



# 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 schedule 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