

# HOW...

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## ***ASRS Employees Deliver Service With PRIDE!***

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### **PROFESSIONALISM**

*We promote, strive for and expect individuals, teams, and divisions to possess professional qualities and skills to lead the organization.*

- Displays a friendly, respectful and courteous demeanor even when confronted by adversity
- Has proactive and responsive approach to internal and external customer needs
- Possesses good communication and active listening skills
- Is a trusted contributor (manager, leader, SME, analyst, teammate)
- Takes personal accountability • Has subject matter expertise
- Has critical thinking skills • Has an honest, fair, non-judgmental mind-set
- Is adaptable to beneficial change • Adheres to the ASRS Code of Conduct

### **RESULTS**

*We treasure the achievements of individuals, teams, divisions and the agency that energize the organization.*

- Meets goals and objectives
- Completes projects
- Produces quality work products
- Satisfies customers
- Attains individual accomplishments
- Manages risks successfully

### **IMPROVEMENT**

*We appreciate individuals, teams or divisions who drive the agency forward with new, innovative ideas and solutions.*

- Promotes new ideas
- Enhances outcomes and performance
- Solves problems
- Enhances morale
- Improves relationships
- Increases efficiency, effectiveness or reduces costs

### **DIVERSITY**

*We recognize that utilizing different talents, strengths and points of view, strengthens the agency and helps propel outcomes greater than the sum of individual contributors.*

- Encourages an attitude of openness and a free flow of ideas and opinions
- Treats others with dignity and respect
- Works effectively to accomplish goals with teams comprised of dissimilar individuals
- Recognizes and promotes skills in others attained on and off the job

### **EXCELLENCE**

*We celebrate individuals, teams and divisions who exceed expectations and deliver service with a PRIDE that permeates the organization.*

- Surpasses member, stakeholder and associate expectations
- Demonstrates a willingness to go the extra mile to engender a positive public image
- Embraces change in a manner that inspires others
- Accepts responsibility and challenges with enthusiasm
- Takes a personal interest in promoting teamwork through effective use of communication (verbal, non-verbal, written and technological techniques)
- Creates a motivated, healthy and productive work environment that celebrates and rewards the accomplishments of others



**ARIZONA STATE  
RETIREMENT SYSTEM**



# 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

## AGENDA

### NOTICE OF COMBINED PUBLIC MEETING AND POSSIBLE EXECUTIVE SESSION OF THE ARIZONA STATE RETIREMENT SYSTEM BOARD

3300 North Central Avenue, 10<sup>th</sup> Floor Board Room  
Phoenix, AZ 85012

September 30, 2016  
8:30 a.m.

Pursuant to A.R.S. § 38-431.02 (F), notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Board and to the general public that the ASRS Board will hold a meeting open to the public on Friday, September 30, 2016, beginning at 8:30 a.m., in the 10<sup>th</sup> Floor Board Room of the ASRS offices at 3300 N. Central Avenue, Phoenix, Arizona 85012. Trustees of the Board may attend either in person or by telephone conference call.

The Chair may take public comment during any agenda item. If any member of the public wishes to speak to a particular agenda item, they should complete a "Request To Speak" form indicating the item and provide it to the Board Administrator.

Pursuant to A.R.S. § 38-431.03(A)(3), the ASRS Board of Trustees may vote to go into executive session, which will not be open to the public, for the purpose of obtaining legal advice on any item on the Agenda.

This meeting will be teleconferenced to the ASRS Tucson office at 4400 East Broadway Boulevard, Suite 200, Tucson, Arizona 85711. The conference call to Tucson will be disconnected after 15 minutes if there are no attendees in the Tucson audience.

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks ..... Mr. Kevin McCarthy  
Board Chair
2. Approval of the Minutes of the August 26, 2016 Public Meeting and Executive Sessions of the ASRS Board (*estimated time 1 minute*) ..... Mr. Kevin McCarthy

*Regarding the following agenda item, notice is hereby given to Trustees of the ASRS Board and the general public that the ASRS Board may vote to go into executive session pursuant to A.R.S. § 38-431.03(A)(3) for discussion or consultation for legal advice with the attorney(s) of the public body, which will not be open to the public.*

3. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Lorena Tarazon's Appeal Regarding a Long Term Disability Benefit Overpayment (*estimated time 20 minutes*) ..... Ms. Jothi Beljan  
Assistant Attorney General  
..... Mr. Rex Nowlan  
Agency Counsel Section Chief, Attorney General's Office

4. Presentation Regarding Government Finance Officers Association (GFOA) Financial Reporting Awards
  - a. Comprehensive Annual Financial Report (CAFR) for Fiscal Year (FY) 2015
  - b. Popular Annual Financial Report (PAFR) for FY 2015  
(*estimated time 5 minutes*) ..... Mr. Paul Matson  
Director  
..... Mr. Anthony Guarino  
Deputy Director and Chief Operations Officer  
..... Ms. Nancy Bennett  
Chief Financial Officer
  
5. Presentation, Discussion, and Appropriate Action Regarding ASRS Proposed Legislation for the 2017 Legislative Session (*estimated time 30 minutes*) ..... Mr. Patrick Klein  
Assistant Director, External Affairs Division  
..... Mr. Nick Ponder  
Government Relations Officer
  
6. Presentation, Discussion, and Appropriate Action Regarding the Appointment and Management of the ASRS Appeals Committee (*estimated time 5 minutes*) ..... Mr. Kevin McCarthy  
..... Mr. Paul Matson  
..... Mr. Anthony Guarino
  
7. Presentation, Discussion and Appropriate Action Regarding Staff Recommended Updates to the ASRS Board Governance Policy Handbook (*estimated time 10 minutes*) ..... Mr. Paul Matson
  
8. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events (*estimated time 5 minutes*) ..... Mr. Paul Matson  
..... Mr. Anthony Guarino
  - a. 2016 Investments Report
  - b. 2016 Operations Report
  - c. 2016 Budget and Staffing Reports
  - d. 2016 Cash Flow Statement
  - e. 2016 Appeals Report
  - f. 2016 Employers Reporting
  
9. Presentation and Discussion Regarding Informational Updates from Prior and Upcoming Committee Meetings (*estimated time 15 minutes*)
  - a. Operations and Audit Committee (OAC) ..... Mr. Jeff Tyne, Chair  
..... Mr. Anthony Guarino  
*The next OAC Meeting will be held on October 11, 2016.*
  - b. External Affairs Committee (EAC) ..... Dr. Richard Jacob, Chair  
..... Mr. Patrick Klein  
*The next EAC Meeting will be held on October 14, 2016.*
  - c. Investment Committee (IC) ..... Mr. Tom Connelly, Chair  
..... Mr. Karl Polen  
*The next IC Meeting will be held on October 24, 2016.*

*Regarding the following agenda item, notice is hereby given to Trustees of the ASRS Board and the general public that the ASRS Board may vote to go into executive session pursuant to A.R.S. § 38-431.03(A)(3) for discussion or consultation for legal advice with the attorney(s) of the public body, which will not be open to the public.*

- 10. Presentation, Discussion, and Appropriate Action Regarding *ASU v. ASRS Appeal Litigation and Rulemaking Exemption Legislation (estimated time 15 minutes)*..... Mr. Paul Matson  
..... Ms. Jothi Beljan
- 11. Board Requests for Agenda Items (*estimated time 1 minute*)..... Mr. Kevin McCarthy
- 12. Call to the Public ..... Mr. Kevin McCarthy

Those wishing to address the ASRS Board are required to complete a Request to Speak form before the meeting indicating their desire to speak. Request to Speak forms are available at the sign-in desk and should be given to the Board Administrator. Trustees of the Board are prohibited by A.R.S. § 38-431.01(H) from discussing or taking legal action on matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the Board may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

- 13. The next regular public ASRS Board meeting is scheduled for Friday, October 28, 2016, at 8:30 a.m., at 3300 N. Central Avenue, in the 10th Floor Board room, Phoenix, Arizona.

- 14. Adjournment of the ASRS Board.

A copy of the agenda background material provided to Board Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona and 4400 East Broadway Boulevard, Suite 200, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website (<https://www.azasrs.gov/web/BoardCommittees.do>) approximately 48 hours prior to the meeting.

Persons with disabilities may request a reasonable accommodation such as a sign language interpreter or alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson, or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated September 23, 2016

ARIZONA STATE RETIREMENT SYSTEM

Signed Copy on File  
Melanie A. Alexander  
Board Administrator

Signed Copy on File  
Paul Matson  
Director

# Agenda Item #2



# 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  
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*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 position 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 14<sup>th</sup> 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 14<sup>th</sup> 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 14<sup>th</sup> 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, 10<sup>th</sup> Floor Board Room, Phoenix, Arizona.**

*Mr. Kevin McCarthy announced there would be a 10 minute recess while the meeting moved to the 14<sup>th</sup> 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

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Melanie A. Alexander  
Board Administrator

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Paul Matson  
Director

**Confidential Executive  
Session Minutes were  
provided to the Board  
and not included in  
this book.**

# Agenda Item #3

Recommended  
Decision

*Ms. Lorena Tarazon*  
*v. ASRS*

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**IN THE OFFICE OF ADMINISTRATIVE HEARINGS**

Lorena Tarazón,  
Appellant,  
v.  
Arizona State Retirement System,  
Respondent.

**No. 16F-012-ARB**

**ADMINISTRATIVE LAW JUDGE  
DECISION**

**HEARING:** July 13, 2016 with the record held open for receipt of official record, the transcript of the hearing; the transcript was received at the Tribunal August 1, 2016.

**APPEARANCES:** Lorena Tarazon (hereinafter "Appellant" or "Ms. Tarazon") appeared on her own behalf, with the assistance of Interpreter Ramses Briones.

The Arizona State Retirement System (hereinafter "ASRS") was represented by Assistant Attorney General Jothi Beljan.

**ADMINISTRATIVE LAW JUDGE:** Kay A. Abramsohn

Pursuant to the Notice of Hearing issued by the Arizona State Retirement System Board ("Board"), this matter came on for hearing before the Office of Administrative Hearings, an independent agency, on an appeal by Lorna Tarazon regarding a determined overpayment of benefits. Based upon the evidence of record, the Administrative Law Judge makes the following Findings of Fact, Conclusions of Law, and Recommended Order:

**FINDINGS OF FACT**

1. Ms. Tarazon enrolled with the ASRS on August 1, 2003, through her employment with the Elfrida Elementary School District ("School").<sup>1</sup> At that time, Ms. Tarazon was employed to work twenty ("20") hours per week; she worked four hours a day, five days a week. Ms. Tarazon worked more than 20 weeks in the fiscal year.

2. School appropriately began to withhold paycheck contributions and remit School's contributions to the ASRS on Ms. Tarazon's behalf.<sup>2</sup>

3. For academic year 2008-2009, School remitted \$609.54 to ASRS.<sup>3</sup>

4. For academic year 2009-2010, School began to operate on a four-day week<sup>4</sup> and, thus, Ms. Tarazon began working only four hours a day, four days a week, for a

<sup>1</sup> See Exhibit A.

<sup>2</sup> Pursuant to Arizona Revised Statutes ("A.R.S.") § 38-735, 38-736 and 38-737, the School was required to remit the two contributions. Employers are responsible for monitoring employee hours and correctly remitting, or not remitting, the ASRS contributions.

<sup>3</sup> See Exhibit B.

<sup>4</sup> See Exhibit H.

1 total of sixteen (“16”) hours a week. Because she was no longer working 20 hours per  
2 week, she was ineligible to participate as a member after that time, despite working the  
3 20 weeks a year.<sup>5</sup> School should have stopped taking a retirement system paycheck  
4 deduction from Ms. Tarazon and School should have discontinued remitting the  
5 employee and employer contributions to ASRS on Ms. Tarazon’s behalf.

6 5. For academic year 2009-2010, School remitted \$509.04 to ASRS.<sup>6</sup>

7 6. For academic year 2010-2011, School remitted \$406.86 to ASRS.<sup>7</sup>

8 7. In November of 2011, Ms. Tarazon had knee surgery and, subsequently, was  
9 unable to return to work.<sup>8</sup>

10 8. On June 12, 2012, School filed a Notice of Claim of Long-Term Disability with  
11 ASRS.<sup>9</sup> School indicated that Ms. Tarazon’s sick leave hours would end on November  
12 24, 2012, and that she had no vacation leave hours. The form contains no indication  
13 that, at that time, Ms. Tarazon had been working only 16 hours a week.

14 9. Based on having received the ASRS contributions on her behalf, ASRS  
15 calculated that Ms. Tarazon’s disability benefits would begin, retroactively, on May 10,  
16 2012, and would result in a monthly benefit of \$396.14, which ASRS began to pay.<sup>10</sup>

17 10. However, at that time, in 2012, Ms. Tarazon did not meet the member-eligibility  
18 hours and had not done so since 2009.

19 11. In February 2014, as a result of an internal audit of the Long-Term Disability  
20 System and its review, ASRS discovered that there was one member receiving long-  
21 term disability benefits who may not have been eligible for membership at the time of  
22 application for the benefits.<sup>11</sup> ASRS determined that, if that member was to continue to  
23 receive the benefits until the end of the period, the member would receive  
24 approximately \$16,000.00 more by the end of the disability payment period.<sup>12</sup>

25 \_\_\_\_\_  
26 <sup>5</sup> See A.R.S. § 38-711(23).

27 <sup>6</sup> See Exhibit C. At hearing, ASRS indicated that School incorrectly remitted contributions in this fiscal  
28 year.

29 <sup>7</sup> See Exhibit D. At hearing, ASRS indicated that School’s remittances correctly reflected Ms. Tarazon’s  
30 employment level at 16 hours per week.

<sup>8</sup> See Exhibit E.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> See Exhibits F and G.

<sup>12</sup> See A.R.S. § 38-797.07 regarding the statutory maximum disability benefit.

1 12. ASRS was later able to determine that the member was Ms. Tarazon. School  
2 was requested to supply some additional information, which ASRS received in  
3 November of 2014.

4 13. Due to an internal reorganization taking place in 2014, unfortunately, ASRS did  
5 not take action to terminate Ms. Tarazon's long-term disability benefits and did not  
6 advise her of the overpayments at that time. ASRS did not do so until April 2016.<sup>13</sup>

7 14. In 2016, on review of the ASRS contribution information and additional  
8 information supplied by School in November 2014,<sup>14</sup> ASRS determined that it had  
9 erroneously paid \$18,909.42 in long-term disability payments benefits to Ms. Tarazon  
10 over the period from May 10, 2012, through April 30, 2016.<sup>15</sup>

11 15. Due to the ASRS inaction dating back to 2014, ASRS determined that it would  
12 only seek the overpayment amount attributable to May 2012 through October 2014, in  
13 the amount of \$11, 778.86.

14 16. Because School had erroneously taken payroll deductions from her paychecks  
15 for ASRS contributions during the period of her ineligibility,<sup>16</sup> ASRS offset the  
16 determined overpayment amount with a credit for Ms. Tarazon's own contributions  
17 during that period of her ineligibility, in the amount of \$1,118.82, leaving a total  
18 overpayment of long-term disability payments in the amount of \$10,660.04.

19 17. The matter was not resolved informally and was subsequently set for  
20 administrative hearing.

21 18. At hearing, Ms. Tarazon indicated that she had verified with School her payroll  
22 information,<sup>17</sup> and she further indicated that she simply was unable to go to work and  
23 unable to pay back the money.

24 19. At hearing, ASRS recognized it had not taken action in 2014 to correct the  
25 erroneous payments and indicated that it had not penalized Ms. Tarazon for the ASRS  
26 inaction by adjusting the determined overpayment amount to only seek repayment for

27 \_\_\_\_\_  
28 <sup>13</sup> See Exhibit M.

29 <sup>14</sup> See Exhibit H.

30 <sup>15</sup> See Exhibits I, J, K, and L.

<sup>16</sup> School had also erroneously remitted employer contribution on behalf of Ms. Tarazon; ASRS returned these contributions to School pursuant to A.R.S. § 38-738(A).

<sup>17</sup> See Exhibit 1.

1 the period from May 2012 through October 2014, the time when ASRS should have  
2 taken the action to terminate the long-term disability payments.

3 20. ASRS argued that it was required by law to take these steps to collect the  
4 overpayment by notifying Ms. Tarazon of the overpayments and taking the unresolved  
5 matter to administrative hearing for a determination regarding whether there were, in  
6 fact, any overpayments.<sup>18</sup>

7 21. Ms. Tarazon remains an ASRS member because she has six (6) years of  
8 credited service in the ASRS system, from July 2003 through June 2009.<sup>19</sup>

9 **CONCLUSIONS OF LAW**

10 1. ASRS has jurisdiction over the subject matter in this case.

11 2. A.R.S. § 38-765 provides:

12 If any change or error in the records results in any member or beneficiary  
13 receiving from ASRS more or less than the member or beneficiary would  
14 have been entitled to receive if the records had been correct, ASRS shall  
15 correct the error and as far as practicable shall adjust the payments in a  
16 manner so that the actuarial equivalent of the benefit to which the  
17 member or beneficiary was correctly entitled is paid. ASRS shall ...  
18 recover monies from the member or beneficiary if the member or  
19 beneficiary is overpaid. ASRS shall recover monies by reducing any  
benefit otherwise payable by ASRS or the LTD program established by  
article 2.1 of this chapter to an active, inactive, person with a disability or  
retired member, survivor, contingent annuitant, beneficiary or alternate  
payee.

20 3. A.R.S. § 38-797.08 provides:

21 If any change or error in the records results in any member receiving from  
22 the LTD program more or less than the member would have been entitled  
23 to receive if the records had been correct, the board shall correct the error  
24 and shall adjust the payments in a manner so that the equivalent of the  
25 benefit to which the member was correctly entitled is paid. The board shall  
26 correct any change or error and ... shall recover monies from the member  
if the member is overpaid. The board shall recover monies by reducing  
any benefit that is otherwise payable by ASRS or the LTD program to an

27  
28 <sup>18</sup> ASRS further indicated that, in the event it was determined that there were overpayments, the matter  
would subsequently be discussed at an ASRS Board meeting in September 2016; ASRS indicated it  
would provide information to Ms. Tarazon about being able to address the ASRS Board at that meeting.

29 <sup>19</sup> Two plus years, from July 2009 through November 2011, was removed from Ms. Tarazon's credited  
30 service because she was not an eligible member during those periods. At hearing, ASRS advised Ms.  
Tarazon regarding her various options for use/access to her ASRS retirement benefits.

1 active, inactive, member with a disability or retired member, survivor,  
2 contingent annuitant, beneficiary or alternate payee.

3 4. Ms. Tarazon bears the burden of proof and, as such, must establish by a  
4 preponderance of the evidence that ASRS improperly determined that there was an  
5 overpayment of long-term disability payments pursuant to the applicable laws.

6 5. "A preponderance of the evidence is such proof as convinces the trier of fact that  
7 the contention is more probably true than not."<sup>20</sup> A preponderance of the evidence is  
8 "evidence which is of greater weight or more convincing than evidence which is offered in  
9 opposition to it; that is, evidence which as a whole shows that the fact sought to be  
10 proved is more probable than not."<sup>21</sup> Based on the evidence of record, the  
11 Administrative Law Judge concludes that Appellant has not sustained her burden to  
12 establish by a preponderance of the evidence that ASRS improperly determined she  
13 was ineligible for the long-term disability benefits in 2012 and that there had been a long-  
14 term disability benefit overpayment pursuant to the applicable laws.

15 6. The evidence of record demonstrates that at beginning with the academic school  
16 year 2009-2010, Ms. Tarazon no longer worked at least 20 hours a week, although she  
17 did continue to work at least 20 weeks. As a result, beginning in 2009, School  
18 erroneously withheld ASRS contributions on her behalf and then remitted both Ms.  
19 Tarazon's and the School's employer contributions to ASRS, which were attributed to  
20 Ms. Tarazon's ASRS account. Based on the information provided in the 2012 Notice of  
21 Claim of long-Term Disability and the received contributions, ASRS calculated and paid  
22 long-term disability payments from May 2012 through April 2016. However, Ms.  
23 Tarazon was not eligible for long-term disability benefits in 2012. Therefore, because  
24 ASRS paid long-term disability benefits to Ms. Tarazon, she erroneously received these  
25 benefits beginning on May 10, 2012. Ms. Tarazon did not dispute the facts in this  
26 matter and did not deny she had received benefits to which she was not entitled.

27 7. The weight of the evidence established that ASRS appropriately determined that  
28 Ms. Tarazon was no longer eligible to participate as a member in fiscal year 2009 when  
29 her employment hours dropped below the requisite 20 hours per week. Therefore,

30 <sup>20</sup> MORRIS K. UDALL, ARIZONA LAW OF EVIDENCE § 5 (1960).

<sup>21</sup> BLACK'S LAW DICTIONARY 1182 (6<sup>th</sup> ed. 1990).

1 ASRS appropriately terminated its long-term disability payments to Ms. Tarazon,  
2 calculating the amount of \$18,909.42 in overpaid benefits to Ms. Tarazon and fairly  
3 reduced the amount of overpayment being sought to \$11,778.86, due to ASRS inaction  
4 in 2014. Additionally, the evidence demonstrates that ASRS correctly reduced the  
5 overpayment by Ms. Tarazon's own contributions of \$1,118.82 during the determined  
6 ineligibility period to further reduce the amount of overpayment being sought to  
7 \$10,660.04.

8 8. Based on the foregoing, the Administrative Law Judge concludes that the ASRS  
9 determination of an overpayment of long-term disability benefits to Ms. Tarazon was  
10 justified and was in accordance with the applicable laws. Pursuant to A.R.S. § 38-765,  
11 ASRS is required to make these corrections and seek repayment of the determined  
12 overpayment.

13 **RECOMMENDED ORDER**

14 IT IS RECOMMENDED the ASRS Board affirm the ASRS determination of the  
15 overpayment of long-term disability benefits to Ms. Tarazon in the appropriately  
16 adjusted amount of \$10,660.04.

17 *In the event of certification of the Administrative Law Judge Decision by the*  
18 *Director of the Office of Administrative Hearings, the effective date of the Order will be*  
19 *five (5) days from the date of that certification.*

20 Done this day, August 23, 2016.

21 /s/ Kay Abramsohn  
22 Administrative Law Judge

23  
24 Transmitted electronically to:

25 Paul Matson, Director  
26 Arizona State Retirement System  
27  
28  
29  
30

# Appellant's Submission to the Board

Lorena Tarazón  
P O BOX 295  
Elfrida, AZ 85610

Re: Lorena Tarazon v. Arizona State Retirement System – OAH Case No. 16F-012-ARB

Dear ASRS Board Members:

On July 13, 2016 I attended a hearing for an Appeal to the ASRS regarding and overpayment of benefits. I am writing this letter as a brief summary of my position and the action I would recommend. The ASRS is seeking a payment from me of \$10,660.04, the amount of overpayment that resulted from benefits being reported incorrectly. As I told the presiding Administrative Law Judge Kay Abramsohn, I come from a low-income household. I have not worked for almost five years. Our household income comes solely from my husband's social security. That money is used for utilities, bills, gasoline, and all other usual daily living expenses. I do not have the means to pay that amount.

Furthermore, that overpayment comes from a mistake on the part of my former employer Elfrida Elementary School. At no time was I aware that benefits were being reported erroneously. I should not be held responsible for a mistake I did not make.

Therefore, I respectfully request that the overpayment amount of \$10,660.04 the ASRS is seeking be dismissed. And, that I, Lorena Tarazón, not be held accountable to pay.

Thank you for your time and consideration,

Lorena Tarazón

Lorena Tarazón  
P O BOX 295  
Elfrida, AZ 85610

Ref: Lorena Tarazon v. Arizona State Retirement System – OAH Case No. 16F-012-ARB

Estimados miembros de la Junta de ASRS:

El 13 de julio del 2016 asistí a una audiencia de una apelación al Arizona State Retirement System con respecto a un sobrepago de beneficios. Les escribo esta carta como breve resumen de mi posición y la acción que yo recomendaría. El ASRS está pidiendo un pago de mí en la cantidad de \$ 10,660.04, la cantidad que se pagó en exceso a causa de los beneficios que se reportaron incorrectamente. Como le dije a la Juez Kay Abramsohn, vengo de un hogar de bajos ingresos. No he trabajado en casi cinco años. Nuestro ingreso familiar proviene exclusivamente del seguro social de mi esposo. Ese dinero se utiliza para pagar las utilidades, facturas, gasolina y todos los demás gastos habituales de la vida diaria. No tengo los medios para pagar esa cantidad.

Por otra parte, el sobrepago proviene de un error por parte de mi antiguo empleador Elfrida Elementary School. En ningún momento estaba yo consciente que los beneficios estaban siendo reportados erróneamente. No debería ser considerada responsable de un error que no cometí.

Por lo tanto, pido respetuosamente que la cantidad del sobrepago en exceso de \$10,660.04 que esta pidiendo el ASRS sea rechazado y que yo, Lorena Tarazón, no tenga que rendir cuentas a pagar.

Gracias por su tiempo y consideración,

Lorena Tarazón

# AAG Memo to the Board



**MARK BRNOVICH**  
ATTORNEY GENERAL

**OFFICE OF THE ARIZONA ATTORNEY GENERAL**  
**STATE GOVERNMENT DIVISION**  
**AGENCY COUNSEL SECTION**

**JOTHI BELJAN**  
ASSISTANT ATTORNEY GENERAL  
DIRECT PHONE NO. (602) 240-2052  
JOTHIB@AZASRS.GOV

**MEMORANDUM**

**TO:** Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board

**FROM:** Ms. Jothi Beljan, Assistant Attorney General

**DATE:** September 16, 2016

**RE:** Approval, Modification, or Rejection of Administrative Law Judge's Decision Regarding Lorena Tarazon's Appeal Regarding a Long Term Disability Benefit Overpayment

**Purpose**

To approve, modify or reject the Administrative Law Judge's ruling to uphold the Director's determination that Mrs. Lorena Tarazon received an overpayment of ASRS Long Term Disability (LTD) benefits in the amount of \$10,660.04.

**Applicable Law**

The ASRS corrected the LTD benefit overpayment as required by A.R.S. §§ 38-765 and 38-797.08.

**Facts of the Case**

- A. Lorena Tarazon enrolled with the ASRS on August 1, 2003 through her employment with Elfrida Elementary School District. At that time, Mrs. Tarazon worked at least twenty hours a week for at least twenty weeks in a fiscal year as required for ASRS membership in A.R.S. § 38-711(23)(b).
- B. In the academic year 2009-2010, Mrs. Tarazon began working only sixteen hours a week, less than the statutory ASRS membership requirements, but her employer incorrectly continued to remit contributions to the ASRS on her behalf.
- C. In November 2011, Mrs. Tarazon had knee surgery and was no longer able to work. Mrs. Tarazon filed an application for ASRS LTD benefits, and the ASRS LTD administrator Sedgwick approved her application for LTD benefits commencing May 10, 2012 based on the incorrect reporting by her employer from September 2009 to November 2011 that Mrs. Tarazon was meeting ASRS membership requirements.
- D. In February 2014, the ASRS internal audit team reviewed the ASRS LTD plan and reported that there was one member receiving LTD benefits who may not have been eligible for

membership at the time of her application for benefits.

- E. ASRS staff determined the member at issue was Mrs. Tarazon and contacted her former employer Elfrida Elementary School District for employment details. Based on the documentation provided by the school, the ASRS determined in November 2014 that it had erroneously paid Mrs. Tarazon LTD benefits from May 10, 2012 through October 2014 totaling \$11,778.86.
- F. Upon discovery in November 2014, the ASRS should have terminated Mrs. Tarazon's LTD benefit and contacted her about the benefit overpayment. Due to an ASRS departmental reorganization, these actions were not taken until April 30, 2016 resulting in an overpayment of benefits from May 10, 2012 through April 30, 2016 in the amount of \$18,909.42. Due to the ASRS inaction in 2014, the ASRS fairly pursued collection of the overpayment of benefits from May 2012 through October 2014 only in the amount of \$11,778.86.
- G. The ASRS reduced the overpayment by Mrs. Tarazon's employee contributions of \$1,118.82 during the membership ineligibility period resulting in a final overpayment amount of \$10,660.04.
- H. In her Recommended Decision dated August 23, 2016, Administrative Law Judge Kay Abrahamson upheld the ASRS Director's determination and denied Mrs. Tarazon's appeal.

**ASRS Recommended Motion**

The ASRS Board accepts the Administrative Law Judge's Decision.

# Agenda Item #4



# 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*

## MEMORANDUM

**TO:** Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board

**FROM:** Mr. Paul Matson, Director  
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer

**DATE:** September 9, 2016

**RE:** **Agenda Item #4:** Presentation Regarding Government Finance Officers Association (GFOA) Financial Reporting Awards

### Purpose

To present to the ASRS the GFOA's Financial Reporting Awards.

### Recommendation

Informational only; no action required.

### Background

It is our pleasure to report to you that the ASRS received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its June 30, 2015, Comprehensive Annual Financial Report (CAFR). This is the twenty-seventh consecutive year the ASRS has received this prestigious award. A Certificate of Achievement is presented by the GFOA to those government units whose annual financial reports are judged to adhere to program standards and represents the highest award in government financial reporting.

It takes many hours of hard work by the ASRS to produce the CAFR each year. Staff who had a substantial part in the ASRS receiving the CAFR award were Nancy Bennett, Erin Higbee, John Maczko, Debbie Motta, Hong Mayhew, Lupita Breland, Kerry White and Michael Copeland.

The CAFR is intended to provide reliable information for decision making, to insure compliance with legal requirements, and is a means of measuring the responsible stewardship of the assets of the ASRS. For those reasons, the ASRS continually strives to improve upon the content and readability of the financial information presented in its CAFR.

In addition, I am pleased to report the ASRS also received the GFOA Award for Outstanding Achievement for the 2015 Popular Annual Financial Report (PAFR). Staff who had a significant part in the ASRS receiving the PAFR award were Nancy Bennett, Erin Higbee, and John Maczko.

The GFOA established the Popular Annual Financial Reporting Awards Program in 1991 to encourage and assist state and local governments to extract information from their CAFR to produce high quality PAFRs specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in public finance and then to recognize individual governments that are successful in achieving that goal.

Finally, I would like to thank the Board for its support and leadership in planning and conducting the financial affairs of the ASRS in a responsible and progressive manner. It is this support that enables us to publish such a high quality CAFR and PAFR.



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Arizona State Retirement System**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO



Government Finance Officers Association

**Award for  
Outstanding  
Achievement in  
Popular Annual  
Financial Reporting**

Presented to

**Arizona State Retirement System**

For its Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

# Agenda Item #5



# 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*

## MEMORANDUM

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**TO:** Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board

**FROM:** Mr. Paul Matson, Director  
Mr. Patrick Klein, Assistant Director, External Affairs  
Mr. Nick Ponder, Government Relations Officer

**DATE:** September 16, 2016

**RE:** **Agenda Item #5:** Presentation, Discussion and Appropriate Action Regarding ASRS Proposed Legislation for the 2017 Legislative Session

### Purpose

Discussion of the 2017 ASRS legislative initiatives.

### Recommendation

Recommend approval of the 2017 ASRS legislative initiatives, items one through five for immediate action, and item six concurrent with an outcome from the Arizona Supreme Court.

### Background

During the summer, the External Affairs Division (EAD) received legislative suggestions from ASRS staff and Trustees concerning federal statutory requirements; plan inefficiencies, inconsistencies, and inequities; administrative concerns; and others. The EAD researched and discussed each suggestion in conjunction with Trustees, Executive Management, and other internal staff. Staff first presented the legislative package at the September 14, 2016 External Affairs Committee (EAC) meeting. The EAC moved to recommend to the full Board approval of the legislative initiatives at its September 30, 2016 meeting.

## 2017 LEGISLATIVE SUGGESTIONS

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**STATUTE:** 38-766.02

**PROPOSED BY:** Legislative Liaison

**PROPOSAL:** The ASRS learned that employers were contemplating migrating all their substitute teachers to contractors like ESI and SmartSchools. The employer believes by migrating all substitutes to contract positions that they have moved an “entire class” of employees to leased positions they would not owe an ACR for those individuals.

There is nothing in statute identifying “class” of employees; however, historically the ASRS has not charged an ACR in circumstances where a class (cafeteria workers, janitorial staff, bus drivers) was leased or contracted. It is the position of the ASRS that substitute teachers are teachers. They fundamentally share the same responsibilities as a full-time teacher, are in a classroom, and are educating children. As a result, a substitute teacher is filling the role of a teacher and thus a retired substitute teacher is filling a position “ordinarily filled by an employee of an employer” and the ER would owe an ACR.

**LANGUAGE:** [38-766.02. Retired members; return to work; employer contribution payments; definitions](#)

A. Notwithstanding section 38-766.01, subsection E, beginning July 1, 2012, an employer shall pay contributions at an alternate contribution rate on behalf of a retired member who returns to work **WITH AN ASRS EMPLOYER** in any capacity ~~in a position ordinarily filled by an employee of the employer~~. This subsection applies to a retired member who has reached a normal retirement age or a retired member who retired under section 38-758 if the retired member's retirement benefit has not been suspended pursuant to section 38-766.

## 2017 LEGISLATIVE SUGGESTIONS

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**STATUTE:** 38-738(A)&(B)

**PROPOSED BY:** Assistant Attorney General

**HISTORY:** Sponsored by Senator Lesko in 2016. Passed Senate Finance committee, Senate 3<sup>rd</sup> read, and House Government & Higher Education committee without dissent. Failed to pass House 3<sup>rd</sup> read night of sine die.

**PROPOSAL:** Part 1: To codify in statute current practice as it relates to employer credits under A.R.S. 38-738. Currently the statute indicates that employers are permitted to take a credit within one year of the overpaid contributions. However, the ASRS allows these credits into perpetuity so long as there are employer monies still on account. Additionally, the statute indicates that the ASRS will charge interest on these credits if the ASRS does not meet the 8% return. However, we do not charge interest in these scenarios.

Part 2: To clarify that members who are inactive, retired, or on long term disability can only purchase CNW service with an after tax check. Currently, the statute just refers to “members” as one group and suggests they can purchase service pursuant to 38-747 which would include rollovers and payroll deduction agreements.

Part3: To clarify in law that a person who has forfeited membership in ASRS but who returns to work for an ASRS employed cannot request a Contributions Not Withheld for any period of employment prior to the member’s most recent date of membership. Currently, it could be interpreted that by returning to active status, the member has CNW rights in A.R.S. 38-738 for employment prior to the member’s most recent ASRS membership date.

**LANGUAGE:** **38-738. Adjustment and refund**

(Part 1) A. If more than the correct amount of employer or member contributions is paid into ASRS by an employer through a mistake of fact, ASRS shall return those contributions to the employer if the employer requests return of the contributions **THROUGH AN EMPLOYER CREDIT OR** within one year after the date of overpayment **BY CHECK ON REQUEST OF THE EMPLOYER**. ASRS shall not pay an employer earnings attributable to excess contributions. ~~but shall reduce the amount returned to an employer pursuant to this section by the amount of losses attributable to the excess contributions.~~ **IF MORE THAN THE CORRECT AMOUNT OF EMPLOYER OR MEMBER CONTRIBUTIONS IS PAID INTO ASRS BY AN EMPLOYER THROUGH A MISTAKE OF LAW, ASRS SHALL RETURN THOSE CONTRIBUTIONS TO THE EMPLOYER IF THE EMPLOYER REQUESTS RETURN OF THE CONTRIBUTIONS THROUGH AN EMPLOYER CREDIT.**

B. If less than the correct amount of employer or member contributions is paid into ASRS by an employer, the following apply:

(Part 2) 1. The member shall pay an amount that is equal to the amount that would have been paid in member contributions for the period in question. ~~The member’s~~ **FOR ACTIVE MEMBERS**, payments shall be made as provided in section 38-747. **FOR MEMBERS WHO ARE INACTIVE, RETIRED OR ON LONG-TERM DISABILITY, PAYMENTS SHALL BE MADE**

## 2017 LEGISLATIVE SUGGESTIONS

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USING AFTER-TAX INCOME AND A PERSONAL CHECK, CASHIER'S CHECK OR MONEY ORDER. If the member does not make the payment within ninety days ~~of~~ AFTER being notified by ASRS that the employer has paid all amounts due from the employer, the unpaid amount accrues interest until the amount is paid in full. The member is responsible for payment of the unpaid amount and interest. The interest rate is the interest rate assumption that is approved by the board for actuarial equivalency for the period in question to the date payment is received.

(Part 3)

8. A MEMBER WHO PREVIOUSLY RECEIVED A RETURN OF CONTRIBUTIONS PURSUANT TO SECTION 38-740 MAY RECEIVE AN ADJUSTMENT OF EMPLOYER CONTRIBUTIONS OR SERVICE CREDITS PURSUANT TO THIS SECTION ONLY FOR QUALIFYING EMPLOYMENT AND COMPENSATION THAT OCCURRED AFTER THE MEMBER'S MOST RECENT RETURN OF CONTRIBUTIONS PURSUANT TO SECTION 38-742.

## 2017 LEGISLATIVE SUGGESTIONS

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**STATUTE:** 38-742(B)

**PROPOSED BY:** Rules Writer

**HISTORY:** Sponsored by Senator Lesko in 2016. Passed Senate Finance committee, Senate 3<sup>rd</sup> read, and House Government & Higher Education committee without dissent. Failed to pass House 3<sup>rd</sup> read night of sine die.

**PROPOSAL:** To clarify any potential confusion in our reinstatement statute regarding the purchase of forfeited service. Currently the statute indicates a member must repay what was received in a refund, plus interest, in order to receive service credit for that period. However, there is potential for confusion in that under a DRO, an ex-spouse may receive a portion of the member's benefit that was assigned to the ex-spouse. One could argue that the statute only suggests the member repay what the member had received and not the total amount paid, and would receive full service credit once that amount was repaid.

**LANGUAGE:** **38-742. Reinstatement**

B. Notwithstanding subsection A of this section, the member may redeposit the amount of the contributions ~~the member received~~ **THE ASRS PAID** at the time of the member's separation from service, with interest on that amount to the date of redeposit at the interest rate assumption approved by the board for actuarial equivalency. On satisfaction of this obligation, the member's service credits acquired by the previous employment shall be reinstated. The member is subject to the benefits and duties in effect at the time of the member's most recent reemployment except as provided in section 38-711, paragraph 5, subdivision (a). If a member redeposits less than the amount required under this subsection, ASRS shall proportionately reduce the member's reinstated service credits.

## 2017 LEGISLATIVE SUGGESTIONS

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**STATUTE:** 38-760(B)(3)

**PROPOSED BY:** Benefits Accounting

**PROPOSAL:** Incorporate into statute the authority of the ASRS to deny a PLS rollover in the event the member has an overpayment or estimated overpayment.

According to Chuck Whetstine, federal law precludes the ASRS from withholding all or a portion of the PLS in order for the ASRS to collect the owed portion of the overpayment. The proposal would be to be able to deny a PLS rollover distribution to a retiree who has an overpayment or estimated overpayment.

**LANGUAGE:** [38-760. Optional forms of retirement benefits](#)

B. The optional retirement benefits available under this section include the following:

3. Beginning on July 1, 2002, a lump sum payment equal to not more than thirty-six months of the member's retirement benefits based on the actuarial equivalent of the retirement income to which the member would be entitled under normal or early retirement. The member's benefit shall be actuarially reduced to provide for the lump sum payment. The lump sum payment shall be made at the time of retirement. **IF A MEMBER HAS AN OVERPAYMENT PURSUANT TO A.R.S. 38-765 OR A.R.S. 38-797.08 THE ASRS SHALL DENY DISTRIBUTION OF A PARTIAL LUMP SUM ROLLOVER AND OFFER DISTRIBUTION WITH AN AFTER-TAX PAYMENT.** Any benefit increase granted to a member who elects a lump sum payment pursuant to this paragraph is subject to the following conditions:

(a) If the benefit increase is a percentage increase of the member's retirement benefit, the increase shall be based on the actuarially reduced retirement benefit of the member.

(b) If the benefit increase is pursuant to section 38-767, the amount of the member's benefit increase shall be calculated without regard to the lump sum payment pursuant to this paragraph.

## 2017 LEGISLATIVE SUGGESTIONS

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**STATUTE:** 38-751

**PROPOSED BY:** Staff

**PROPOSAL:** Clarify permutations of a nonparticipatory employer not previously contemplated at the time the statute was drafted. Additionally, clarify sections B and C regarding schedules and methods of payment, who will be responsible for calculating the liability, and precisely how the liability will be calculated.

**LANGUAGE:** Proposed statutory language is currently being drafted and therefore not available at the time of this meeting. Below is the current drafting of A.R.S. § 38-751:

**38-751. Nonparticipatory employer liability allocation; definitions**

A. ASRS shall allocate a liability to an employer that is no longer participating in ASRS if that nonparticipation is based on any of the following:

1. The character of the employer changes from a public entity to a private entity.
2. An employer, other than this state or a charter school, files for bankruptcy or otherwise dissolves.
3. An employer is no longer participating.
4. For this state, the character of a state agency, board or commission changes from public to private.

B. ASRS shall determine the schedule and method of payment of the allocated liability.

C. The liability allocated to an employer under this section is equal to the sum of the following:

1. The plan employer actuarial accrued liability multiplied by the plan total deficit percentage.
2. The LTD program employer actuarial accrued liability multiplied by the LTD program total deficit percentage.

D. This section does not permit an employer to alter the irrevocable agreement approved by the board under section 38-729.

## 2017 LEGISLATIVE SUGGESTIONS

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**STATUTE:** 38-711(7)

**PROPOSED BY:** Assistant Attorney General

**PROPOSAL:** *(Contingent upon an outcome from ASRS petition for review to the Supreme Court)*  
Clarify, prospectively, that employer remitted contributions toward an alternative retirement account for the purposes of employment negotiations are not to be included in retirement calculations.

**LANGUAGE:** 38-711. [Definitions](#)

In this article, unless the context otherwise requires:

7. "Compensation" means the gross amount paid to a member by an employer as salary or wages, ~~including amounts that are subject to deferred compensation or tax shelter agreements,~~ for services rendered to or for an employer, or that would have been paid to the member except for the member's election or a legal requirement that all or part of the gross amount be used for other purposes, but does not include amounts paid in excess of compensation limits established in section 38-746. Compensation includes amounts paid as salary or wages to a member by a second employer if the member meets the requirements prescribed in paragraph 23, subdivision (b) of this section with that second employer.

Compensation, as provided in paragraph 5, subdivision (b) or (c) of this section, does not include:

(a) Lump sum payments, on termination of employment, for accumulated vacation or annual leave, sick leave, compensatory time or any other form of termination pay whether the payments are made in one payment or by installments over a period of time.

(b) Damages, costs, attorney fees, interest or other penalties paid pursuant to a court order or a compromise settlement or agreement to satisfy a grievance or claim even though the amount of the payment is based in whole or in part on previous salary or wage levels, except that, if the court order or compromise settlement or agreement directs salary or wages to be paid for a specific period of time, the payment is compensation for that specific period of time. If the amount directed to be paid is less than the actual salary or wages that would have been paid for the period if service had been performed, the contributions for the period shall be based on the amount of compensation that would have been paid if the service had been performed.

(c) Payment **FOR ANY EMPLOYMENT OR FRINGE BENEFIT INCLUDING BUT NOT LIMITED TO PAYMENTS, at the member's option, in lieu of fringe benefits that are normally paid for or provided by the employer FOR UNUSED VACATION OR SICK LEAVE PRIOR TO TERMINATION OF EMPLOYMENT AND TRAVEL, CAR AND PHONE ALLOWANCES.**

(d) Merit awards pursuant to section 38-613 and performance bonuses paid to assistant attorneys general pursuant to section 41-192.

## 2017 LEGISLATIVE SUGGESTIONS

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(e) Amounts that are paid as salary or wages to a member for which employer contributions have not been paid.

(f) COMPENSATION, AS PROVIDED IN PARAGRAPH 5, SUBDIVISION (C) OF THIS SECTION, FOR A MEMBER WHOSE MEMBERSHIP IN ASRS COMMENCED ON OR AFTER JANUARY 1, 2018 DOES NOT INCLUDE:

(i) EMPLOYER CONTRIBUTIONS TO A QUALIFIED PLAN, TAX SHELTERED ANNUITY, INDIVIDUAL RETIREMENT ACCOUNT, DEFERRED COMPENSATION PLAN OR ANY OTHER SIMILAR TYPE OF ARRANGEMENT PROVIDING FOR THE DEFERRAL OF COMPENSATION, INCLUDING BUT NOT LIMITED TO PLANS, ANNUITIES OR ACCOUNTS DESCRIBED IN SECTION 401(a), 401(k), 403(b), 408, 408A OR 457(b) OF THE UNITED STATES INTERNAL REVENUE CODE, THAT ARE MADE BY THE EMPLOYER FROM ITS OWN FUNDS AND NOT PURSUANT TO A LEGAL REQUIREMENT OR THE ELECTION BY THE MEMBER TO CONTRIBUTE THE MEMBER'S COMPENSATION TO THE PLAN, ACCOUNT, ANNUITY OR ANY OTHER SIMILAR TYPE OF ARRANGEMENT.

(ii) PAYMENTS MADE DIRECTLY OR INDIRECTLY BY THE EMPLOYER TO THE EMPLOYEE FOR WORK PERFORMED FOR A THIRD PARTY ON A CONTRACTED BASIS OR ANY OTHER TYPE OF AGREEMENT UNDER WHICH THE THIRD PARTY PAYS OR REIMBURSES THE EMPLOYER FOR THE WORK PERFORMED BY THE EMPLOYEE FOR THAT THIRD PARTY.

# Agenda Item #6



# 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*

## MEMORANDUM

**TO:** Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board  
**FROM:** Mr. Paul Matson, Director  
**DATE:** September 13, 2016  
**RE:** **Agenda Item #6:** Presentation, Discussion, and Appropriate Action Regarding the Appointment and Management of the ASRS Appeals Committee

### **Purpose:**

To discuss the establishment of an Appeals Committee of the Board, proceed with forming the Committee, and naming the Trustees to sit on the Committee.

### **Recommendation:**

The ASRS Board shall move to approve the creation of the Appeals Committee for the purpose of A.R.S. § 38-714(E)(1) and grant ongoing authority to the Board Chair to appoint members to the Appeals Committee.

### **Background:**

Currently the authority and process by which members or employers are afforded the opportunity to appeal agency decisions is outlined in A.R.S. § 41-1092.02, § 41-1092.09, and § 38-714 as well as in administrative rule R2-8-401 through 405. In the event an appellant disagrees with the decision of the ASRS Director they can appeal the decision, within 30 days, by requesting a hearing with the Office of Administrative Hearings. An administrative law judge then provides a recommended decision to the ASRS Board and the Board can then accept, reject, modify, or make no motion on the judge's decision.

Senate Bill 1037 in the 2016 Legislative Session permits the ASRS Board to establish an Appeals Committee of the Board whereby the Committee will have the full legal authority of the Board to adjudicate agency appealable actions.

See attached statute, A.R.S. § 38-714 with the 2016 changes highlighted.

Attachments: A. A.R.S. § 38-714  
B. Board Appeals Committee Proposal & Flow Chart

# Attachment A



Fifty-second Legislature - Second Regular Session

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### 38-714. [Powers and duties of ASRS and board](#)

A. ASRS shall have the powers and privileges of a corporation, shall have an official seal and shall transact all business in the name "Arizona state retirement system", and in that name may sue and be sued.

B. The board is responsible for supervising the administration of this article by the director of ASRS.

C. The board is responsible for the performance of fiduciary duties and other responsibilities required to preserve and protect the retirement trust fund established by section 38-712.

D. The board shall not advocate for or against legislation providing for benefit modifications, except that the board shall provide technical and administrative information regarding the impact of benefit modification legislation.

E. The board may:

1. Determine the rights, benefits or obligations of any person under this article and afford any person dissatisfied with a determination a hearing on the determination. **The board may delegate the duty and authority to act on the board's behalf to a committee of the board for the purposes of this paragraph and title 41, chapter 6, article 10 relating to any decision made under this paragraph by that committee of the board.**

2. Determine the amount, manner and time of payment of any benefits under this article.

3. Recommend amendments to this article and articles 2.1 and 7 of this chapter that are required for efficient and effective administration.

4. Adopt, amend or repeal rules for the administration of the plan, this article and articles 2.1 and 7 of this chapter.

F. Beginning June 30, 2016, the board shall determine which of the generally accepted actuarial cost methods shall be used in the annual actuarial valuation of the plan.

G. The board and ASRS are not subject to title 41, chapter 6, except title 41, chapter 6, article 10, for actuarial assumptions and calculations, investment strategy and decisions and accounting methodology.

H. The board shall submit to the governor and legislature for each fiscal year no later than eight months after the close of the fiscal year a report of its operations and the operations of ASRS. The report shall follow generally accepted accounting principles and generally accepted financial reporting standards and shall include:

1. A report on an actuarial valuation of ASRS assets and liabilities.

2. Any other statistical and financial data that may be necessary for the proper understanding of the financial condition of ASRS and the results of board operations.

3. On request of the governor or the legislature, a list of investments owned. This list shall be provided in an electronic format.

4. An estimate of the aggregate fees paid for private equity investments, including management fees and performance fees.

I. The board shall:

1. Prepare and publish a synopsis of the annual report for the information of ASRS members.

2. Contract for a study of the mortality, disability, service and other experiences of the members and employers participating in ASRS. The study shall be conducted for fiscal year 1990-1991 and for at least every fifth fiscal year thereafter. A report of the study shall be completed within eight months after the close of the applicable fiscal year and

shall be submitted to the governor and the legislature.

3. Conduct an annual actuarial valuation of ASRS assets and liabilities.

J. The auditor general may make an annual audit of ASRS and transmit the results to the governor and the legislature.

# Attachment B

## Board Appeals Committee Proposal

### **Authority:**

A.R.S. § 38-714 (E)(1)

The board may: Determine the rights, benefits or obligations of any person under this article and afford any person dissatisfied with a determination a hearing on the determination. The board may delegate the duty and authority to act on the board's behalf to a committee of the board for the purposes of this paragraph and title 41, chapter 6, article 10 relating to any decision made under this paragraph by that committee of the board.

### **Committee Members:**

Dick Jacob, Chair  
Jeff Tyne, Vice-chair  
Tom Manos

Members of the Appeals Committee are appointed at the discretion of the Board Chair. The Board Chair has appointed a three member committee; however, the Board Chair may amend the composition of the Appeals Committee at his discretion.

### **Standard Staff Attendees:**

Director - Paul Matson  
Deputy Director and Chief Operations Officer - Anthony Guarino  
Assistant Director Member Services - Dave King  
Member Advocate - Jenna Orozco  
Assistant Director Financial Services - Nancy Bennett  
Benefits Program Administrator – Frank Perri (HI / LTD appeals)  
Committee Administrator - Gloria Montiel

### **Other Standard Attendees:**

Assistant Attorney General Representative - Jothi Beljan  
Agency Counsel Section Chief or other representative from Attorney General's Office

### **Location:**

14th floor Conference Room – Teleconferenced to the Tucson ASRS office

### **Meeting Time:**

The meeting will be scheduled every month and cancelled if there is no appeal.

### **Transition:**

The Appeals Committee will become active November 1, 2016.

## **Appeals Committee Charter:**

### ***General***

Arizona Revised Statutes § 38-714(E)(1) permits the ASRS Board to delegate to a Committee to act on its behalf for the purposes of determining the rights, benefits or obligations of any party in an appealable agency action aggrieved by a final decision of the ASRS. The Appeals Committee is a standing committee of the Board responsible for hearing and making determinations on appealable agency actions.

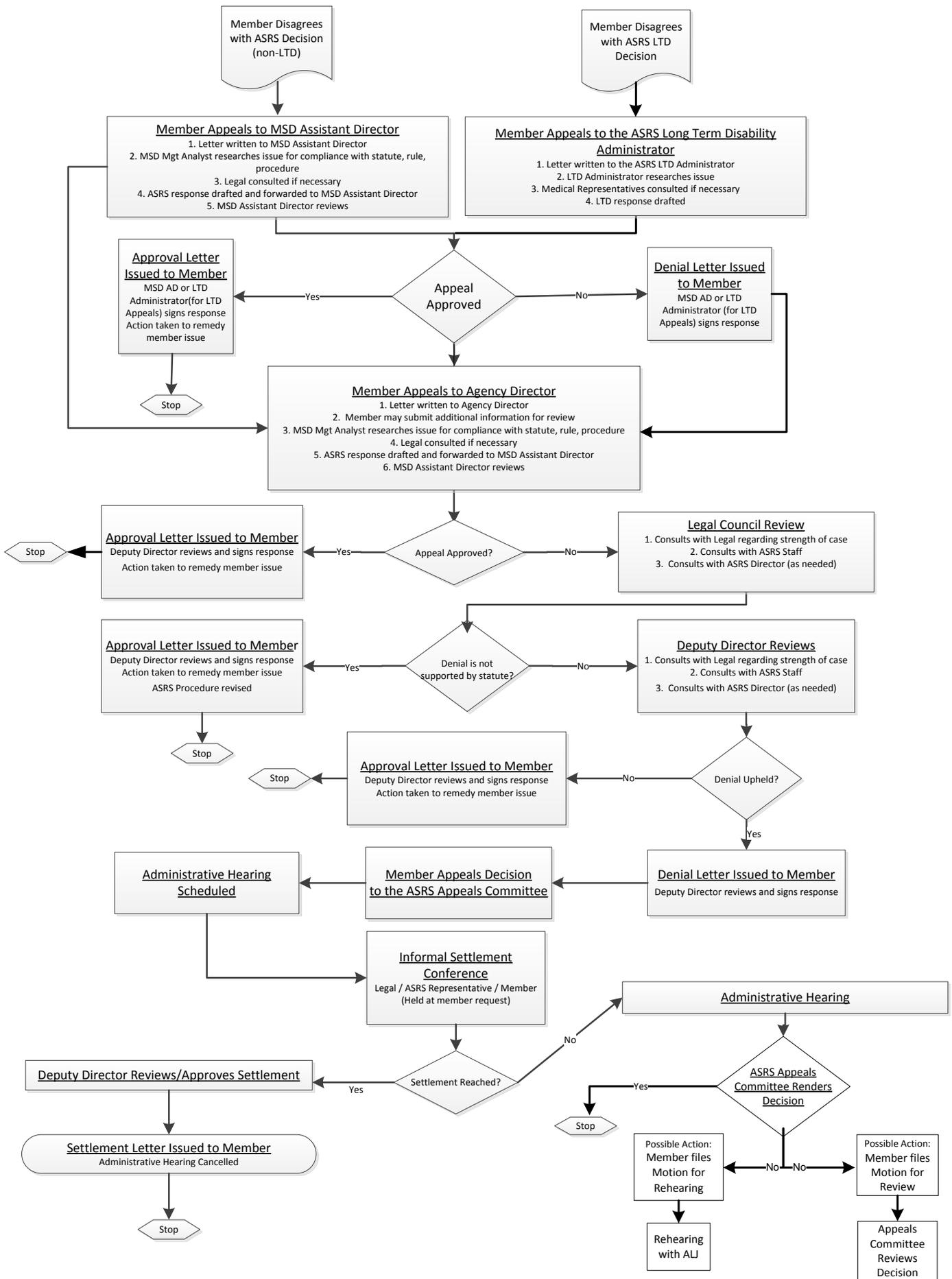
### ***Composition***

The Appeal Committee is composed of three or four members at the discretion of the Board Chair. Committee members are appointed by the Board Chair.

### ***Responsibilities***

The Appeals Committee has the following responsibilities:

1. To ensure appeals are heard by the Committee within the proper timeframe of the notice of appeal.
2. To hear and make rulings on appealable agency actions from ASRS members who believe agency decisions have caused them legal harm or loss. (A member may be employees, retirees, inactive members, long term disability participants, employers, or others who have a vested interest in decisions in which they are affected.)
3. To accept, reject, modify, or take no action on the recommendation of the Administrative Law Judge.
4. To ensure staff effectuate the decision of the Committee.



# Agenda Item #7

# Arizona State Retirement System Board Governance Policy Handbook



**APPROVED:** January 16, 2004

**REVISED:**

December 17,  
2004

February 18, 2005

December 6, 2005

December 15,  
2006

April 18, 2008

May 14, 2009

July 31, 2009

April 16, 2010

April 15, 2011

July 15, 2011

October 19, 2012

October 25, 2013

January 24, 2014

February 26, 2016

September 30, 2016

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## A. VISION STATEMENT AND CORE VALUES

# How...

## **ASRS Employees Deliver Service With PRIDE!**

### **PROFESSIONALISM**

*We promote, strive for and expect individuals, teams, and divisions to possess professional qualities and skills to lead the organization.*

- Displays a friendly, respectful and courteous demeanor even when confronted by adversity
- Has proactive and responsive approach to internal and external customer needs
- Possesses good communication and active listening skills
- Is a trusted contributor (manager, leader, SME, analyst, teammate)
- Takes personal accountability • Has subject matter expertise
- Has critical thinking skills • Has an honest, fair, non-judgmental mind-set
- Is adaptable to beneficial change • Adheres to the ASRS Code of Conduct

### **RESULTS**

*We treasure the achievements of individuals, teams, divisions and the agency that energize the organization.*

- Meets goals and objectives
- Completes projects
- Produces quality work products
- Satisfies customers
- Attains individual accomplishments
- Manages risks successfully

### **IMPROVEMENT**

*We appreciate individuals, teams or divisions who drive the agency forward with new, innovative ideas and solutions.*

- Promotes new ideas
- Enhances outcomes and performance
- Solves problems
- Enhances morale
- Improves relationships
- Increases efficiency, effectiveness or reduces costs

### **DIVERSITY**

*We recognize that utilizing different talents, strengths and points of view, strengthens the agency and helps propel outcomes greater than the sum of individual contributors.*

- Encourages an attitude of openness and a free flow of ideas and opinions
- Treats others with dignity and respect
- Works effectively to accomplish goals with teams comprised of dissimilar individuals
- Recognizes and promotes skills in others attained on and off the job

### **EXCELLENCE**

*We celebrate individuals, teams and divisions who exceed expectations and deliver service with a PRIDE that permeates the organization.*

- Surpasses member, stakeholder and associate expectations
- Demonstrates a willingness to go the extra mile to engender a positive public image
- Embraces change in a manner that inspires others
- Accepts responsibility and challenges with enthusiasm
- Takes a personal interest in promoting teamwork through effective use of communication (verbal, non-verbal, written and technological techniques)
- Creates a motivated, healthy and productive work environment that celebrates and rewards the accomplishments of others



**ARIZONA STATE  
RETIREMENT SYSTEM**

## B. ASRS BOARD CHARTER

---

Consistent with recognition of the fiduciary duties imposed upon each individual member of the Board, they are referred to in this Governance Handbook as “Trustees.”

The Board recognizes a sound governance structure is essential to fulfilling its duties and responsibilities. The Board prepared and adopted this Governance Handbook to establish the framework within which the Board intends to set governance and oversight policy.

The purpose of the Handbook is twofold. First, it is to provide orientation material for new Trustees (and executive staff) as to the roles, responsibilities, structure, procedures, policies, and activities in the governance and oversight of the ASRS. Second, it is to serve as an ongoing reference manual for current Trustees and ASRS staff.

This Handbook will be reviewed by the Board at least triennially, or more often if necessary. It will be updated at the Board’s direction. The Executive Director will recommend modifications for the Board’s consideration.

### The Board's Role

---

The ASRS Board was established under state law to govern and administer the ASRS. The Board has only those powers and duties that have been delegated to it by the Legislature. Within this role, the Trustees have a duty as fiduciaries under the law to act solely for the benefit of members and beneficiaries. (A.R.S. § 38-714, Arizona Constitution, Article 29, Section 1)

The Board views itself as being primarily an oversight and strategic policy-making body. The Board has delegated the leadership, management and administrative functions to the ASRS Director and staff subject to ongoing monitoring and oversight. The Board has also delegated the hiring and termination of investment managers, [the Real Estate and Private Equity Consultants, and other Asset Class Consultants](#) to the (Director’s) Asset Class Committees. The Board does not engage in regular day-to-day management functions of the ASRS.

### Board Composition (A.R.S. § 38-713)

---

The Board is composed of nine Trustees who are appointed by the Governor pursuant to the following statutory requirements:

1. Five Trustees must be members of the ASRS as follows:
  - a. An educator
  - b. An employee of a political subdivision
  - c. A retired member
  - d. An employee of the state
  - e. An at-large member representing any ASRS member group
2. Four Trustees are not members of the ASRS and represent the public.

### Trustee Terms, Resignations, and Vacancies

---

1. Each Trustee is appointed for a term of three years. The terms of office are staggered with three positions beginning and expiring on the third Monday in January of each year.
2. Trustees continue to serve in their positions after the expiration of their terms of appointment in accordance with law.
3. Individual Trustees may resign from their position on the Board by providing appropriate notice to the Governor. In such case, the resignation is not effective until accepted by the Governor. (A.R.S. §§ 38-291, 38-294)
4. Trustee position vacancies that otherwise occur before the expiration of a term will be filled by the Governor. (A.R.S. §§ 38-211, 38-713)
5. A position shall be deemed vacant if a trustee ceases to discharge their duties for a period of three consecutive months. (A.R.S. § 38-291)
6. Insufficient participation or engagement by a Trustee will be addressed by the Board Chair who will speak to the Trustee. If that does not resolve the problem, the Chair will contact the Governor’s Office for assistance.

## Duties and Responsibilities

---

The Board proactively oversees the delivery of ASRS benefits and investment of trust assets. Consistent with fiduciary standards the ASRS Board will:

1. Oversee and participate in the long-term strategic planning process for the ASRS.
3. Appoint, annually evaluate, and, if necessary, remove the Director in accordance with state law.
4. Delegate the leadership, management and administrative responsibilities of the ASRS to the Director through the Director Position Description, ~~and d~~
- 4.5. Delegate the hiring and termination of investment managers, the Real Estate and Private Equity Consultants, and other Asset Class Consultants to the Director through the asset class committee structure.
- ~~5-6.~~ Approve the creation or dissolution of standing and special committees of the Board.
- ~~6-7.~~ Approve the selection, and termination, and oversee the performance of the following external service providers:
  - a. Plan actuary and actuarial auditor
  - b. External financial auditor
  - c. General investment consultant(s)
  - d. Third-party administration providers for health and long-term disability
- ~~7-8.~~ Review and approve macro-level strategic investment policies which guide the strategic vision for ASRS investments.
  - e. SIP001 Asset Allocation (PLAN)
  - f. SIP002 Fund Position and Rebalancing (PLAN)
  - g. SIP003 Asset Allocation (LTD)
  - h. SIP004 Fund Rebalancing (LTD)
  - i. SIP005 Securities Litigation
  - j. SIP006 Investment Manager , Partner, and Co-Investment Selection and Oversight
  - k. SIP007 Funding Policy
  - l. SIP008 Asset Allocation (SYSTEM)
  - m. SIP009 Tactical Positioning and Rebalancing (SYSTEM)
- ~~8-9.~~ Establish high level or significant actuarial funding methods and assumptions, benefit option factors, and an asset valuation method consistent with state law.
- ~~9-10.~~ Conduct an annual actuarial valuation of the ASRS liabilities and submit the results to the Governor and the state legislature as required by state law.
- ~~10-11.~~ Conduct an actuarial experience investigation study every five years.
- ~~11-12.~~ Review the Actuarial Cost Allocation method in use every five years and make changes if appropriate. This review to take place within one year of the actuarial experience study.
- ~~12-13.~~ Conduct an independent third-party audit of the actuarial funding of the ASRS benefits every five years.
- ~~13-14.~~ Review, approve, and monitor the budget and budget change proposals.
- ~~14-15.~~ Ensure the integrity of the financial control and reporting system.
- ~~15-16.~~ Provide technical and administrative information and make recommendations on legislative proposals affecting the ASRS, without advocating for or against pension benefits modifications.
- ~~16.~~ Hear appeals in accordance with policy established by the Board.
17. Develop and approve other governance policies, directives, and rules for the administration of the ASRS as may be adopted from time to time.
18. Obtain periodic updates from Board Committees regarding oversight activities.
19. Review agency risk management activities at least once annually.
20. Biennially approve the internal audit plan.
21. Review and approve recommendations of the Director to appoint or remove the agency's internal auditor.
22. Review annually the administration of the third-party administrator for the Supplemental Retirement Savings Plan (SRSP) as presented by the Investment Committee.

23. Review annually the administration of the third-party administrator for the Supplemental Salary Deferral Plan (SSDP) as presented by the Investment Committee.

## C. TRUSTEE POSITION DESCRIPTION

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### Primary Responsibility

---

Each Trustee is individually a fiduciary for the governance and oversight of the ASRS and is obligated to act solely for the exclusive benefit of the ASRS members and beneficiaries. (Arizona Constitution, Article 29, Section 1, and A.R.S. § 38-714)

### Commitments

---

Trustees must be willing and able to devote the necessary time to fulfill their duties on the Board. This commitment includes the responsibility to:

1. Oversee the operations of the agency.
2. Act as a member of a nine-member board of trustees to provide leadership and set the strategic direction for the ASRS.
3. Prepare for and attend scheduled Board and Committee meetings.
4. Be an informed and active member of the Board, fully participating in the decisions and actions of the Board and its committees by making independent assessments and reasonable judgments.
5. Acquire and maintain the knowledge necessary to perform the duties of a Trustee.
6. Follow policies and procedures established by the Board.
7. Be accurate when communicating with other Trustees, members, beneficiaries, interested parties, the public, and ASRS staff, and always be clear on whether the statements being made are the position of the Board or solely the position of the individual Trustee.
8. Act collegially with the other Trustees and staff in the conduct of ASRS business.
9. Bring to the attention of the Board matters of concern that affect the conduct of the business of the Board or the ASRS.
10. Comply with the Board's Code of Ethics.
11. Adhere to state law regarding confidentiality and privacy of member records and benefits.
12. Adhere to Open Meeting Law. (A.R.S. §§ 38-431 et seq.)
13. Assume responsibility for evaluating the Trustee's own performance, the overall performance of the entire Board, and the performance of the Director.
14. Seek the advice of the Director and other Trustees when necessary to fulfill their fiduciary duties.
15. Delegate leadership, management and administrative responsibilities to the ASRS Director and where appropriate to outside service providers.

### Trustee Fiduciary Responsibilities

---

Trustees have a duty to the beneficiaries to invest and manage the funds of the trust as a prudent investor would, in light of the purposes, terms, distribution requirements, and other circumstances of the trust.

1. This standard requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation but in the context of the trust portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the trust.
2. In making and implementing investment decisions, the trustee has a duty to diversify the investments of the trust unless, under the circumstances, it is prudent not to do so.
3. In addition, the Trustee must:
  - a. conform to fundamental fiduciary duties of loyalty and impartiality;
  - b. act with prudence in deciding whether and how to delegate authority; and
  - c. incur only costs that are reasonable in amount and appropriate to the investment responsibilities of the trusteeship.

### Trustee Access to ASRS Resources

---

1. A Trustee shall not give instructions or assign tasks to individual ASRS staff.
2. A Trustee shall refrain from making negative comments on staff performance other than to the Director or acting Director.
3. A Trustee should make every effort to access ASRS resources through action of the full Board.

4. A Trustee may request from the Director, or the Director's designee, information or assistance necessary to meet the Trustee's responsibilities.
5. The Director may seek the advice of the Chair and Legal Counsel or refer the matter to the full Board before complying with individual Trustee requests that, in the Director's opinion, would require a significant amount of ASRS resources or cause disruption to the regular administration of the ASRS.
6. The Director shall share any vital or useful information resulting from a Trustee request with other Trustees.
7. The Director may refuse requests of individual Trustees that are in conflict with this policy.

## D. DIRECTOR POSITION DESCRIPTION

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### General

---

1. The Board will appoint the Director who shall serve at the pleasure of the Board. (A.R.S. § 38-715)
2. The Director reports to the full Board.

### Delegation of Responsibilities

---

1. Subject to the areas reserved to the Board by state law or the ASRS Board Charter, the Director is responsible for managing the regular operations of the ASRS in accordance with Board policies and directives.
2. The Director may make prudent delegation of the Director's responsibilities to other ASRS staff or outside service providers unless specifically prohibited by law or the Board.

### Specific Duties and Responsibilities

---

The Director will:

1. Provide leadership to the ASRS in fulfilling its statutory purpose and achieving the vision, values, investment principles, and goals outlined in the strategic plan.
2. Maintain effective and credible relationships with the members and beneficiaries of the ASRS, participating employers, executive officers of state government, the legislature, employee and retiree organizations, the media, and the public at large.
3. Project a positive image as Director of the ASRS.
4. Act as official spokesperson for the Board and the ASRS.

With respect to legislation; if draft legislation is proposed affecting the ASRS that the ASRS Board has not already taken a position on, the Director will discuss such draft legislation at his discretion with legal representation, and the Board Chair or acting Board Chair, to formulate an agency response.

If the draft legislation does not pertain to a benefit modification, the Director may provide relevant information and also support or oppose the draft legislation.

If the draft legislation pertains to a benefit modification, the Director may provide relevant information but will not support or oppose the draft legislation.

If a single piece of draft legislation covers both a benefit modification item as well as a non-benefit modification item, the Director may support or oppose the legislation, but will communicate that the support or opposition relates to the non-benefit modification item and not the benefit modification item.

5. Act as liaison between the Board and other ASRS staff and service providers.
6. Safeguard the assets of the ASRS by appointing a custodian and developing and implementing proper internal controls.
7. Account for and be responsible for ASRS data, the collection of income from all sources, maintenance of accounts, and distribution of benefits.
8. Monitor the operational and funded status of the benefit plans under the ASRS.
9. Identify strategic issues involving the design or ongoing administration of the defined benefit plan, defined contribution system, health insurance program, long term disability program, the supplemental retirement savings plan, and the supplemental salary deferral plan. Initiate analysis or action as appropriate.
10. Provide necessary staffing, support and resources to the Board and its committees.
11. Proactively assist and advise the Board and its committees with regard to issues requiring Board policy or action.
12. Appoint or remove the Deputy Director, Chief Investment Officer, and Assistant Director(s) positions or other staff as required.
13. Appoint the State Social Security Representative.
14. Recommend to the Board the appointment or removal of the internal auditor.
15. Perform annual performance evaluations of those who have a direct reporting relationship to the Director.
16. Be responsible for the recruitment, hiring and day-to-day management of employees.

17. Ensure the accurate and timely distribution of pension benefits, survivor benefits, and refunds.
18. Review and approve transfers between the ASRS and other retirement plans. (A.R.S. §§ 38-730 and 38-921)
19. Review and approve domestic relations orders. (A.R.S. § 38-773)
20. Review and approve employer applications for ASRS membership. (A.R.S. § 38-729)
21. Adjust the maximum compensation limits (A.R.S. § 38-746), contribution limits (A.R.S. § 38-747) and maximum retirement benefit amounts (A.R.S. § 38-769) when the limits and amounts are adjusted by the United States Secretary of the Treasury pursuant to the Internal Revenue Code.
22. Maintain a process for handling member and participating employer appeals of staff decisions and statutory interpretations.
23. Assist the Board in reviewing and adopting actuarial assumptions, funding methods, benefit option factors and actuarial valuation methods for the ASRS.
24. Initiate the annual actuarial valuations, periodic actuarial experience studies and independent actuarial audits as required by state law or Board policy and work with the actuary in determining and/or recommending appropriate assumptions.
25. Oversee and assist the Chief Investment Officer in developing macro-level strategic investment policies.
26. Review and approve standard operating procedures for the Investment Management Division.
27. Execute and manage investments in accordance with Board directives.
28. Assist the Board in soliciting and selecting of the following service providers:
  - a. Consulting actuaries and actuarial auditors
  - b. External financial auditor
  - c. General investment consultants
  - d. Third-party administration providers for health and long-term disability benefits
29. Approve contract extensions.
30. Approve the selection and termination of the Supplemental Retirement Savings Plan (SRSP) and the Supplemental Savings Deferral Plan (SSDP) investment options, and third-party administrators.
31. Review and approve, with the consensus of the CIO, recommendations from ASRS Asset Class committees, to hire and terminate investment managers/partners.
32. Review and approve recommendations from ASRS Asset Class committees to hire and terminate asset class consultants. ~~The Investment Committee must consent to the Director's recommendation before a primary consultant for an Asset Class committee is hired or terminated.~~
33. Except as otherwise noted, oversee the performance of all other service providers to the ASRS.
34. Develop and recommend to the Board, an appropriated operating budget. Manage and monitor expenditures within the budget and provide reports to the Operations and Audit Committee or Board as necessary or directed.
35. Manage and monitor continuously appropriated expenditures as prescribed in A.R.S. §38-721.
36. Oversee the preparation of the ASRS Comprehensive Annual Financial Report.
37. Develop and deliver all operational and actuarial reports to the Governor and state legislature as required by state law after approval by the Board.
38. Perform other duties delegated by the Board.
39. Administer the Supplemental Retirement Savings Plan (SRSP) and report to the Investment Committee annually.
40. Administer the Supplemental Salary Deferral Plan (SSDP) and report to the Investment Committee annually.
41. Review, analyze, implement and present the ASRS Funding Policy (SIP007) to the Board every three years or whenever a significant event impacts the policy or whenever the Director recommends modification.

## E. ELECTION OF BOARD OFFICERS

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### Board Officers

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The Board will elect the following Board officers:

1. Board Chair
2. Vice-chair

### Election Procedure

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1. Any Trustee may serve as a Board officer.
2. Any Trustee may make nomination(s) for Board officer positions, including him/herself.
3. Nominations will be made at the regular meetings of the Board in approximately May of each year.
4. Board officers will be elected by majority vote at a regular meeting of the Board prior to the start of a fiscal year. The Board Chair position shall be elected first, followed by the Board Vice-chair position.

### Term

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Board officers will serve for the fiscal year following their election. A Board officer typically may not serve more than three consecutive terms in one of the Board officer positions but may serve an unlimited number of non-consecutive terms.

### Resignations and Vacancies

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1. A Board officer may resign from their position by providing written notice to the Board and also informing the Director by copying him on the notice.
2. Board officer vacancies that otherwise occur before the expiration of a term will be filled by the Board for the balance of the term in a manner agreed upon by the Board.

### Removal

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The Board may remove an officer before the end of the officer's term at any time by majority vote. The vacant officer position must be filled at the next meeting of the Board.

## F. BOARD CHAIR POSITION DESCRIPTION

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### Responsibilities and Commitments

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The Chair holds a position of leadership for the Board and the ASRS and must be willing and able to devote the time necessary to fulfill these special responsibilities as the leader of the Board. This commitment includes the responsibility to:

1. Convene and conduct Board meetings in a collegial, fair, and efficient manner following Board policies, procedures, and applicable state law.
2. Review and approve the agenda for regular and special Board meetings and include any issues requested by the Trustees or the ASRS Director in accordance with Section G. *Board and Committee Meeting Protocol* of this Handbook.
3. Ensure proper and timely flow of adequate information to the Board.
4. Solicit input from Trustees regarding matters before the Board.
5. Ensure adequate time is provided for effective study and discussion of business being considered by the Board.
6. Schedule executive session meetings as necessary and in compliance with state law.
7. Make committee assignments, including chair and vice-chair positions, to committees, taking into account the desires of the Trustees.
8. Execute such documents and other legal instruments on behalf of the ASRS as required by state law or authorized by the Board.
9. Discuss performance and behavior issues with Trustees who are having a negative impact on the ASRS.
10. Perform all other duties specifically identified by the Board.

### Duties of Vice-chair

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The Vice-chair will act as temporary Chair in the absence of the Chair.

## G. BOARD AND COMMITTEE MEETING PROTOCOL

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### Rules of Order and Quorum

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1. The Board and its committees shall operate under the Arizona Open Meeting Law and the general guidance of Robert's Rules of Order.
2. A quorum must be present for the Board or its committees to conduct business. A majority of the Board or committee will constitute a quorum.
3. Board or committee members may not attend meetings through delegates or authorize voting by proxy.

### Scheduling of Regular, Special, and Emergency Meetings

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1. The Board will adopt an annual schedule identifying the time and location of regular meetings. The Board may schedule some meetings outside of the City of Phoenix metropolitan area. The Board or Board Chair may modify this schedule at its discretion.
2. The Board Chair, or any four Trustees, may call for special or emergency meetings of the Board.
3. The Director, at his discretion or as requested by the Board Chair, may post any Board Committee meeting as a dual Board and Committee meeting in order to permit interested Board members not on the particular committee to attend and participate in discussions. The committee meeting will be conducted under the committee's charter and the non-committee Trustees will not make or vote on committee motions.

### Meeting Notices

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1. At least twenty-four hour notice of all Board and committee meetings, including executive sessions, will be provided to the public in accordance with Arizona Open Meeting Law. (A.R.S. § 38-431.02)
2. If permitted per Arizona Open Meeting Law, in the case of an emergency meeting requiring immediate action to avoid some serious consequence, shorter notice may be provided.
3. The Board Chair or Committee Chair shall normally provide the Trustees with seven calendar days' notice of all Board and committee meetings.

### Trustee Attendance by Electronic Media

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A Trustee may participate in any meeting of the Board by telephone or video conference in a manner consistent with Arizona Open Meeting Law and applicable Arizona Attorney General Opinions. (A.R.S. § 38-431)

### Meeting Agendas

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1. The Board Chair in consultation with the Director will prepare an agenda for each Board meeting containing the specific matters to be discussed, considered or decided at the meeting.
2. The Board may discuss, consider, or make decisions only on matters on the agenda.
3. Items can be placed on a Board meeting agenda by:
  - a. The Board Chair
  - b. A Trustee
  - c. A Board Committee
  - d. The Director

The Board Chair will add requested items to the Board meeting agenda within three months of the request. A longer period may be agreed upon by the Chair and the requestor.

4. The agenda for an executive session must contain a general description of the matter to be considered or decided at the meeting. (A.R.S. § 38-431.02)

### Meeting Materials

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1. The Director will make every reasonable effort to distribute related Board meeting materials to the Trustees at least five calendar days before each meeting.
2. The Director shall prepare a summary of the issues to be discussed, a staff or committee recommendation, if applicable, and a proposed motion or motions for the Board to consider.

## Public Access and Testimony at Board Meetings

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1. All meetings of the Board or committees are public and all persons who wish to attend may do so in accordance with Arizona Open Meeting Law. (A.R.S. §§ 38-431 et. Seq.)
2. Every agenda for regular Board or committee meetings will provide the public an opportunity to be heard. The Board Chair or Committee Chair may prescribe the time and manner of such public comment.
3. With regard to matters raised by a member of the public for which proper public notice has not been provided, no action may be taken at that meeting. The Board or committee may request the Director to investigate the issue further and report back to the Board or committee at a later meeting.
4. The Director, in consultation with the Chair, will convene meetings in facilities and locations that provide the public with reasonable access.
5. An individual who intends to speak at a meeting may be required by the Board to sign a register to permit compliance with minute taking required under state law.

## Executive Sessions

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1. The Board and its committees may conduct business in executive session as permitted by state law. (A.R.S. § 38-431) Executive sessions shall be presided over by the Chair of the Board or committee.
2. Executive sessions shall be closed to the public and subject to the following conditions:
  - a. The executive session must be held during a regular, special, or emergency meeting of the Board or committee.
  - b. The executive session must address only those subject matters permitted under Arizona Open Meeting Law (A.R.S. § 38-431, § 38-797.03):
    - Discussion or consideration of employment, assignment, appointment, promotion, demotion, dismissal, salaries, disciplining or resignation of a public officer, appointee or employee of any public body.
    - Discussion or consideration of records exempt by law from public inspection, including the receipt and discussion of information or testimony that is specifically required to be maintained as confidential by state or federal law.
    - Discussion or consultation for legal advice with the attorney or attorneys of the public body.
    - Discussion or consultation with the attorneys of the public body in order to consider its position and instruct its attorneys regarding the public body's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation.
    - Discussions or consultations with designated representatives of the public body in order to consider its position and instruct its representatives regarding negotiations with employee organizations regarding the salaries, salary schedules or compensation paid in the form of fringe benefits of employees of the public body.
    - Discussion, consultation or consideration for international and interstate negotiations or for negotiations by a city or town, or its designated representatives, with members of a tribal council, or its designated representatives, of an Indian reservation located within or adjacent to the city or town.
    - Discussions or consultations with designated representatives of the public body in order to consider its position and instruct its representatives regarding negotiations for the purchase, sale or lease of real property.
    - Per § 38-797.03, discussions resulting from a member appeal of an administrative law judge determination regarding their Long Term Disability rights, benefits or obligations if such person requests a review of the determination in an executive session.
  - c. The executive session must satisfy all of the state's notice requirements under Arizona Open Meeting Law.
3. The Board will take no action while in executive session. Any such action must be taken during that portion of a meeting that is open to the public.

4. Trustees are prohibited under state law from publicly disclosing the discussions held in executive session. The Chair shall remind the Board or committee of this prohibition at the beginning of each executive session.

### Meeting Minutes and Board Records

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1. The Director will ensure that minutes of all meetings of the Board and committees are taken and made available to the public as required by state law.
2. The Director will prepare a written copy of the Board minutes taken at prior meetings of the Board and present it to the Board for approval at a subsequent meeting.
3. The Director will maintain records of the Board activities and actions in accordance with state law and such other documents necessary to establish a due diligence record of the Board's activities.

## H. BOARD COMMITTEES and CHARTERS

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### General

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The Board may establish standing or special committees to conduct the business of the full Board subject to the following conditions and limitations:

1. Board committees are responsible for overseeing various aspects of the ASRS administration and only have the authority to make recommendations to the Board.
2. Board committees may not act or speak for the Board.

### Standing Committees

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1. Standing committees are permanent committees established by the Board.
2. The standing committees of the Board are as follows:
  - a. Operations and Audit Committee (OAC)
  - b. External Affairs Committee (EAC)
  - c. Investment Committee (IC)
  - d. Appeals Committee (AC)

### Special Committees

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1. Special committees may be established from time to time by the Board Chair to address limited purposes and for limited times.
2. Special committees cease to exist automatically upon the completion of their stated purpose as determined by the committee chair.

### Committee Members

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1. The Board Chair shall appoint members of each committee for one-year terms.
2. The Board Chair shall appoint a chair and vice-chair for each committee. These committee officer position appointments will be for one-year terms.
3. The Board Chair may remove or replace members of a committee and committee officers before the end of the terms if the Chair determines such action is in the best interest of the ASRS.

### Committee Operating Rules

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1. The committee chair shall call committee meetings.
2. Committee meetings shall be subject to all of the public notification and meeting requirements established for the full Board in Section G of this Handbook.
3. Committee meetings are open to all Trustees, but only committee members may participate in the dialog or vote. However, if the meeting is posted as a dual meeting of the committee and Board, all participating Trustees may participate in the dialog but only committee members may vote.
4. The committees shall report to the Board, summarizing activities and recommendations on matters that have been referred to them.
5. The Director shall provide staffing, consulting, or other resources and support to Board committees as may be necessary and within budget to meet the responsibilities assigned by the Board.

## Standing Committee Charters

### Operations and Audit Committee Charter

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#### General

The Operations and Audit Committee (OAC) is a standing committee of the Board responsible for overseeing the general operations and administration of the ASRS, and for recommending Board action when required.

#### Composition

The Operations and Audit Committee is composed of three or four members at the discretion of the Board Chair. Committee members are appointed by the Board Chair.

#### Responsibilities

##### 1. Oversight

The OAC will meet regularly to evaluate ASRS performance in meeting strategic goals and objectives and managing administrative risks. Areas of responsibility are as follows:

- a. Member services, including all outreach, education, walk-in counseling, member correspondence, and call center services and programs.
- b. Employer services, including all outreach, education and call center services and programs.
- c. Technology services, including development, maintenance, security, performance, and compliance with state or industry standards.
- d. General accounting and financial reporting, including compliance with industry standards, investment accounting, payroll, accounts receivable and payable, pension payroll, and contribution reporting.
- e. Collection and maintenance of member/employer accounts, including contributions, salaries and service, demographic data, and security.
- f. Benefit administration, including calculations and disbursements for all benefit types.
- g. Strategic, agency-wide staffing issues.
- h. Administration ~~and plan design~~ of the ASRS health insurance program.
- i. Administration ~~and plan design~~ of the ASRS long term disability program.
- ~~j. Plan design of the ASRS 401(a) defined benefit plan.~~
- ~~k.~~ Governance policies and practices.
- ~~l.~~ Review appropriated budget request proposals; ongoing administration of the ASRS appropriated budget and continuously appropriated budget.
- ~~m.~~ General contract management and procurement.
- ~~n.~~ Strategic communications
- ~~o.~~ Strategic initiatives approved by the Board affecting operations or administration.

##### 2. The OAC will operate as the Audit Committee for the agency and will perform the necessary duties of an audit committee including:

- a. Oversight of the agency's enterprise-wide risk management program.
- b. Review, accept, and oversee changes to the biennial Audit Plan, and determine if the changes require Board review.
- c. Review and follow up on operational, investment, employer, and vendor audits.
- d. The OAC will use its discretion in reporting or making recommendations to the Board except in cases when Board action is required by governance policy (see Internal Audit Charter).

##### 3. Actions requiring independent Board review

The OAC will use its discretion in reporting or making recommendations to the Board except in cases when Board action is required by governance policy. Specifically, the OAC will forward its recommendations to the Board on the following matters:

- a. Selection or removal of a vendor or vendors to administer the ASRS health insurance programs.
- b. Selection or removal of a vendor to administer the ASRS long term disability program.
- c. Selection or removal of the ASRS external or internal auditor.

- d. Biennial review of the agency's risk management program.
- e. Biennial approval of the internal audit plan.
- f. Appropriated budget request proposals..

## Internal Audit Charter

### Introduction

The Internal Audit Division (IAD) is a vital part of the ASRS, providing independent, objective assurance and consulting services designed to add value and improve the organization's operations. The IAD is responsible for helping the ASRS leadership accomplish its objectives by performing independent assessments of the systems of risk management, internal controls and operating efficiency, guided by professional standards and in bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The IAD aspires to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.

### Organizational Status

The organizational status and support accorded to the IAD by the ASRS Board of Trustees (Board), the Operations and Audit Committee (OAC), and senior management are major determinants of the scope and value of the internal audit function to the agency.

The Chief Internal Auditor reports functionally to the Board through the OAC and administratively to the Director of the ASRS. The Director in consultation with the OAC or OAC Chair evaluates the performance, and subject to required ADOA guidelines, determines the remuneration of the Chief of Internal Audit. The OAC in consultation with the Director will recommend to the Board the appointment and removal of the Chief of Internal Audit.

Internal Audit personnel are independent of the ASRS activities they audit and will have no authority or responsibility for any of the procedures or activities of the ASRS. The Chief Auditor and internal audit staff are not authorized to perform operational duties for the organization. Additionally they are not authorized to initiate or approve accounting transactions external to the IAD. Internal audit staff is not authorized to direct the activities of any organization employee not employed by the internal audit division. This independence promotes essential impartial and unbiased judgments, and assures appropriate consideration and effective action on audit findings and recommendations.

The Chief of Internal Audit shall have free unrestricted access to the Chair of the OAC and the Chair and members of the Board, subject to applicable state and federal laws.

To accomplish audit objectives, Internal Audit staff is authorized to have full, free, and unrestricted access to any of the ASRS records, property, personnel, employer members, contractors, vendors, members and retirees relevant to any subject under review. Where the need is indicated, special arrangements will be made for the examination of confidential information. Internal auditors will exercise due diligence in the safeguarding and use of these resources. The Chief Auditor shall ensure that internal audit staff is instructed in the handling and safeguarding of confidential information.

### Internal Audit Standards

Internal Audit activities comply with the following:

- ASRS objectives and policies;
- International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors, Inc.;
- Generally accepted government auditing standards; and
- All other applicable professional standards.

## Scope Of Activities

The scope of internal audit work includes (1) the examination and evaluation of the adequacy and effectiveness of the agency's internal control systems, and (2) the quality of performance in carrying out assigned responsibilities.

The scope of the above work includes:

- Developing a biennial audit plan using risk analysis, and obtaining approval from the Board.
- Ensuring that risks within and outside the organization are appropriately identified and managed.
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report information.
- Evaluating compliance with current policies, plans, procedures, laws, and regulations.
- Appraising the safeguarding, and economical and efficient use of the organizations resources.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives, goals, strategies and risks, and are in synchrony with industry best practices and whether the operations or programs are being carried out as planned.
- Evaluating in-system design related to internal controls.
- Performing special reviews and investigations as requested by the Director, the Board, and the OAC.
- Investigating reported fraud occurrences by following the agency's "Fraud, Criminal Acts, Internal Investigation and Whistleblower Policy."
- Investigating reported occurrences of fraud, embezzlement, theft, waste, etc., and recommending controls to prevent or detect such occurrences.
- Performing investigations to ensure that employers appropriately enroll employees, accurately report member earnings, follow appropriate statutes related to retirees returning to work and appropriately report other employee data.
- When audited, ensuring that contractors, including third-party administrators are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures and best practices.

## Reporting

The results of internal audits are reported to the OAC, the Director, appropriate managers, and oversight bodies. On a quarterly basis, or more frequently at the request of the OAC Chair, the Chief of Internal Audit will meet with the OAC to discuss the status of the audit plan and other significant issues involving the IAD.

The IAD will establish and maintain a system for tracking corrective action for significant audit findings reported by internal and external auditors.

Management will provide the corrective action accomplished to the IAD on a timely basis for tracking, consolidation and reporting purposes.

An external peer review of the IAD will be performed every five years and the results reported to the OAC.

## Authority

The IAD was established by the Board of the ASRS. The Charter is incorporated into the ASRS Board Governance Policy Handbook and is approved by and all future amendments are approved by the Board through a majority vote. This Charter shall be reviewed at least triannually and updated as required by the OC.

## External Affairs Committee Charter

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### General

The External Affairs Committee (**EAC**) is a standing committee of the Board responsible for assisting the Board with legislative matters, the development of administrative rules, and reviewing the Agency Public Affairs program.

### Composition

The External Affairs Committee is composed of three or four members at the discretion of the Board Chair. **Committee members are appointed by the Board Chair.**

### Responsibilities

The External Affairs Committee has the following responsibilities:

#### 1. Legislation

- a. Work with the Director to identify legislative proposals to facilitate the efficient administration of ASRS operations and report Committee recommendations to the Board.
- b. Review **new proposed agency** legislation **and with respect to any ASRS program, plan design changes** and report Committee findings and recommendations to the Board for action.
- c. Review and monitor Board and ASRS activity regarding state legislative matters to help ensure compliance with the Legislative Review Policy and state law prohibitions on Board advocacy for or against legislation for benefit modifications. (A.R.S. § 38-714)
- d. Oversee communicating the actuarial contribution requirements and administrative costs to the legislature and other relevant parties.

#### 2. Administrative Rulemaking

- a. Review practices and procedures for inclusion in administrative rules for the ASRS as required and consistent with state law.
- b. Recommend to the Board the addition, deletion, or modification of administrative rules and substantive Board policies.

#### 3. Annual Public Affairs Program

Review the agency's annual Public Affairs program to ensure the legislative, Governor's Office, member associations, constituents, and interested parties are appropriately notified and/or informed about ASRS activities, meetings, investments and other information.

4. The Committee is also responsible for other issues or topics that reasonably pertain to external affairs.

## Investment Committee Charter

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### General

The Investment Committee (IC) is a standing committee of the Board responsible for assisting the Board in overseeing the ASRS investment program.

### Composition

The Investment Committee is composed of three or four members at the discretion of the Board Chair.

Committee members are appointed by the Board Chair.

### Duties and Responsibilities

1. Recommend to the Board the ASRS investment goals and objectives.
2. Recommend to the Board the ASRS strategic asset allocation policy which is expected to achieve the investment goals and objectives.
3. Recommend to the Board ASRS Strategic Investment Policies and review annually the ASRS Investment Policy Statement (IPS).
4. Review and recommend to the Board changes in investment-related sections of the ASRS Board Governance Policy Handbook.
5. Review the Asset Class Committee's activities and asset class presentations.
6. Receive and review asset class committee minutes.
7. Review recommendations regarding changes to asset class performance benchmarks. Subsequent approval by the Board is required.
8. Review the Tactical Fund Positioning/Portfolio Rebalancing actions.
9. Recommend to the Board the selection, and termination of the ASRS general investment consultant(s) and oversee their performance.
10. Engage the Director and CIO regarding the Investment Management Division's organizational strategic planning.
11. Receive and discuss ~~annually~~ ASRS investment risk ~~reports~~ and [compliance reports](#).
12. Review annually the administration of the third-party administrator for the Supplemental Retirement Savings Plan (SRSP) and annually report any issues to the Board.
13. Review annually the administration of the third-party administrator for the Supplemental Salary Deferral Plan (SSDP) and annually report any issues to the Board.
14. Review and comment if necessary on audits related to investment management.

## Appeals Committee Charter

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### General

Arizona Revised Statutes § 38-714(E)(1) permits the ASRS Board to delegate to a Committee to act on its behalf for the purposes of determining the rights, benefits or obligations of any party in an appealable agency action aggrieved by a final decision of the ASRS. The Appeals Committee is a standing committee of the Board responsible for hearing and making determinations on appealable agency actions.

### Composition

The Appeal Committee is composed of three or four members at the discretion of the Board Chair. Committee members are appointed by the Board Chair.

### Responsibilities

The Appeals Committee has the following responsibilities:

1. To ensure appeals are heard by the Committee within the proper timeframe of the notice of appeal.
2. To hear and make rulings on appealable agency actions from ASRS members who believe agency decisions have caused them legal harm or loss. (A member may be employees, retirees, inactive members, long term disability participants, employers, or others who have a vested interest in decisions in which they are affected.)
3. To accept, reject, modify, or take no action on the recommendation of the Administrative Law Judge.
4. To ensure staff effectuate the decision of the Committee.

## I. ASSET CLASS COMMITTEES

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### Purpose

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Asset class committees are designed to:

1. Provide authority and responsibility to the Director, CIO, and IMD staff regarding the implementation of the ASRS Strategic Asset Allocation Policy (SAAP) and associated selection of investment managers.
2. Improve the efficiency and effectiveness of the ASRS investment decision-making process.
3. Provide consistency and uniformity in investment decision-making frameworks.

Asset class committees are not deemed to constitute a sub-committee of the Investment Committee (IC) or full Board.

### Duties and Responsibilities

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The Director is delegated responsibility for the day-to-day management of the asset class committees.

The Asset Class Committees, with Director approval, have the responsibility for the hiring and termination of the Real Estate Consultant.

The Asset Class Committees, with Director approval, have the responsibility of the hiring and termination of the Private Equity Consultant.

Investment Management Division staff will be assigned to asset class committees as appropriate to provide subject matter expertise.

Asset Class Committee consultants will operate as staff extension consultants under the direction of the CIO.

### Organizational Structure/Composition/Voting Protocol

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The ASRS has two asset class committees:

1. Public Markets Committee (PUBMC) – This committee will manage ASRS investments in public markets and investments with public market-like characteristics. This includes traditional public U.S. and international equity and fixed income markets, bank loans, opportunistic public investments, global tactical asset allocation (GTAA) multi-asset class, commodities, currencies, non-traditional assets and absolute rate of return strategies.
2. Private Markets Committee (PRIVMC) – This committee will manage ASRS investments in private markets and investments with private market-like characteristics. This includes private equity, real estate\*, private fixed income and opportunistic private investments.

\*Includes public real estate/REIT investments.

The Private Markets and Public Markets Committees on an ongoing basis may elect to operate as two separate committees or as one committee.

Each asset class committee will contain the following members:

- a. The Director and/or CIO (or their designee) who will chair the committee.
- b. ASRS staff responsible for portfolio management.
- c. Designated staff-extension consultants.

To ensure the timely flow of information, the CIO will communicate to the IC, information regarding activities of the Asset Class Committees.

Voting members of the Committee include the Director, CIO and one or more IMD Portfolio Managers.

Investment manager selection decisions require the consensus of both the Director and CIO.

Real Estate and Private Equity Consultant hiring and termination decisions require the consensus of both the Director and CIO.

### Staff-extension Investment Consultants

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Staff-extension investment consultants are considered as an extension of the CIO and IMD staff and will be evaluated, interviewed, hired, assigned, terminated by the CIO with input from the Director and staff.

Staff-extension investment consultants will be utilized by the CIO and IMD staff to assist in the investment manager searches and other activities pertaining to the selection and monitoring of investment managers.

Selection of a particular staff-extension investment consultant will be based on those available from the approved pool of consultants and their particular strengths and ability to add value to the ASRS.

## J. TRUSTEE ORIENTATION AND EDUCATION PROGRAM

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### General

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The Board finds it is critical for the sound governance of the ASRS for Trustees to be fully informed with regard to the nature, purpose, structure, operational systems and processes of the ASRS. The Board further finds that it is important that Trustees are provided with education and training in areas that will facilitate the performance of their governance and oversight responsibilities as trustees and fiduciaries for the ASRS.

### New Trustee Orientation Program

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1. The Director will develop and present with the Board Chair to new Trustees an in-depth New Trustee Orientation session designed to inform new Trustees of the key functions of the ASRS and their responsibilities.
2. Newly appointed Trustees are expected as part of their fiduciary responsibilities for the ASRS to participate in the New Trustee Orientation Session within approximately two months of their appointment.
3. The Board believes the following orientation and education topics will increase Trustee understanding:
  - a. History and background of the ASRS.
  - b. Introduction to the executive management team and other staff as determined by the Director.
  - c. The governance role of the Board and the management role of the executive staff of the ASRS.
  - d. The state laws establishing the ASRS and the application of other state and federal laws.
  - e. A briefing on the fiduciary duties and liabilities of Trustees and other fiduciaries of the ASRS.
  - f. A briefing on conflicts of interest and ethics laws and policies and the state mandated courses on conflicts of interest laws.
  - g. A review of the Board Governance Handbook and other information and documentation deemed relevant by the Director or Board Chair.
  - h. A review of general retirement pension, health benefits design, LTD, and other specific benefits provided by the ASRS.
  - i. A review of general actuarial funding terminology and principles and the most recent actuarial reports.
  - j. A review of general institutional investment principles and the various investment policies in place.
  - k. A review of the reporting and disclosure requirements of the ASRS to state entities.
  - l. A review of the legal (state and federal) and political environment in which the ASRS operates.
  - m. A review of the current ASRS strategic plan and new issues, trends and developments affecting the ASRS.
  - n. The structure and model for the management and operation of the ASRS.
  - o. The legal and legislative environment.
  - p. A description and tour of ASRS offices as may be practicable.

### Trustee Education Policy

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1. Each Trustee is responsible for evaluating their educational needs and obtaining knowledge of specific subject matters. The Director will assist them in obtaining information on conferences or seminars to meet their education needs.
2. Trustees are to attend ongoing educational sessions to stay current on fiduciary responsibilities and are encouraged to attend conferences and seminars relating to:
  - a. Investment issues and trends;
  - b. Pension, healthcare, LTD, and benefits design;
  - c. Fiduciary management of employee benefit trusts;
  - d. Other subjects related to the oversight of the ASRS;
  - e. Training required by the state of Arizona.
3. The Director will periodically provide to the Board information on available conferences and seminars.
4. The Director shall arrange for an annual fiduciary education session for the Board.

## Reimbursement of Education Expenses

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Payment and/or Reimbursement of travel-related expenses for Trustee orientation and education will be in accordance with the state Travel Policy.

## K. STRATEGIC PLANNING POLICY

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### General

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Strategic planning is essential to ensuring the sound governance, oversight, and management of the ASRS. Since 1998, the ASRS has built its operation around a strategic model based on five organizing principles:

1. Look ahead with clarity of purpose by establishing an agency Vision, Values, Priorities, and Goals
2. Measure performance
3. Initiate strategic initiatives, as needed
4. Construct cost-efficient budgets and an effective workforce; and
5. Implement strong governance practices

The objectives of this policy are to:

1. Ensure that strategic priorities of the ASRS are primarily determined by the Board of Trustees, with active engagement, including recommendations, by the Director and senior staff.
2. Outline the process the ASRS will utilize when developing a Strategic Plan.
3. Describe how the Director will communicate with the Board regarding the agency's progress implementing the plan.

### Strategic Planning Policy

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The Board and Director will work collaboratively to ensure that:

1. Strategic priorities facing the ASRS over the short, medium, and long-term are identified, discussed, prioritized, and included in the Strategic Plan.
2. Strategic planning discussions remain focused on strategic issues that have been identified, and the strategic direction of the ASRS.
3. Strategies are developed and incorporated into the Strategic Plan to address the short, medium, and long-term priorities that have been identified by the Board.
4. The Board is updated at least annually regarding the agency's progress addressing strategic priorities.
5. Adequate resources are in place to support the successful execution of the Strategic Plan.
6. The agency's governance policy is periodically examined and updated to ensure that sound governance practices are in place.
7. Delineation of authority and autonomy is regularly discussed.

### Strategic Planning Development Process

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1. In preparation for Board meetings with strategic planning agenda items, the Director will ask the Board Chair for direction on how to proceed in discussing, modifying, or developing strategic priorities.
2. At least once annually, during Board meetings with strategic planning agenda items, the Trustees and Director will determine:
  - a. Which strategic topics they would like discussed during the year.
  - b. The number of Board meetings they would like to devote to strategic planning.
  - c. Preferences for how strategic discussions should be facilitated.
  - d. To facilitate the discussion, the Director will provide Trustees with a recap of:
    - Strategically-focused topics that have been discussed at prior Board and Committee meetings,
    - Strategically focused topics that have been requested by Trustees, but not yet scheduled for discussion,
    - Strategically focused topics that the Director recommends be considered for discussion.
3. Based on Trustee feedback, staff will develop a planning schedule for the upcoming year.
4. During strategic planning sessions, staff will provide background information, if needed, on topic areas that have been scheduled for discussion. This background information could include topical research, performance data, or staff's current analysis of the organization's strengths, weaknesses, opportunities, and threats, or other material requested by Trustees.
5. The Strategic Plan can be modified iteratively over its term or it can be modified only in preparation for a new Strategic Plan.

6. In the final year of the current Strategic Plan, trustees and the Director will focus Board Meetings with strategic planning agenda items on the identification of priorities for the next Strategic Plan.

### Strategic Plan Reporting

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1. Once the Board has identified its strategic priorities, the Director will work with staff to develop implementation strategies and performance measures for each of the priorities.
2. Staff will report at least annually to the Board on its progress addressing the strategic priorities that have been identified.
3. Trustees or the Director may request that priorities be added or deleted as needed.

## L. BOARD CODE OF ETHICS

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### General

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The Board has established the following Code of Ethics for the individual Trustees to comply with applicable state law and its duties of loyalty as fiduciaries for the ASRS.

The Board recognizes that compliance with these requirements is often complex and confusing. Trustees are strongly encouraged to seek the advice of the ASRS legal counsel whenever there is uncertainty regarding the required level of compliance from the Trustee.

### State Law

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Trustees will adhere, without limitation, to the following state laws as such apply to the conduct of their affairs and to carrying out their duties as trustees and fiduciaries for the ASRS:

1. Conflict of Interest Laws (A.R.S. § 38-503)

Under the conflict of interest laws, Trustees who have a conflict of interest must disclose the interest and refrain from participating in the matter.

A.R.S. § 38-503, provides in pertinent part:

- a. Any public officer or employee of a public agency who has, or whose relative has, a substantial interest in any contract, sale, purchase or service to such public agency shall make known that interest in the official records of such public agency and shall refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale or purchase.
- b. Any public officer or employee who has, or who's relative has, a substantial interest in any decision of a public agency shall make known such interest in the official records of such public agency and shall refrain from participating in any manner as an officer or employee in such decision.

The conflict of interest laws require a Trustee to examine proprietary and pecuniary interests of the Trustee and certain relatives of the Trustee. "Relative" is defined expansively and includes "the spouse, child, child's child, parent, grandparent, brother or sister of the whole or half blood and their spouses and the parent, brother, sister or child of a spouse." (A.R.S. § 38-502)

A Trustee must recognize that even though the Trustee may not have a substantial interest in a decision or a contract, if one of the Trustee's relatives described in A.R.S. § 38-502 has a substantial interest in a decision or a contract, the Trustee must disclose the interest and refrain from participating in the matter. Trustees have an affirmative obligation to become aware of the interests of relatives in matters that may involve the Trustees.

When a Trustee assesses whether the Trustee has a conflict of interest, the Trustee first must evaluate whether the Trustee or any of the Trustee's relatives has a "substantial interest" in the matter under consideration. An interest is "substantial" if it is not defined by statute as "remote" and if it is "any pecuniary or proprietary interest, either direct or indirect," of the Trustee or the Trustee's relatives. (A.R.S. § 38-502) The term "interest" is a pecuniary or proprietary interest, by which a person will gain or lose something, as contrasted with a general sympathy, feeling or bias.

The Legislature has determined that certain interests do not influence a person's decisions or actions impermissibly. The Legislature has defined these interests as "remote interests" and has listed them in A.R.S. § 38-502. Unless the pecuniary or proprietary interest at issue falls within one of the situations statutorily specified by the Legislature to be remote, the interest is substantial and creates a conflict of interest.

To determine whether a "substantial interest" exists, the Trustee should ask these questions:

- a. Will the decision affect, either positively or negatively, an interest of the Trustee or the Trustee's relatives?

- b. Is the interest a pecuniary or proprietary interest?
- c. Is the interest other than one statutorily designated as a remote interest?

If the answer to each of these questions is “yes,” then a substantial interest exists which requires disclosure and nonparticipation by the Trustee.

Any disclosure of a conflict resulting in a Trustee recusing him/herself from a Board or Committee decision, will be recorded in the minutes of that meeting.

## 2. Gifts and Gratuities

A Trustee will not ask for or accept anything (emolument, gratuity or reward, or any promise thereof) that is not authorized by law for performing the Trustee’s duties.

A Trustee will not use or attempt to use the Trustee’s position to secure valuable things or benefits for the Trustee, unless the benefits are part of the Trustee’s normal compensation.

A Trustee may not receive or agree to receive directly or indirectly compensation other than as provided by law for any service rendered or to be rendered by the Trustee personally in any matter pending before the ASRS.

Trustees are responsible for maintaining the integrity of both the ASRS and the State of Arizona. As a result, no Trustee of the ASRS is permitted to:

- a. Use his or her official position or attendance at a conference, seminar or training for personal gain.
- b. Solicit gifts.
- c. Accept gratuities.
- d. Accept gifts or favors that may appear to be designed to influence the Trustee’s official conduct.
- e. Permit him/herself to be placed under any kind of personal obligation that could lead a person to expect official favors.

The prohibitions in this policy are in effect any time Trustees can be viewed as being on official business for the ASRS or State of Arizona.

## 3. Contracts for supplies and services (A.R.S. § 38-503)

A Trustee may supply equipment, material, supplies or services to the ASRS **only** pursuant to an award or contract let after public competitive bidding. (A.R.S. § 38-503) The requirement of public competitive bidding is in addition to the disclosure and non-participation requirements of the Conflict of Interest Laws.

## 4. Disclosure of interests (A.R.S. § 38-509)

When a Trustee determines that the Trustee has a substantial interest in a matter, the Trustee must disclose the interest and withdraw from all participation in the decision or contract.

The Trustees must “maintain for public inspection in a special file all documents necessary to memorialize all disclosures of substantial interest made known pursuant to this article.” (A.R.S. §§ 38-501 to -511)

A Trustee who has a conflict of interest in any ASRS decision or in the award of a contract *must* provide written disclosure of that interest in the ASRS’ special conflict of interest file. (A.R.S. § 38-503). A Trustee may either file a signed written disclosure statement fully disclosing the interest or file a copy of the official minutes of the ASRS which fully discloses the interest. (A.R.S. §§ 38-502, -509)

Having disclosed the conflict of interest and withdrawn from participation in the matter, the Trustee must not communicate about the matter with anyone involved in the decision-making process. (A.R.S. § 38-503)

## Code of Ethics

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1. New Trustees are required to attend any state-provided Public Service Orientation Ethics Course.
2. Trustees shall maintain the highest ethical conduct at all times consistent with their fiduciary duty to act only for the exclusive benefit of the ASRS members and beneficiaries under state law.
3. The Trustees shall conduct themselves with integrity and exercise care, prudence and diligence in handling the affairs of the ASRS.
4. The Trustees must disclose conflicts of interest and appearance of conflicts of interest as defined under state law with respect to their fiduciary responsibility. Where a conflict of interest does exist, the Trustee must refrain from voting or otherwise participating in any manner with regard to the subject matter of the conflict.
5. The Trustees shall not:
  - a. Deal with assets of the ASRS for their own interest.
  - b. Accept gifts or gratuities prohibited by state law.
  - c. Act in any transaction involving the ASRS on behalf of any party whose interests are adverse to the interests of the ASRS or the members and beneficiaries.
  - d. Receive any monetary or other valuable consideration for their personal account from any party conducting business with the ASRS.

## Loyalty Oath

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Trustees are required to sign a State of Arizona Loyalty Oath upon their appointment to the ASRS Board. (See Appendix E.)

## Political Activities

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Though Staff are free to make contributions to a political campaign of a trustee or to any charitable organization associated with or supported by a Trustee, Trustees shall refrain from soliciting campaign or charitable contributions from staff, including but not limited to the purchase of, selling, distributing, or receiving payment for tickets for any political fundraiser, political meeting, or other political event.

## M. BOARD PERFORMANCE EVALUATION

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### General

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The Board will conduct an annual performance evaluation of its effectiveness and that of its committees as the governing fiduciary body for the ASRS. This will serve as a means of helping ensure that the Board continues to effectively meet its responsibilities and duties.

### Board Evaluation Policy

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1. The Board Chair, working with the Director, will be responsible for coordinating and conducting the Board performance evaluation process.
2. The evaluation will focus on the operations and decision-making processes of the Board as well as the outcome of ASRS actions.
3. The Board Chair will provide to each Trustee the performance evaluation forms approved by the Board. The Trustees are to conduct their evaluation in the first quarter of each calendar year, preceding the Director's evaluation.
4. The Board will seek input from the Director with respect to the staff's perception regarding the Board's and Board Committees' performance.
5. The Board may seek input from the Assistant Attorney General regarding an annual evaluation of the Board's compliance with statutory and governance responsibilities.

### Board Performance Evaluation Process and Forms

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A way for the Board to maintain excellence in governance is to develop a policy of reviewing its own performance on an annual basis. A two-step evaluation process has been adopted:

#### Part A: Trustee Self-Evaluation

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The purpose of having each individual Trustee evaluate him/herself is to encourage introspection and heighten awareness of the important areas of fiduciary responsibility. Trusteeship carries with it both a personal and collective duty to the members and beneficiaries. The "Trustee Self-evaluation" is an abbreviated outline and periodic reminder of what constitutes "good trusteeship."

It is recommended that this self-evaluation be performed annually, by each individual Trustee before the overall board evaluation is performed. Each year, the Board can choose how to handle the results of the evaluations.

The Trustee Self-evaluation is for the personal use of each Trustee to facilitate the full and frank examination of each Trustee's own performance. The form need not be completed or submitted, but rather each Trustee is asked to review the questions as they contemplate their self-evaluation. The objective is for this annual exercise to be helpful to the ASRS and not embarrassing to any individual.

#### Part B: Overall Board Evaluation

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By discussing and developing an overall board evaluation, the Board demonstrates its intention to establish a process for Trustees to evaluate Board performance with candor, objectivity, and a broad perspective. Such an evaluation process presents special challenges, and it may be difficult for Trustees to speak frankly about the performance of the Board as a whole, especially in situations where there is room for improvement.

Notwithstanding this difficulty, the benefits of an annual evaluation will enhance the Board's effectiveness in carrying out the mission of the ASRS.

The "Overall Board Evaluation" form contains elements of "best practices" of public retirement systems and is for the personal use of each Trustee to facilitate the full and frank discussion among the Trustees. The completed form does not need to be submitted to the full Board.

## N. DIRECTOR EVALUATION PROCESS

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### General

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The Board has delegated the responsibility of administering the ASRS to the Director and, therefore, understands that an evaluation of the performance of the Director's performance is important. The Board may conduct more frequent performance evaluations of the Director as it deems necessary.

### Objectives

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The evaluation of the performance of the Director is intended to:

1. Assist the Board in establishing and communicating clear, meaningful goals and performance targets for the Director.
2. Enable the Board to hold the Director accountable for performance.
3. Allow the Director to receive objective and timely feedback to help the Director perform at expected levels.

### Evaluation Procedure and Criteria

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1. In the first quarter of each calendar year, the Board, working with the Director, will adopt a set of performance goals and evaluation criteria to be used in evaluating the performance of the Director for the upcoming calendar year.
2. The evaluation of the performance of the Director will take place in the first quarter of each calendar year after the Board's self-evaluation is completed and will cover the preceding calendar year.
3. The subject matter addressed in the performance evaluation will include:
  - a. Leadership
  - b. Management/Administration/Budgeting
  - c. Communication
  - d. Policy matters
  - e. Staff development
  - f. Progress toward achieving performance business objectives previously established by the Board for the year
4. Other matters identified by the Board
5. The Director will prepare a written summary report of accomplishments and performance for the Board to use in their discussions of his/her performance.
  - a. The ASRS Human Resource Department will conduct a reverse evaluation of the Director, the results of which will be presented to the Board. Participation in the reverse evaluation is voluntary and anonymous and will include the following staff:
    - b. Deputy Director - Operations
    - c. Assistant Director - External Affairs
    - d. Chief Investment Officer
    - e. Chief of Administrative Services
    - f. Manager of Human Resources
    - g. Manager of Management Support Services
    - h. Assistant Attorney General Representative
6. The Board will reach consensus and provide a report of the Director's performance, and identify areas for improvement, if necessary.
7. The Board will meet with the Director to present and discuss the Board's evaluation of the Director's performance.

## Appendix A – Trustee Self Evaluation

It is not necessary to turn this document in, it is to assist board members in contemplating their evaluation.

Review the following statements in relation to your involvement as a Trustee of the ASRS. Rank answers using the following scale: **5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 - never**

	5	4	3	2	1
1. I attend the Board and Committee meetings I am expected to attend.					
2. I contribute to the discussion in a meaningful and helpful way.					
3. I fully understand my fiduciary duties and act for the benefit of all members, not merely for a particular constituency.					
4. I make an effort to be educated on the aspects of the ASRS that I do not understand.					
5. I comply with state laws and Board policies regarding conflicts of interest.					
6. I read the materials distributed before the Board meeting so I can constructively participate and make timely decisions.					
7. I work with the other Trustees and the staff in a collegial way.					
8. I understand that work requests to staff and outside consultants need to be agreed to by the Board or the Director and I act accordingly.					
9. I work with the Director in a way that creates an atmosphere of trust and cooperation.					
10. I understand the Director works for the entire Board and not for individual trustees and I act accordingly.					
11. I communicate Board governance problems to the Board Chair.					
12. As a Trustee of the Board, I have re-read Section L “Board Code of Ethics” and Appendix F “Loyalty Oath,” of the Board Governance Policy Handbook and I reaffirm my understanding of these items.					

I am most concerned about the following issues: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## Appendix B – Overall Board Evaluation

Name (optional) \_\_\_\_\_ Date: \_\_\_\_\_

This document should be completed and submitted to the Board chair.

Rate the following statements in relation to the overall operation of the Board. Rank answers using the following scale: **5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 - never**

	5	4	3	2	1
1. The Board maintains an effective oversight role with regard to benefits and investments issues.					
2. The Board knows and understands the ASRS Strategic Plan, and reflects this understanding when addressing key issues throughout the year.					
3. The Board engages in long-range strategic thinking and planning.					
4. The Board has achieved the business objectives it set out to accomplish this past year.					
5. The Board stays abreast of issues and trends affecting the ASRS, using this information to assess and guide the ASRS over the long term.					
6. The Board conducts a comprehensive evaluation of the Director annually.					
7. The Board ensures that new Trustees receive a prompt, thorough orientation.					
8. Board meetings are conducted in a manner that ensures open communication, meaningful participation, and sound resolution of issues.					
9. The Board meeting agendas are well-balanced, allowing time for the most critical issues.					
10. The Board and Committee meetings are handled efficiently.					
11. The Committees are effective, focusing on pertinent topics and allocating reasonable time.					
12. The Board is well-educated on both benefit and investment issues.					
13. The Board recognizes its policy-making role and reconsiders and revises policies as necessary.					
14. The Board is consistently prepared for meetings.					
15. The Board as a whole, and Trustees as individuals, evaluate their performance on an annual basis.					
16. The Board reviews and adopts a reasonable operating budget that is followed and monitored throughout the year.					
17. The Board periodically monitors investment performance and measures it against relevant benchmarks.					
18. The Board periodically monitors service to members.					
19. The Board comprehends and respects the difference between its policy-making role and the Director's management role.					
20. Board goals, expectations, and concerns are promptly, candidly and effectively communicated to the Director.					
21. The Board anticipates issues and does not often find itself reacting to "crisis" situations.					

Identify the three greatest achievements of the Agency with Board support during the past year.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

What critical issues need to be addressed by the Board in the future?

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What suggestions do you have for improvement of the conduct of Board and Committee meetings and for Board operation and communication?

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## Appendix C – Director Evaluation

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ASRS - Director Performance Evaluation

Name: Paul Matson

Title: Director

This form is to help you evaluate the performance of the Director of the ASRS. In each of the following rating categories, bullet points have been provided to assist you with your evaluation. Please rate the Director using the following scale and place the number on the "Rating" line in each category.

---

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Leadership: Rating \_\_\_\_\_

- Establishes and maintains effective and credible relationships affecting the ASRS.
- Projects a positive image as the Director of the ASRS.
- Recognizes the needs and desires of others; treats others with regard, courtesy and respect.
- Maintains a "big picture" outlook and is aware of industry issues.
- Forecasts trends, responds to change and invites innovation.
- Solicits and acts upon ideas of others when needed.
- Stresses the importance of high quality customer service.
- Maintains a well-functioning management team.
- Participates in relevant and worthwhile professional organizations.

**General Comments or Examples:** (You need not address each point separately.)

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5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Management/Administration/Budgeting: Rating \_\_\_\_\_

- Manages all ASRS business functions and activities in accordance with all relevant laws, Board policies and goals
- Develops reasonable budgets, communicates them to the Board, and operates within budgetary limits
- Ensures the efficient and effective functioning of the ASRS through delegation
- Follows up on Board directives to ensure proper implementation

**General Comments or Examples:** (You need not address each point separately.)

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5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Communication: Rating \_\_\_\_\_

- Keeps the Board and staff informed and communicates effectively with them
- Organizes ideas and information logically
- Speaks clearly and concisely, using understandable terminology
- Effectively and politely communicates with the members
- Professionally communicates with entities affecting the ASRS

**General Comments or Examples:** (You need not address each point separately.)

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5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Policy Matters: Rating \_\_\_\_\_

- Periodically reviews policies and makes recommendations for changes to the Board
- Accurately interprets Board policies and concerns, and develops a consistent direction for the staff to follow
- Initiates changes in day-to-day operations to conform to established Board policies
- Acts creatively to evaluate and recommend new initiatives or policies

**General Comments or Examples:** (You need not address each point separately.)

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5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Staff Development: Rating \_\_\_\_\_

- Creates an atmosphere that fosters teamwork, creativity and participation
- Communicates clear standards of performance for the executive staff
- Keeps informed and follows state personnel policies and procedures
- Encourages professional development of staff
- Addresses succession planning for key positions within the ASRS

**General Comments or Examples:** (You need not address each point separately.)

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5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Progress Toward Achieving Business Objectives: Rating \_\_\_\_\_

[Previously and mutually identified goals and objectives listed here.]

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

**General Comments or Examples:** (You need not address each point separately.)

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**Significant Overall Accomplishments:**

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**Areas Needing Improvement:**

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Overall Rating: \_\_\_\_\_

## **Appendix D – General Investment Consultants**

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The primary role of the ASRS general consultant(s) is to provide independent ASRS fund(s) investment reporting and performance measurement, financial market commentary and macro strategic/tactical investment advice. The general consultant attends Board and IC meetings as available/applicable, and participates in asset class committee meetings. Though not a designated asset class committee consultant, the general consultant will ensure asset class compliance with the ASRS asset allocation policy, be informed of asset class committee investment decisions, and as applicable, provide broad perspectives on opportunistic and public markets-related topics.

The general consultant will be evaluated, and interviewed by the IC, Director and CIO; the IC will make the selection and recommendation to the Board for approval. The general consultant will be hired and terminated by the Board, report to the IC and Board and, through the direction of the IC Chair, Director or CIO, be engaged at the request of the Board, IC, Director or CIO. In the event a backup general consultant is needed, a selection will be made by the IC from the approved pool of project consultants and recommended to the Board for approval.

## Appendix E – Trustee Fiduciary Liability and Coverage

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The liability of the Board of Trustees and its individual members in the conduct of their duties and responsibilities is established under state law as follows:

1. The Board as a whole and its individual members are not liable for any act or failure to act that is made in good faith within the scope of their responsibilities under state law. (A.R.S. § 38-791)
2. An individual member of the Board is immune from civil liability and is not subject to suit directly or by way of contribution for any act or omission resulting in any damage or injury if the member was acting in good faith and within the scope of the member's official capacity, unless the damage or injury was caused by willful and wanton or grossly negligent conduct of the member. "Official capacity" means any decision or act taken by a member of the Board to further the purpose for which the Board is established. (A.R.S. §§ 38-717 and 41-621)
3. The state and the ASRS are immune from liability for losses arising out of a judgment against the Trustees for willful and wanton conduct resulting in punitive or exemplary damages. (A.R.S. § 41-621) Liability for such damages would be the responsibility of the Trustees personally.
4. The Arizona Department of Administration is required by statute to provide coverage to the Board and to individual Trustees under the state's risk management program (A.R.S. §§ 41-621 to -625) "against all liability for acts or omissions of any nature by members of the board while acting in an authorized governmental or proprietary capacity and within the course and scope of their employment or authority." (A.R.S. § 38-717)

Under the state's risk management program, the Board and the Trustees receive the same coverage that the state itself receives. (A.R.S. § 41-621)

Under the state's risk management program the Board and the Trustees have coverage for "liability for acts or omissions of any nature while acting in authorized governmental or proprietary capacities and in the course and scope of employment or authorization except as provided by this chapter." (A.R.S. § 41-621)

Under the state's risk management program the Board and the Trustees also have coverage for "[o]ther exposure to loss where insurance may be required to protect this state and its departments, agencies, boards and commissions and all officers, agents and employees acting in the course and scope of employment or authorization except as prescribed by this chapter." (A.R.S. § 41-621)

According to A.R.S. § 41-621 acts or omissions of a Trustee would be "within the course and scope of employment or authorization" if they:

- a. Occur while performing duties or functions that the Trustees are authorized to perform.
- b. Occur "substantially within" the authorized time and space limits of a Trustee's authorization.
- c. Are done (or not done) at least in part to serve the Arizona State Retirement System.

Under the state's risk management program, the Attorney General's Office will defend the Board and the Trustees. The Attorney General may retain outside counsel to defend the Board and the Trustees. (A.R.S. § 41-621)

Under the state's risk management program all attorneys' fees, court costs and litigation expenses will be paid from the permanent liability loss revolving fund of the Department of Administration. (A.R.S. § 41-622) A settlement or judgment, except for punitive damages, also will be paid from this fund. (Id. and A.R.S. § 41-621)

If a Trustee is sued based on conduct outside the course and scope of a Trustee's authorization, the state is not obligated to provide coverage for that conduct. (A.R.S. § 41-621) If the conduct is clearly outside the course and scope, the state will deny coverage. (A.R.S. § 41-621) If there is a question whether the Trustees' acts were within their official capacity, the state may reserve the right to refuse to pay any judgment and will then hire outside counsel to represent the Trustees.

Losses arising from contractual breaches are not covered under the state's risk management program. (A.R.S. § 41-621)

## Appendix F – Loyalty Oath

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STATE OF ARIZONA

LOYALTY OATH

§38-231. Officers and employees required to take loyalty oath; form; classification; definition

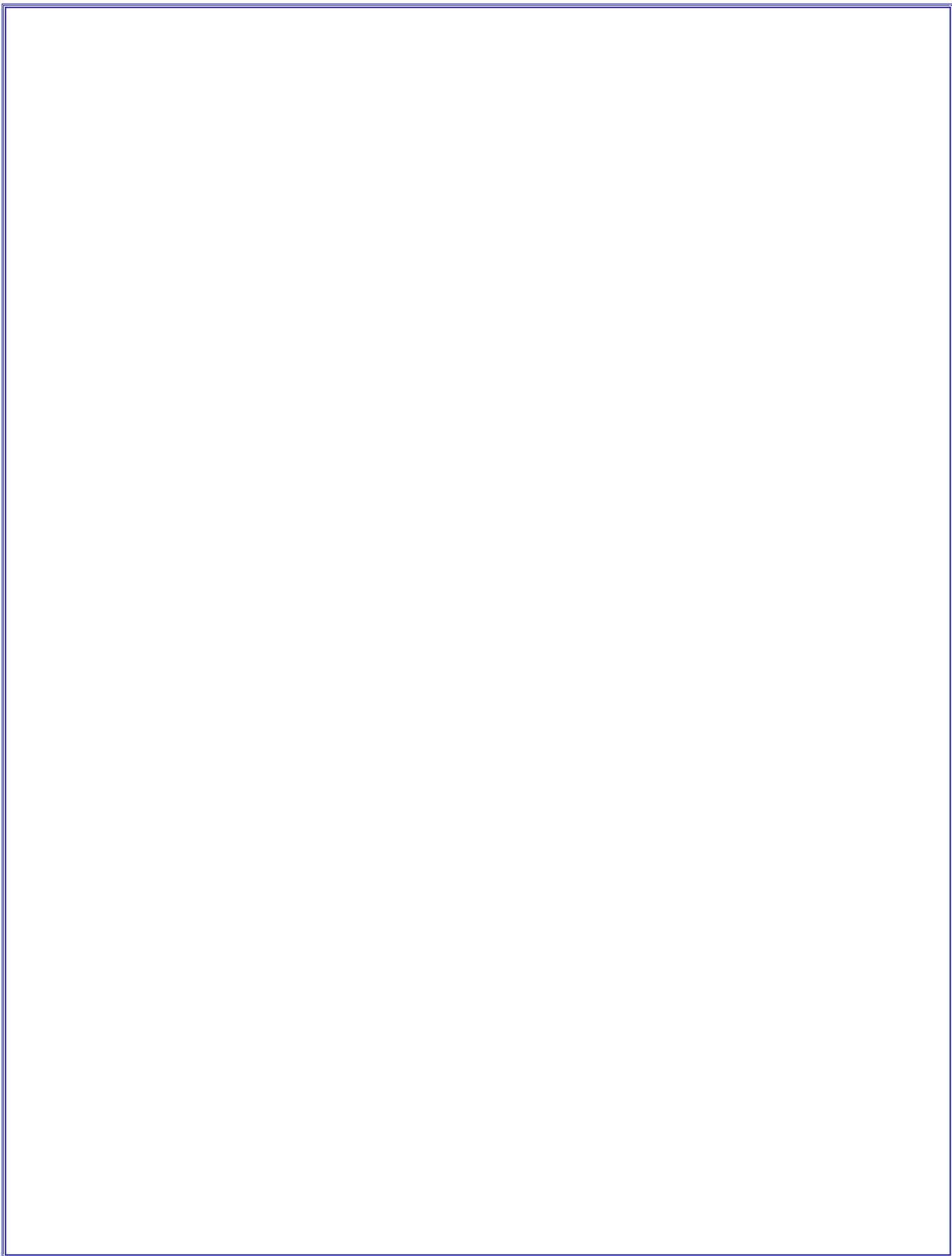
- A. In order to ensure the statewide application of this section on a uniform basis, each board, commission, agency and independent office of this state, and of any of its political subdivisions, and of any county, city, town, municipal corporation, school district and public educational institution, shall completely reproduce this section so that the form of written oath or affirmation required in this section contains all of the provisions of this section for use by all officers and employees of all boards, commissions, agencies and independent offices.
- B. any officer or employee who fails to take and subscribe to the oath or affirmation provided by this section within the time limits prescribed by this section is not entitled to any compensation until the officer or employee does so take and subscribe to the form of oath or affirmation prescribed by this section.
- C. any officer or employee having taken the form of oath or affirmation prescribed by this section, and knowingly at the time of subscribing to the oath or affirmation, or at any time thereafter during the officer's or employee's term of office or employment, does commit or aid in the commission of any act to overthrow by force, violence or terrorism as defined in section 13-2301 the government of this state or of any of its political subdivisions, or advocates the overthrow by force, violence or terrorism as defined in section 13-2301 of the government of this state or of any of its political subdivisions, is guilty of a class 4 felony and, on conviction under this section, the officer or employee is deemed discharged from the office or employment and is not entitled to any additional compensation or any other emoluments or benefits which may have been incident or appurtenant to the office or employment.
- D. Any of the persons referred to in article XVIII, section 10, Constitution of Arizona, as amended, relating to the employment of aliens, are exempted from any compliance with this section.
- E. In addition to any other form of oath or affirmation specifically provided by law for an officer or employee, before any officer or employee enters upon the duties of the office or employment, the officer or employee shall take and subscribe the following oath or affirmation:

State of Arizona, County of \_\_\_\_\_ I, \_\_\_\_\_ (type or print name) do solemnly swear (or affirm) that I will support the Constitution of the United States and the Constitution and laws of the State of Arizona, that I will bear true faith and allegiance to the same and defend them against all enemies, foreign and domestic, and that I will faithfully and impartially discharge the duties of the office of THE ARIZONA DEPARTMENT OF ADMINISTRATION according to the best of my ability, so help me God (or so I do affirm).

\_\_\_\_\_(Signature of officer or employee)

\_\_\_\_\_(Date)

- F. For the purposes of this section, "officer or employee" means any person elected, appointed or employed, either on a part-time or full-time basis, by this state or any of its political subdivisions or any county, city, town, municipal corporation, school district, public educational institution or any board, commission or agency of any county, city, town, municipal corporation, school district or public educational institution



# Agenda Item #8

## Director's Report

**8a - Investments**

**8b - Operations**

**8c - Budget & Staffing**

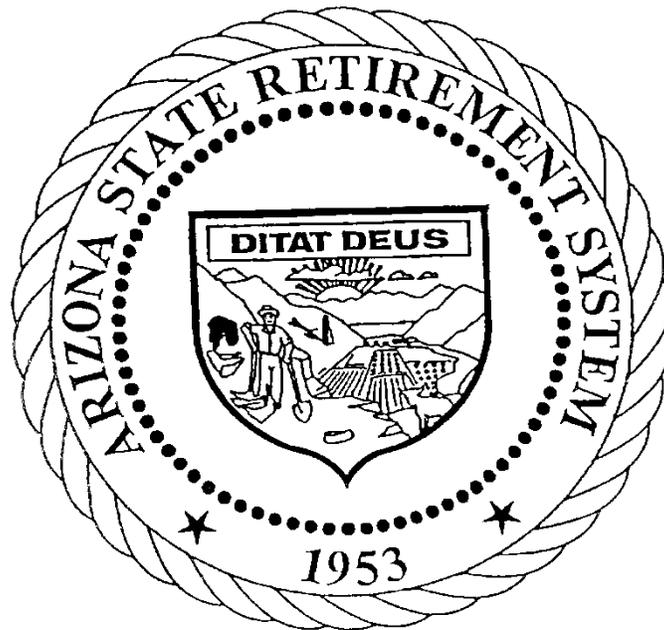
**8d - Cash Flow Statement**

**8e - Appeals**

**8f - Employers Reporting**

# Agenda Item #8a

## Director's Report Investments

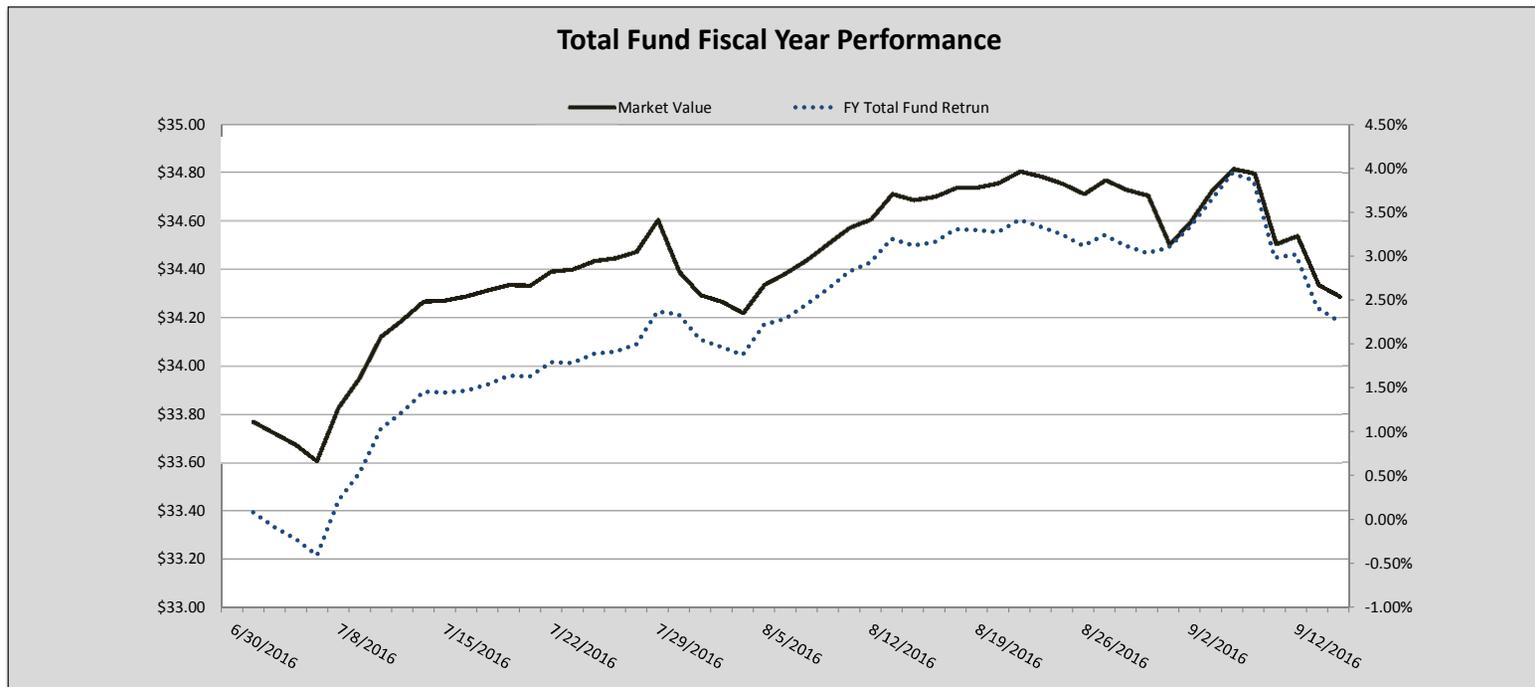


# Investment Report

Arizona State Retirement System

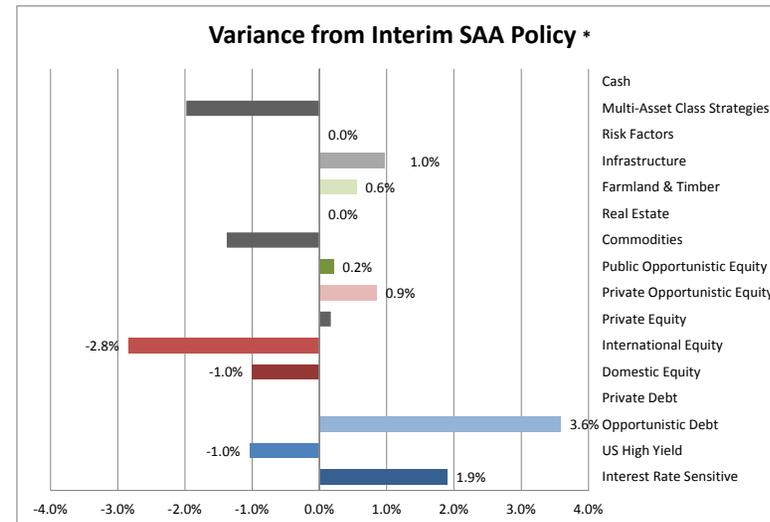
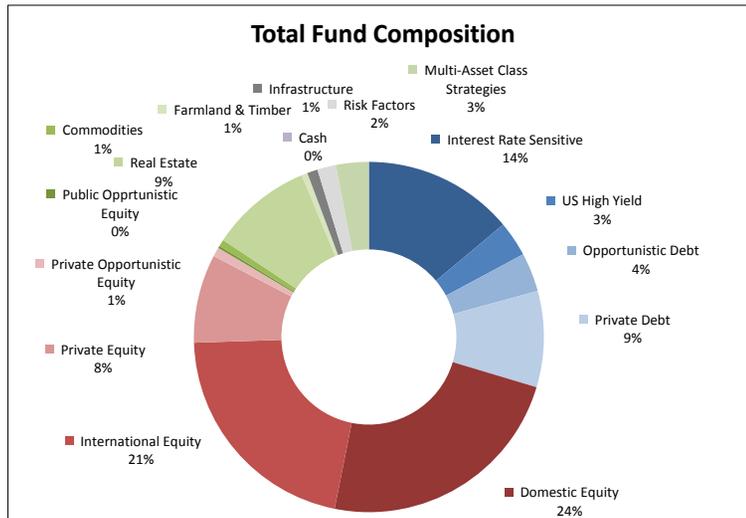
September 30, 2016

# Fiscal Year Performance



# Total Fund Positioning

## Total Fund Positioning September 14, 2016



All Private Markets asset classes' market values are reported on a quarter-lag basis and adjusted to include the current quarter's cash flow.

# Asset Allocation

Total Fund		ASRS Market Value Report						Wednesday, September 14, 2016	
Account Manager	Account Manager Style	Fixed Income		Equity		Inflation Linked	Multi-Asset	Market Value	%
		Active	Passive	Active	Passive				
Master Cash	Operating Cash (non-assetized)		3,745,224					3,745,224	0.01%
	<b>Cash Total</b>							<b>\$3,745,224</b>	<b>0.01%</b>
	<b>Treasuries (Long Duration) Total</b>							<b>\$0</b>	<b>0.00%</b>
								<b>Long Treasuries (Range: 0% - 10%)</b>	<b>0.00%</b>
ASRS: Phoenix	Enhanced Passive F2		1,910,155,391					1,910,155,391	5.57%
Blackrock: San Francisco	Passive (US Debt Index)		2,486,036,655					2,486,036,655	7.25%
Assetized Cash	US Treasuries		370,777,163					370,777,163	1.08%
	<b>Core Fixed Income Total</b>							<b>\$4,766,969,210</b>	<b>13.91%</b>
	<b>Interest Rate Sensitive</b>							<b>\$4,766,969,210</b>	<b>13.91%</b>
								<b>Interest Rate Sensitive Policy</b>	<b>11.00%</b>
Columbia: Minneapolis	Active	736,896,154						736,896,154	2.15%
JP Morgan: Indianapolis	Active	380,588,687						380,588,687	1.11%
	<b>High Yield Fixed Income Total</b>							<b>\$1,117,484,849</b>	<b>3.26%</b>
								<b>High Yield Policy</b>	<b>4.00%</b>
	<b>Opportunistic Debt</b>	1,230,908,871						<b>\$1,230,908,871</b>	<b>3.59%</b>
								<b>Opportunistic Debt Policy</b>	<b>0.00%</b>
	<b>Private Debt Total</b>	3,041,565,290						<b>\$3,041,565,290</b>	<b>8.87%</b>
								<b>Private Debt (Range: 8% - 12%)</b>	<b>10.00%</b>
	<b>Fixed Income Total</b>							<b>\$10,156,928,220</b>	<b>29.63%</b>
								<b>Total Fixed Income (Range: 18% - 35%)</b>	<b>25.00%</b>
LSV: Chicago	Active (Value)			572,588,791				572,588,791	1.67%
ASRS: Phoenix	Passive E2			4,549,623,608				4,549,623,608	13.27%
ASRS: Phoenix	Enhanced Passive E7			505,988,323				505,988,323	1.48%
ASRS: Phoenix	Enhanced Passive E8			546,350,588				546,350,588	1.59%
	<b>Large Cap Equity Total</b>							<b>\$6,174,585,029</b>	<b>18.01%</b>
								<b>U.S. Equity Large Cap Policy</b>	<b>20.00%</b>
Wellington: Boston	Active (Core)			283,519,994				283,519,994	0.83%
ASRS: Phoenix	Passive E3 (Growth)			318,793,418				318,793,418	0.93%
ASRS: Phoenix	Passive E4 (Value)			304,855,186				304,855,186	0.89%
	<b>Mid Cap Equity Total</b>							<b>\$907,168,598</b>	<b>2.65%</b>
								<b>U.S. Equity Mid Cap Policy</b>	<b>3.00%</b>
TimesSquare: New York	Active (Growth)			367,740,234				367,740,234	1.07%
DFA: Santa Monica	Active (Value)			279,695,408				279,695,408	0.82%
ASRS: Phoenix	Passive E6			332,120,327				332,120,327	0.97%
	<b>Small Cap Equity Total</b>							<b>\$979,555,968</b>	<b>2.86%</b>
								<b>U.S. Equity Small Cap Policy</b>	<b>3.00%</b>
	<b>U.S. Equity Total</b>							<b>\$8,061,309,595</b>	<b>23.51%</b>
								<b>U.S. Equity (Range: 16% - 36%)</b>	<b>26.00%</b>
Brandes: San Diego	Active (EAFE)			557,240,476				557,240,476	1.63%
American Century	Active (EAFE)			538,910,114				538,910,114	1.57%
Trinity Street	Active (EAFE)			319,535,333				319,535,333	0.93%
Thompson Siegel Walmsley	Active (EAFE)			299,095,375				299,095,375	0.87%
Blackrock: San Francisco	Passive (EAFE)			4,028,863,404				4,028,863,404	11.75%
	<b>Large Cap Developed Non-US Equity Total</b>							<b>\$5,744,173,842</b>	<b>16.76%</b>
								<b>Large Cap Developed Policy</b>	<b>17.00%</b>
AQR: Greenwich	Active (EAFE SC)			99,585,616				99,585,616	0.29%
DFA: Santa Monica	Active (EAFE SC)			106,396,326				106,396,326	0.31%
Franklin Templeton: San Mateo	Active (EAFE SC)			102,455,203				102,455,203	0.30%
Blackrock: San Francisco	Passive (EAFE SC)			129,278,884				129,278,884	0.38%
	<b>Small Cap Developed Non-US Equity Total</b>							<b>\$437,718,509</b>	<b>1.28%</b>
								<b>Small Cap Developed Policy</b>	<b>2.00%</b>
William Blair: Chicago	Active (EM)			380,848,238				380,848,238	1.11%
Eaton Vance: Boston	Active (EM)			287,165,850				287,165,850	0.84%
LSV: Chicago	Active (EM)			125,452,253				125,452,253	0.37%
Blackrock: San Francisco	Passive (EM)			339,466,758				339,466,758	0.99%
	<b>Emerging Markets Equity Total</b>							<b>\$1,132,933,099</b>	<b>3.30%</b>
								<b>Emerging Markets Policy</b>	<b>5.00%</b>
	<b>Non-US Equity Total</b>							<b>\$7,314,825,449</b>	<b>21.34%</b>
								<b>Non-US Equity (Range: 14% - 34%)</b>	<b>24.00%</b>

## Investment Report

	<b>Private Equity Total</b>			2,800,452,003				<b>\$2,800,452,003</b>	<b>8.17%</b>
								<b>Private Equity (Range: 6% - 10%)</b>	<b>8.00%</b>
	<b>Private Opportunistic Equity</b>			291,527,048				<b>\$291,527,048</b>	<b>0.85%</b>

As

LSV: Chicago	Active (Value)		572,588,791					Total Fixed Income (Range: 18% - 35%)	572,588,791	25.00%
ASRS: Phoenix	Passive E2			4,549,623,608					4,549,623,608	13.27%
ASRS: Phoenix	Enhanced Passive E7			505,988,323					505,988,323	1.48%
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	<b>Large Cap Equity Total</b>								<b>\$6,174,585,029</b>	<b>18.01%</b>
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ASRS: Phoenix	Passive E4 (Value)			304,855,186					304,855,186	0.89%
	<b>Mid Cap Equity Total</b>								<b>\$907,168,598</b>	<b>2.65%</b>
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	<b>U.S. Equity Total</b>								<b>\$8,061,309,595</b>	<b>23.51%</b>
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	<b>Emerging Markets Equity Total</b>								<b>\$1,132,933,099</b>	<b>3.30%</b>
								<b>Emerging Markets Policy</b>		<b>5.00%</b>
	<b>Non-US Equity Total</b>								<b>\$7,314,825,449</b>	<b>21.34%</b>
								<b>Non-US Equity (Range: 14% - 34%)</b>		<b>24.00%</b>
ASRS: Phoenix	Risk Factor Portfolio			589,060,019					589,060,019	1.72%
	<b>Public Equity Total</b>								<b>\$15,966,655,848</b>	<b>46.57%</b>
	<b>Private Equity Total</b>		2,800,452,003						<b>\$2,800,452,003</b>	<b>8.17%</b>
								<b>Private Equity (Range: 6% - 10%)</b>		<b>8.00%</b>
	<b>Private Opportunistic Equity</b>		291,527,048						<b>\$291,527,048</b>	<b>0.85%</b>
								<b>Private Opportunistic Equity Policy:</b>		<b>0.00%</b>
	<b>Public Opportunistic Equity</b>		72,390,458						<b>\$72,390,458</b>	<b>0.21%</b>
								<b>Public Opportunistic Equity Policy:</b>		<b>0.00%</b>
	<b>Equity Total</b>								<b>\$19,131,025,356</b>	<b>55.80%</b>
								<b>Total Equity (Range: 48% - 65%)</b>		<b>58.00%</b>
Gresham: New York						215,580,910			215,580,910	0.63%
	<b>Commodities Total</b>								<b>\$215,580,910</b>	<b>0.63%</b>
								<b>Commodities (Range: 0% - 4%)</b>		<b>2.00%</b>
	<b>Real Estate Total</b>				3,220,308,199				<b>\$3,220,308,199</b>	<b>9.39%</b>
								<b>Real Estate (Range: 8% - 12%)</b>		<b>10.00%</b>
	<b>Infrastructure Total</b>				331,287,085				<b>\$331,287,085</b>	<b>0.97%</b>
								<b>Infrastructure (Range: 0% - 3%)</b>		<b>0.00%</b>
	<b>Farmland &amp; Timber Total</b>				188,959,819				<b>\$188,959,819</b>	<b>0.55%</b>
								<b>Farmland &amp; Timber (Range: 0% - 3%)</b>		<b>0.00%</b>
	<b>Inflation Linked Total</b>								<b>\$3,956,136,013</b>	<b>11.54%</b>
								<b>Inflation Linked (Range: 10% - 16%)</b>		<b>12.00%</b>
Bridgewater						1,034,531,703			1,034,531,703	3.02%
	<b>Multi-Asset Class Strategies</b>								<b>1,034,531,703</b>	<b>3.02%</b>
								<b>Multi-Asset Class (Range: 0% - 12%)</b>		<b>5.00%</b>
	<b>TOTAL Amounts</b>	<b>\$5,389,959,010</b>	<b>\$4,770,714,434</b>	<b>\$7,484,794,161</b>	<b>\$11,646,231,195</b>	<b>\$3,956,136,013</b>	<b>\$1,034,531,703</b>		<b>\$34,282,366,515</b>	<b>100.00%</b>
	<b>TOTAL Percent</b>	<b>15.72%</b>	<b>13.92%</b>	<b>21.83%</b>	<b>33.97%</b>	<b>11.54%</b>	<b>3.02%</b>			

# Asset Allocation (Continued)

Asset Class	Actual Portfolio	SAAP		Interim SAA		Actual - Interim SAA		Policy Band check Actual - Adj Policy
		Target	Range	Adj Policy	Range	% diff	\$ diff	
Tactical Cash	0.00%	0%	(0-3%)	0.00%	(0-3%)	0.00%	0	
Cash	0.01%	0%		0.00%		0.01%	3,745,224	
<b>Total Cash</b>	<b>0.01%</b>	<b>0%</b>	<b>(0-3%)</b>	<b>0.00%</b>	<b>(0-3%)</b>	<b>0.01%</b>	<b>\$3,745,223.87</b>	
Interest Rate Sensitive	13.91%	11%		12.01%		1.90%	649,971,359	
High Yield	3.26%	4%		4.30%		-1.04%	-\$356,922,175	
Opportunistic Debt	3.59%	0%		0.00%		3.59%	\$1,230,908,871	
Private Debt	8.87%	10%	(8-12%)	8.87%	(7-11%)	0.00%	\$0	
<b>Total Fixed Income</b>	<b>29.63%</b>	<b>25%</b>	<b>(18-35%)</b>	<b>25.18%</b>	<b>(18-35%)</b>	<b>4.45%</b>	<b>\$1,523,958,055</b>	<b>OK</b>
Large Cap	18.01%	20%		18.74%		-0.73%	-\$249,767,761	
Mid Cap	2.65%	3%		2.78%		-0.13%	-\$44,724,595	
Small Cap	2.86%	3%		3.00%		-0.14%	-\$48,915,027	
<b>US Equity</b>	<b>23.51%</b>	<b>26%</b>	<b>(16-36%)</b>	<b>24.52%</b>	<b>(15-35%)</b>	<b>-1.00%</b>	<b>-\$343,407,384</b>	<b>OK</b>
Developed Large Cap	16.76%	17%		17.17%		-0.42%	-\$143,397,324	
Developed Small Cap	1.28%	2%		2.00%		-0.72%	-\$247,928,822	
Emerging Markets	3.30%	5%		5.00%		-1.70%	-\$581,185,227	
<b>Non-US Equity</b>	<b>21.34%</b>	<b>24%</b>	<b>(14-34%)</b>	<b>24.17%</b>	<b>(14-34%)</b>	<b>-2.84%</b>	<b>-\$972,511,373</b>	<b>OK</b>
Total Equity Transition	0.00%	0%		0.00%		0.00%	\$0	
Risk Factors	1.72%	0%		1.72%		0.00%	\$0	
<b>Total Public Equity</b>	<b>46.57%</b>			<b>1.72%</b>		<b>0.00%</b>	<b>\$0</b>	
Private Equity	8.17%	8%		8.00%	(6-10%)	0.17%	\$57,862,682	<b>OK</b>
Private Opportunistic Equity	0.85%	0%		0.00%		0.85%	\$291,527,048	
Public Opportunistic Equity	0.21%	0%		0.00%		0.21%	\$72,390,458	
<b>Total Equity</b>	<b>55.80%</b>	<b>58%</b>	<b>(48-65%)</b>	<b>58.41%</b>	<b>(48-65%)</b>	<b>-2.61%</b>	<b>-\$894,138,570</b>	<b>OK</b>
Commodities	0.63%	2%	(0-4%)	2.01%	(0-4%)	-1.38%	-\$474,224,990	<b>OK</b>
Real Estate	9.39%	10%	(8-12%)	9.39%	(7-11%)	0.00%	\$0	<b>OK</b>
Infrastructure	0.97%	0%	(0-3%)	0.00%	(0-3%)	0.97%	\$331,287,085	<b>OK</b>
Farmland & Timber	0.55%	0%	(0-3%)	0.00%	(0-3%)	0.55%	\$188,959,819	<b>OK</b>
Opportunistic I/L	0.00%	0%		0.00%		0.00%	\$0	
<b>Total Inflation Linked</b>	<b>11.54%</b>	<b>12%</b>	<b>(10-14%)</b>	<b>11.41%</b>		<b>0.13%</b>	<b>\$46,021,914</b>	<b>OK</b>
Multi-Asset Strategies	3.02%		(0-12%)	5.00%	(0-12%)	-1.98%	-\$679,586,623	<b>OK</b>
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>		<b>100.00%</b>		<b>0.00%</b>	<b>\$0</b>	

\*Interim SAA includes a proration of unfunded Private Equity, Private Debt, and Real Estate  
\*\*Private Equity is prorated to domestic equity; Real Estate is prorated to equity, commodities, and fixed income; Private Debt is prorated to Interest Rate Sensitive and High Yield

Internally Managed Portfolios:	
\$8,467,886,840	25%

**Opportunistic definitions:**  
An investment in a category that is not included in the ASRS Asset Allocation policy and represents an investment opportunity that is tactical in nature.  
Opportunistic investments have a 0% target (0%-10% range), regardless of asset class.

<b>Total Opportunistic</b>		
Opportunistic Debt	\$1,230,908,871	3.6%
Opportunistic Equity	\$291,527,048	0.9%
Opportunistic IL	\$0	0.0%
	<b>\$1,522,435,918</b>	<b>4.4%</b>

# Public Equity Performance

## Public Equity Performance

*Investment Management Division*

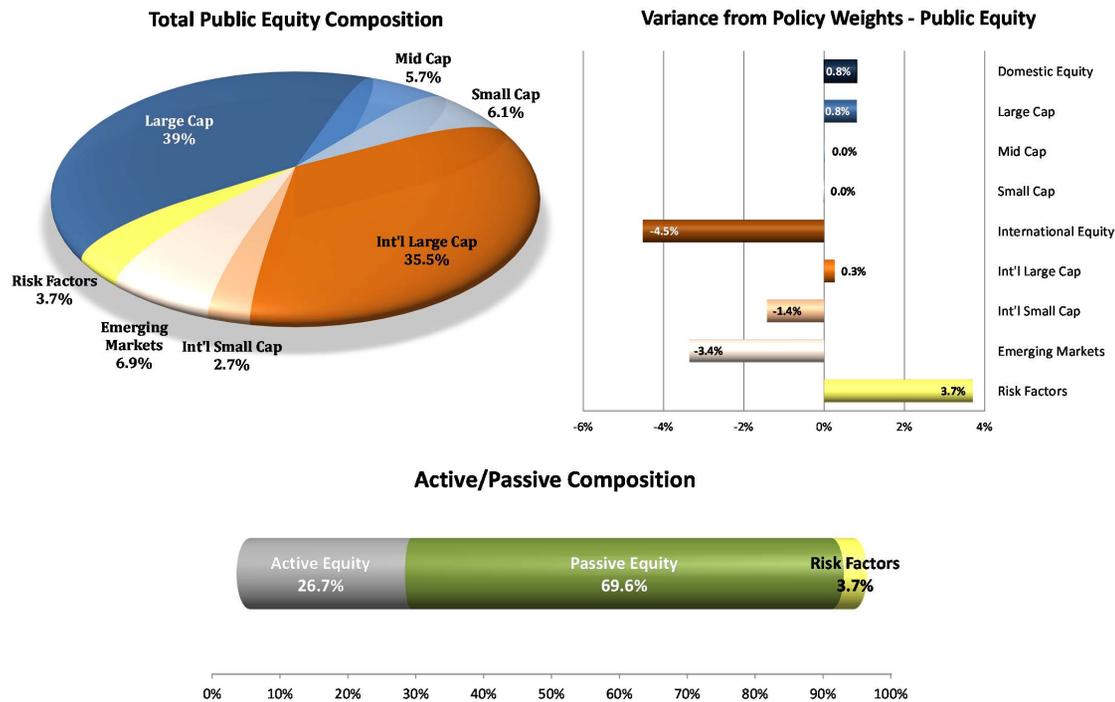
*Performance through July 31, 2016*

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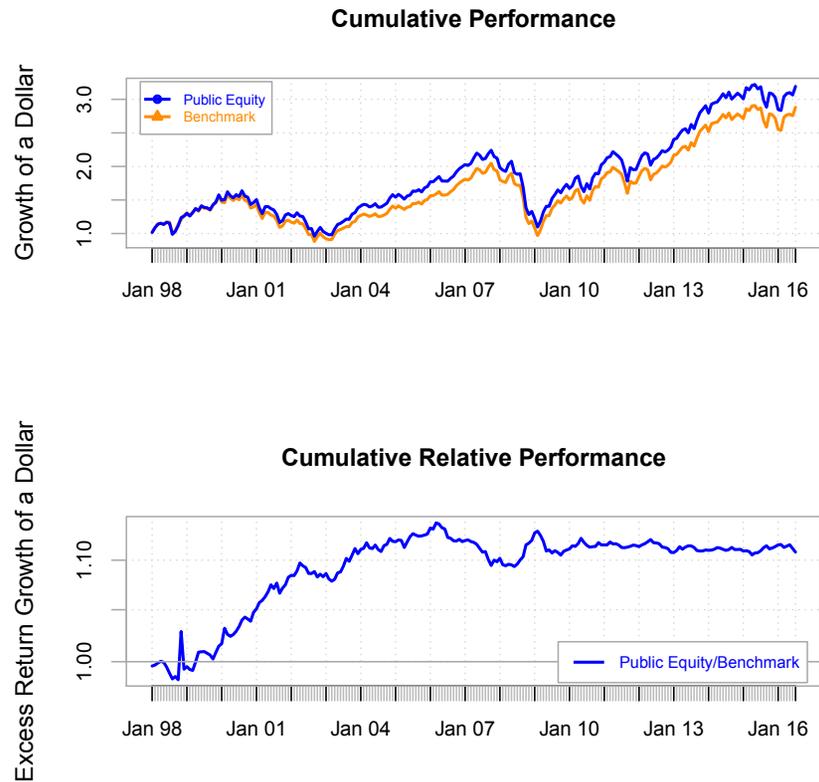
# Public Equity Performance (Continued)

## Total Public Equity Snapshot



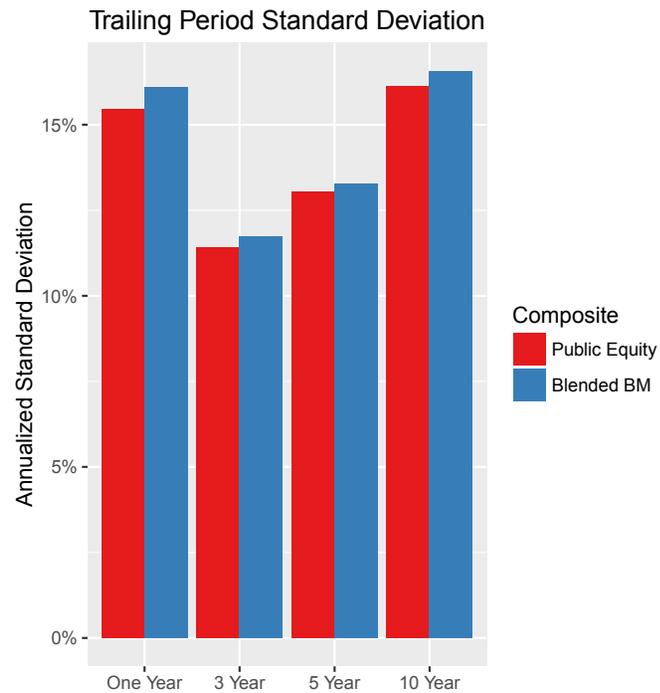
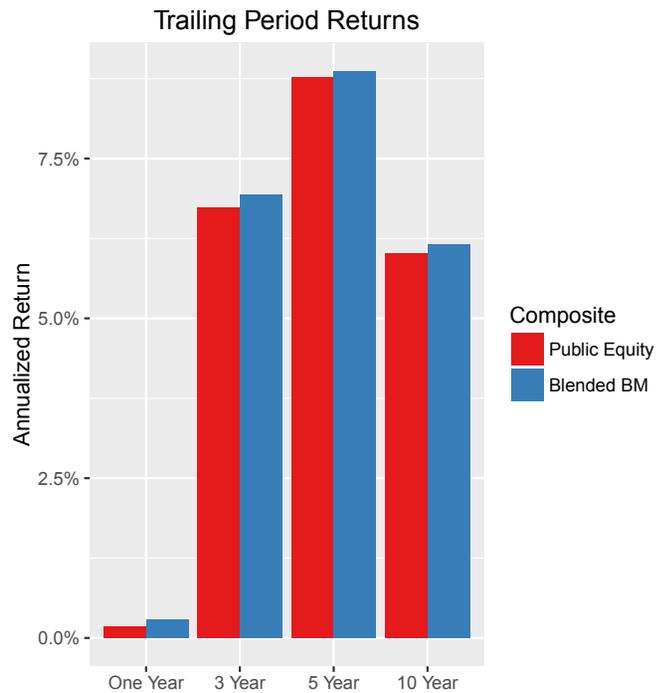
# Public Equity Performance (Continued)

## Total Public Equity Performance



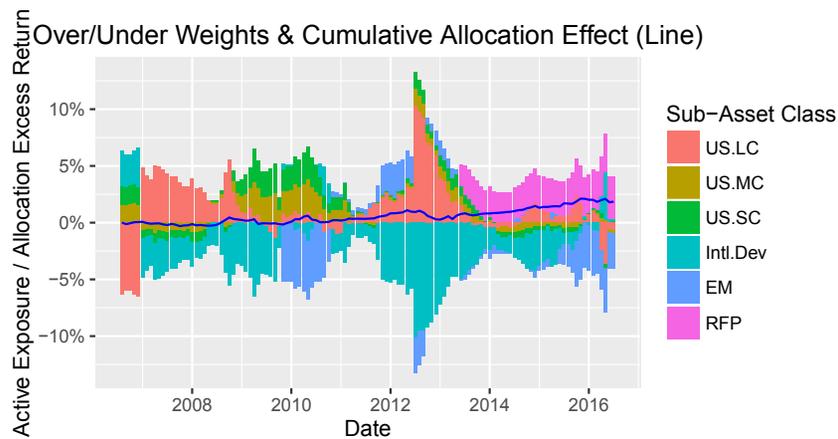
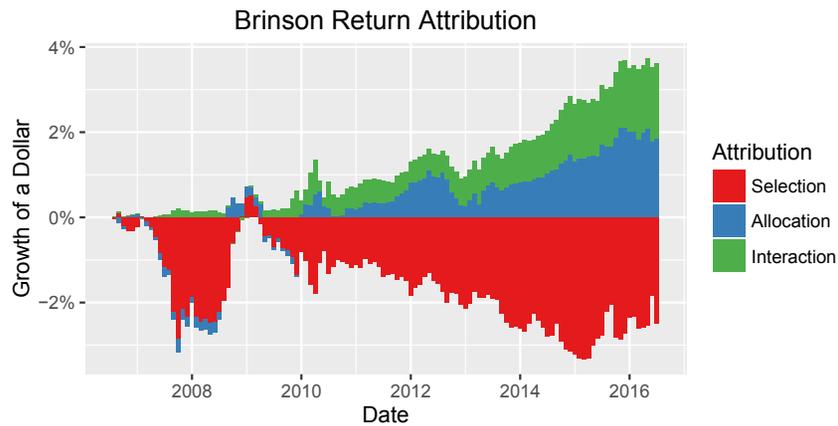
# Public Equity Performance (Continued)

Public Equity Trailing Return Performance

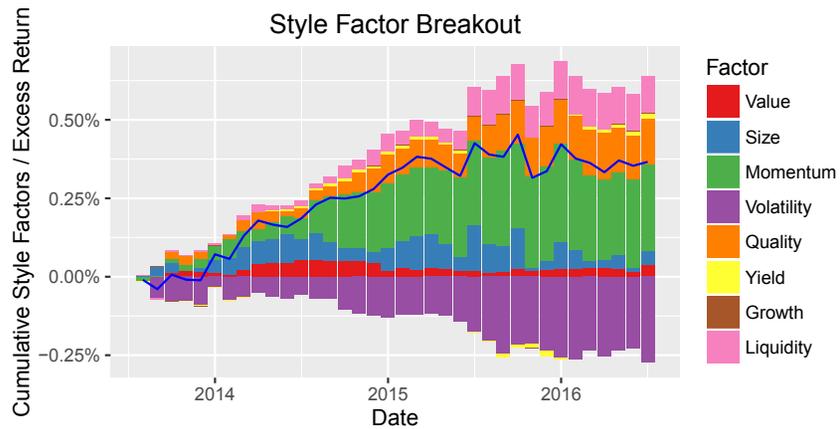
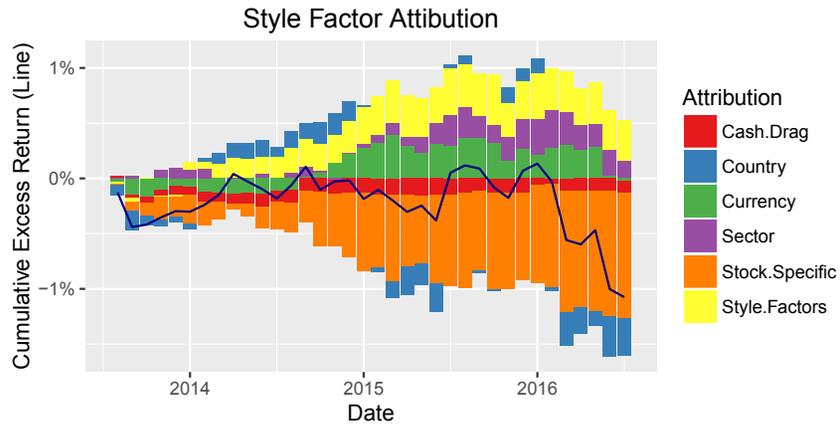


# Public Equity Performance (Continued)

Public Equity Decomposition of Excess Return



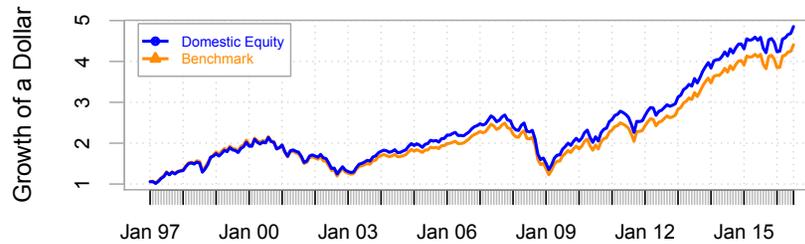
# Public Equity Performance (Continued)



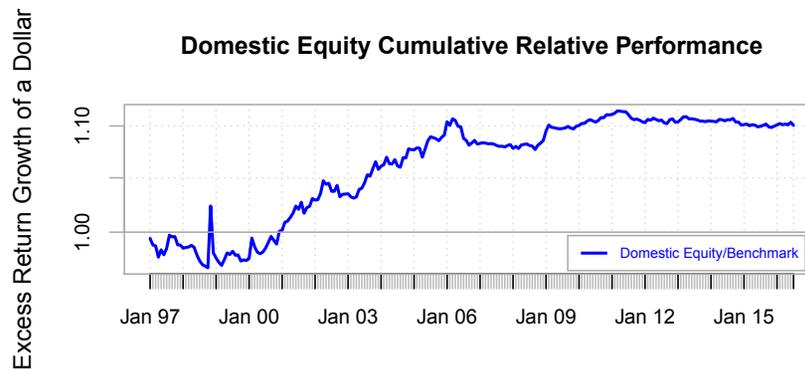
# Public Equity Performance (Continued)

## Domestic Equity Performance

Domestic Equity Cumulative Performance

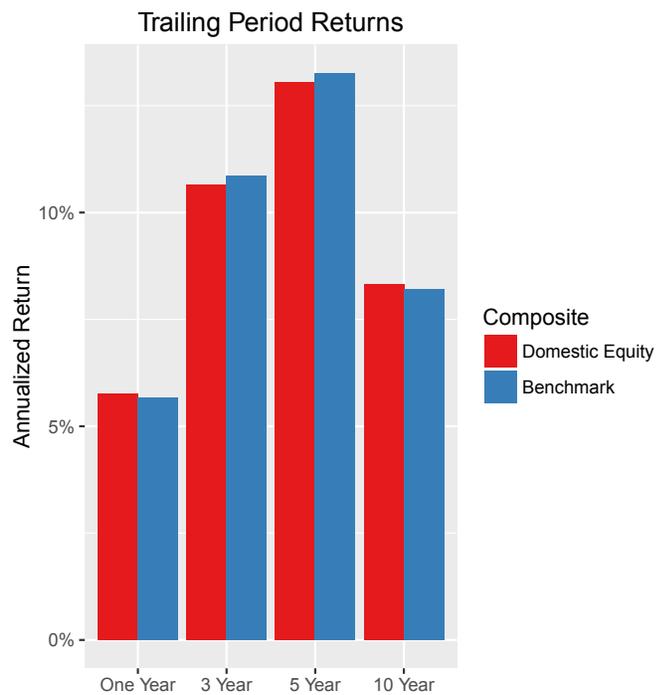


Domestic Equity Cumulative Relative Performance

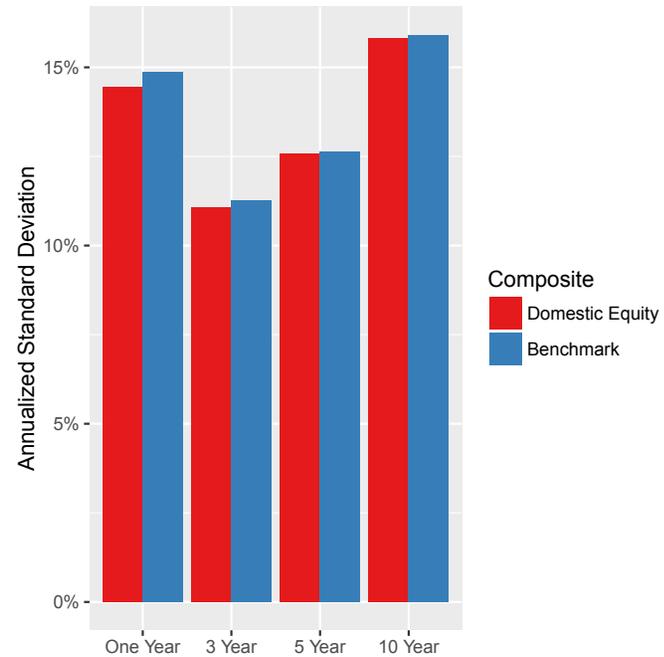


# Public Equity Performance (Continued)

## Domestic Equity Trailing Returns

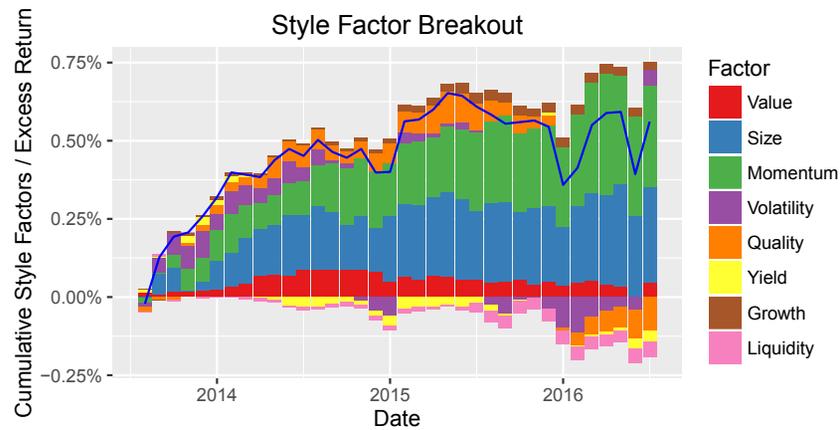
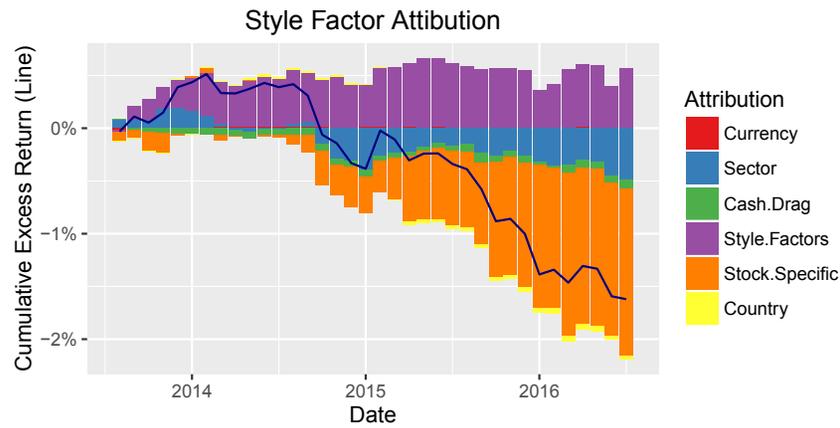


## Trailing Period Standard Deviation



# Public Equity Performance (Continued)

## Domestic Equity Decomposition of Excess Return



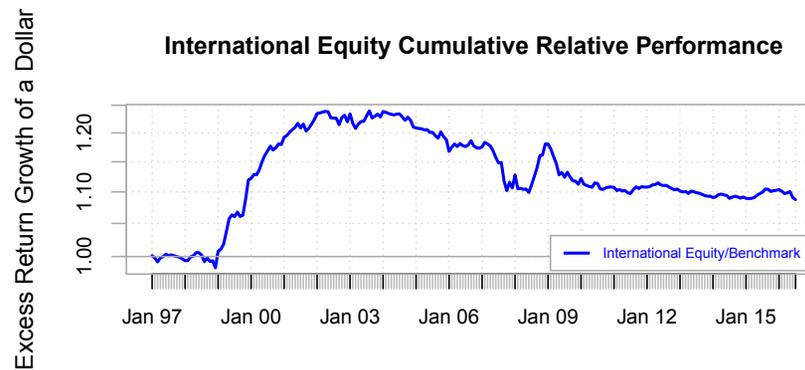
# Public Equity Performance (Continued)

## International Equity Performance

International Equity Cumulative Performance

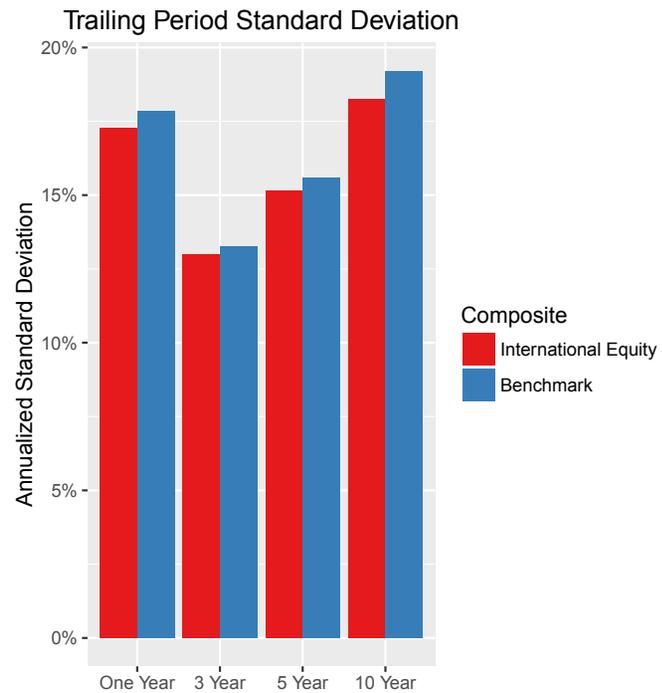
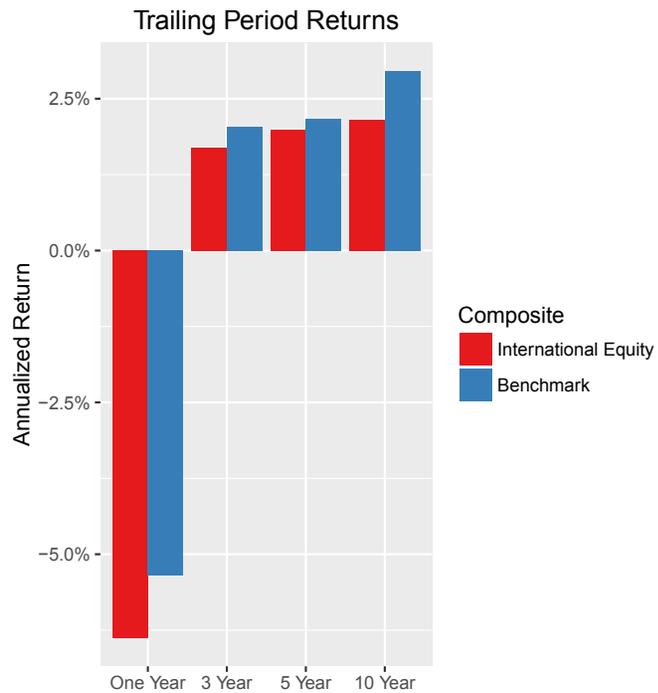


International Equity Cumulative Relative Performance



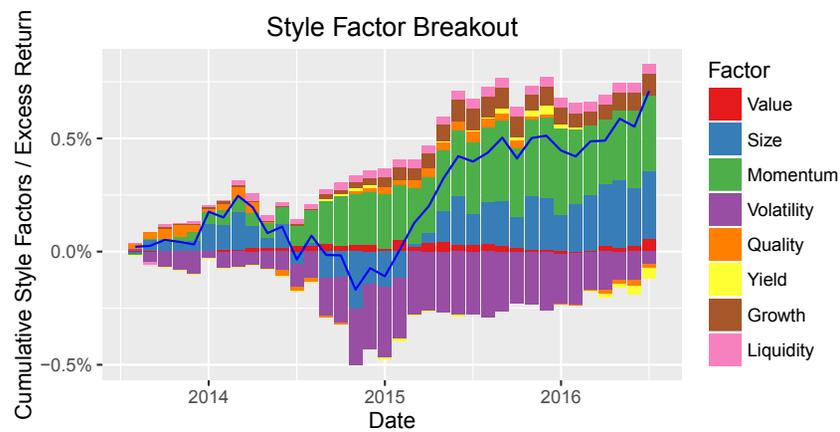
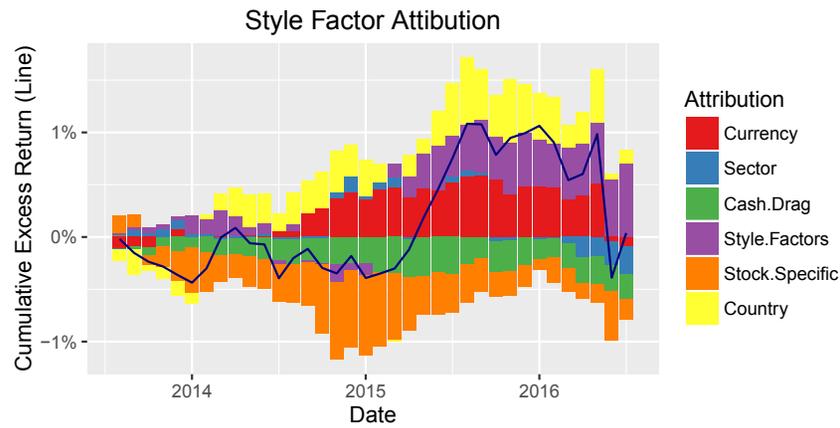
# Public Equity Performance (Continued)

International Equity Trailing Returns



# Public Equity Performance (Continued)

International Equity Decomposition of Excess Return



# Total Public Equity Returns as of July 31, 2016

## Arizona State Retirement System

### Total Domestic and International Equity Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total Domestic and International Equity</b>	<b>16,252,002,387</b>	<b>47.31</b>	<b>4.16</b>	<b>3.41</b>	<b>5.40</b>	<b>0.17</b>	<b>6.73</b>	<b>8.77</b>	<b>6.02</b>	<b>6.45</b>	<b>Jan-98</b>
ASRS Custom Total Equity Benchmark			<u>4.51</u>	<u>3.99</u>	<u>5.94</u>	<u>0.29</u>	<u>6.94</u>	<u>8.87</u>	<u>6.16</u>	<u>5.86</u>	<u>Jan-98</u>
Over/Under			-0.35	-0.58	-0.54	-0.12	-0.21	-0.10	-0.14	0.59	
Equity Risk Factor Portfolio	602,167,092	1.75	3.38	5.93	7.14	5.40	11.56	--	--	12.19	Jun-13
ASRS Custom Total Equity Benchmark			<u>4.51</u>	<u>3.99</u>	<u>5.94</u>	<u>0.29</u>	<u>6.94</u>	<u>8.87</u>	<u>6.16</u>	<u>7.36</u>	<u>Jun-13</u>
Over/Under			-1.13	1.94	1.20	5.11	4.62			4.83	
<b>Total Domestic and Int'l Equity ex-Equity Risk Factor Portfolio</b>	<b>15,649,835,295</b>	<b>45.56</b>	<b>4.19</b>	<b>3.33</b>	<b>5.34</b>	<b>0.00</b>	<b>6.62</b>	<b>8.72</b>	<b>6.00</b>	<b>6.43</b>	<b>Jan-98</b>
ASRS Custom Total Equity Benchmark			<u>4.51</u>	<u>3.99</u>	<u>5.94</u>	<u>0.29</u>	<u>6.94</u>	<u>8.87</u>	<u>6.16</u>	<u>5.86</u>	<u>Jan-98</u>
Over/Under			-0.32	-0.66	-0.60	-0.29	-0.32	-0.15	-0.16	0.57	

1. Total Domestic and International Equity market value includes \$1,991,027 remaining in terminated manager and transition accounts.

2. Performance of ASRS Total Domestic and International Equity includes the performance of the ASRS Domestic Equity and ASRS International Equity asset classes and the Equity Risk Factor Portfolio with an inception date of 6/1/2013. NEPC began calculating Total Domestic and International Equity performance in January 2009.

Monthly performance data from January 1998 - December 2008 was provided by State Street.

Note: Performance is based on net of fee performance data.

Composition of ASRS Custom Total Equity Benchmark can be found in the appendix.

# Domestic Equity Returns as of July 31, 2016

## Arizona State Retirement System

### Domestic and Large Cap Equity Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total Domestic Equity</b>	<b>8,319,048,297</b>	<b>24.22</b>	<b>3.62</b>	<b>6.03</b>	<b>8.74</b>	<b>5.76</b>	<b>10.66</b>	<b>13.04</b>	<b>8.33</b>	<b>11.17</b>	<b>Jul-75</b>
ASRS Custom Domestic Equity Benchmark			3.92	6.16	8.68	5.67	10.86	13.26	8.21	11.25	Jul-75
Over/Under			-0.30	-0.13	0.06	0.09	-0.20	-0.22	0.12	-0.08	
<b>Total Large Cap Equity</b>	<b>6,392,290,459</b>	<b>18.61</b>	<b>3.42</b>	<b>5.96</b>	<b>8.45</b>	<b>6.63</b>	<b>11.21</b>	<b>13.19</b>	<b>7.79</b>	<b>8.02</b>	<b>Jul-02</b>
S&P 500			3.69	5.82	7.66	5.61	11.16	13.38	7.75	7.92	Jul-02
Over/Under			-0.27	0.14	0.79	1.02	0.05	-0.19	0.04	0.10	
<b>Active Large Cap Equity</b>											
LSV	581,591,203	1.69	4.09	3.66	5.55	-0.28	7.94	12.85	7.11	10.35	Jan-03
S&P/Citigroup 500 Value			2.72	4.58	9.13	5.79	8.82	12.59	5.95	8.68	Jan-03
Over/Under			1.37	-0.92	-3.58	-6.07	-0.88	0.26	1.16	1.67	
<b>Enhanced/Passive Large Cap Equity</b>											
Internally Managed E2	4,640,508,638	13.51	3.69	5.83	7.64	5.62	11.15	13.36	7.77	7.66	Apr-97
S&P 500			3.69	5.82	7.66	5.61	11.16	13.38	7.75	7.59	Apr-97
Over/Under			0.00	0.01	-0.02	0.01	-0.01	-0.02	0.02	0.07	
Internally Managed E7	597,022,035	1.74	2.62	7.50	13.62	15.71	12.14	--	--	14.30	Aug-12
MSCI USA High Dividend Yield Index			2.62	7.50	13.72	15.86	12.28	14.77	9.00	14.33	Aug-12
Over/Under			0.00	0.00	-0.10	-0.15	-0.14	--	--	-0.03	
Internally Managed E8	573,168,582	1.67	1.48	7.80	13.24	14.30	14.23	--	--	15.25	Aug-12
MSCI USA Minimum Volatility Index			1.48	7.83	13.44	14.51	14.21	15.89	9.44	14.98	Aug-12
Over/Under			0.00	-0.03	-0.20	-0.21	0.02	--	--	0.27	

1. Total Domestic Equity includes \$433 in terminated manager and transition accounts

2. In mid-December, 2005 the S&P/Citigroup style indices replaced the S&P/Barra style indices. Returns are a blend of S&P/Barra indices prior to mid-December 2005 and S&P/Citigroup indices going forward.

Note: Performance is reported net of fees.

Composition of ASRS Custom Domestic Equity Benchmark can be found in the appendix.



NEPC, LLC

July 31, 2016

# Domestic Equity Returns as of July 31, 2016

## Arizona State Retirement System

### Mid Cap Equity Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total Mid Cap Equity</b>	<b>927,995,695</b>	<b>2.70</b>	<b>4.03</b>	<b>6.60</b>	<b>10.79</b>	<b>3.95</b>	<b>9.72</b>	<b>12.21</b>	<b>9.31</b>	<b>10.06</b>	<b>Jul-02</b>
S&P 400 MidCap			<u>4.29</u>	<u>7.14</u>	<u>12.56</u>	<u>5.53</u>	<u>9.86</u>	<u>12.28</u>	<u>9.32</u>	<u>10.10</u>	Jul-02
Over/Under			-0.26	-0.54	-1.77	-1.58	-0.14	-0.07	-0.01	-0.04	
<b>Active Mid Cap Equity</b>											
Wellington	289,498,469	0.84	3.38	4.91	6.28	0.13	10.11	12.74	9.95	10.88	Jul-02
S&P 400 MidCap			<u>4.29</u>	<u>7.14</u>	<u>12.56</u>	<u>5.53</u>	<u>9.86</u>	<u>12.28</u>	<u>9.32</u>	<u>10.10</u>	Jul-02
Over/Under			-0.91	-2.23	-6.28	-5.40	0.25	0.46	0.63	0.78	
<b>Passive Mid Cap Equity</b>											
Internally Managed E3	322,702,612	0.94	4.52	8.46	10.64	3.41	10.26	11.88	10.74	8.66	Dec-00
S&P/Citigroup 400 Growth			<u>4.52</u>	<u>8.33</u>	<u>10.42</u>	<u>3.32</u>	<u>10.22</u>	<u>11.74</u>	<u>10.17</u>	<u>8.16</u>	Dec-00
Over/Under			0.00	0.13	0.22	0.09	0.04	0.14	0.57	0.50	
Internally Managed E4	315,794,615	0.92	4.14	6.16	14.81	7.80	9.28	12.63	8.69	10.09	Jul-02
S&P/Citigroup 400 Value			<u>4.09</u>	<u>6.08</u>	<u>14.77</u>	<u>7.81</u>	<u>9.35</u>	<u>12.76</u>	<u>8.42</u>	<u>9.92</u>	Jul-02
Over/Under			0.05	0.08	0.04	-0.01	-0.07	-0.13	0.27	0.17	

1. In mid-December, 2005 the S&P/Citigroup style indices replaced the S&P/Barra style indices. Returns are a blend of S&P/Barra indices prior to mid-December 2005 and S&P/Citigroup indices going forward.

Note: Performance is reported net of fees.

# Domestic Equity Returns as of July 31, 2016

## Arizona State Retirement System

### Small Cap Equity Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total Small Cap Equity</b>	<b>998,761,712</b>	<b>2.91</b>	<b>4.50</b>	<b>5.86</b>	<b>8.15</b>	<b>0.88</b>	<b>7.57</b>	<b>12.11</b>	<b>8.81</b>	<b>10.05</b>	<b>Jul-02</b>
<i>ASRS Custom Small Cap Equity Blended Benchmark</i>			<i>5.09</i>	<i>7.48</i>	<i>11.63</i>	<i>5.96</i>	<i>9.62</i>	<i>13.05</i>	<i>9.01</i>	<i>9.88</i>	<i>Jul-02</i>
Over/Under			-0.59	-1.62	-3.48	-5.08	-2.05	-0.94	-0.20	0.17	
<b>Active Small Cap Equity</b>											
TimesSquare	373,180,847	1.09	4.06	5.94	4.70	-3.77	7.50	12.80	10.84	11.11	Apr-05
<i>Times Square Blended Benchmark</i>			<i>6.54</i>	<i>8.91</i>	<i>4.84</i>	<i>-5.30</i>	<i>8.03</i>	<i>11.09</i>	<i>8.97</i>	<i>9.04</i>	<i>Apr-05</i>
Over/Under			-2.48	-2.97	-0.14	1.53	-0.53	1.71	1.87	2.07	
<b>Active Small Cap Equity</b>											
DFA - US Small Cap	285,857,331	0.83	4.36	3.79	9.06	1.29	5.72	10.89	7.39	11.22	Sep-98
<i>DFA Blended Benchmark</i>			<i>5.17</i>	<i>6.52</i>	<i>14.38</i>	<i>8.95</i>	<i>8.99</i>	<i>13.14</i>	<i>8.04</i>	<i>10.73</i>	<i>Sep-98</i>
Over/Under			-0.81	-2.73	-5.32	-7.66	-3.27	-2.25	-0.65	0.49	
<b>Passive Small Cap Equity</b>											
Internally Managed E6	339,723,533	0.99	5.12	7.57	11.28	5.93	9.58	12.99	--	8.15	Feb-07
<i>S&amp;P 600 SmallCap</i>			<i>5.09</i>	<i>7.48</i>	<i>11.63</i>	<i>5.96</i>	<i>9.62</i>	<i>13.05</i>	<i>8.77</i>	<i>7.86</i>	<i>Feb-07</i>
Over/Under			0.03	0.09	-0.35	-0.03	-0.04	-0.06		0.29	

Note: Performance is reported net of fees.

Composition of ASRS Custom Small Cap Equity Blended Benchmark, Times Square Blended Benchmark and DFA Blended Benchmark can be found in the appendix.

# International Equity Returns as of July 31, 2016

## Arizona State Retirement System

### International Developed Markets Equity Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total International Equity</b>	<b>7,329,325,766</b>	<b>21.34</b>	<b>4.84</b>	<b>0.63</b>	<b>1.59</b>	<b>-6.38</b>	<b>1.70</b>	<b>1.99</b>	<b>2.15</b>	<b>5.74</b>	<b>Apr-87</b>
ASRS Custom Int'l Equity Benchmark			5.15	1.65	2.99	-5.34	2.04	2.18	2.95	5.48	Apr-87
Over/Under			-0.31	-1.02	-1.40	-1.04	-0.34	-0.19	-0.80	0.26	
<b>Total International Developed Markets Equity</b>	<b>6,206,068,891</b>	<b>18.07</b>	<b>4.88</b>	<b>0.25</b>	<b>0.37</b>	<b>-6.83</b>	<b>2.54</b>	<b>3.60</b>	<b>3.14</b>	<b>6.09</b>	<b>Apr-87</b>
ASRS Custom Int'l Developed Markets Equity Benchmark			5.18	0.67	0.68	-6.58	2.69	3.67	3.75	5.75	Apr-87
Over/Under			-0.30	-0.42	-0.31	-0.25	-0.15	-0.07	-0.61	0.34	
<b>Active Large Cap International Equity</b>											
Brandes	554,298,887	1.61	3.09	-2.82	-1.37	-9.59	3.16	3.98	2.19	8.10	Oct-98
Brandes Custom Benchmark			5.07	0.62	0.42	-7.53	2.02	3.23	3.33	5.51	Oct-98
Over/Under			-1.98	-3.44	-1.79	-2.06	1.14	0.75	-1.14	2.59	
American Century	547,402,917	1.59	4.41	-0.27	-2.84	-8.91	--	--	--	-3.27	Jul-14
MSCI EAFE			5.07	0.62	0.42	-7.53	2.02	3.23	2.33	-4.73	Jul-14
Over/Under			-0.66	-0.89	-3.26	-1.38				1.46	
Trinity Street	316,289,399	0.92	5.39	-3.53	-2.03	-7.60	--	--	--	-5.00	Jul-14
MSCI EAFE			5.07	0.62	0.42	-7.53	2.02	3.23	2.33	-4.73	Jul-14
Over/Under			0.32	-4.15	-2.45	-0.07				-0.27	
TS&W International	297,269,943	0.87	5.83	-0.30	-0.24	-6.57	--	--	--	-3.40	Jul-14
MSCI EAFE			5.07	0.62	0.42	-7.53	2.02	3.23	2.33	-4.73	Jul-14
Over/Under			0.76	-0.92	-0.66	0.96				1.33	

1. Total International Equity market value includes \$529,363 in terminated manager and transition accounts.

2. Total International Developed Markets Equity market value includes \$193,153 in terminated manager accounts.

3. American Century, Trinity Street and TS&W were funded in mid-June 2014. Inception date for performance reporting purposes is July 1, 2014.

Note: Performance is reported net of fees.

Composition of ASRS Custom Int'l Equity Benchmark, ASRS Custom Int'l Developed Markets Equity Benchmark, and Brandes Custom Benchmark can be found in the appendix.

# International Equity Returns as of July 31, 2016

## Arizona State Retirement System

### International Developed Markets Equity Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Passive Large Cap International Equity</b>											
BlackRock EAFE Equity Index	4,054,610,577	11.80	5.08	0.77	0.75	-7.19	2.28	3.31	--	6.96	Jul-09
MSCI EAFE			5.07	0.62	0.42	-7.53	2.02	3.23	2.33	6.92	Jul-09
Over/Under			0.01	0.15	0.33	0.34	0.26	0.08		0.04	
<b>Active Small Cap International Equity</b>											
DFA - International Small Cap	105,889,067	0.31	7.78	-0.25	3.44	-2.56	4.29	4.38	3.54	4.87	Sep-05
MSCI EAFE Small Cap			6.13	1.05	2.76	1.38	7.30	6.48	4.74	5.80	Sep-05
Over/Under			1.65	-1.30	0.68	-3.94	-3.01	-2.10	-1.20	-0.93	
Franklin Templeton	100,221,358	0.29	2.42	-7.43	-6.71	-12.88	-0.16	5.49	--	4.57	Apr-11
MSCI EAFE Small Cap			6.13	1.05	2.76	1.38	7.30	6.48	4.74	6.06	Apr-11
Over/Under			-3.71	-8.48	-9.47	-14.26	-7.46	-0.99		-1.49	
AQR Capital	100,339,240	0.29	6.28	1.92	1.27	0.69	8.28	--	--	8.97	Jun-13
MSCI EAFE Small Cap			6.13	1.05	2.76	1.38	7.30	6.48	4.74	7.65	Jun-13
Over/Under			0.15	0.87	-1.49	-0.69	0.98			1.32	
<b>Passive Small Cap International Equity</b>											
BlackRock EAFE Small Cap Equity Index	129,551,883	0.38	6.22	1.30	3.15	1.72	7.47	6.44	--	10.42	Jun-10
MSCI EAFE Small Cap			6.13	1.05	2.76	1.38	7.30	6.48	4.74	10.45	Jun-10
Over/Under			0.09	0.25	0.39	0.34	0.17	-0.04		-0.03	

Note: Performance is reported net of fees.

# International Equity Returns as of July 31, 2016

## Arizona State Retirement System

### International Emerging Markets Equity Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total International Emerging Markets Equity</b>	<b>1,122,923,132</b>	<b>3.27</b>	<b>4.62</b>	<b>5.14</b>	<b>11.63</b>	<b>-1.46</b>	<b>-0.20</b>	<b>-2.06</b>	<b>--</b>	<b>-0.84</b>	<b>Oct-10</b>
<i>MSCI Emerging Markets</i>			<i>5.03</i>	<i>5.16</i>	<i>11.77</i>	<i>-0.75</i>	<i>-0.25</i>	<i>-2.60</i>	<i>4.14</i>	<i>-0.92</i>	<i>Oct-10</i>
Over/Under			-0.41	-0.02	-0.14	-0.71	0.05	0.54		0.08	
<b>Active Emerging Markets Equity</b>											
Eaton Vance	289,332,567	0.84	4.49	3.21	14.40	-0.29	-1.00	-2.14	--	-0.85	Dec-10
<i>MSCI Emerging Markets</i>			<i>5.03</i>	<i>5.16</i>	<i>11.77</i>	<i>-0.75</i>	<i>-0.25</i>	<i>-2.60</i>	<i>4.14</i>	<i>-0.98</i>	<i>Dec-10</i>
Over/Under			-0.54	-1.95	2.63	0.46	-0.75	0.46		0.13	
LSV Emerging Market	123,075,289	0.36	6.82	6.56	13.81	-1.45	-0.56	-2.94	--	-0.92	Dec-10
<i>MSCI Emerging Markets</i>			<i>5.03</i>	<i>5.16</i>	<i>11.77</i>	<i>-0.75</i>	<i>-0.25</i>	<i>-2.60</i>	<i>4.14</i>	<i>-0.98</i>	<i>Dec-10</i>
Over/Under			1.79	1.40	2.04	-0.70	-0.31	-0.34		0.06	
William Blair	376,397,507	1.10	3.66	6.21	8.95	-2.98	1.48	0.42	--	0.61	Nov-10
<i>MSCI Emerging Markets</i>			<i>5.03</i>	<i>5.16</i>	<i>11.77</i>	<i>-0.75</i>	<i>-0.25</i>	<i>-2.60</i>	<i>4.14</i>	<i>-1.43</i>	<i>Nov-10</i>
Over/Under			-1.37	1.05	-2.82	-2.23	1.73	3.02		2.04	
<b>Passive Emerging Markets Equity</b>											
BlackRock Emerging Markets Equity Index	334,117,768	0.97	5.04	5.14	11.59	-0.79	-0.45	-2.95	--	-1.28	Oct-10
<i>MSCI Emerging Markets</i>			<i>5.03</i>	<i>5.16</i>	<i>11.77</i>	<i>-0.75</i>	<i>-0.25</i>	<i>-2.60</i>	<i>4.14</i>	<i>-0.92</i>	<i>Oct-10</i>
Over/Under			0.01	-0.02	-0.18	-0.04	-0.20	-0.35		-0.36	

Note: Performance is reported net of fees.

# Fixed Income and Commodity Returns as of July 31, 2016

## Arizona State Retirement System

### Fixed Income and Interest Rate Sensitive Fixed Income Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total Public Markets Fixed Income</b>	<b>5,534,938,709</b>	<b>16.11</b>	<b>1.13</b>	<b>3.17</b>	<b>7.52</b>	<b>6.42</b>	<b>3.97</b>	<b>3.69</b>	<b>5.32</b>	<b>8.28</b>	<b>Jul-75</b>
ASRS Custom Public Markets Fixed Income Benchmark			<u>1.19</u>	<u>2.96</u>	<u>7.61</u>	<u>5.75</u>	<u>3.17</u>	<u>3.09</u>	<u>4.83</u>	--	Jul-75
Over/Under			-0.06	0.21	-0.09	0.67	0.80	0.60	0.49		
<b>Total Interest Rate Sensitive Fixed Income</b>	<b>4,433,621,595</b>	<b>12.91</b>	<b>0.84</b>	<b>3.22</b>	<b>7.12</b>	<b>7.06</b>	<b>4.70</b>	<b>3.94</b>	<b>5.35</b>	<b>8.28</b>	<b>Jul-75</b>
Barclays Aggregate			<u>0.63</u>	<u>2.47</u>	<u>5.98</u>	<u>5.94</u>	<u>4.23</u>	<u>3.57</u>	<u>5.06</u>	--	Jul-75
Over/Under			0.21	0.75	1.14	1.12	0.47	0.37	0.29		
<b>Treasuries (Long Duration)</b>											
BlackRock Long Gov't Bond Index	568,463,530	1.65	2.22	9.34	17.68	--	--	--	--	17.92	Sep-15
Barclays U.S. Treasury Long TR USD			<u>2.24</u>	<u>9.38</u>	<u>17.71</u>	<u>17.85</u>	<u>11.98</u>	<u>9.87</u>	<u>8.81</u>	<u>17.87</u>	Sep-15
Over/Under			-0.02	-0.04	-0.03					0.05	
<b>Core Fixed Income</b>											
BlackRock US Debt Index	1,940,718,835	5.65	0.64	2.50	6.07	6.07	--	--	--	4.46	May-14
Barclays Aggregate			<u>0.63</u>	<u>2.47</u>	<u>5.98</u>	<u>5.94</u>	<u>4.23</u>	<u>3.57</u>	<u>5.06</u>	<u>4.30</u>	May-14
Over/Under			0.01	0.03	0.09	0.13				0.16	
Internally Managed F2	1,924,439,229	5.60	0.63	2.55	5.94	6.09	4.45	3.86	5.32	5.52	Oct-00
Barclays Aggregate			<u>0.63</u>	<u>2.47</u>	<u>5.98</u>	<u>5.94</u>	<u>4.23</u>	<u>3.57</u>	<u>5.06</u>	<u>5.36</u>	Oct-00
Over/Under			0.00	0.08	-0.04	0.15	0.22	0.29	0.26	0.16	

- Total Public Markets Fixed Income market value includes \$7 remaining in terminated manager accounts.
  - BlackRock Long Gov't Bond Index was funded in mid-August 2015. Inception date for performance reporting purposes is September 1, 2015.
  - BlackRock US Debt Index was funded in mid-April 2014. Inception date for performance reporting purposes is May 1, 2014.
- Note: Performance is reported net of fees.  
Composition of ASRS Custom Public Markets Fixed Income Benchmark can be found in the appendix.

# Fixed Income and Commodity Returns as of July 31, 2016

## Arizona State Retirement System

### Total High Yield Fixed Income Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total High Yield Fixed Income</b>	<b>1,101,317,114</b>	<b>3.21</b>	<b>2.32</b>	<b>3.16</b>	<b>9.17</b>	<b>4.53</b>	<b>4.93</b>	<b>6.29</b>	<b>--</b>	<b>8.15</b>	<b>Oct-09</b>
Barclays High Yield			<u>2.70</u>	<u>4.29</u>	<u>12.01</u>	<u>4.98</u>	<u>4.46</u>	<u>6.16</u>	<u>7.74</u>	<u>8.54</u>	Oct-09
Over/Under			-0.38	-1.13	-2.84	-0.45	0.47	0.13		-0.39	
<b>Active High Yield Fixed Income</b>											
Columbia Management	726,957,149	2.12	2.16	2.67	8.32	4.98	5.26	6.61	--	8.53	Oct-09
Barclays High Yield			<u>2.70</u>	<u>4.29</u>	<u>12.01</u>	<u>4.98</u>	<u>4.46</u>	<u>6.16</u>	<u>7.74</u>	<u>8.54</u>	Oct-09
Over/Under			-0.54	-1.62	-3.69	0.00	0.80	0.45		-0.01	
JP Morgan High Yield	374,359,959	1.09	2.62	4.14	10.87	3.74	4.39	--	--	4.91	Jul-13
Barclays High Yield			<u>2.70</u>	<u>4.29</u>	<u>12.01</u>	<u>4.98</u>	<u>4.46</u>	<u>6.16</u>	<u>7.74</u>	<u>4.97</u>	Jul-13
Over/Under			-0.08	-0.15	-1.14	-1.24	-0.07			-0.06	

1. Total High Yield Fixed Income includes \$6 in terminated manager and transition accounts.  
Note: Performance is reported net of fees.

# Fixed Income and Commodity Returns as of July 31, 2016

## Arizona State Retirement System

### Inflation-Linked Assets Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total Inflation-Linked Assets</b>	<b>219,094,275</b>	<b>0.64</b>	<b>-5.33</b>	<b>-2.11</b>	<b>5.52</b>	<b>-10.71</b>	<b>-13.34</b>	<b>-11.88</b>	<b>--</b>	<b>-6.24</b>	<b>Feb-10</b>
<i>ASRS Custom Inflation-Linked Benchmark</i>			<i>-5.11</i>	<i>-1.38</i>	<i>7.46</i>	<i>-7.98</i>	<i>-12.50</i>	<i>-12.27</i>	<i>-2.47</i>	<i>-6.92</i>	<i>Feb-10</i>
Over/Under			-0.22	-0.73	-1.94	-2.73	-0.84	0.39		0.68	
<b>Total Commodities</b>	<b>219,094,275</b>	<b>0.64</b>	<b>-5.33</b>	<b>-2.11</b>	<b>5.52</b>	<b>-10.71</b>	<b>-13.34</b>	<b>-11.84</b>	<b>--</b>	<b>-6.52</b>	<b>Sep-10</b>
<i>Bloomberg Commodity Index</i>			<i>-5.11</i>	<i>-1.38</i>	<i>7.46</i>	<i>-7.98</i>	<i>-12.50</i>	<i>-12.27</i>	<i>-6.38</i>	<i>-7.08</i>	<i>Sep-10</i>
Over/Under			-0.22	-0.73	-1.94	-2.73	-0.84	0.43		0.56	
Gresham	219,094,275	0.64	-5.33	-2.11	5.52	-10.71	-13.34	-11.78	--	-5.94	Sep-10
<i>Bloomberg Commodity Index</i>			<i>-5.11</i>	<i>-1.38</i>	<i>7.46</i>	<i>-7.98</i>	<i>-12.50</i>	<i>-12.27</i>	<i>-6.38</i>	<i>-7.08</i>	<i>Sep-10</i>
Over/Under			-0.22	-0.73	-1.94	-2.73	-0.84	0.49		1.14	

Note: Performance is reported net of fees.  
Composition of ASRS Custom Inflation-Linked Benchmark can be found in the appendix.

# Multi-Asset Class Returns as of July 31, 2016

## Arizona State Retirement System

### Multi-Asset Class Strategies Performance Summary

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total Multi-Asset Class Strategies</b>	<b>1,028,497,144</b>	<b>2.99</b>	<b>0.35</b>	<b>-1.83</b>	<b>-7.21</b>	<b>-11.66</b>	<b>1.48</b>	<b>4.81</b>	<b>5.67</b>	<b>6.16</b>	<b>Jan-04</b>
<i>Multi-Asset Class Strategies Custom Benchmark</i>			<i>0.02</i>	<i>0.06</i>	<i>0.14</i>	<i>-0.95</i>	<i>4.45</i>	<i>6.54</i>	<i>5.16</i>	<i>5.70</i>	<i>Jan-04</i>
Over/Under			0.33	-1.89	-7.35	-10.71	-2.97	-1.73	0.51	0.46	
<b>Bridgewater</b>	<b>1,028,497,144</b>	<b>2.99</b>	<b>0.35</b>	<b>-1.83</b>	<b>-7.21</b>	<b>-10.63</b>	<b>2.62</b>	<b>6.01</b>	<b>6.91</b>	<b>7.27</b>	<b>Jan-04</b>
<i>ASRS Bridgewater Custom Benchmark</i>			<i>0.02</i>	<i>0.06</i>	<i>0.14</i>	<i>0.16</i>	<i>5.01</i>	<i>6.88</i>	<i>5.33</i>	<i>5.83</i>	<i>Jan-04</i>
Over/Under			0.33	-1.89	-7.35	-10.79	-2.39	-0.87	1.58	1.44	

Note: Performance is reported net of fees.

Composition of Multi-Asset Class Strategies Custom Benchmark and ASRS Bridgewater Custom Benchmark can be found in the appendix.

## Private Markets Returns

### Returns as of March 31, 2016

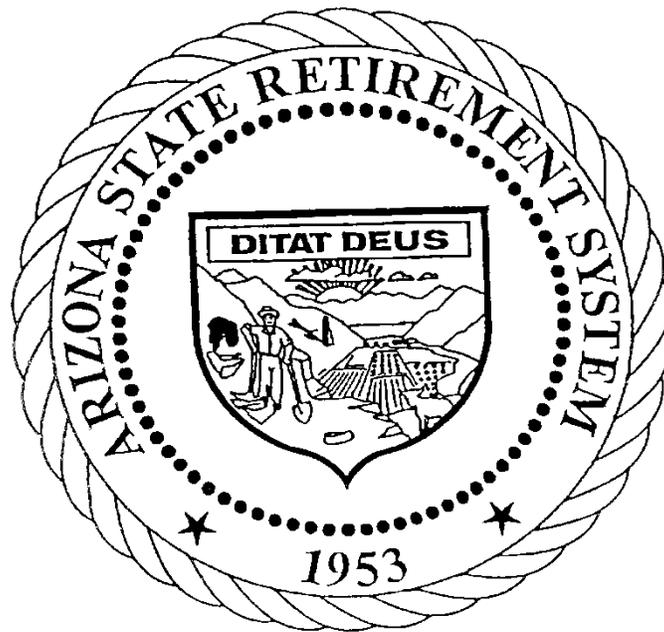
	Benchmark	Portfolio Return	Benchmark Return	Excess Return
Private Equity	Russell 2000	10.65	8.78	1.87
Private Real Estate	ODCE Net	8.07	7.26	0.81
Private Opportunistic Equity	Absolute Eight	23.59	8.00	15.59
Opportunistic Fixed Income	Absolute Eight	8.96	8.00	0.96
Private Debt	Lev Loan+250	10.59	4.10	6.49
Farmland	Core CPI+350	5.26	5.63	-0.37

# LTD Plan

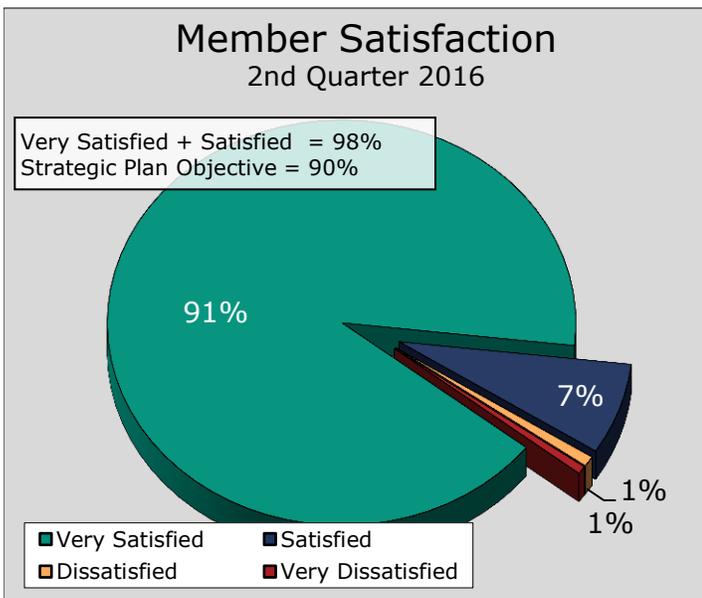
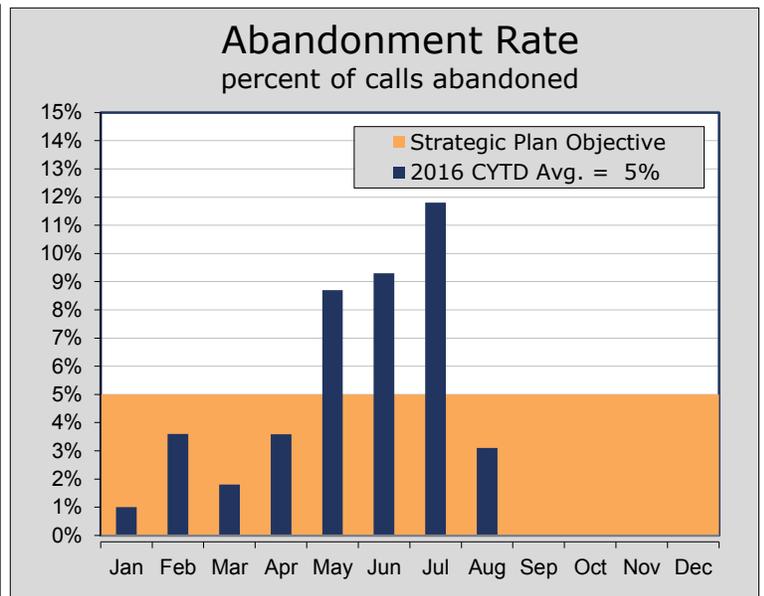
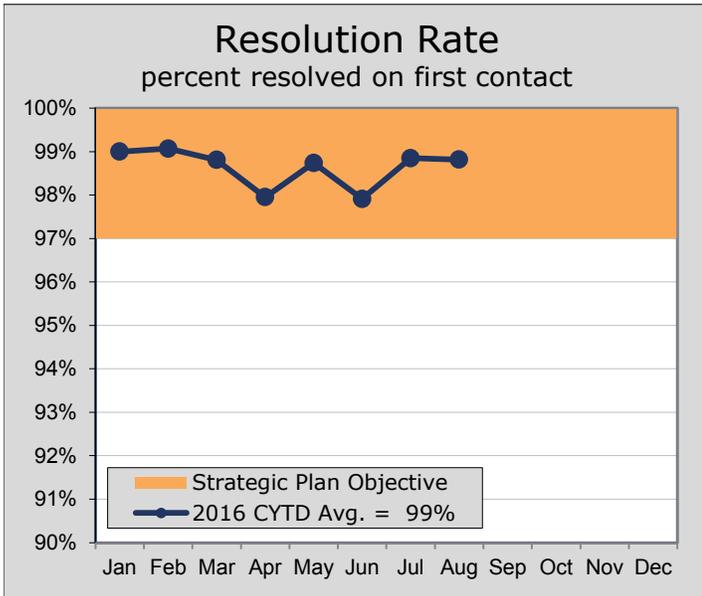
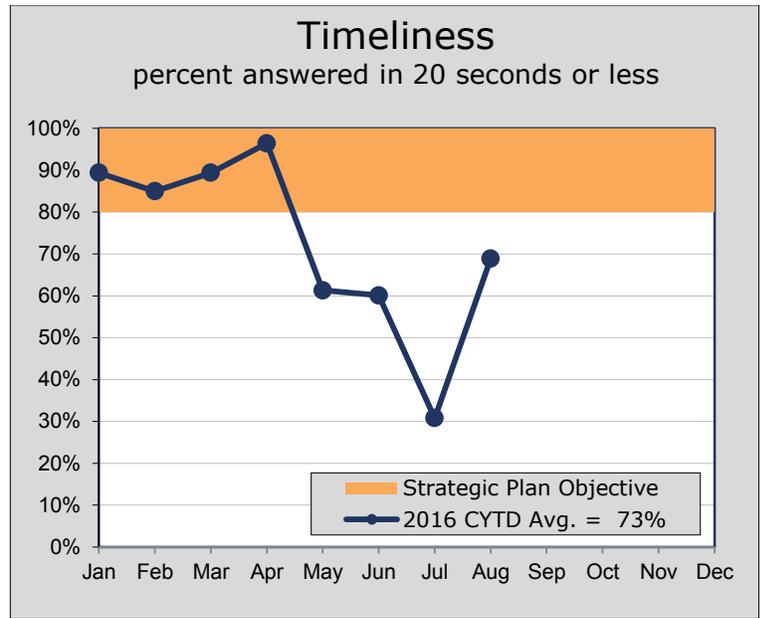
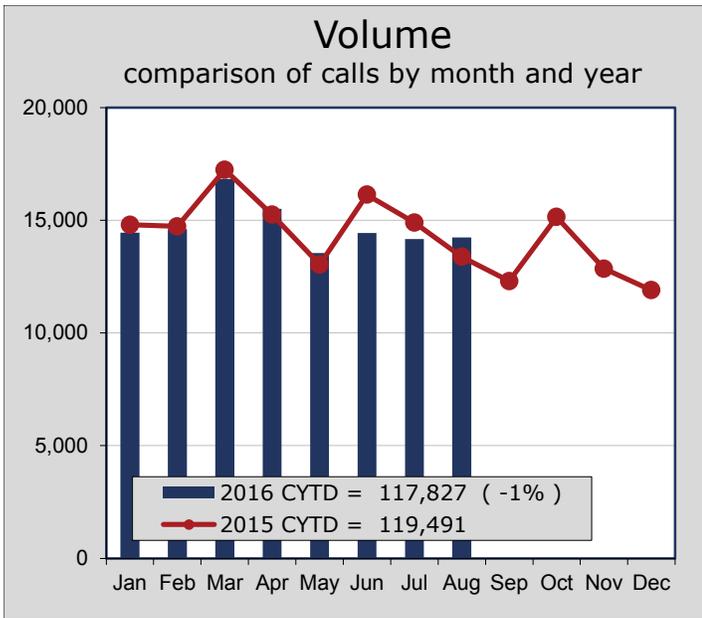
Long Term Disability (LTD)									Wednesday, September 14, 2016					
Account Manager	Account	Account Manager Style	Fixed Income	Equity	Inflation Linked	Total	Pct of Fund	Target (Range)	trading window	check	range			LTD OW/UW
StateStreet B&T: Boston	A1UB	Cash	\$1,805,255			\$1,805,255	0.94%							0.94%
BlackRock: San Francisco	A1QR	Fixed Core (Passive)	\$41,144,778			\$41,144,778	21.37%	19%	daily (T-2, T+3)					2.37%
BlackRock: San Francisco	A1QP	Fixed High Yield (Passive)	\$14,819,315			\$14,819,315	7.70%	7%	weekly (T-2, T+3)	29.07%	12%	41%	US Fixed Income	0.70%
							<b>30.01%</b>	<b>26% (19-36%)</b>		30.01%	19%	36%	Total Fixed Income	<b>3.07%</b>
BlackRock: San Francisco	A1QO	Russell 1000 (Passive)		\$40,293,966		\$40,293,966	20.93%	24%	daily (T-1, T+3)					-3.07%
BlackRock: San Francisco	A1QN	Russell 2000 (Passive)		\$26,456,211		\$26,456,211	13.74%	12%	daily (T-1, T+3)					1.74%
							<b>34.68%</b>	<b>36% (26-46%)</b>		34.68%	26%	46%	US Equity	<b>-1.32%</b>
BlackRock: San Francisco	A1QM	EAFE (Passive)		\$32,032,832		\$32,032,832	16.64%	18%	weekly (T-3, T+3)					-1.36%
BlackRock: San Francisco	A1QL	EAFE SC (Passive)		\$4,151,400		\$4,151,400	2.16%	2%	weekly (T-3, T+3)					0.16%
BlackRock: San Francisco	A1QJ	Emerging Markets (Passive)		\$8,794,951		\$8,794,951	4.57%	5%	weekly (T-3, T+3)					-0.43%
							<b>23.37%</b>	<b>25% (15-35%)</b>		23.37%	15%	35%	Non-US Equity	<b>-1.63%</b>
BlackRock: San Francisco	A1QI	Dow Jones UBS Commodities (Passive)			\$1,661,752	\$1,661,752	0.86%	2% (0-4%)	weekly (T-2, T+1)	0.86%	0%	4%	Commodities	-1.14%
BlackRock: San Francisco	A1UG	US Real Estate (Passive)			\$21,334,787	\$21,334,787	11.08%	11% (9-13%)	daily (T-1, T+3)	11.08%	9%	13%	Real Estate	0.08%
							<b>11.95%</b>	<b>13% (10-16%)</b>		11.95%	10%	16%	Total Inflation Linked	<b>-1.05%</b>
<b>TOTAL Amounts</b>			\$57,769,348	\$111,729,359	\$22,996,539	<b>\$192,495,246</b>	<b>100.00%</b>							
Actual Portfolio			30.01%	58.04%	11.95%					<b>Monthly Cash Raise</b>				
Policy			26% (19-36%)	61% (51-68%)	13% (10-16%)					\$ 3,000,000.00	1.56%			

# Agenda Item #8b

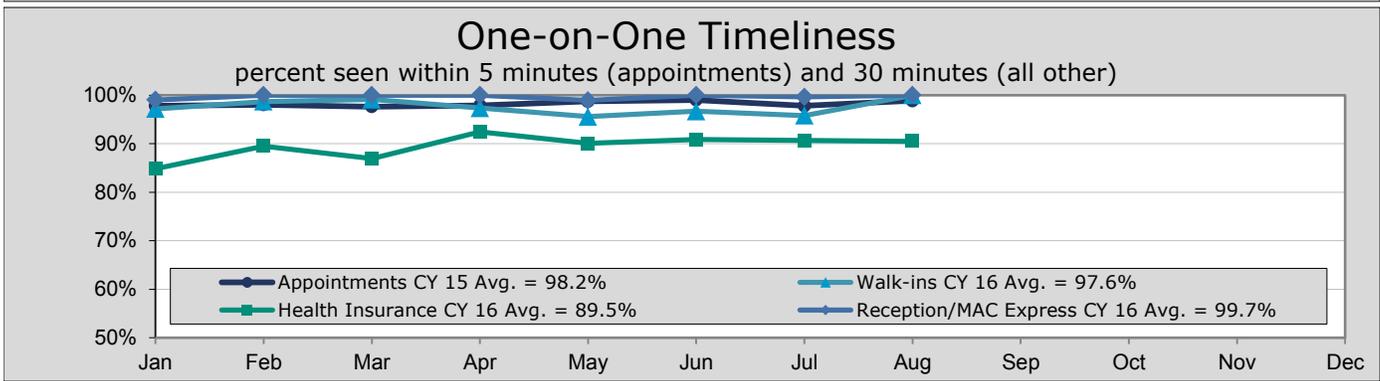
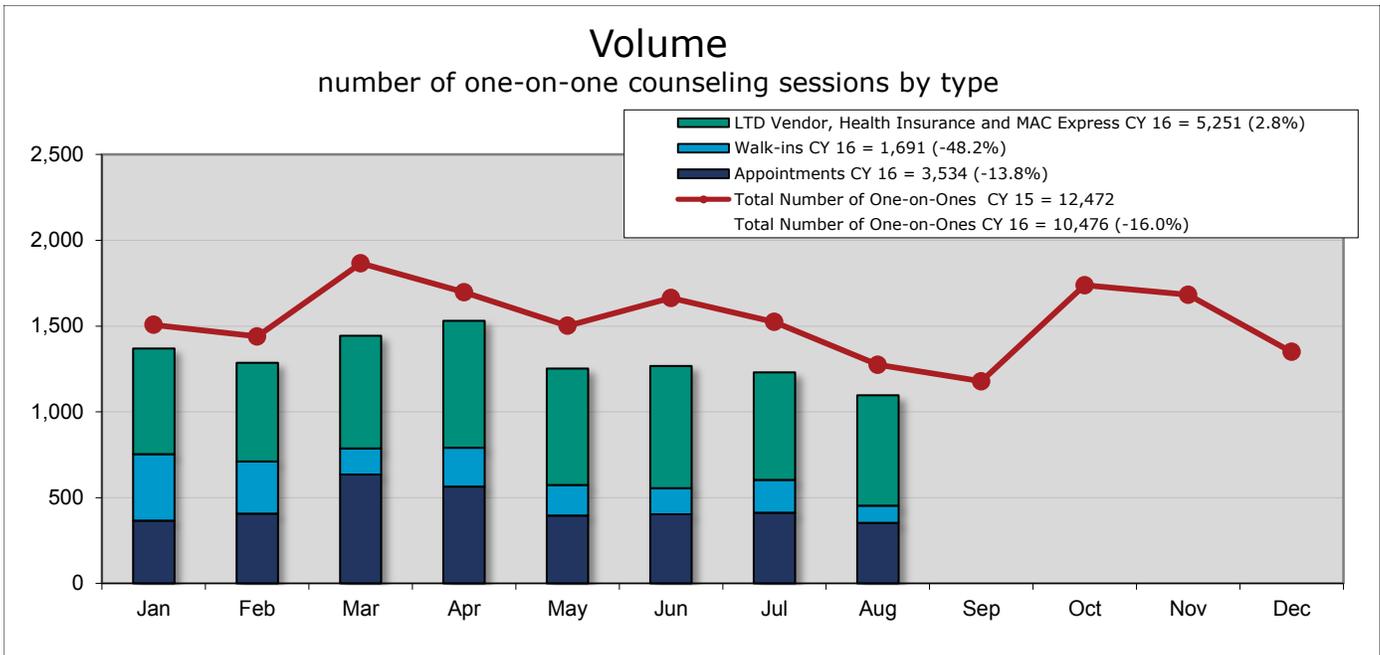
## Director's Report Operations



# Member Advisory Center: Phone

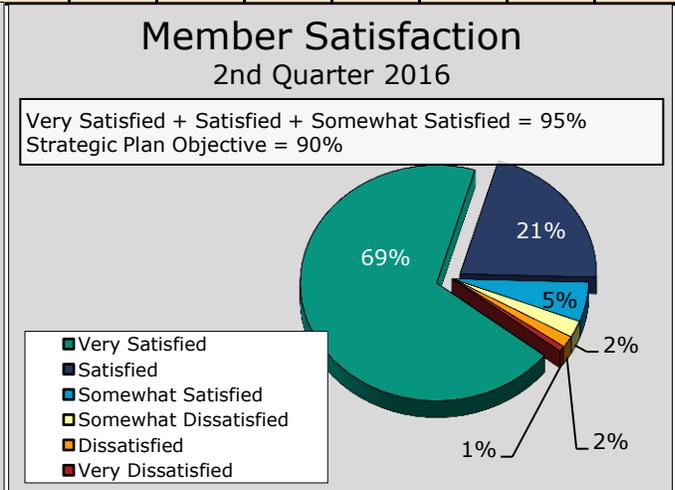
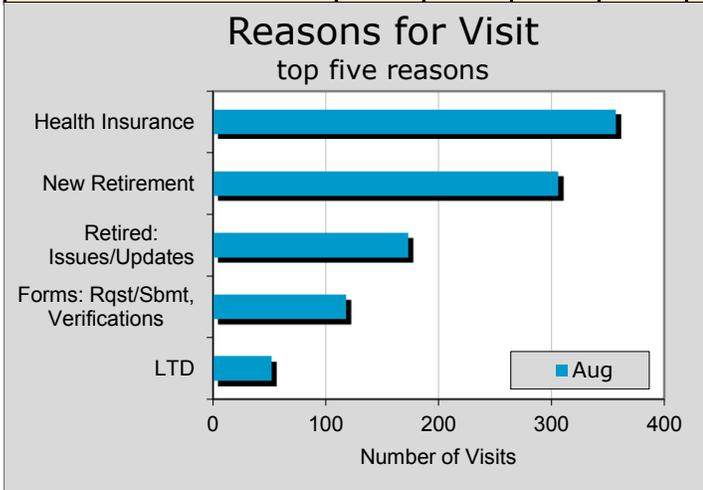


# Member Advisory Center: One-on-One

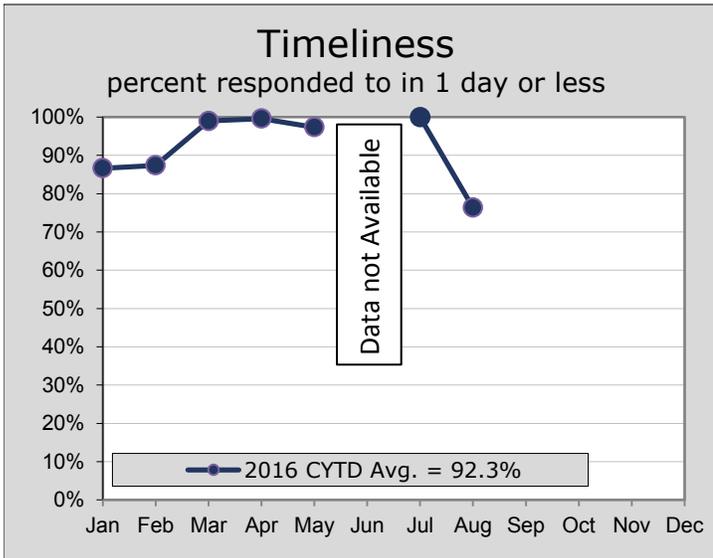
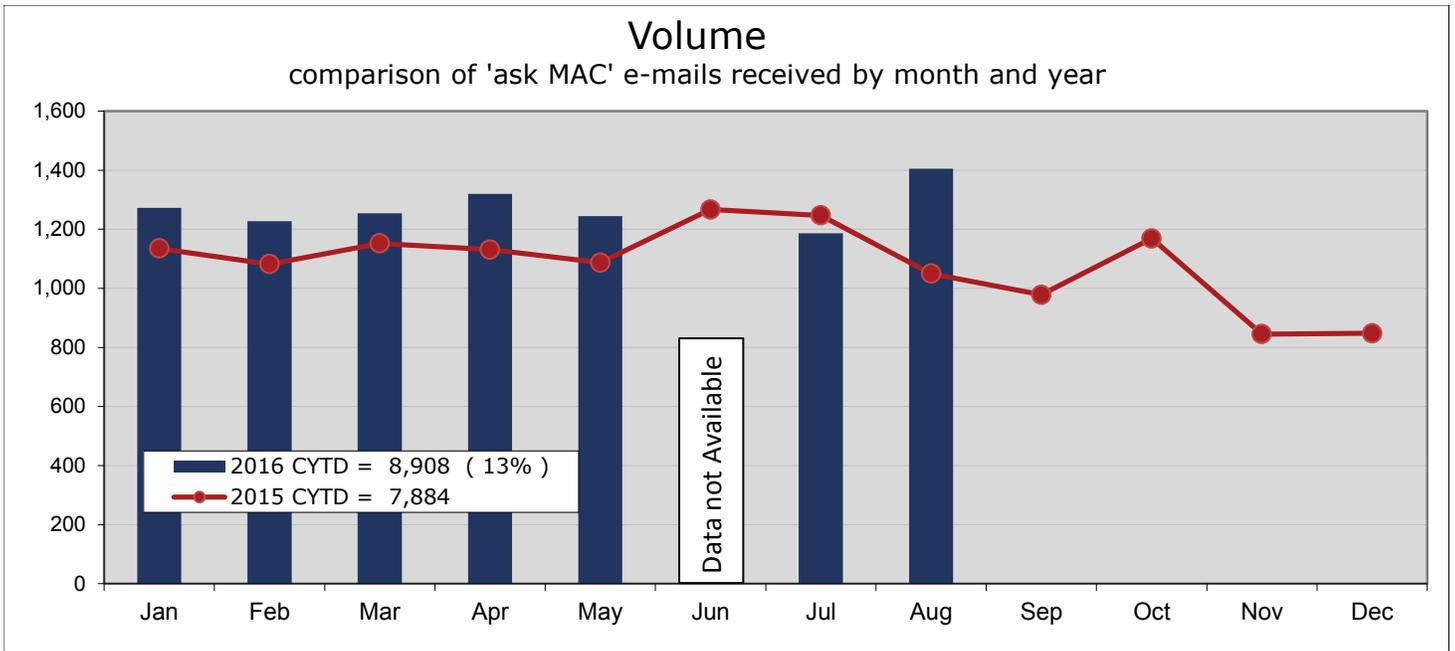


### Timeliness (average wait time in minutes)

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Appointments	1	0	1	1	0	1	1	0				
Walk-Ins	7	4	3	5	5	6	6	4				
Reception/MAC Express	0	0	0	0	1	0	0	0				
Health Insurance	8	5	7	6	7	5	5	5				
LTD Vendor	n/a	n/a	n/a	0	0	0	0	0				

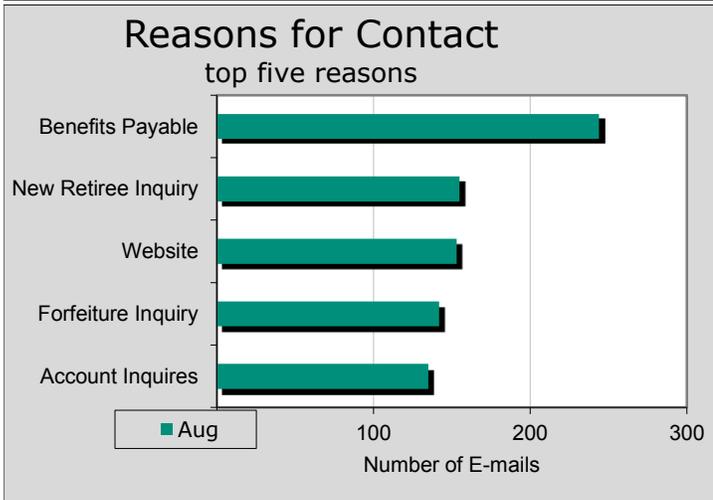
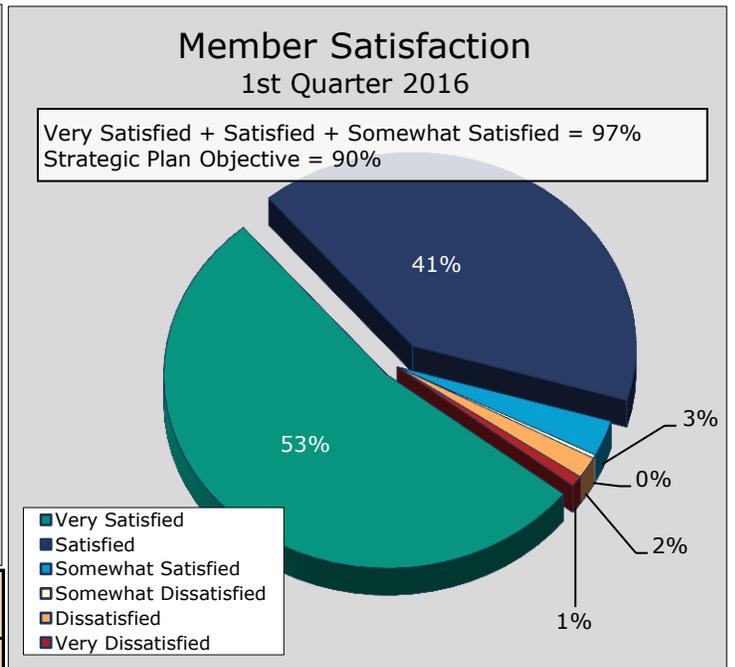


# Member Advisory Center: E-Mail



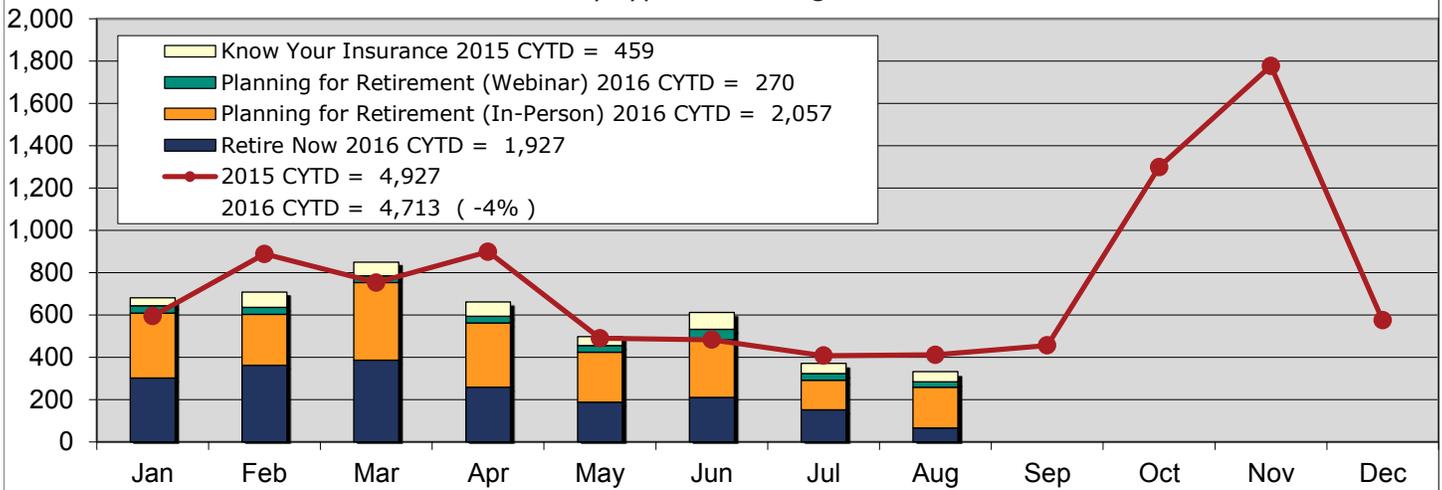
### E-mail Timeliness (average response in hours)

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average	13.3	11.5	3.7	3.7	0.3	DNA	11.0	5.7				



# Outreach Education and Benefit Estimates

## Total Meeting Attendees by type of meeting

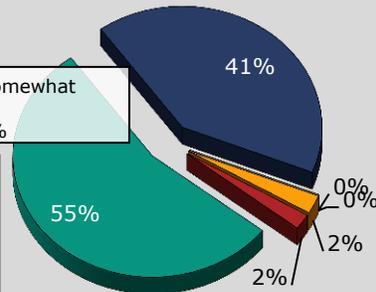


## Member Satisfaction

### Route 3 Meetings 2nd Quarter 2016

Very Satisfied + Satisfied + Somewhat Satisfied = 96%  
Strategic Plan Objective = 90%

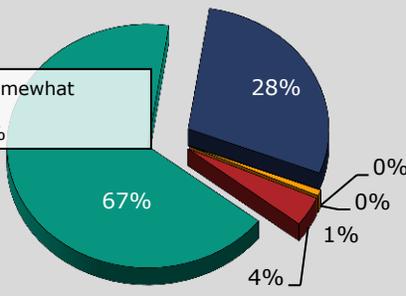
- Very Satisfied
- Satisfied
- Somewhat Satisfied
- Somewhat Dissatisfied
- Dissatisfied
- Very Dissatisfied



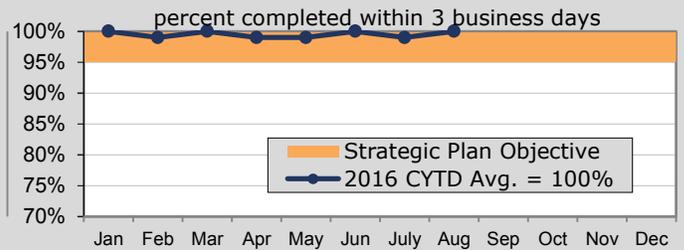
### Route 4 Meetings 2nd Quarter 2016

Very Satisfied + Satisfied + Somewhat Satisfied = 95%  
Strategic Plan Objective = 90%

- Very Satisfied
- Satisfied
- Somewhat Satisfied
- Somewhat Dissatisfied
- Dissatisfied
- Very Dissatisfied



## Benefit Estimate Timeliness



## Benefit Estimate Timeliness (average TAT in days)

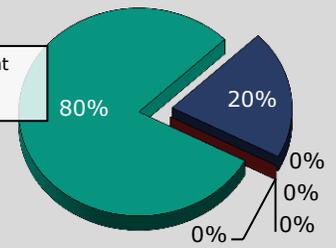
Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average TAT (days)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

## Benefit Estimates

### 2nd Quarter 2016

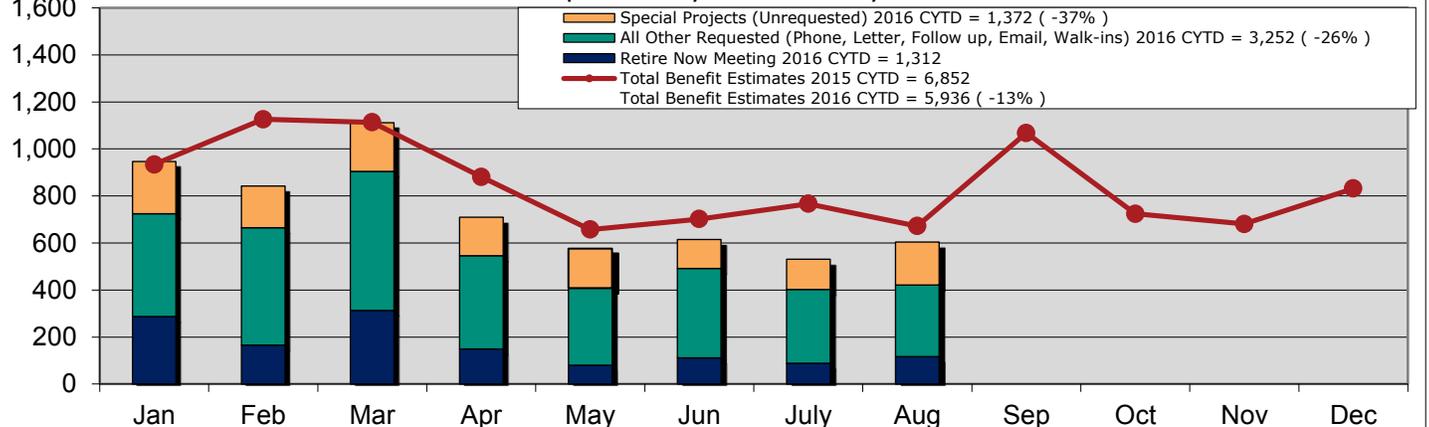
Very Satisfied + Satisfied + Somewhat Satisfied = 100%  
Strategic Plan Objective = 90%

- Very Satisfied
- Satisfied
- Somewhat Satisfied
- Somewhat Dissatisfied
- Dissatisfied
- Very Dissatisfied



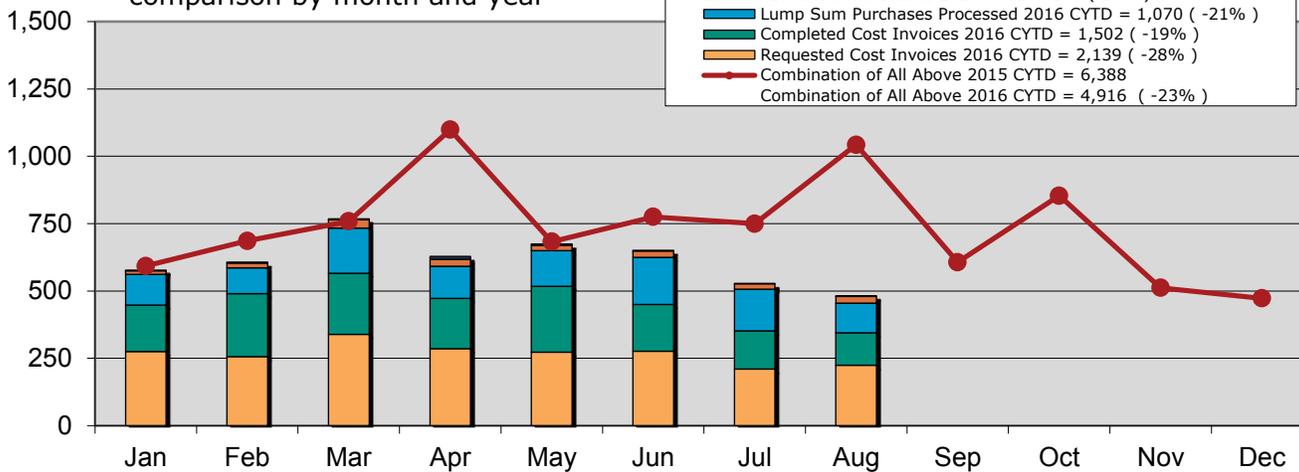
## Benefit Estimate Volume

### comparison by month and year



# Service Purchase

## Total Volume comparison by month and year



Requests Pending

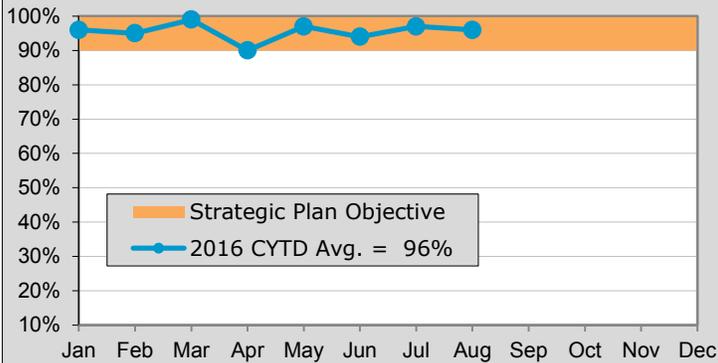
as of August 31, 2016

Cost Invoices Pending  
500

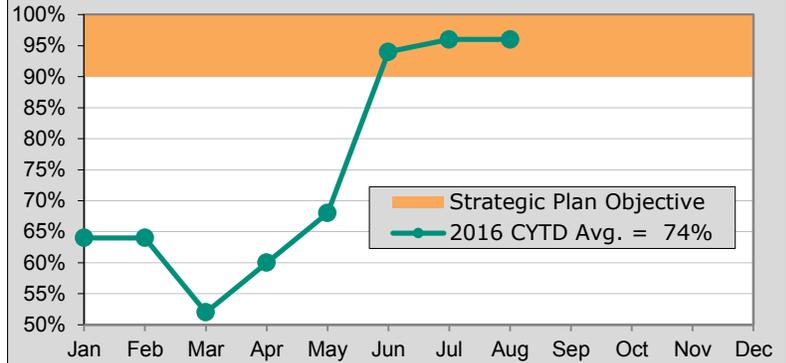
Payments Pending

6

## Lump Sum Timeliness percent within 5 business days



## Cost Invoices Timeliness percent within 10 business days



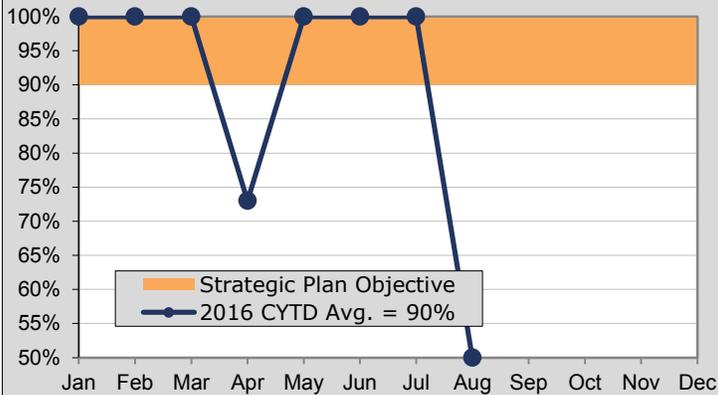
### Timeliness (average turnaround time in business days)

2	3	2	2	2	2	2	3				
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

### Timeliness (average turnaround time in business days)

11	21	60	11	9	4	5	4				
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

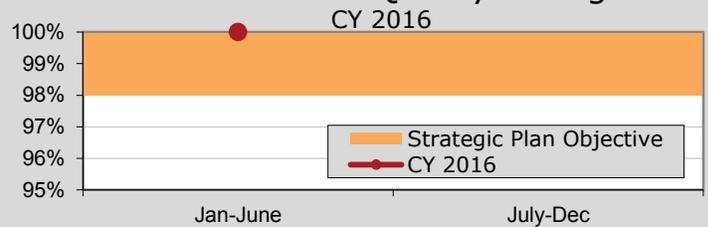
## Payroll Deduction Agreement Timeliness percent within 5 business days



### Timeliness (average turnaround time in business days)

1	2	1	3	1	1	1	8				
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

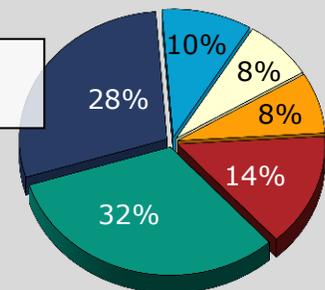
## Cost Invoice Quality Rating



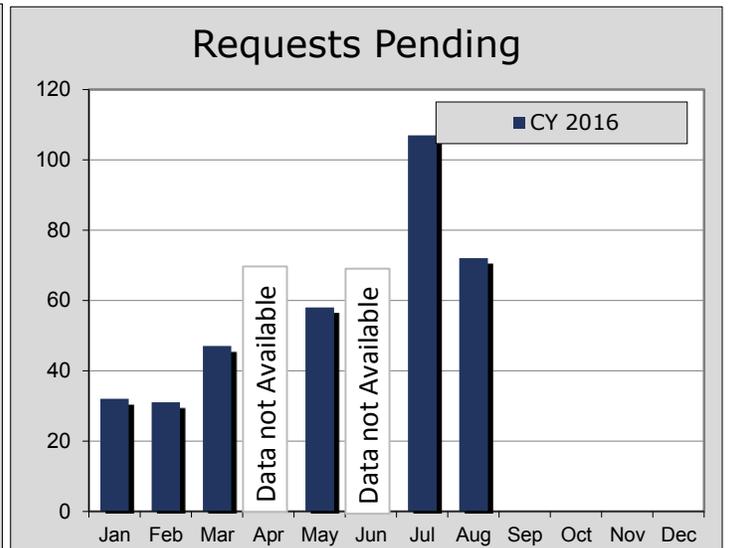
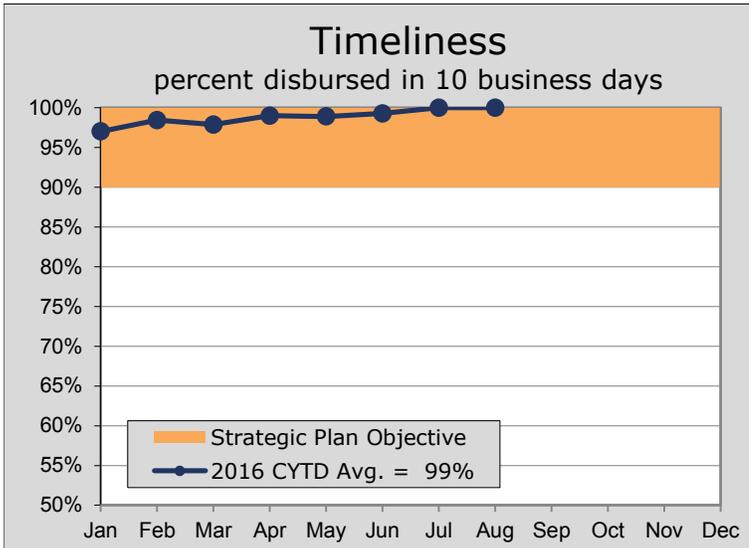
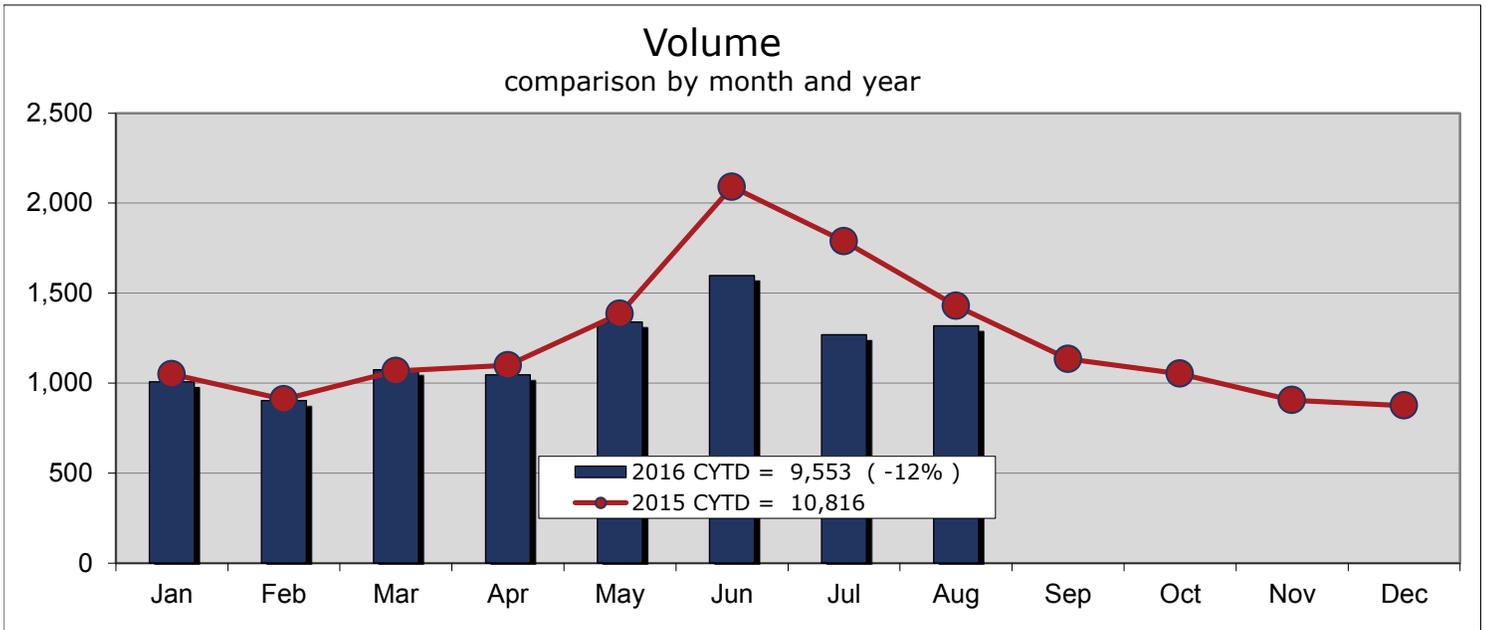
## Member Satisfaction 2nd Quarter 2016

Very Satisfied + Satisfied + Somewhat Satisfied = 70%  
Strategic Plan Objective = 90%

- Very Satisfied
- Satisfied
- Somewhat Satisfied
- Somewhat Dissatisfied
- Dissatisfied
- Very Dissatisfied

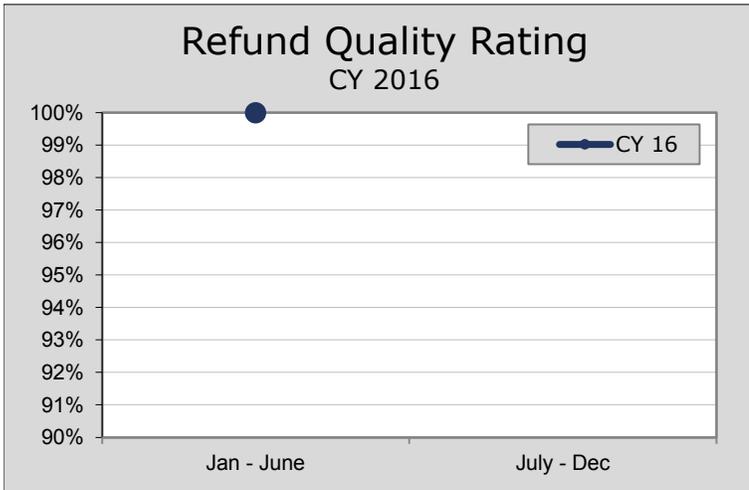
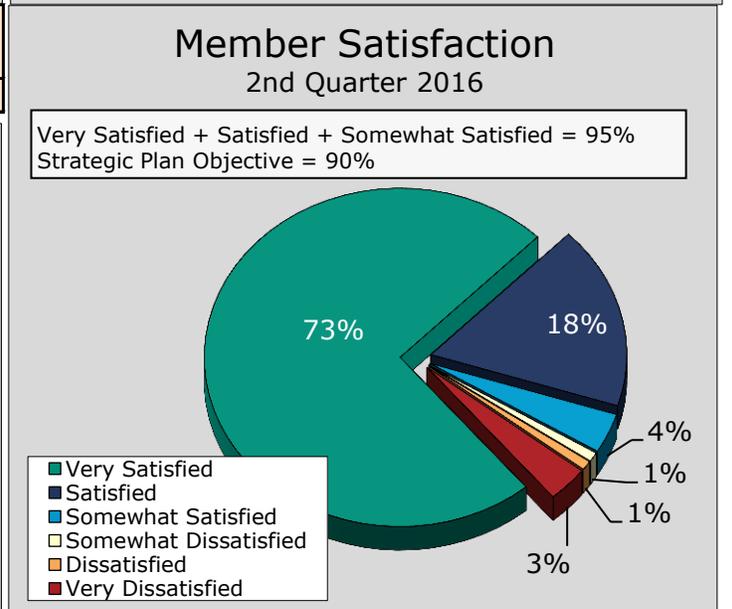


# Refunds



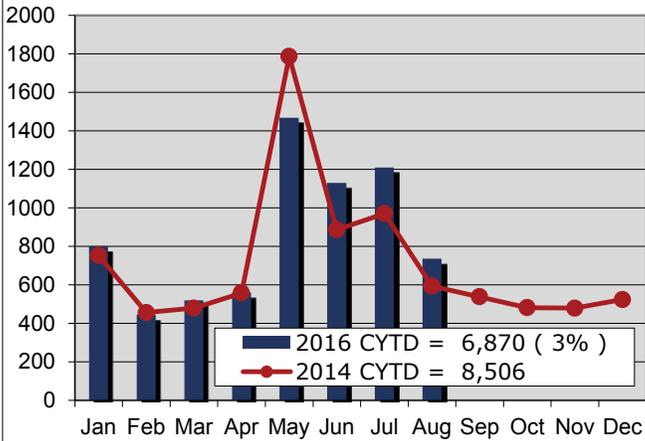
### Timeliness (average turnaround time in business days)

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Avg. Turnaround	2	2	2	2	1	2	1	1				

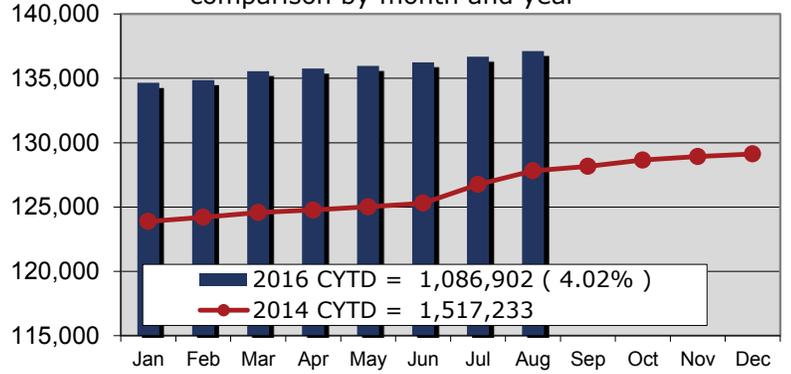


# New Retirees

### First Payment Volume comparison by month and year



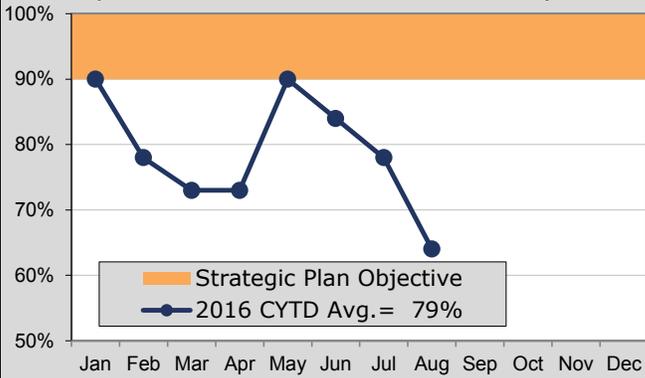
### Pension Volume comparison by month and year



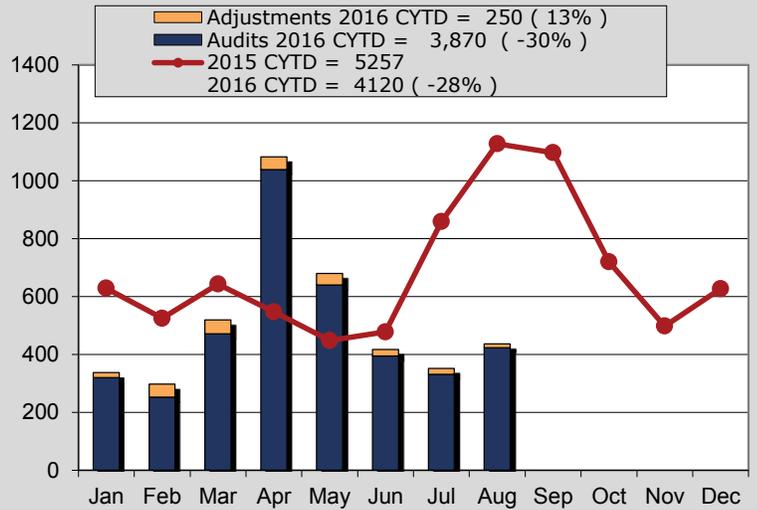
### Pension Payment (percent disbursed by 1st of the month)

100%	100%	100%	100%	100.0%	100%	100%	100%				
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

### First Payment Timeliness percent disbursed in 10 business days



### Audits & Adjustments comparison by month and year

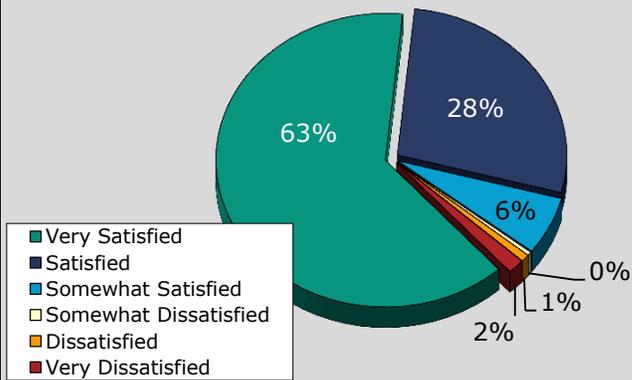


### First Payment Timeliness (average turnaround time in days)

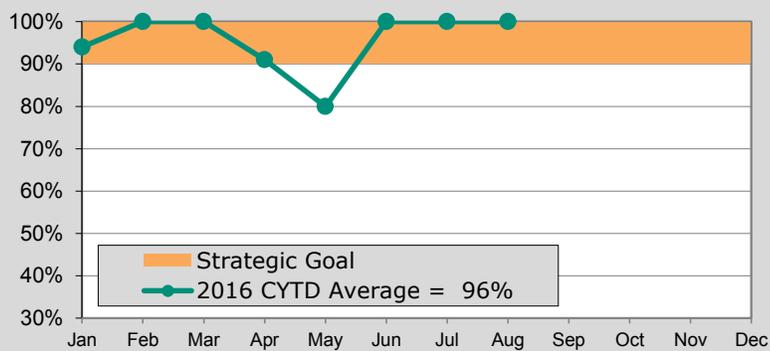
5	9	14	12	7	8	10	12				
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

### Member Satisfaction 2nd Quarter 2016

Very Satisfied + Satisfied + Somewhat Satisfied = 97%  
Strategic Plan Objective = 90%



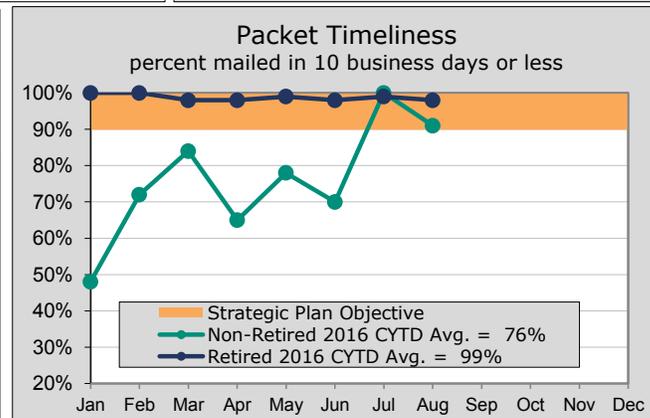
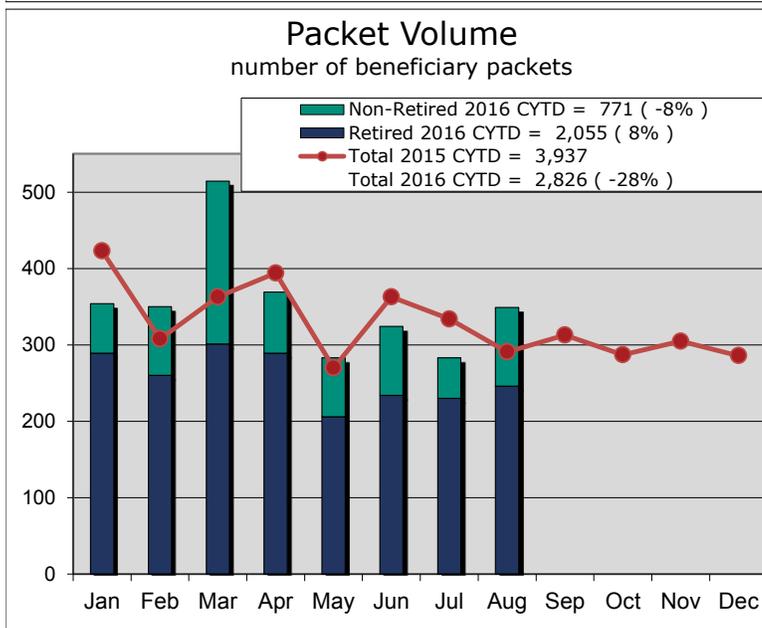
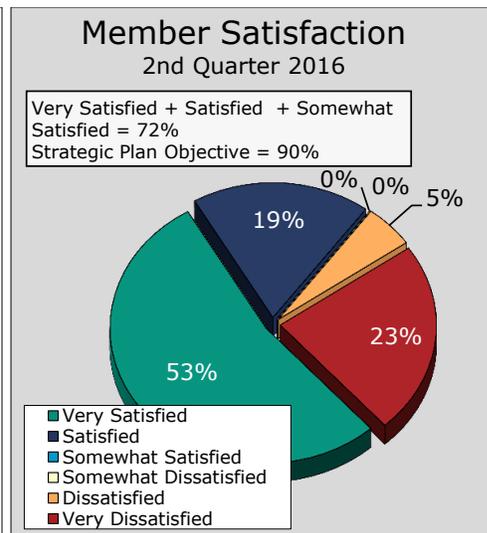
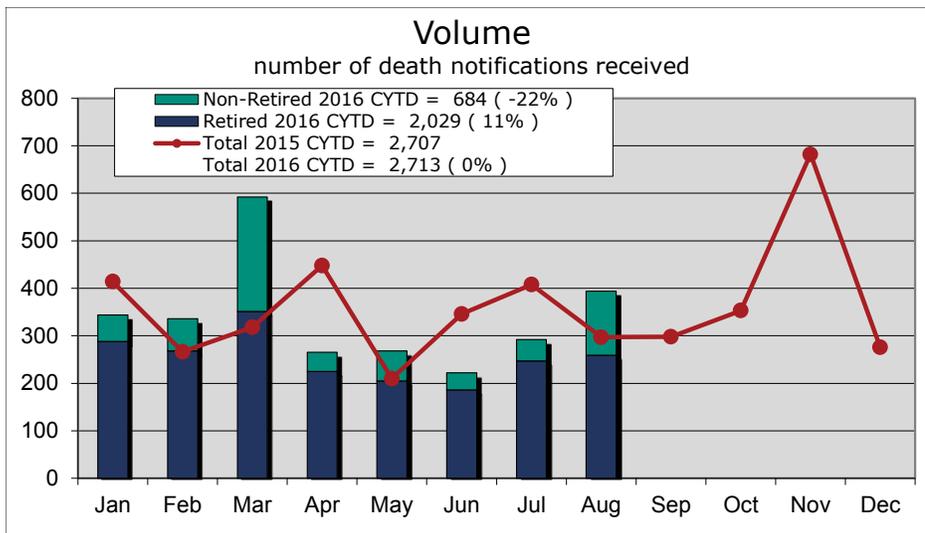
### Adjustments Timeliness Percent completed in 20 business days



### Adjustments Timeliness (average turnaround time in days)

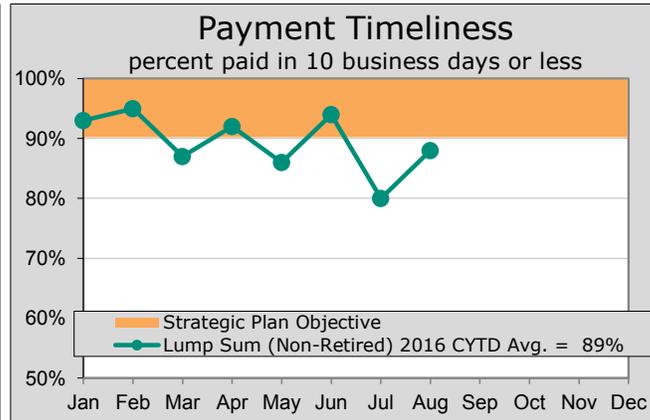
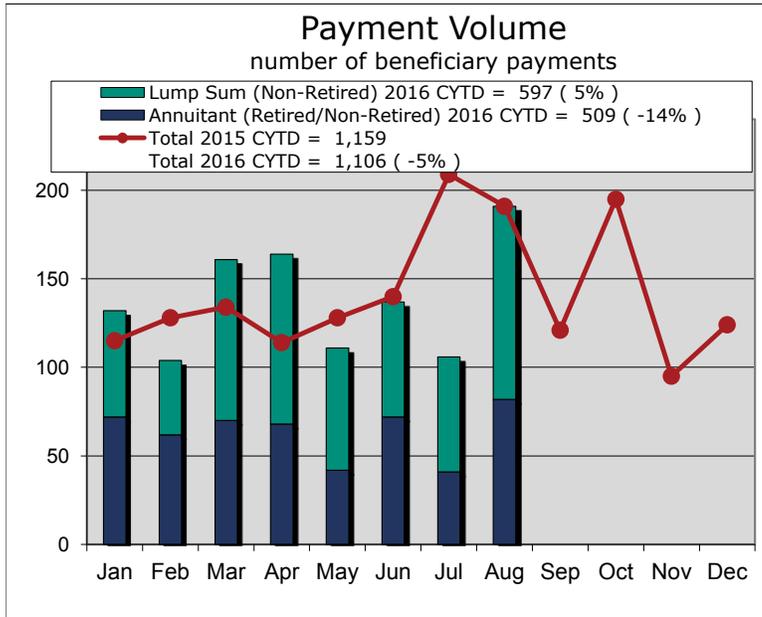
4	6	6	5	6	3	5	9				
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

# Survivor Benefits



### Packet Timeliness (average TAT in days)

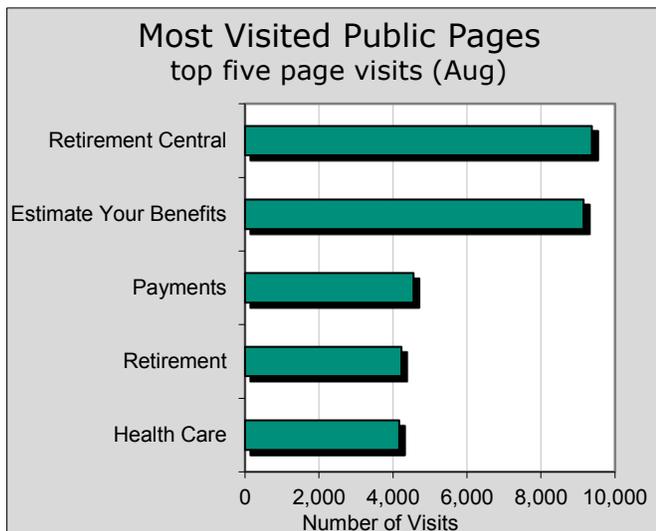
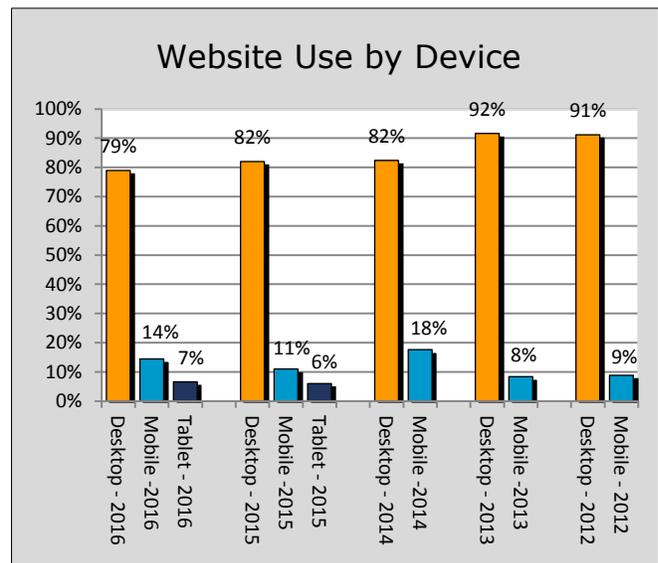
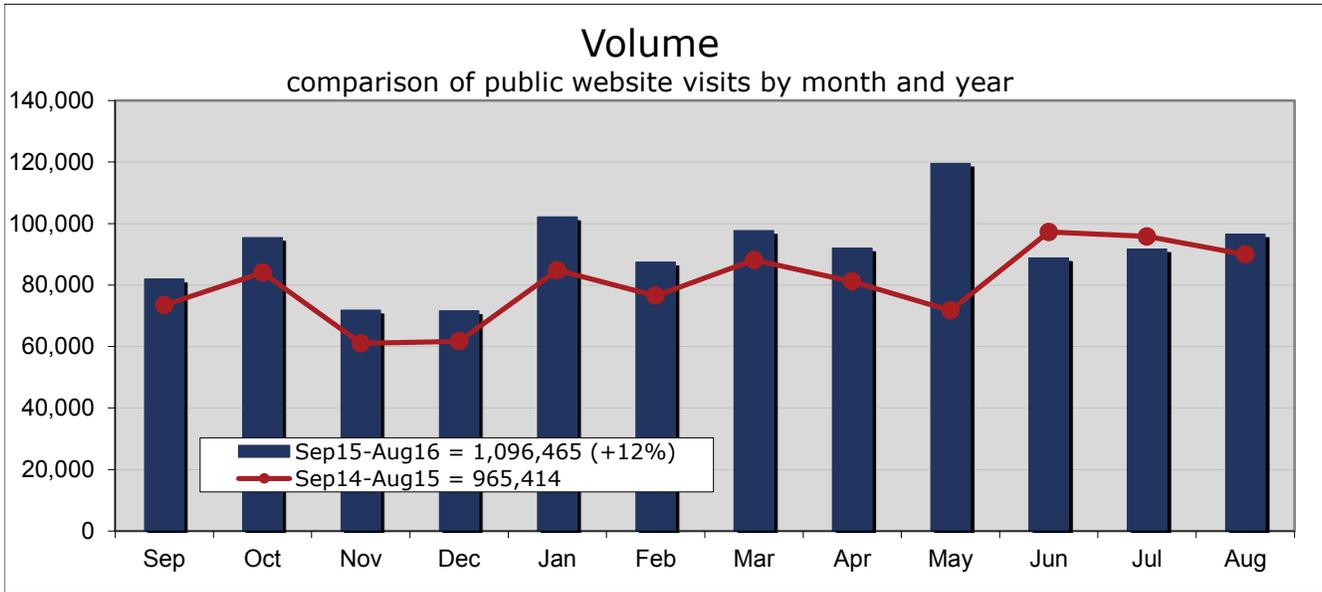
Month	Retired	Non-Retired
Jan	2	86
Feb	2	39
Mar	2	53
Apr	3	42
May	3	61
Jun	3	52
Jul	2	3
Aug	2	4
Sep		
Oct		
Nov		
Dec		



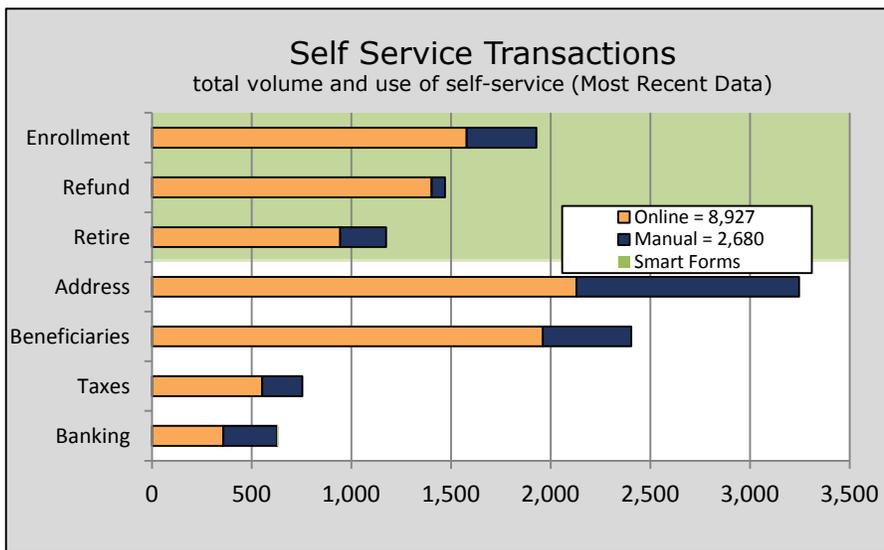
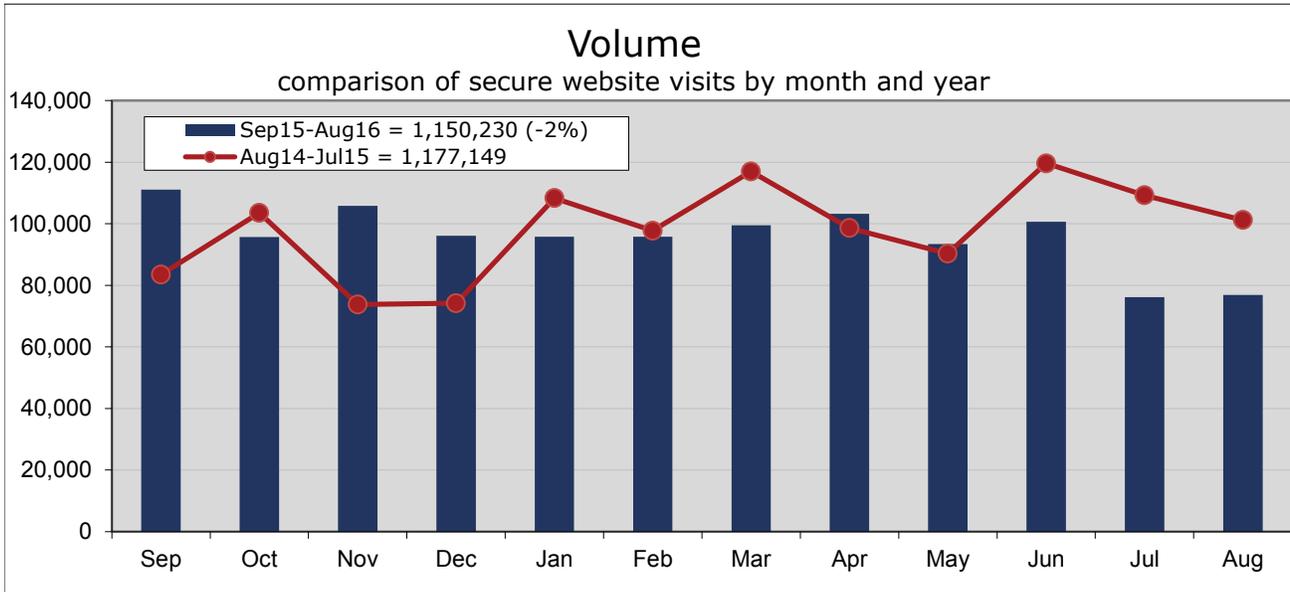
### Payment Timeliness (average TAT in days)

Month	Lump Sum (Non-Retired)
Jan	7
Feb	6
Mar	7
Apr	6
May	7
Jun	3
Jul	6
Aug	6
Sep	
Oct	
Nov	
Dec	

# Public Website: [www.azasrs.gov](http://www.azasrs.gov)



# Secure Website: secure.azasrs.gov

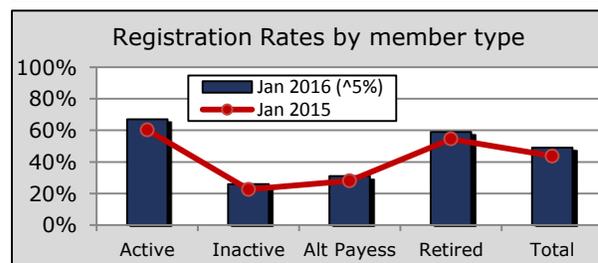
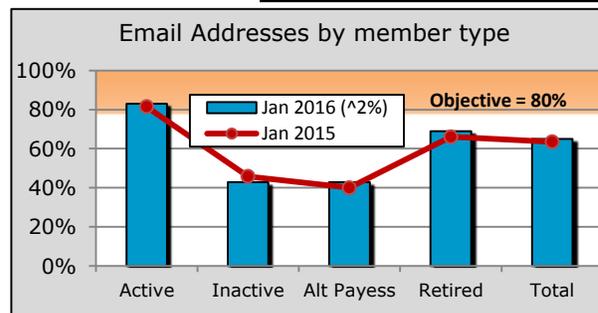
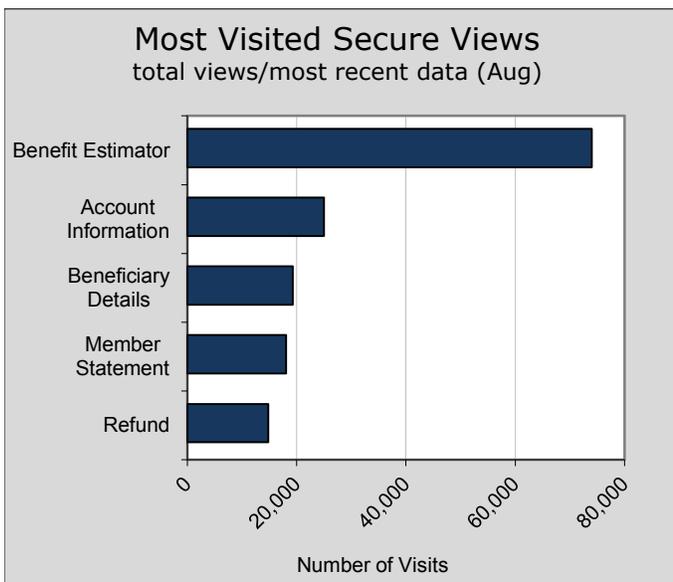


### Historical Comparison of Online Usage

	This month	12mo Min	12mo Max	12mo Avg	Objective
Enrol	82%	82%	97%	91%	99%
Ref	95%	88%	98%	91%	90%
Ret	80%	69%	80%	74%	90%
Add	80%	70%	86%	78%	75%
Bene	82%	81%	87%	84%	75%
Tax	73%	67%	93%	80%	75%
DD	57%	50%	63%	57%	75%

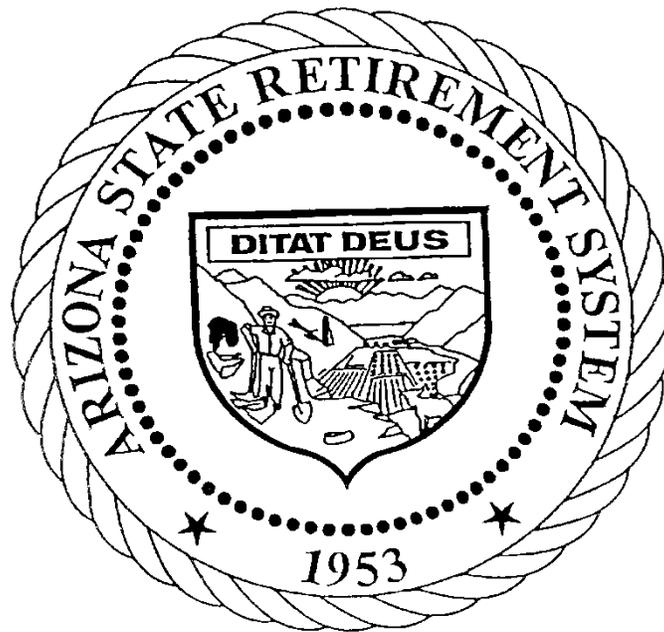
**Total online this month**

**77%**



# Agenda Item #8c

## Director's Report Budget & Staffing



**Arizona State Retirement System**  
**Fiscal Year 2017 Appropriated Budget Report**  
(as of August 31, 2016)

	APPROPRIATIONS FY 2017	EXPENDED YTD	% EXPENDED
<b>OPERATING BUDGET</b>			
Personal Services	\$ 13,025,000	\$ 2,263,900	17.38%
Employee Related Expenses	\$ 5,027,300	\$ 850,000	16.91%
Professional & Outside Services	\$ 1,292,400	\$ 374,000	28.94%
Travel	\$ 79,000	\$ 5,200	6.58%
Other Operating Expenses	\$ 2,801,000	\$ 270,800	9.67%
Equipment	\$ 389,500	\$ 100	0.03%
<b>Operating Subtotal</b>	<b>\$ 22,614,200</b>	<b>\$ 3,764,000</b>	<b>16.64%</b>
<b>OTHER APPROPRIATIONS</b>			
Long Term Disability Administration	\$ 2,800,000	\$ 204,400	7.30%
Oracle Forms and Reports Modernization (Yr. 4)	\$ 2,070,000	\$ 174,600	8.43%
<b>TOTAL FY 2017 Appropriated Funds</b>	<b>\$ 27,484,200</b>	<b>\$ 4,143,000</b>	<b>15.07%</b>

	APPROPRIATIONS	EXPENDED PRIOR YEARS	EXPENDED YTD	% EXPENDED
<b>PRIOR YEAR APPROPRIATIONS (NON-LAPSING)</b>				
FY 2016 - ASRS Operating Budget (Lapses 6/30/2017)	\$ 22,911,600	\$ 22,461,300	-	98.03%
FY 2016 - Oracle Forms and Reports Modernization (Yr. 3)	\$ 2,270,000	\$ 558,100	-	24.59%
FY 2015 - Oracle Forms and Reports Modernization (Yr. 2)	\$ 4,484,500	\$ 1,814,600	\$ 42,300	41.41%
FY 2011 - HB 2389 - ASRS Plan Design Changes	\$ 1,341,700	\$ 1,247,100	-	92.95%
FY 2011 - ASRS Operating Budget	\$ 20,570,100	\$ 19,901,200	-	96.75%

# Fiscal Year 2017 Appropriated Budget Report Summary

(as of August 31, 2016)

## Operating Budget

The operating budget information is based on funding approved by the Board and the Legislature for fiscal year July 1, 2016 through June 30, 2017. Administrative salaries and employee benefits, supplies, equipment and ongoing costs associated with information and financial systems for the ASRS Board and ASRS employees are funded from the operating budget. These ASRS operating expenses are distinguished from other areas of ASRS spending authority such as expenditures for investment management and disbursements. Expenditures to date include five pay periods (19.2% of the annual payrolls) in fiscal year 2017.

## Other Appropriations

Other appropriations, which are considered part of the annual budget, represent appropriations for specific programs or services authorized by the Board and the Legislature.

- **Long Term Disability Administration Fund**  
The amount appropriated for the administration costs of the LTD program.
- **Oracle Forms and Reports Modernization**  
The amount appropriated (non-lapsing) for the fourth year of the software modernization project.

## Non-Lapsing Appropriations

The amount appropriated by the Legislature for:

- FY 2016 – Oracle Forms and Reports Modernization (Yr. 3)
- FY 2016 – ASRS Operating Budget  
HB 2695 section 122 modified the FY 2016 ASRS appropriations to make the unspent appropriations non-lapsing for the purpose of paying information technology security costs. The ASRS has the ability to utilize the unspent portion of these appropriations until June 30, 2017.
- FY 2015 – Oracle Forms and Reports Modernization (Yr. 2)
- FY 2011 – HB 2389 - ASRS Plan Design Changes
- FY 2011 – ASRS Operating Budget  
HB 2024 Section 93 modified the FY 2011 ASRS appropriations to be non-lapsing appropriations. The ASRS has the ability to utilize the unspent portion of these appropriations in ensuing fiscal years.

## Explanation of Columns

- 1) The *Appropriations* column represents funds that have been approved by the Legislature and the ASRS Board for FY 2017 and includes prior year legislative appropriations.
- 2) The *Expended* column represents the expenditures to date.
- 3) The *% Expended* column identifies the portion of each line item that has been expended to date. This column is intended to be a guide to the rate of spending during the fiscal year.

**Arizona State Retirement System**  
**Fiscal Year 2017 Continuously Appropriated Budget Report**  
(as of August 31, 2016)

DESCRIPTION	EXPENDED YTD	EST. ANNUAL EXPENSES (Updated quarterly)	EST. ANNUAL EXPENSES AS % OF TOTAL AUM	EST. ANNUAL EXPENSES PER MEMBER
<b>Custodial Banking, Security Lending and Master Cash STIF Fees</b>	-	3,340,000		
<b>Internal Investment Management (Salaries and Benefits)</b>	267,400	1,512,000		
<b>Internal Investment Management (Travel, Education and Training, Rent, and Other Operational Expenses)</b>	600	85,000		
<b>Public Markets</b>				
<b>External Investment Management Fees</b>	-	55,931,000		
<b>Transactional and Other Fees</b>	-	4,000,000		
<b>Private Markets*</b>				
* Budgetary estimates are forthcoming. ASRS Financial Services Division is completing industry research to finalize accounting methodology and presentation.				
<b>Private Debt and Equity Management Fees</b>	-	58,997,000		
<b>Private Debt and Equity Performance Incentive and Other Fees</b>	-	*		
<b>Real Estate, Farmland and Timber and Infrastructure Management Fees</b>	-	27,195,000		
<b>Real Estate, Farmland and Timber and Infrastructure Performance Incentive and Other Fees</b>	-	*		
<b>Opportunistic Debt and Equity Management Fees</b>	-	32,017,000		
<b>Opportunistic Debt and Equity Performance Incentive and Other Fees</b>	-	*		
<b>Investment Management Expenses</b>	<b>\$ 268,000</b>	<b>\$ 183,077,000</b>	<b>0.537%</b>	<b>\$ 320.57</b>
<b>Investment Consulting Services</b>	64,000	4,301,000		
<b>Investment Related Legal Services</b>	82,100	925,000		
<b>Investment Electronic Information Services</b>	337,700	1,982,000		
<b>External Financial Consulting Services</b>	-	115,000		
<b>Investment Related Consulting, Legal and Information Services</b>	<b>\$ 483,800</b>	<b>\$ 7,323,000</b>	<b>0.021%</b>	<b>\$ 12.82</b>
<b>Rent</b>	<b>\$ 368,000</b>	<b>\$ 1,500,000</b>	<b>0.004%</b>	<b>\$ 2.63</b>
<b>Actuarial Consulting Fees</b>	<b>\$ 200</b>	<b>\$ 390,000</b>	<b>0.001%</b>	<b>\$ 0.68</b>
<b>Retiree Payroll (Disbursement Administration)</b>	<b>\$ 252,700</b>	<b>\$ 3,400,000</b>	<b>0.010%</b>	<b>\$ 5.95</b>
<b>Total Continuously Appropriated Expenses</b>	<b>\$ 1,372,700</b>	<b>\$ 195,690,000</b>	<b>0.573%</b>	<b>\$ 342.65</b>
<b>Total Current Year Appropriated Expenses<sup>^</sup></b>	<b>\$ 4,185,300</b>	<b>\$ 28,584,200</b>	<b>0.084%</b>	<b>\$ 50.05</b>
<sup>^</sup> Includes estimated prior year non-lapsing appropriations of \$1,100,000.				
<b>Total Expenses (Continuously Appropriated and Appropriated)</b>	<b>\$ 5,558,000</b>	<b>\$ 224,274,200</b>	<b>0.657%</b>	<b>\$ 392.71</b>

ASRS Estimated Total Market Value of Assets Under Management (AUM) as of June 30, 2016  
ASRS Total Membership as of June 30, 2016

\$ 34,111,870,000  
571,100

# Fiscal Year 2017

## Continuously Appropriated Budget Summary

The Arizona State Retirement System (ASRS) investment and administrative costs are expended in accordance with Arizona Revised Statutes (A.R.S.) A.R.S. § 38-721(C) lists specific expenditures that are continuously appropriated and are allowable in the amount deemed necessary by the Board.

These specific expenditures are described below:

### **1. Investment management fees and related consulting fees necessary to meet the Board's investment objectives**

#### *Internal Investment management*

- ASRS Investment Management Division (IMD) staff base salaries and employer-paid expenses (benefits and payroll taxes), travel, education and training, rent, and other operational costs.

#### *External investment management*

- Public Markets
  - Investment management fees.
  - Transactional and other fees include foreign taxes and commissions on derivatives and other incidental costs.
- Private Markets
  - Private Debt and Equity, Real Estate, Farmland and Timber and Infrastructure, and Opportunistic Debt and Equity investment management fees.
  - Performance incentive fees include performance incentives and carried interest, which are only paid upon successful performance of the manager after other return criteria are met. Performance incentive fees are only paid if earned or incurred and therefore may vary each quarter.

#### *Consulting fees*

- Investment-related consulting and legal fees, electronic information services and subscriptions, custodial banking administrative fees, and external auditing service fees.

### **2. Rent**

- Costs associated with rent required as tenants for occupancy at 3300 N Central Avenue in Phoenix and in the leased office space in Tucson.

### **3. Actuarial consulting fees**

- Costs associated with actuarial services related to plan design, administration and valuations.

### **4. Retiree Payroll**

- Costs associated with administering retiree pension benefits and disbursements, including third-party payroll administration fees, postage, benefit-related consulting fees, and the ASRS Benefits Disbursement project.

The report includes projected expenditures for the current fiscal year. Actual expenditures are reported monthly and estimated annual expenses are reviewed and adjusted quarterly. The ASRS Estimated Total Market Value of Assets Under Management (AUM) and ASRS Total Membership values are updated as period ending amounts are finalized.

**Arizona State Retirement System  
Staffing Report  
(August 31, 2016)**

ASRS by Division	252 Full Time Equivalents (FTEs)	New Hires	New Exits	Vacancies	Vacancy Rate
Administrative Services Division (ASD)	16	0.0	0.0	3.25	20.31%
Director's Office (DIR)	14	0.0	0.0	0.0	0.00%
External Affairs (EAD)	3	0.0	0.0	0.0	0.00%
Financial Services (FSD)	62	0.0	0.0	6.5	10.48%
Technology Services (TSD)	52	0.0	0.0	3.0	5.77%
Internal Audit (IAD)	6	0.0	0.0	2.0	33.33%
Investment Management (IMD)	13	0.0	0.0	3.0	23.08%
Member Services (MSD)	86	6.0	1.0	8.75	10.17%
	<b>252</b>	<b>6.0</b>	<b>1.0</b>	<b>26.50</b>	<b>10.52%</b>

Turnover	August 2016 New Hires	August 2016 Exits	Total Exits (Last 12 Months)	Annualized Turnover %
	6.0	1.0	30.75	13.62%

**Recruitments**

Beginning February 2015, all ASRS recruitments were placed on hold until further notice due to the State of Arizona Hiring Freeze. Specific ASRS positions are critical to the core functions and operations of the agency and if left unfilled will negatively impact the agency's ability to meet goals and objectives. Recruitment for these "mission critical" positions may proceed after hiring supervisors complete and submit appropriate justification documents and upon approval of the agency director. In some instances, these additional steps have extended the recruitment turnaround time and contributed to the yellow or red status of some business units as noted on the following pages. We continue to work within the State of Arizona Hiring Freeze guidelines implemented February 2015.

- Seven positions are under recruitment – AUD IT Auditor, FSD Assistant Controller, FSD Pension Calculation Specialists (2), IMD Director of Quantitative Analysis and Research, MSD Quality Analyst, and TSD Network and Operations Manager
- One recruitment has not yet commenced – FSD-BA Accounting Specialist 2
- Three positions have been filled with future start dates – ASD Senior Training and Development Officer (Start date: 09/12/2016) and MSD Retirement Advisor Seniors (2) (Start date: 09/06/2016)

## Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <span style="color: green;">Green</span> = Normal risk <span style="color: orange;">Yellow</span> = Greater than normal risk <span style="color: red;">Red</span> = Negative impact			
MSD	MAC (Call Center)	○ ○ ●	In August 2016, strategic objectives were not met. Six Retirement Advisor Seniors are currently in training and two Retirement Advisor Seniors start on September 6, 2016. Negative impact is expected to remain until the new hires are fully trained and ASRS Health Insurance Open Enrollment ends.
MSD	One-on-one Counseling (Appointments/Walk-ins)	● ○ ○	
MSD	E-mail and Written Correspondence	● ○ ○	
MSD	Outreach Education	● ○ ○	
MSD	Tucson: Appointments/Walk-ins/Outreach	○ ● ○	In August 2016, strategic objectives were met. However, one of nine BA positions and one tech position remain vacant. Phoenix staff cannot assist Tucson staff to help reach their primary objectives. Greater than normal risk remains and will be reevaluated on a monthly basis.
MSD	Benefit Estimates	● ○ ○	
MSD	Employer Relations	● ○ ○	
MSD	Health Insurance/LTD Benefits Administration and Communication	● ○ ○	
MSD	Survivor Benefit Processing	● ○ ○	
MSD	Refund Processing	● ○ ○	

## Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <b>Green</b> = Normal risk <b>Yellow</b> = Greater than normal risk <b>Red</b> = Negative impact			
MSD	New Retiree Processing		
MSD/FSD	Service Purchase Processing		The Service Purchase process is going through a modernization project which is requiring significant staffing resources. Greater than normal risk will remain until the Service Purchase project is completed.
FSD	Monthly Pension Payroll Processing		
FSD	New Retiree Processing		During August 2016, the New Retirees strategic objective to finalize retirement benefits was not met. Four positions are vacant and ten FTEs are in training. Current FTEs are working overtime. FTEs in other work units are assisting, and one temporary resource is assigned to the business unit to help with the workload. Recruitment for two positions is underway with an estimated October 2016 start date. Negative impact will remain until the vacant positions have been filled and the FTEs are fully trained.
FSD	Survivor Benefit Processing		
FSD	Records Management (data processing/imaging)		
FSD	LTD/Health Benefit Supplement Processing		
FSD	Transfer Processing		

## Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

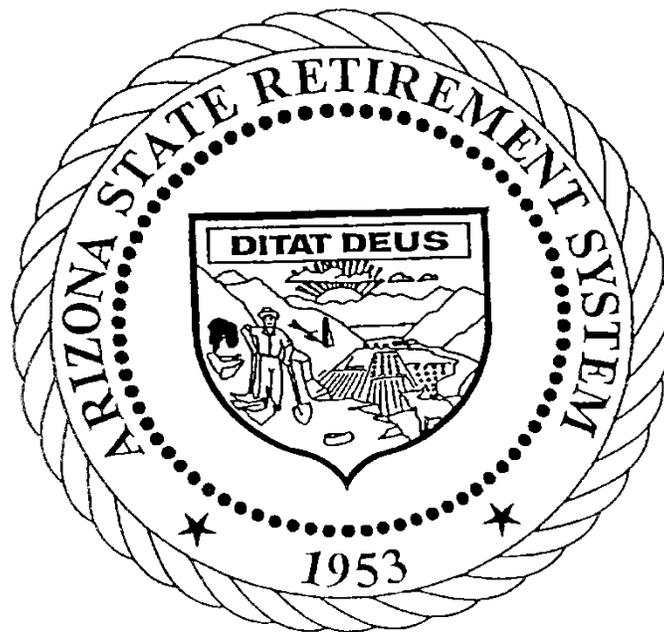
Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <span style="color: green;">Green</span> = Normal risk <span style="color: orange;">Yellow</span> = Greater than normal risk <span style="color: red;">Red</span> = Negative impact			
FSD	General Accounting		General Accounting did not meet one of its strategic objectives. One FTE split time to assist Benefits Accounting through August, and the Assistant Controller position has not been filled. Greater than normal risk will remain until all positions are filled and fully trained.
FSD	Contribution Collections and Posting		
TSD	Network Support		
TSD	IT Security		The IT Security team is unable to meet all business demands. Two recently hired Security Engineers are in training. Greater than normal risk will remain until the newly hired FTEs are fully trained. Need for additional resources is under consideration.
TSD	Business Applications Development and Support		Our complement of resources for August was 45 (30 FTEs and 15 external resources).
IMD	Investment Management		
DIR	Board/Executive Staff Support		
DIR	Strategic Planning/Analysis		
DIR	Strategic Communications		
DIR	Public Affairs		

## Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <b>Green</b> = Normal risk <b>Yellow</b> = Greater than normal risk <b>Red</b> = Negative impact			
IA	Internal Audit	○●○	The IT Auditor position became vacant in April 2016. With this position vacant, three audits originally scheduled to be completed in the biennial plan will not be completed. Greater than normal risk will remain until this position is filled and the FTE is fully trained.
EA	Rule Writing	●○○	
EA	Legislative Relations	●○○	
EA	Defined Contributions Plans	●○○	
ASD	Human Resources	●○○	
ASD	Training and Development	●○○	
ASD	Contracts and Procurement	●○○	
ASD	Facilities Management	●○○	
ASD	Budget Administration	●○○	

# Agenda Item #8d

## Director's Report Cash Flow Statement



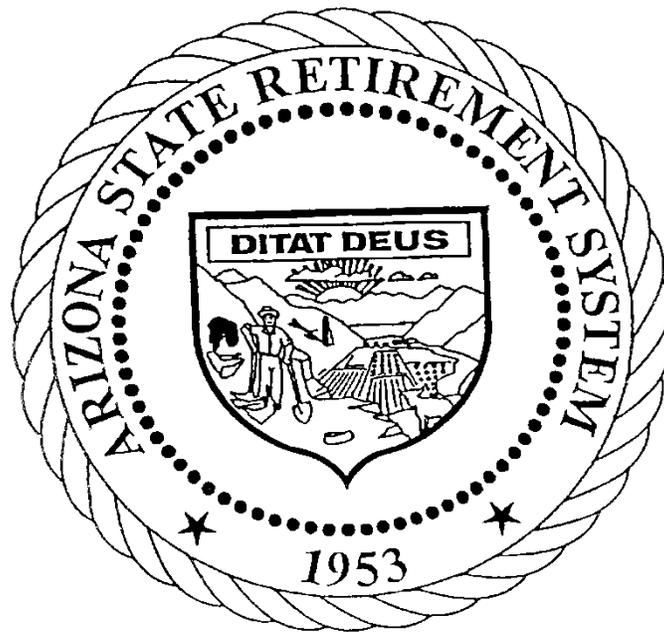
**ARIZONA STATE RETIREMENT SYSTEM**  
**COMBINED STATEMENT OF CHANGES IN TOTAL FUND CASH**  
**FOR THE MONTH ENDED AUGUST 31, 2016**

	Retirement Plan Fund	Retirement System Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Current Period August	Fiscal 2017 YTD August	Fiscal 2016 YTD August
<b>ADDITIONS</b>							
Contributions							
Member contributions	\$ 75,771,338	\$ 1,673	\$ -	\$ 935,966	\$ 76,708,978	\$ 146,385,080	\$ 141,462,676
Employer contributions	74,160,950	1,673	3,740,390	936,055	78,839,068	148,457,305	141,254,404
Alternative contributions (ACR)	1,716,635	-	37,489	16,112	1,770,237	3,072,515	3,019,626
Transfers from other plans	-	-	-	-	-	4,434	227,250
Purchased service	1,972,224	-	-	-	1,972,224	3,864,866	5,578,467
<b>TOTAL CONTRIBUTIONS</b>	<b>153,621,148</b>	<b>3,346</b>	<b>3,777,879</b>	<b>1,888,134</b>	<b>159,290,507</b>	<b>301,784,200</b>	<b>291,542,423</b>
<b>DEDUCTIONS</b>							
Investment management fees	11,593,452	-	-	97,993	11,691,445	13,467,196	13,490,151
Custody fees	-	-	-	-	-	-	-
Consultant and legal fees	145,689	-	-	-	145,689	146,189	116,743
Internal investment activity expense	234,186	-	-	-	234,186	572,368	370,738
Retirement and disability benefits	244,890,500	3,189,380	8,031,980	4,834,796	260,946,656	516,193,203	492,749,339
Survivor benefits	5,242,268	21,307	-	-	5,263,575	7,184,367	5,630,624
Refunds to withdrawing members, including interest	25,829,476	-	-	-	25,829,476	55,162,865	59,927,561
Administrative expenses	2,657,593	-	-	204,956	2,862,549	6,984,725	4,173,181
Transfers to other plans	20,760	-	-	-	20,760	94,370	189,011
Other	-	-	-	-	-	54	9,655
<b>TOTAL DEDUCTIONS</b>	<b>290,613,925</b>	<b>3,210,687</b>	<b>8,031,980</b>	<b>5,137,745</b>	<b>306,994,337</b>	<b>599,805,338</b>	<b>576,657,003</b>
<b>INCREASE (DECREASE)</b>	<b>(136,992,777)</b>	<b>(3,207,341)</b>	<b>(4,254,101)</b>	<b>(3,249,611)</b>	<b>(147,703,830)</b>	<b>(298,021,138)</b>	<b>(285,114,581)</b>
From securities lending activities:							
Security loan program	374,686	-	-	-	374,686	795,802	1,241,912
Security loan interest expense / (Rebate)	(69,305)	-	-	-	(69,305)	(224,730)	(405,773)
* Net income from securities lending activities	443,991	-	-	-	443,991	1,020,532	1,647,685
Capital Calls / (Distributions)							
Farmland and Timber	-	-	-	-	-	-	12,144,186
Infrastructure	-	-	-	-	-	-	-
Opportunistic Debt	(8,430,478)	(73,573)	(368,422)	-	(8,872,473)	74,320,755	44,522,529
Opportunistic Equity	(14,481,129)	(130,059)	(643,397)	-	(15,254,585)	(21,676,878)	8,831,614
Private Debt	44,414,629	370,535	1,927,769	-	46,712,933	158,973,411	101,229,432
Private Equity	2,970,837	25,419	130,443	-	3,126,698	8,338,049	81,866,543
Real Estate	(99,004,017)	(872,790)	(4,314,289)	-	(104,191,096)	(134,854,011)	72,838,562
<b>TOTAL Capital Calls</b>	<b>(74,530,158)</b>	<b>(680,469)</b>	<b>(3,267,896)</b>	<b>-</b>	<b>(78,478,523)</b>	<b>85,101,326</b>	<b>321,432,866</b>
<b>NET INCREASE (DECREASE)</b>	<b>\$ (62,018,628)</b>	<b>\$ (2,526,872)</b>	<b>\$ (986,205)</b>	<b>\$ (3,249,611)</b>	<b>\$ (68,781,316)</b>	<b>\$ (382,101,932)</b>	<b>\$ (604,899,761)</b>

\* Securities lending activities reported on a one month lag.

# Agenda Item #8e

## Director's Report Appeals



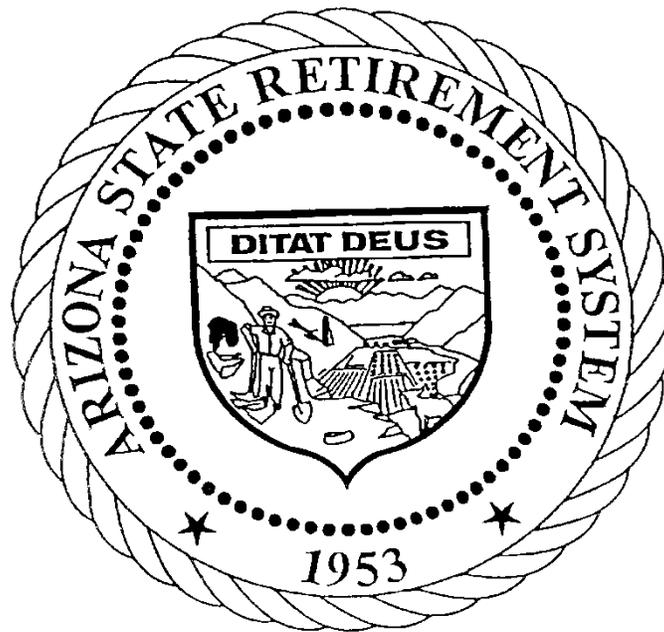
## OUTSTANDING ASRS APPEALS

Date Received	Appeals	Issues/Questions Regarding	Status/Comments
4/29/2016	Arizona State University ex rel. Board of Regents	Appellant is disputing the final Maricopa County Superior Court Order signed on 3/11/2016 awarding interest at 4.25%.	Superior Court awarded 4.25% interest and denied ASU request for 10% interest. ASU filed Notice of Appeal to Court of Appeals in 1 CA-CV 16-0239 on 4/1/2016 concerning interest. Appellant's Opening Brief filed. <b>ASRS Answering Brief filed September 14, 2016.</b>
7/14/2014	Sharon Di Giacinto & Richard K. Hillis	Appealing the ASRS determination that a Domestic Relations Order term is unacceptable.	Board upheld Administrative Law Judge Decision on 1/30/2015. Appellant filed Notice of Appeal on 02/02/2015 with the AZ Superior Court, Case No. LC2015-000048. Oral Argument held 7/29/2015. Superior Court Decision in favor of the ASRS issued on 9/25/15. Appellant Di Giacinto appealed to AZ Court of Appeals on 9/30/2015. Brief completed. Awaiting Oral Argument to be scheduled.
12/17/2014	The Griffin Foundation	Appellant is appealing the ASRS determination that the Appellant owes contributions from October 2010 to present for its employees.	OAH hearing held on 5/14/2015 and 7/9/2015. ASRS Board accepted the Administrative Law Judge Decision on 12/4/2015. Appellant Griffin Foundation filed an appeal to Maricopa County Superior Court on 1/11/2016. Briefing schedule ordered. Appellant's Opening Brief filed 7/28/2016. <b>ASRS Response Brief filed September 9, 2016.</b>
3/14/2016	Carol Kurtis	Appealing ASRS determination that Appellant is no longer disabled and therefore ineligible for ASRS Long-Term Disability benefits.	OAH hearing held on 6/22/2016. <b>Settlement reached on August 8, 2016.</b>
5/17/2016	Lorena Tarazon	Appealing an overpayment of ASRS Long Term Disability benefits in the amount of \$11,778.86.	OAH hearing held on 7/13/2016. <b>Scheduled for Board action on September 30, 2016.</b>
7/13/2016	Douglas Ball	Appealing his retirement date of May 6, 2016.	<b>Settlement on August 2, 2016. OAH hearing date cancelled.</b>

Information as of September 16, 2016. Updates are noted in bold font.

# Agenda Item #8f

## Director's Report Employers Reporting





# 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

## MEMORANDUM

**TO:** Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board  
**FROM:** Mr. Paul Matson, Director  
**DATE:** September 15, 2016  
**RE:** Delinquent Employers

As of September 15, 2016, the following employers have failed to remit contributions by a date certain. These employers have received a letter advising them that the ASRS will initiate collection procedures unless they contact us within five days:

PARAGON PREPARATORY ACADEMY	2,400.
CENTRAL AZ ASSOCIATION OF GOVERNMENT	7,400.
GREAT EXPECTATION ACADEMY	25,600.
PUERCO VALLEY FIRE DISTRICT	3,000.
ROUND VALLEY USD	52,000.
NO AZ ACADEMY FOR CAREER DEVELOPMENT	7,600.*
PICTURE ROCKS FIRE DISTRICT	600.*
AZ HEALTH FACILITIES AUTHORITY	<u>1,800.*</u>
	100,400.*

Additionally, the following employers have filed for Chapter 11 Bankruptcy Protection and are delinquent in their ASRS contributions:

LUZ ACADEMY OF TUCSON	18,600*
STARSHINE ACADEMY	<u>33,200*</u>
<b>TOTAL</b>	<b><u>152,200*</u></b>

\*Estimated amount

# Agenda Item #9

Note: There are no materials for this agenda item.

# Agenda Item #10



# 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  
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*Paul Matson  
Director*

## MEMORANDUM

**TO:** Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board

**FROM:** Mr. Paul Matson, Director  
Mr. Patrick Klein, Assistant Director, External Affairs Division  
Mr. Nick Ponder, Government Relations Officer

**DATE:** September 13, 2016

**RE:** **AGENDA ITEM NO. 10:** Presentation, Discussion, and Appropriate Action  
Regarding *ASU v. ASRS* Appeal Litigation and Rulemaking Exemption Legislation

### **Purpose:**

To inform the ASRS Board of the 2011 Termination Incentive Program offered by Arizona State University, the legal proceedings, and the status to date.

### **Recommendation:**

Possible motion.

### **Background:**

In the 2004 Legislative Session, the Arizona Legislature passed Arizona Revised Statute § 38-749 entitled Employer Termination Incentive Program (Laws 2004, Ch. 106, § 1). The purpose of the statute is to address the actuarial impact of ASRS employers incentivizing employees to terminate and subsequently retire sooner than contemplated by the ASRS plan actuarial assumptions causing an unfunded liability to the ASRS. The statute defines what constitutes a termination incentive program, requires an employer to notify the ASRS if an employer implements a program, and requires an ASRS employer to pay the unfunded liability resulting from the program.

In 2011, Arizona State University (ASU) offered one year's salary as an incentive payment to a group of employees if they agreed to terminate that year. Seventeen ASRS members accepted ASU's offer to retire. As required by A.R.S. § 38-749, the ASRS actuary calculated the unfunded liability resulting from the ASU program, and the ASRS invoiced ASU the unfunded liability in the amount of \$1,149,103. ASU paid the invoice amount in 2012 and appealed the assessment, asserting its right to recover its payment to the ASRS with interest.

#### I. **ASRS Board Appeal**

The Administrative Law Judge ruled in favor of the ASRS, and at the November 2012 ASRS Board meeting, the ASRS Board accepted the Administrative Law Judge's Decision.

#### II. **Maricopa County Superior Court**

ASU filed an appeal to Maricopa County Superior Court, and in November 2013, Judge Crane McClennen ruled in favor of the ASRS.

III. Arizona Court of Appeals

ASU appealed to the Arizona Court of Appeals. ASU argued 1) the ASRS actuarial methodology used to calculate the invoice charged ASU for liability that was not created by the ASU termination incentive program, and 2) the ASRS calculation was unenforceable because the ASRS did not codify its methodology in administrative rule. In May 2015, the Arizona Court of Appeals held that the ASRS invoice was unenforceable because the ASRS did not promulgate a rule to enforce A.R.S. § 38-749 as required by the Arizona Administrative Procedure Act (A.R.S. §§ 41-1001 to -1092). The Court remanded the case back to the Superior Court, ordering that the ASRS return the payment to ASU with interest.

The Court denied the ASU application for attorneys' fees in the amount of \$114,493.33 because the statute authorizing attorneys' fees in a judicial review action precludes the State of Arizona (which includes ASU) from recovery.

IV. Arizona Supreme Court

The ASRS filed a Petition for Review to the Arizona Supreme Court, primarily arguing that the Court of Appeals Opinion was overly broad with harmful implications for statutory enforcement for all state agencies. On October 27, 2015, the Arizona Supreme Court declined to accept review of the case.

V. Remaining Legal Dispute on Interest

The matter was remanded to Superior Court on the issue of interest. The Superior Court awarded 4.25% interest on the refund amount. ASU appealed to the Arizona Court of Appeals seeking 10% interest. The matter is still being briefed to the Court of Appeals.