



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson  
Director*

## MINUTES OF THE PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

HELD ON  
Monday, November 30, 2015  
2:30 p.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met at 3300 N. Central Avenue, 14<sup>th</sup> Floor, Phoenix, AZ 85012. The meeting was also teleconferenced to the ASRS office at 7660 E. Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

Mr. Tom Connelly, Chair, called the meeting to order at 2:31 p.m.

### 1. Call to Order; Roll Call; Opening Remarks

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

Absent: Prof. Dennis Hoffman

A quorum was present for the purpose of conducting business.

### 2. Approval of Minutes of the October 26, 2015 Investment Committee Meeting Minutes

**Motion:** Mr. Robert Wadsworth moved to approve the minutes of the October 26, 2015 public meeting. Mr. Tom Connelly seconded the motion.

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

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

Mr. Gary Dokes, Chief Investment Officer, provided the Committee with the latest progressions within the Investment Management Division (IMD), noting the under-weights and over-weights of each asset class, fund positioning and the latest developments of cash assetization within the fund. In August, the ASRS cash assetization benchmark was modified to a "risk off" composition, which reflected IMD defensive House Views. Areas of concern were due to China's slowing economy, which could potentially weaken further, spilling over to the developed-world capital markets, and the possibility of an increase to the Federal Funds rate by the Federal Open Market Committee (FOMC) at their September meeting. Mr. Dokes also commended IMD staff members for their diligence in meeting with 66 managers since the last IC meeting to review current investments, new initiatives, and new strategy offerings.

### 4. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight of the ASRS Investment Program – Includes Total Fund and Investment Performance Report Q3-15

Mr. Dan LeBeau, NEPC Consultant, provided the Committee with a brief overview of NEPC's oversight of the ASRS Investment Program.

Performance results: (as of September 30, 2015)

- 7.6% (20-year annualized net return) vs. 8% (actuarial assumed interest rate)

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception 06/30/75
<b>Total Fund</b>	-4.6%	<b>-0.2%</b>	<b>8.0%</b>	8.8%	6.0%	9.7%
<b>Interim SAA Policy*</b>	-4.9%	<b>-1.5%</b>	<b>6.9%</b>	8.1%	5.7%	9.4%
<b>Excess Return</b>	0.3%	<b>1.3%</b>	<b>1.1%</b>	0.7%	0.3%	0.3%

*\*Interim SAA Policy: 22% S&P 500/3% S&P 400/3% S&P 600/18% MSCI EAFE/2% MSCI EAFE Small Cap/5% MSCI Emerging Markets/7% Russell 2000 (lagged one quarter)/16% Barclays Capital Aggregate/5% Barclays Capital High Yield/5% S&P/LSTA Levered Loan Index + 250 basis points (lagged one quarter)/7% NCREIF ODCE (lagged one quarter)/2% Bloomberg Commodity Index/5% Multi-Asset Class Custom Index.*

Note: Interim SAA Policy includes proration of 0.9% Private Equity, 3.3% Real Estate and 5.3% Private Debt which are unfunded. Private Equity was prorated to domestic equity; Real Estate was prorated to domestic equity and fixed income; Private Debt was prorated to Core and High Yield Fixed Income. Recently approved Strategic Asset Allocation Policy effective April 1, 2015.

Mr. LeBeau further discussed NEPC's review of all Private and Public Market Committees, stating NEPC analyzes all meeting materials, minutes and investment commitments approved at each meeting to ensure adherence to ASRS investment policies and procedures.

## **5. Presentation, Discussion, and Appropriate Action Regarding ASRS Inflation-Linked Asset Class**

Mr. Polen, Head of Private Markets Investing, and Mr. Eric Glass, Portfolio Manager of Private Markets, addressed the Committee regarding the ASRS inflation linked asset class. Mr. Polen discussed the execution of the program in 2012, noting inflation linked investments include assets that hedge inflation because their valuation or cash flow are positively linked to inflation. Mr. Polen and Mr. Glass gave in-depth presentations on the strategy and performance of real estate, agriculture, infrastructure, and commodities asset classes.

## **6. Presentation, Discussion, and Appropriate Action Regarding Proposed Modifications to the ASRS Plan and Long Term Disability (LTD) Existing Strategic Investment Policies (SIPs) and Newly Created SIPs for the ASRS System**

Mr. Paul Matson, Director, addressed the Committee with detailed information regarding the proposed additions to the System SIPs, and the modifications to the ASRS Plan and LTD SIPs. He noted SIPs 001, 002, 003, 004 were modified for clarity, while the two additional System SIPs referenced in the materials are being added to fill a void and add value to the System plan SIPs.

The proposed modifications to the following SIPs are:

- SIP001 Asset Allocation (Plan) - reflects the correct 20-year rolling annual period to achieve the ASRS investment goals and objectives, and minor cosmetic edits.
- SIP002 Fund Positioning and Rebalancing (Plan) - reflects minor cosmetic edits.
- SIP003 Asset Allocation (LTD) - reflects minor cosmetic edits.
- SIP004 Fund Positioning and Rebalancing (LTD) - reflects minor cosmetic edits.

The proposed New SIPs are:

- SIP00X Asset Allocation (System)
- SIP00XX Fund Positioning and Rebalancing (System)

**Motion:** Mr. Connelly moved to recommend to the full Board the proposed modifications to existing SIPs: 001, 002, 003, 004 pertaining to the Asset Allocation, Fund Positioning, and Rebalancing SIPs for the Plan and LTD, and the creation of new SIPs pertaining to System Asset Allocation and Fund Positioning Rebalancing. Mr. Wadsworth seconded the motion.

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

## **7. Presentation, Discussion, and Appropriate Action Regarding the IC Meeting 2016 Schedule**

Mr. Dokes presented the proposed 2015 IC meeting schedule. He noted the meeting dates occur on a bi-monthly basis and are aligned with the Board meeting schedule. Proposed IC meeting dates included the following:

- Monday, February 22, 2016
- Monday, April 25, 2016
- Monday, June 20, 2016
- Monday, August 22, 2016
- Monday, October 24, 2016
- Monday, November 28, 2016

The Committee accepted the schedule.

## **8. Request for Future Agenda Items**

Mr. Connelly requested a future agenda item centered around new investment concepts and ideas. Mr. Dokes stated he is currently working on adding his request to a future IC meeting.

## **9. Call to the Public**

No members of the public requested to speak.

## **10. Adjournment**

The meeting adjourned at 4:30 p.m.

Respectfully submitted,

ARIZONA STATE RETIREMENT SYSTEM

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Gloria Montiel Date  
Investment Committee Administrator

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Gary R. Dokes Date  
Chief Investment Officer