



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, February 28, 2014
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. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:33 A.M., Arizona Time.

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

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Mike Smarik, Vice-chair
Mr. Marc Boatwright (via teleconference)
Mr. Tom Connelly
Professor Dennis Hoffman (arrived at 8:37 A.M.)
Dr. Richard Jacob
Mr. Kevin McCarthy
Mr. Brian McNeil
Mr. Jeff Tyne

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the January 24, 2014 Public Meeting of the ASRS Board

Motion: Mr. Kevin McCarthy moved to approve the minutes of the January 24, 2014 Public Meeting of the ASRS Board. Mr. Mike Smarik seconded the motion.

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

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

Professor Dennis Hoffman arrived.

Mr. Gary Dokes, Chief Investment Officer, addressed the Board regarding the ASRS Investment Program Updates for the period ending January 31, 2014, highlighting specific areas of interest and concern. Mr. Dokes presented the Investment Management Division's (IMD) Investment House Views and provided an update on recent IMD activities.

4. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program

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 2013.

The Total Fund Performance for the period ending December 31, 2013 is:

| | Quarter | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception (6/30/75) |
|--------------------|---------|--------|---------|---------|----------|------------------------------|
| Total Fund | 5.5% | 17.9% | 10.5% | 13.5% | 7.1% | 10.0% |
| Interim SAA Policy | 5.5% | 16.9% | 10.2% | 13.2% | 6.9% | 9.8% |
| Excess Return | 0.0% | 1.0% | 0.3% | 0.3% | 0.2% | 0.2% |

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

5. Presentation, Discussion, and Appropriate Action Regarding the 2014 Legislative Session

Mr. Patrick Klein, Assistant Director, External Affairs, introduced Mr. Nicholas Ponder, Government Relations Officer. Mr. Klein and Mr. Ponder presented the Bill Tracker, which summarizes ASRS 2014 legislative initiatives as well as other bills affecting the ASRS.

Mr. Marc Boatwright departed the meeting at 9:39 A.M.

Mr. Ponder noted:

- HB 2017 (ASRS; §38-955 Defined Contribution Plan): The bill makes technical changes to the Plan and has been referred to the Senate Finance Committee.
- HB 2018 (ASRS; In-service distributions): The bill makes changes to ensure employees have at true break in service, of at least 30 days, between the time they retire and the time they return to work for any ASRS employer. The bill is on hold until the IRS provides final guidance on normal retirement age definitions.
- HB 2050 (ASRS membership; Section 218 requirements): This bill would eliminate the requirement that members must be covered by an employer's Social Security Section 218 Agreement and would not allow those already contributing to Social Security to opt out. The bill is expected to move forward.
- SB 1082 (ASRS; Employee background checks): The bill would allow the ASRS to perform background checks on current and prospective employees. It has been referred to the House.

The following Senate bills passed out of the Senate, and have since been passed out of the House Insurance Retirement Committee and will go on the consent calendar:

- SB 1083 (ASRS; Applicable Interest Rate; definition): The bill makes technical conforming changes.
- SB 1084 (ASRS; LTD Compensation): The bill clarifies how the ASRS calculates compensation for LTD benefits.

Mr. Ponder noted SB 1085 (ASRS; LTD program) appears to be dead. It would possibly have changed the income replacement ratio for those on LTD from 66 2/3% to 60% after 24 months of disability.

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

- HB 2039 (Charter schools; higher education sponsors): This bill expands the list of charter schools eligible to participate in the ASRS and designated as political subdivisions to include charter schools sponsored by universities, community college districts and groups of community college districts, retroactive to July 1, 2013. The bill passed through the House to the Senate Finance Committee.
- HB 2049 (Retirement plans; compensation; definition): The bill would have changed the definition of what qualifies for compensation for purposes of calculating pension. The bill is dead.
- HB 2056 (Retirement; return to work): The bill would not allow a member who is receiving an ASRS pension to be employed by an ASRS employer. The bill is dead.
- HB 2058 (Public pensions; limit on compensation): The bill implements a cap of \$150,000 on earnings which can be used to determine contributions to an employee's pension, prospectively. HB 2212 was added as an amendment (more details were provided on HB 2212 later in the discussion). The ASRS is neutral on this bill, which was referred to the Senate Finance Committee.
- HB 2060 (PSPRS oversight; rulemaking; procurement): The PSPRS Board is no longer exempt from the Administrative Procedures Act or the Arizona Procurement Code. An amendment was added to this bill to include the ASRS, indicating the ASRS would not be required to go through the procurement process to obtain investment related goods or service and investment related legal services. The House Committee of the Whole (COW) approved it; it subsequently failed the House on third read. Rep. Kavanaugh voted against it should he decide to bring it back; the bill has not yet been brought back.
- HB 2069 (ASRS, Political Subdivision Entities): Employees of Political Subdivision Entities hired on or after a certain date are excluded from ASRS membership. The amendment provided in the COW indicates an employee who is currently a member of ASRS and becomes employed with a political subdivision entity will maintain their membership in the ASRS. The bill will be third read next week, but may be held until there are enough votes.
- HB 2090 (Defined contribution retirement plans; option): The bill would have allowed employees who are not active, inactive, disabled. Or retired members of the Plan or System to execute a DB Plan opt-out within 30 days of employment and join a DC Plan instead. The bill is dead.
- HB 2122 (ASRS; election; EORP defined contribution): The bill requires a state elected official who was elected or appointed before December 31, 2103, and who is a member of the ASRS to remain in the ASRS without the necessity of a written election.
- HB 2212 (ASRS; Employer termination incentive program): The bill requires elected officials who were previously members of ASRS to rejoin ASRS, and not have the option to participate in the EORP DC Plan.
- HB 2292 (Technical correction; defined contribution plan): The bill would have made minor technical changes relating to the ASRS and public officers and employees. The bill is dead.
- HB 2552 (Retirement, return to work, restrictions): The bill would prohibit any employee from returning to work with an ASRS employer as a leased or contracted employee unless they wait 365 days from their date of termination of employment. The bill is dead.
- SB 1240 (Striker): The bill states an employer that is a school district or charter school cannot contract or lease a retired member within 365 days of that member's retirement date. The bill passed through the Senate Education Committee; bill has not been voted on by the whole Senate.
- HCR 2001 (Public retirement systems): The bill would have attempted to place on the ballot an amendment to the state constitution, which currently indicates benefits cannot be

impaired or diminished, to say impaired or diminished does not mean contribution rates cannot be increased and pension benefits cannot be decreased. The bill appears to be dead.

- SCR 1004 (Technical correction; state lands; price): The bill proposes a minor technical correction regarding state trust lands. It is an apparent striker and is on hold, not to be voted on in this session.
- HB 2203 (ASRS; PSPRS; Board membership): The bill would have changed the construct of the current ASRS and PSPRS Boards of Trustees. The ASRS has been removed from this bill and is now neutral regarding the bill. The bill is on the House COW calendar for next week.

Mr. Brian McNeil departed the meeting at 9:55 A.M.

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS General Investment Consultant Request For Proposal Number ASRS14-00003622

Motion: Mr. Tom Connelly moved to go into executive session to discuss or consider records exempt by law from public inspection relating to agenda item #6 and to receive legal advice regarding the *Kenneth Fields vs. Elected Officials' Retirement Plan* Decision agenda item #7. Professor Dennis Hoffman seconded the motion.

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

The Board recessed from the public meeting at 9:56 A.M. for the purpose of going into executive session.

7. Presentation and Discussion Regarding Update on Retirement System Litigation including *Kenneth Fields vs. Elected Officials' Retirement Plan* and *Bonnie Pendergast vs. Arizona State Retirement System* Decisions (if Decisions are available at time of meeting)

The Board went into executive session, as noted above in agenda item #6. The *Bonnie Pendergast vs. Arizona State Retirement System* Decision was not yet available.

Mr. Kevin McCarthy temporarily departed the meeting when the executive session ended. The Board returned to the public meeting at 10:51 A.M.

Motion: Mr. Tom Connelly moved to accept the recommendation of the evaluation committee for the General Investment Consultant Request For Proposal number ASRS14-00003622. Professor Dennis Hoffman seconded the motion.

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

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

Mr. Matson noted the Director's Report was included in the Board materials. He had no comments on the report and there was no discussion.

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

a. Operations and Audit Committee (OAC)

Mr. Jeff Tyne, Chair, said the next OAC meeting will be held on April 30, 2014.

b. Investment Committee (IC)

Mr. Tom Connelly, Chair, said the next IC meeting will be held on April 21, 2014. Asset class presentations, ASRS Investment Program Updates, and the State Street Risk Report will be discussed.

Mr. Kevin McCarthy returned to the meeting.

c. External Affairs Committee (EAC)

Mr. Kevin McCarthy said the next EAC meeting will be held on March 14, 2014; legislation will be discussed.

10. Board Requests for Agenda Items

No requests were made.

11. Call to the Public

No members of the public requested to speak.

12. The next ASRS Board meeting is scheduled for Friday, February 28, 2014, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

13. Adjournment of the ASRS Board

Mr. Tom Manos adjourned the February 28, 2014 Board meeting at 10:55 A.M.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Administrator

Date

Paul Matson
Director

Date