



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, May 27, 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. Jeff Tyne, Vice-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. Jeff Tyne, Vice Chair
Mr. Clark Partridge
Professor Dennis Hoffman
Mr. Lorenzo Romero
Dr. Richard Jacob
Mr. Robert Wadsworth
Mr. Tom Connelly

Absent: Mr. Kevin McCarthy, Chair
Mr. Tom Manos

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the April 29, 2016 Public Meeting and Executive Sessions of the ASRS Board

Motion: Prof. Dennis Hoffman moved to approve the Minutes of the April 29, 2016 Public Meeting and Executive Sessions of the ASRS Board. Mr. Tom Connelly seconded the motion.

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

3. Presentation, Discussion, and Appropriate Action Regarding the 2016 ASRS Legislative Initiatives and Legislative Update

Mr. Patrick Klein, Assistant Director, External Affairs Division, and Mr. Nick Ponder, Government Relations Officer, provided a brief wrap-up to the Board regarding the 2016 Legislative session. Mr. Ponder advised the Board he was unable to have the Annual Legislative Handbook

completed because some of the bills haven't been chaptered yet. Therefore, he prepared a one sheet summary for review.

Mr. Ponder reviewed the status of the following ASRS bills:

- **HB2104: ASRS; Retention of Service Credit** – Passed and signed. Effective Date: May 18, 2016.
- **HB2159: ASRS; Rulemaking Exemption** – Passed and signed. Effective Date: August 6, 2016, but retroactive to January 1, 1987.
- **HB2160: ASRS; Eligible Rollovers** – Passed and signed. Effective Date: August 6, 2016.
- **HB2243: ASRS; LTD Program; Liability** – Failed to pass.
- **SB1037: ASRS; Board Delegation; Benefit Determinations** – Passed and signed. Effective Date: August 6, 2016.
- **SB1038: ASRS; Reinstatement; Contribution Amount** – Failed to pass.
- **SB1144: ASRS; Contributions; Adjustments** – Failed to pass.
Note: The failure to pass SB1038 and 1144 will not affect the ASRS operation and can be submitted through a subsequent legislative session if the Board is so inclined. These two bills were to clarify language that is currently in statute.

Mr. Ponder reviewed the status of the following bills impacting the ASRS:

- **HB2157: ASRS; Political Subdivision Entities** – Failed to pass.
- **HB2237: Retirement; Return to Work; Restrictions** – Failed to pass.
- **HB2583: Open Meetings; Audiovisual Recordings** – Failed to pass.
- **HB2617: Israel; Boycotts; contracts; Investments** – Passed and signed. Effective Date: August 6, 2016.
- **HB2703: Budget, BRB; Government; FY2016-17** - Passed and signed. Effective Date: August 6, 2016.
- **HCR2040: State Monies; Prohibited Investments; Terrorism** – Failed to pass.
- **SB1151: ASRS; Continuation** – Passed and signed. Effective Date: August 6, 2016, but retroactive to January 1, 2016.
- **SB1257: Misconduct Involving Weapons; Public Places** – Failed to pass.

Mr. Ponder concluded with a summary of Proposition 124, which included SB1428, SB1429 and SCR1019 regarding PSPRS modifications. This bill passed and was signed with an effective date of August 6, 2016; however, the changes in membership tiers will not begin until July 1, 2017. The Board asked if there was any impact to the ASRS with the passing of this bill and Mr. Ponder stated he did not believe there would be. Ms. Jothi Beljan, Assistant Attorney General, assured the Board that the amendment effective May 17, 2016, to the Arizona Constitution, Article XXIX, does not affect the ASRS in any way.

4. Presentation, Discussion, and Appropriate Action Regarding Strategic Topics to be Discussed by the Board During Fiscal Year 2017

Mr. Paul Matson, Director, opened the discussion by indicating he did not expect the Board to make a motion on the list of strategic topics today. Mr. Matson's expectation was for the Board

to review the list and provide input, which would then be added to the list of current topics and brought back to the Board at the June 24, 2016; meeting at which time the Board would make a motion to approve the list of strategic topics.

Mr. Matson provided a summary of each topic and responded to questions from the Board. Mr. Matson also indicated he would like to add a topic regarding the Director's perspective on ASRS programs, plans and the retirement landscape. Mr. Clark Partridge asked that the topic of ASRS succession planning also be added to the list.

5. Notification of Upcoming Board Elections to Occur at the June 24, 2016 Board Meeting

Mr. Jeff Tyne announced the upcoming Board elections to occur at the June 24, 2016, Board Meeting.

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

Mr. Paul Matson made the following announcements:

- The ASRS is currently undergoing its LTD vendor transition which is going smoothly. Aside from the lower cost, it appears there will be some good initiatives coming out of this change.
- There is currently a statewide RFP for the Deferred Compensation Plan (457 Plan) in progress. The current contract expires this summer. The ASRS is in the process of working with the State to ensure the two programs the ASRS offers as a separate entity, the SSDP and SRSP, are bundled with the State's Deferred Compensation Plan. It will be easier to understand which contract they are talking about, will possibly have better pricing and less confusion. The ASRS is working with the vendor on an extension of the current contract until the negotiations can be completed in the integration of the plans.
- The Arizona Department of Administration (ADOA) recently conducted a staff engagement survey for each agency.
- The ASRS is in the process of conducting its own survey of staff regarding leadership and communication which is conducted every two years.
- An update on the fiscal year-to-date investment returns was provided.

7. 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 today, immediately following the Board meeting in the 14th floor conference room to discuss internal/external audits, the retiree medical and dental insurance renewals, analysis of benefit estimates versus actual retirement annuities and the recent retiree survey results.

b. External Affairs Committee (EAC)

Dr. Richard Jacob announced the next EAC meeting will be held on September 9, 2016 at 10:30 a.m. in the 14th floor conference room and will focus on the upcoming legislative and rule making agendas.

c. Investment Committee (IC)

Mr. Tom Connelly announced the next IC meeting will be held on June 20, 2016 at 2:30 p.m. in the 14th floor conference room to discuss portfolio positioning, the second quarter performance, risk monitoring, fixed income asset class presentation, and recommendations from the compliance working group, the multi-asset class working group, and the performance measurement working group.

8. Board Requests for Agenda Items

No requests were made.

9. Call to the Public

A member of the public, Mr. Brent Fine, requested to address the Board on behalf of himself and the Arizona State Employee and Retirees Association. Mr. Fine shared his concerns regarding the future of the ASRS in light of the passing of Proposition 124 and the current State hiring freezes. Mr. Fine stated that he was concerned with the notations in the Director's Report regarding staffing and the vacancies in IT security which he believes is caused by the statewide hiring freeze.

Mr. Tyne thanked Mr. Fine for his comments and invited him to review past minutes of the Operations and Audit Committee meetings which cover many of the topics Mr. Fine shared his concerns about today. Mr. Matson also commented that IT security positions are extremely difficult to fill and the vacancies are not caused by the statewide hiring freeze. In conclusion, Mr. Clark Partridge pointed out that the staffing report Mr. Fine was referencing indicates that there are recruitment efforts currently underway for the vacant IT security positions.

10. The next regular ASRS Board meeting is scheduled for Friday, June 24, 2016, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

11. Presentation, Discussion, and Appropriate Action Regarding *Mary Wade and Marla Paddock v. Arizona State Retirement System* Arizona Court of Appeals Opinion

Motion: Mr. Tom Connelly moved to approve the ASRS filing of a Petition for Review in this case. Dr. Richard Jacob seconded the motion.

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

Mr. Jeff Tyne announced there would be a 10 minute recess while the meeting moved to the 14th floor conference room for the final agenda topic. Prior to moving the meeting to the 14th floor conference room, the following motion was made to move the final agenda item to executive session.

12. Presentation and Discussion Regarding Trustee Fiduciary Education

Motion: Dr. Richard Jacob moved to go into executive session for the purpose of discussion and consultation for legal advice with the attorney of the public law. 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 executive session moved to the 14th floor conference room.

The Board convened to Executive Session at 9:34 a.m.

13. Adjournment of the ASRS Board

Mr. Tyne adjourned the public meeting and executive session at 11:11 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Signed Copy on File
Melanie A. Alexander
Board Administrator

Signed Copy on File
Paul Matson
Director