



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, March 25, 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 8:32 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. Clark Partridge
Professor Dennis Hoffman
Mr. Lorenzo Romero
Dr. Richard Jacob
Mr. Robert Wadsworth
Mr. Tom Connelly (via teleconference)
Mr. Tom Manos (via teleconference)

Absent: Mr. Jeff Tyne, Vice Chair

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the February 26, 2016 Public Meeting of the ASRS Board

Motion: Mr. Clark Partridge moved to approve the Minutes of the February 26, 2016 Public Meeting of the ASRS Board. Dr. Richard Jacob 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 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** – The ASRS worked with legislative counsel on amending the language which was offered that will allow elected and appointed public officials who are retired from the ASRS to return to work without having their pension suspended. The bill passed through the Senate March 15, 2016, and has been forwarded back to the House for a final reading.
- **HB2159: ASRS; Rulemaking Exemption** – This bill was dual assigned to the Senate Finance Committee and the Senate Government Committee. Mr. Ponder met with the chairs of both Committees who agreed to put this on their agendas; in addition, Mr. Ponder met with each member of the Committees in an attempt to secure their support for the bill. It has passed both Committees and is waiting for a third read in the COW.
- **HB2160: ASRS; Eligible Rollovers** – This bill passed through the Senate and is awaiting its third read in the COW.
- **SB1037: ASRS; Board Delegation; Benefit Determinations** – This bill passed through the Government and Higher Education Committee March 3, 2016, and is awaiting its third read in the COW.
- **SB1038: ASRS; Reinstatement; Contribution Amount** – This bill passed through the Government and Higher Education Committee March 3, 2016, and is awaiting its third read in the COW.
- **SB1144: ASRS; Contributions; Adjustments** – This bill passed through the Government and Higher Education Committee March 3, 2016, and is awaiting its third read in the COW.
- **SB1151: ASRS; Continuation** – This bill passed through the House Government and Higher Education Committee March 3, 2016, and is awaiting its third read in the COW.
- **HB2243: ASRS; LTD Program Liability** – This bill did not get approved by the House.

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

- **HB2115: Public Employees; Misappropriation; Penalty** – Initially, the offered amendment removed the term “pension benefits”; however, retained the term “annuity payment.” Although it was not the intent to interpret annuity as pension, the bill sponsor acknowledged how it could be interpreted as such and an amendment was offered when the bill was presented to the Senate Judiciary Committee, striking the annuity language. This bill is awaiting its third read in the COW.
- **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. By April 1 of each year, each “public fund” (defined as the State Treasurer or a retirement system) is required to prepare a list of "restricted companies" (defined as companies that boycott Israel) and provide a copy of the list on request. The State Treasurer and each retirement system are required to sell, redeem, divest or withdraw all direct holdings of a restricted company from the assets under their management in an orderly and fiducially responsible manner within three months after preparing the list. An amendment was offered in the Senate Finance Committee to require the retention, rather than the publication, of a list of all known companies who are boycotting Israel. This bill passed through the Senate, was returned back to

the House and the House concurred with the Senate amendments. The Governor signed the bill on March 17, 2016.

Based on questions from the Board, a discussion took place with regards to the ability to compile a list, which Mr. Ponder stated would be a challenge due to the legal liability. It becomes more complicated due to the list being reviewed and updated only once per year. It is not clear whether the ASRS could potentially be in violation if a company the ASRS is in business with that is not on the list as of April 1 but boycotts Israel at some point during the year and it is not known to the ASRS until the next review. There are still some questions left to be answered.

- **HB2666: Governor's Economic Opportunity Office; Consolidation** – This bill creates the Governor's Economic Opportunity Office (GEOO). It creates the Arizona Finance Authority (AFA) with the GEOO. The AFA would establish a non-profit corporation, the Arizona Industrial Development Authority (AIDA). A proposed amendment would allow any current ASRS participants who become employed with AIDA as a result of the bill, but not future employees of AIDA, to continue participation in the ASRS. An amendment was offered in the Senate Commerce and Workforce Development Committee and passed. It also passed through the Senate Finance Committee and is awaiting the COW for its third reading. It will then need to go back to the House for the House to concur with the amendments that were offered in the Senate.
- **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 does not prevent leasing tenants within a public building to create signage outside their offices that would prohibit weapons within their office. There are two changes from last year's bill. One change is an added exemption for State and County Municipal and Judicial Departments and Correctional Facilities. The second change is the removal of the exemption of special healthcare district facilities. This bill passed through the House Judiciary Committee on March 16, 2016, and is awaiting its third read in the COW.

4. Presentation, Discussion, and Appropriate Action Regarding the Board Governance Policy Handbook Annual Responsibilities Review

Mr. Paul Matson provided a brief overview of the Board Governance Policy Handbook Annual Responsibilities and noted that the Board, the Committees and the Director have met substantially all of the objectives in the Governance Handbook and completed all required tasks. Mr. Matson also highlighted a typographical error contained on page 1, #5 of the report, indicating the second to the last line should read, "December 31, 2019" not "December 31, 2020." The same error is contained on page 14, #11 of the report, in the second to the last line of the page.

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

Mr. Paul Matson introduced Mr. Karl Polen, the new Chief Investment Officer (CIO). Mr. Polen was previously the Real Estate Portfolio Manager and Private Equities Portfolio Manager. Mr. Matson stated that Mr. Polen's expertise and knowledge made him the ideal candidate to fill the CIO position. Mr. Matson noted that there will be significant investment engagement with himself, Mr. Polen, Mr. Tom Connelly, Chairman of the Investment Committee, and Mr. Allan Martin with NEPC, to ensure investment ideas are explored and implemented in a timely fashion when appropriate.

Mr. Matson responded to Prof. Dennis Hoffman's request to provide an update on the fiscal year-to-date investment returns.

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

a. Operations and Audit Committee (OAC)

Mr. Clark Partridge announced the next OAC meeting will be held on April 12, 2016 at 10:30 a.m. in the 14th floor conference room to discuss internal audits, long term disability contract award recommendations and the external IT risk assessment.

b. External Affairs Committee (EAC)

Dr. Richard Jacob announced the next EAC meeting will be held on April 8, 2016 at 10:30 a.m. in the 14th 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 14th floor conference room and the draft agenda is still in progress.

7. Board Requests for Agenda Items

No requests were made.

8. Call to the Public

No one from the public requested to speak.

9. The next regular ASRS Board meeting is scheduled for Friday, April 29, 2016, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

The Board took a recess from 9:14 a.m. to 9:24 a.m. to transition to the 14th floor conference room for the final agenda topic to be held in executive session.

Mr. Tom Manos adjourned from the meeting prior to Agenda Item #10 and did not participate in the discussion.

10. Presentation, Discussion, and Appropriate Action Regarding the 2015 review of the Director of the ARS

Motion: Dr. Richard Jacob moved to go into Executive Session for the purpose of the Director's review. Prof. 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 convened to Executive Session at 9:24 a.m.

The Board reconvened to Public Session at 9:30 a.m.

11. Adjournment of the ASRS Board

Motion: Mr. Clark Partridge moved to adjourn the March 25, 2016 Board Meeting at 9:31 a.m. Prof. Dennis Hoffman seconded the motion.

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

ARIZONA STATE RETIREMENT SYSTEM

Melanie A. Alexander
Board Administrator

Paul Matson
Director