

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**



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

AGENDA

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

3300 North Central Avenue, 10th Floor Board Room
Phoenix, AZ 85012

May 27, 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, May 27, 2016, beginning at 8:30 a.m., in the 10th 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 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 April 29, 2016 Public Meeting and Executive Sessions of the ASRS Board (*estimated time 1 minute*) Mr. Kevin McCarthy
3. Presentation, Discussion, and Appropriate Action Regarding the 2016 ASRS Legislative Initiatives and Legislative Update (*estimated time 15 minutes*) Mr. Patrick Klein
Assistant Director External Affairs
..... Mr. Nicholas Ponder
Government Relations Officer
4. Presentation, Discussion, and Appropriate Action Regarding Strategic Topics to be Discussed by the Board During Fiscal Year 2017 (*estimated time 20 minutes*) Mr. Paul Matson
Director
..... Mr. Anthony Guarino

5. Notification of Upcoming Board Elections to Occur at the June 24, 2016 Board Meeting (*estimated time 5 minutes*)..... Mr. Kevin McCarthy

6. 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

7. 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 May 27, 2016.
 - b. External Affairs Committee (EAC) Dr. Richard Jacob, Chair
..... Mr. Patrick Klein
The next EAC Meeting will be held on September 9, 2016.
 - c. Investment Committee (IC).....Mr. Tom Connelly, Chair
..... Mr. Karl Polen
The next IC Meeting will be held on June 20, 2016.

8. Board Requests for Agenda Items (*estimated time 1 minute*)
..... Mr. Kevin McCarthy

9. 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.

10. The next regular public ASRS Board meeting is scheduled for Friday, June 24, 2016, at 8:30 a.m., at 3300 N. Central Avenue, in the 10th Floor Board Room, Phoenix, Arizona.

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(3), 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 for the purpose of discussion or consultation for legal advice with the attorney of the public body, which will not be open to the public.

- 11. Presentation, Discussion, and Appropriate Action Regarding the Arizona Court of Appeals Decision in *Wade and Paddock v. ASRS* (estimated time 10 minutes) Ms. Jothi Beljan
Assistant Attorney General

The Board will take a 10 minute recess while the meeting moves to the 14th floor conference room, where the balance of the meeting and possible executive session will take place.

Due to logistics, this portion of the meeting will NOT be teleconferenced to the ASRS Tucson office at 4400 East Broadway Boulevard, Suite 200, Tucson, Arizona 85711.

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(3), 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 for the purpose of discussion or consultation for legal advice with the attorney of the public body, which will not be open to the public.

- 12. Presentation and Discussion Regarding Trustee Fiduciary Education (estimated time 30 minutes)..... Ms. Jothi Beljan

- 13. 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(s) 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 May 20, 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

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, April 29, 2016
8:30 a.m., MST

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Kevin McCarthy, Chair of the ASRS Board, called the meeting to order at 8:33 a.m., Arizona Time.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Kevin McCarthy, Chair
Mr. Jeff Tyne, Vice Chair
Mr. Clark Partridge
Professor Dennis Hoffman
Dr. Richard Jacob (via teleconference)
Mr. Tom Connelly

Absent: Mr. Lorenzo Romero
Mr. Robert Wadsworth
Mr. Tom Manos

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the March 25, 2016 Public Meeting and Executive Session of the ASRS Board

Motion: Mr. Jeff Tyne moved to approve the Minutes of the March 25, 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, and 3 excused, the motion was approved.

3. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Mary Jo Kuzmick's Appeal Regarding Average Monthly Compensation

Ms. Mary Jo Kuzmick was present via teleconference.

Ms. Jothi Beljan, Assistant Attorney General, provided a summary of the appeal for the Board and the ASRS' position. The issue concerns whether an ASRS benefit estimate is a binding income commitment. Ms. Beljan stated members are only legally entitled to the statutory formula in A.R.S. § 38-757. Based on Ms. Kuzmick's salary history, her highest 36 consecutive months of compensation in the last 120 months of credited service were August 2005 to July 2008. Had Ms. Kuzmick not continued to work in July, 2015, then July, 2008 could have been used in the calculation, resulting in the higher monthly benefit she is requesting the ASRS to honor.

In conclusion, Ms. Beljan referred the Board to A.R.S. § 41-1092.06, regarding informal settlement conferences. Ms. Beljan highlighted a specific point that states any statements made in an informal settlement conference are inadmissible at a hearing. Ms. Beljan explained the reason for pointing this out is that Ms. Kuzmick referenced certain comments made during the informal settlement conference in her statement to the Board. Ms. Kuzmick also attempted to do the same during the administrative hearing to which Ms. Beljan objected. Ms. Beljan requested the Board disregard paragraphs three and four of Ms. Kuzmick's written statement where she inappropriately shared comments made by the ASRS representative during the informal settlement conference and requested the Board uphold the recommended Administrative Law Judge's Decision.

Ms. Kuzmick was provided an opportunity to present her position. Ms. Kuzmick believes she was provided erroneous information in the benefit estimates which she relied on when making the decision to work on July 1, 2015, in order to receive a higher benefit. Ms. Kuzmick requested the Board award her the original benefit calculation which is \$65 more per month.

Prof. Dennis Hoffman asked if the ASRS had data regarding error rates on estimated benefit calculations. Mr. Rex Nowlan, Agency Counsel Section Chief, Attorney General's Office, advised the Board this information is irrelevant to this case but if the Board wishes, this topic can be placed on a future meeting agenda to be presented to the Board.

Prior to making a motion, Mr. Jeff Tyne expressed, while he understands Ms. Kuzmick's concerns and believes the Operations and Audit Committee should review the process for benefit estimates to address the concerns heard, the Board is bound by the laws as it pertains to benefit calculations.

Motion: Mr. Jeff Tyne moved to accept the Administrative Law Judge's Decision. Mr. Tom Connelly seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

The record should reflect the response of Dr. Richard Jacob, who was attending via teleconference, was momentarily delayed and he has confirmed that his vote was in favor of the motion and is reflected in the above results.

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS Proposed Legislation for the 2016 Legislative Session

Mr. Patrick Klein, Assistant Director, External Affairs Division, and Mr. Nick Ponder, Government Relations Officer, provided a brief update to the Board regarding the 2016 Legislative agenda. Mr. Klein announced the Governor has requested the legislature hold all bills pending the resolution of the State's budget.

Mr. Ponder opened by stating this is the 110th day of the 2016 Legislative Session. Although this is longer in comparison to the 2014 and 2015 sessions, 101 days and 81 days, respectively, the 2013 session did not adjourn until mid-June. Mr. Ponder provided a summary of what he expects to occur over the course of the next week or so. The House Appropriations Committee met late last night and into the early morning hours this morning, passing the budget reconciliation bills. There will be some amendments offered today in the COW. Mr. Ponder expects the K-12 budget reconciliation bill to receive amendments today which are not yet completed. Potentially, the Legislature could adjourn by the end of next week. Mr. Ponder relayed there are currently 196 bills waiting for COW or a third read and 131 bills which have passed through the second chamber with amendments and will now go back to the original chamber for concurrence of those amendments.

The following ASRS bills were discussed:

- **HB2159: ASRS; Rulemaking Exemption** – This bill was dual assigned to the Senate Finance Committee and the Senate Government Committee. It has passed both Committees and passed through the Senate COW with amendments March 15, 2016.
- **HB2160: ASRS; Eligible Rollovers** – This bill was signed by the Governor April 5, 2016.

The following are bills that affect the ASRS but not initiated by the ASRS:

- **SB1257: Misconduct Involving Weapons; Public Places** – There was an amendment offered in the House COW providing the exemption of special healthcare district facilities; therefore, it will need to be brought back to the Senate for concurrence. If the Senate concurs with the amendments this bill move forward to the Governor for signature.

Mr. Ponder concluded with a summary of the Budget reconciliation bills which are not typically included in the bill tracker because there is not a lot of impact on the ASRS other than the budget allocations. HB2703 and SB1534 will require the ASRS, going forward, to include the aggregate private equity fees in the Comprehensive Annual Financial Report.

Mr. Ponder responded to questions from the Board.

5. Presentation Regarding PRIDE Award for Professionalism

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Award for Professionalism: Krystal Mungia-Olivarez; Lisa King; Marcia Kumamoto; Jennifer Chang; Leticia Dominguez, Megha Choudhari; Business Intelligence Conversion Project Team-Brian Crockett, Edennes Montanez, and Marcia Kumamoto; NIS Team-Michelle Roshto, Nick Dalmolin, Robert Virgil, Sean Stevens, Andrew Bruner, Michael Zych, Brandon Wilson, Thomas Neith, and John Davis. They were nominated by staff who feel they exemplify the following PRIDE qualities of professionalism:

- Displays a positive demeanor (friendly, responsive, courteous) even when confronted by adversity
- Has subject matter expertise
- Possesses good communication and active listening skills
- Is a trusted contributor (manager, leader, SME, analyst, teammate)
- Takes personal accountability
- Has a proactive and responsive approach to internal and external customer needs
- Has critical thinking skills
- Has an honest, fair and non-judgmental mindset

- Is adaptable to change that benefits members, associates and stakeholders
- Adheres to the ASRS Code of Conduct

Mr. Guarino presented the PRIDE Award for Professionalism to the award winner, Megha Choudhari.

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Long Term Disability Program Administration Contract Award

Mr. Clark Partridge opened the discussion stating the Operations and Audit Committee thoroughly reviewed the information presented by the Evaluation Committee and believe a favorable recommendation has been brought forward.

Mr. Paul Matson, Director, provided background to the Board regarding the Request for Proposal (RFP) which yielded three vendor responses for the Long Term Disability (LTD) contract. Mr. Matson added that historically, the ASRS has paid approximately \$2-\$2.6 million to the LTD vendor annually to carry out the various responsibilities of the contract. The LTD program impacts approximately 2% of the workforce. Mr. Matson opened up the discussion to any general questions from the Board, indicating that if there were any specific details requested, those would need to be addressed in executive session. No specific details were requested.

Motion: Mr. Clark Partridge moved to accept the recommendation of the Evaluation Committee and the Operations and Audit Committee on the ASRS Long Term Disability Program Administration contract Award. Mr. Jeff Tyne seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

The record should reflect the response of Dr. Richard Jacob, who was attending via teleconference, was momentarily delayed and he has confirmed that his vote was in favor of the motion and is reflected in the above results.

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

Mr. Paul Matson addressed a potential error discovered in the calculation of the benchmark returns by the ASRS custodial bank which is reflected in the Investment Report. Once the ASRS receives confirmation of this, an amended report will be issued to the Board, if necessary.

Mr. Matson also addressed an error discovered in the footnotes on page two of the Operations Report regarding the One-on-One Timeliness which should have not reflected only walk-ins.

Mr. Matson responded to Prof. Dennis Hoffman's request to provide an update on the fiscal year-to-date investment returns.

8. 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 on June 14, 2016 at 10:30 a.m. in the 14th floor conference room to discuss internal audits, the internal audit peer review report, retiree medical and dental insurance renewals and the annual retiree survey results. In addition, Mr. Tyne will reach out to staff to place on a future agenda the topic regarding error rates in benefit estimates.

b. External Affairs Committee (EAC)

Dr. Richard Jacob announced the next EAC meeting will be held on May 13, 2016 at 10:30 a.m. in the 14th floor conference room to discuss updates on legislation and rule making.

c. Investment Committee (IC)

Mr. Tom Connelly announced the next IC meeting will be held on June 20, 2016 at 2:30 p.m. in the 14th floor conference room to discuss the first quarter performance, risk profile, house views, investment positions, review of the fixed income asset class, including both private and public investments, and equity performance measurements.

9. Board Requests for Agenda Items

No requests were made.

10. Call to the Public

No one from the public requested to speak.

11. The next regular ASRS Board meeting is scheduled for Friday, May 27, 2016, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

Prior to moving the meeting to the 14th floor conference room, the following motion was made to move the final three agenda items to executive session.

12. Presentation, Discussion, and Appropriate Action Regarding *Mary Wade and Marla Paddock v. Arizona State Retirement System* Arizona Court of Appeals Opinion

13. Presentation, Discussion, and Appropriate Action Regarding Arizona State University's Notice of Appeal to the Arizona Court of Appeals on the Interest Rate Applied to the Judgment in *Arizona State University v. Arizona State Retirement System*

14. Presentation, Discussion, and Appropriate Action Regarding ASRS Actuarial Services

Motion: Mr. Clark Partridge moved to go into executive session for the purpose of discussion and consultation for legal advice with the attorney of the public law. Prof. Dennis Hoffman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

The executive session moved to the 14th floor conference room.

The Board convened to Executive Session at 9:12 a.m.

Prof. Dennis Hoffman left the meeting at 10:30 a.m.

15. Adjournment of the ASRS Board

Mr. McCarthy adjourned the public meeting and executive session at 10:44 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Melanie A. Alexander
Board Administrator

Paul Matson
Director

DRAFT

**Confidential Materials
were provided to the
Board and not
included in this book.**

Agenda Item #3



ARIZONA STATE RETIREMENT SYSTEM

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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: May 13, 2016

RE: **Agenda Item #3:** Presentation, Discussion and Appropriate Action Regarding 2016 ASRS Legislative Initiatives and Legislative Update

Purpose

To discuss the results of the 2016 legislative session regarding ASRS initiatives and other legislation affecting ASRS.

Recommendation

Information item only; no action required.

Background

The 52nd Legislature – Second Regular Session adjourned sine die at 5:45a.m. on Saturday, May 7, 2016. The ASRS Board approved the advancement of seven legislative initiatives, four of which passed both chambers and were signed by the Governor. In addition, some legislation was proposed that would have negatively impacted the ASRS; however, those items did not successfully advance. The effective date of legislation without an emergency clause is August 6, 2016.

We expect to provide the 2016 Legislative Summary booklet to the Board at the May meeting.

Agenda Item #4



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MEMORANDUM

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

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

DATE: May 13, 2016

RE: **Agenda Item #4:** Presentation, Discussion, and Appropriate Action Regarding Strategic Topics to be Discussed by the Board during Fiscal Year 2017

Purpose

To gather ideas for any strategically focused topics the Board would like to discuss during the upcoming fiscal year.

Recommendation

Information item only; no action required.

Background

The Board Governance Handbook has assigned staff the responsibility of working with the Board each year to compile a list of strategically-focused topics that the Board would like discussed in the upcoming fiscal year.

The topics discussed in Fiscal Year 2016 are contained on the following two pages.

Staff has also attached the following two documents for your reference:

1. The Strategic Priorities outlined in the agency's 5-Year Strategic Plan (Attachment A)
2. The Strategic Planning Policy from the Board Governance Handbook (Attachment B)

Staff requests that Trustees review the list of topics discussed over the past year and provide the Director or staff with any topics you would like discussed in Fiscal Year 2017.

Once gathered, staff will bring a list of possible topics to the Board for discussion at a future meeting.

Strategic Topics Scheduled for Discussion Fiscal Year 2016

1. Strategic Plan Reporting: Priority #4 – Ensure Outstanding Customer Service

The board received an annual update on the agency's ability to meet this strategic plan priority, including:

- Actual performance versus objectives.
- Potential changes to this priority (strategic plan language, objectives and measures).
- Actions currently planned or needed for this priority.

Conclusion: The ASRS is largely meeting its objectives to deliver outstanding customer service to members based on the following metrics:

- Turnaround times, with a few exceptions, are largely met.
- Member satisfaction remains high.
- Member use of online services (through the MyASRS secure portal) continues to increase.
- ASRS service levels compare favorably when compared to peers participating in the CEM pension benefit administration benchmarking service.

The staff acknowledged that, although many online capabilities for employers have been implemented over the past several years as part of the agency's overall business re-engineering effort, there is a general consensus among Management that the employer service model at the ASRS could be improved. Efforts are underway to improve customer service in this area.

External Affairs meets with members of legislative committees and bill sponsors to provide an overview of the ASRS and to discuss relevant legislation. Regular discussions also occur with legislative staff to discuss ASRS initiated bills, or non-ASRS bills that may impact the ASRS. External Affairs staff is also available to make presentations to member association or employer groups.

Presented to the Board: October 2015

2. Employer Service Paradigm

Staff discussed the following topics related to ASRS Employer Services:

- Current Services Offered
- Current Challenges
- Efforts Underway

Conclusion: There has historically been a lack of available data to measure not only customer service levels, but also employer satisfaction with the ASRS and its services, support, technology and training. In the summer of 2015, Management reorganized the service delivery structure for employers in a manner similar to the successful model in place for members, moving responsibility for employer relations from the External Affairs Division to the Member Services Division.

In May 2015, an employer survey was conducted. Better than nine out of ten respondents gave high ratings (excellent/good) for the ASRS as a whole, and the services it provides. A lower number (84%) rated the ASRS positively as a customer service provider, with 14% rating it as neutral and 1% as negative.

Planned future improvements to the employer service model include:

- Implementing a new secure messaging system for employers (Spring 2016) that will tie in directly with the new employer demographics module, has more robust features than the

- current secure email system, and will provide the ASRS with more information about performance.
- Creating a central point of contact. When the secure message system goes live in early 2016, the Member Advisory Center will begin to build an employer services call center team specialized in employer needs. When implemented, employer calls will be routed and handled through the main ASRS phone number, similar to what members experience today. The same team will handle all messages and calls.
 - By routing calls and messages through a single team, the employer processing units in FSD will be able to focus on processing incoming contributions and forms.
 - Increased training, communication, and education. The employer relations team will move away from serving as generalists who perform any function for an employer and will focus their time and attention on proactive training, conferences and webinars targeted to employers.
 - Implement new ASRS contribution reporting file format and increase our level of proactive data analysis with an eye toward more compliance support and training for employers.
 - Identify and implement further improvements to online processes and incorporating opportunities to provide employers with more proactive data analysis wherever practicable.

Staff's conclusion is that employer transactional processes are mostly positive and effective. The gaps are in customer service and training which will be the primary focus of improvement.

Presented to the Board: October 2015

3. Strategic Plan Reporting: Priority #3 – Optimize Investment Organization and Strategies

The board received an annual update on the agency's ability to meet this strategic plan priority, including:

- Actual performance versus objectives.
- Potential changes to this priority (strategic plan language, objectives and measures).
- Actions currently planned or needed for this priority.

Conclusion: To achieve desired results and optimize the investment organization, the following subcomponents were established to assist in measuring performance:

- A. Design an organizational, staff, and consultant model that is congruent with the current, and forward-looking, relevant investment market place - outlook changed from neutral to positive in 2014, to positive in 2015.
- B. Develop a program to retain and attract top investment related staff - outlook changed from neutral in 2014, to neutral to positive in 2015.
- C. Implement investment strategies and manage returns for given levels of risk - outlook changed from neutral to positive in 2014, to positive in 2015.

Based on the 2015 review results, the ASRS is progressing toward meeting its objectives.

Presented to the Board: December 2015

4. Strategic Plan Reporting: Priority #1 – Ensure Plan Sustainability

The board received an annual update on the agency's ability to meet this strategic plan priority, including:

- Actual performance versus objectives.
- Potential changes to this priority (strategic plan language, objectives and measures).
- Actions currently planned or needed for this priority.

Conclusion: Mr. Matson explained that each plan was looked at based on size, from largest to smallest as follows: Defined Benefit Plan, Health Insurance Program and Health Benefit Supplement, System (closed to new participants), Long Term Disability Program, and the Optional Supplemental Defined Contribution Plans. Mr. Matson felt it was important to start by stating what sustainability means to the ASRS staff and read the following: “Sustainability means the ability to continue to offer current programs in substantially constant forms but allowing for modest modifications in such a manner as program costs are not volatile and are generally affordable to employees and employers over time.”

The outlook results of the review to ensure the ASRS is meeting its objectives in ensuring plan sustainability are as follows:

- A. Defined Benefit Plan - outlook remained neutral to positive for both 2014 and 2015.
- B. Health Insurance Program and Health Benefit Supplement - outlook remained positive for both 2014 and 2015.
- C. Long Term disability Program - outlook remained positive for both 2014 and 2015.
- D. System - outlook remained neutral to positive for both 2014 and 2015.
- E. Optional, Supplemental Defined Contribution Plans - outlook changed from positive in 2014, to neutral to positive in 2015.

Mr. Matson concluded the presentation by stating that the plan is sustainable and if there was an area that needed to be closely monitored, it would be the Defined Benefit Plan because it has the largest contribution rate and the lowest funded status.

Presented to the Board: December 2015

5. Strategic Plan Reporting: Priority #2 – Optimize Risk Management

The board received an annual update on the agency’s ability to meet this strategic plan priority, including:

- Actual performance versus objectives.
- Potential changes to this priority (strategic plan language, objectives and measures).
- Actions currently planned or needed for this priority.

Conclusion: Risk management has been an agency priority since 2013 when the Strategic Plan was updated. The Board has tasked Management with implementing a risk management program that incorporates best practices, providing the Board with some assurance that staff is taking the appropriate steps to minimize risks. Overall, the ASRS is succeeding and staff’s outlook is generally positive. The ASRS has adopted the principles of the Committee of Sponsoring Organizations of the Treadway Commission and has organized a permanent standing committee of Senior and Executive Managers who meet weekly, flagging potential risk events, assessing controls and developing remediation strategies when needed.

- **Investment Management and Volatility:** Management Outlook is Neutral to Positive – The ASRS recognizes there are risks and vulnerabilities but they have been manageable and the agency is continuing to strengthen controls.
 - The risk assessment conducted identified 30 risks. The overall conclusion is the agency has controls in place that mitigate those risks within the agency’s risk tolerance.
 - Additional controls have been implemented since the risk assessment was completed.
 - The Office of the Auditor General’s (OAG) Sunset Review “found that the current practices and procedures are reasonably consistent with industry standards and generally in line with many best practices.” There were a few recommendations from the OAG the ASRS has agreed with and will implement as appropriate.

- **Data and System Security:** Management Outlook is Neutral to Positive – For the same reasons as the previous item. The agency is developing a framework that conforms to the National Institute of Standards and Technology standards for information security.
 - A life cycle has been developed to conducted assessments. Every other year the agency brings in an external consultant to perform a penetration assessment. Once the assessment is completed, an internal risk assessment is completed. In the years the external consultant is not performing assessments, the agency's Internal Audit Division is performing a security audit.
 - Results of the 2014 risk assessment found the ASRS has controls in place for all 19 zones. The agency set an aim to increase security maturity level in 12 of the 19 zones.
 - The OAG Sunset Review originally reviewed the agencies information technology practices March 2014, provided some recommendations and came back a little more than a year later to re-review. What the OAG found is the ASRS was taking action to improve all areas the OAG identified and fully addressed the OAG's concerns in the area of encryption. The ASRS has concurred with and will implement the remaining OAG recommendations.

- **Agency Effectiveness and Efficiency:** Management Outlook is Neutral to Positive – Operations rely on the strategic planning model which sets the agency's specific objectives and performance targets. The agency measures and reports on those regularly.
 - Effectiveness and efficiency are reviewed in the agency's risk assessments. Numerous controls and metrics are in place but the agency recognizes that it has some vulnerabilities.
 - CEM Benchmarking is used as an external source to measure the agency's performance against its peers. The aim is to be high performing and cost effective. While the CEM data is positive, CEM has identified some areas where improvement can be made and the ASRS is currently moving towards making those improvements.

- **Customer Service and Satisfaction:** Management Outlook is Neutral to Positive – For the same reason as the previous item.
 - The ASRS has strong controls in place to measure member satisfaction and reports on these regularly.
 - Based on a recent survey, the area in need of strengthening the controls is in measuring employer satisfaction.
 - The Employer Services Division has been reorganized and the agency is in the process of developing employer customer service measures.

- **Diminished Independence and Autonomy:** Management Outlook is Neutral to Positive – The agency has determined that the operational capacity depends on adequate funding, qualified staff, and modern technology. To date, these constraints have not proven to be enough of an impediment to recommend a change at this time.
 - The OAG Sunset Review has determined that the ASRS met its statutory objective and purpose and that terminating the ASRS would significantly harm the public welfare. The OAG issued supplemental reports after the performance report, with one report citing some research supporting the allowance of public retirement systems to establish their own budgets, procurement rules and personnel rules. The ASRS does not currently have independence in all of these areas.
 - The ASRS will continue to use its risk assessments to evaluate how the agency is impacted by the current level of independence and autonomy.

- **Contribution Rate Volatility:** Management Outlook is Neutral to Positive
 - The OAG found that the ASRS has controls in place to mitigate against contribution rate

volatility but additional measures can be taken.

- The ASRS established a funding policy in 2015 to address many of the OAG's concerns.
- **Benefit Spiking:** Management Outlook is Neutral to Positive – The ASRS has done research and found very few instances of benefit spiking. The impact of this appears to be minimal; however, the agency will continue to monitor this.

The OAG recommended procedure enhancements to identify employer termination incentive programs and assess the associated costs of any unfunded liability to the appropriate employer. The ASRS concurs and is currently working on implementing this.

Presented to the Board: January 2016

6. Strategic Plan Reporting: Priority #5 – Ensure High Productivity

Provide the board with an annual update on the agency's ability to meet this strategic plan priority, including:

- Actual performance versus objectives.
- Potential changes to this priority (strategic plan language, objectives and measures).
- Actions currently planned or needed for this priority.

Planned Board Presentation Date: June 2016

7. National Public Pension Landscape (*Trustee request*)

An external expert will make a presentation on the current legislative, legal, and political trends related to public retirement systems from a national perspective, including:

1. Pertinent federal legislation that may impact large public pension funds.
2. Pertinent regulatory actions or proposals (IRS, SEC, GASB, etc.) that may impact large public pension funds.
3. Current legal cases across the country and the potential implications for other large public pension funds.
4. Current trends across the U.S. that Trustees may find interesting, including national trends in:
 - Actuarial assumptions
 - Investment assumptions
 - Investment policies
 - Funding policies
 - Governance
 - Retirement plan design
 - Disability plan design
 - Health care programs
 - Security/privacy concerns

Planned Board Presentation Date: August 2016

8. Health Care

This agenda item will discuss staff recommendations for the following topics related to the ASRS health insurance program:

1. Reaffirm or change Health Insurance Program Goals.
2. Whole Case Underwriting & Resulting Cross Subsidizations: Discuss future direction.
3. Direction of non-Medicare and Medicare coverage.

4. Retrospective Rate Adjustment Agreement Fund: Current balance, utilization options, allocation options.

Planned Board Presentation Date: September 2016

9. Board Governance and Management Concepts and Practices *(trustee request)*

An external expert will make a presentation on Highly Effective Board (public and private) Governance and Management Concepts and Practices. Topics discussed may include, but will not be limited to:

- Decision-making
- Delegation
- Conflict of interest practices
- Ethics policies
- Strategic planning
- Continuing professional education
- Team-building
- Paid vs. volunteer boards
- Time commitment
- Compensation
- Open meeting law
- Other topics identified by the external speaker

Planned Board Presentation Date: December 2016

Attachment A

Strategic Priorities

The agency has identified 5 strategic priorities for the 5-year period. Priorities are set and initiatives launched at the ASRS in order to leverage limited resources, fulfill our vision and mission, and meet goals and objectives. These priorities are:

1. ENSURE PLAN SUSTAINABILITY

Sustainability refers to the ability of employees and employers to afford the cost and volatility of the programs with relative cost and benefit equity. The agency will perform regular analysis of ASRS benefit programs and make recommendations when necessary to ensure sustainability for the:

- a. Defined Benefit Plan
- b. Health Insurance Program and Health Benefit Supplement
- c. Long Term Disability Program
- d. The System (closed to new participants)
- e. Optional, Supplemental Defined Contribution plans

2. OPTIMIZE RISK MANAGEMENT

Effectively organize an enterprise-wide risk management program designed to provide reasonable assurance that the ASRS is taking appropriate steps to manage and mitigate risks. The agency will proactively monitor and mitigate risks, including those related to:

- a. Investment management and volatility
- b. Data and systems security
- c. Agency effectiveness and efficiency
- d. Customer service and satisfaction
- e. Diminished independence and autonomy of the ASRS
- f. Contribution rate volatility
- g. Benefit spiking

3. OPTIMIZE INVESTMENT ORGANIZATION AND STRATEGIES

In an increasingly sophisticated and complex investment environment, effectively organize, manage and motivate an investment management program that develops and supports investment strategies that outperform their benchmarks. The agency will:

- a. Design an organizational, staff, and consultant model that is congruent with the current, and forward-looking, relevant investment market place
- b. Develop a program to motivate, retain and attract top investment-related staff
- c. Implement investment strategies and manage returns for given levels of risk

4. ENSURE OUTSTANDING CUSTOMER SERVICE

A quality workforce will deliver outstanding customer service directed toward:

- a. Retirees
- b. Active members
- c. Inactive members
- d. Employers
- e. Other stakeholders

5. ENSURE HIGH PRODUCTIVITY

Maximize productivity by:

- a. Effective development and deployment of technology
- b. Reducing member reliance on physical and member contacts for service and transaction processing
- c. Developing alternate ways for members and employers to receive education and counseling services without having to rely upon in-person counseling
- d. Being a high-service, low-cost service provider when compared to other public retirement systems
- e. Consolidating and reducing the need for physical work space
- f. Mitigating the need for additional staff due to increases in service demand
- g. Recruit, engage, utilize and retain a high caliber, professional staff capable of optimizing performance

Attachment B

K. STRATEGIC PLANNING POLICY

General

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

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

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

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.

Agenda Item #5

Note: There are no materials for this agenda item.

Agenda Item #6

Director's Report

6a - Investments

6b - Operations

6c - Budget & Staffing

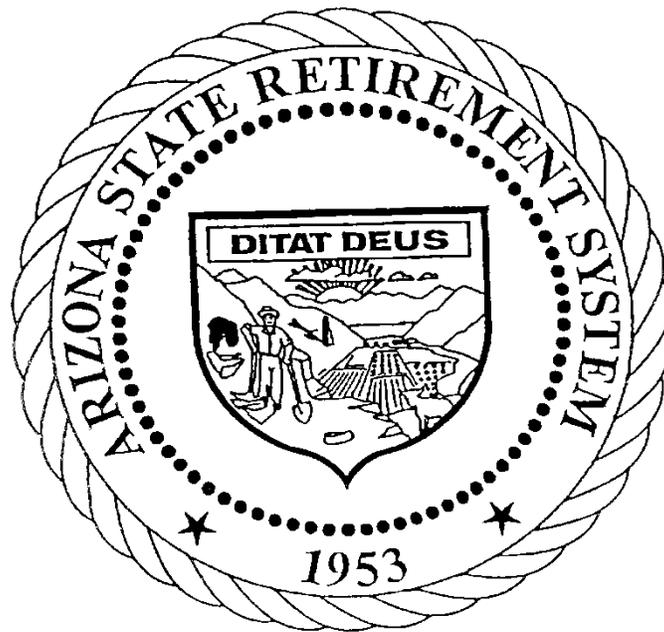
**6d - Cash Flow
Statement**

6e - Appeals

**6f - Employers
Reporting**

Agenda Item #6a

Director's Report Investments



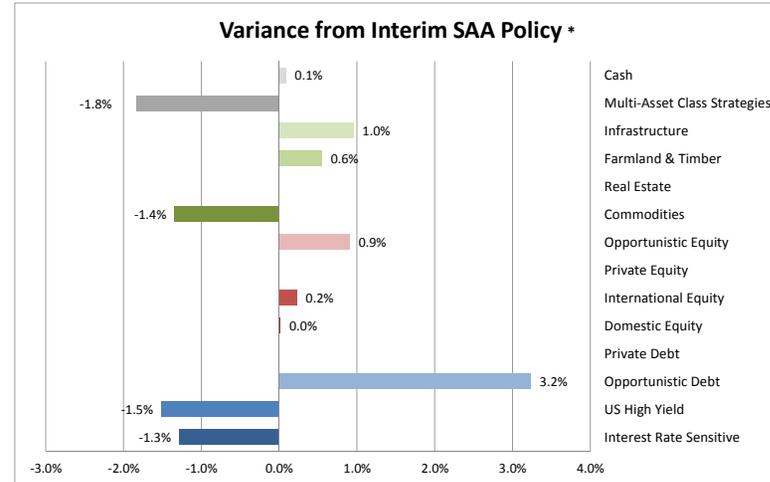
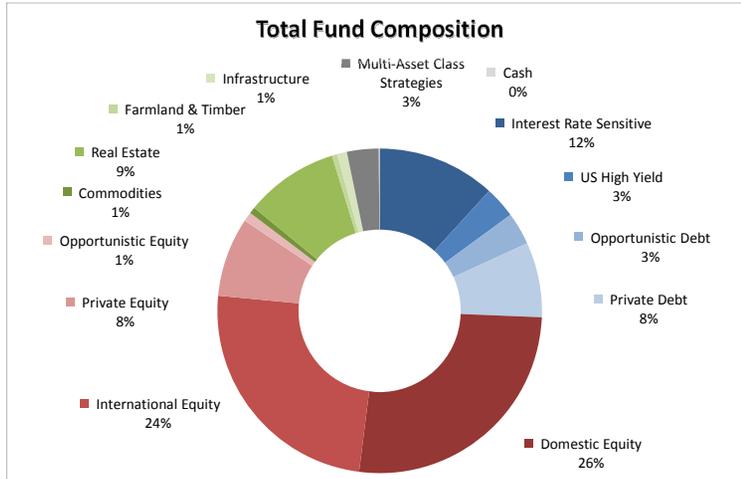
Investment Report

Arizona State Retirement System

May 27, 2016

Portfolio Positioning

Total Fund Positioning April 29, 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.

Total Public Equity Returns

Arizona State Retirement System

Total Domestic and International Equity Performance Summary

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
Total Domestic and International Equity	16,705,833,499	50.09	0.36	--	-3.67	--	-3.20	--	6.92	--	7.23	--	5.31	--	6.28	Jan-98
ASRS Custom Total Equity Benchmark			<u>0.44</u>	--	<u>-4.11</u>	--	<u>-3.58</u>	--	<u>6.94</u>	--	<u>7.34</u>	--	<u>5.56</u>	--	<u>5.66</u>	Jan-98
Over/Under			-0.08		0.44		0.38		-0.02		-0.11		-0.25		0.62	
Equity Risk Factor Portfolio	567,997,998	1.70	1.06	--	1.79	--	1.96	--	--	--	--	--	--	--	11.40	Jun-13
ASRS Custom Total Equity Benchmark			<u>0.44</u>	--	<u>-4.11</u>	--	<u>-3.58</u>	--	<u>6.94</u>	--	<u>7.34</u>	--	<u>5.56</u>	--	<u>6.24</u>	Jun-13
Over/Under (vs. Net)			0.62		5.90		5.54		--		--		--		5.16	
Total Domestic and Int'l Equity ex-Equity Risk Factor Portfolio	16,137,835,502	48.39	0.34	--	-3.85	--	-3.36	--	6.78	--	7.15	--	5.27	--	6.26	Jan-98
ASRS Custom Total Equity Benchmark			<u>0.44</u>	--	<u>-4.11</u>	--	<u>-3.58</u>	--	<u>6.94</u>	--	<u>7.34</u>	--	<u>5.56</u>	--	<u>5.66</u>	Jan-98
Over/Under			-0.10		0.26		0.22		-0.16		-0.19		-0.29		0.60	

1. Total Domestic and International Equity market value includes \$642,106 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.



NEPC, LLC

March 31, 2016

Domestic Equity Returns

Arizona State Retirement System

Domestic and Large Cap Equity Performance Summary

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
Total Domestic Equity	8,824,255,565	26.46	1.90	28	0.67	17	0.70	17	11.17	27	10.94	25	7.35	30	11.09	Jul-75
ASRS Custom Domestic Equity Benchmark			1.78	29	0.48	18	0.61	18	11.44	23	11.22	22	7.41	29	11.17	Jul-75
Over/Under			0.12		0.19		0.09		-0.27		-0.28		-0.06		-0.08	
eA All US Equity Net Median			0.11		-4.30		-4.18		9.47		9.36		6.63		12.33	Jul-75
Total Large Cap Equity	6,845,947,067	20.53	1.96	21	2.36	13	2.37	13	11.71	29	11.38	27	7.03	43	7.74	Jul-02
S&P 500			1.35	30	1.50	18	1.78	16	11.82	27	11.58	25	7.01	44	7.65	Jul-02
Over/Under			0.61		0.86		0.59		-0.11		-0.20		0.02		0.09	
eA US Large Cap Equity Net Median			-0.18		-2.44		-2.12		10.59		10.18		6.76		7.87	Jul-02
Active Large Cap Equity																
LSV	703,101,032	2.11	0.72	50	-4.40	59	-4.46	64	10.50	31	10.63	26	6.75	30	10.23	Jan-03
S&P/Citigroup 500 Value			2.20	31	-0.56	24	-0.32	23	9.45	50	9.99	39	5.42	75	8.37	Jan-03
Over/Under			-1.48		-3.84		-4.14		1.05		0.64		1.33		1.86	
eA US Large Cap Value Equity Net Median			0.72		-3.76		-3.13		9.42		9.59		6.18		9.04	Jan-03
Enhanced/Passive Large Cap Equity																
Internally Managed E2	4,937,420,872	14.81	1.32	31	1.50	23	1.76	21	11.78	27	11.56	28	7.04	47	7.45	Apr-97
S&P 500			1.35	30	1.50	23	1.78	21	11.82	26	11.58	28	7.01	48	7.39	Apr-97
Over/Under (vs. Net)			-0.03		0.00		-0.02		-0.04		-0.02		0.03		0.06	
eA US Large Cap Core Equity Net Median			0.21		-1.68		-1.31		10.90		10.73		6.93		8.47	Apr-97
Internally Managed E7	612,977,696	1.84	5.35	3	8.86	3	7.92	2	11.74	28	--	--	--	--	13.34	Aug-12
MSCI USA High Dividend Yield Index			5.43	3	9.08	2	8.14	2	11.76	28	13.23	7	8.70	9	13.37	Aug-12
Over/Under (vs. Net)			-0.08		-0.22		-0.22		-0.02						-0.03	
eA US Large Cap Core Equity Net Median			0.21		-1.68		-1.31		10.90		10.73		6.93		13.25	Aug-12
Internally Managed E8	592,447,416	1.78	5.60	3	10.81	1	8.91	1	13.03	9	--	--	--	--	14.56	Aug-12
MSCI USA Minimum Volatility Index			5.67	3	10.92	1	9.01	1	12.85	12	14.37	3	8.89	6	14.22	Aug-12
Over/Under (vs. Net)			-0.07		-0.11		-0.10		0.18						0.34	
eA US Large Cap Core Equity Net Median			0.21		-1.68		-1.31		10.90		10.73		6.93		13.25	Aug-12

1. Total Domestic Equity includes \$482 in terminated manager and transition accounts

2. Total Large Cap Equity includes \$50 in terminated manager and transition accounts.

3. 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, ranks and medians are based on net of fee performance data. Rankings are from highest (1) to lowest (100) in the eVestment Universe.

Domestic Equity Returns

Arizona State Retirement System

Mid Cap Equity Performance Summary

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
Total Mid Cap Equity	1,039,309,790	3.12	2.75	26	-2.91	29	-3.72	38	9.83	37	9.46	37	7.73	40	9.70	Jul-02
S&P 400 MidCap			<u>3.78</u>	14	<u>-2.56</u>	26	<u>-3.60</u>	35	<u>9.46</u>	45	<u>9.52</u>	36	<u>7.78</u>	39	<u>9.71</u>	Jul-02
Over/Under			-1.03		-0.35		-0.12		0.37		-0.06		-0.05		-0.01	
eA US Mid Cap Equity Net Median			0.80		-4.69		-5.16		9.12		8.98		7.42		9.82	Jul-02
Active Mid Cap Equity																
Wellington	272,496,056	0.82	0.30	63	-3.30	36	-3.51	32	11.54	27	9.95	34	8.42	13	10.69	Jul-02
S&P 400 MidCap			<u>3.78</u>	7	<u>-2.56</u>	35	<u>-3.60</u>	34	<u>9.46</u>	55	<u>9.52</u>	46	<u>7.78</u>	61	<u>9.71</u>	Jul-02
Over/Under			-3.48		-0.74		0.09		2.08		0.43		0.64		0.98	
eA US Mid Cap Core Equity Net Median			0.89		-5.09		-5.13		9.58		9.41		7.86		10.25	Jul-02
Passive Mid Cap Equity																
Internally Managed E3	397,191,610	1.19	1.29	11	-3.16	17	-4.05	30	9.58	38	9.43	22	8.84	9	8.23	Dec-00
S&P/Citigroup 400 Growth			<u>1.24</u>	12	<u>-3.05</u>	16	<u>-3.97</u>	30	<u>9.57</u>	39	<u>9.30</u>	24	<u>8.34</u>	23	<u>7.74</u>	Dec-00
Over/Under (vs. Net)			0.05		-0.11		-0.08		0.01		0.13		0.50		0.49	
eA US Mid Cap Growth Equity Net Median			-1.51		-7.40		-7.22		9.01		7.69		6.95		6.90	Dec-00
Internally Managed E4	369,622,123	1.11	6.31	8	-2.42	35	-3.61	48	9.10	52	9.58	48	7.39	50	9.73	Jul-02
S&P/Citigroup 400 Value			<u>6.36</u>	7	<u>-2.30</u>	34	<u>-3.45</u>	45	<u>9.17</u>	51	<u>9.67</u>	48	<u>7.14</u>	56	<u>9.56</u>	Jul-02
Over/Under (vs. Net)			-0.05		-0.12		-0.16		-0.07		-0.09		0.25		0.17	
eA US Mid Cap Value Equity Net Median			2.96		-3.57		-3.86		9.23		9.48		7.37		10.03	Jul-02

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, ranks and medians are based on net of fee performance data. Rankings are from highest (1) to lowest (100) in the eVestment Universe.



NEPC, LLC

March 31, 2016

Domestic Equity Returns

Arizona State Retirement System

Small Cap Equity Performance Summary

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
Total Small Cap Equity	938,998,277	2.80	0.53	44	-7.42	49	-6.29	40	8.39	38	9.32	27	7.14	20	9.72	Jul-02
<i>ASRS Custom Small Cap Equity Blended Benchmark</i>			<u>2.66</u>	24	<u>-3.39</u>	17	<u>-3.20</u>	16	<u>10.39</u>	15	<u>10.41</u>	14	<u>7.18</u>	20	<u>9.46</u>	<i>Jul-02</i>
Over/Under			-2.13		-4.03		-3.09		-2.00		-1.09		-0.04		0.26	
<i>eA US Small Cap Equity Net Median</i>			<u>-0.22</u>		<u>-7.72</u>		<u>-7.17</u>		<u>7.57</u>		<u>8.04</u>		<u>6.02</u>		<u>8.75</u>	<i>Jul-02</i>
Active Small/Mid Cap Equity																
TimesSquare	341,796,642	1.02	-3.72	68	-11.68	59	-8.51	41	7.41	45	9.81	11	9.01	14	10.62	Apr-05
<i>Times Square Blended Benchmark</i>			<u>-4.68</u>	78	<u>-13.55</u>	68	<u>-11.85</u>	70	<u>8.32</u>	34	<u>8.22</u>	33	<u>6.72</u>	41	<u>8.38</u>	<i>Apr-05</i>
Over/Under			0.96		1.87		3.34		-0.91		1.59		2.29		2.24	
<i>eA US Small-Mid Cap Growth Equity Net Median</i>			<u>-2.74</u>		<u>-10.22</u>		<u>-10.05</u>		<u>7.14</u>		<u>7.50</u>		<u>6.24</u>		<u>7.68</u>	<i>Apr-05</i>
Active Small Cap Equity																
DFA - US Small Cap	271,836,756	0.81	3.77	27	-6.62	61	-7.05	60	7.69	49	8.20	46	6.30	43	11.13	Sep-98
<i>DFA Blended Benchmark</i>			<u>5.19</u>	12	<u>-2.59</u>	20	<u>-3.08</u>	23	<u>9.78</u>	18	<u>10.13</u>	14	<u>6.70</u>	26	<u>10.42</u>	<i>Sep-98</i>
Over/Under			-1.42		-4.03		-3.97		-2.09		-1.93		-0.40		0.71	
<i>eA US Small Cap Value Equity Net Median</i>			<u>2.19</u>		<u>-5.53</u>		<u>-5.84</u>		<u>7.59</u>		<u>8.10</u>		<u>6.14</u>		<u>10.69</u>	<i>Sep-98</i>
Passive Small Cap Equity																
Internally Managed E6	325,364,878	0.97	2.60	17	-3.23	15	-3.06	12	10.42	14	10.36	17	--	--	7.50	Feb-07
<i>S&P 600 SmallCap</i>			<u>2.66</u>	17	<u>-3.39</u>	15	<u>-3.20</u>	13	<u>10.39</u>	14	<u>10.41</u>	17	<u>6.99</u>	21	<u>7.17</u>	<i>Feb-07</i>
Over/Under (vs. Net)			-0.06		0.16		0.14		0.03		-0.05				0.33	
<i>eA US Small Cap Core Equity Net Median</i>			<u>-0.45</u>		<u>-7.87</u>		<u>-6.92</u>		<u>8.14</u>		<u>8.15</u>		<u>6.04</u>		<u>5.98</u>	<i>Feb-07</i>

Note: Performance, ranks and medians are based on net of fee performance data. Rankings are from highest (1) to lowest (100) in the eVestment Universe. 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

Arizona State Retirement System

International and International Developed Markets Equity Performance Summary

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
Total International Equity	7,313,579,937	21.93	-1.49	53	-8.94	68	-7.43	67	1.04	78	1.23	76	1.92	83	5.70	Apr-87
ASRS Custom Int'l Equity Benchmark			-1.01	45	-8.94	68	-8.08	71	1.15	77	1.35	74	2.67	67	5.40	Apr-87
Over/Under			-0.48		0.00		0.65		-0.11		-0.12		-0.75		0.30	
eA All ACWI ex-US Equity Net Median			-1.44		-6.99		-5.32		2.97		2.92		3.31		7.23	Apr-87
Total International Developed Markets Equity	6,257,806,369	18.76	-2.51	58	-7.76	57	-5.99	51	3.04	58	2.89	68	2.93	49	6.06	Apr-87
ASRS Custom Int'l Developed Markets Equity Benchmark			-2.74	61	-8.00	60	-7.06	64	2.96	59	3.00	63	3.52	37	5.70	Apr-87
Over/Under			0.23		0.24		1.07		0.08		-0.11		-0.59		0.36	
eA All EAFE Equity Net Median			-2.19		-7.40		-5.85		3.55		3.58		2.88		6.64	Apr-87
Active Large Cap International Equity																
Brandes	554,134,855	1.66	-1.21	32	-7.99	60	-5.63	49	5.68	24	3.47	52	2.37	58	8.27	Oct-98
Brandes Custom Benchmark			-3.01	65	-8.83	68	-8.27	73	2.34	70	2.56	71	3.10	47	5.41	Oct-98
Over/Under			1.80		0.84		2.64		3.34		0.91		-0.73		2.86	
eA All EAFE Equity Net Median			-2.19		-7.40		-5.85		3.55		3.58		2.88		6.67	Oct-98
American Century	539,287,936	1.62	-4.09	88	-7.45	51	-5.36	48	--	--	--	--	--	--	-4.58	Jul-14
MSCI EAFE			-3.01	65	-8.83	68	-8.27	73	2.23	71	2.29	74	1.80	79	-7.46	Jul-14
Over/Under			-1.08		1.38		2.91								2.88	
eA All EAFE Equity Net Median			-2.19		-7.40		-5.85		3.55		3.58		2.88		-5.35	Jul-14
Trinity Street	317,035,928	0.95	-1.60	39	-6.45	43	-3.37	35	--	--	--	--	--	--	-5.68	Jul-14
MSCI EAFE			-3.01	65	-8.83	68	-8.27	73	2.23	71	2.29	74	1.80	79	-7.46	Jul-14
Over/Under			1.41		2.38		4.90								1.78	
eA All EAFE Equity Net Median			-2.19		-7.40		-5.85		3.55		3.58		2.88		-5.35	Jul-14
TS&W International	291,178,936	0.87	-2.17	50	-6.57	44	-4.71	44	--	--	--	--	--	--	-5.09	Jul-14
MSCI EAFE			-3.01	65	-8.83	68	-8.27	73	2.23	71	2.29	74	1.80	79	-7.46	Jul-14
Over/Under			0.84		2.26		3.56								2.37	
eA All EAFE Equity Net Median			-2.19		-7.40		-5.85		3.55		3.58		2.88		-5.35	Jul-14

1. Total International Equity market value includes \$641,624 in terminated manager and transition accounts.

2. Total International Developed Markets Equity market value includes \$177,260 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, ranks and medians are based on net of fee performance data. Rankings are from highest (1) to lowest (100) in the eVestment Universe.

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

Arizona State Retirement System

International and International Developed Markets Equity Performance Summary

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
Passive Large Cap International Equity																
BlackRock EAFE Equity Index	3,886,894,419	11.66	-2.91	64	-8.71	67	-7.99	71	2.50	68	2.58	71	--	--	6.73	Jul-09
MSCI EAFE			-3.01	65	-8.83	68	-8.27	73	2.34	70	2.56	71	2.17	65	6.73	Jul-09
Over/Under			0.10		0.12		0.28		0.16		0.02				0.00	
eA All EAFE Equity Net Median			-2.19		-7.40		-5.85		3.55		3.58		2.88		8.10	Jul-09
Active Small Cap International Equity																
DFA - International Small Cap	101,559,743	0.30	-0.63	41	-7.66	96	-2.62	94	4.26	92	2.55	97	2.81	91	4.63	Sep-05
MSCI EAFE Small Cap			-0.60	38	-1.10	33	3.20	44	7.37	53	5.77	73	3.72	72	5.66	Sep-05
Over/Under			-0.03		-6.56		-5.82		-3.11		-3.22		-0.91		-1.03	
eA EAFE Small Cap Equity Net Median			-1.25		-3.08		2.39		7.53		7.00		4.21		6.30	Sep-05
Franklin Templeton	217,089,217	0.65	-0.05	21	-4.75	71	-0.81	76	5.55	87	6.34	62	--	--	6.34	Apr-11
MSCI EAFE Small Cap			-0.60	38	-1.10	33	3.20	44	7.37	53	5.77	73	3.72	72	5.77	Apr-11
Over/Under			0.55		-3.65		-4.01		-1.82		0.57				0.57	
eA EAFE Small Cap Equity Net Median			-1.25		-3.08		2.39		7.53		7.00		4.21		7.00	Apr-11
AQR Capital	97,499,758	0.29	-1.43	58	0.47	20	6.17	22	--	--	--	--	--	--	9.03	Jun-13
MSCI EAFE Small Cap			-0.60	38	-1.10	33	3.20	44	7.37	53	5.77	73	3.72	72	7.33	Jun-13
Over/Under			-0.83		1.57		2.97								1.70	
eA EAFE Small Cap Equity Net Median			-1.25		-3.08		2.39		7.53		7.00		4.21		7.57	Jun-13
Passive Small Cap International Equity																
BlackRock EAFE Small Cap Equity Index	252,945,803	0.76	-0.51	34	-1.03	33	3.27	43	7.39	53	5.64	75	--	--	10.36	Jun-10
MSCI EAFE Small Cap			-0.60	38	-1.10	33	3.20	44	7.37	53	5.77	73	3.72	72	10.45	Jun-10
Over/Under			0.09		0.07		0.07		0.02		-0.13				-0.09	
eA EAFE Small Cap Equity Net Median			-1.25		-3.08		2.39		7.53		7.00		4.21		11.23	Jun-10

Note: Performance, ranks and medians are based on net of fee performance data. Rankings are from highest (1) to lowest (100) in the eVestment Universe.

International Equity Returns

Arizona State Retirement System

International Emerging Markets Equity Performance Summary

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
Total International Emerging Markets Equity	1,055,311,717	3.16	5.04	35	-13.28	68	-12.78	73	-4.36	61	-3.41	64	--	--	-1.98	Oct-10
MSCI Emerging Markets			<u>5.71</u>	27	<u>-12.63</u>	65	<u>-12.03</u>	64	<u>-4.41</u>	63	<u>-3.95</u>	72	<u>3.26</u>	68	<u>-1.97</u>	Oct-10
Over/Under			-0.67		-0.65		-0.75		0.05		0.54				-0.01	
eA Emg Mkts Equity Net Median			3.99		-11.59		-10.83		-3.74		-2.40		3.93		-1.18	Oct-10
Active Emerging Markets Equity																
Eaton Vance	273,057,456	0.82	8.17	12	-10.15	33	-9.43	40	-4.39	62	-3.41	64	--	--	-1.94	Dec-10
MSCI Emerging Markets			<u>5.71</u>	27	<u>-12.63</u>	65	<u>-12.03</u>	64	<u>-4.41</u>	63	<u>-3.95</u>	72	<u>3.26</u>	68	<u>-2.07</u>	Dec-10
Over/Under			2.46		2.48		2.60		0.02		0.54				0.13	
eA Emg Mkts Equity Net Median			3.99		-11.59		-10.83		-3.74		-2.40		3.93		-1.38	Dec-10
LSV Emerging Market	114,306,498	0.34	5.94	26	-16.21	92	-15.45	92	-5.97	89	-4.47	78	--	--	-2.30	Dec-10
MSCI Emerging Markets			<u>5.71</u>	27	<u>-12.63</u>	65	<u>-12.03</u>	64	<u>-4.41</u>	63	<u>-3.95</u>	72	<u>3.26</u>	68	<u>-2.07</u>	Dec-10
Over/Under			0.23		-3.58		-3.42		-1.56		-0.52				-0.23	
eA Emg Mkts Equity Net Median			3.99		-11.59		-10.83		-3.74		-2.40		3.93		-1.38	Dec-10
William Blair	351,866,814	1.06	1.99	76	-14.69	84	-14.62	87	-2.67	33	-0.78	20	--	--	-0.57	Nov-10
MSCI Emerging Markets			<u>5.71</u>	27	<u>-12.63</u>	65	<u>-12.03</u>	64	<u>-4.41</u>	63	<u>-3.95</u>	72	<u>3.26</u>	68	<u>-2.52</u>	Nov-10
Over/Under			-3.72		-2.06		-2.59		1.74		3.17				1.95	
eA Emg Mkts Equity Net Median			3.99		-11.59		-10.83		-3.74		-2.40		3.93		-1.75	Nov-10
Passive Emerging Markets Equity																
BlackRock Emerging Markets Equity Index	316,080,949	0.95	5.59	29	-12.76	65	-12.22	67	-4.61	72	-4.33	75	--	--	-2.35	Oct-10
MSCI Emerging Markets			<u>5.71</u>	27	<u>-12.63</u>	65	<u>-12.03</u>	64	<u>-4.41</u>	63	<u>-3.95</u>	72	<u>3.26</u>	68	<u>-1.97</u>	Oct-10
Over/Under			-0.12		-0.13		-0.19		-0.20		-0.38				-0.38	
eA Emg Mkts Equity Net Median			3.99		-11.59		-10.83		-3.74		-2.40		3.93		-1.18	Oct-10

Note: Performance, ranks and medians are based on net of fee performance data. Rankings are from highest (1) to lowest (100) in the eVestment Universe.

Fixed Income and Commodity Returns

Arizona State Retirement System

Fixed Income and Interest Rate Sensitive Fixed Income Performance Summary

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
Total Public Markets Fixed Income	4,965,178,558	14.89	3.38	18	2.99	33	1.79	28	1.61	66	3.63	53	5.06	42	8.24	Jul-75
ASRS Custom Public Markets Fixed Income Benchmark			3.14	22	1.70	56	0.46	69	0.84	83	2.98	68	4.52	57	--	Jul-75
Over/Under			0.24		1.29		1.33		0.77		0.65		0.54			
eA All US Fixed Inc Net Median			2.16		2.22		1.08		2.12		3.72		4.82		--	Jul-75
Total Interest Rate Sensitive Fixed Income	3,927,020,606	11.78	3.48	8	4.16	11	2.49	10	2.75	25	3.97	54	5.13	49	8.26	Jul-75
Barclays Aggregate			3.03	40	3.71	32	1.96	35	2.50	47	3.78	69	4.90	73	--	Jul-75
Over/Under			0.45		0.45		0.53		0.25		0.19		0.23			
eA US Core Fixed Inc Net Median			2.91		3.33		1.79		2.45		4.02		5.10		--	Jul-75
Long Duration Fixed Income																
BlackRock Long Gov't Bond Index	382,039,530	1.15	8.11	1	--	--	--	--	--	--	--	--	--	--	8.33	Sep-15
Barclays U.S. Treasury Long TR USD			8.15	1	12.08	1	2.77	6	6.13	1	9.67	1	7.97	1	8.31	Sep-15
Over/Under			-0.04												0.02	
eA US Core Fixed Inc Net Median			2.91		3.33		1.79		2.45		4.02		5.10		3.01	Sep-15
Enhanced Passive Core Fixed Income																
BlackRock US Debt Index	1,592,829,593	4.78	3.07	34	3.78	29	2.06	28	--	--	--	--	--	--	3.69	May-14
Barclays Aggregate			3.03	40	3.71	32	1.96	35	2.50	47	3.78	69	4.90	73	3.54	May-14
Over/Under			0.04		0.07		0.10								0.15	
eA US Core Fixed Inc Net Median			2.91		3.33		1.79		2.45		4.02		5.10		3.39	May-14
Internally Managed F2	1,927,206,711	5.78	2.96	49	3.89	24	2.27	18	2.78	23	4.06	46	5.15	47	5.45	Oct-00
Barclays Aggregate			3.03	40	3.71	32	1.96	35	2.50	47	3.78	69	4.90	73	5.28	Oct-00
Over/Under (vs. Net)			-0.07		0.18		0.31		0.28		0.28		0.25		0.17	
eA US Core Fixed Inc Net Median			2.91		3.33		1.79		2.45		4.02		5.10		5.50	Oct-00
Passive Intermediate Gov't/Credit Fixed Income																
BlackRock Intermediate Gov't/Credit Bond Index	24,944,772	0.07	2.25	54	2.59	52	1.98	41	1.89	43	3.08	51	--	--	4.51	Nov-08
Barclays Int Gov't/Credit			2.45	28	2.70	41	2.06	35	1.83	50	3.01	56	4.34	52	4.42	Nov-08
Over/Under			-0.20		-0.11		-0.08		0.06		0.07				0.09	
eA US Interm Duration Fixed Inc Net Median			2.28		2.62		1.88		1.82		3.08		4.39		4.80	Nov-08

1. Total Public Markets Fixed Income market value includes \$13,762 remaining in terminated manager accounts.
2. BlackRock Long Gov't Bond Index was funded in mid-August 2015. Inception date for performance reporting purposes is September 1, 2015.
3. BlackRock US Debt Index was funded in mid-April 2014. Inception date for performance reporting purposes is May 1, 2014.
4. BlackRock Intermediate Gov't/Credit Bond Index is System only.
Note: Performance, ranks and medians are based on net of fee performance data. Rankings are from highest (1) to lowest (100) in the eVestment Universe.
Universe shown for Total Public Markets Fixed Income includes all US fixed income strategies and does not accurately represent the exposures of the ASRS Public Markets Fixed Income allocation, which has included allocations ranging from 10% - 25% to emerging markets debt historically.
Composition of ASRS Custom Public Markets Fixed Income Benchmark can be found in the appendix.

Fixed Income and Commodity Returns

Arizona State Retirement System

High Yield Fixed Income Performance Summary

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
Total High Yield Fixed Income	1,038,157,952	3.11	2.99	19	-1.08	24	-1.11	24	3.10	16	5.52	15	--	--	7.62	Oct-09
<i>Barclays High Yield</i>			<u>3.35</u>	12	<u>-3.70</u>	53	<u>-3.69</u>	56	<u>1.84</u>	51	<u>4.93</u>	39	<u>7.01</u>	20	<u>7.66</u>	Oct-09
Over/Under			-0.36		2.62		2.58		1.26		0.59				-0.04	
<i>eA US High Yield Fixed Inc Net Median</i>			2.29		-3.53		-3.24		1.88		4.58		6.28		7.12	Oct-09
Active High Yield Fixed Income																
<i>Columbia Management</i>	691,147,784	2.07	3.07	19	0.35	10	0.16	9	3.69	3	6.10	5	--	--	8.16	Oct-09
<i>Barclays High Yield</i>			<u>3.35</u>	12	<u>-3.70</u>	53	<u>-3.69</u>	56	<u>1.84</u>	51	<u>4.93</u>	39	<u>7.01</u>	20	<u>7.66</u>	Oct-09
Over/Under			-0.28		4.05		3.85		1.85		1.17				0.50	
<i>eA US High Yield Fixed Inc Net Median</i>			2.29		-3.53		-3.24		1.88		4.58		6.28		7.12	Oct-09
<i>JP Morgan High Yield</i>	346,996,407	1.04	2.84	27	-3.72	53	-3.48	54	--	--	--	--	--	--	2.67	Jul-13
<i>Barclays High Yield</i>			<u>3.35</u>	12	<u>-3.70</u>	53	<u>-3.69</u>	56	<u>1.84</u>	51	<u>4.93</u>	39	<u>7.01</u>	20	<u>2.55</u>	Jul-13
Over/Under			-0.51		-0.02		0.21								0.12	
<i>eA US High Yield Fixed Inc Net Median</i>			2.29		-3.53		-3.24		1.88		4.58		6.28		2.47	Jul-13

1. Total High Yield Fixed Income includes \$13,762 in terminated manager and transition accounts.

Note: Performance, ranks and medians are based on net of fee performance data. Rankings are from highest (1) to lowest (100) in the eVestment Universe.



NEPC, LLC

March 31, 2016

Fixed Income and Commodity Returns

Arizona State Retirement System

Inflation-Linked Assets Performance Summary

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
Total Inflation-Linked Assets	207,002,874	0.62	-0.22	--	-24.73	--	-21.56	--	-16.85	--	-13.06	--	--	--	-7.41	Feb-10
<i>ASRS Custom Inflation-Linked Benchmark</i>			<u>0.42</u>	--	<u>-23.14</u>	--	<u>-19.56</u>	--	<u>-16.87</u>	--	<u>-13.90</u>	--	<u>-2.92</u>	--	<u>-8.29</u>	<i>Feb-10</i>
Over/Under			-0.64		-1.59		-2.00		0.02		0.84				0.88	
Total Commodities	207,002,874	0.62	-0.22	--	-24.73	--	-21.56	--	-16.85	--	-13.43	--	--	--	-7.83	Sep-10
<i>Bloomberg Commodity Index</i>			<u>0.42</u>	--	<u>-23.14</u>	--	<u>-19.56</u>	--	<u>-16.87</u>	--	<u>-14.14</u>	--	<u>-6.16</u>	--	<u>-8.60</u>	<i>Sep-10</i>
Over/Under			-0.64		-1.59		-2.00		0.02		0.71				0.77	
Gresham	207,002,874	0.62	-0.22	--	-24.73	--	-21.56	--	-16.84	--	-13.24	--	--	--	-7.22	Sep-10
<i>Bloomberg Commodity Index</i>			<u>0.42</u>	--	<u>-23.14</u>	--	<u>-19.56</u>	--	<u>-16.87</u>	--	<u>-14.14</u>	--	<u>-6.16</u>	--	<u>-8.60</u>	<i>Sep-10</i>
Over/Under			-0.64		-1.59		-2.00		0.03		0.90				1.38	

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

Multi-Asset Class Returns

Arizona State Retirement System

Multi-Asset Class Strategies Performance Summary

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
Total Multi-Asset Class Strategies	1,053,935,722	3.16	-4.43	99	-9.07	87	-10.44	86	3.71	16	5.67	4	5.99	11	6.59	Jan-04
<i>Multi-Asset Class Strategies Custom Benchmark</i>			<u>0.05</u>	73	<u>-0.98</u>	22	<u>-1.53</u>	12	<u>5.67</u>	3	<u>6.53</u>	2	<u>5.17</u>	18	<u>5.85</u>	<i>Jan-04</i>
Over/Under			-4.48		-8.09		-8.91		-1.96		-0.86		0.82		0.74	
<i>eA Global TAA Net Median</i>			<u>0.97</u>		<u>-3.61</u>		<u>-4.60</u>		<u>2.10</u>		<u>3.16</u>		<u>4.15</u>		<u>5.44</u>	<i>Jan-04</i>
Bridgewater	1,053,935,722	3.16	-4.43	99	-7.56	84	-9.49	85	5.09	6	7.08	1	7.29	1	7.73	Jan-04
<i>ASRS Bridgewater Custom Benchmark</i>			<u>0.05</u>	73	<u>0.07</u>	13	<u>0.08</u>	9	<u>6.24</u>	1	<u>6.87</u>	1	<u>5.34</u>	17	<u>5.99</u>	<i>Jan-04</i>
Over/Under			-4.48		-7.63		-9.57		-1.15		0.21		1.95		1.74	
<i>eA Global TAA Net Median</i>			<u>0.97</u>		<u>-3.61</u>		<u>-4.60</u>		<u>2.10</u>		<u>3.16</u>		<u>4.15</u>		<u>5.44</u>	<i>Jan-04</i>

Note: Performance ranks and medians are reported net of fees. Rankings are from highest (1) to lowest (100) in the eVestment Universe. 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 September 30, 2015

	Benchmark	Portfolio Return	Benchmark Return	Excess Return
Private Equity	Russell 2000	11.40	9.47	1.93
Private Real Estate	ODCE Net	7.49	6.75	0.74
Private Opportunistic Equity	Absolute Eight	23.90	8.00	15.90
Opportunistic Fixed Income	Absolute Eight	10.31	8.00	2.31
Private Debt	Lev Loan+250	11.38	4.92	6.46
Farmland	Core CPI+350	4.38	5.47	-1.09

LTD Plan

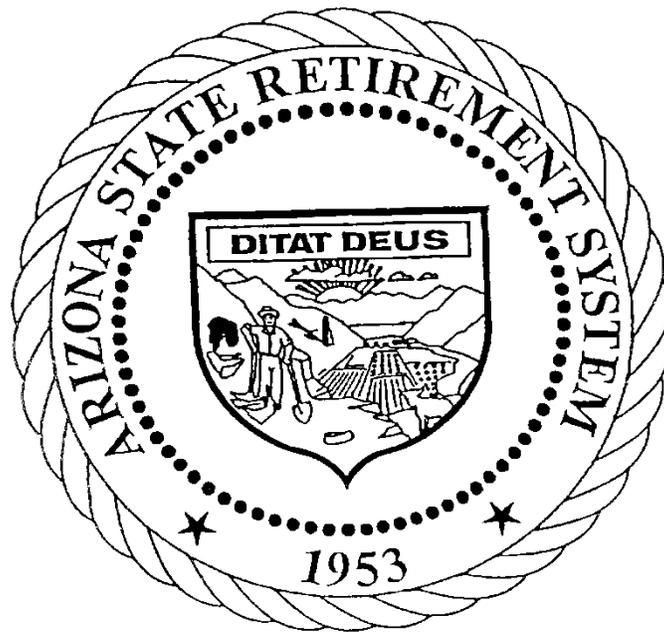
Long Term Disability (LTD)

Friday, April 29, 2016

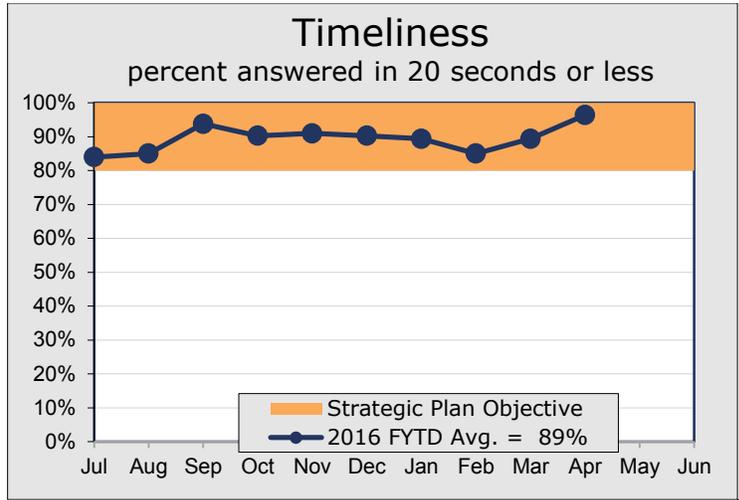
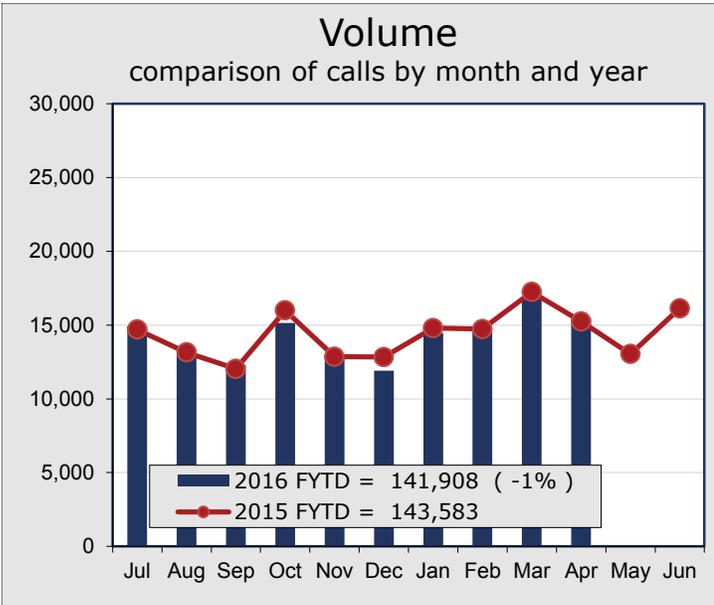
Account Manager	Account Manager Style	Fixed Income	Equity	Inflation Linked	Total	Pct of Fund	Target (Range)
StateStreet B&T: Boston	Cash	\$ 2,154,838			\$2,154,838	1.06%	
BlackRock: San Francisco	Fixed Core (Passive)	\$37,270,056			\$37,270,056	18.42%	19%
BlackRock: San Francisco	Fixed High Yield (Passive)	\$15,044,858			\$15,044,858	7.43%	7%
BlackRock: San Francisco	Emerging Market Debt (Passive)	\$129,482			\$129,482	0.06%	0%
						25.92%	26% (19-36%)
BlackRock: San Francisco	Russell 1000 (Passive)		\$47,969,791		\$47,969,791	23.71%	24%
BlackRock: San Francisco	Russell 2000 (Passive)		\$27,515,546		\$27,515,546	13.60%	12%
						37.30%	36% (26-46%)
BlackRock: San Francisco	EAFE (Passive)		\$31,351,845		\$31,351,845	15.49%	18%
BlackRock: San Francisco	EAFE SC (Passive)		\$4,081,256		\$4,081,256	2.02%	2%
BlackRock: San Francisco	Emerging Markets (Passive)		\$10,713,193		\$10,713,193	5.29%	5%
						22.80%	25% (15-35%)
BlackRock: San Francisco	Dow Jones UBS Commodities (Passive)			\$3,161,755	\$3,161,755	1.56%	2% (0-4%)
BlackRock: San Francisco	US Real Estate (Passive)			\$22,966,200	\$22,966,200	11.35%	11% (9-13%)
						12.91%	13% (10-16%)
	TOTAL Amounts	\$54,599,234	\$121,631,631	\$26,127,955	\$202,358,820		
	TOTAL Percent	26.98%	60.11%	12.91%			
	Actual Portfolio	26.98%	60.11%	12.91%			
	Policy	26% (19-36%)	61% (51-68%)	13% (10-16%)			

Agenda Item #6b

Director's Report Operations

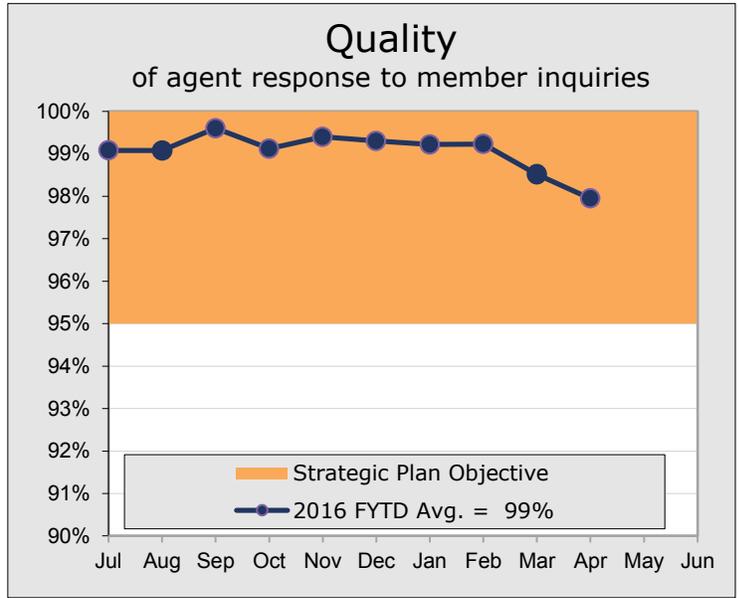
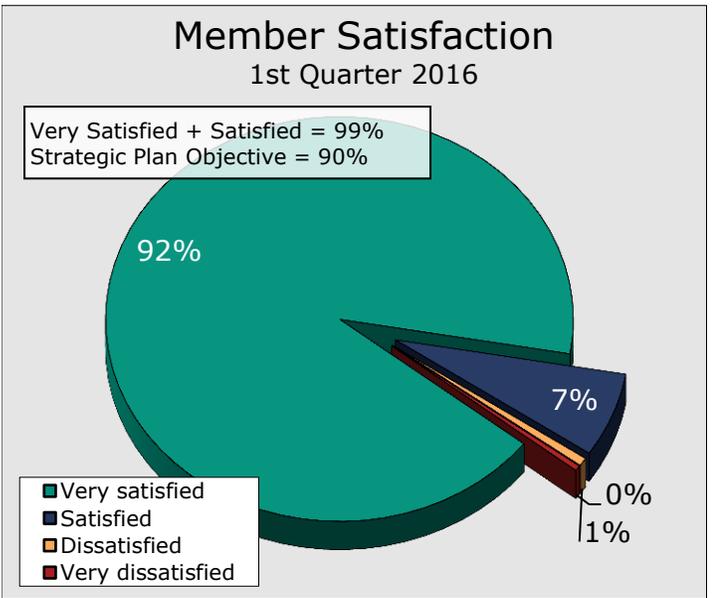
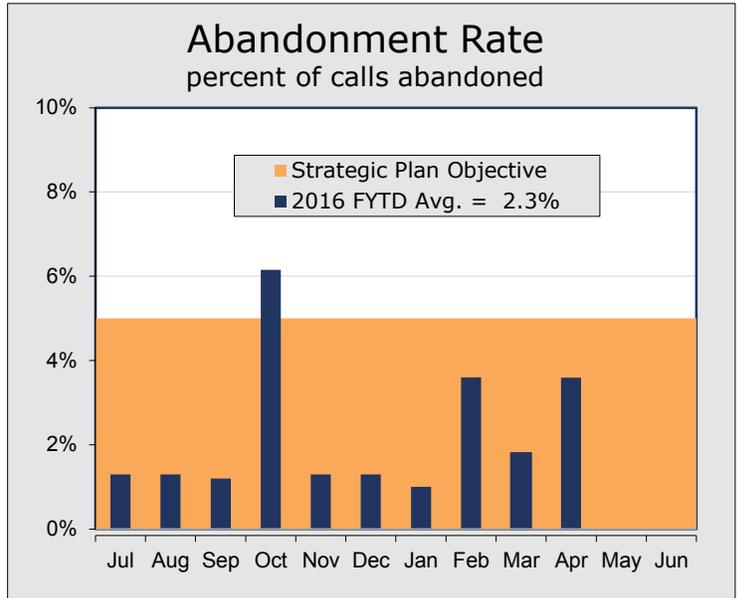
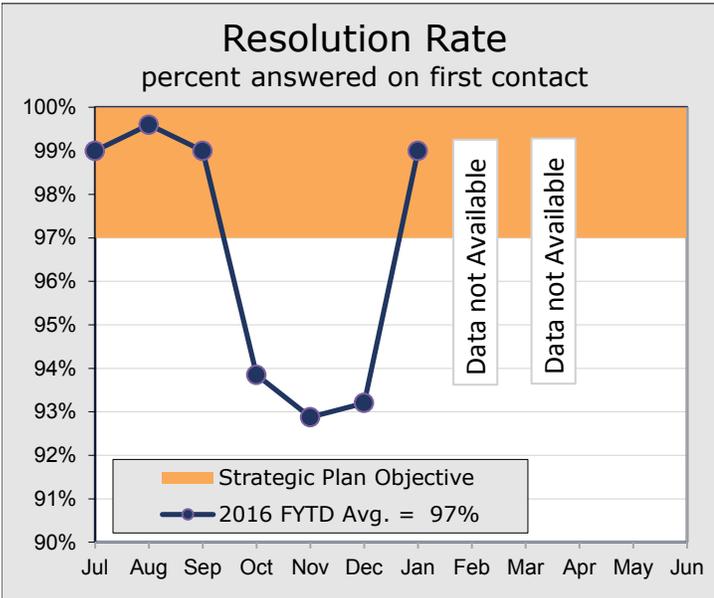


Member Advisory Center: Phone



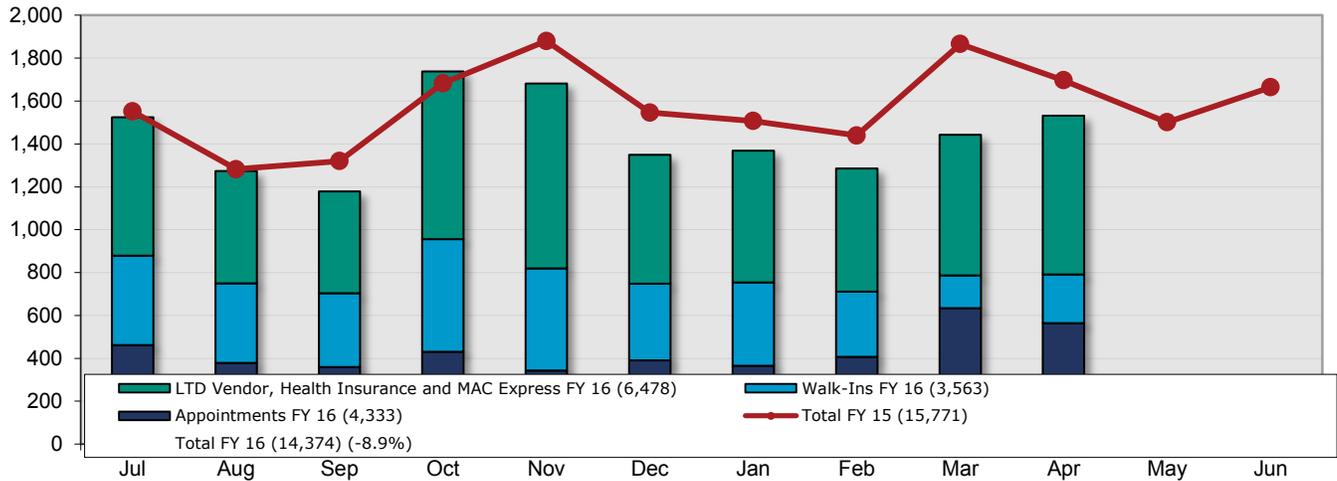
Timeliness (average wait time in seconds)

Month	2016 FYTD Avg.
Jul	20
Aug	20
Sep	7
Oct	DNA
Nov	DNA
Dec	DNA
Jan	DNA
Feb	DNA
Mar	DNA
Apr	DNA
May	
Jun	



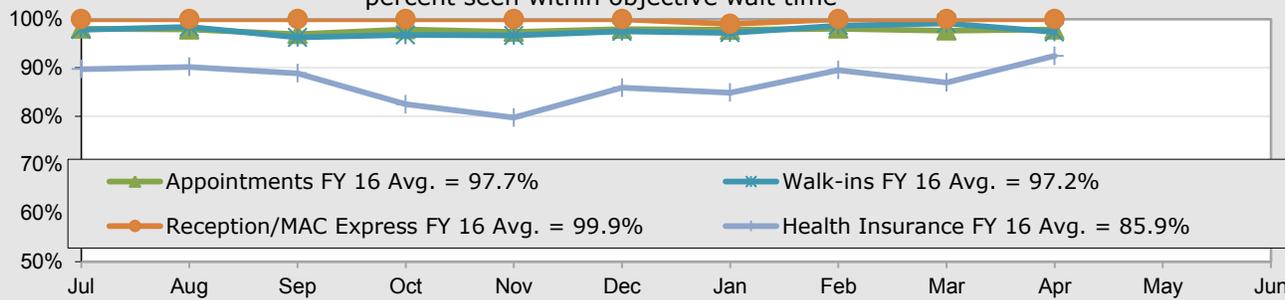
Member Advisory Center: One-on-One

Volume
number of one-on-one counseling sessions by type



One-on-One Timeliness

percent seen within objective wait time

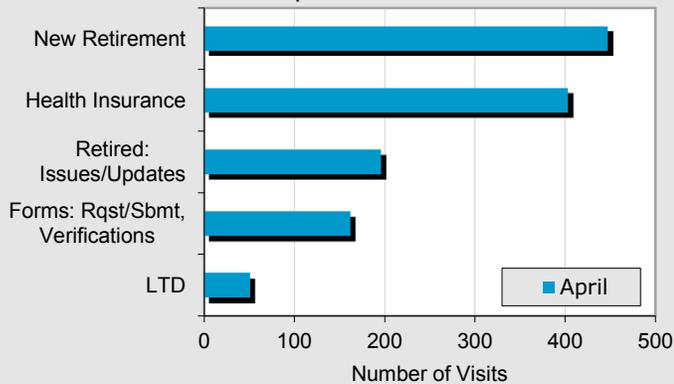


Timeliness (average wait time in minutes)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Appointments	0	0	1	0	1	1	1	0	1	1		
Walk-Ins	5	5	7	5	5	4	7	4	3	5		
Reception/MAC Express	0	0	0	0	0	0	0	0	0	0		
Health Insurance	5	5	7	8	9	6	8	5	7	6		
LTD Vendor	0	0	0	n/a	n/a	n/a	n/a	n/a	n/a	0		

Reasons for Visit

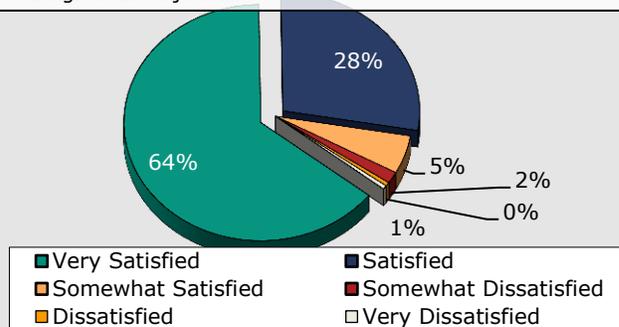
top five reasons



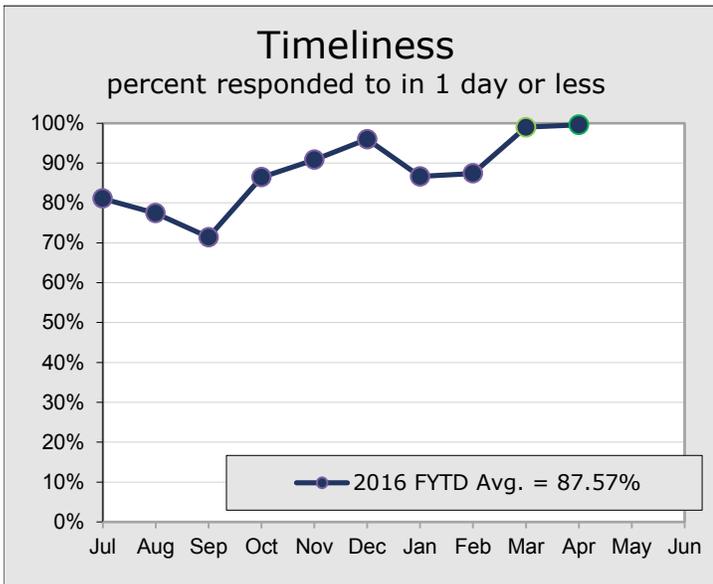
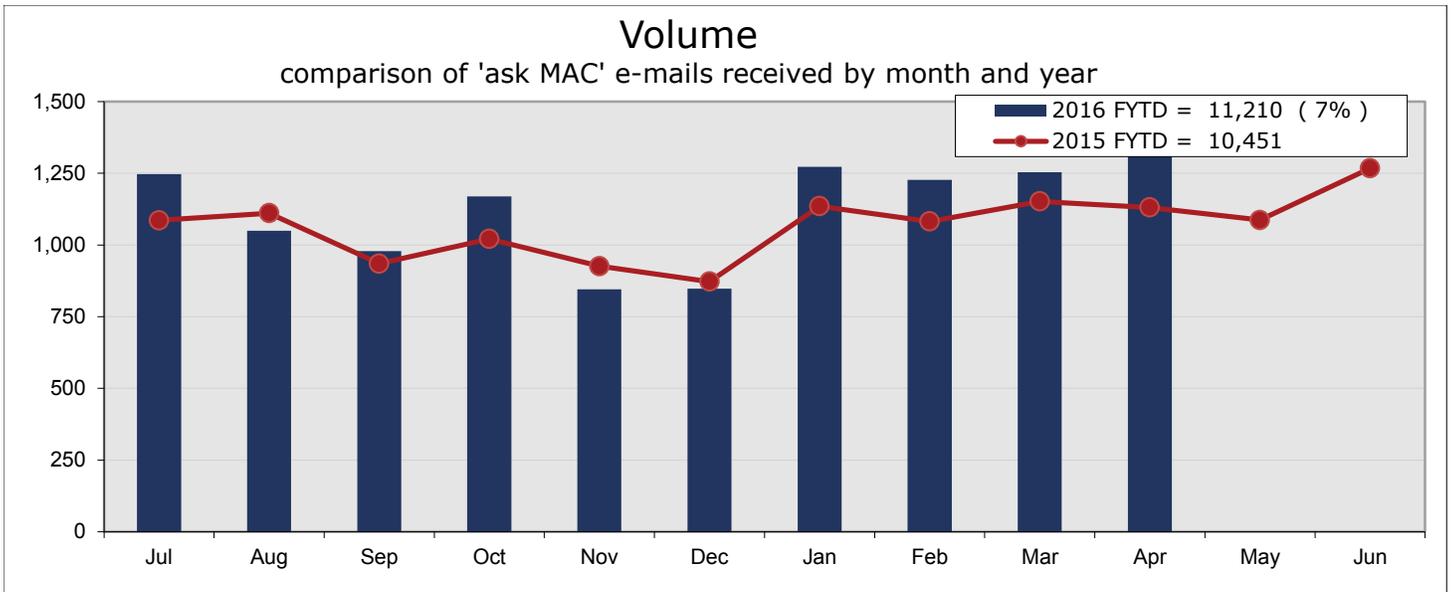
Member Satisfaction

1st Quarter 2016

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

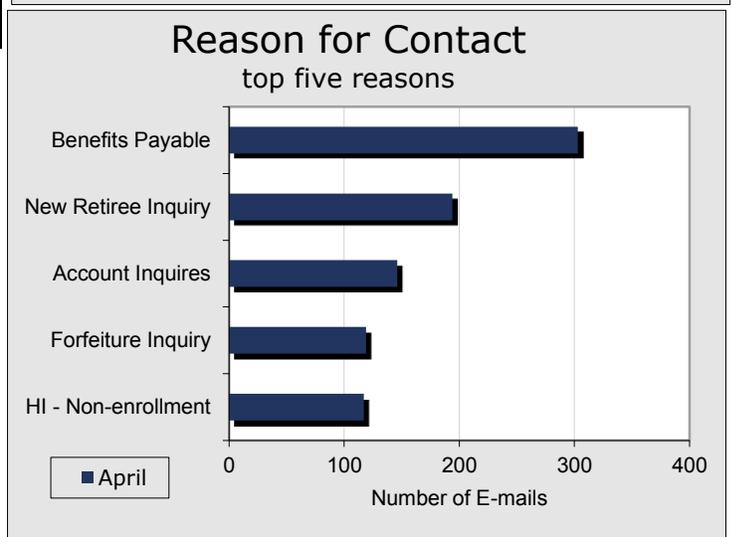
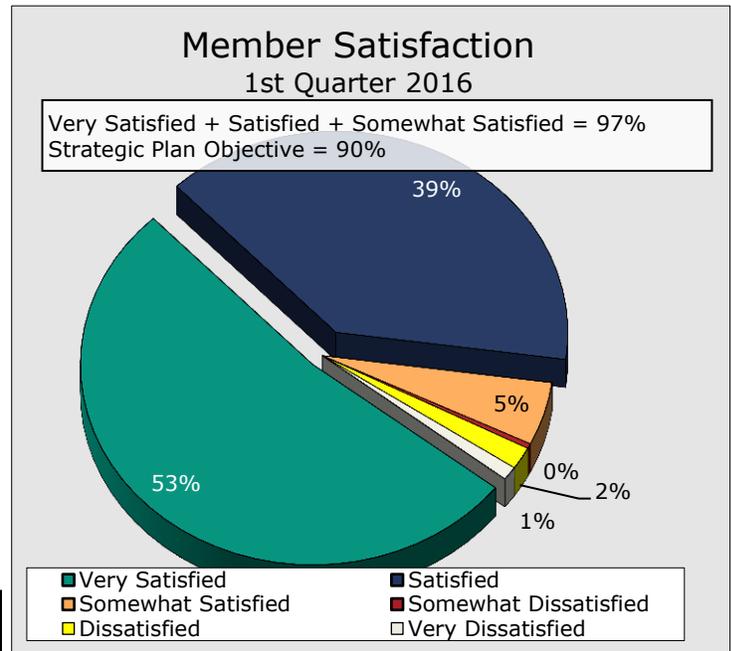


Member Advisory Center: E-Mail



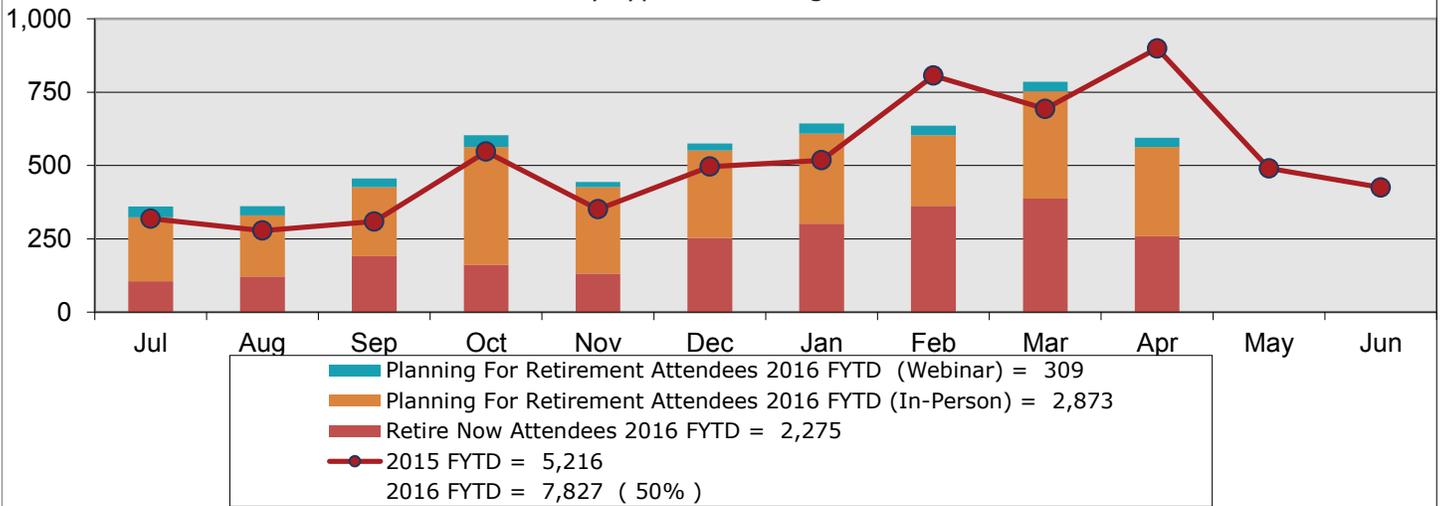
Timeliness (average response in hours)

15	18	20	10	8	7	13	11	4	4		
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



Outreach Education and Benefit Estimates

Total Meeting Attendees by type of meeting

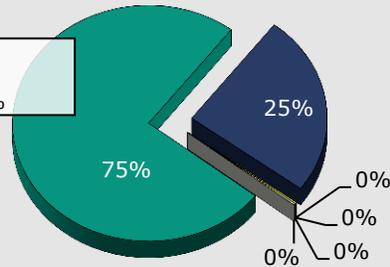


Member Satisfaction

Route 3 Meetings

1st Quarter 2016

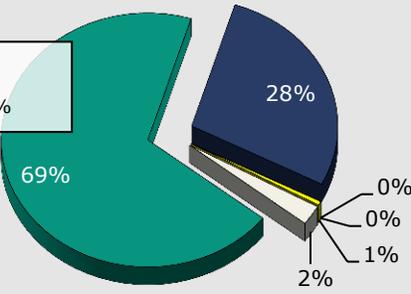
Very Satisfied + Satisfied + Somewhat Satisfied = 97%
Strategic Plan Objective = 90%



Route 4 Meetings

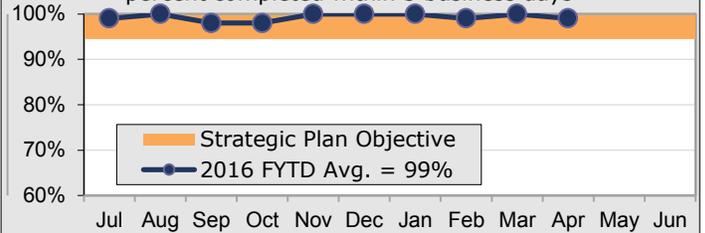
1st Quarter 2016

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



Benefit Estimate Timeliness

percent completed within 3 business days



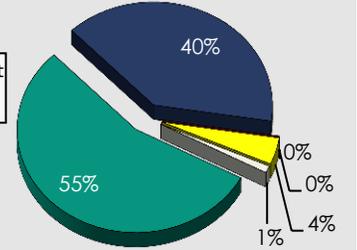
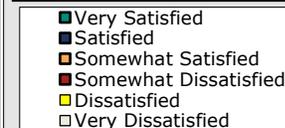
Benefit Estimate Timeliness (average TAT in days)

Month	1	2	3	4	5	6	7	8	9	10	11	12
Jul	1	1	1	1	1	1	1	1	1	1	1	1
Aug	1	1	1	1	1	1	1	1	1	1	1	1
Sep	1	1	1	1	1	1	1	1	1	1	1	1
Oct	1	1	1	1	1	1	1	1	1	1	1	1
Nov	1	1	1	1	1	1	1	1	1	1	1	1
Dec	1	1	1	1	1	1	1	1	1	1	1	1
Jan	1	1	1	1	1	1	1	1	1	1	1	1
Feb	1	1	1	1	1	1	1	1	1	1	1	1
Mar	1	1	1	1	1	1	1	1	1	1	1	1
Apr	1	1	1	1	1	1	1	1	1	1	1	1
May	1	1	1	1	1	1	1	1	1	1	1	1
Jun	1	1	1	1	1	1	1	1	1	1	1	1

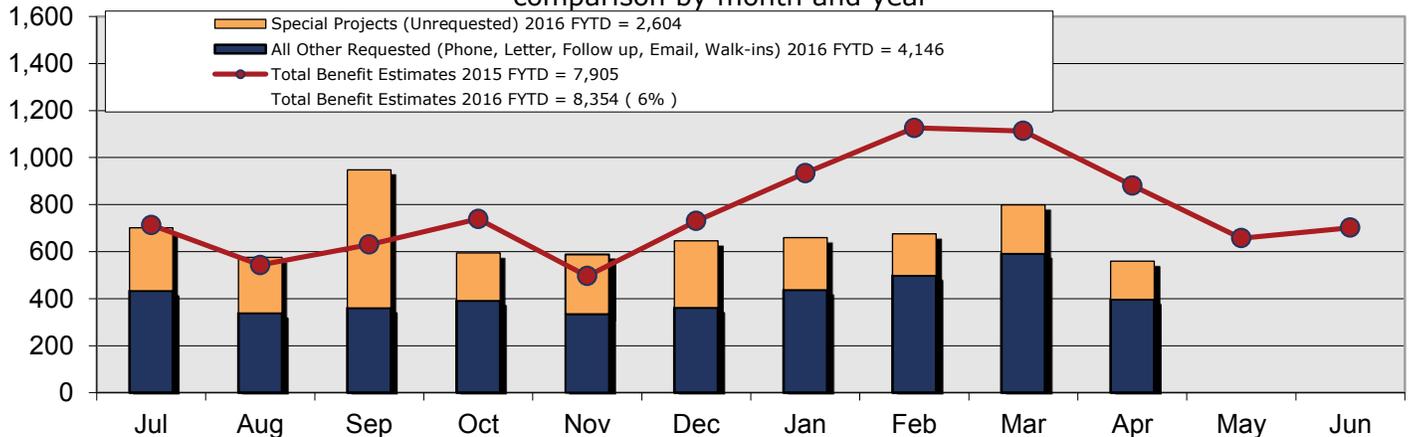
Benefit Estimates

1st Quarter 2016

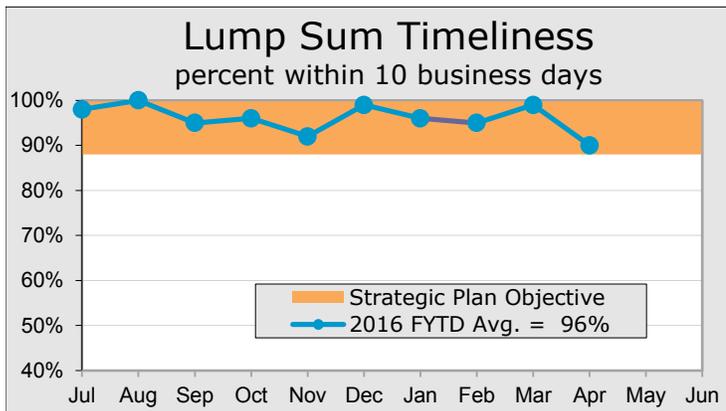
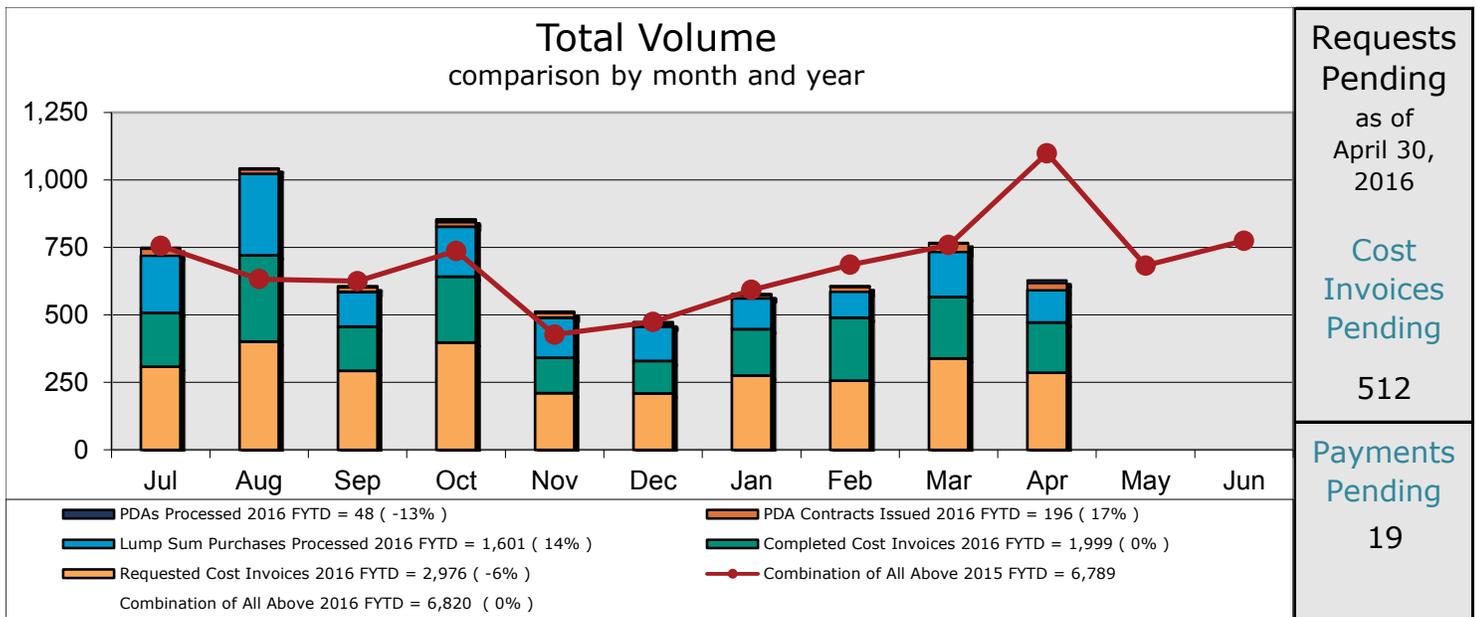
Very Satisfied + Satisfied + Somewhat Satisfied = 95%



Benefit Estimate Volume comparison by month and year

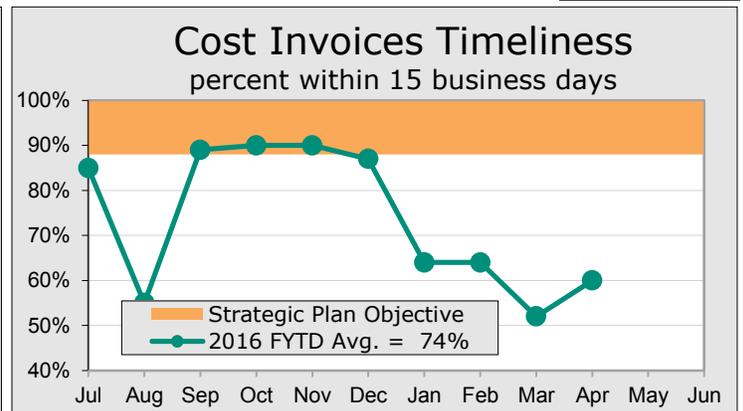


Service Purchase



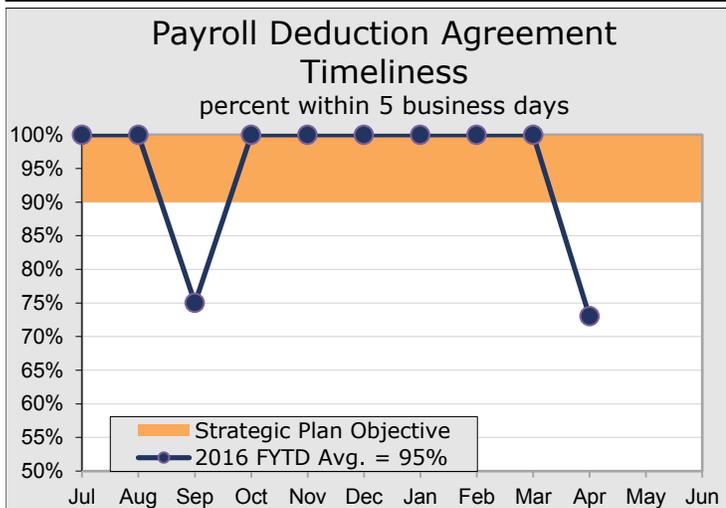
Timeliness (average turnaround time in business days)

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



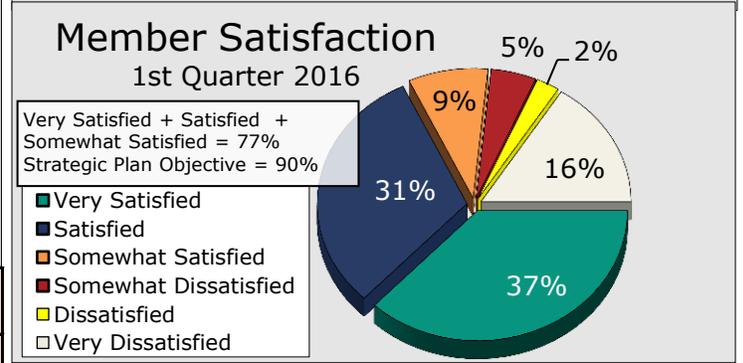
Timeliness (average turnaround time in business days)

9	11	6	8	8	11	11	21	60	11		
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



Timeliness (average turnaround time in business days)

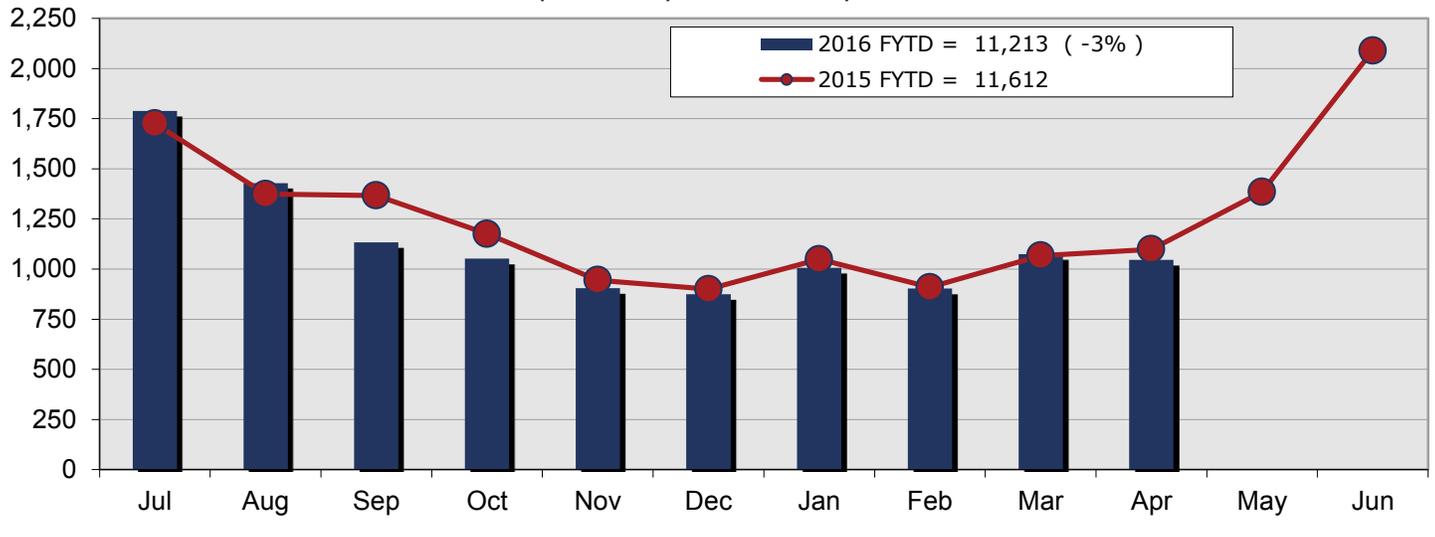
1	2	3	1	1	1	1	2	1	4		
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



Refunds

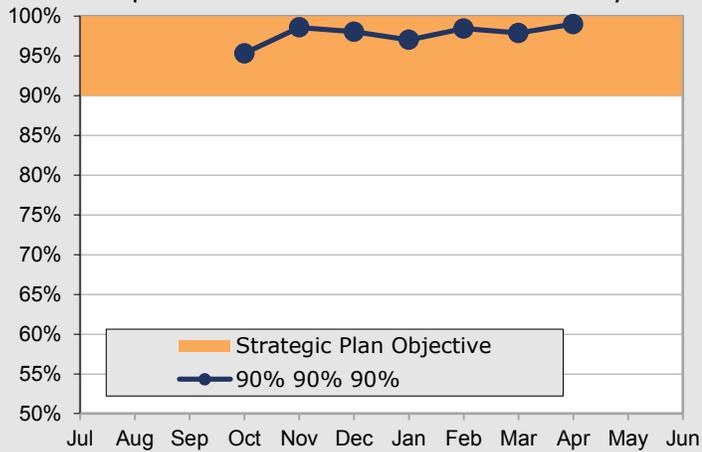
Volume

comparison by month and year

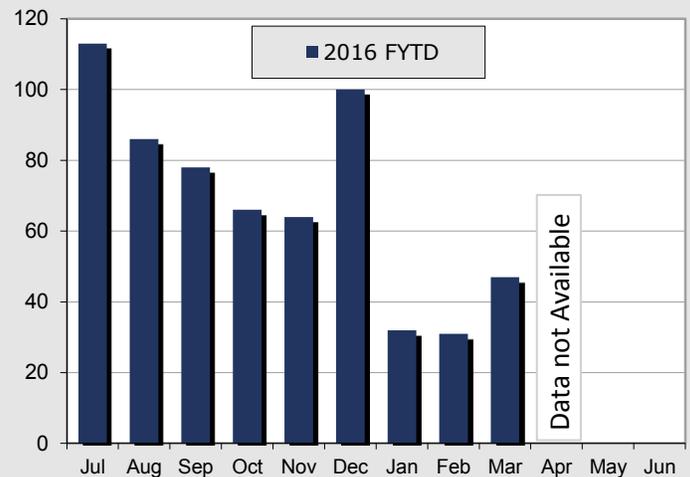


Timeliness

percent disbursed in 10 business days



Requests Pending



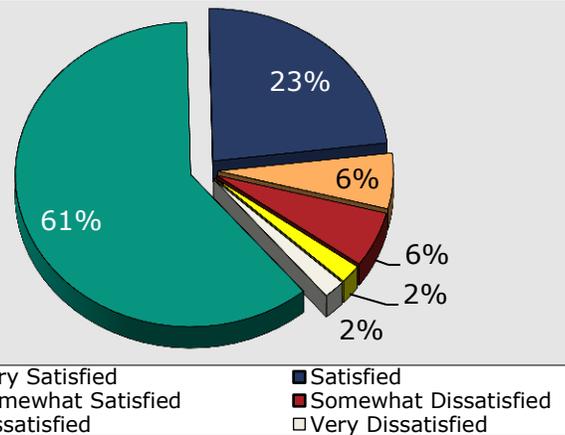
Timeliness (average turnaround time in business days)

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

Member Satisfaction

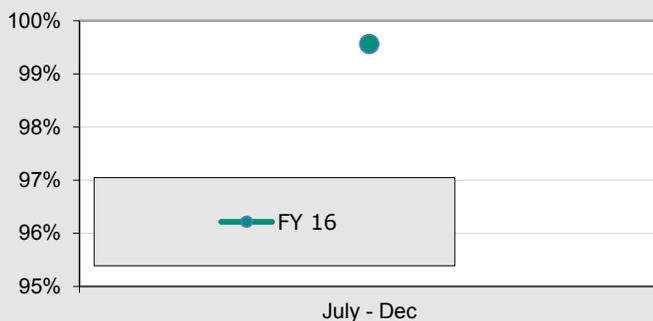
1st Quarter 2016

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



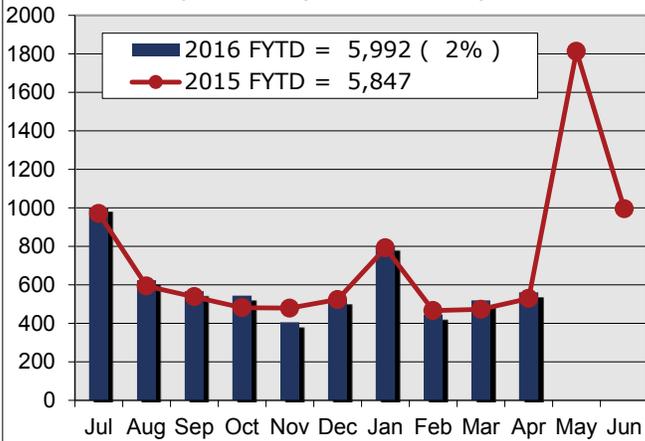
Refund Quality Rating

FY 2016

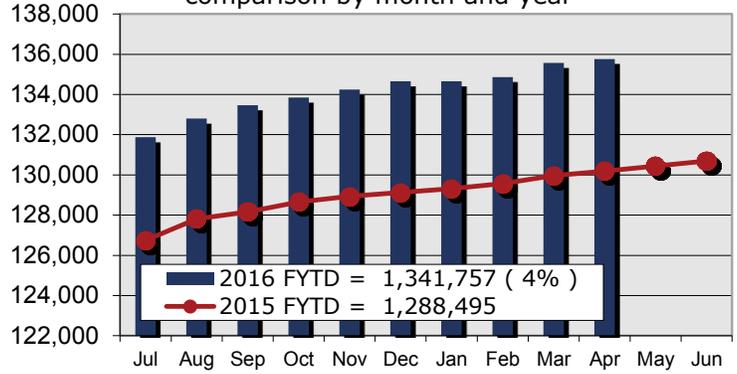


New Retiree and Pension Payroll

First Payment Volume comparison by month and year



Pension Volume comparison by month and year



Pension Payment (percent disbursed by 1st of the months)

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

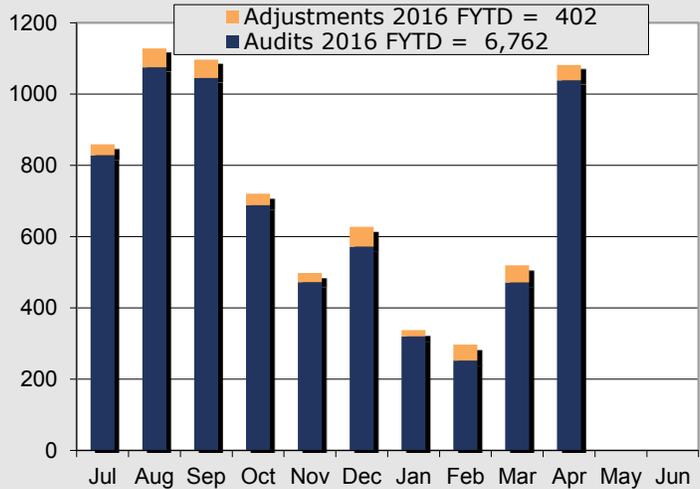
First Payment Timeliness percent disbursed in 10 business days



First Payment Timeliness (average turnaround time in days)

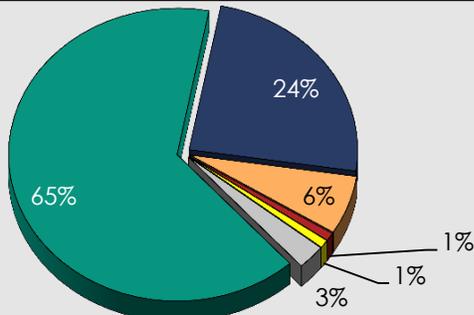
5	6	6	7	10	8	5	9	14	12		
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

Audits & Adjustments comparison by month and year



Member Satisfaction 1st Quarter 2016

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



■ Very Satisfied ■ Satisfied
■ Somewhat Satisfied ■ Somewhat Dissatisfied
■ Dissatisfied ■ Very Dissatisfied

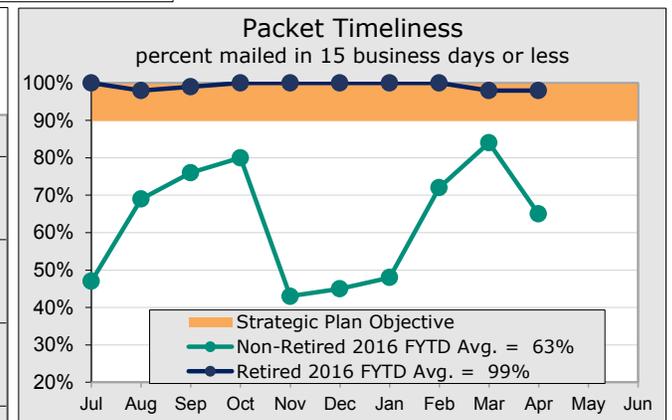
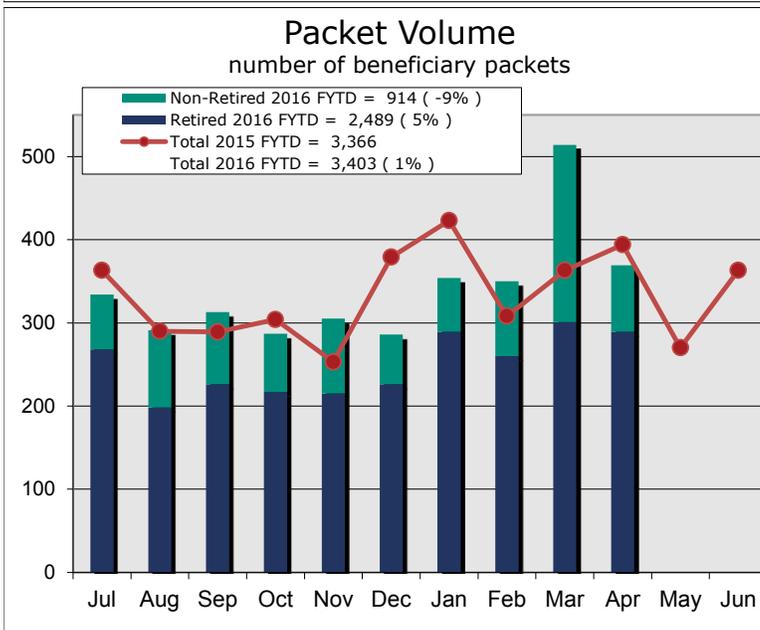
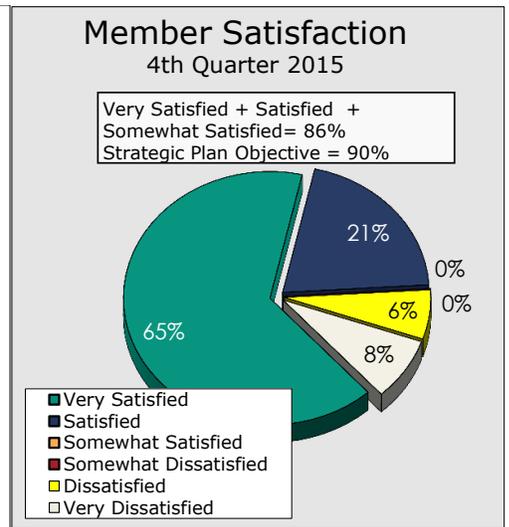
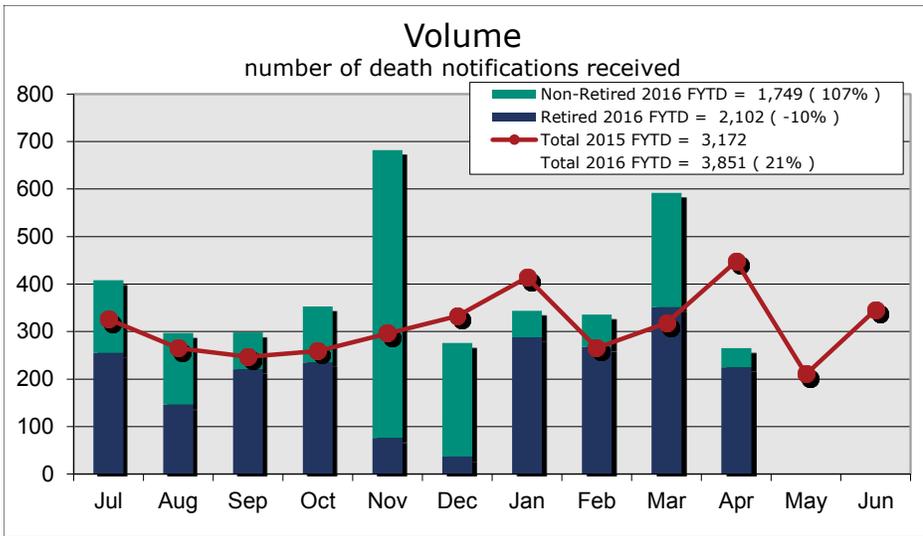
Adjustments Timeliness



Adjustments Timeliness (average turnaround time in days)

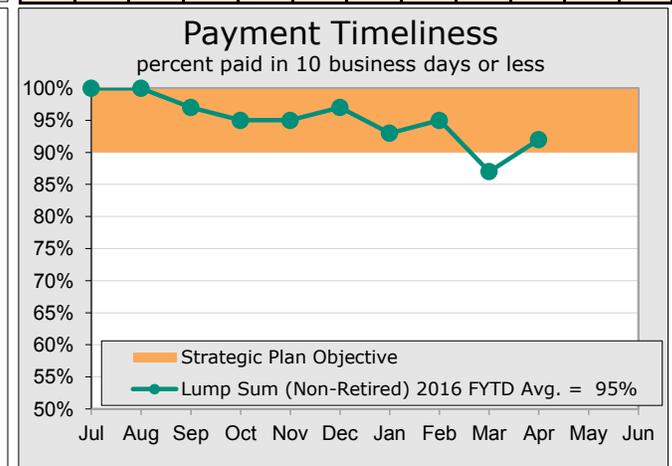
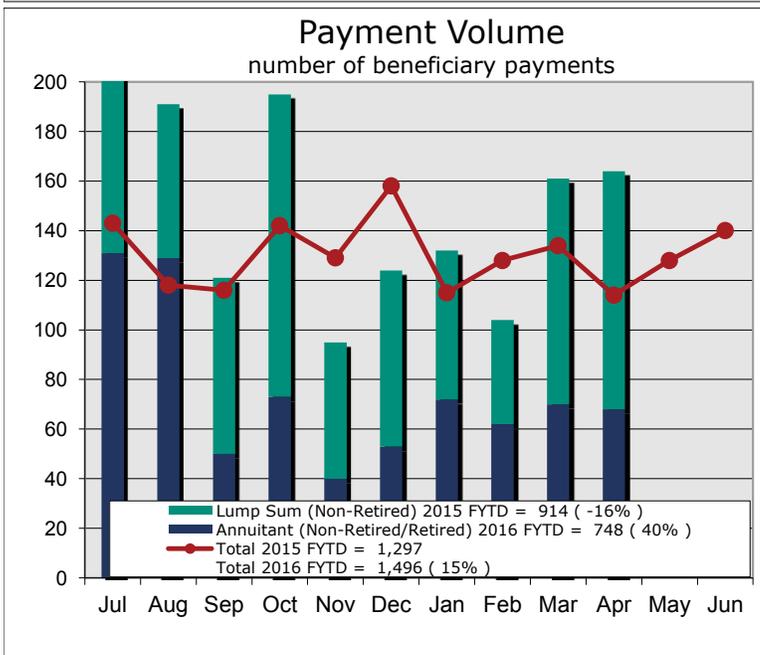
4	5	2	3	4	11	4	6	6	5		
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

Survivor Benefits



Packet Timeliness (average TAT in days)

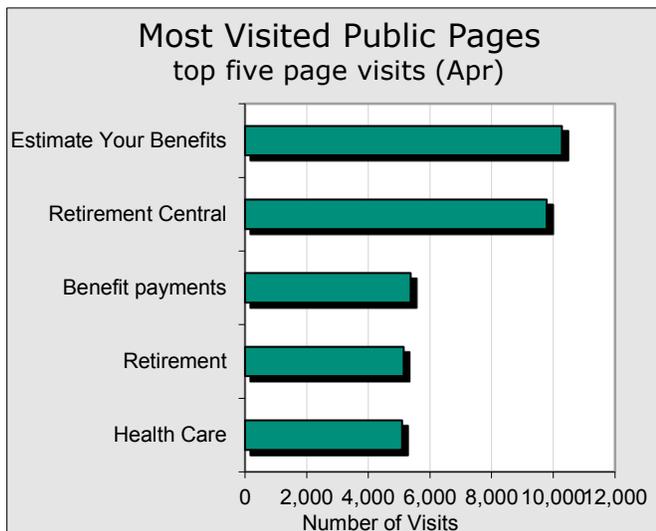
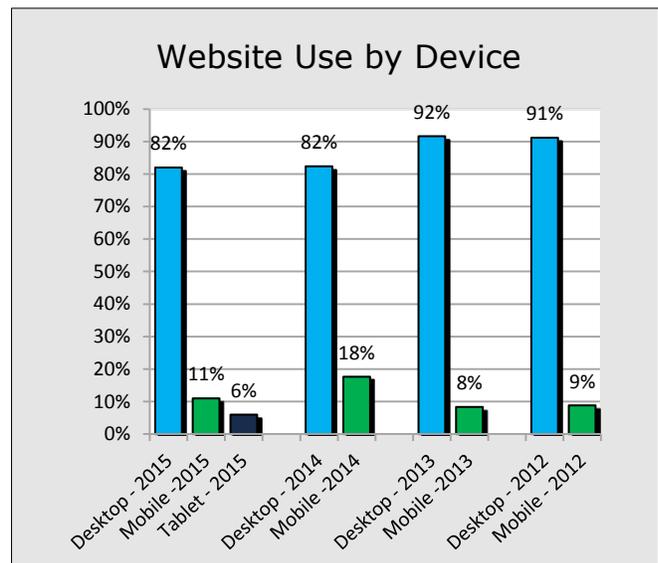
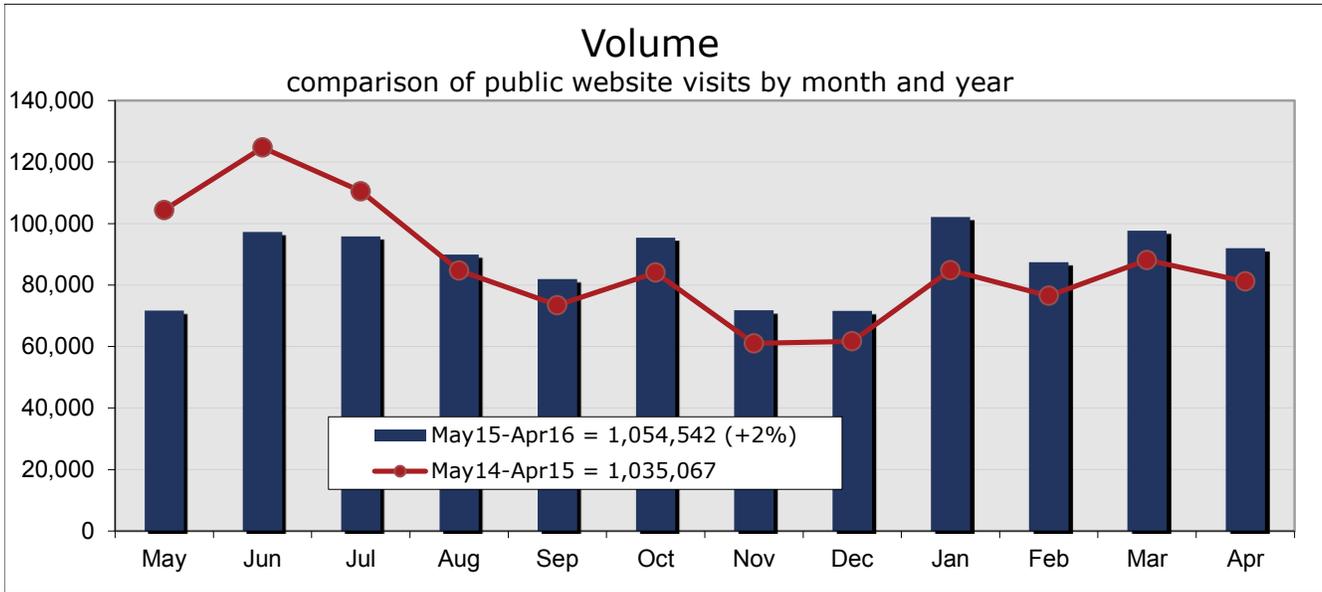
Month	Non Retired	Retired
Jul	40	2
Aug	40	2
Sep	22	2
Oct	7	2
Nov	20	3
Dec	157	3
Jan	86	2
Feb	39	2
Mar	53	2
Apr	42	3
May		
Jun		



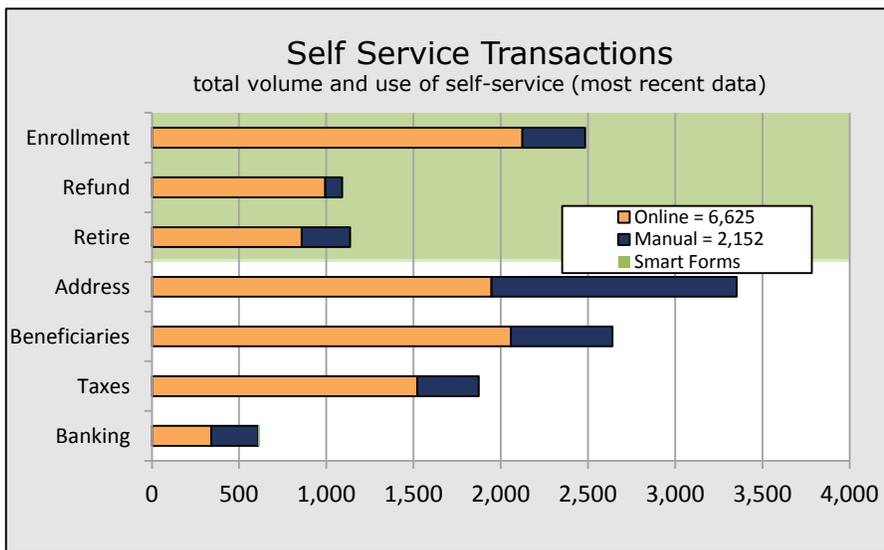
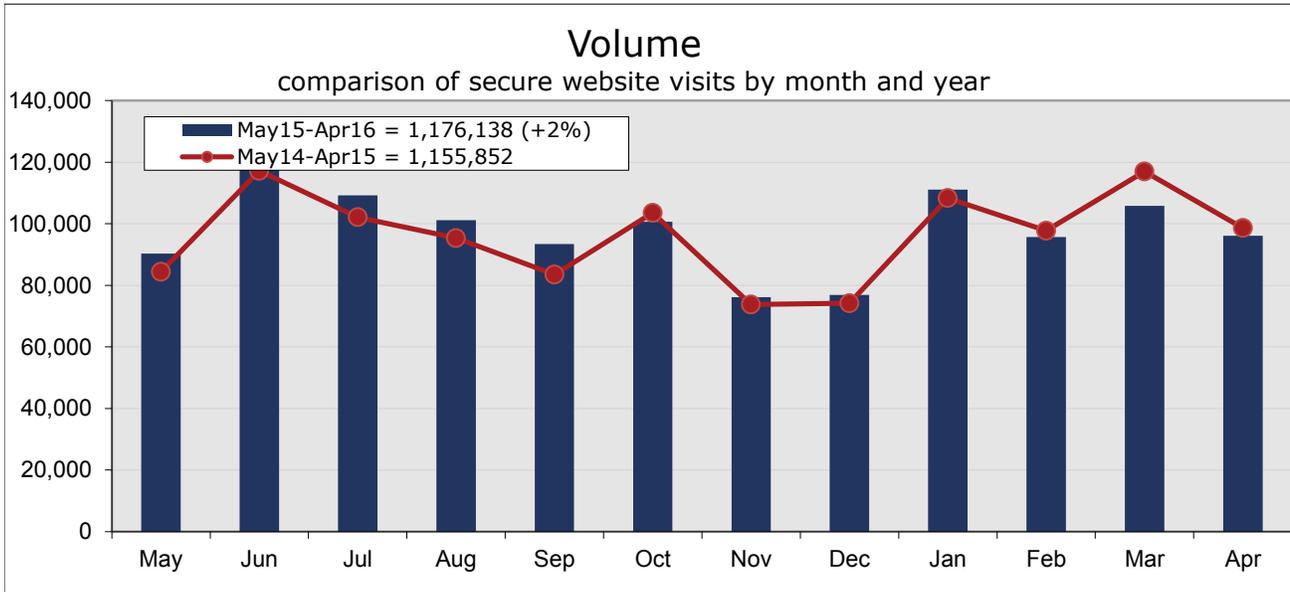
Payment Timeliness (average TAT in days)

Month	Lump Sum (Non-Retired)	Annuity (Retired and Non-Retired)
Jul	4	3
Aug	3	2
Sep	5	4
Oct	5	3
Nov	5	2
Dec	5	3
Jan	7	3
Feb	6	5
Mar	7	6
Apr	6	4
May		
Jun		

Public Website: www.azasrs.gov



Secure Website: secure.azasrs.gov

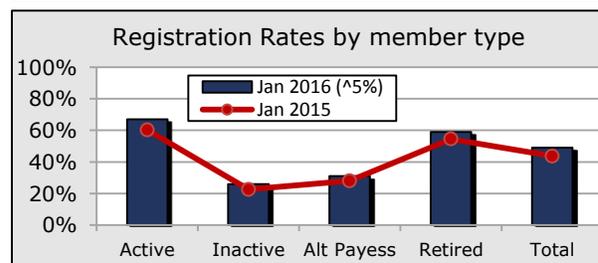
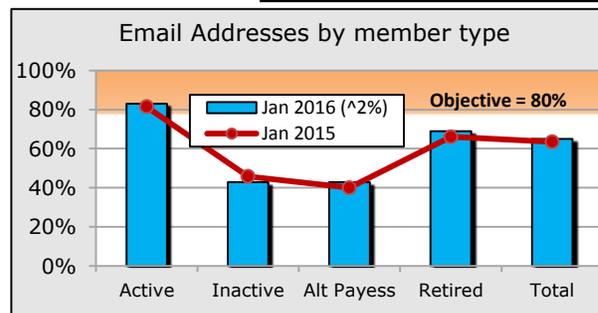
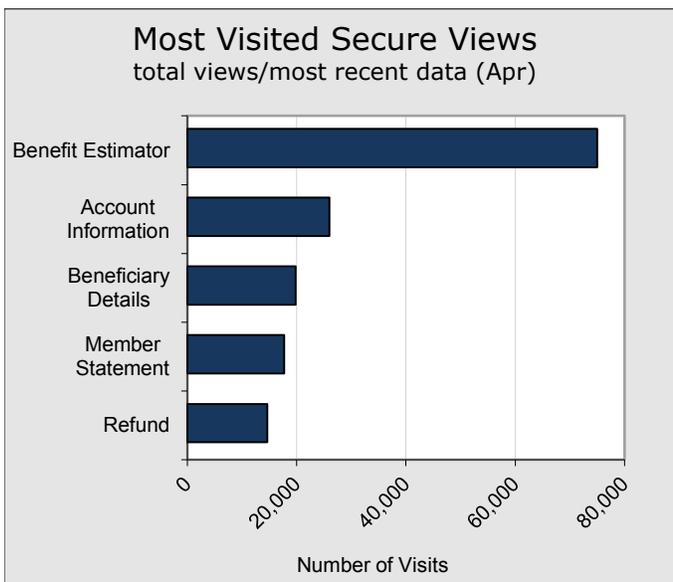


Historical Comparison of Online Usage

	This month	12mo Min	12mo Max	12mo Avg	Objective
Enrol	86%	86%	97%	92%	99%
Ref	91%	88%	98%	92%	90%
Ret	76%	69%	79%	72%	90%
Add	76%	70%	86%	77%	75%
Bene	78%	61%	87%	80%	75%
Tax	81%	67%	93%	79%	75%
DD	56%	41%	61%	55%	75%

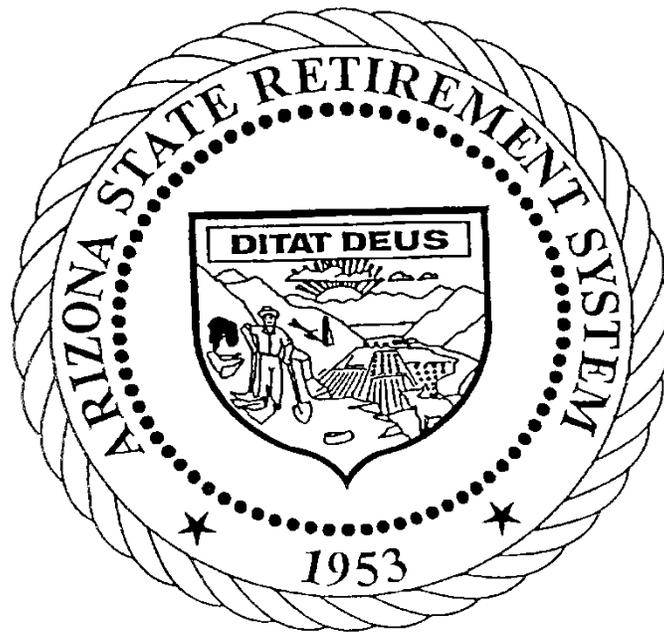
Total online this month

75%



Agenda Item #6c

Director's Report Budget & Staffing



Arizona State Retirement System
FY 2016 Appropriated Budget
(as of April 30, 2016)

	APPROPRIATIONS FISCAL YEAR 2016	EXPENDED YTD	% EXPENDED
OPERATING BUDGET			
Personal Services	\$ 13,091,900	\$ 10,384,700	79.32%
Employee Related Expenses	\$ 5,063,500	\$ 3,942,400	77.86%
Professional & Outside Services	\$ 1,292,400	\$ 1,315,500	101.79%
Travel	\$ 79,900	\$ 75,300	94.24%
Other Operating Expenses	\$ 2,732,800	\$ 1,552,500	56.81%
Equipment	\$ 651,100	\$ 230,300	35.37%
Operating Subtotal	\$ 22,911,600	\$ 17,500,700	76.38%
OTHER APPROPRIATIONS			
Long Term Disability Administration	\$ 2,800,000	\$ 1,717,700	61.35%
Oracle Forms and Reports Modernization (Yr. 3)	\$ 2,270,000	\$ 558,100	24.59%
TOTAL FY 2016 Appropriated Funds	\$ 27,981,600	\$ 19,776,500	70.68%

	APPROPRIATIONS	EXPENDED PRIOR YEARS	EXPENDED CURRENT YEAR	% EXPENDED
PRIOR YEAR APPROPRIATIONS (NON-LAPSING)				
FY 2015 - Oracle Forms and Reports Modernization (Yr. 2)	\$ 4,484,500	\$ 1,463,600	\$ 351,000	40.46%
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%

Budget Summary for Fiscal Year 2016 As of April 30, 2016

Operating Budget

The operating budget information on the previous page is based on funding approved by the Board and the Legislature for fiscal year July 1, 2015 through June 30, 2016. These ASRS operating expenses are distinguished from other areas of ASRS spending authority: such as expenditures for investment management and benefits payments. Administrative salaries and employee benefits, supplies, equipment and ongoing operational costs associated with information and financial systems for the ASRS Board and ASRS employees are funded from the operating budget. Expenditures to date include twenty-two pay periods (84.6% of the annual payrolls) of fiscal year 2016.

Other Appropriations

Other appropriations, which are considered part of the annual budget, represent other 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 third year of the software modernization project.

Non-Lapsing Appropriations for Legislative Initiatives

The amount appropriated by the Legislature for the implementation of:

- FY 2015 - Oracle Forms and Reports Modernization (Yr. 2)
- FY 2011 - HB 2389 - ASRS Plan Design Changes
- FY 2011 - ASRS Operating Budget and LTD Admin
 - 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 2016, 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.

ASRS FISCAL YEAR 2016, CONTINUOUSLY APPROPRIATED REPORT

(with summarized Appropriated Expenses)

DESCRIPTION	EXPENDED YTD as of 4/30/16	ESTIMATED ANNUAL EXPENSES (Projections updated quarterly)	EST. ANNUAL EXPENSES AS % OF TOTAL AUM	EST. ANNUAL EXPENSES PER MEMBER
Custodial Banking, Security Lending and Master Cash STIF Fees	2,143,000	3,381,000		
Internal Investment Management (Salaries and Benefits)	1,392,000	1,615,000		
<i>Public Markets</i>				
External Investment Management Fees	31,197,000	58,000,000		
Transactional and Other Fees	2,486,000	2,600,000		
<i>Private Markets</i>				
Private Debt and Equity Management Fees	27,839,000	46,000,000		
Private Debt and Equity Performance Incentive and Other Fees	28,520,000	60,000,000		
Real Estate, Farmland and Timber and Infrastructure Management Fees	18,062,000	25,000,000		
Real Estate, Farmland and Timber and Infrastructure Performance Incentive and Other Fees	43,575,000	60,000,000		
Opportunistic Debt and Equity Management Fees	5,389,000	10,000,000		
Opportunistic Debt and Equity Performance Incentive and Other Fees	5,554,000	8,000,000		
Investment Management Expenses	\$ 166,157,000	\$ 274,596,000	0.812%	\$ 491.32
Investment Consulting Services	2,614,000	4,177,000		
Investment Related Legal Services	1,311,000	1,350,000		
Investment Electronic Information Services	1,415,000	2,450,000		
External Financial Consulting Services	49,000	115,000		
Investment Related Consulting, Legal and Information Services	\$ 5,389,000	\$ 8,092,000	0.024%	\$ 14.48
Rent	1,302,000	1,565,000	0.005%	\$ 2.80
Actuarial Consulting Fees	60,000	725,000	0.002%	\$ 1.30
Retiree Payroll (Disbursement Administration)	2,485,000	3,592,000	0.011%	\$ 6.43
Total Continuously Appropriated Expenses	\$ 175,393,000	\$ 288,570,000	0.853%	\$ 516.32
*Total Current Year Appropriated Expenses	\$ 20,127,500	\$ 28,981,600	0.086%	\$ 51.85
<i>* Includes estimated prior year non-lapsing appropriations of \$1,000,000 related to the Oracle Forms and Reports Modernization Project</i>				
Total Expenses (Continuously Appropriated and Appropriated)	\$ 195,520,500	\$ 317,551,600	0.939%	\$ 568.17

ASRS Estimated Total Market Value of Assets Under Management (AUM) as of December 31, 2015

\$ 33,831,814,000

ASRS Total Membership as of June 30, 2015

558,900

Continuously Appropriated Expenses for FY 2016 Estimated Expenditures

The Arizona State Retirement System (ASRS) investment and administrative costs are expended in accordance with Arizona Revised Statutes (A.R.S.), Title 38, Chapter 5, Article 2, Section 38-721. A.R.S. Section 38-721, Subsection 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 staff base salaries and employer portion of staff benefits and payroll taxes.

External investment management fees

- Public Markets
 - External investment management fees (public).
 - Management fees (public) year-to-date expenditure amounts reflect the fees due for the first two quarters of FY 2016.
 - 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 hurdles are met. Other fees are the ASRS proportional share of the transactional and operational cost of the underlying investment structure. Each of these fees is only paid if earned or incurred, and therefore may vary each quarter.
 - Management and performance incentive fees year-to-date expenditure amounts reflect the fees due for the first two quarters of FY 2016.

Consulting fees

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

2. Rent

- Costs associated with rent as tenants for occupancy in the 3300 Tower in Phoenix and in the satellite office 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 and benefit related consulting fees and the beginning phase of the ASRS Benefit 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 estimated annual expenses reflected were last updated as of the close of the quarter ending March 31, 2016.

**Arizona State Retirement System
Staffing Report
(April 30, 2016)**

ASRS by Division	252 Full Time Equivalents (FTEs)	New Hires	New Exits	Vacancies	Vacancy Rate
Administrative Services Division (ASD)	16	0.0	1.0	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	1.0	0.0	7.5	12.10%
Technology Services (TSD)	52	0.0	0.0	6.0	11.54%
Internal Audit (IAD)	6	0.0	0.0	1.75	29.17%
Investment Management (IMD)	13	0.0	1.0	3.0	23.08%
Member Services (MSD)	86	3.0	1.0	7.75	9.12%
	252	4.0	3.0	29.25	11.61%

Turnover	April 2016 New Hires	April 2016 Exits	Total Exits (Last 12 Months)	Annualized Turnover %
	4.0	3.0	34.25	15.10%

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 – ASD Budget Manager, ASD Senior Training and Development Officer, AUD EDP Auditor, FSD Accounting Analyst, FSD Assistant Controller, and TSD IT Security Engineers (2)
- One recruitment has not yet commenced – FSD-BA Fiscal Services Specialist III
- Four positions have been filled with future start dates – FSD Pension Calculation Specialist I's (2) (start date: 05/09/2016), FSD Pension Calculation Specialist II (start date: 05/09/2016), and TSD Software Engineer (start date: 05/09/2016)

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: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
MSD	MAC (Call Center)	○ ○ ●	In April 2016, strategic objectives were not met. Three positions have been approved as mission critical and are currently in training. An additional three call-taking positions remain unfilled, while staff from other units assist in handling calls. Negative impact will be reevaluated once the new staff have been fully trained.
MSD	One-on-one Counseling (Appointments/Walk-ins)	● ○ ○	
MSD	E-mail and Written Correspondence	● ○ ○	
MSD	Outreach Education	● ○ ○	
MSD	Tucson: Appointments/Walk-ins/Outreach	○ ● ○	In April 2016, strategic objectives were met. However, two positions out of nine are vacant and one FTE is in benefit advisor training until the end of May. Phoenix staff cannot assist Tucson staff to help reach their primary objectives. Greater than normal risk will remain through May 2016 and will be reevaluated after the new benefit advisor is fully trained.
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: Green = Normal risk Yellow = Greater than normal risk Red = 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 April 2016, the New Retirees strategic objectives were met; however the post-pension audit objectives were not met. Four positions are vacant and seven 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. 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		The Records Management staff is meeting strategic goals. However, there has been an increase in not enrolled accounts due to lack of submissions by employers/new employees.
FSD	Transfer Processing		
FSD	General Accounting		General Accounting did not meet one of its strategic objectives. Two FTEs are currently learning their new roles and two vacant positions are

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

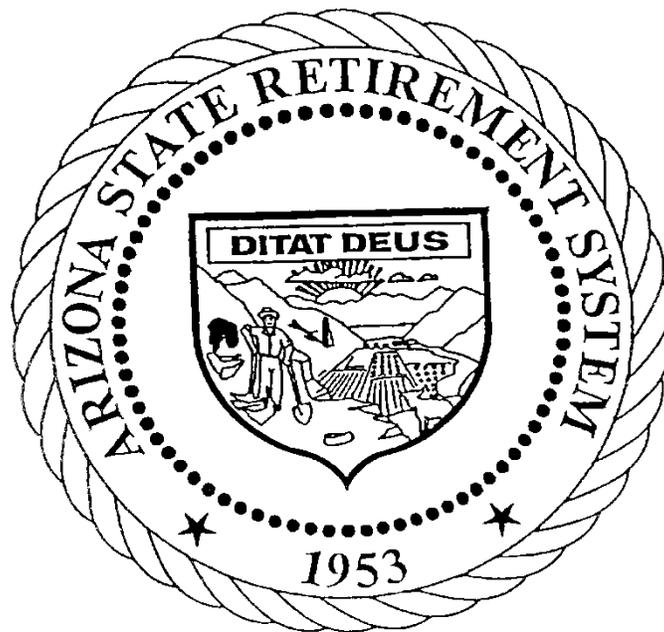
Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
			under recruitment. Greater than normal risk will remain until the vacant positions are filled and all FTEs are fully trained.
FSD	Contribution Collections and Posting	● ○ ○	
TSD	Network Support	● ○ ○	
TSD	IT Security	○ ○ ●	The IT Security team is unable to meet all business demands and Strategic Objectives. Three critical security positions are vacant. Recruitment for two FTEs is currently underway. Negative impact will remain until all positions are filled and staff is fully trained.
TSD	Business Applications Development and Support	● ○ ○	The planned workload requires a complement of 44 total resources (31 FTEs and 13 external resources). Our current complement of resources for April was 43 (29 FTEs and 14 external resources). In April, one external resource System Tester started. In May, one FTE Software Engineer and an external resource JasperSoft Report Writer will start. We are recruiting for a second external resource JasperSoft Report Writer.
IMD	Investment Management	● ○ ○	
DIR	Board/Executive Staff Support	● ○ ○	
DIR	Strategic Planning/Analysis	● ○ ○	
DIR	Strategic Communications	● ○ ○	

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: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
DIR	Public Affairs	● ○ ○	
IA	Internal Audit	● ○ ○	
EA	Rule Writing	● ○ ○	
EA	Legislative Relations	● ○ ○	
EA	Defined Contributions Plans	● ○ ○	
ASD	Human Resources	● ○ ○	
ASD	Training and Development	○ ● ○	Training and Development is unable to meet all current business needs and future training requests have been postponed due to limited staffing. Recruitment for one position is underway. Greater than normal risk will remain until the vacant position is filled and fully trained.
ASD	Contracts and Procurement	● ○ ○	
ASD	Facilities Management	● ○ ○	
ASD	Budget Administration	○ ● ○	The Budget Administration function struggled to meet strategic objectives and business needs due the vacant Budget Manager position. Recruitment for this position is underway. Greater than normal risk will remain until this position is filled and fully trained.

Agenda Item #6d

Director's Report Cash Flow Statement



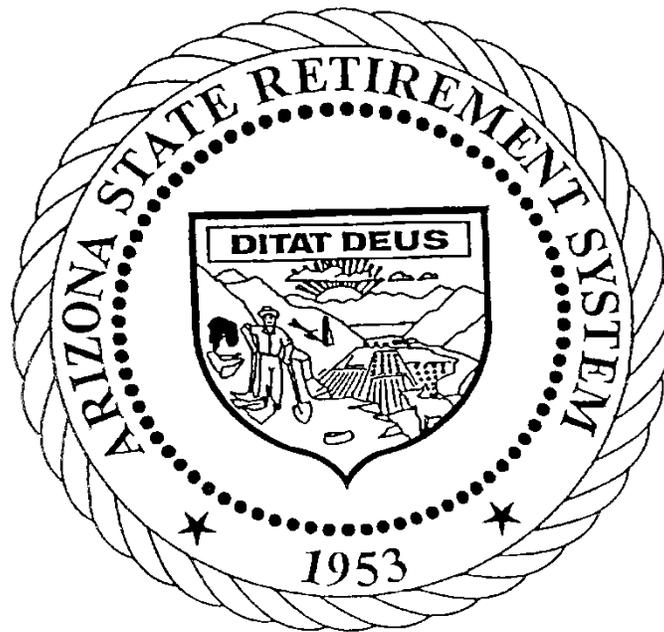
ARIZONA STATE RETIREMENT SYSTEM
COMBINED STATEMENT OF CHANGES IN TOTAL FUND CASH
FOR THE MONTH ENDED APRIL 30, 2016

	Retirement Plan Fund	Retirement System Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Current Period April	Fiscal 2016 YTD April	Fiscal 2015 YTD April
ADDITIONS							
Contributions							
Member contributions	\$ 91,847,539	\$ 4,257	\$ -	\$ 972,859	\$ 92,824,655	\$ 844,875,140	\$ 833,775,174
Employer contributions	87,824,584	4,257	4,046,376	972,859	92,848,076	840,999,583	832,561,736
Alternative contributions (ACR)	2,746,542	-	38,950	17,975	2,803,468	21,039,277	20,982,973
Transfers from other plans	157,774	-	-	-	157,774	1,375,758	655,312
Purchased service	1,662,586	-	-	-	1,662,586	21,418,826	19,605,149
TOTAL CONTRIBUTIONS	184,239,025	8,513	4,085,326	1,963,694	190,296,558	1,729,708,584	1,707,580,345
DEDUCTIONS							
Investment management fees	888,159	-	-	55,656	943,815	46,511,425	58,594,414
Custody fees	-	-	-	-	-	747,287	355,000
Consultant and legal fees	305,407	-	-	-	305,407	3,669,577	3,456,088
Internal investment activity expense	191,247	-	-	-	191,247	2,994,781	2,852,195
Retirement and disability benefits	227,139,141	3,137,617	7,755,406	5,234,985	243,267,149	2,432,883,164	2,337,468,343
Survivor benefits	2,715,188	36,403	-	-	2,751,591	32,767,428	27,398,786
Refunds to withdrawing members, including interest	17,542,067	-	-	-	17,542,067	205,936,055	202,761,714
Administrative expenses	2,504,118	-	-	198,910	2,703,028	24,228,372	25,833,363
Transfers to other plans	93,208	-	-	-	93,208	943,122	455,658
Other	-	-	-	-	-	19,811	10,784
TOTAL DEDUCTIONS	251,378,536	3,174,020	7,755,406	5,489,551	267,797,513	2,750,701,022	2,659,186,345
INCREASE (DECREASE)	(67,139,511)	(3,165,507)	(3,670,080)	(3,525,858)	(77,500,955)	(1,020,992,439)	(951,606,000)
From securities lending activities:							
Security loan program	450,688	-	-	-	450,688	4,916,110	3,765,949
Security loan interest expense / (Rebate)	(152,647)	-	-	-	(152,647)	(1,364,268)	(556,908)
* Net income from securities lending activities	603,334	-	-	-	603,334	6,280,378	4,322,857
Capital Calls / (Distributions)							
Farmland and Timber	(1,433,040)	(14,616)	(63,417)	-	(1,511,073)	10,153,937	43,709,092
Infrastructure	-	-	-	-	-	-	300,000,000
Opportunistic Debt	(4,602,781)	(42,999)	(209,053)	-	(4,854,832)	57,040,286	129,599,906
Opportunistic Equity	(95,047,745)	(957,116)	(4,227,528)	-	(100,232,390)	(187,712,169)	91,090,469
Private Debt	19,822,873	172,085	892,711	-	20,887,669	740,224,871	290,348,050
Private Equity	(33,688,669)	(354,732)	(1,501,027)	-	(35,544,428)	79,606,891	143,646,827
Real Estate	21,076,799	191,366	954,747	-	22,222,912	501,590,943	(5,806,147)
TOTAL Capital Calls	(93,872,562)	(1,006,013)	(4,153,566)	-	(99,032,141)	1,200,904,760	992,588,198
NET INCREASE (DECREASE)	\$ 27,336,386	\$ (2,159,494)	\$ 483,487	\$ (3,525,858)	\$ 22,134,521	\$ (2,215,616,821)	\$ (1,939,871,341)

* Securities lending activities reported on a one month lag.

Agenda Item #6e

Director's Report Appeals



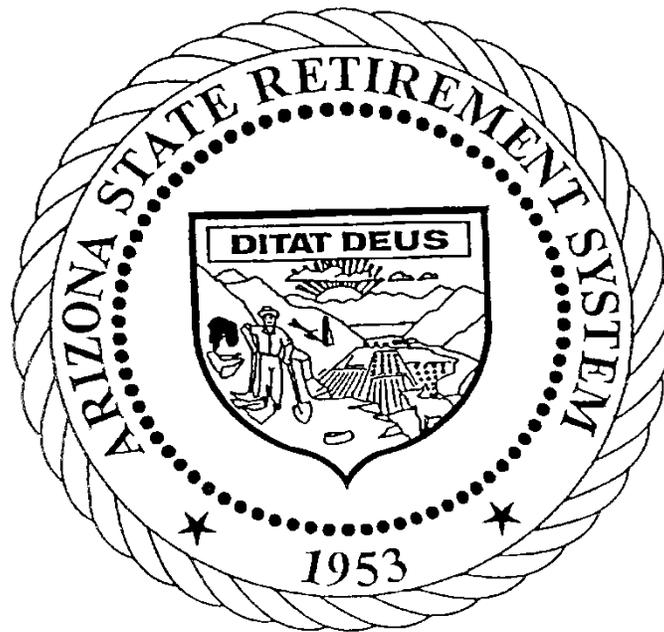
OUTSTANDING ASRS APPEALS

Date Received	Appeals	Issues/Questions Regarding	Status/Comments
4/29/2016	Arizona State University Board of Regents	Appellant is disputing the final Maricopa County Order signed on 3/11/2016 and filed on 3/14/2016 concerning interest.	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 is due 7/5/16.
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. Appellant Reply Brief filed 4/8/2016. 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 to be ordered.
12/28/2015	Valerie Fields	Appealing ASRS decision regarding service purchase credit.	OAH hearing scheduled for 04/27/2016. Administrative Law Judge Decision due 05/17/2016.
1/28/2016	Mary Jo Kuzmick	Appealing ASRS decision regarding retirement date.	OAH hearing scheduled for 3/15/2016. ALJ Decision affirming ASRS decision issued on 3/31/2016. Decision on 4/29/2016 Board Agenda. ASRS Board accepted ALJ Decision on 4/29/16.
2/19/2016	Carol Teel	Appealing ASRS determination that Appellant is no longer disabled and therefore ineligible for ASRS Long-Term Disability benefits.	Informal Settlement Conference held on 3/16/2016. OAH hearing continued to 7/6/2016.
3/4/2016	Paula Jeffries	Appealing ASRS decision regarding an overpayment of Long-Term Disability (LTD) benefits.	Appellant withdrew her appeal. The hearing scheduled for 5/2/2016 is vacated.
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 continued to 6/22/2016.

Information as of May 13, 2016. Updates are noted in bold font.

Agenda Item #6f

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

Paul Matson
Director

MEMORANDUM

TO: Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board
FROM: Mr. Paul Matson, Director
DATE: May 12, 2016
RE: Delinquent Employers

As of May 12, 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:

NO AZ ACADEMY FOR CAREER DEVELOP	26,000.*
GREAT EXPECTATION ACADEMY	26,000.*
PATAGONIA MONTESSORI	1,000.*
TELESIS CENTER FOR LEARNING	45,000.*
DESTINY SCHOOL (CHARTER)	10,000.*
SONORAN SCIENCE ACADEMY-PHX	1,400.*
LA PALOMA ACADEMY	50,000.*
SEQUOIA PATHWAY ACADEMY	25,000.*
AMERICAN HERITAGE ACAD (CHART SCH)	13,600.*
SEQUOIA CHOICE SCHOOL, LLLP	24,000.*
SEQUOIA VILLAGE SCHOOL	8,700.*
SEQUOIA CHARTER SCHOOL	58,000.*
PATHFINDER ACADEMY	21,000.*
SEQUOIA RANCH SCHOOL	23,000.*
SEQUOIA SCH FOR DEAF AND HARD OF HEARING	5,500.*
REDWOOD ELEM ACADEMY	5,300.*
AZ CONSERVATORY FOR ARTS & ACADEMICS	15,500.*
MARANA DOMESTIC WATER IMPROVEMENT	2,400.*
CHEVELON BUTTE	1,800.*
PUERCO VALLEY FIRE DISTRICT	<u>150.*</u>
	363,350.*

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>
TOTAL	<u>415,150*</u>

*Estimated amount

Agenda Items

#7 - 10

Note: There are no materials for these agenda items

Agenda Item #11

IN THE
ARIZONA COURT OF APPEALS
DIVISION ONE

MARY WADE and MARLA PADDOCK,
Plaintiffs/Appellants,

v.

ARIZONA STATE RETIREMENT SYSTEM;
ARIZONA STATE RETIREMENT SYSTEM BOARD,
Defendants/Appellees.

No. 1 CA-CV 14-0721
FILED 3-31-2016

Appeal from the Superior Court in Maricopa County
No. CV2013-015082
The Honorable Randall H. Warner, Judge

REVERSED AND REMANDED

COUNSEL

Martin & Bonnett, PLLC, Phoenix
By Susan Martin, Daniel L. Bonnett, Jennifer L. Kroll
Co-Counsel for Plaintiffs/Appellants

Robaina & Kresin, PLLC, Phoenix
By Thomas M. Rogers
Co-Counsel for Plaintiffs/Appellants

WADE et al. v. AZ RETIREMENT
Opinion of the Court

Arizona Attorney General's Office, Phoenix
By Jothi Beljan
Co-Counsel for Defendants/Appellees

Fennemore Craig, PC, Phoenix
By Patrick Irvine
Co-Counsel for Defendants/Appellees

OPINION

Presiding Judge Peter B. Swann delivered the opinion of the court, in which Judge Lawrence F. Winthrop and Judge Donn Kessler joined.

S W A N N, Judge:

¶1 A.R.S. § 38-711(7) defines the “compensation” on which employee and employer contributions to the Arizona State Retirement System (“Retirement System” or “ASRS”) are calculated. The Retirement System interprets that statute to exclude from “compensation” the City of Chandler’s payment of contributions to an eligible deferred compensation plan, and the superior court upheld that interpretation. We disagree. We hold that § 38-711(7) defines “compensation” to include money paid by an employer to a deferred compensation plan, even if the employee could not elect to immediately receive the deferred compensation as cash-in-hand.

FACTS AND PROCEDURAL HISTORY

¶2 The Retirement System¹ is a defined benefit plan, as described in 26 U.S.C. § 414(j), that provides retirement benefits to eligible employees of the State of Arizona and participating political subdivisions and subdivision entities. A.R.S. §§ 38-711(3), (13) & (23), -712. The City of Chandler (“the City”) participates in the Retirement System. The City also operates an eligible deferred compensation plan, as described in 26 U.S.C. § 457(b) (“Deferred Compensation Plan”).

¹ This is an appeal from a judgment entered under Ariz. R. Civ. P. 54(b). Our caption, which should be used in all future filings in this matter, identifies only the parties participating in the appeal.

WADE et al. v. AZ RETIREMENT
Opinion of the Court

¶3 Marla Paddock is a City employee, as was Mary Wade until she retired; both are members of the Retirement System and the Deferred Compensation Plan. Their annual written employment contracts provided that they were entitled to receive (among other things): a “[s]alary” set at an “annual base” amount; and “annual deferred compensation,” expressed in some years’ contracts as a dollar amount and in other years’ contracts as a percentage of the “base salary.” The City deposited the “annual deferred compensation” into the Deferred Compensation Plan in equal bi-weekly payments.

¶4 Historically, the City included the “annual deferred compensation” in its calculation of the employees’ annual “compensation” to determine employer and employee contributions to the Retirement System under A.R.S. §§ 38-736(A) and -737(A). In 2011, however, the City ceased this practice based on the advice of a Retirement System employee. Wade and Paddock disputed the changed calculation upon discovering it in late 2012. The City then requested a “more formal opinion” from the Retirement System, and the Retirement System responded by letter that “an employer should not report employer contributions to supplemental defined contribution plans on behalf of its contract employees as compensation for ASRS purposes.”

¶5 Wade and Paddock served a notice of claim on the Retirement System, and then filed a special action class-action complaint against the Retirement System, its Board, and the City, seeking mandamus, declaratory and injunctive relief. The Retirement System moved to dismiss, arguing that the plaintiffs had failed to exhaust their administrative remedies. The parties also filed cross-motions for summary judgment on the issue of whether the City’s payments to the Deferred Compensation Plan qualified as “compensation” under A.R.S. § 38-711(7) for purposes of Retirement System calculations.

¶6 The court granted the Retirement System’s motion to dismiss with respect to Wade, and granted the Retirement System’s motion for summary judgment with respect to Paddock. The court held that the definition of “compensation” set forth in § 38-711(7) “is ambiguous, and there are good arguments for both sides’ interpretations [b]ut ASRS’s interpretation is the more plausible.” The court held that “compensation” under § 38-711(7) includes “salary or wages from which an employee might make deferred compensation payments,” but does not include employer contributions made “on top of” the employee’s “gross pay.”

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¶7 The court entered judgment on its rulings under Ariz. R. Civ. P. 54(b), and stayed further proceedings pending appellate review. Wade and Paddock timely filed a notice of appeal.

DISCUSSION

¶8 This appeal is limited to two issues: (1) whether summary judgment was properly entered against Paddock based on the conclusion that “compensation” under A.R.S. § 38-711(7) excludes the City’s contributions to the Deferred Compensation Plan; and (2) whether Wade was properly dismissed for failure to exhaust administrative remedies. We answer both questions in the negative.

I. SUMMARY JUDGMENT AGAINST PADDOCK WAS IMPROPER BECAUSE “COMPENSATION” UNDER A.R.S. § 38-711(7) INCLUDES THE CITY’S CONTRIBUTIONS TO THE DEFERRED COMPENSATION PLAN.

¶9 We review statutory-interpretation questions de novo. *Dressler v. Morrison*, 212 Ariz. 279, 281, ¶ 11 (2006). Our primary goal is to determine and give effect to the legislature’s intent. *Canon Sch. Dist. No. 50 v. W.E.S. Constr. Co.*, 177 Ariz. 526, 529 (1994). A statute’s own words provide the best and most reliable indicator of the legislature’s intent; accordingly, we generally follow the text as written when it is plain and unambiguous. *Id.* “We give words their usual and commonly understood meaning unless the legislature clearly intended a different meaning.” *State v. Korzep*, 165 Ariz. 490, 493 (1990). Whenever possible, we must interpret a statute so that “no clause, sentence, or word is rendered superfluous, void, contradictory or insignificant.” *State v. Superior Court (Kerr-McGee Corp.)*, 113 Ariz. 248, 249 (1976). When the language of a statute is ambiguous, we may determine the legislature’s intent by looking to other statutes *in pari materia*. *Pendergast v. Ariz. State Retirement Sys.*, 234 Ariz. 535, 541, ¶ 18 (App. 2014). We construe public-retirement-system statutes to promote a “robust contractual theory of public retirement system benefits.” *Id.* at ¶ 19.

¶10 A.R.S. § 38-711(7) provides:

“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

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used for other purposes, but does not include amounts paid in excess of compensation limits established in § 38-746.

(Emphasis added.)

¶11 Our analysis begins with the plain language crafted by the legislature, which specifically includes “amounts subject to deferred compensation” within the meaning of “compensation.” Because the payments in dispute were contractually required payments contributed to a deferred compensation plan, they must be treated as compensation unless other language in the statute provides a basis for their exclusion.

¶12 The statute limits “compensation” to the gross amount paid “as salary or wages.” The Retirement System reads “salary” as meaning only the deferred compensation that “is already included in an employee’s salary or wages.” By this, we understand the Retirement System to argue that “salary” includes only amounts that an employee receives or could elect to immediately receive as cash-in-hand.² But the statute does not define the term “salary,” and no other language supplies the limitation on which the Retirement System relies.³ Indeed, the remaining language is consistent with an interpretation that all deferred compensation payments are “compensation.” For example, if the phrase “amounts that are subject to deferred compensation or tax shelter agreements” were read to mean only “amounts that the employee could otherwise immediately receive in cash,” then the statute’s express inclusion of amounts “that would have been paid to the member except for the member’s election or a legal requirement” would be inconsistent with that definition.

¶13 Moreover, the term “salary,” as commonly understood, is not necessarily limited to cash-in-hand payments. *See* Black’s Law

² We decide this case as a matter of law, assuming without deciding that the City’s payments are employer contributions that the employees could not elect to receive in cash.

³ *Cf. Ventura Cnty. Deputy Sheriff’s Ass’n v. Bd. of Retirement of Ventura Cnty. Employees’ Retirement Ass’n*, 16 Cal. 4th 483, 490-91, 494 (Cal. 1997) (construing California statute, which defined “compensation” for retirement-plan purposes as “remuneration paid in cash . . . plus any amount deducted from a member’s wages,” to exclude employer contributions to a deferred compensation plan).

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Dictionary 1364 (8th ed. 2004) (defining “salary” as “[a]n agreed compensation for services -- esp. professional or semiprofessional services -- usu. paid at regular intervals on a yearly basis, as distinguished from an hourly basis”); <http://www.merriam-webster.com/dictionary/salary> (last accessed January 4, 2016) (defining “salary” as a “fixed compensation paid regularly for services”).

¶14 The statute also enumerates multiple types of payments that are excluded from “compensation” -- lump-sum termination payments, grievance or claim payments, payments in lieu of fringe benefits, merit awards and performance bonuses, and salary or wages for which the employer has not paid Retirement System contributions. A.R.S. § 38-711(7)(a)-(e), (14). The exclusion of these various forms of remuneration (which do not include deferred compensation) implies that the term “salary” is to be read according to its ordinary meaning, and that payments not excluded are to be included.

¶15 The Retirement System contends that because most of the exclusions describe exceptional and irregular types of payments, “salary” must be limited to “the income that the employee normally receives or controls.” We have no quarrel with the notion that “salary” generally means a predetermined, regularly paid sum. Indeed, the deferred compensation payments at issue were both predetermined and regular. But the fact that the statute excludes only certain specific exceptional payments demonstrates that the legislature intended to limit the term “salary” only as expressly stated. See *Pima County v. Heinfeld*, 134 Ariz. 133, 134 (1982) (“A well established rule of statutory construction provides that the expression of one or more items of a class indicates an intent to exclude all items of the same class which are not expressed.”).

¶16 We reject the Retirement System’s contention that the statute’s reference to amounts “paid to a member” must exclude employer contributions because they are paid directly to the Deferred Compensation Plan. Were we to accept this argument, we would necessarily have to hold that employee contributions are also excluded -- a result that would render meaningless the statute’s inclusion of amounts subject to deferred compensation agreements. We also reject the Retirement System’s contention that including employer-contributed deferred compensation in “compensation” means that employer contributions to the Retirement System itself must be included in “compensation.” Such an interpretation would be absurd, yielding compound contribution requirements that would be all but unlimited.

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There is nothing so sinister in the legislature's express inclusion of deferred compensation payments within the definition of compensation.

¶17 The Retirement System next contends that legislative history supports exclusion of employer contributions. It argues that in 1984, Title 38 was revised to exclude irregular payments from the definition of "compensation" but retain a requirement that "compensation" be limited to salary actually and presently received by the member. The Retirement System's argument is inconsistent with the legislative history on which it relies. In addition to enumerating exclusions, the amendment altered the base definition of "compensation" from "the amounts actually received by the participant for remuneration for employment from an employer on an hourly or salaried basis" to "the gross amount paid to a participant by an employer as salary or wages, including amounts which are subject to deferred compensation or tax shelter agreements, for services rendered to or for an employer, or which would have been paid to the participant except for the participant's election or a legal requirement that all or part of the gross amount be used for other purposes." See 1984 Ariz. Sess. Laws, ch. 293, § 1 (1st Reg. Sess.). The Retirement System's contention that the pre-1984 requirement of "actual[] recei[pt]" remained by virtue of the use of the term "paid to" in the post-1984 statute ignores the balance of the amendment to the base definition.

¶18 We hold, based on the plain language of § 38-711(7), that the term "salary" includes the City's regular contributions to the Deferred Compensation Plan. This construction is consistent with statutes *in pari materia*. Elsewhere in Title 38, in § 38-769(O)(4)(a), the legislature specifically excepted "[e]mployer contributions to a plan of deferred compensation" from a limited-application definition of "compensation." The absence of a similar exception in § 38-711(7) supports the conclusion that § 38-711(7) includes employer contributions. Our interpretation of the term "salary" is also consistent with the concept of compensation used in 26 U.S.C. § 457. Under that statute, *all* deferred compensation below the maximum amount -- regardless of origin -- receives the same beneficial treatment.⁴ See 26 U.S.C. § 457(a)(1); 26 C.F.R. § 1.457-4(c), Exs. 2

⁴ To be sure, federal tax regulations acknowledge that deferred compensation may take the form of a "salary reduction" or a "nonelective employer contribution" for which the employee could not choose to receive cash -- and in this context, the term "salary" has a more narrow meaning than "compensation." 26 C.F.R. § 1.457-2(b)(1), (i). But the distinction is relevant only to the calculation of the maximum amount of

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& 3. And all deferred compensation, including employer contributions, is treated the same with respect to Federal Insurance Contributions Act (“FICA”) taxes. *See* 26 U.S.C. §§ 3101(a), 3121(a)(5)(E), (v)(3)(A); *cf. Univ. of Chicago v. United States*, 547 F.3d 773, 782 (7th Cir. 2008) (holding that FICA exception for payments made under or to a § 403(b) annuity contract includes mandatory salary reduction agreements).

II. WADE WAS IMPROPERLY DISMISSED.

¶19 The superior court dismissed Wade’s claims against the Retirement System on the theory that because she had retired before the complaint was filed and was therefore receiving benefits under the Retirement System, she had failed to exhaust administrative remedies designed to allow benefit adjustments.⁵

¶20 A.A.C. § R2-8-401 to -405 establish an administrative procedure for challenging “appealable agency actions” taken by the Retirement System. But Wade’s challenge to the statutory interpretation that the Retirement System provided to the City is not an “appealable agency action.” Under A.R.S. § 41-1092(3), an “appealable agency action” is “an action that determines the legal rights, duties or privileges of a party and that is not a contested case.” The definition excludes “interim orders by self-supporting regulatory boards, rules, orders, standards or statements of policy of general application issued by an administrative agency to implement, interpret or make specific the legislation enforced or administered by it or clarifications of interpretation.” *Id.* The Retirement System’s interpretation, and Wade’s pursuit of declaratory relief with respect to that interpretation, falls within the statutory exclusion.

¶21 The Retirement System also argues that Wade could have applied under A.R.S. § 38-738(B) to have it issue an invoice to the City to

deferred compensation for which the employee may receive deferred income-tax treatment under federal law. *See* 26 U.S.C. § 457(b)(2), (c), (e)(5); 26 C.F.R. § 1.457-4(c), Exs. 2 & 3.

⁵ The superior court denied the Retirement System’s motion to dismiss Paddock. The Retirement System disagrees with that ruling. But it declined to seek appellate relief (available only by way of special action, *N. Propane Gas Co. v. Kipps*, 127 Ariz. 522, 525 (1980)), and it states on appeal that it will apply this court’s ruling on the statutory-interpretation issue to any claim that Wade makes in administrative proceedings.

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pay any additional amounts due. We disagree. The only applicable provision in that statute for an employee to seek relief deals with underpaid employer contributions. The Deferred Compensation Plan does not distinguish between employer and employee contributions. Moreover, because the Retirement System had advised the City that the Deferred Compensation Plan contributions were not part of compensation for purposes of Retirement System calculations, any such request for recalculation would have been bound to fail. Accordingly, § 38-738(B) does not provide an administrative hurdle which Wade had to surmount before seeking judicial relief.

CONCLUSION

¶22 For the reasons set forth above, we reverse the superior court's dismissal of Wade and its entry of summary judgment against Paddock, and remand for proceedings consistent with this decision.

¶23 The appellants request attorney's fees on appeal under A.R.S. §§ 12-2030, -348(A)(2), and -341.01. The first two statutes do not apply. First, § 12-2030(A) authorizes a fee award when a party prevails in an action to compel a state officer to perform a duty imposed by law. Though the appellants characterize the appeal as one seeking mandamus relief, their dispute with the Retirement System is that it misinstructed the City to omit its deferred compensation contributions from its reports -- not that the Retirement System refused to calculate retirement contributions or pay benefits based on reports that included the City's deferred-compensation payments.⁶ The appeal is therefore not actually in the nature of mandamus, *see Fields v. Elected Officials' Retirement Plan*, 234 Ariz. 214, 222, ¶ 40 (2014), and, accordingly, § 12-2030(A) does not apply. Second, § 12-348(A)(2) does not apply. That statute governs fee awards in appeals from administrative decisions, and this is not such an appeal.

¶24 A.R.S. § 12-341.01, however, applies to this case. That statute authorizes fee awards in actions "arising out of a contract." Though the legal issue in this case turns on the interpretation of a statute, the statute

⁶ The appellants cite the superior court's determination that "a mandamus action is the appropriate vehicle." But that conclusion was expressly limited to Paddock's claims against the City only. The City is responsible for managing contribution payments. A.R.S. § 38-735; *see also* A.R.S. § 38-716(2). There is nothing in the record to suggest that Paddock ever sought correction of underpayments under § 38-738(B).

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in question defines terms of the appellants' contractual rights to benefits incident to their employment. Article 29, Section 1(C) of the Arizona Constitution provides: "Membership in a public retirement system is a contractual relationship that is subject to article II, § 25, and public retirement system benefits shall not be diminished or impaired." When a statute defines terms of a contract, our supreme court has held that A.R.S. § 12-341.01 applies to disputes over the interpretation of the statute. *A.H. v. Ariz. Prop. & Cas. Ins. Guar. Fund*, 190 Ariz. 526, 529-30 (1997). An award under § 12-341.01 is appropriate here. See *Pendergast v. Arizona State Ret. Sys.*, 234 Ariz. 535, 542, ¶ 23 (App. 2014).

¶25 We therefore award the appellants their reasonable attorney's fees subject to compliance with ARCAP 21. The appellants are also entitled to an award of costs under A.R.S. § 12-341 upon compliance with ARCAP 21.



Ruth A. Willingham · Clerk of the Court
FILED : ama

Agenda Item #12
Confidential Materials
were provided to the
Board and not
included in this book.