



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson  
Director*

## MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, August 28, 2015  
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 8:31 A.M., Arizona Time.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

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

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

Absent: Dr. Richard Jacob

Two vacant positions.

A quorum was present for the purpose of conducting business.

### 2. Presentation Regarding PRIDE Award for Improvement

The PRIDE Award for Improvement will be presented at the September 25, 2015 Board meeting.

### 3. Approval of the Minutes of the May 29, 2015 Public Meeting and Executive Sessions of the ASRS Board

**Motion:** Mr. Jeff Tyne moved to approve the Minutes of the May 29, 2015 Public Meeting and Executive Sessions of the ASRS Board. Mr. Tom Connelly seconded the motion.

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

#### **4. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Mr. David Lara's Appeal for Monies from Maria Cardenas' ASRS Refund Transaction**

Mr. Chris Munns, Assistant Attorney General, Solicitor General Section, was present to provide legal advice to the Board, if requested.

Mr. Cody Huffaker, attorney for Mr. Lara, introduced himself to the Board and briefly summarized Mr. Lara's appeal and referred to his submission to the Board that outlined the specific amendments he is requesting on behalf of Mr. Lara. Mr. Huffaker stated that Mr. Lara is requesting the Board accept the Recommended Administrative Law Judge's Decision with a modification to the award amount. Mr. Lara believes he should be awarded \$42,652.00, which represents the total amount of funds that should have been properly rolled over into the Edward Jones IRA established by Maria Cardenas; less the \$12,000.00 that Mr. Lara received from his niece, Leticia Cardenas.

Ms. Jothi Beljan, Assistant Attorney General, presented her position regarding Mr. Lara's appeal to the Board. Ms. Beljan requested that the Board modify the Recommended Administrative Law Judge's Decision as follows:

1. Correct Conclusion of Law No. 5 to delete the sentence, "The ASRS did not make this change because it found ambiguities in Ms. Cardenas' instructions to close the account and pay out the proceeds." and insert the sentences based on the Hearing Transcript, page 33, lines 4-17, ASRS Exhibit H, and the statutory language of Arizona Revised Statutes 38-740, 38-760, 38-762 and 38-763, "At the written request of Maria Cardenas, the ASRS changed her ASRS beneficiary from Helen Lara to David Lara effective May 30, 2014. However, beneficiary designations are irrelevant when a member such as Maria Cardenas refunds her ASRS account under A.R.S. § 38-740. Only benefits under A.R.S. §§ 38-760, 38-762, and 38-763 are paid to beneficiaries designated by members."
2. Delete Conclusion of Law No. 6 because A.R.S. § 38-763 governs survivor benefits when a retired ASRS member dies. This statute is inapplicable to the appeal because Maria Cardenas was not an ASRS retired member. Maria Cardenas exercised her right to a return of contributions in A.R.S. § 38-740. A.R.S. § 38-740(D) states, "Withdrawal of contributions with interest constitutes a withdrawal from membership in ASRS and results in forfeiture of all other benefits under ASRS."
3. Delete the phrase "her choice for beneficiary and" in Conclusion of Law No. 8 because payment of refund monies under A.R.S. § 38-740 are not paid to a beneficiary designated by an ASRS member.
4. Delete the phrase "plus interest from July 8, 2014, pursuant to A.R.S. § 38-763(B)" in Conclusion of Law No. 10 because A.R.S. § 38-763(B) governs survivor benefits when a retired ASRS member dies not refunds.
5. Delete the phrase "as beneficiary" in the Recommended Order, page 16 because refund monies payable under A.R.S. § 38-740 are not paid to beneficiaries.
6. Delete the phrase "plus interest from July 8, 2014" in the Recommended Order, page 16 because the Judge's basis for awarding interest was A.R.S. § 38-763(B) and that statute does not apply to refund transactions.

**Motion:** Mr. Clark Partridge moved to go into Executive Session to seek legal advice. Mr. Tom Manos seconded the motion.

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

The Board convened to Executive Session at 9:16 a.m.

The Board reconvened to Public Session at 10:00 a.m.

Mr. Huffaker, Mr. Lara and Ms. Beljan responded to questions from the Board.

**Motion:** Mr. Tom Manos moved to modify the Administrative Law Judge's Decision as requested by the ASRS to include amendments #1-5 as stated above, but not #6. Mr. Clark Partridge seconded the motion.

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

**5. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Mehrzad Khorsandi's Appeal to Purchase August 1998 through May 1999 Employment as Contributions Not Withheld Service**

Mr. Chris Munns, Assistant Attorney General, Solicitor General Section, was present to provide legal advice to the Board, if requested.

Ms. Mehrzad Khorsandi was present to address the Board. Ms. Khorsandi provided the Board with a summary of the appeal and the action she was requesting the Board to consider. Ms. Khorsandi requested that the Board allow her to purchase service credits for August 1988 through May 1999 as Contributions Not Withheld.

Ms. Jothi Beljan, Assistant Attorney General, presented her position regarding Ms. Khorsandi's appeal to the Board, referenced her recommended motion and responded to questions from the Board.

**Motion:** Mr. Jeff Tyne moved to modify the Administrative Law Judge's Decision as follows:

1. Correct the phrase *from* "as Other Public Service pursuant to A.R.S. § 38-743" to "as a Contributions Not Withheld pursuant to A.R.S. § 38-738" in Finding of Fact No. 4 and Conclusion of Law No. 1 based on ASRS hearing exhibits H and I.
2. Delete the content in Conclusion of Law No. 3 and insert the following language in its place, "A.R.S. § 38-738(B), (C) and (D) provide as follows:" and inserting the statutory language of A.R.S. § 38-738(B), (C) and (D) in Conclusion of Law No. 3.
3. Correct the phrase *from* "as Other Public Service pursuant to A.R.S. § 38-743" to "as a Contributions Not Withheld pursuant to A.R.S. § 38-738" in Conclusion of Law No. 8 to state, "Appellant again contacted ASRS in October 2014 to purchase her employment from August 1998, to May 1999 with MCCCDC as a *Contributions Not Withheld pursuant to A.R.S. § 38-738*" based on ASRS hearing exhibits H and I.
4. Insert the phrase "as required by A.R.S. § 38-738(B)(7) and (C) and A.A.C. R2-8-702(A)" at the end of conclusion of Law No. 8.

5. Correct the phrase used twice in Conclusion of Law No. 9 *from* “Other Public Service pursuant to A.R.S. § 38-743” *to* “a Contributions Not Withheld pursuant to A.R.S. § 38-738.”

Mr. Clark Partridge seconded the motion.

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

#### **6. Presentation Regarding Government Finance Officers Association (GFOA) Financial Reporting Awards**

The GFOA Financial Reporting Awards will be presented at the September 25, 2015 Board meeting.

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

Mr. Gary Dokes, Chief Investment Officer, and Mr. Dave Underwood, Assistant Chief Investment Officer, were present to provide the Board with an update on the Investment Program. Mr. Dokes highlighted the ASRS positioning, indicating it is underweight in fixed income and slightly overweight in total equities. Due to recent changes in the market, specifically China, staff has taken steps to increase some of the underweighting to risk assets and the next report to the Board should reflect those efforts. Mr. Dokes further added that although the ASRS is net positive on the longer term, with the current issues in China that could potentially cause issues around the world from a growth standpoint; the ASRS will continue to be cautious.

Mr. Dokes shared with the Board some items that have been focused on lately. The private markets program will be looked at in conjunction with the pacing schedule. Also, in the next couple of months, the draws in the private market will be looked at closely.

Mr. Dokes took a moment to recognize two investment staff members who recently obtained additional certifications; one completed the CFA program; and one completed an MBA program. Mr. Dokes further stated that many of the investment staff continues to further their education which is a strong support for the ASRS.

#### **8. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program**

Mr. Dan LeBeau, Consultant, NEPC, addressed the Board regarding NEPC’s independent reporting, monitoring, and oversight of the ASRS Investment Program including Total Fund performance through June 30, 2015.

As of June 30, 2015 the Total Fund’s market value was approximately \$34.9 billion.

For the one-year period ending June 30, 2015, the Total Fund returned 3.2% (net of fees), outperforming the Interim SAA Policy by 1.6%. For the three-year period, the Total Fund produced a return of 11.4% per annum, outperforming the Interim SAA Policy by 0.9%. Over the past ten years, the Total Fund has returned 6.9% per annum, and since inception, the portfolio’s performance is 9.9%.

## 9. Presentation, Discussion, and Appropriate Action Regarding the ASRS Funding Policy

Mr. Paul Matson, Director, presented the Funding Policy to the Board. Although the policy was previously presented to the Board, Mr. Matson provided background for Mr. Clark Partridge, the newest Trustee, in addition to highlighting some of the changes that have been made since the last review with the Board.

Mr. Matson stated the Funding Policy aggregates both documented and undocumented concepts the ASRS has had with additional concepts and incorporates them into one policy. The following are both changes made to the policy since the Board's last review and recommended changes presented by Mr. Matson:

- Page 2, #1-Goals and Objectives have now been numbered in priority order;
- Page 3, #3-Inter-Generational Equity (Time Series Equity) - the second paragraph has been added. Mr. Matson provided some additional amendments to the first sentence of paragraph two to read as follows:
  - Amend the first sentence to read, "Once actuarially determined and granted, Permanent Benefit Increase (PBI) amounts will be amortized over a period of 15 years or less or using the average life expectancy of retirees."
- Page 4, Amortization of Unfunded Liabilities and Funded Status – change the second paragraph to read, "The constraints applied to the length of the amortization period are..."
- Page 4, in the chart at the bottom of the page, a new column has been added based on the recommendation of the Office of the Auditor General – "Expected Full Funding Date."

Mr. Matson opened the discussion to comments from the Board and responded to questions.

**Motion:** Mr. Clark Partridge moved to approve the Funding Policy as amended by Mr. Matson. Mr. Jeff Tyne seconded the motion.

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

*Prof. Dennis Hoffman left the meeting at 11:38 a.m. after the vote.*

## 10. Presentation, Discussion, and Appropriate Action Regarding Strategic Topics to be Discussed by the Board During Fiscal Year 2016

Mr. Paul Matson presented the Board with a list of strategic topics to be discussed during Fiscal Year 2016.

Mr. Matson and Ms. Sara Orozco, Strategic Planning Manager, responded to questions from the Board.

**Motion:** Mr. Clark Partridge moved to approve the strategic topics as presented and allowing staff flexibility to align the topics as resources and priorities are needed with updates to the Board. Mr. Tom Connelly seconded the motion.

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

## 11. Presentation, Discussion, and Appropriate Action Regarding Board Elections

Mr. Kevin McCarthy introduced the item and announced that he would be willing to remain chair for another year unless another Trustee was interested.

**Motion:** Mr. Tom Connelly moved to nominate Mr. Kevin McCarthy as the ASRS Board Chair for FY 2016. Mr. Clark Partridge seconded the motion.

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

**Motion:** Mr. Tom Connelly moved to nominate Mr. Jeff Tyne as the ASRS Board Vice-Chair for FY 2016. Mr. Tom Manos seconded the motion.

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

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

Mr. Paul Matson welcomed Mr. Clark Partridge to the ASRS Board as the newest Trustee. Mr. Matson stated that he had nothing further to add regarding the Director's Report.

## **13. 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 September 8, 2015 at 10:30 a.m. in the 14<sup>th</sup> floor conference room to discuss the Auditor General's Sunset Review Audit results.

### **b. External Affairs Committee (EAC)**

Mr. Tom Manos announced the next EAC meeting will be held on September 11, 2015 at 10:30 a.m. in the 14<sup>th</sup> floor conference room and will focus on the upcoming legislative agenda and possibly make recommendations to the Board. The Committee will also receive an update on the Administrative Rule Making agenda.

### **c. Investment Committee (IC)**

Mr. Tom Connelly announced the next IC meeting will be held on October 26, 2015 at 2:30 p.m. in the 14<sup>th</sup> floor conference room. Since the IC just met on August 24, the agenda for the October 26 meeting has not been finalized.

## **14. Board Requests for Agenda Items**

No requests were made.

## **15. Call to the Public**

No one from the public requested to speak.

**16. The next regular ASRS Board meeting is scheduled for Friday, September 25, 2015, at 8:30 A.M., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

**17. Presentation, Discussion, and Appropriate Action Regarding the Review of the Director and Employment Contract for the Director**

The Review of the Director and Employment Contract will be presented at the September 25, 2015 Board meeting.

**18. Adjournment of the ASRS Board**

Mr. McCarthy adjourned the Board meeting at 11:50 a.m.

ARIZONA STATE RETIREMENT SYSTEM

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Melanie A. Alexander  
Board Administrator

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Paul Matson  
Director