



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, June 20, 2016
2:30 p.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met at 3300 N. Central Avenue, 14th Floor, Phoenix, AZ 85012. The meeting was also teleconferenced to the ASRS office at 4400 E. Broadway Boulevard, Suite 200, Tucson, Arizona 85711.

Mr. Tom Connelly, IC Chair, called the meeting to order at 2:35 p.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Connelly, Chair
Mr. Lorenzo Romero
Mr. Robert Wadsworth

Absent: Prof. Dennis Hoffman

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the February 22, 2016 and April 25, 2016 Investment Committee Meeting Minutes

Motion: Mr. Robert Wadsworth moved to approve the minutes of the February 22, 2016, and April 25, 2016, public meetings. Mr. Lorenzo Romero seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstention, and 1 excused, the motion was approved

3. Presentation, Discussion, and Appropriate Action Regarding the ASRS House Views and General Discussion

Mr. Karl Polen, Chief Investment Officer, introduced himself to the Committee and provided a brief overview of the overweights and underweights of various asset classes. He then turned the meeting over to ASRS Portfolio Managers to provide their perspectives on the market and an update on their respective asset classes.

Mr. Cole Smith, Portfolio Manager of Equities, presented on the portfolio positioning and House Views relating to U.S. Equities and non U.S. Equities. Mr. Al Alaimo, Sr. Portfolio Manager of Fixed Income, Cash and Liquid Alternatives, presented on the portfolio positioning and House Views relating to Fixed Income. Mr. Micheal Copeland, Assistant Portfolio Manager of Real Estate, presented on the portfolio positioning and House Views relating to Real Estate, and Mr.

Polen closed the discussions with a presentation on the Private Equity and Commodities asset classes.

Mr. Connelly offered general comments relating to the new format changes to the investment reports and House Views presented, and solicited additional information to better understand the portfolio positioning and deviations from the benchmark. Mr. Polen provided an overview of the thought process and reasoning behind the changes. Mr. Matson, Director, further explained House Views are presented at each IC as a means of communication to give Trustees an insight on the ongoing activities within the Investment Management Division (IMD). The ASRS sees the importance of these materials and will continue to provide them to ensure Trustees have a clear understanding of their tactical views on the market and investment decisions.

4. Presentation, Discussion, and Appropriate Action Regarding the Portfolio Position and Performance

Mr. Polen briefly introduced the topic of discussion to the Committee and noted since a large amount of the materials provided for this agenda had already been discussed in the prior agenda item, Trustees could refer to the materials provided in their packet for additional information.

5. Presentation, Discussion, and Appropriate Action Regarding Investment Compliance Review and Risk Management Reporting

Ms. Lupita Breland, Senior Portfolio Analyst, presented a review of the various investment compliance programs currently in place for the ASRS's public and private investments. Ms. Breland mentioned this is the first Independent Investment Compliance Report presented to the IC, then proceeded to provide an overview of the Pre-Trade Compliance Program for the internally managed Equities and Fixed Income portfolios, which are managed by the IMD using the Compliance & Audit functions of the Bloomberg Trade Order Management System.

Mr. Dan Gillespie, Vice President and Unit Head of the State Street Compliance Group, presented the results of the Daily Investment Compliance Program for the internally and externally managed portfolios, which is done on a post-trade basis for the months of January-April 2016. Mr. Gillespie noted since the Program has been in place, all of the exceptions have been researched and resolved to both State Street's and the IMD's satisfaction. Mr. Gillespie also presented the results of the Total Fund Monthly Statutory Investment Compliance Program for the months of January-April 2016, and noted since the program has been in place, the ASRS has passed all tests with results well below the statutory requirements.

Mr. Rick Pollack, Vice President of RCLCO Real Estate Advisors, presented the results of the 2014, Real Estate Separate Account Investment Compliance Review. Mr. Pollack noted the compliance review process was instructive and ensured all parties met operating agreement requirements and ASRS standards. The 2015, compliance review process is underway and expected to conclude in August 2016.

Meketa Investment Group is still in the process of reviewing the 2014, audits for the annual Commingled Fund & Non-Real Estate Separate Accounts Investment Compliance Review and is scheduled to have the review completed by July 31, 2016, and will present to the IC in August 2016. No representatives from Meketa were present at the meeting, the overview was provided by Ms. Breland.

Mr. Kien Trinh, State Street Investment Analytics, presented the State Street Risk Report. He discussed the monthly reallocation summary, month-end risk profile and total plan overview

exposure. He noted historical risk for most asset classes reported a slight up-tick from prior months, which were reflective of the increasingly volatile market. In aggregate, the Total Plan risk increased 19 basis points, which was primarily driven by the allocation shift of \$740 million from U.S. Equity to non U.S. Equity.

6. Presentation, Discussion, and Appropriate Action Regarding IMD Activities and Asset Class Committee Reports

Mr. Polen provided the Committee with an overview of the completed reorganization of the IMD. The reorganization entailed the appointment of Mr. Eric Glass as the Senior Portfolio Manager of Equities and Real Estate, who will oversee Public Equities, Private Equities, Commodities and Real Estate. Mr. Al Alaimo, will oversee Fixed Income, Cash and Liquid Alternatives, and Ms. Kerry White, Assistant Chief Investment Officer, will oversee compliance reporting, legal and the administrative efforts of the IMD department. In addition, starting with the June 24, 2016, meeting, the Public Markets Committee will meet monthly in a joint session with the Private Markets Committee. Mr. Polen ended the discussion with a highlight of the portfolio cash optimization and investment accomplishments as referenced in the IC packet materials.

7. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight of the ASRS Investment Program – Includes Total Fund and Investment Performance Report Q1-16

Mr. Allan Martin, NEPC Partner, provided the Committee with a brief overview of the fund performance as of March 31, 2016, and provided a detailed explanation of the ASRS investment objectives, performance and the compliance of the fund in accordance with the SAA policy.

Performance results: (as of March 31, 2016)

- 7.4% (20-year annualized net return) vs. 8.0% (actuarial assumer interest rate.)

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception
Total Fund	1.4%	0.0%	6.7%	7.1%	5.7%	9.7%
Interim SAA Policy*	1.4%	-1.4%	5.4%	6.2%	5.4%	9.4%
Excess Return	0.0%	1.4%	1.3%	0.9%	0.3%	0.3%

***Interim SAA Policy:** 21% S&P 500/3% S&P 400/3% S&P 600/18% MSCI EAFE/2% MSCI EAFE Small Cap/5% MSCI Emerging Markets/8% Russell 2000 (lagged one quarter)/15% Barclays Capital Aggregate/4% Barclays Capital High Yield/6% S&P/LSTA Levered Loan Index + 250 basis points (lagged one quarter)/8% NCREIF ODCE (lagged one quarter)/2% Bloomberg Commodity Index/5% Multi-Asset Class Custom Index

Note: Interim SAA Policy includes proration of 2% Real Estate and 4% Private Debt which are unfunded. Real Estate was prorated to equity and fixed income; Private Debt was prorated to fixed income. Recently approved Strategic Asset Allocation Policy effective April 1, 2015.

8. Presentation, Discussion, and Appropriate Action Regarding Working Group Reports

Due to timing matters, the IC felt it was necessary to review agenda item #9 prior to agenda item #8 to ensure all required staff were available for the discussion.

Mr. John Doran, Assistant Portfolio Manager of Cash and Liquid Alternatives, presented to the IC the results of the analysis of the Multi-Asset Class. Due to proprietary information relating to Bridgewater's investment strategies that would be presented, the IC voted to go into executive session pursuant to A.R.S. § 38-431.03(A)(2) and 38-718(P) for the purpose of considering and/or discussing records exempt by law from public inspection.

Motion: Mr. Robert Wadsworth moved to go into executive session. Mr. Lorenzo seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstention, and 1 excused, the motion was approved

The Committee convened to Executive Session at 6:02 p.m.

The Committee reconvened to Public Session at 6:26 p.m.

9. Presentation, Discussion, and Appropriate Action Regarding the Real Estate Consultant Contract Award

Due to timing matters, the IC felt it was necessary to review agenda item #9 prior to agenda item #8 to ensure all required staff were available for the discussion.

Mr. Copeland presented to the Committee the findings and evaluations of the contract award for the investment real estate consultant. Due to the discussion of proprietary information relating to the Request for Proposals submitted by all potential real estate consultants, the IC voted to go into executive session pursuant to A.R.S. § 38-431.03(A)(2) and 41-2534(D) for the purpose of considering and/or discussing records exempt by law from public inspection.

Motion: Mr. Robert Wadsworth moved to go into executive session. Mr. Lorenzo seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstention, and 1 excused, the motion was approved

The Committee convened to Executive Session at 5:54p.m.

The Committee reconvened to Public Session at 6:00 p.m.

Motion: Mr. Robert Wadsworth moved to accept the recommendation of the Evaluation Committee on the ASRS real estate contract award. Mr. Lorenzo seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstention, and 1 excused, the motion was approved

10. Presentation, Discussion, and Appropriate Action Regarding the Fixed Income Asset Class Presentation

Mr. Al Alaimo, Fixed Income Portfolio Manager, provided the IC with a review of the ASRS Fixed Income Program, including the program's strategies, portfolio structure, and performance.

11. Request for Future Agenda Items

There were no requests for future agenda items.

12. Call to the Public

No members of the public requested to speak.

13. Adjournment

The meeting adjourned at 6:28 p.m.

Respectfully submitted,

ARIZONA STATE RETIREMENT SYSTEM

SIGNED COPY ON FILE
Gloria Montiel _____ Date
Investment Committee Administrator

SIGNED COPY ON FILE
Karl Polen _____ Date
Chief Investment Officer