



# 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, October 26, 2015  
2:30 p.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met at 3300 N. Central Avenue, 14<sup>th</sup> Floor, Phoenix, AZ 85012. Mr. Tom Connelly, Chair, called the meeting to order at 2:42 p.m.

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

Present: Mr. Tom Connelly, Chair  
Prof. Dennis Hoffman, Vice-chair  
Mr. Robert Wadsworth

A quorum was present for the purpose of conducting business.

Also in attendance was Board Trustee Dr. Richard Jacob.

### 2. Approval of Minutes of the August 24, 2015 Investment Committee Meeting Minutes

**Motion:** Prof. Dennis Hoffman moved to approve the minutes of the August 24, 2015 public meeting. Mr. Tom Connelly seconded the motion.

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

### 3. Presentation, Discussion, and Appropriate Action Regarding the Methods and Possible Impacts of Various Possible Federal Reserve Policy Actions

Mr. Gary Dokes, Chief Investment Officer, opened up the meeting with an explanation of the agenda item. He noted the topic of discussion would focus on the Federal Reserve and the anticipated effects of the Global Economy as interest rates switch to normalization. He further introduced keynote speakers, Dr. Stuart G. Hoffman, Chief Economist with The PNC Financial Services Group; Ian MacFarlane, Chief Strategist with BCA Research; and Patrick Dimick, Senior Portfolio Strategist with Bridgewater Associates, each whom gave their perspective.

Dr. Hoffman introduced himself to the Committee and provided a brief description of his background history and experience. He noted his views on the market and advised the Committee the U.S. economy is in a better state relatively due to the American consumer who is delevered with higher income, lower gas prices, and a continued decrease in the unemployment rate. He further provided trends from a global standpoint, manufacturing, and the housing market. Dr. Hoffman stated he foresees the Federal Rate normalizing in the next 3-4 years, largely in part to the current conditions.

Mr. Dokes solicited Dr. Hoffman's perspective on the Phillips curve, the historical inverse relationship between rates of unemployment and the corresponding rates of inflation that result in an economy. Dr. Hoffman stated he is not a big believer in the Phillips curve, PNC Financial Services Group has a macro model they run when there is a slack in the economy. He stated he felt inflation is largely due to demand and growth within the economy, not an increase in wages.

Mr. MacFarlane provided his perspective on the global economy, noting income inequality as a major factor of growth in the economy. He noted a global slowdown has occurred due to the slowdown in China. He further elaborated on the effects of secular stagnation on the U.S. economy, noting the rise in inequality as a contributing factor of the adverse impact on domestic demand.

Mr. Dimick addressed the Committee with his perspective of the Federal Reserve interest rates and BCA's methodology behind the Federal Reserve's next move to more than likely be a monetary easing vs. a monetary tightening. He noted the current interest rate set by the Federal Reserve is an unwinding of the debt levels incurred prior to 2008, so lowering debt levels relative to income generally takes a decade or two; therefore, it is normal for the Federal Reserve to set the interest rate as low as it has been over a longer period of time.

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

Mr. Dokes provided the Committee with an explanation of the general structure of his CIO Report to assist new IC Trustee, Robert Wadsworth, with an understanding of the materials referenced in the IC packet. He stated the report provides information on the ASRS Fund Positioning, activities of the Asset Class Committees, the Investment Management Division's (IMD) perspectives on the market, as well as ongoing activities and projects within IMD.

#### **5. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight of the ASRS Investment Program – Includes Total Fund and Investment Performance Report Q2-15**

Mr. Allen Martin, NEPC Consultant, provided the Committee with a brief overview of their oversight of the ASRS Investment Program. Mr. Martin noted as of October 8, 2015, the Total Fund's market value is approximately \$33.7 billion. Mr. Martin confirmed staff has operated the portfolio within policy ranges, and the over-weights and under-weights of each asset class in the CIO Report are consistent with NEPC's analysis.

#### **6. Presentation, Discussion, and Appropriate Action Regarding the Supplemental Retirement Savings Plan (SRSP)**

Mr. Paul Matson, Director, provided the Committee with a brief overview of the SRSP. He noted the plan is a Defined Contribution plan with a structured fixed contribution rate. The SRSP came into existence as the savings vehicle for the Modified Deferred Retirement Option Plan (MDROP) enacted in 1999. The ASRS soon after determined the MDROP was not a sustainable plan and consequently initiated legislation to repeal authorization for the MDROP plan and as a result, the SRSP remained as an optional tax deferred compensation vehicle for members to use to supplement their retirement savings.

**7. Presentation, Discussion, and Appropriate Action Regarding the Supplemental Salary Deferral Plan (SSDP)**

Mr. Matson addressed the Committee with detailed information regarding the SSDP. The SSDP Plan is tax deferred retirement plan, which consists of a 403(b) and 457 plan, that is offered to teachers and other non-state employees as a supplement to the ASRS Defined Benefit (DB) Plan. Mr. Matson advised the Committee the plan has a total asset value of approximately \$15 million and 649 employees. He further mentioned the SSDP administrator's services agreement currently with TIAA-CREF has been awarded to Nationwide Retirement Solutions through a Request For Proposal (RFP) process that occurred earlier this year. Member account balances will, where possible, be transferred and mapped to similar investment options currently offered through the ASRS SRSP Plan.

**8. Request for Future Agenda Items**

Mr. Connelly asked that IMD share what they concluded from the various presentations and what additional research and actions, if any, should be considered.

**9. Call to the Public**

No members of the public requested to speak.

**10. Adjournment**

The meeting adjourned at 4:31 p.m.

Respectfully submitted,

ARIZONA STATE RETIREMENT SYSTEM

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Gloria Trujillo Date  
Investment Committee Administrator

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Gary R. Dokes Date  
Chief Investment Officer