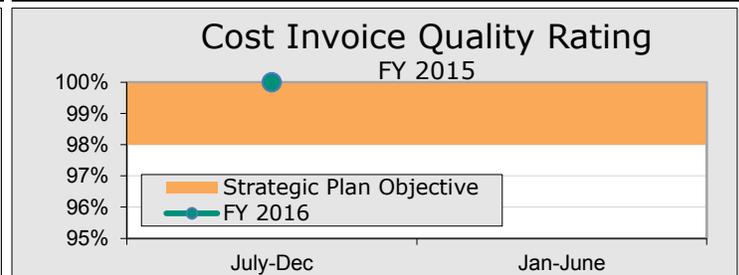
Timeliness (average turnaround time in business days)											
2	2	2	2	3	3	2	3				
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



Timeliness (average turnaround time in business days)											
9	11	6	8	8	11	11	21				
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



Timeliness (average turnaround time in business days)											
1	2	3	1	1	1	1	2				
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

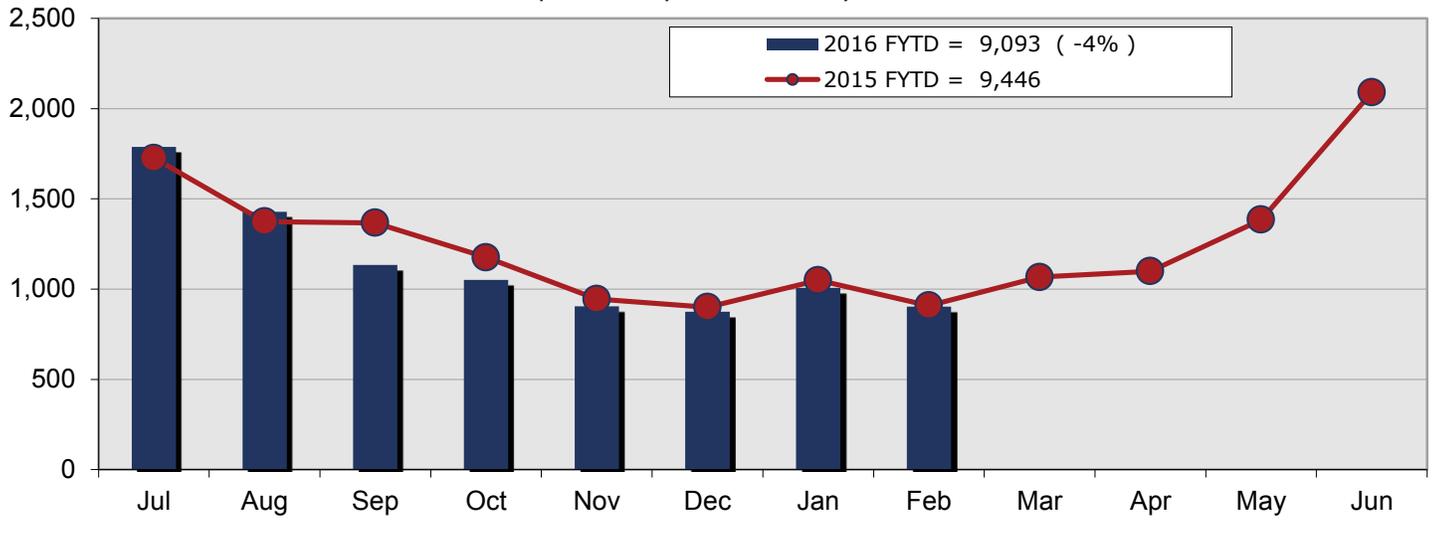


## Member Satisfaction 3rd Quarter 2015

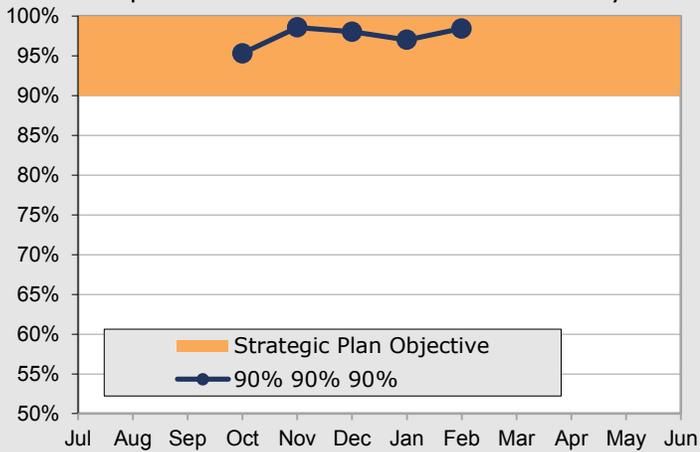
**Data not Available**

# Refunds

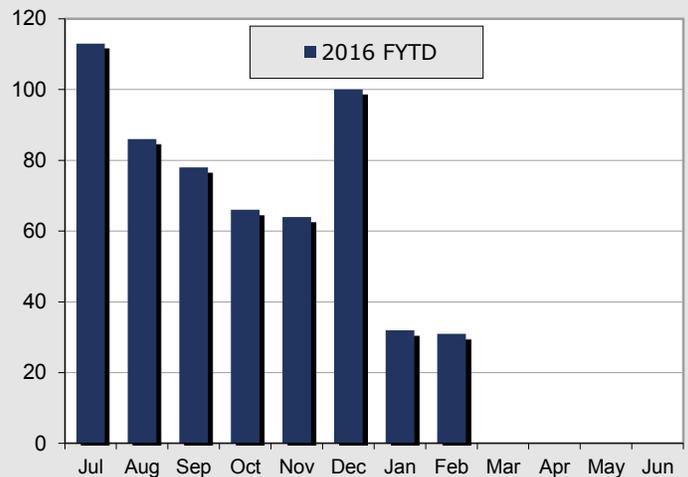
**Volume**  
comparison by month and year



**Timeliness**  
percent disbursed in 10 business days



**Requests Pending**



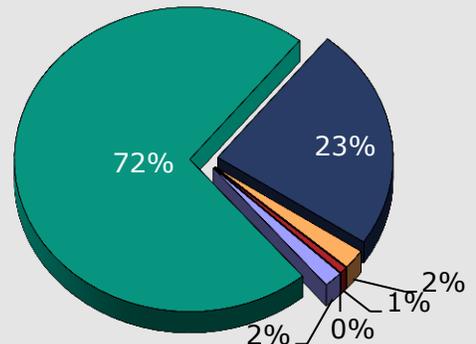
**Timeliness** (average turnaround time in business days)

DNA	DNA	DNA	3	2	2	2	2				
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

**Member Satisfaction**  
3rd Quarter 2015

Very Satisfied + Satisfied + Somewhat Satisfied = 98%  
Strategic Plan Objective = 90%

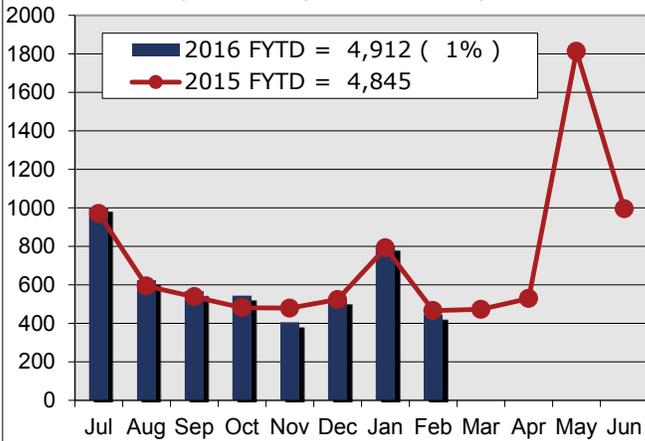
**Refund Quality Rating**  
FY 2016



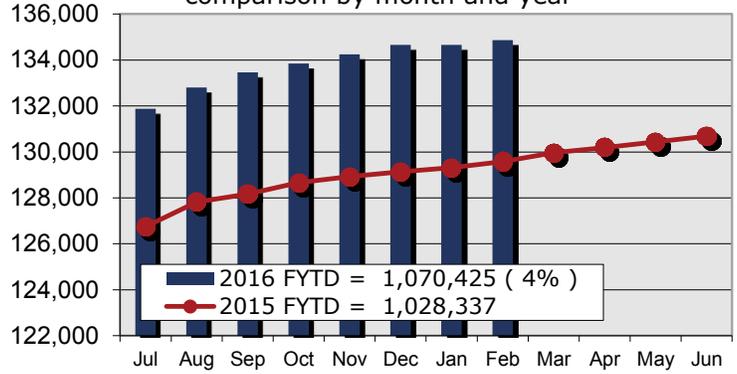
Very Satisfied  
Somewhat Satisfied  
Dissatisfied  
Satisfied  
Somewhat Dissatisfied  
Very Dissatisfied

# New Retiree and Pension Payroll

### First Payment Volume comparison by month and year



### Pension Volume comparison by month and year



### Pension Payment (percent disbursed by 1st of the months)

100%	100%	100%	100%	100%	100%	100%	100%				
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

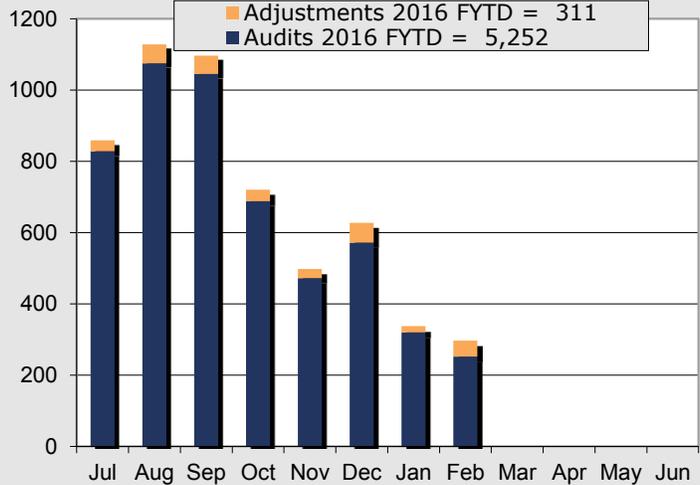
### First Payment Timeliness percent disbursed in 10 business days



### First Payment Timeliness (average turnaround time in days)

5	6	6	7	10	8	5	9				
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

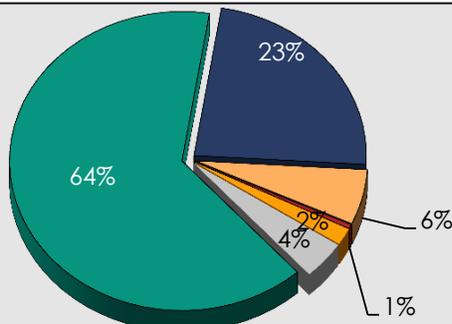
### Audits & Adjustments comparison by month and year



### Member Satisfaction

3rd Quarter 2015

Very Satisfied + Satisfied + Somewhat Satisfied = 93%  
Strategic Plan Objective = 90%



- Very Satisfied
- Satisfied
- Somewhat Satisfied
- Somewhat Dissatisfied
- Dissatisfied
- Very Dissatisfied

### Adjustments Timeliness

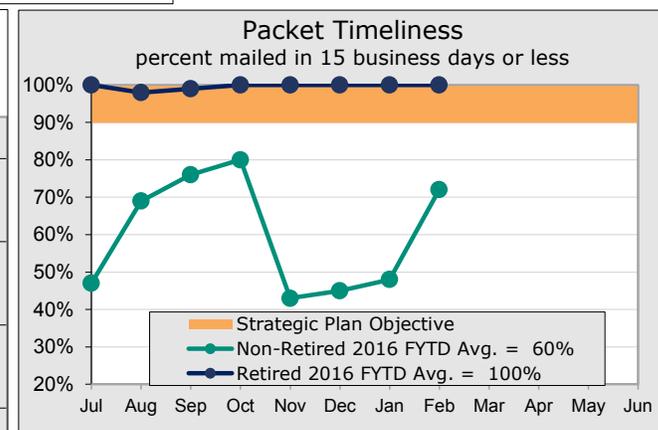
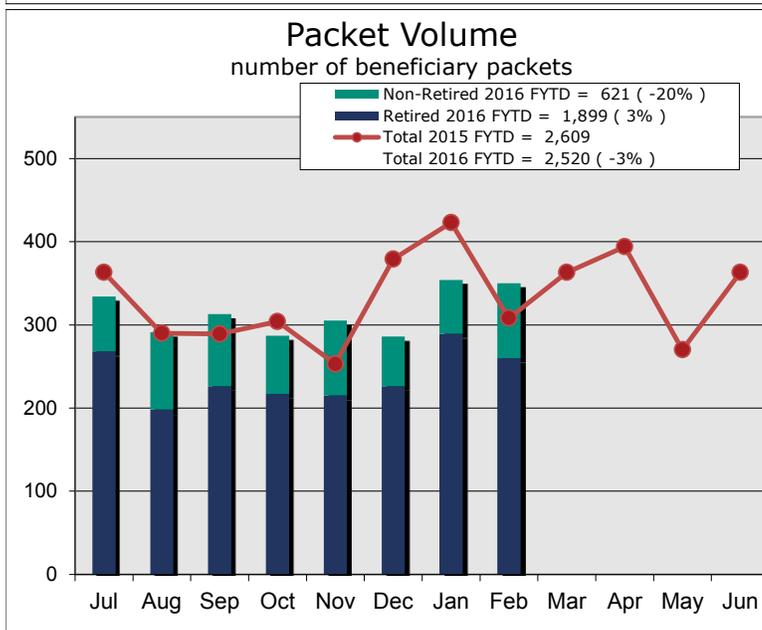
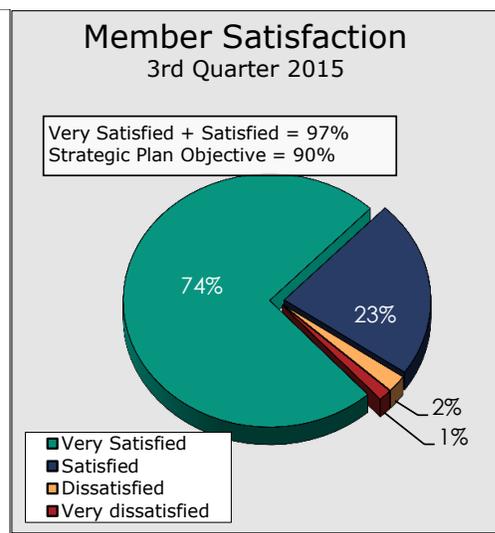
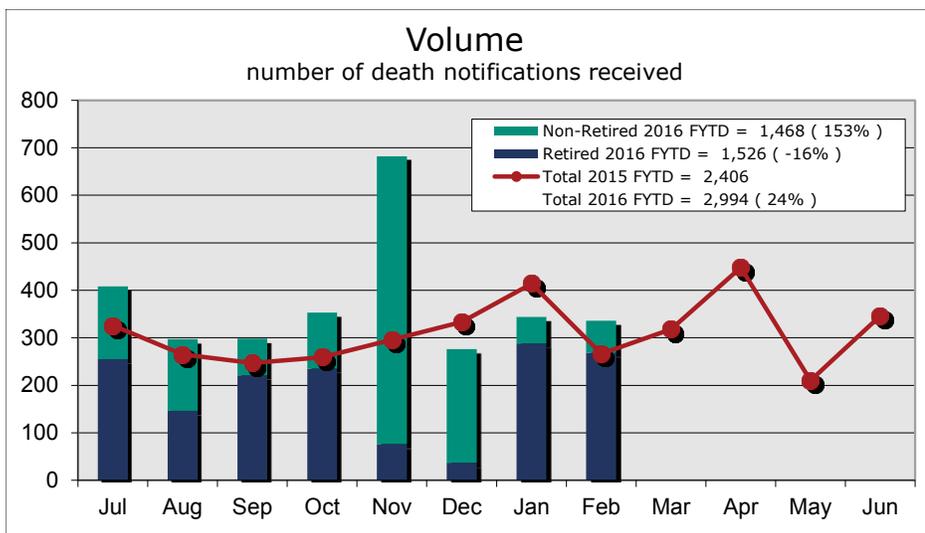
Percent completed in 20 business days



### Adjustments Timeliness (average turnaround time in days)

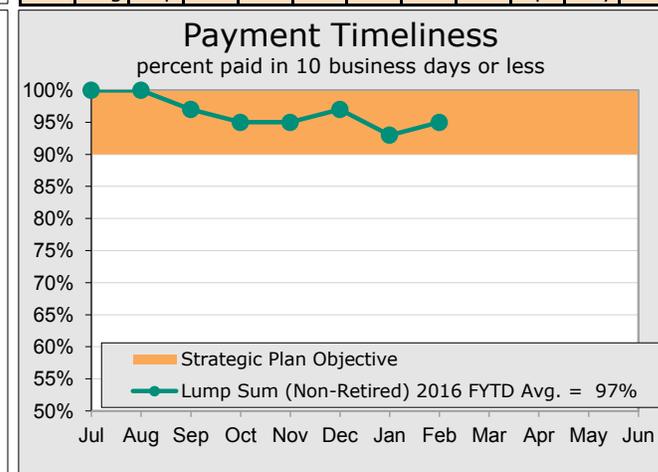
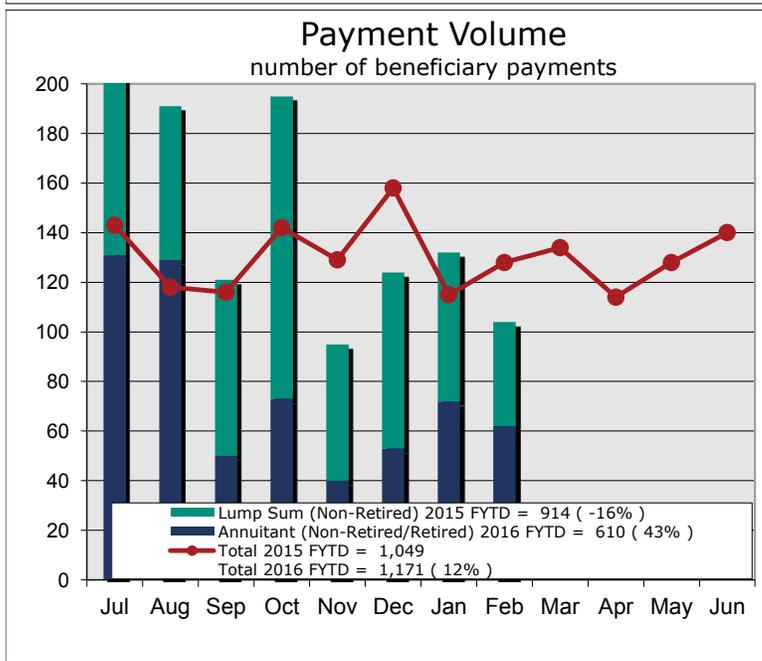
4	5	2	3	4	11	4	6				
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

# Survivor Benefits



### Packet Timeliness (average TAT in days)

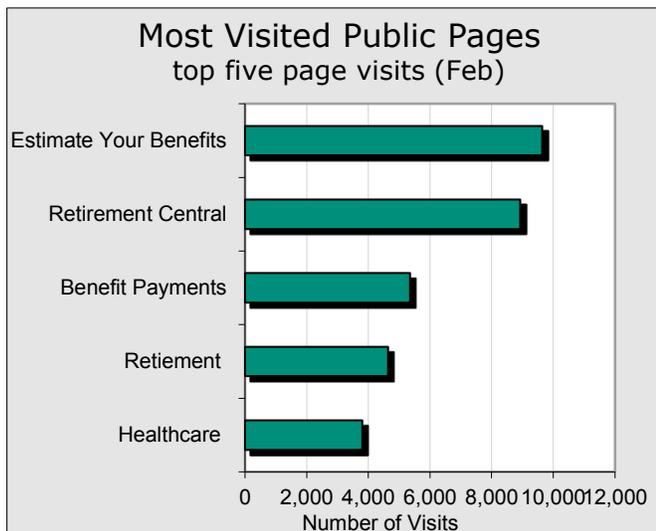
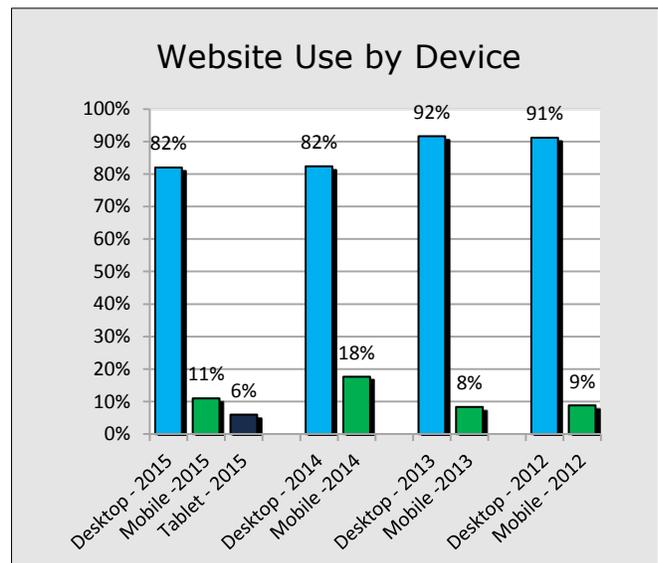
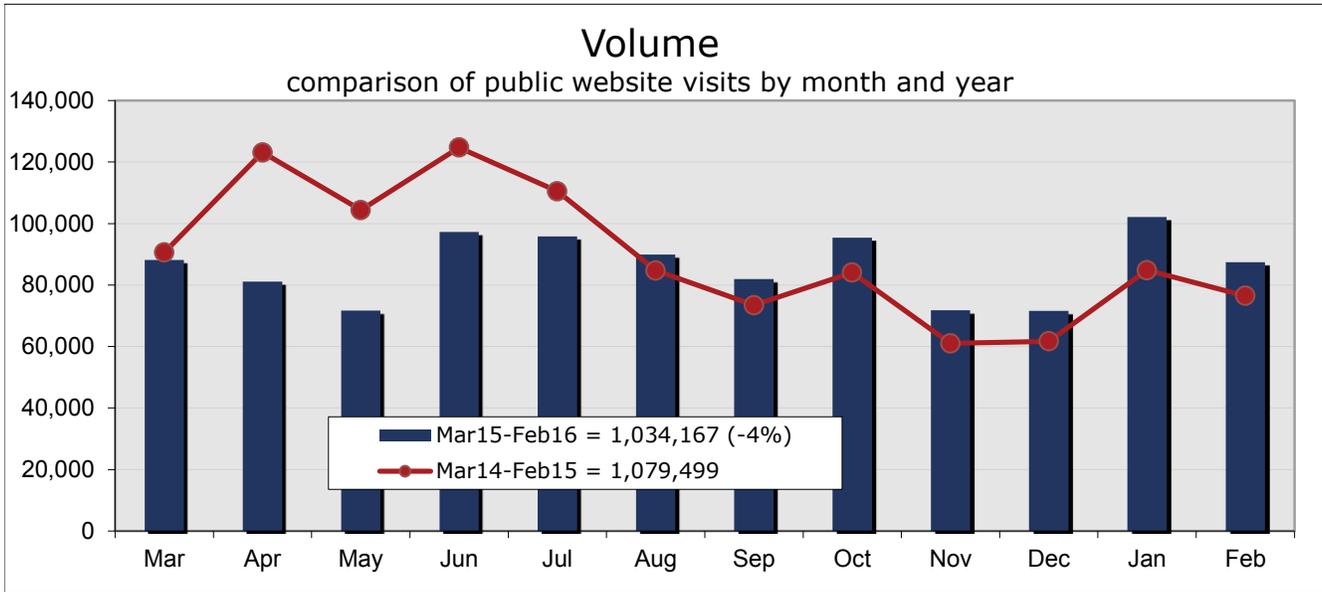
Non Retired											
40	40	22	7	20	157	86	39				
Retired											
2	2	2	2	3	3	2	2				
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



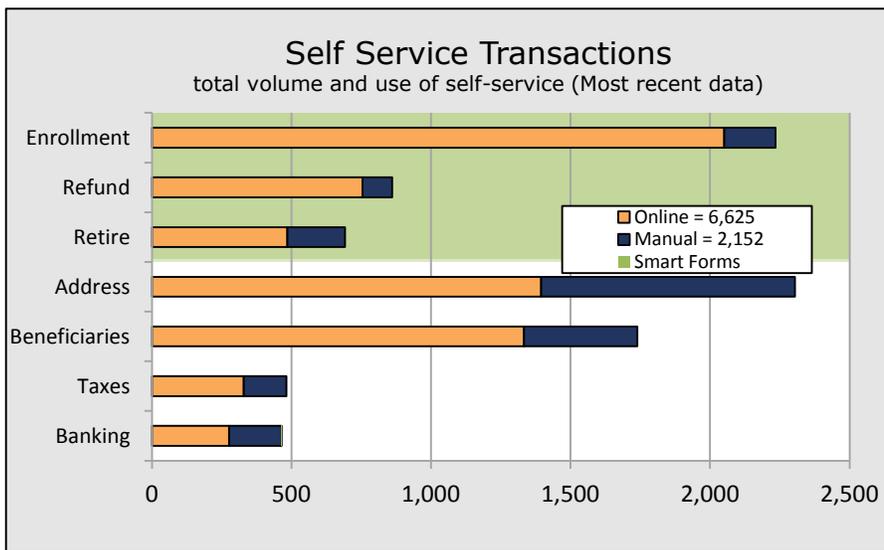
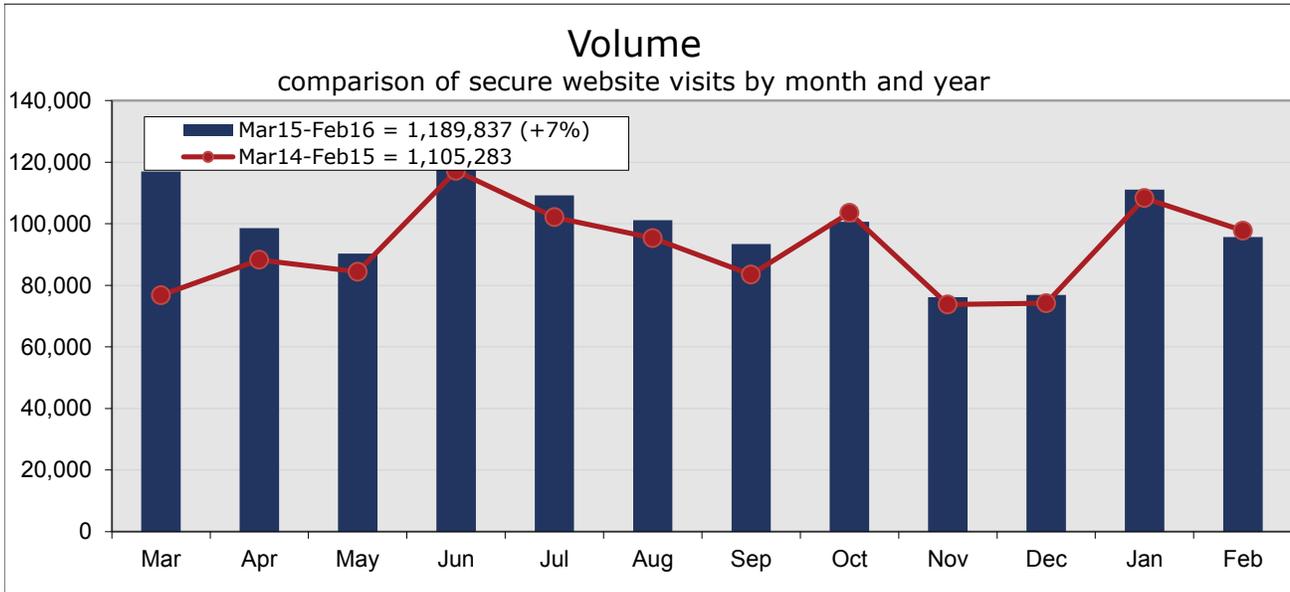
### Payment Timeliness (average TAT in days)

Lump Sum (Non-Retired)											
4	3	5	5	5	5	7	6				
Annuity (Retired and Non-Retired)											
3	2	4	3	2	3	3	5				
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

# Public Website: www.azasrs.gov



# Secure Website: secure.azasrs.gov

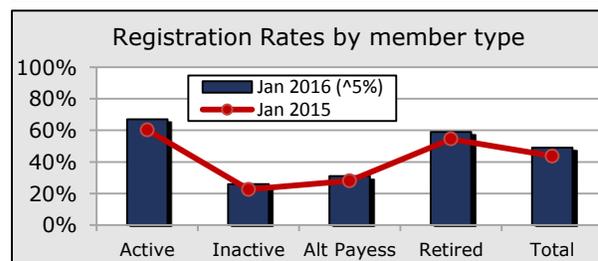
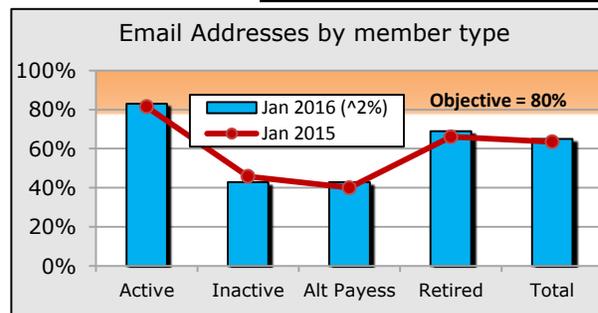
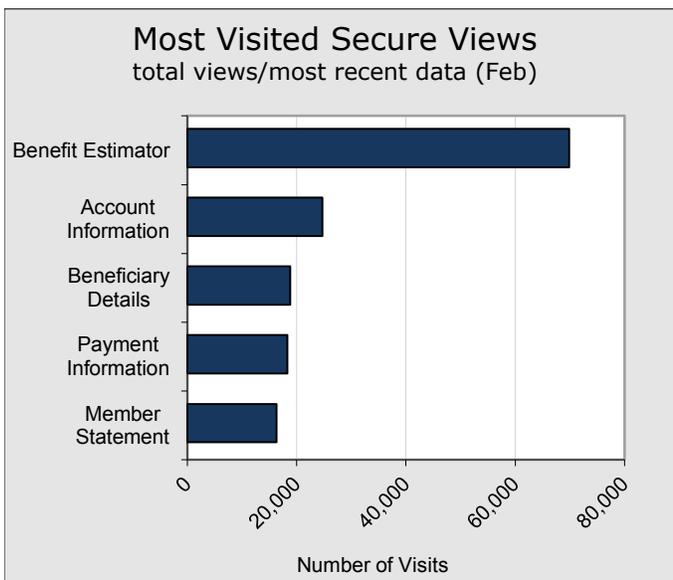


### Historical Comparison of Online Usage

	This month	12mo Min	12mo Max	12mo Avg	Objective
Enrol	92%	89%	97%	93%	99%
Ref	88%	88%	98%	92%	90%
Ret	70%	67%	73%	70%	90%
Add	70%	70%	86%	76%	75%
Bene	77%	52%	87%	74%	75%
Tax	68%	67%	91%	79%	75%
DD	60%	41%	60%	54%	75%

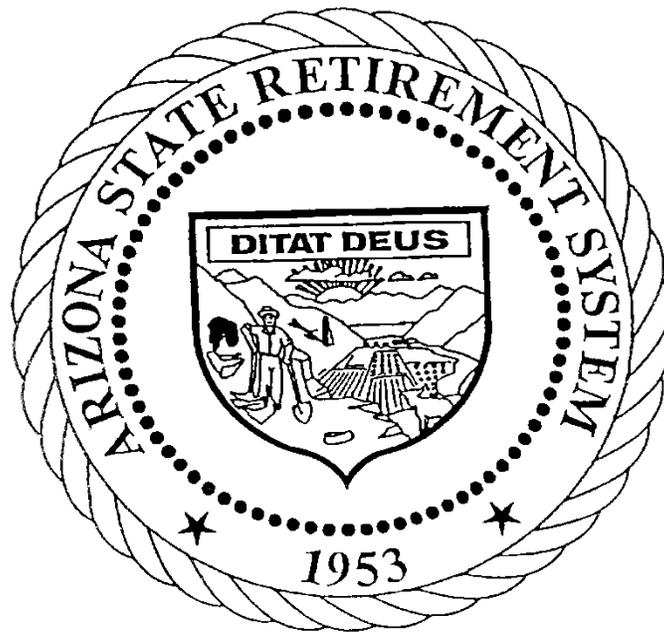
**Total online this month**

**75%**



# Agenda Item #5c

## Director's Report Budget & Staffing



**Arizona State Retirement System**  
**FY 2016 Appropriated Budget**  
(as of February 29, 2016)

	APPROPRIATIONS FISCAL YEAR 2016	EXPENDED YTD	% EXPENDED
<b>OPERATING BUDGET</b>			
Personal Services	\$ 13,091,900	\$ 7,962,600	60.82%
Employee Related Expenses	\$ 5,063,500	\$ 3,042,900	60.09%
Professional & Outside Services	\$ 1,292,400	\$ 973,900	75.36%
Travel	\$ 79,900	\$ 64,600	80.85%
Other Operating Expenses	\$ 2,732,800	\$ 1,123,700	41.12%
Equipment	\$ 651,100	\$ 197,500	30.33%
Operating Subtotal	\$ 22,911,600	\$ 13,365,200	58.33%
<b>OTHER APPROPRIATIONS</b>			
Long Term Disability Administration	\$ 2,800,000	\$ 991,900	35.43%
Oracle Forms and Reports Modernization (Yr. 3)	\$ 2,270,000	\$ 513,500	22.62%
<b>TOTAL FY 2016 Appropriated Funds</b>	<b>\$ 27,981,600</b>	<b>\$ 14,870,600</b>	<b>53.14%</b>

	APPROPRIATIONS	EXPENDED PRIOR YEARS	EXPENDED CURRENT YEAR	% EXPENDED
<b>PRIOR YEAR APPROPRIATIONS (NON-LAPSING)</b>				
FY 2015 - Oracle Forms and Reports Modernization (Yr. 2)	\$ 4,484,500	\$ 1,463,600	\$ 327,500	39.94%
FY 2011 - HB 2389 - ASRS Plan Design Changes	\$ 1,341,700	\$ 1,247,100	\$ -	92.95%
FY 2011 - ASRS Operating Budget	\$ 20,570,100	\$ 19,901,200	\$ -	96.75%

## **Budget Summary for Fiscal Year 2016 As of February 29, 2016**

### **Operating Budget**

The operating budget information on the previous page is based on funding approved by the Board and the Legislature for fiscal year July 1, 2015 through June 30, 2016. These ASRS operating expenses are distinguished from other areas of ASRS spending authority: such as expenditures for investment management and benefits payments. Administrative salaries and employee benefits, supplies, equipment and ongoing operational costs associated with information and financial systems for the ASRS Board and ASRS employees are funded from the operating budget. Expenditures to date include seventeen pay periods (65.4% of the annual payrolls) of fiscal year 2016.

### **Other Appropriations**

Other appropriations, which are considered part of the annual budget, represent other appropriations for specific programs or services authorized by the Board and the Legislature.

- **Long Term Disability Administration Fund**  
The amount appropriated for the administration costs of the LTD program.
  
- **Oracle Forms and Reports Modernization**  
The amount appropriated (non-lapsing) for the third year of the software modernization project.

### **Non-Lapsing Appropriations for Legislative Initiatives**

The amount appropriated by the Legislature for the implementation of:

- FY 2015 - Oracle Forms and Reports Modernization (Yr. 2)
- FY 2011 - HB 2389 - ASRS Plan Design Changes
- FY 2011 - ASRS Operating Budget and LTD Admin
  - HB 2024, Section 93 modified the FY 2011 ASRS appropriations to be non-lapsing appropriations. The ASRS has the ability to utilize the unspent portion of these appropriations in ensuing fiscal years.

### **Explanation of Columns**

- 1) The *Appropriations* column represents funds that have been approved by the Legislature and the ASRS Board for FY 2016, and includes prior year legislative appropriations.
  
- 2) The *Expended* column represents the expenditures to date.
  
- 3) The *% Expended* column identifies the portion of each line item that has been expended to date. This column is intended to be a guide to the rate of spending during the fiscal year.

## ASRS FISCAL YEAR 2016, CONTINUOUSLY APPROPRIATED REPORT

(with summarized Appropriated Expenses)

DESCRIPTION	EXPENDED YTD as of 2/29/16	ESTIMATED ANNUAL EXPENSES (Projections updated quarterly)	EST. ANNUAL EXPENSES AS % OF TOTAL AUM	EST. ANNUAL EXPENSES PER MEMBER
Custodial Banking, Security Lending and Master Cash STIF Fees	1,581,000	3,001,000		
Internal Investment Management (Salaries and Benefits)	1,035,000	1,751,000		
<i>Public Markets</i>				
External Investment Management Fees	28,607,000	61,302,000		
Transactional and Other Fees	1,756,000	2,110,000		
<i>Private Markets</i>				
Private Debt and Equity Management Fees	14,238,000	46,000,000		
Private Debt and Equity Performance Incentive and Other Fees	20,239,000	60,000,000		
Real Estate, Farmland and Timber and Infrastructure Management Fees	10,626,000	25,000,000		
Real Estate, Farmland and Timber and Infrastructure Performance Incentive and Other Fees	25,896,000	35,000,000		
Opportunistic Debt and Equity Management Fees	3,820,000	10,000,000		
Opportunistic Debt and Equity Performance Incentive and Other Fees	3,708,000	5,000,000		
<b>Investment Management Expenses</b>	<b>\$ 111,506,000</b>	<b>\$ 249,164,000</b>	<b>0.750%</b>	<b>\$ 445.81</b>
Investment Consulting Services	1,947,000	4,354,000		
Investment Related Legal Services	1,052,000	1,175,000		
Investment Electronic Information Services	1,191,000	2,376,000		
External Financial Consulting Services	-	110,000		
<b>Investment Related Consulting, Legal and Information Services</b>	<b>\$ 4,190,000</b>	<b>\$ 8,015,000</b>	<b>0.024%</b>	<b>\$ 14.34</b>
<b>Rent</b>	<b>1,006,000</b>	<b>1,505,000</b>	<b>0.005%</b>	<b>\$ 2.69</b>
<b>Actuarial Consulting Fees</b>	<b>60,000</b>	<b>925,000</b>	<b>0.003%</b>	<b>\$ 1.66</b>
<b>Retiree Payroll (Disbursement Administration)</b>	<b>1,772,000</b>	<b>3,715,000</b>	<b>0.011%</b>	<b>\$ 6.65</b>
<b>Total Continuously Appropriated Expenses</b>	<b>\$ 118,534,000</b>	<b>\$ 263,324,000</b>	<b>0.793%</b>	<b>\$ 471.15</b>
<b>*Total Current Year Appropriated Expenses</b>	<b>\$ 15,198,100</b>	<b>\$ 28,981,600</b>	<b>0.087%</b>	<b>\$ 51.85</b>
<i>* Includes estimated prior year non-lapsing appropriations of \$1,000,000 related to the Oracle Forms and Reports Modernization Project</i>				
<b>Total Expenses (Continuously Appropriated and Appropriated)</b>	<b>\$ 133,732,100</b>	<b>\$ 292,305,600</b>	<b>0.880%</b>	<b>\$ 523.00</b>

ASRS Estimated Total Market Value of Assets Under Management (AUM) as of September 30, 2015

\$ 33,208,020,000

ASRS Total Membership as of June 30, 2015

558,900

# Continuously Appropriated Expenses for FY 2016 Estimated Expenditures

The Arizona State Retirement System (ASRS) investment and administrative costs are expended in accordance with Arizona Revised Statutes (A.R.S.), Title 38, Chapter 5, Article 2, Section 38-721. A.R.S. Section 38-721, Subsection C, lists specific expenditures that are continuously appropriated and are allowable in the amount deemed necessary by the Board.

These specific expenditures are described below:

## 1. Investment management fees and related consulting fees necessary to meet the Board's investment objectives

### *Internal Investment management*

- ASRS Investment Management Division staff base salaries and employer portion of staff benefits and payroll taxes.

### *External investment management fees*

- Public Markets
  - External investment management fees (public).
  - Management fees (public) year-to-date expenditure amounts reflect the fees due for the first quarter and seventy percent of the fees due for the second quarter of FY 2016.
  - Transactional and other fees include foreign taxes and commissions on derivatives and other incidental costs.
- Private Markets
  - Private Debt and Equity, Real Estate, Farmland and Timber and Infrastructure and Opportunistic Debt and Equity investment management fees.
  - Performance incentive fees include performance incentives and carried interest, which are only paid upon successful performance of the manager after other return hurdles are met. Other fees are the ASRS proportional share of the transactional and operational cost of the underlying investment structure. Each of these fees is only paid if earned or incurred, and therefore may vary each quarter.
  - Management and performance incentive fees year-to-date expenditure amounts reflect the fees due for the first quarter of FY 2016.

### *Consulting fees*

- Includes investment related consulting and legal fees, electronic information services and subscriptions, custodial banking administrative fees, external auditing service fees.

## 2. Rent

- Costs associated with rent as tenants for occupancy in the 3300 Tower in Phoenix and in the satellite office in Tucson.

## 3. Actuarial consulting fees

- Costs associated with actuarial services related to plan design, administration and valuations.

## 4. Retiree Payroll

- Costs associated with administering retiree pension benefits and disbursements, including third-party payroll administration fees, postage and benefit related consulting fees and the beginning phase of the ASRS Benefit Disbursement project.

The report includes projected expenditures for the current fiscal year. Actual expenditures are reported monthly and estimated annual expenses are reviewed and adjusted quarterly. The estimated annual expenses reflected were last updated as of the close of the quarter ending September 30, 2015.

**Arizona State Retirement System  
Staffing Report  
(February 29, 2016)**

ASRS by Division	252 Full Time Equivalents (FTEs)	New Hires	New Exits	Vacancies	Vacancy Rate
Administrative Services Division (ASD)	16	0.0	0.0	1.25	7.81%
Director's Office (DIR)	15	0.0	0.0	0.0	0.00%
External Affairs (EAD)	3	1.0	0.0	0.0	0.00%
Financial Services (FSD)	62	0.0	0.0	9.5	15.32%
Technology Services (TSD)	52	1.0	0.0	5.0	9.62%
Internal Audit (IAD)	6	0.0	0.0	1.75	29.17%
Investment Management (IMD)	12	1.0	1.0	2.0	16.67%
Member Services (MSD)	86	0.5	0.5	8.5	9.88%
	<b>252</b>	<b>3.5</b>	<b>1.5</b>	<b>28</b>	<b>11.11%</b>

Turnover	February 2016 New Hires	February 2016 Exits	Total Exits (Last 12 Months)	Annualized Turnover %
	3.5	1.5	29	12.75%

**Recruitments**

Beginning February 2015, all ASRS recruitments were placed on hold until further notice due to the State of Arizona Hiring Freeze. Specific ASRS positions are critical to the core functions and operations of the agency and if left unfilled will negatively impact the agency's ability to meet goals and objectives. Recruitment for these "mission critical" positions may proceed after hiring supervisors complete and submit appropriate justification documents and upon approval of the agency director. In some instances, these additional steps have extended the recruitment turnaround time and contributed to the yellow or red status of some business units as noted on the following pages. We continue to work within the State of Arizona Hiring Freeze guidelines implemented February 2015.

- Eight positions are under recruitment – FSD Controller, FSD Financial Reporting Accountant, MSD Retirement Advisor Seniors (4, 3-MAC, 1-Tucson), and TSD IT Security Engineers (2)
- One recruitment has not yet commenced – FSD-BA Fiscal Services Specialist III
- Two positions have been filled with future start dates – FSD-BA Pension Calculations Specialist II (start date: 03/21/2016), TSD Software Engineer (start date: 04/04/2016)

## Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <b>Green</b> = Normal risk <b>Yellow</b> = Greater than normal risk <b>Red</b> = Negative impact			
MSD	MAC (Call Center)	○●○	In February 2016, strategic objectives were met through the use of staff drawn from other teams in MSD. Three positions have been approved as Mission Critical and are under recruitment. Greater than normal risk will remain until the three positions have been filled and the new staff is fully trained.
MSD	One-on-one Counseling (Appointments/Walk-ins)	●○○	
MSD	E-mail and Written Correspondence	●○○	
MSD	Outreach Education	●○○	
MSD	Tucson: Appointments/Walk-ins/Outreach	●○○	
MSD	Benefit Estimates	●○○	
MSD	Employer Relations	●○○	
MSD	Health Insurance/LTD Benefits Administration and Communication	●○○	
MSD	Survivor Benefit Processing	●○○	
MSD	Refund Processing	●○○	
MSD	New Retiree Processing	●○○	

## Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <b>Green</b> = Normal risk <b>Yellow</b> = Greater than normal risk <b>Red</b> = Negative impact			
MSD/FSD	Service Purchase Processing		The Service Purchase process is going through a modernization project which is requiring significant staffing resources. Greater than normal risk will remain until the Service Purchase project is completed.
FSD	Monthly Pension Payroll Processing		
FSD	New Retiree Processing		During February 2016, the New Retirees strategic objectives were met; however the pension audit objectives were not met. Six positions are vacant and six FTEs are in training. A temporary resource started in February 2016 and one new hire will start in March 2016. Negative impact will remain until the vacant positions have been filled and FTEs are fully trained.
FSD	Survivor Benefit Processing		
FSD	Records Management (data processing/imaging)		
FSD	LTD/Health Benefit Supplement Processing		The Records Management staff is meeting strategic goals. However, there has been an increase in not enrolled accounts due to lack of submissions by employers/new employees.
FSD	Transfer Processing		
FSD	General Accounting		General Accounting did not meet strategic objectives. Two critical positions, Controller and Financial Accountant, are vacant, two positions were recently filled and one position has been unoccupied based on an approved leave of absence. Greater than normal risk will remain until the Controller and Financial Accountant positions are filled and all positions have been fully trained.

## Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

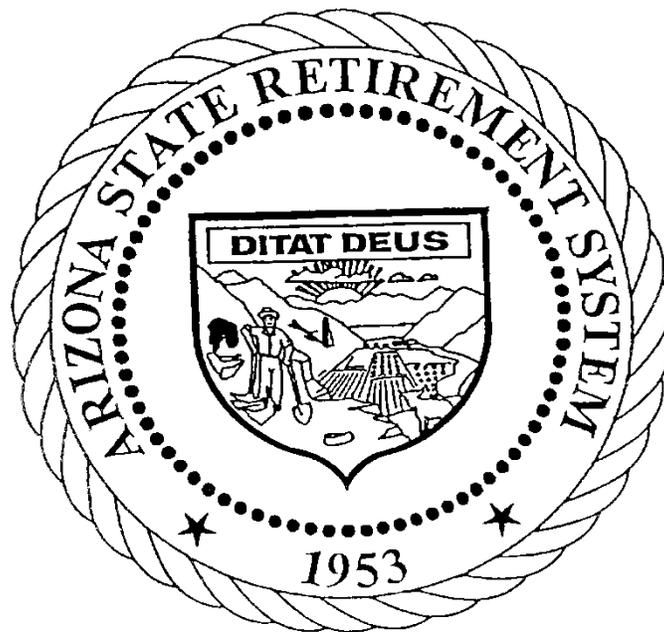
Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <span style="color: green;">Green</span> = Normal risk <span style="color: orange;">Yellow</span> = Greater than normal risk <span style="color: red;">Red</span> = Negative impact			
FSD	Contribution Collections and Posting	○●○	The Contribution Accounting team has two recently hired FTEs who are in training. Greater than normal risk will remain until the new FTEs are fully trained.
TSD	Network Support	●○○	
TSD	IT Security	○●○	The IT Security team is unable to meet all business demands and Strategic Objectives. Three critical security positions are vacant. Recruitment for two positions is currently underway. Greater than normal risk will remain until all positions are filled and staff is fully trained.
TSD	Business Applications Development and Support	●○○	The planned workload requires a complement of 44 total resources (31 FTEs and 13 external resources). Our current complement of resources for February 2016 was 44 (30 FTEs and 14 external resources). One Business Analyst external resource left in February. Recruitment for one Software Engineer has been completed with an April 2016 start date and one System Tester external resource has been requested.
IMD	Investment Management	●○○	
DIR	Board/Executive Staff Support	●○○	
DIR	Strategic Planning/Analysis	●○○	
DIR	Strategic Communications	●○○	
DIR	Public Affairs	●○○	

## Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <span style="color: green;">Green</span> = Normal risk <span style="color: orange;">Yellow</span> = Greater than normal risk <span style="color: red;">Red</span> = Negative impact			
IA	Internal Audit	●○○○	
EA	Rule Writing	●○○○	
EA	Legislative Relations	●○○○	
ASD	Human Resources	●○○○	
ASD	Training and Development	○○●○	Training and Development is unable to meet all current business needs and future training requests have been postponed due to limited staffing. Greater than normal risk will remain until vacant positions are filled and fully trained.
ASD	Contracts and Procurement	●○○○	
ASD	Facilities Management	●○○○	
ASD	Budget Administration	●○○○	

# Agenda Item #5d

## Director's Report Cash Flow Statement



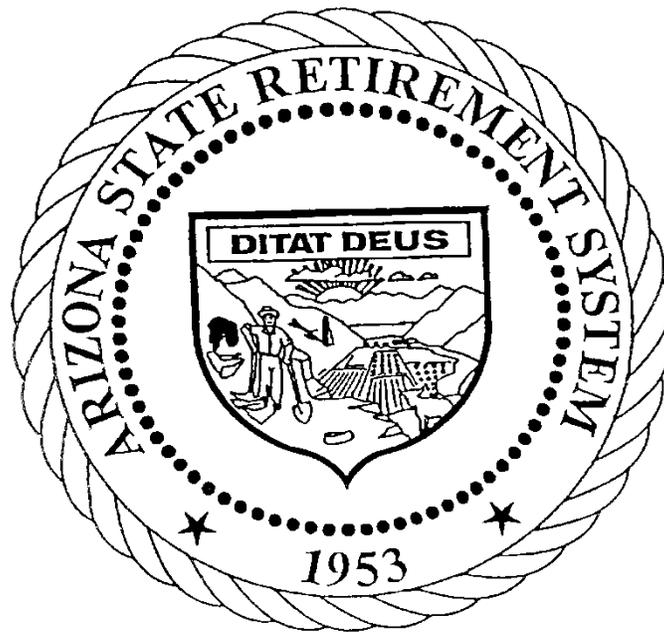
**ARIZONA STATE RETIREMENT SYSTEM**  
**COMBINED STATEMENT OF CHANGES IN TOTAL FUND CASH**  
**FOR THE MONTH ENDED FEBRUARY 29, 2016**

	Retirement Plan Fund	Retirement System Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Current Period February	Fiscal 2016 YTD February	Fiscal 2015 YTD February
<b>ADDITIONS</b>							
Contributions							
Member contributions	\$ 80,720,999	\$ 3,207	\$ -	\$ 854,283	\$ 81,578,488	\$ 665,209,700	\$ 657,603,194
Employer contributions	77,188,987	3,207	3,556,956	854,175	81,603,325	661,311,011	656,323,601
Alternative contributions (ACR)	1,999,664	-	28,002	13,089	2,040,754	16,038,722	16,291,582
Transfers from other plans	34,081	-	-	-	34,081	1,200,594	360,111
Purchased service	1,621,267	-	-	-	1,621,267	17,663,048	15,273,733
<b>TOTAL CONTRIBUTIONS</b>	<b>161,564,998</b>	<b>6,414</b>	<b>3,584,957</b>	<b>1,721,547</b>	<b>166,877,916</b>	<b>1,361,423,076</b>	<b>1,345,852,221</b>
<b>DEDUCTIONS</b>							
Investment management fees	11,569,567	-	-	-	11,569,567	44,182,884	55,439,697
Custody fees	-	-	-	-	-	480,208	355,000
Consultant and legal fees	346,176	-	-	-	346,176	2,924,325	2,848,927
Internal investment activity expense	285,997	-	-	-	285,997	2,554,144	2,461,020
Retirement and disability benefits	225,895,323	3,148,987	8,199,766	5,044,287	242,288,363	1,946,375,752	1,872,899,021
Survivor benefits	2,491,902	11,185	-	-	2,503,086	24,615,074	23,867,411
Refunds to withdrawing members, including interest	16,693,613	-	-	-	16,693,613	172,054,954	164,516,814
Administrative expenses	2,173,340	-	-	193,553	2,366,893	18,053,594	20,045,090
Transfers to other plans	-	-	-	-	-	679,563	354,354
Other	(431)	-	-	-	(431)	14,902	6,926
<b>TOTAL DEDUCTIONS</b>	<b>259,455,487</b>	<b>3,160,172</b>	<b>8,199,766</b>	<b>5,237,840</b>	<b>276,053,264</b>	<b>2,211,935,401</b>	<b>2,142,794,260</b>
<b>INCREASE (DECREASE)</b>	<b>(97,890,489)</b>	<b>(3,153,758)</b>	<b>(4,614,808)</b>	<b>(3,516,293)</b>	<b>(109,175,348)</b>	<b>(850,512,325)</b>	<b>(796,942,039)</b>
From securities lending activities:							
Security loan program	476,125	-	-	-	476,125	4,035,251	2,792,258
Security loan interest expense / (Rebate)	(90,116)	-	-	-	(90,116)	(1,096,253)	(293,497)
* Net income from securities lending activities	566,241	-	-	-	566,241	5,131,503	3,085,755
Capital Calls / (Distributions)							
Farmland and Timber	-	-	-	-	-	11,665,010	45,442,161
Infrastructure	-	-	-	-	-	-	300,000,000
Opportunistic Debt	(15,494,935)	(165,394)	(704,690)	-	(16,365,019)	80,812,447	111,404,322
Opportunistic Equity	280,642	2,826	12,482	-	295,951	26,653,898	28,589,152
Private Debt	17,789,801	168,181	796,344	-	18,754,325	684,050,279	251,981,109
Private Equity	52,371,978	-	2,309,163	-	54,681,140	95,915,060	137,475,129
Real Estate	92,329,490	850,150	4,182,919	-	97,362,560	439,483,884	(56,381,078)
<b>TOTAL Capital Calls</b>	<b>147,276,976</b>	<b>855,763</b>	<b>6,596,218</b>	<b>-</b>	<b>154,728,957</b>	<b>1,338,580,578</b>	<b>818,510,795</b>
<b>NET INCREASE (DECREASE)</b>	<b>\$ (244,601,224)</b>	<b>\$ (4,009,521)</b>	<b>\$ (11,211,027)</b>	<b>\$ (3,516,293)</b>	<b>\$ (263,338,065)</b>	<b>\$ (2,183,961,400)</b>	<b>\$ (1,612,367,079)</b>

\* Securities lending activities reported on a one month lag.

# Agenda Item #5e

## Director's Report Appeals



## OUTSTANDING ASRS APPEALS

Date Received	Appeals	Issues/Questions Regarding	Status/Comments
04/16/2012	Arizona State University	Appellant is disputing an ASRS employer termination incentive program invoice in the amount of \$1,149,000.	ASU appealed to the AZ Court of Appeals 02/12/2014. Case No. CA-CV 14-0083. Final Opinion issued on 05/05/2015 reversing the Superior Court's decision affirming the ruling of the ASRS Board. ASU Application for Attorneys' Fees in the amount of \$114,493.00 denied on 7/24/2015. Arizona Supreme Court declined to review the case on 10/27/2015. ASU filed Motion for Judgment requesting interest in Superior Court on 12/7/2015.
07/14/2014	Richard K. Hillis & Sharon Di Giacinto	Appealing the ASRS determination that a Domestic Relations Order term is unacceptable.	Board upheld Administrative Law Judge Decision on 01/30/2015. Appellant filed Notice of Appeal on 02/02/2015 with the AZ Superior Court, Case No. LC2015-000048. Oral Argument held 07/29/2015. Superior Court Decision in favor of the ASRS issued on 9/25/15. Appellant Di Giacinto appealed to AZ Court of Appeals on 9/30/2015. ASRS Answering Brief due 3/23/2016.
12/17/2014	The Griffin Foundation	Appellant is appealing the ASRS determination that the Appellant owes contributions from October 2010 to present for its employees.	OAH hearing held on 05/14/2015 and 07/09/2015. ASRS Board accepted the Administrative Law Judge Decision on 12/4/2015. Appellant Griffin Foundation filed an appeal to Maricopa County Superior Court on 1/11/2016.
09/02/2015	Donald Smith	Appealing ASRS calculation method of his Domestic Relations Order.	ALJ Decision affirming ASRS decision issued on 11/10/2015. ASRS Board accepted ALJ Decision on 1/29/2016. <b>ASRS Board denied Mr. Smith's Motion for Review and Reconsideration.</b>
10/21/2015	Cathy Davis	Appealing ASRS decision regarding her retirement date.	OAH hearing held on 12/23/2015. ALJ Decision affirming ASRS decision issued on 1/21/2016. Decision on 2/26/2016 Board agenda. <b>ASRS Board accepted the ALJ Decision on 2/26/2016.</b>

Information as of March 11, 2016. Updates are noted in bold font.

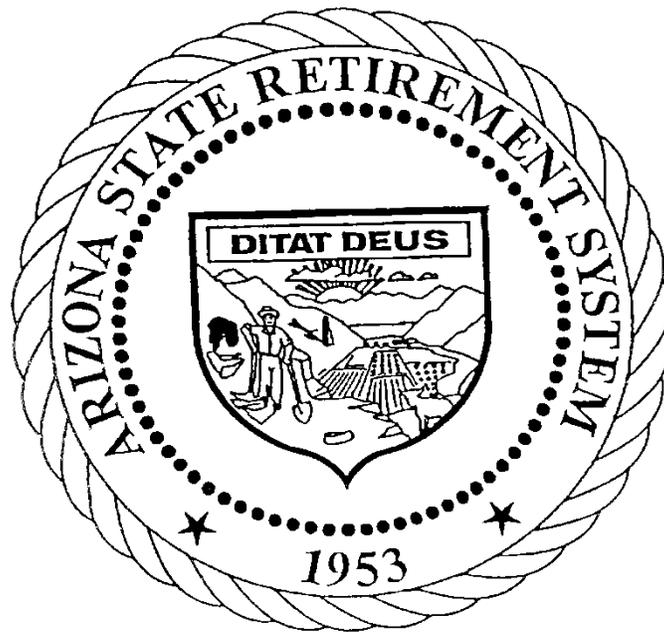
## OUTSTANDING ASRS APPEALS

12/28/2015	Valerie Fields	Appealing ASRS decision regarding service purchase credit.	OAH hearing scheduled for 2/22/2016. <b>OAH hearing re-scheduled for 04/27/2016.</b>
1/20/2016	Travis Benton	Requesting an IRS 1099-R Form prior to February 1, 2016.	<b>Appellant withdrew his appeal. The hearing scheduled for 3/14/16 is vacated.</b>
1/28/2016	Mary Jo Kuzmick	Appealing ASRS decision regarding retirement date.	OAH hearing scheduled for 3/15/2016.
2/18/2016	Carol Teel	Appealing ASRS determination that Appellant is no longer disabled and therefore ineligible for ASRS Long-Term Disability benefits.	<b>Informal Settlement Conference scheduled for 3/16/2016. OAH hearing scheduled for 4/4/2016.</b>
3/1/2016	Paula Jeffries	Appealing ASRS decision regarding an overpayment of Long-Term Disability (LTD) benefits.	<b>OAH hearing scheduled for 05/02/2016.</b>

Information as of March 11, 2016. Updates are noted in bold font.

# Agenda Item #5f

## Director's Report Employers Reporting





# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
4400 EAST BROADWAY BOULEVARD • SUITE 200 • TUCSON, AZ 85711-3554 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778  
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

*Paul Matson*  
Director

## MEMORANDUM

**TO:** Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board  
**FROM:** Mr. Paul Matson, Director  
**DATE:** March 10, 2016  
**RE:** Delinquent Employers

As of March 10, 2016, the following employers have failed to remit contributions by a date certain. These employers have received a letter advising them that the ASRS will initiate collection procedures unless they contact us within five days:

STARSHINE ACADEMY	23,000*
LA PALOMA ACADEMY	96,000*
CHEVELON BUTTE	800*
PICTURE ROCKS FIRE DISTRICT	600*
CENTRAL AZ ASSOCIATION OF GOVERNMENT	<u>7,000*</u>
	\$127,400*

\*Estimated amount

Additionally, the following employer has filed for Chapter 11 Bankruptcy Protection and are delinquent in their ASRS contributions:

LUZ ACADEMY OF TUCSON	18,600
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<b>TOTAL</b>	<b>\$146,000*</b>
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# Agenda Items

#6 – 9

Note: There are no materials for these agenda items

**Agenda Item #10**  
**Confidential Materials**  
**were provided to the**  
**Board and not**  
**included in this book.**



# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
4400 EAST BROADWAY BOULEVARD • SUITE 200 • TUCSON, AZ 85711-3554 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778  
WWW.AZASRS.GOV

*Paul Matson*  
Director

## MEMORANDUM

**TO:** Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board

**FROM:** Martha N. Rozen, Assistant Director of Administrative Services Division

**DATE:** March 11, 2015

**RE:** **Agenda Item #10:** Presentation, Discussion, and Appropriate Action with Regarding the 2015 Review of the Director of the ASRS

Please note that as part of the Board's evaluation of the Director, the attached Executive Performance Feedback Form has been developed in order to facilitate the reverse evaluation of the Director. The results are attached.

The survey was conducted in a voluntary and anonymous fashion among seven Senior and Executive staff members. The list of participants this year is as follows:

- Deputy Director – Chief Operations Officer
- Assistant Director - External Affairs
- Chief Investment Officer
- Assistant Director - Administrative Services Division
- Manager of Human Resources
- Manager of Management Support Services
- Assistant Attorney General Representative

Please note feedback was received from five individuals.

## N. DIRECTOR EVALUATION PROCESS

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### General

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The Board has delegated the responsibility of administering the ASRS to the Director and, therefore, understands that an evaluation of the performance of the Director's performance is important. The Board may conduct more frequent performance evaluations of the Director as it deems necessary.

### Objectives

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The evaluation of the performance of the Director is intended to:

1. Assist the Board in establishing and communicating clear, meaningful goals and performance targets for the Director.
2. Enable the Board to hold the Director accountable for performance.
3. Allow the Director to receive objective and timely feedback to help the Director perform at expected levels.

### Evaluation Procedure and Criteria

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1. In the first quarter of each calendar year, the Board, working with the Director, will adopt a set of performance goals and evaluation criteria to be used in evaluating the performance of the Director for the upcoming calendar year.
2. The evaluation of the performance of the Director will take place in the first quarter of each calendar year after the Board's self-evaluation is completed and will cover the preceding calendar year.
3. The subject matter addressed in the performance evaluation will include:
  - a. Leadership
  - b. Management/Administration/Budgeting
  - c. Communication
  - d. Policy matters
  - e. Staff development
  - f. Progress toward achieving performance business objectives previously established by the Board for the year
4. Other matters identified by the Board
5. The Director will prepare a written summary report of accomplishments and performance for the Board to use in their discussions of his/her performance.
  - a. The ASRS Human Resource Department will conduct a reverse evaluation of the Director, the results of which will be presented to the Board. Participation in the reverse evaluation is voluntary and anonymous and will include the following staff:
    - b. Deputy Director - Operations
    - c. Assistant Director - External Affairs
    - d. Chief Investment Officer
    - e. Chief of Administrative Services
    - f. Manager of Human Resources
    - g. Manager of Management Support Services
    - h. Assistant Attorney General Representative
6. The Board will reach consensus and provide a report of the Director's performance, and identify areas for improvement, if necessary.
7. The Board will meet with the Director to present and discuss the Board's evaluation of the Director's performance.

## Appendix C – Director Evaluation

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ASRS - Director Performance Evaluation

Name: Paul Matson

Title: Director

This form is to help you evaluate the performance of the Director of the ASRS. In each of the following rating categories, bullet points have been provided to assist you with your evaluation. Please rate the Director using the following scale and place the number on the "Rating" line in each category.

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5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Leadership: Rating \_\_\_\_\_

- Establishes and maintains effective and credible relationships affecting the ASRS.
- Projects a positive image as the Director of the ASRS.
- Recognizes the needs and desires of others; treats others with regard, courtesy and respect.
- Maintains a "big picture" outlook and is aware of industry issues.
- Forecasts trends, responds to change and invites innovation.
- Solicits and acts upon ideas of others when needed.
- Stresses the importance of high quality customer service.
- Maintains a well-functioning management team.
- Participates in relevant and worthwhile professional organizations.

**General Comments or Examples:** (You need not address each point separately.)

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5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Management/Administration/Budgeting: Rating \_\_\_\_\_

- Manages all ASRS business functions and activities in accordance with all relevant laws, Board policies and goals
- Develops reasonable budgets, communicates them to the Board, and operates within budgetary limits
- Ensures the efficient and effective functioning of the ASRS through delegation
- Follows up on Board directives to ensure proper implementation

**General Comments or Examples:** (You need not address each point separately.)

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5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Communication: Rating \_\_\_\_\_

- Keeps the Board and staff informed and communicates effectively with them
- Organizes ideas and information logically
- Speaks clearly and concisely, using understandable terminology
- Effectively and politely communicates with the members
- Professionally communicates with entities affecting the ASRS

**General Comments or Examples:** (You need not address each point separately.)

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5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Policy Matters: Rating \_\_\_\_\_

- Periodically reviews policies and makes recommendations for changes to the Board
- Accurately interprets Board policies and concerns, and develops a consistent direction for the staff to follow
- Initiates changes in day-to-day operations to conform to established Board policies
- Acts creatively to evaluate and recommend new initiatives or policies

**General Comments or Examples:** (You need not address each point separately.)

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5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Staff Development: Rating \_\_\_\_\_

- Creates an atmosphere that fosters teamwork, creativity and participation
- Communicates clear standards of performance for the executive staff
- Keeps informed and follows state personnel policies and procedures
- Encourages professional development of staff
- Addresses succession planning for key positions within the ASRS

**General Comments or Examples:** (You need not address each point separately.)

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5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Progress Toward Achieving Business Objectives: Rating \_\_\_\_\_

[Previously and mutually identified goals and objectives listed here.]

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

**General Comments or Examples:** (You need not address each point separately.)

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**Significant Overall Accomplishments:**

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**Areas Needing Improvement:**

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Overall Rating: \_\_\_\_\_

## ASRS BUDGET SAVINGS REPORT

The Arizona State Retirement System continues to exercise fiscal prudence. Through budget reduction planning, the ASRS has implemented strategies that have achieved more than \$5.3 million in administrative savings. These savings have been retained in the ASRS Trust Fund over the last seven fiscal years.

The budget savings strategies that resulted in the savings include:

- Ongoing review of current expenditures to seek less-costly alternatives
- Continuous analysis of processes to eliminate redundancy
- Use of alternative and deliberate methods for staffing in an effort to accumulate savings
- Investment in technology to create enhanced processes and flexibility among staff
- Enhanced software development processes and practices

Our goal is to continue with these strategies and seek further savings.

### Savings by Fiscal Year (FY)

<b>2009*</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Subtotal</b>
2,017,300	348,800	668,900	500,500	411,600	486,000	915,400	5,348,500

\*Savings from a non-lapsing appropriation in 2006 were recognized during FY 2009.

The ASRS will continue to review strategies and ideas that can produce further savings, making these and other initiatives a regular step in our budgeting process.