



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, June 24, 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. Clark Partridge
Mr. Lorenzo Romero
Dr. Richard Jacob
Mr. Robert Wadsworth
Mr. Tom Connelly
Mr. Tom Manos

Absent: Mr. Jeff Tyne, Vice Chair
Professor Dennis Hoffman

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the May 27, 2016, Public Meeting and Executive Session of the ASRS Board

Motion: Dr. Richard Jacob moved to approve the Minutes of the May 27, 2016, Public Meeting and Executive Session 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 Regarding PRIDE Award for Results

The presentation of the PRIDE Award for Results was not heard and will be presented at a future Board meeting.

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

Mr. Karl Polen, Chief Investment Officer, addressed the Board regarding the ASRS investment program updates for the period ending March 31, 2016, highlighting specific areas of interest and concern. Mr. Polen presented information on the following items: ASRS Fund Positioning, Investment Management Division (IMD) Investment House Views, IMD Organization, Projects, and Asset Class Committee Activities, and the State Street Risk Report for March 31, 2016.

Mr. Polen provided the Board with the current outcome of the ASRS' portfolio based on the Brexit vote which surprised the financial market overnight.

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

Mr. Dan LeBeau, Consultant, NEPC, addressed the Board regarding NEPC's independent reporting, monitoring, and oversight of the ASRS Investment Program including Total Fund performance through March 31, 2016.

As of March 31, 2016, the Total Fund's market value was approximately \$33.7 billion.

For the one-year period ending March 31, 2016, the Total Fund returned 0.0% (net of fees), outperforming the Interim SAA Policy by 1.4%. For the three-year period, the Total Fund produced a return of 6.7% per annum, outperforming the Interim SAA Policy by 1.3%. Over the past ten years, the Total Fund has returned 5.7% per annum, and since inception, the portfolio's performance is 9.7%.

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Retiree Health Insurance Contract Renewal

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, noted that Mr. Dave King, Assistant Director, Member Services Division, lead this year's health insurance contract renewal and commended Mr. King for his efforts. Mr. Guarino turned the presentation over to Mr. King.

Mr. King opened the presentation by stating the primary focus of this year's renewal was affordability of a pre-65 health plan. Research showed that people were choosing outside sources based on cost. The past year consisted of research into the Affordable Care Act Marketplace and speaking with different healthcare vendors to find out what types of plans were being offered to pre-65 retirees. Mr. King reviewed the costs and benefits of each of the new plans to be offered. Mr. King recognized the Mercer representatives, Ms. Julie Lockwood, ASRS Program Manager and Mr. Frank Perri, ASRS Benefits Program Administrator, for the work they did with regard to evaluating the new plan offerings. Mr. King advised there would be separate marketing plans so the Medicare participants understand their plans will not be changing, as the plan changes only affect the pre-65 participants. Mr. King responded to questions from the Board.

7. Presentation, Discussion, and Appropriate Action Regarding the Analysis of ASRS Benefit Estimates Compared to Actual Annuities

Mr. Anthony Guarino introduced this topic. He noted an appeal heard by the Board at its April 29, 2016, meeting raised some questions regarding the accuracy of the ASRS' benefit estimates, at which time the Board requested staff to research the issue and report the results to the Operations and Audit Committee (OAC). Staff conducted an analysis of benefit estimates versus actual annuities and presented the results at the May 27, 2016, OAC meeting. Mr. Jeff Tyne, OAC Chair, requested the results of the analysis be shared with the Board. Mr. Guarino turned the presentation over to Mr. Brian Crockett, Sr. Strategic Planning Analyst, who performed the analysis.

Mr. Crockett opened the presentation by advising the Board the benefit estimates used for the analysis were from members applying for retirement online. Although members can obtain benefit estimates online periodically throughout their career, those estimates are generated in real time and the data is not stored; therefore, was not used for this analysis. In this analysis, 5,063 estimates were reviewed with approximately 75% being within 2% of the actual annuity paid. There are a number of assumptions that factor into this, including but not limited to: pay remaining the same until the retirement date, the balance of contract payments for service purchase being paid in its entirety, etc. In reviewing the differences equaling greater than 10%, the circumstances were such that the ASRS would have had no ability to predict, such as a service purchase request being submitted after the benefit estimate was completed.

Mr. Dave King added that benefit estimates are provided before an account audit. The account audit uncovers anomalies in contributions which could change the benefit. Mr. King further stated a long term project is underway to enhance the reporting capabilities of ASRS employers to assist the ASRS in identifying contribution differences.

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

Mr. Anthony Guarino reviewed the strategic topics list with the Board which included six topics for Fiscal Year (FY) 2017. Mr. Guarino highlighted the two added topics based on suggestions from Mr. Paul Matson, Director and Mr. Clark Partridge at the May 27, 2016 Board meeting. Mr. Guarino added that in addition to the six topics listed, staff will re-exam the five strategic priorities in the strategic plan to determine whether the priorities are in need of change and solicit feedback from the Board.

Motion: Mr. Clark Partridge moved to approve the list of strategic topics as presented. Mr. Tom Connelly seconded the motion.

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

9. Presentation, Discussion, and Appropriate Action Regarding Board Elections

Mr. Kevin McCarthy introduced the item and opened the floor for nominations for the chair and vice-chair positions.

Motion: Mr. Tom Connelly moved to nominate Mr. Kevin McCarthy as the ASRS Board Chair for FY 2017. Mr. Robert Wadsworth seconded the motion.

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

Motion: Dr. Richard Jacob moved to nominate Mr. Jeff Tyne as the ASRS Board Vice-Chair for FY 2017. Mr. Tom Connelly seconded the motion.

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

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

Mr. Paul Matson stated he had nothing further to add regarding the Director's Report but would answer any questions the Board may have regarding the report. No questions were asked.

11. 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 August 9, 2016, at 10:30 a.m. in the 14th floor conference room and will discuss internal/external audits, the quarterly audit report, compensation strategies and staffing updates, budget update for FY16 and FY17, budget request for FY18/19, the internal audit peer review report and the budget and staffing risk assessment.

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 August 22, 2016, at 2:30 p.m. in the 14th floor conference room to discuss house views, risk report, asset classes and IMD activities, compliance with strategic allocation, new report formatting, equity performance reports, upcoming evaluation toolkit and RFP review for a private equity consultant.

12. Board Requests for Agenda Items

No requests were made.

13. Call to the Public

No one from the public requested to speak at this time.

14. The next regular ASRS Board meeting is scheduled for Friday, August 26, 2016, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

15. Presentation and Discussion Regarding Trustee Private Markets Investing Education

Mr. Karl Polen provided an overview of the private markets program and its strategic asset allocation as follows:

<u>Asset</u>	<u>Allocation Range</u>
Private Equity	8% +/- 2%
Real Estate	10% +/- 2%
Private Debt	10% +/- 2%
Private Opportunistic Equity	0% to 3%
Farmland & Infrastructure	0% to 3% each

Mr. Polen reviewed the reasons for investing in private markets, the structure of private markets investments, private markets portfolios (real estate and real assets, private equity, private debt and private opportunistic equity), the performance of the portfolios and the monitoring and compliance of private market investments.

Mr. Polen stated a successful program cannot be run without paying attention to fees and managing fees. Mr. Polen stated that the IMD first identifies highly qualified managers for a particular mandate, those firms are then invited to participate in a competitive process to negotiate fees and terms. Through this process, the ASRS has achieved significant fee savings without compromising the quality of its investment decisions. Mr. Polen responded to questions from the Board.

16. Call to the Public (*formerly agenda item #13*)

Due to a last minute request to speak from a public member, the Board recalled agenda item #13 prior to the conclusion of agenda item #15.

A member of the public, Mr. George Geraci, requested to address the Board regarding a Long Term Disability (LTD) issue. Mr. Geraci expressed his displeasure concerning the treatment he received from the State's LTD provider, Sedgwick and the Advocator Group. Mr. Geraci's primary issue concerns Sedgwick's requirement for him to submit an annual physician's statement that certifies he is still incapacitated. Mr. Geraci contends the law only dictates that communication relating to the continued medical condition is required and not an annual form completion/submission and asks that the Board keep this in mind with the new LTD provider that has been contracted.

Mr. McCarthy advised Mr. Geraci the Board cannot comment on the issue but thanked him for his comments.

17. Presentation and Discussion Regarding Trustee Private Markets Investing Education (*this is the conclusion of agenda item #15*)

Mr. Kevin McCarthy announced there would be a 10 minute recess while the meeting moved to the 14th floor conference room to conclude agenda item #15 in executive session. 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.

Motion: Mr. Clark Partridge moved to go into executive session for the purpose of discussion and consideration of records exempt by law from public inspection. Mr. Tom Connelly 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 10:40 a.m.

18. Adjournment of the ASRS Board (*formerly agenda item #16*)

Mr. McCarthy adjourned the public meeting and executive session at 12:20 p.m.

ARIZONA STATE RETIREMENT SYSTEM

Signed Copy on File

Melanie A. Alexander
Board Administrator

Signed Copy on File

Paul Matson
Director