



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES OF THE PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

HELD ON
Monday, August 22, 2016
2:30 p.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met at 3300 N. Central Avenue, 14th Floor, Phoenix, AZ 85012. The meeting was also teleconferenced to the ASRS office at 4400 E. Broadway Boulevard, Suite 200, Tucson, Arizona 85711.

Mr. Tom Connelly, IC Chair, called the meeting to order at 2:35 p.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Connelly, Chair
Prof. Dennis Hoffman

Absent: Mr. Lorenzo Romero

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the of the June 20, 2016, Public Meeting and Executive Sessions of the ASRS IC Meeting

Motion: Prof. Hoffman moved to approve the minutes of the June 20, 2016, public meeting and executive sessions of the IC meeting. Mr. Connelly seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstention, and 1 excused, the motion was approved.

3. Presentation, Discussion, and Possible Action Item Regarding the Private Equity Consultant Request for Proposal (*This agenda item was taken out of order and was formerly listed as agenda item #10*)

Due to timing matters, the IC felt it was necessary to review agenda item #10 prior to agenda item #3 to ensure all required staff were available for the discussion.

Mr. Glass presented to the Committee the findings and evaluations of the contract award for the investment private equity consultant. Due to the discussion of proprietary information relating to the Request for Proposals submitted by all potential real estate consultants, the IC voted to go into executive session pursuant to A.R.S. § 38-431.03(A)(2) and 41-2534(D) for the purpose of considering and/or discussing records exempt by law from public inspection.

Motion: Prof. Hoffman moved to go into executive session. Mr. Connelly seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstention, and 1 excused, the motion was approved.

The Committee convened to Executive Session at 2:40 p.m.

The Committee reconvened to Public Session at 3:19 p.m.

Motion: Prof. Hoffman moved to accept the recommendation of the Evaluation Committee on the ASRS private equity contract award. Mr. Connelly seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstention, and 1 excused, the motion was approved.

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS House Views and General Discussion

Mr. Karl Polen, Chief Investment Officer, introduced himself to the Committee and provided a brief overview of the format changes in the House Views and Portfolio Positioning presentation. He further provided the over and underweights of each asset class and his perspective on the global economy. He noted overall growth continues to be slow with muted inflation; however, the records show historically low rates of unemployment. Interest rates also continue to be very low, with continued strength in the U.S. dollar. He provided additional commentary regarding the market and turned the meeting over to ASRS Portfolio Managers to provide their perspectives on the market and an update on their respective asset classes.

Mr. Eric Glass, Senior Portfolio Manager of Equities and Real Estate, presented on Equities and Commodities, Mr. Al Alaimo, Sr. Portfolio Manager of Fixed Income, presented on the Fixed Income and Micheal Copeland, Assistance Portfolio Manager of Real Estate, presented on Real Estate.

5. Presentation, Discussion, and Appropriate Action Regarding the Portfolio Position and Performance

Mr. Polen briefly introduced the topic of discussion to the Committee but opted to skip this discussion item since the majority of the materials presented would be reviewed during agenda item #6.

6. Presentation, Discussion, and Appropriate Action Regarding State Street's Risk Management Reporting

Mr. Kien Trinh, State Street Investment Analytics, presented the State Street Risk Report. He discussed the monthly reallocation summary, month-end risk profile and total plan overview exposure. He noted historical risk for all asset classes remains constant for prior months. In aggregate, Total Plan risk decreased 52 basis points with the drop largely driven by various factors such as the \$450 million increased allocation to Total Fixed Income focused more on the core, higher quality managers and the \$835 million decreased allocation in International Equity.

7. Presentation, Discussion, and Appropriate Action Regarding the ASRS Investment Compliance and Monitoring of Public and Private Market Investments Discussion, and Appropriate Action Regarding IMD Activities and Asset Class Committee Reports

Ms. Lupita Breland presented a brief review of the various Investment Compliance Programs currently in place for the ASRS' public and private investments. Ms. Breland mentioned that as reported at the June 20, 2016 IC Meeting, Meketa completed its 2014 Fund Review and will be presenting during today's meeting. Ms. Breland also confirmed that for today's meeting only State Street and Meketa will present to the IC.

Mr. Aaron Cugelman, Compliance Analyst at State Street Global Services Compliance

Operations, presented the results of the Daily Investment Compliance Program for the internally and externally managed portfolios, which is done on a post-trade basis, for the months of May through June 2016. Mr. Cugelmann noted since the Program has been in place, all the exceptions have been researched and resolved to both State Street and IMD's satisfaction. Mr. Cugelmann also presented the results of the Total Fund Monthly Statutory Investment Compliance Program for the months of May through June 2016, and noted since the program has been in place, the ASRS has passed all tests with results well below the statutory requirements. Ms. Breland addressed the IC to confirm that, as requested by the IC at the June 20, 2016 IC meeting, the State Street's Total Fund Monthly Statutory Investment Compliance Program will be included in the Board book materials as an informational item, effective the August 2016 Board meeting.

Mr. Steven McCourt, Managing Principle, and Mr. Steve Hartt, Principal at Meketa Investment Group, presented the 2014 Fund Reviews for the Annual Commingled Fund & Non-Real Estate Separate Accounts Investment Compliance Review. The Fund Review encompassed 42 funds (5 Separately Managed Accounts and 37 Commingled Funds), which represent 50% of the NAV as of December 31, 2014. Mr. McCourt concluded that the Review found no material deficiencies.

Mr. Polen, addressed the Committee regarding the Fund Review Reports on private investments by Meketa Investment Group and RCLCO, which will be presented to the IC on an annual basis.

8. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight of the ASRS Investment Program – Includes Total Fund and Investment Performance Report Q2-16

Mr. Allan Martin, NEPC Partner, provided the Committee with a brief overview of the fund performance as of June 30, 2016, and provided a detailed summary of the ASRS investment objectives, performance and the compliance of the fund in accordance with the SAA policy.

Performance results: (as of June 30, 2016)

- 7.3% (20-year annualized net return) vs. 8.0% (actuarial assumer interest rate.)

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception
Total Fund	1.2%	0.5%	7.1%	7.1%	6.0%	9.6%
Interim SAA Policy*	1.5%	-0.6%	5.9%	6.3%	5.6%	9.3%
Excess Return	-0.3%	1.1%	1.2%	0.8%	0.4%	0.3%

***Interim SAA Policy:** 21% S&P 500/3% S&P 400/3% S&P 600/18% MSCI EAFE/2% MSCI EAFE Small Cap/5% MSCI Emerging Markets/8% Russell 2000 (lagged one quarter)/13% Barclays Capital Aggregate/4% Barclays Capital High Yield/7% S&P/LSTA Levered Loan Index + 250 basis points (lagged one quarter)/2% Bloomberg Commodity Index/5% Multi-Asset Class Custom Index/9% NCREIF ODCE (lagged one quarter)

Note: Interim SAA Policy includes proration of 3% Private Debt and 1% Real Estate which are unfunded. Recently approved Strategic Asset Allocation Policy effective April 1, 2015.

9. Presentation, Discussion, and Appropriate Action Regarding IMD Activities and Asset Class Committee Reports

Mr. Polen provided the Committee with the ongoing activities of the IMD, noting all Public and Private Market meetings have now been combined to ensure the IMD works as a team as opposed to separate teams for each area of investments. He advised the Committee the performance system for equity portfolios is now largely complete and includes returns based with Capital Asset Pricing Model (CAPM) related statistics, Brinson style attribution analysis, and holdings based analysis using Barra factors. Other recent accomplishments included internal equity improvements such as optimizing cash and equitization processes, research conducted related to index changes to identify improved trading strategies for name changes. In addition, July preliminary reports indicate all internal equity portfolios performed with positive excess returns.

10. Presentation, Discussion, and Appropriate Action Regarding Workgroup Reports

Mr. Glass presented the Committee with a detailed explanation of the attribution and performance analysis at the Total Public Equity level, Asset Class, Sub-asset Class and manager specific levels. As noted in the prior agenda item, the Equity Performance System includes returns based with CAPM related statistics, Brinson style attribution analysis and holdings based analysis using Barra risk factors.

11. Request for Future Agenda Items

There were no requests for future agenda items.

12. Call to the Public

No members of the public requested to speak.

13. Adjournment

The meeting adjourned at 5:43 p.m.

Respectfully submitted,

ARIZONA STATE RETIREMENT SYSTEM

SIGNED COPY ON FILE
Gloria Montiel _____ Date
Investment Committee Administrator

SIGNED COPY ON FILE
Karl Polen _____ Date
Chief Investment Officer