



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO Box 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
4400 EAST BROADWAY BOULEVARD • SUITE 200 • TUCSON, AZ 85711-3554 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
WWW.AZASRS.GOV

Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, August 26, 2016
8:30 a.m.

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.

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
Professor Dennis Hoffman
Dr. Richard Jacob
Mr. Tom Connelly
Mr. Tom Manos

Absent: Mr. Lorenzo Romero

Two vacant positions.

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the June 24, 2016, Public Meeting and Executive Session of the ASRS Board

Motion: Dr. Richard Jacob moved to approve the Minutes of the June 24, 2016, Public Meeting and Executive Session of the ASRS Board. Prof. Dennis Hoffman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

3. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Valerie Fields Appeal Regarding Service Credit and a Benefit Overpayment

Mr. Charles Grube, Assistant Attorney General, Attorney General's Office, was present to provide legal advice to the Board, if requested.

Ms. Jothi Beljan, Assistant Attorney General, reviewed the facts of the case with the Board. Prior to Ms. Fields retirement, she completed nine service purchase transactions. Due to the complexity, it took several months to complete the post retirement audit. The audit found Ms. Fields account was over-credited for a total of five months due to service purchase transactions; therefore Ms. Fields received an overpayment of pension benefits from May 24, 2014, to November 30, 2015. The ASRS collected the overpayment as required by A.R.S. § 38-765 by offsetting Ms. Fields' pension for three months, December 2015 through February 2016, in equal monthly payments.

Also during the post retirement audit it was discovered service credit was awarded twice for the month of September 1984 due to payments for a Payroll Deduction Authorization (PDA) for another service purchase that was prematurely stopped by the employer for which the ASRS allowed Ms. Fields to pay the remaining amount with a rollover, then subsequently the employer restarted the PDA payments. The ASRS is returning the amount Ms. Fields overpaid for the service purchase transactions.

Ms. Beljan responded to questions from the Board.

Motion: Mr. Jeff Tyne moved to accept the Administrative Law Judge Decision. Prof. Dennis Hoffman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

4. Presentation Regarding PRIDE Award for Results

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Award for Results: Cincy Gould; Brandi Clemans; Ben Robinson; the Employer Secured Messaging Project and Transition Team – Kristi Zeller, Mark Muraoka, Kaleem Mohammed Abdul, Sayema Khatoon David Bigelow, Bhargavi Ravinuthala, Brandon Heathcotte, Donna McNally, Harold Greene, Jean Langston, Wendy Tobin, Michael McCarthy, Michele Briggs, Genevieve McBride, Sravan Kumar, Randi Gray, and William Roberts; the Unusual Suspects Scrum Team – Trent Kendall, Srinivasa Attaluri, Divya Kuchal, Param Vonteddu, Tom Williamson and Sunitha Surendra; and the Procurement Team – Russ Levine, Maurah Harrison and Renee Neier. They were nominated by staff who feel they exemplify the following PRIDE qualities of results:

- Meet goals and objectives
- Satisfy customers
- Complete projects
- Attain individual accomplishments
- Produce quality work products
- Successfully manage risks

Mr. Guarino presented the PRIDE Award for Results to the award winners, the Procurement Team – Russ Levine, Maurah Harrison and Renee Neier.

5. Presentation, Discussion, and Appropriate Action Regarding the Public Retirement Landscape: National, State, and Local

Mr. Paul Matson, Director, introduced the topic and Mr. Keith Brainard, Research Director for the National Association for State Retirement Administrators. Mr. Brainard's presentation of Public Pension Issues and Trends provided an overview of the following:

- Federal legislation that may impact public pensions;
- Regulatory actions that may impact public pensions;
- Legal rulings;
- Key threats facing public retirement systems, employers and employees;
- Public pension trends regarding public pension funding, reform, plan design, etc.

Throughout the presentation, Mr. Brainard responded to questions from the Board. The Board thanked Mr. Brainard for his time. Dr. Richard Jacob expressed this was the most informative presentation he had experienced in his four years serving on the Board.

6. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget Related Topics Including:

- a. Presentation of the ASRS Appropriated Budget and the ASRS Administrative and Investment Spending Plans for FY 2016 and FY 2017**
- b. Presentation of the ASRS Appropriated and Continuously Appropriated Budget Request and the ASRS Administrative and Investment Spending Plan for FY 2018**

Mr. Anthony Guarino introduced the topic by stating earlier in the month the Operations and Audit Committee (OAC) was presented a budget and spending plan staff feels is fiscally conservative but still meets the ASRS goals and objectives. Mr. Guarino turned the presentation over to Ms. Martha Rozen, Chief of Administrative Services, and Mr. Russ Levine, Program Manager, Budget and Procurement.

Ms. Rozen reviewed the materials previously presented to the OAC and highlighted the following accomplishments and goals:

FY 2016

- Continued to focus on IT and data security related appliances and software.
- Continued IT development efforts.
- Able to reallocate resources rather than request additional FTEs for FY 2017 & FY 2018, through efficiencies.
- Continued Oracle Modernization and scheduled to reach completion in FY 2019.
- Continued focus on staff engagement and staff retention.

FY 2017

- Continuing IT development efforts with data security focus.
- Lowering costs with the awarded contract for Long Term Disability (LTD) by approximately 10 percent.
- Continuing focus on staff engagement and staff retention.

FY 2018

- Requesting a reduction in the Operating appropriation by approximately 1 percent.
- Requesting a reduction in the LTD appropriation by approximately 10 percent.

Ms. Rozen and Mr. Levine responded to questions from the Board. Mr. Jeff Tyne thanked staff for their review of the budget with the OAC as well as the Board.

Motion: Mr. Jeff Tyne moved to approve the appropriated budget request for FY 2018 in the amount of \$24,884,200; an administrative spending plan of \$31,659,200 within a total spending plan of \$238,923,200. Prof. Dennis Hoffman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

7. 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 June 30, 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 June 30, 2016.

Mr. Polen noted changes to the ASRS Fund Positioning report which contains a new graph for Total Fund Fiscal Year Performance and the IMD House Views which has undergone significant changes the Board was previously advised were forthcoming.

Dr. Richard Jacob expressed his appreciation to Mr. Polen regarding the revisions in the format of the information presented, stating he found it to be an extremely useful source of data.

8. 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 June 30, 2016.

As of June 30, 2016, the Total Fund's market value was approximately \$34.0 billion.

For the one-year period ending June 30, 2016, the Total Fund returned 0.5% (net of fees), outperforming the Interim SAA Policy by 1.1%. For the three-year period, the Total Fund produced a return of 7.1% per annum, outperforming the Interim SAA Policy by 1.2%. Over the past ten years, the Total Fund has returned 6.0% per annum, and since inception, the portfolio's performance is 9.6%.

9. Presentation, Discussion, and Appropriate Action Regarding an Annual Update on Strategic Plan Priority #5 in the ASRS 5-Year Strategic Plan: Ensure High Productivity

Mr. Anthony Guarino opened the discussion regarding productivity which is one of the five agency strategic plan priorities. Mr. Guarino believes the ratio is simple: minimize inputs - spending and man-hours, maximize output, and produce more and better outcomes. Mr. Guarino further stated the agency's strategic planning model, with its benchmarking, metrics and focus on continuous improvement, has been a good vehicle for prompting the right attitude and behavior in this regard. The agency's objective is to be a high service low-cost provider compared to our peers. Currently, the agency uses investments in technology, the web and process re-engineering, to control spending and produce such things as more immediate access to service and education, faster turnaround times, better calculations, lower call volumes, and higher member satisfaction. The agency is looking at applying Six Sigma principles and methods. The agency's productivity ratio is positive to very positive. Mr. Guarino turned the presentation over to Ms. Sara Orozco, Strategic

Planning and Analysis Manager, who was accompanied by Mr. Brian Crockett and Mr. Jeremiah Scott, Strategic Planner Seniors, to provide a summary of the report.

Ms. Orozco highlighted the following areas:

- Effective development and deployment of technology – outlook remained positive for FY 2014 and FY 2015/2016.
- Reducing member reliance on physical and member contacts for service and transaction processing – outlook remained positive for FY 2014 and FY 2015/2016.
- Developing alternate ways for members and employers to receive education and counseling services without having to rely upon in-person counseling – outlook remaining positive for FY 2014 and FY 2015/2016.
- Being a high-service, low-cost service provider when compared to other public retirement systems – outlook remained positive for FY 2014 and FY 2015/2016.
- Consolidating and reducing the need for physical work space – outlook remained positive for FY 2014 and FY 2015/2016.
- Mitigating the need for additional staff due to increases in service demand – outlook remained positive for FY 2014 and FY 2015/2016.
- Recruit, engage, utilize and retain a high caliber, professional staff capable of optimizing performance – outlook is neutral to positive.

Ms. Orozco concluded with a review of upcoming goals and focuses such as improving processes through the Six Sigma analysis and the Process Improvement Team, continuing to identify waste or misalignment of staff or redundancies in work processes, continuing the completion of the Oracle experience re-engineering enhancements, implementing the benefits disbursement process and continuing to implement more refined metrics wherever possible. Ms. Orozco and Mr. Guarino responded to questions from the Board.

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

Mr. Paul Matson made the following announcements:

- As of today, members can complete their Health Insurance Open Enrollment forms online.
- The LTD vendor migration will be complete September 1, 2016.

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 October 11, 2016, at 10:30 a.m. in the 14th floor conference room.

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 October 24, 2016, at 2:30 p.m. in the 14th floor conference room to discuss supplemental savings and the salary deferral programs, progress made on projects Mr. Polen outlined in his earlier presentation.

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, September 30, 2016, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

Mr. Kevin McCarthy announced there would be a 10 minute recess while the meeting moved to the 14th floor conference room to conclude the remaining agenda topics and possible executive sessions.

Mr. Tom Manos left the meeting at 11:36 a.m.

15. Presentation, Discussion, and Appropriate Action Regarding Data Security Initiatives

Motion: Prof. Dennis Hoffman moved to go into executive session for the purpose of discussion and consideration of records exempt by law from public inspection. Dr. Richard Jacob seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

The Board convened to Executive Session at 11:46 a.m.

The Board reconvened to Public Session at 12:03 p.m.

16. Presentation, Discussion, and Appropriate Action Regarding the Review of the Employment Contract for the ASRS Director

Motion: Dr. Richard Jacob moved to go into executive session for the purpose of the review of the Employment Contract for the ASRS Director. Prof. Dennis Hoffman seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

The Board convened to Executive Session at 12:04 p.m.

The Board reconvened to Public Session at 12:12 p.m.

Motion: Dr. Richard Jacob moved to approve the amended Employment Contract of the ASRS Director as presented. Mr. Tom Connelly seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

17. Adjournment of the ASRS Board

Motion: Dr. Richard Jacob moved to adjourn the August 26, 2016, Board Meeting at 12:13 p.m. Prof. Dennis Hoffman seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

ARIZONA STATE RETIREMENT SYSTEM

Signed Copy on File

Melanie A. Alexander
Board Administrator

Signed Copy on File

Paul Matson
Director