

# How...

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## ***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

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778  
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson  
Director

## AGENDA

### NOTICE OF PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM BOARD

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

April 24, 2015  
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, April 24, 2015, beginning at 8:30 a.m., in the 10<sup>th</sup> Floor Board Room of the ASRS offices at 3300 N. Central Avenue, Phoenix, Arizona 85012. Trustees of the Board may attend either in person or by telephone conference call.

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

This meeting will be teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

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 March 27, 2015 Public Meeting of the ASRS Board (*estimated time 1 minute*).....Mr. Kevin McCarthy
3. Presentation and Discussion Regarding the Arizona State Retirement System Administrative Appeals Process including Administrative Law Judge (ALJ) Decisions and the Role of Trustees with Regard to Accepting, Rejecting and Modifying an ALJ Decision (estimated time 20 minutes)  
.....Ms. Jothi Beljan  
Assistant Attorney General
4. Presentation, Discussion, and Appropriate Action Regarding 2015 ASRS Legislative Initiatives and Legislative Update (estimated time 10 minutes).....Mr. Patrick Klein  
Assistant Director, External Affairs  
..... Mr. Nick Ponder  
Government Relations Officer

5. Presentation, Discussion and Appropriate Action Regarding the ASRS Funding Policy (*estimated time 20 minutes*) ..... Mr. Paul Matson  
Director  
..... Ms. Sara Orozco  
Manager Strategic Planning and Analysis  
..... Mr. David Kershner  
Actuary, Buck Consultants
  
6. Presentation, Discussion, and Appropriate Action Regarding the Board Governance Policy Handbook Annual Responsibilities Review (*estimated time 15 minutes*)..... Mr. Paul Matson
  
7. 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  
Deputy Director and Chief Operations Officer
  
- A. 2015 Compliance Report
- B. 2015 Investments Report
- C. 2015 Operations Report
- D. 2015 Budget and Staffing Reports
- E. 2015 Cash Flow Statement
- F. 2015 Appeals Report
- G. 2015 Employers Reporting
  
8. Presentation and Discussion with Regard to 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 12, 2015*
  - b. External Affairs Committee (EAC) ..... Dr. Richard Jacob, Chair  
..... Mr. Patrick Klein  
*The next EAC Meeting will be held on September 11, 2015*
  - c. Investment Committee (IC) ..... Mr. Tom Connelly, Chair  
..... Mr. Gary Dokes  
*The next IC Meeting will be held on June 22, 2015*
  
9. Board Requests for Agenda Items (*estimated time 1 minute*)  
..... Mr. Kevin McCarthy
  
10. 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.

11. The next public ASRS Board meeting regarding Board Evaluation is scheduled for Friday, April 24, 2015, at 9:30 a.m., or after the 8:30 a.m. ASRS Board Meeting, in the 14<sup>th</sup> floor Conference Room of the ASRS office at 3300 N. Central Avenue, Phoenix, Arizona.

The next regular public ASRS Board meeting is scheduled for Friday, May 29, 2015, at 8:30 a.m., at 3300 N. Central Avenue, in the 10th Floor Board room, Phoenix, Arizona.

12. 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 7660 East Broadway Boulevard, Suite 108, 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 April 17, 2015

ARIZONA STATE RETIREMENT SYSTEM

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Melanie A. Alexander  
Board Administrator

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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, March 27, 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 8:32 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  
Dr. Richard Jacob  
Mr. Tom Manos  
Mr. Tom Connelly  
Professor Dennis Hoffman

A quorum was present for the purpose of conducting business.

### **2. 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: Russ Levine, Benjamin Robinson, Mark Muraoka, Randi Gray, Patrick Toto, Carrie Waith 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, John Davis.

### **3. Approval of the Minutes of the February 27, 2015 Public Meeting and Executive Sessions of the ASRS Board**

**Motion:** Dr. Richard Jacob moved to approve the Minutes of the February 27, 2015 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, 0 excused, and 3 vacancies, the motion was approved.

#### **4. Presentation, Discussion, and Appropriate Action Regarding 2015 ASRS Legislative Initiatives and Legislative Update**

Mr. Patrick Klein, Assistant Director External Affairs and Mr. Nicholas Ponder, Government Relations Officer, addressed the Board regarding the 2015 Legislative Session and the ASRS Legislative initiatives. Mr. Ponder presented the Bill Tracker, which summarizes ASRS 2015 legislative initiatives as well as other bills affecting the ASRS.

The following bills were discussed:

- HB2338, ASRS; Disability Program – to remove “total” as it precedes “disability” to reduce confusion to members who may think they must be totally disabled to qualify for disability benefits. This bill was passed after the third read in the Senate on March 25, 2015 and is in the Governor’s Office awaiting the Governor’s signature.
- HB2339, ASRS; Rules – remove “provided in rules” in A.R.S. § 38-703 due to this being related to something that the Social Security Administration has jurisdiction over, not the ASRS. Strike “subject to rules prescribed by the Board” in A.R.S. § 38-755. This bill was passed after the third read in the Senate on March 25, 2015, and is in the Governor’s Office awaiting the Governor’s signature.
- HB2340 – ASRS; LTD Program; Liability – protects the ASRS and/or the LTD Program from bad faith claims and requests the ASRS have the same protection from liability as ERISA plans. This bill was not heard by the February 20, 2015 deadline. Mr. Ponder will continue to work with staff after the legislative session to modify the language so it can be heard in the 2016 Legislative Session.
- SB1095, Community Colleges; Optional Retirement Plans – to specify the ASRS transfer member accounts of NON-RETIRED members only. The ASRS currently does not have a method for transferring the account of a retired member. This bill was passed in the House after the third read and was signed by the Governor on March 23, 2015.
- SB1096 – ASRS; Actuarial Valuation Method – to allow the ASRS to change its actuarial evaluation methods from Projected Unit Credit to Entry Age Normal or some other method as determined by the Board. This bill passed in the House with a technical amendment; therefore, it had to go back to the Senate for a third read where it was passed on March 24, 2015, and is in the Governor’s Office awaiting the Governor’s signature.
- SB1097 – ASRS; Health Insurance Benefits - ASRS 2015 Legislative Initiatives – a conforming legislation bill. This bill passed after the third read in the House and was signed by the Governor on March 23, 2015.
- SB1119 – ASRS; Purchase of Credited Service - approved at the January 30, 2015 Board Meeting – to modify language with respect to the service purchase statutes A.R.S. §§ 38-743, 38-744 and 38-745 as a result of the *Pendergast Case*. This bill passed after the third read in the House and was signed by the Governor on March 23, 2015.

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

- HB2351, sponsored by Rep. Fann, would change the definition of a member of PSPRS as it relates to fire chiefs based on whether they are regularly assigned to hazardous duty, as determined by that individual’s local board. The Legislature, PSPRS and the fire districts that were pushing this bill decided not to pursue this legislation this session and will likely present this in the next legislative session; however, the 2016 proposal will not impact the ASRS.
- HB2446, the purpose of this bill would be to allow the Arizona Board of Regents to study the benefits of developing independent retirement, health care and risk management programs.

This bill was not assigned or heard by the deadline and is dead as a stand-alone bill for this session.

- HB2484, the purpose of this bill is to repeal statutes requiring ASU to distribute income from licensing and patents. Mr. Ponder stated that he was advised to keep an eye on this bill for striker language which could include language to mirror HB 2446 since that bill is dead. There was no movement throughout the legislative session or any striker language.
- SB1121, sponsored by Sen. Lesko, to strike the language “before July 1, 2015” from the statute thereby allowing anyone 65 and older to opt-out as long as they have not had prior ASRS membership and there will be an emergency effective date. This bill passed after the third read in the House and is in the Governor’s Office awaiting the Governor’s signature.
- HB 2320, the purpose of this bill is to allow individuals with a conceal carry weapons permit to bring their weapon into public establishments. This bill does not apply to public buildings with weapons screening devices, educational institutions, facilities operated by the Arizona State Hospital or by a special health district, community college districts, and universities under the jurisdiction of the Arizona Board of Regents. Generally the ASRS would not make any comment regarding such a bill; however, in light of the fact that ASRS owns both the Phoenix and Tucson buildings, Mr. Ponder did make a comment in the Senate Appropriations Committee. It was believed that the Legislature was not aware that the ASRS owns the Phoenix and Tucson buildings; with 31 of the 34 tenants being private tenants; therefore, this information was not contemplated when the bill was drafted. There was no indication that an amendment would be offered to make an exception to the ASRS; therefore, upon the effective date of the bill, should it be signed by the Governor, individuals with a conceal carry weapons permit will be allowed to bring their weapon into the ASRS building. Mr. Ponder has reached out to the Governor’s office to voice the ASRS’ concerns regarding this bill. It is unknown at this time whether the Governor will sign the bill; however, Mr. Ponder will continue to follow-up.
- HB2646, Rulemaking – agencies whose director is not appointed by the Governor are exempt from the rulemaking moratorium which applies to the ASRS.

Mr. Klein took a moment to recognize the effort that Mr. Ponder has put forth in this legislative session. Mr. Klein stated that Mr. Ponder has been an articulate, deliberative and an effective representative of the ASRS and represented the ASRS’ best interests. The Board concurred with Mr. Klein’s sentiments.

##### **5. Presentation, Discussion and Appropriate Action Regarding the ASRS Strategic Asset Allocation Policy (SAAP) Schematic**

Mr. Gary Dokes, Chief Investment Officer, presented modifications to the Board of the approved ASRS Strategic Asset Allocation Policy (SAAP) Schematic.

Mr. Dokes explained that subsequent to the February 27, 2015, Board meeting it was determined that the individual ranges for the three ‘Opportunistic Investments’ were incorrectly included. As a result, the Director, CIO and General Investment Consultant recommend a modification to the February 27, approved SAAP Schematic that corrects and clarifies the original intent of the ranges for ASRS opportunistic investments as follows:

1. Maintain the aggregate policy target allocation of 0% and range of 0-10%. Rationale: to provide flexibility to evaluate and select opportunistic investments which may be temporarily available and may be relatively more attractive from a risk/return perspective than other investments. Aggregate Opportunistic Investments consists of Debt, Equity, and Inflation-Linked which are defined as investments that are not included in the ASRS Asset Allocation policy and represents investment opportunities that are tactical in nature.
2. Eliminate the policy ranges for each Opportunistic Investment asset class, i.e., the 0-3% policy ranges. Rationale: a) to correct the original intent of the 0-10% range which pertains to the

aggregate opportunistic investments and not establish policy range limits for each subset of opportunistic investments by asset class and b) to clarify a mathematical inconstancy between the aggregate opportunistic policy range limit of 0-10%; and the underlying three asset class policy ranges limited of 0-3%, i.e.,  $3 \times 3\% = 9\%$ .

**Motion:** Mr. Tom Connelly moved to approve the Asset Allocation Policy Schematic modifications as denoted in Exhibit A (attached) of the presentation as recommended by the Investment Committee, and as recommended to the Investment Committee by the Director, CIO, and NEPC. Prof. Dennis Hoffman seconded the motion.

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

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

Mr. Paul Matson, Director, stated that he was available to answer any questions the Board may have regarding the Director's Report.

Mr. Tom Connelly raised a question regarding the budget summary. Due to a recent article in the Arizona Republic regarding legal fees in a sister state agency, Mr. Connelly asked Mr. Matson if he was able to provide some clarification regarding the focus on the legal fees in this article and if the ASRS also needs to consider changes in this area. Mr. Matson stated that he cannot comment on whether the legal fees of the other state agency are high, however, he says that the ASRS does try to curtail legal fees. First, the ASRS has a tremendous asset with Ms. Jothi Beljan, Assistant Attorney General, who is multifaceted and also has strong access into capabilities within the Attorney General's Office. Also, although the ASRS must also seek external investment council with extremely focused expertise, the ASRS has implemented processes to mitigate those costs. Mr. Matson provided an example of how this is accomplished both through allocating a portion of legal costs to its investment General Partners, and in netting external legal fees when determining external incentive fees payable to its investment General Partners, where possible. Mr. Matson gave specific credit to Mr. Karl Polen, Private Asset Portfolio Manager, for being the driving force behind this process to manage the ASRS' external legal fees.

## **7. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings**

### **a. Operations and Audit Committee (OAC)**

Mr. Jeff Tyne announced that the next OAC meeting will be held on May 12, 2015 at 10:30 a.m. in the 14<sup>th</sup> floor conference room.

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

Dr. Richard Jacob announced that the next EAC meeting will be held on April 10, 2015 at 10:30 a.m. in the 14<sup>th</sup> floor conference room; however, it may not be necessary if the legislative session has concluded.

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

Mr. Tom Connelly announced that the next IC meeting will be held on April 20, 2015 at 1:00 p.m. in the 14<sup>th</sup> floor conference room and will focus on the ASRS Program Update, the independent program oversight report from NEPC, the Investment Policy Statement and there will be an Asset Class presentation on public equities.

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

No requests were made.

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

No members of the public requested to speak.

**10. The next ASRS Board meeting is scheduled for Friday, April 24, 2015, at 8:30 A.M., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

## **11. Presentation, Discussion and Appropriate Action Regarding the Review of the Board Governance Model**

Mr. Paul Matson proceeded to provide a high-level summary and then indicated he would open it up for discussion, if the Board should have any questions.

The creation of the ASRS Board Governance was based on five elements:

1. Determining the optimal and appropriate allocation of roles of the organization (Board and staff);
2. Determining effective controls;
3. Determining effective communication mechanisms;
4. Determining an efficient organizational structure; and
5. Documentation

The end result was the development of a strategic plan with the following priorities:

1. Sustainability
2. Risk Management
3. Investment Structure and Strategy
4. Customer Service
5. Productivity

Mr. Kevin McCarthy asked Mr. Matson how the ASRS Governance Model compared to others around the country and if, in his opinion, this was a better governance model than some of the others. Mr. Matson responded by citing some of the differences in governance practices around the country, including:

- Although the ASRS does not have control over the determination and appointment of Trustees, the current system requiring both executive nomination and subsequent senatorial approval with staggered terms has worked well. De-politicizing Board appointments and staffing appears to be beneficial for pension funds.
- The delegation of investment decision-making is not common and has resulted in more timely decisions and a more action oriented framework. Mr. Matson indicated that this is unique and not the standard across the United States. Mr. Connelly added that separation of decision-making and oversight was an additional advantage of this level of delegation.

Dr. Richard Jacob asked Mr. Matson if he had any further suggested changes for improvement to what the ASRS already has in place and Mr. Matson responded by saying there were several items that should be periodically discussed but not necessarily on an annual basis. Those items are decision-making with respect to: procurement, staffing and compensation, and budget, each of which the ASRS does not have currently. At the same time, Mr. Matson complimented the approach at the Arizona Department of Administration (ADOA) which has resulted in a positive working-relationship.

*The Board took a recess from 9:30 a.m. to 9:49 a.m. in preparation of the final agenda topic.*

## **12. Presentation and Discussion Regarding the Fiduciary Education with the Focus on Integrating Leadership, Stewardship and Governance**

Mr. Paul Matson opened the discussion by stating that the Board Governance Policy Handbook mandates the Trustees receive annual fiduciary education. In the past, the education was completed internally by Ms. Jothi Beljan, and this year it will be presented by an external vendor, 3Ethos. Mr. Matson introduced Mr. Don Trone, CEO and 3Ethos Founder, and Ms. Mary Lou Wattman, 3Ethos Co-Founder.

Mr. Trone's and Ms. Wattman's presentation focused on teaching the framework for integrating leadership, stewardship and governance. Some specific topics discussed were as follows:

- Fiduciary Evolution
- Decision-making Hierarchy
- 10 Attributes of Ethotic Leadership
- 10 Stewardship Attributes
- Two Faces of a fiduciary Standard: Positive and Punitive
- Uniform Fiduciary Requirements
- 12 Praxes-Experimental Lessons and Skills to practice daily to make leadership, stewardship and decision-making more authentic and aligned

The Trustees, Mr. Matson and Mr. Guarino participated in a leadership assessment days prior to the meeting, the results of which were briefly discussed in order to:

- Increase self-awareness
- Prompt conversations
- Provide suggestions in approaching others
- Resolve, prevent or minimize conflict
- Understand perspectives of clients or teams
- Find perspectives missing from teams

## **13. Adjournment of the ASRS Board**

Mr. Kevin McCarthy adjourned the March 27, 2015, meeting at 2:03 p.m.

ARIZONA STATE RETIREMENT SYSTEM

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Melanie A. Alexander  
Board Administrator

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Paul Matson  
Director

# Agenda Item #3



# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
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*Paul Matson*  
Director

## MEMORANDUM

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

**FROM:** Mr. Paul Matson, Director  
Ms. Jothi Beljan, Assistant Attorney General

**DATE:** April 17, 2015

**RE:** **Agenda Item #3:** Presentation and Discussion Regarding the Arizona State Retirement System Administrative Appeals Process including Administrative Law Judge (ALJ) Decisions and the Role of Trustees with Regard to Accepting and Modifying an ALJ Decision

### **Purpose**

To discuss the appeals process and the role of the Trustees with regard to accepting and modifying an ALJ Decision.

### **Recommendation**

Information item only; no action required.

### **Background**

At the January 30, 2015 Board meeting, the Trustees requested a review of the process in creating motions regarding appeals for consideration, to ensure all options are reflected.

### **A.R.S. § 38-714. Powers and duties of ASRS and board**

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

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

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

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

#### **E. The board may:**

**1. Determine the rights, benefits or obligations of any person under this article and afford any person dissatisfied with a determination a hearing on the determination.**

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

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

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

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

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

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

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

G. The board shall:

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

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

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

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

## **ARIZONA ADMINISTRATIVE CODE**

### **TITLE 2. ADMINISTRATION**

#### **CHAPTER 8. STATE RETIREMENT SYSTEM BOARD**

##### **ARTICLE 4. PRACTICE AND PROCEDURE BEFORE THE BOARD**

###### **R2-8-401. Definitions**

The following definitions apply to this Article unless otherwise specified:

1. "Appealable agency action" has the same meaning as in A.R.S. § 41-1092.
2. "Board" has the same meaning as in A.R.S. § 38-711.
3. "Director" means the Director appointed by the Board as provided in A.R.S. § 38-715.
4. "Party" has the same meaning as in A.R.S. § 41-1001.
5. "Person" has the same meaning as in A.R.S. § 41-1001.

###### **R2-8-402. General Procedures**

In computing any time period, parties shall exclude the day from which the designated time period begins to run. Parties shall include the last day of the period unless it falls on a Saturday, Sunday, or legal holiday. When the time period is 10 days or less, parties shall exclude Saturdays, Sundays, and legal holidays.

###### **R2-8-403. Request for a Hearing of an Appealable Agency Action**

- A. A person who is not satisfied with a decision by the Director that is an appealable agency action may file a Request for a Hearing, in writing, with the Director. The request shall include the following:
  1. The name and mailing address of the member, employer, or other person filing the request;
  2. The name and mailing address of the attorney for the person filing the request, if applicable;
  3. A concise statement of the reasons for the appeal.
- B. The person requesting a hearing shall file the Request for a Hearing with the ASRS Office of the Director within 30 days after receiving a decision of the Director and a Notice of an Appealable Agency Action. The date the request is filed is established by the Director's date stamp on the face of the first page of the request.
- C. Upon receipt of the Request for a Hearing, the ASRS shall notify the Office of Administrative Hearings as required in A.R.S. § 41-1092.03.

###### **R2-8-404. Board Decisions on Hearings before the Office of Administrative Hearings**

A recommended decision from the Office of Administrative Hearings that is sent to ASRS at least 30 days before the Board's next regular monthly meeting, shall be reviewed by the Board at that monthly meeting. At the monthly meeting, the Board shall render a decision to accept, reject, or modify the findings of fact, conclusions of law and recommendations in whole or in part. If the Board modifies or rejects a recommended decision, the Board shall state the reasons for the modification or rejection. The Board shall deliver the Board's final decision to the Office of Administrative Hearings within five days after the monthly meeting at which the Board made the final decision.

### **R2-8-405. Rehearing; Review of a Final Decision**

- A. Except as provided in subsection (H), any party in an appealable agency action aggrieved by a final decision may file with the Board a written motion for rehearing or review of the final decision specifying the particular grounds not later than 30 days after service of the decision.
- B. A party may amend a motion for rehearing or review at any time before the Board rules on the motion. A party may file a response within 15 days after the motion or amended motion is filed. The Board may require the filing of written briefs upon the issues raised in the motion and may provide for oral argument.
- C. The Board may grant a rehearing or review of a decision for any of the following causes materially affecting the moving party's rights:
  - 1. Irregularity in the administrative proceedings of the agency or the hearing officer, or any order or abuse of discretion that deprives the moving party of a fair hearing;
  - 2. Misconduct of the Board, the hearing officer, or the prevailing party;
  - 3. Accident or surprise that could not have been prevented by ordinary prudence;
  - 4. Newly discovered material evidence that could not with reasonable diligence have been discovered and produced at the original hearing;
  - 5. Excessive or insufficient penalties;
  - 6. Error in the admission or rejection of evidence or other errors of law occurring at the administrative hearing; or
  - 7. That the decision is not justified by the evidence or is contrary to law.
- D. The Board may affirm or modify the decision or grant a rehearing or review to all or any of the parties on all or part of the issues for any of the reasons in subsection (C). An order granting a rehearing or review shall specify with particularity the grounds for the order.
- E. Not later than 10 days after the decision, the Board may, after giving each party notice and an opportunity to be heard, order a rehearing or review of its decision for any reason for which it might have granted a rehearing or review on motion of a party. After giving the parties or their counsel notice and an opportunity to be heard on the matter, the Board may grant a motion for rehearing or review for a reason not stated in the motion. In either case, the order granting a rehearing or review shall specify the grounds on which it is granted.
- F. When a motion for rehearing or review is based upon an affidavit, the affidavit shall be filed with the motion. An opposing party may, within 15 days after filing, file an opposing affidavit. The Board may extend the period for filing an opposing affidavit for not more than 20 days for good cause shown or by written stipulation of the parties. The Board may permit a reply affidavit.
- G. The Board shall rule on the motion within 15 days after the response to the motion is filed or if a response is not filed, within five days of the expiration of the response period.
- H. If the Board makes a specific finding that the immediate effectiveness of a particular decision is necessary for the preservation of the public peace, health, and safety and that a rehearing or review of the decision is impracticable, unnecessary, or contrary to the public interest, the decision may be issued as a final decision without an opportunity for a rehearing or review. If a decision is issued as a final decision without an opportunity for rehearing or review, an application for judicial review of the decision may be made within the time limits permitted for applications for judicial review of the Board's final decisions.

## **A.R.S. § 41-1092. Definitions**

In this article, unless the context otherwise requires:

1. "Administrative law judge" means an individual or an agency head, board or commission that sits as an administrative law judge, that conducts administrative hearings in a contested case or an appealable agency action and that makes decisions regarding the contested case or appealable agency action.
2. "Administrative law judge decision" means the findings of fact, conclusions of law and recommendations or decisions issued by an administrative law judge.
3. **"Appealable agency action" means an action that determines the legal rights, duties or privileges of a party** and that is not a contested case. Appealable agency actions do not include 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, nor does it mean or include rules concerning the internal management of the agency that do not affect private rights or interests. For the purposes of this paragraph, administrative hearing does not include a public hearing held for the purpose of receiving public comment on a proposed agency action.
4. "Director" means the director of the office of administrative hearings.
5. "Final administrative decision" means a decision by an agency that is subject to judicial review pursuant to title 12, chapter 7, article 6.
6. "Office" means the office of administrative hearings.
7. "Self-supporting regulatory board" means any one of the following:
  - (a) The Arizona state board of accountancy.
  - (b) The state board of appraisal.
  - (c) The board of barbers.
  - (d) The board of behavioral health examiners.
  - (e) The Arizona state boxing and mixed martial arts commission.
  - (f) The state board of chiropractic examiners.
  - (g) The board of cosmetology.
  - (h) The state board of dental examiners.
  - (i) The state board of funeral directors and embalmers.
  - (j) The Arizona game and fish commission.
  - (k) The board of homeopathic and integrated medicine examiners.
  - (l) The Arizona medical board.
  - (m) The naturopathic physicians medical board.
  - (n) The state board of nursing.
  - (o) The board of examiners of nursing care institution administrators and adult care home managers.
  - (p) The board of occupational therapy examiners.
  - (q) The state board of dispensing opticians.
  - (r) The state board of optometry.
  - (s) The Arizona board of osteopathic examiners in medicine and surgery.
  - (t) The Arizona peace officer standards and training board.
  - (u) The Arizona state board of pharmacy.
  - (v) The board of physical therapy.
  - (w) The state board of podiatry examiners.
  - (x) The state board for private postsecondary education.
  - (y) The state board of psychologist examiners.
  - (z) The board of respiratory care examiners.
  - (aa) The office of pest management.
  - (bb) The state board of technical registration.
  - (cc) The Arizona state veterinary medical examining board.

- (dd) The acupuncture board of examiners.
- (ee) The Arizona regulatory board of physician assistants.
- (ff) The board of athletic training.
- (gg) The board of massage therapy.

**A.R.S. § 41-1092.01. Office of administrative hearings; director; powers and duties; fund**

A. An office of administrative hearings is established.

B. The governor shall appoint the director pursuant to section 38-211. At a minimum, the director shall have the experience necessary for appointment as an administrative law judge. The director also shall possess supervisory, management and administrative skills, as well as knowledge and experience relating to administrative law.

C. The director shall:

1. Serve as the chief administrative law judge of the office.
2. Make and execute the contracts and other instruments that are necessary to perform the director's duties.
3. Subject to chapter 4, article 4 of this title, hire employees, including full-time administrative law judges, and contract for special services, including temporary administrative law judges, that are necessary to carry out this article. An administrative law judge employed or contracted by the office shall have graduated from an accredited college of law or shall have at least two years of administrative or managerial experience in the subject matter or agency section the administrative law judge is assigned to in the office.
4. Make rules that are necessary to carry out this article, including rules governing ex parte communications in contested cases.
5. Submit a report to the governor, speaker of the house of representatives and president of the senate by November 1 of each year describing the activities and accomplishments of the office. The director's annual report shall include a summary of the extent and effect of agencies' utilization of administrative law judges, court reporters and other personnel in proceedings under this article and recommendations for changes or improvements in the administrative procedure act or any agency's practice or policy with respect to the administrative procedure act.
6. Secure, compile and maintain all decisions, opinions or reports of administrative law judges issued pursuant to this article and the reference materials and supporting information that may be appropriate.
7. Develop, implement and maintain a program for the continuing training and education of administrative law judges and agencies in regard to their responsibilities under this article. The program shall require that an administrative law judge receive training in the technical and subject matter areas of the sections to which the administrative law judge is assigned.
8. Develop, implement and maintain a program of evaluation to aid the director in the evaluation of administrative law judges appointed pursuant to this article that includes comments received from the public.
9. Annually report the following to the governor, the president of the senate and the speaker of the house of representatives by December 1 for the prior fiscal year:
  - (a) The number of administrative law judge decisions rejected or modified by agency heads.
  - (b) By category, the number and disposition of motions filed pursuant to section 41-1092.07, subsection A to disqualify office administrative law judges for bias, prejudice, personal interest or lack of expertise.
  - (c) By agency, the number and type of violations of section 41-1009.

10. Schedule hearings pursuant to section 41-1092.05 upon the request of an agency or the filing of a notice of appeal pursuant to section 41-1092.03.

D. The director shall not require legal representation to appear before an administrative law judge.

E. Except as provided in subsection F of this section, all state agencies supported by state general fund sources, unless exempted by this article, and the registrar of contractors shall use the services and personnel of the office to conduct administrative hearings. All other agencies shall contract for services and personnel of the office to conduct administrative hearings.

F. An agency head, board or commission that directly conducts an administrative hearing as an administrative law judge is not required to use the services and personnel of the office for that hearing.

G. Each state agency, and each political subdivision contracting for office services pursuant to subsection I of this section, shall make its facilities available, as necessary, for use by the office in conducting proceedings pursuant to this article.

H. The office shall employ full-time administrative law judges to conduct hearings required by this article or other laws as follows:

1. The director shall assign administrative law judges from the office to an agency, on either a temporary or a permanent basis, at supervisory or other levels, to preside over contested cases and appealable agency actions in accordance with the special expertise of the administrative law judge in the subject matter of the agency.

2. The director shall establish the subject matter and agency sections within the office that are necessary to carry out this article. Each subject matter and agency section shall provide training in the technical and subject matter areas of the section as prescribed in subsection C, paragraph 7 of this section.

I. If the office cannot furnish an office administrative law judge promptly in response to an agency request, the director may contract with qualified individuals to serve as temporary administrative law judges. These temporary administrative law judges are not employees of this state.

J. The office may provide administrative law judges on a contract basis to any governmental entity to conduct any hearing not covered by this article. The director may enter into contracts with political subdivisions of this state, and these political subdivisions may contract with the director for the purpose of providing administrative law judges and reporters for administrative proceedings or informal dispute resolution. The contract may define the scope of the administrative law judge's duties. Those duties may include the preparation of findings, conclusions, decisions or recommended decisions or a recommendation for action by the political subdivision. For these services, the director shall request payment for services directly from the political subdivision for which the services are performed, and the director may accept payment on either an advance or reimbursable basis.

K. The office shall apply monies received pursuant to subsections E and J of this section to offset its actual costs for providing personnel and services.

**A.R.S. § 41-1092.02. Appealable agency actions; application of procedural rules; exemption from article**

A. This article applies to all contested cases as defined in section 41-1001 and all appealable agency actions, except contested cases with or appealable agency actions of:

1. The state department of corrections.
2. The board of executive clemency.
3. The industrial commission of Arizona.
4. The Arizona corporation commission.
5. The Arizona board of regents and institutions under its jurisdiction.
6. The state personnel board.
7. The department of juvenile corrections.
8. The department of transportation.
9. The department of economic security except as provided in section 46-458.
10. The department of revenue regarding:
  - (a) Income tax or withholding tax.
  - (b) Any tax issue related to information associated with the reporting of income tax or withholding tax unless the taxpayer requests in writing that this article apply and waives confidentiality under title 42, chapter 2, article 1.
11. The board of tax appeals.
12. The state board of equalization.
13. The state board of education, but only in connection with contested cases and appealable agency actions related to applications for issuance or renewal of a certificate and discipline of certificate holders pursuant to sections 15-203, 15-534, 15-534.01, 15-535, 15-545 and 15-550.
14. The board of fingerprinting.
15. The department of child safety except as provided in sections 8-506.01 and 8-811.

B. Unless waived by all parties, an administrative law judge shall conduct all hearings under this article, and the procedural rules set forth in this article and rules made by the director apply.

C. Except as provided in subsection A of this section:

1. A contested case heard by the office of administrative hearings regarding taxes administered under title 42 shall be subject to the provisions under section 42-1251.
2. A final decision of the office of administrative hearings regarding taxes administered under title 42 may be appealed by either party to the director of the department of revenue, or a taxpayer may file and appeal directly to the board of tax appeals pursuant to section 42-1253.

D. Except as provided in subsections A, B, E, F and G of this section and notwithstanding any other administrative proceeding or judicial review process established in statute or administrative rule, this article applies to all appealable agency actions and to all contested cases.

E. Except for a contested case or an appealable agency action regarding unclaimed property, sections 41-1092.03, 41-1092.08 and 41-1092.09 do not apply to the department of revenue.

F. The board of appeals established by section 37-213 is exempt from:

1. The time frames for hearings and decisions provided in section 41-1092.05, subsection A, section 41-1092.08 and section 41-1092.09.

2. The requirement in section 41-1092.06, subsection A to hold an informal settlement conference at the appellant's request if the sole subject of an appeal pursuant to section 37-215 is the estimate of value reported in an appraisal of lands or improvements.

G. Auction protest procedures pursuant to title 37, chapter 2, article 4.1 are exempt from this article.

**A.R.S. § 41-1092.03. Notice of appealable agency action or contested case; hearing; informal settlement conference; applicability**

A. Except as provided in subsection D of this section, an agency shall serve notice of an appealable agency action or contested case pursuant to section 41-1092.04. The notice shall:

1. Identify the statute or rule that is alleged to have been violated or on which the action is based.
2. Identify with reasonable particularity the nature of any alleged violation, including, if applicable, the conduct or activity constituting the violation.
3. Include a description of the party's right to request a hearing on the appealable agency action or contested case.
4. Include a description of the party's right to request an informal settlement conference pursuant to section 41-1092.06.

**B. A party may obtain a hearing on an appealable agency action or contested case by filing a notice of appeal or request for a hearing with the agency within thirty days after receiving the notice prescribed in subsection A of this section.** The notice of appeal or request for a hearing may be filed by a party whose legal rights, duties or privileges were determined by the appealable agency action or contested case. A notice of appeal or request for a hearing also may be filed by a party who will be adversely affected by the appealable agency action or contested case and who exercised any right provided by law to comment on the action being appealed or contested, provided that the grounds for the notice of appeal or request for a hearing are limited to issues raised in that party's comments. The notice of appeal or request for a hearing shall identify the party, the party's address, the agency and the action being appealed or contested and shall contain a concise statement of the reasons for the appeal or request for a hearing. The agency shall notify the office of the appeal or request for a hearing and the office shall schedule an appeal or contested case hearing pursuant to section 41-1092.05, except as provided in section 41-1092.01, subsection F.

C. If good cause is shown an agency head may accept an appeal or request for a hearing that is not filed in a timely manner.

D. This section does not apply to a contested case if the agency:

1. Initiates the contested case hearing pursuant to law other than this chapter and not in response to a request by another party.
2. Is not required by law, other than this chapter, to provide an opportunity for an administrative hearing before taking action that determines the legal rights, duties or privileges of an applicant for a license.

#### **A.R.S. § 41-1092.04. Service of documents**

Unless otherwise provided in this article, every notice or decision under this article shall be served by personal delivery or certified mail, return receipt requested, or by any other method reasonably calculated to effect actual notice on the agency and every other party to the action to the party's last address of record with the agency. Each party shall inform the agency and the office of any change of address within five days of the change.

#### **A.R.S. § 41-1092.05. Scheduling of hearings; prehearing conferences**

A. Except as provided in subsections B and C, hearings for:

**1. Appealable agency actions shall be held within sixty days after the notice of appeal is filed.**

2. Contested cases shall be held within sixty days after the agency's request for a hearing.

B. Hearings for appealable agency actions of or contested cases with self-supporting regulatory boards that meet quarterly or less frequently shall be held at the next meeting of the board after the board receives the written decision of an administrative law judge or the issuance of the notice of hearing, except that:

1. If the decision of the administrative law judge is received or the notice of hearing is issued within thirty days before the board meets, the hearing shall be held at the following meeting of the board.

2. If good cause is shown, the hearing may be held at a later meeting of the board.

C. The date scheduled for the hearing may be advanced or delayed on the agreement of the parties or on a showing of good cause.

**D. The agency shall prepare and serve a notice of hearing on all parties to the appeal or contested case at least thirty days before the hearing.** The notice shall include:

1. A statement of the time, place and nature of the hearing.

2. A statement of the legal authority and jurisdiction under which the hearing is to be held.

3. A reference to the particular sections of the statutes and rules involved.

4. A short and plain statement of the matters asserted. If the agency or other party is unable to state the matters in detail at the time the notice is served, the initial notice may be limited to a statement of the issues involved. After the initial notice and on application, a more definite and detailed statement shall be furnished.

E. Notwithstanding subsection D, a hearing shall be expedited as provided by law or upon a showing of extraordinary circumstances or the possibility of irreparable harm if the parties to the appeal or contested case have actual notice of the hearing date. Any party to the appeal or contested case may file a motion with the director asserting the party's right to an expedited hearing. The right to an expedited hearing shall be listed on any abatement order. The Arizona health care cost containment system administration may file a motion with every member grievance and eligibility appeal that cites federal law and that requests that a hearing be set within thirty days after the motion is filed.

F. Prehearing conferences may be held to:

1. Clarify or limit procedural, legal or factual issues.

2. Consider amendments to any pleadings.

3. Identify and exchange lists of witnesses and exhibits intended to be introduced at the hearing.
4. Obtain stipulations or rulings regarding testimony, exhibits, facts or law.
5. Schedule deadlines, hearing dates and locations if not previously set.
6. Allow the parties opportunity to discuss settlement.

**A.R.S. § 41-1092.06. Appeals of agency actions and contested cases; informal settlement conferences; applicability**

**A. If requested by the appellant of an appealable agency action or the respondent in a contested case, the agency shall hold an informal settlement conference within fifteen days after receiving the request.** A request for an informal settlement conference shall be in writing and shall be filed with the agency no later than twenty days before the hearing. If an informal settlement conference is requested, the agency shall notify the office of the request and the outcome of the conference, except as provided in section 41-1092.01, subsection F. The request for an informal settlement conference does not toll the sixty day period in which the administrative hearing is to be held pursuant to section 41-1092.05.

B. If an informal settlement conference is held, a person with the authority to act on behalf of the agency must represent the agency at the conference. The agency representative shall notify the appellant in writing that statements, either written or oral, made by the appellant at the conference, including a written document, created or expressed solely for the purpose of settlement negotiations are inadmissible in any subsequent administrative hearing. The parties participating in the settlement conference shall waive their right to object to the participation of the agency representative in the final administrative decision.

**A.R.S. § 41-1092.07. Hearings**

A. A party to a contested case or appealable agency action may file a nonperemptory motion with the director to disqualify an office administrative law judge from conducting a hearing for bias, prejudice, personal interest or lack of technical expertise necessary for a hearing.

B. The parties to a contested case or appealable agency action have the right to be represented by counsel or to proceed without counsel, to submit evidence and to cross-examine witnesses.

C. The administrative law judge may issue subpoenas to compel the attendance of witnesses and the production of documents. The subpoenas shall be served and, on application to the superior court, enforced in the manner provided by law for the service and enforcement of subpoenas in civil matters. The administrative law judge may administer oaths and affirmations to witnesses.

D. All parties shall have the opportunity to respond and present evidence and argument on all relevant issues. All relevant evidence is admissible, but the administrative law judge may exclude evidence if its probative value is outweighed by the danger of unfair prejudice, by confusion of the issues or by considerations of undue delay, waste of time or needless presentation of cumulative evidence. The administrative law judge shall exercise reasonable

control over the manner and order of cross-examining witnesses and presenting evidence to make the cross-examination and presentation effective for ascertaining the truth, avoiding needless consumption of time and protecting witnesses from harassment or undue embarrassment.

**E. All hearings shall be recorded.** The administrative law judge shall secure either a court reporter or an electronic means of producing a clear and accurate record of the proceeding at the agency's expense. Any party that requests a transcript of the proceeding shall pay the costs of the transcript to the court reporter or other transcriber.

F. Unless otherwise provided by law, the following apply:

1. A hearing may be conducted in an informal manner and without adherence to the rules of evidence required in judicial proceedings. Neither the manner of conducting the hearing nor the failure to adhere to the rules of evidence required in judicial proceedings is grounds for reversing any administrative decision or order if the evidence supporting the decision or order is substantial, reliable and probative.
2. Copies of documentary evidence may be received in the discretion of the administrative law judge. On request, parties shall be given an opportunity to compare the copy with the original.
3. Notice may be taken of judicially cognizable facts. In addition, notice may be taken of generally recognized technical or scientific facts within the agency's specialized knowledge. Parties shall be notified either before or during the hearing or by reference in preliminary reports or otherwise of the material noticed including any staff memoranda or data and they shall be afforded an opportunity to contest the material so noticed. The agency's experience, technical competence and specialized knowledge may be used in the evaluation of the evidence.
4. On application of a party or the agency and for use as evidence, the administrative law judge may permit a deposition to be taken, in the manner and on the terms designated by the administrative law judge, of a witness who cannot be subpoenaed or who is unable to attend the hearing. Subpoenas for the production of documents may be ordered by the administrative law judge if the party seeking the discovery demonstrates that the party has reasonable need of the materials being sought. All provisions of law compelling a person under subpoena to testify are applicable. Fees for attendance as a witness shall be the same as for a witness in court, unless otherwise provided by law or agency rule. Notwithstanding section 12-2212, subpoenas, depositions or other discovery shall not be permitted except as provided by this paragraph or subsection C of this section.
5. Informal disposition may be made by stipulation, agreed settlement, consent order or default.
6. Findings of fact shall be based exclusively on the evidence and on matters officially noticed.
- 7. A final administrative decision shall include findings of fact and conclusions of law, separately stated. Findings of fact, if set forth in statutory language, shall be accompanied by a concise and explicit statement of the underlying facts supporting the findings.**

G. Except as otherwise provided by law:

1. At a hearing on an agency's denial of a license or permit or a denial of an application or request for modification of a license or permit, the applicant has the burden of persuasion.
2. At a hearing on an agency action to suspend, revoke, terminate or modify on its own initiative material conditions of a license or permit, the agency has the burden of persuasion.
3. At a hearing on an agency's imposition of fees or penalties or any agency compliance order, the agency has the burden of persuasion.

4. At a hearing held pursuant to title 41, chapter 23 or 24, the appellant or claimant has the burden of persuasion.

H. Subsection G of this section does not affect the law governing burden of persuasion in an agency denial of, or refusal to issue, a license renewal.

**A.R.S. § 41-1092.08. Final administrative decisions; review**

**A. The administrative law judge of the office shall issue a written decision within twenty days after the hearing is concluded. The written decision shall contain a concise explanation of the reasons supporting the decision. The administrative law judge shall serve a copy of the decision on the agency.** Upon request of the agency, the office shall also transmit to the agency the record of the hearing as described in section 12-904, except as provided in section 41-1092.01, subsection F.

**B. Within thirty days after the date the office sends a copy of the administrative law judge's decision to the head of the agency, executive director, board or commission, the head of the agency, executive director, board or commission may review the decision and accept, reject or modify it.** If the head of the agency, executive director, board or commission declines to review the administrative law judge's decision, the agency shall serve a copy of the decision on all parties. If the head of the agency, executive director, board or commission rejects or modifies the decision the agency head, executive director, board or commission must file with the office, except as provided in section 41-1092.01, subsection F, and serve on all parties a copy of the administrative law judge's decision with the rejection or modification and a written justification setting forth the reasons for the rejection or modification.

C. A board or commission whose members are appointed by the governor may review the decision of the agency head, as provided by law, and make the final administrative decision.

D. Except as otherwise provided in this subsection, **if the head of the agency or a board or commission does not accept, reject or modify the administrative law judge's decision within thirty days after the date the office sends a copy of the administrative law judge's decision to the head of the agency, executive director, board or commission, as evidenced by receipt of such action by the office by the thirtieth day the office shall certify the administrative law judge's decision as the final administrative decision.** If the board or commission meets monthly or less frequently, if the office sends the administrative law judge's decision at least thirty days before the next meeting of the board or commission and if the board or commission does not accept, reject or modify the administrative law judge's decision at the next meeting of the board or commission, as evidenced by receipt of such action by the office within five days after the meeting the office shall certify the administrative law judge's decision as the final administrative decision.

E. For the purposes of subsections B and D of this section, a copy of the administrative law judge's decision is sent on personal delivery of the decision or five days after the decision is mailed to the head of the agency, executive director, board or commission.

F. The decision of the agency head is the final administrative decision unless either:

1. The agency head, executive director, board or commission does not review the administrative law judge's decision pursuant to subsection B of this section or does not

reject or modify the administrative law judge's decision as provided in subsection D of this section, in which case the administrative law judge's decision is the final administrative decision.

2. The decision of the agency head is subject to review pursuant to subsection C of this section.

G. If a board or commission whose members are appointed by the governor makes the final administrative decision as an administrative law judge or upon review of the decision of the agency head, the decision is not subject to review by the head of the agency.

**H. A party may appeal a final administrative decision pursuant to title 12, chapter 7, article 6,** except as provided in section 41-1092.09, subsection B and except that if a party has not requested a hearing upon receipt of a notice of appealable agency action pursuant to section 41-1092.03, the appealable agency action is not subject to judicial review.

I. This section does not apply to the Arizona peace officer standards and training board established by section 41-1821.

#### **A.R.S. § 41-1092.09. Rehearing or review**

A. Except as provided in subsection B of this section:

**1. A party may file a motion for rehearing or review within thirty days after service of the final administrative decision.**

2. The opposing party may file a response to the motion for rehearing within fifteen days after the date the motion for rehearing is filed.

3. After a hearing has been held and a final administrative decision has been entered pursuant to section 41-1092.08, a party is not required to file a motion for rehearing or review of the decision in order to exhaust the party's administrative remedies.

B. A party to an appealable agency action of or contested case with a self-supporting regulatory board shall exhaust the party's administrative remedies by filing a motion for rehearing or review within thirty days after the service of the administrative decision that is subject to rehearing or review in order to be eligible for judicial review pursuant to title 12, chapter 7, article 6. The board shall notify the parties in the administrative decision that is subject to rehearing or review that a failure to file a motion for rehearing or review within thirty days after service of the decision has the effect of prohibiting the parties from seeking judicial review of the board's decision.

C. Service is complete on personal service or five days after the date that the final administrative decision is mailed to the party's last known address.

D. Except as provided in this subsection, the agency head, executive director, board or commission shall rule on the motion within fifteen days after the response to the motion is filed or, if a response is not filed, within five days of the expiration of the response period. A self-supporting regulatory board shall rule on the motion within fifteen days after the response to the motion is filed or at the board's next meeting after the motion is received, whichever is later.

**A.R.S. § 41-1092.10. Compulsory testimony; privilege against self-incrimination**

A. A person may not refuse to attend and testify or produce evidence sought by an agency in an action, proceeding or investigation instituted by or before the agency on the ground that the testimony or evidence, documentary or otherwise, required of the person may tend to incriminate the person or subject the person to a penalty or forfeiture unless it constitutes the compelled testimony or the private papers of the person that would be privileged evidence either pursuant to the fifth amendment of the Constitution of the United States or article II, section 10, Constitution of Arizona, and the person claims the privilege before the production of the testimony or papers.

B. If a person asserts the privilege against self-incrimination and the agency seeks to compel production of the testimony or documents sought, the office or agency as provided in section 41-1092.01, subsection F may issue, with the prior written approval of the attorney general, a written order compelling the testimony or production of documents in proceedings and investigations before the office or agency as provided in section 41-1092.01, subsection F or apply to the appropriate court for such an order in other actions or proceedings.

C. Evidence produced pursuant to subsection B of this section is not admissible in evidence or usable in any manner in a criminal prosecution, except for perjury, false swearing, tampering with physical evidence or any other offense committed in connection with the appearance made pursuant to this section against the person testifying or the person producing the person's private papers.

**A.R.S. § 41-1092.11. Licenses; renewal; revocation; suspension; annulment; withdrawal**

A. If a licensee makes timely and sufficient application for the renewal of a license or a new license with reference to any activity of a continuing nature, the existing license does not expire until the application has been finally determined by the agency, and, in case the application is denied or the terms of the new license limited, until the last day for seeking review of the agency order or a later date fixed by order of the reviewing court.

B. Revocation, suspension, annulment or withdrawal of any license is not lawful unless, before the action, the agency provides the licensee with notice and an opportunity for a hearing in accordance with this article. If the agency finds that the public health, safety or welfare imperatively requires emergency action, and incorporates a finding to that effect in its order, the agency may order summary suspension of a license pending proceedings for revocation or other action. These proceedings shall be promptly instituted and determined.

**A.R.S. § 41-1092.12. Private right of action; recovery of costs and fees; definitions**

A. If an agency takes an action against a party that is arbitrary, capricious or not in accordance with law, the action is an appealable agency action if all of the following apply:  
1. Within ten days after the action that is arbitrary, capricious or not in accordance with law, the party notifies the director of the agency in writing of the party's intent to file a claim pursuant to this section. This notice shall include a description of the action the party claims

to be arbitrary, capricious or not in accordance with law and reasons why the action is arbitrary, capricious or not in accordance with law.

2. The agency continues the action that is arbitrary, capricious or not in accordance with law more than ten days after the agency receives the notice.

3. The action is not excluded from the definition of appealable agency action as defined in section 41-1092.

B. This section only applies if an administrative remedy or an administrative or a judicial appeal of final agency action is not otherwise provided by law.

C. If the party prevails, the agency shall pay reasonable costs and fees to the party from any monies appropriated to the agency and available for that purpose or from other operating monies of the agency. If the agency fails or refuses to pay the award within fifteen days after the demand, and if no further review or appeal of the award is pending, the prevailing party may file a claim with the department of administration. The department of administration shall pay the claim within thirty days in the same manner as an uninsured property loss under title 41, chapter 3.1, article 1, except that the agency is responsible for the total amount awarded and shall pay it from its operating monies. If the agency had appropriated monies available for paying the award at the time it failed or refused to pay, the legislature shall reduce the agency's operating appropriation for the following fiscal year by the amount of the award and shall appropriate that amount to the department of administration as reimbursement for the loss.

D. If the administrative law judge determines that the appealable agency action is frivolous, the administrative law judge may require the party to pay reasonable costs and fees to the agency in responding to the appeal filed before the office of administrative hearings.

E. For the purposes of this section:

1. "Action against the party" means any of the following that results in the expenditure of costs and fees:

(a) A decision.

(b) An inspection.

(c) An investigation.

(d) The entry of private property.

2. "Agency" means the department of environmental quality established pursuant to title 49, chapter 1, article 1.

3. "Costs and fees" means reasonable attorney and professional fees.

4. "Party" means an individual, partnership, corporation, association and public or private organization at whom the action was directed and who has expended costs and fees as a result of the action against the party.

### **A.R.S. § 12-910. Scope of review**

A. An action to review a final administrative decision shall be heard and determined with convenient speed. If requested by a party to an action within thirty days after filing a notice of appeal, the court shall hold an evidentiary hearing, including testimony and argument, to the extent necessary to make the determination required by subsection E of this section. The court may hear testimony from witnesses who testified at the administrative hearing and witnesses who were not called to testify at the administrative hearing.

B. Relevant and admissible exhibits and testimony that were not offered during the administrative hearing shall be admitted, and objections that a party failed to make to evidence offered at the administrative hearing shall be considered, unless either of the following is true:

1. The exhibit, testimony or objection was withheld for purposes of delay, harassment or other improper purpose.
2. Allowing admission of the exhibit or testimony or consideration of the objection would cause substantial prejudice to another party.

C. For review of final administrative decisions of agencies that are exempt from sections 41-1092.03 through 41-1092.11, pursuant to section 41-1092.02, the trial shall be de novo if trial de novo is demanded in the notice of appeal or motion of an appellee other than the agency and if a hearing was not held by the agency or the proceedings before the agency were not stenographically reported or mechanically recorded so that a transcript might be made. On demand of any party, if a trial de novo is available under this section, it may be with a jury, except that a trial of an administrative decision under section 25-522 shall be to the court.

D. The record in the superior court shall consist of the record of the administrative proceeding, and the record of any evidentiary hearing, or the record of the trial de novo.

E. The court may affirm, reverse, modify or vacate and remand the agency action. **The court shall affirm the agency action unless after reviewing the administrative record and supplementing evidence presented at the evidentiary hearing the court concludes that the action is not supported by substantial evidence, is contrary to law, is arbitrary and capricious or is an abuse of discretion.**

# Agenda Item #4



# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778  
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

*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:** April 17, 2015

**RE:** **Agenda Item #4:** Presentation, Discussion and Appropriate Action Regarding 2015 ASRS Legislative Initiatives and Legislative Update

### **Purpose**

To discuss the results of the 2015 legislative session regarding ASRS initiatives and other legislation affecting ASRS.

### **Recommendation**

Information item only; no action required.

### **Background**

The 52<sup>nd</sup> Legislature – First Regular Session adjourned sine die at 3:37am on Friday, April 3, 2015. The ASRS Board approved the advancement of seven legislative initiatives, six of which passed both chambers and were signed by the governor. In addition, some legislation was proposed that would have negatively impacted ASRS; however, those items did not successfully advance. The effective date of legislation without an emergency clause is July 3, 2015.

(We expect to provide the 2015 Legislative Summary booklet to the Board at the April meeting.)

# Agenda Item #5



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## MEMORANDUM

**TO:** The Arizona State Retirement System (ASRS) Operations Committee (OC)

**FROM:** Mr. Paul Matson, Executive Director

**DATE:** April 17, 2015

**RE:** **Agenda Item #5:** Presentation, Discussion and Appropriate Action Regarding ASRS Funding Policy

### Purpose

To review a draft funding policy that establishes a methodology for financing the pension, health insurance, and long-term disability obligations of the ASRS.

### Recommendation

Staff recommends the Board discuss, and possibly modify or approve, the draft funding policy for the ASRS.

### Background

Over the past decade or more, the ASRS has documented the key elements of its benefit funding decisions within its actuarial valuation and financial statements. Over the past several years, the Governmental Accounting Standards Board (GASB) has updated its statements to clarify that accounting standards do not constitute a funding requirement for public pensions.

Many professional pension organizations now recommend that public pension funds develop a formal funding policy which documents their overall funding objectives, which mechanisms they will use to achieve those funding objectives, and how the fund will manage the achievement of those objectives.



## Funding Policy

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### **Purpose:**

The intent of the ASRS funding policy is to establish a formal methodology for financing the pension, health insurance (HI), and long-term disability (LTD) obligations accruing under the ASRS. It is intended that current assets, plus future contributions from employees & employers, plus investment earnings, should be sufficient to finance all benefits provided by the ASRS for each of its various plans.

This funding policy is intended to reflect a reasonable approach for each generation of employees and employers to substantially pay the cost of the benefits accrued. This funding policy recognizes that there will be volatility with respect to investment returns, plan membership, membership demographics, mortality, and other variables that impact the long-term cost, and allocation of cost, of the programs.

The adoption of a funding policy is recommended by the Government Finance Officers Association, the Governmental Accounting Standards Board, and the actuarial profession, and the ASRS also believes that it is a prudent action to take.

The ASRS funding policy has the following components which are subsequently discussed:

1. Goal
2. Time Horizon & Volatility Perspective
3. Inter-Generational Equity (Time Series Equity)
4. Benefit Costing (Cross Sectional Equity)
5. Actuarial Methods
6. Actuarial Assumptions
7. Actuarial Process
8. Asset Approach to Portfolio Construction
9. Investment Beliefs & Investment Policy Statement
10. Transparency & Mutual Understanding
11. Governance

### **1. Goal**

The goal of the ASRS funding policy is to ensure that a well thought through and documented process is in place that creates a reasonable expectation that the various ASRS benefits will be fully funded in a manner that is consistent with the capital market, contribution rate volatility, inter-generational equity, risk tolerance, demographic, and other parameters of the ASRS.

Specifically, the ASRS will make funding decisions towards:

- Ensuring long-term full funding
- Mitigating contribution rate volatility
- Mitigating benefit costs, primarily through early contributions and a long term risk profile
- Mitigating inter-generational wealth transfers

## **2. Time Horizon & Volatility Perspective**

The ASRS believes that contribution rates are the primary economic financial outputs of funding and investment policies. The ASRS believes that a going concern and primarily asset-only approach to investment management can result in contribution rates that are both lower as well as being relatively insensitive to short and medium term portfolio volatilities. This enables the ASRS to combine the traditional cross-sectional diversification benefits found in large employee pooled plans with the time-series diversification benefits of multi-generational plans, thereby resulting in higher expected short-term investment volatility enabling higher expected long-term investment returns.

The impact on contribution rates of any realized short-term volatility of returns will be mitigated through actuarial time-series diversification (smoothing & amortizing), rather than by lowering short-term expected return volatility at the expense of lower expected returns (and therefore higher aggregate contribution rates).

As such, the ASRS is managed on a going-concern basis, with the following timeframes being utilized for portfolio construction decisions and contribution rate determination:

Portfolio Construction Decisions:

- Strategic asset allocation focuses on medium term (3-5 years) capital market expectations, subject to achieving the long-term assumed actuarial rate based on long-term (30 year) Capital Market Assumptions.
- Tactical deviation decisions are based on shorter term (less than 3-5years) capital market expectations.
- Contribution Rate Determination:
- Liabilities are discounted based upon long-term (30 year) capital market expectations.
- Contribution rates are established using longer-term (currently 10 year) investment valuation smoothing periods, and longer-term (currently 30 years for Pension and 15 years for HI and LTD) closed period deficit/surplus amortization periods.

## **3. Inter-Generational Equity (Time Series Equity)**

Under normal financial market conditions, the ASRS will strive to align the aggregate funding costs (normal costs plus amortization costs) over the generational period in which corresponding benefits accrue. During periods where the funded status deviates significantly from 100%, aggregate funding costs may expand beyond generational periods.

#### **4. Benefit Costing (Cross Sectional Equity)**

Where authorized, the ASRS will consider the individual actuarial costs of various programs and benefits compared to the aggregate costs of providing those programs and benefits.

The ASRS will also consider the relative value of aligning the individual costs and benefits, against the various advantages of group pricing, diversification, and group pricing.

#### **5. Actuarial Methods**

##### *Actuarial Cost Allocation Method*

There are multiple actuarial cost allocation methods that can be utilized to allocate the present value of future benefits to past, current, and future periods of time. ASRS was initially mandated by statute to use Entry Age Normal (EAN), and subsequently mandated by statute to use Projected Unit Credit (PUC). Legislation was promulgated by the ASRS in 2015 to allow the ASRS itself to consider the most appropriate method.

The ASRS currently utilizes the most recent statutorily mandated method (PUC) and will consider the EAN method in future years. Key factors that will be considered in determining a change in the actuarial cost allocation method are:

- Membership Demographics
- Impact on Contribution Rates
- Impact on Contribution Rate Volatility
- Impact on Intergenerational Equity
- Accounting Consistency
- Peer Consistency
- Impact on Funded Status

##### *Asset Value Smoothing*

The primary purpose of the asset-value smoothing process is to mitigate contribution rate volatility.

The constraint applied to the length of the asset-value smoothing process is related to both the magnitude of, and the duration of, the dispersion between smoothed and un-smoothed asset values. In general, the smoothed and unsmoothed asset values should cross or become equal approximately every 10 years or less.

Shorter smoothing periods are preferred to longer smoothing periods, subject only to the primary purpose of mitigating contribution rate volatility and the absolute magnitude of the volatility.

Based upon the above, the following asset-smoothing periods are currently utilized:

- Pension: 10 Years
- Health Insurance: 10 Years
- LTD: 10 Years

### Amortization of Unfunded Liabilities

The primary purpose of the amortizing process is to mitigate contribution rate volatility while ensuring the paying off of the unfunded liabilities in a reasonable period of time.

The constraint applied to the length of the amortization period is related to contribution rate volatility and magnitude, intergenerational equity, and desire to payoff deficits sooner rather than later.

Shorter amortization periods are preferred to longer amortization periods, subject only to the primary purpose of mitigating contribution rate volatility and the absolute magnitude of the volatility.

Unfunded liabilities shall be amortized utilizing the level dollar amortization method over a closed period, not to exceed 30 years, and are currently amortized over the following periods:

- Pension: 30 Years
- Health Insurance: 15 Years
- LTD: 15 Years

## **6. Actuarial Assumptions**

The ASRS will utilize investment returns, mortality expectations, income adjusted mortality, benefit option choices, withdrawal option choices, and other assumptions that best reflect the specific expectations of ASRS capital markets, employees, retirees, and inactive members. These assumptions may utilize ASRS-specific history, industry tables, as well as current and projected trends, to best determine and allocate benefit costs. The assumptions should be forward-looking with appropriate consideration given to past experience.

## **7. Actuarial Process**

The ASRS will retain an external independent actuary to conduct annual valuations of the ASRS Plans, specifically to calculate funded status and contribution rates.

The ASRS will retain an external independent actuary to conduct an experience study of the ASRS Plans every five years. This actuary may be the same actuary that conducts the annual valuations.

The ASRS will retain an external independent actuary to conduct an actuarial audit of the ASRS Plans every five years. The actuarial firm that performs the actuarial audit shall not be the same firm that performs the actuarial valuation or the actuarial experience study.

The purpose of the actuarial audit shall include:

- The validation and verification of actuarial valuation results for both funding and accounting.
- An evaluation of the reasonableness of actuarial assumptions and methods.
- Compliance with professional standards such as generally accepted actuarial standards.

Separate actuarial valuations shall be prepared for the following Plans:

- Pension Plan & Health Insurance Plan
- System
- Long Term Disability Plan

## **8. Asset Approach to Portfolio Construction**

The ASRS portfolio construction process will be substantially based upon a going-concern model where time-series diversifications of return are enabled by asset-valuation smoothing and surplus/deficit amortization.

This going concern model allows two fundamental strategies as follows:

1. Fundamentally asset-only approach to portfolio construction
2. Absorption of interim volatility

The above attributes allow for lower overall expected program costs, while maintaining reasonable contribution rate volatility.

## **9. Investment Beliefs & Investment Policy Statement**

ASRS Investment Beliefs have been established to ensure the development of congruent and synergistic investment strategies, and to ensure the effective and efficient allocation of resources. These Investment Beliefs determine the general paradigm within which investment strategies are developed, investment ideas are reviewed, and investment decisions are implemented. [IQ Link to Investment Beliefs](#). The Investment Beliefs support the idea of a well-diversified portfolio utilizing a fundamentally asset-only portfolio construction approach. The ASRS recognizes that a well-articulated investment policy statement (IPS) is important to the long-term success of achieving the ASRS investment objectives and to meet the goal of this funding policy [IQ Link to IPS](#). As such, the ASRS has developed the IPS with the following goals:

- To clearly and explicitly establish the objectives and parameters which govern the investments of the ASRS' assets.
- To establish a target asset allocation that is long-term in nature but dynamic enough to allow the ASRS to take advantage of market opportunities which is expected to achieve its investment rate of return objectives.
- To help protect the financial health of the ASRS
- To establish a framework for monitoring investment activity, and promote effective communication between the Board, Staff, and other involved parties.

## **10. Transparency & Mutual Understanding**

This funding policy will be posted on the ASRS website for easy access.

This funding policy will enable a homogeneous understanding of how high-level funding decisions are contemplated at the ASRS by technical experts (e.g. actuaries), decision

makers (e.g. ASRS Board and Director), internal policy makers (e.g. ASRS Board and Director) and external policy makers (e.g. Legislature and Executive Office).

## **11. Governance**

This funding policy will be referenced in the Governance Handbook [IQ Link to Governance Handbook](#) as a responsibility of the Board to approve, modify, and monitor.

This funding policy will be referenced in the Governance Handbook as a responsibility of the Director to review, analyze, and present to the Board at the following time periods:

- Every three years,
- Whenever a significant event impacts the policy,
- Whenever the Director recommends a modification.

DRAFT

# Agenda Item #6



# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
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*Paul Matson*  
Director

## MEMORANDUM

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

**FROM:** Mr. Paul Matson, Director

**DATE:** April 17, 2015

**RE:** **Agenda Item #6:** Presentation, Discussion, and Appropriate Action Regarding the Board Governance Policy Handbook Annual Responsibilities Review

### **Purpose**

To discuss the annual responsibilities laid out in the Board Governance Policy Handbook.

### **Recommendation**

Information item only; no action required.

### **Background**

The attached 2014 Major Annual Responsibilities report details the status of the annual responsibilities listed in the Board Governance Policy Handbook for the Board, the Board Committees, and the Director. It describes what action occurred and when each noted responsibility was completed.

**2014 MAJOR ANNUAL RESPONSIBILITIES  
LISTED IN BOARD GOVERNANCE POLICY HANDBOOK  
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BOARD RESPONSIBILITIES**

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***1. The Governance Handbook will be reviewed by the Board at least triennially.***

Staff technical and clarification recommendations were reviewed and approved at the 01/24/14 Board meeting.

Staff performed an annual review November 2014, resulting in no recommended changes.

***2. Conduct a Board self-evaluation in the first quarter of each calendar year, preceding the Director's evaluation.***

2013 Review held at the February 2014 Board meeting.

2014 Review materials given to Trustees at the December 2014 Board Meeting.

2014 Review to be held at the April 2015 Board Meeting.

***3. Evaluate the Director within the first quarter of the calendar year after the Board's self-evaluation.***

2013 Director Evaluation took place at the March 2014 Board Meeting.

2014 Director Evaluation scheduled to take place at the April 2015 Board meeting.

***4. Adopt an annual schedule identifying the time and location of regular Board meetings.***

Completed at the October 2014 Board meeting.

***5. Approve the selection, and termination, and oversee the performance of the following external service providers:***

**Plan actuary and actuarial auditors.**

A consulting actuary contract was awarded to Buck Consultants July 1, 2011. Alternate actuaries are contracted for special projects (which include actuarial auditing). Contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewals completed May 15, 2014, and the contract, if all renewals are exercised, will be exhausted on June 30, 2016.

**External financial auditor.**

The primary external financial auditor contract was awarded to CliftonLarsonAllen to commence work on the FY13 audit. Heinfeld, Meech & Company was also awarded a contract to serve as the secondary external financial auditor and for special projects as needed. Contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewal for CliftonLarsenAllen was completed December 1, 2014, and Heinfeld, Meech & Company completed its renewal November 6, 2014. The contract, if all renewals are exercised, will be exhausted on December 31, 2017.

**General investment consultant(s).**

The ASRS general investment consulting contract expired in March 2014, a General Investment Consultant RFPs was issued in Q2-14. RFP responses were evaluated and IC recommended to the full Board approval that NEPC be retained. The Board approved NEPC as ASRS General Investment Consultant in February 2014.

Ongoing performance monitoring and Committee oversight is accomplished as part of the review of periodic presentations and reports.

**Third-party administration (TPA) providers for health and long-term disability.**

- 1) A new contract was approved by the Board and awarded for a retiree medical benefit program to UnitedHealthcare effective January 1, 2015. The contract is for one year with four annual renewals

**2014 MAJOR ANNUAL RESPONSIBILITIES  
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through December 31, 2020. The non-Medicare Choice (in-state) had a 3.8% premium increase and Choice Plus (out-of-state) medical plan had a 3.6% increase beginning January 1, 2015. The Medicare Advantage HMO (Urban) had a 2.1% premium increase, Medicare Advantage HMO (Rural) had a 25.4% premium decrease and Senior Supplement Plan retirees had a 1.5% premium decrease.

- 2) LTD third-party administration contract was awarded July 1, 2011, to Sedgwick Claim Management Services, Inc. Contract Term is one year with the option to renew for four one-year periods. Annual renewal was completed July 1, 2014, and the contract, if all renewals are exercised, will be exhausted on June 30, 2016.
- 3) The Dental insurance contract is in its last year of its five-year contract. An RFP will be issued in February 2015. An evaluation of the responses will be performed and the results and recommendation will be presented to the OAC and then to the Board in May, 2015.

Quarterly performance achievement of each TPA is monitored through the reporting of contractually-mandated standards. Other periodic reviews concerning, for example, processing of individual appeals, involvement in day-to-day operational issues, or assistance with marketing materials, are also conducted.

**6. *Review and approve macro-level strategic investment policies which guide the strategic vision for ASRS investments:***

*SIP001 Asset Allocation (PLAN)  
SIP002 Fund Position and Rebalancing (PLAN)  
SIP003 Asset Allocation (LTD)  
SIP004 Fund Rebalancing (LTD)  
SIP005 Securities Litigation  
SIP006 Investment Manager Selection*

No changes to ASRS Strategic Investment Policies occurred in 2014.

**7. *Conduct an annual actuarial valuation of the ASRS liabilities and submit the results to the Governor and state legislature as required by state law. (A.R.S. § 38-714)***

System, Plan, Health Insurance and LTD valuations presented at the December 2014 Board meeting.

2014 CAFR, which contains actuarial information, was submitted to the Governor and Legislature in December 2014.

**8. *Conduct an actuarial experience investigation study every five years, which assists in establishing actuarial funding methods and assumptions, benefit option factors, and an asset valuation method consistent with State law. (A.R.S. § 38-711)***

The experience investigation study is included in the current consulting actuary contract. The most recent study was conducted by Buck Consultants and was presented to the Board May 2013. The next study to be completed and presented 2018.

**9. *Conduct an independent third-party audit of the actuarial funding of the ASRS benefits every five years.***

Gabriel Roeder Smith & Company conducted an audit of Buck Consultants and presented at the June 2014 Board Meeting. The next audit to be completed and presented 2019.

**2014 MAJOR ANNUAL RESPONSIBILITIES**  
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***10. Review, approve, and monitor the budget and budget change proposals.***

Reviewed the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plan for Fiscal Year FY 2015 and approved the ASRS Appropriated Budget Request and Estimated ASRS Administrative and Investment Spending Plans for FY 2016 and FY 2017 at the August 2014, Board meeting, with monthly status reports included in the Director's Report section of the Board packets.

***11. Ensure the integrity of the financial control and reporting system.***

Independent Auditor presented the June 30, 2014 CAFR at the December 2014 Board meeting.

***12. Biennially review the agency risk assessment document and risk management activities.***

Based on an internal audit on governance, the biennial risk assessment has been replaced with an ongoing, enterprise-wide risk assessment process. Risk assessments are periodically reported to the OAC (and also the IC if required). Staff provided its first annual report on risk management at the August 2014, Board meeting.

***13. Biennially approve the internal audit plan.***

Internal Audit Biennial Audit Plan for FY 2016 and 2017 to be reviewed, June 2015.

***14. Board working with the Director will adopt a set of strategic initiatives and evaluation criteria for the Director.***

The outcome of the ASRS Five-Year Strategic Plan (2014-18) was presented at the September 2014 Board meeting. FY 2015 legislative initiatives were presented and approved October 2014.

The Director review is tentatively scheduled for the April 2014 Board meeting.

***15. Direct and oversee the long-term strategic planning process for the ASRS, including: adopting the vision, values, investment principles, and strategic goals of the ASRS; identifying and prioritizing strategic initiatives; measuring the success and progress of the Strategic Plan.***

The ASRS Five-Year Strategic Plan (2014-18) includes the following five priorities for the agency:

- Ensure Plan sustainability
- Optimize risk management
- Optimize investment organization and strategies
- Ensure outstanding customer service
- Ensure high productivity

The Plan outcomes were discussed at the September 2014 Board meeting.

May 2014, the Board approved the following proposed schedule of Strategic Topics for FY2015: Fiduciary Role of Trustees (March 2015), Board Governance Model (March 2015), Asset Allocation (February & March 2015), Operational Capacity (August 2014), Member Service Paradigm (January 2015), Employer Service Paradigm (June 2015), Membership Rules (December 2014), and Healthcare: Implications of Federal Legislation, Market Place Dynamics and Key Economic Components of the ASRS Paradigm (May 2015).

**2014 MAJOR ANNUAL RESPONSIBILITIES  
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**Oversight**

***1. Member services, including all outreach education, walk-in counseling, member correspondence, and call center services and programs.***

Presented the New Guide to Pre-Retirement Services (GPS) at the February 2014 meeting.

Presented the ASRS' progress from January 2011 to October 2014, in migrating members from manual transactions, physical contacts and mailings to online self-service at the October 2014 meeting.

***2. Technology services, including development, maintenance, security, performance, and compliance with state or industry standards.***

ASRS information technology security risks and initiatives were discussed at the February, April, August, and December 2014 meetings.

***3. General accounting and financial reporting, including compliance with industry standards, investment accounting, payroll, accounts receivable and payable, pension payroll, and contribution reporting.***

A risk assessment of fraud against a member account was reviewed at the August 2014 meeting.

***4. Collection and maintenance of member/employer accounts, including contributions, salaries and service, demographic data, and security.***

The Return to Work Program was discussed at the February and April, 2014 meetings.

***5. Benefit administration, including calculations and disbursements for all benefit types.***

A risk assessment of fraud against a member account was reviewed at the August 2014 meeting.

***6. Strategic, agency-wide staffing issues.***

A presentation of the budget request including staffing items was discussed at the August 2014 meeting.

***7. Administration and plan design of the ASRS health insurance program.***

The RFP responses for a five-year contract for ASRS Retiree Medical Benefits to begin January 1, 2015 were discussed at the August 2014 meeting.

A discussion of the Retrospective Rate Adjustment Agreement (RRAA) funds was held at the October 2014 meeting.

***8. Administration and plan design of the ASRS long term disability program.***

LTD third-party administration contract awarded July 1, 2011 to Sedgwick Claim Management Services. Contract term is one year with the option to renew for four one-year periods. The renewal in 2014 resulted in an increase of 1.3% in administrative fees beginning July 2014. Contract expires June 30, 2016.

**Legislation passed in 2014:**

Correct a statutory conflict between the definition of compensation and its usage within the statutes.

**Legislation offered in 2014 that did not pass:**

The ASRS asked the legislature whether a 60% LTD benefit level would be more appropriate than the current 22 2/3% LTD benefit level.

**2014 MAJOR ANNUAL RESPONSIBILITIES  
LISTED IN BOARD GOVERNANCE POLICY HANDBOOK  
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**Legislation proposed in 2015:**

Remove the word “total” from our long term disability statutes when written prior to the term disability. The statutory definition only refers to the inability of a member to do his or her own occupation initially, then any occupation subsequently.

**Audit of Program**

The LTD program and related processes audit was presented to the Operations and Audit Committee August 2014.

***9. Plan design of the ASRS 401(a) defined benefit plan.***

No Plan design issues were needed to be discussed at the OAC during 2014.

***10. Governance policies and practices.***

There were no proposed changes to the governance policies and practices in 2014.

***11. Review appropriated budget request proposals; ongoing administration of the ASRS appropriated budget and continuously appropriated budget.***

Approved and forwarded recommendation to the Board regarding FY 2016 and FY 2017 appropriated budget and continuously appropriated budget at the August 2014, OAC meeting.

***12. General contract management and procurement.***

The RFP responses for a five-year contract for ASRS Retiree Medical Benefits to begin January 1, 2015 were discussed at the August 2014 meeting.

***13. Strategic initiatives approved by the Board affecting operations or administration.***

The OAC discussed ASRS Security in February, April, August, and December, 2014. An improvement to Member online processes was discussed in February and August, 2014.

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

**Oversight of the agency’s enterprise-wide risk management program.**

The security audit and scheduled IT risk assessment presented at the February 2014 meeting. The Risk Assessment of Agency Technology Development, Security, and Continuity of Operations presented at the August 2014 meeting. Data Security Initiatives, a risk assessment topic presented at the December 2014 meeting.

**Review and approval of the biennial Audit Plan.**

The current Audit Biennial Plan was reviewed and revisited at the February, April, August, and October 2014 meetings. The next Internal Audit Biennial Audit Plan for FY 2016 and 2017 will be reviewed by the OAC in 2015. (Tentatively May 2015)

**Review and follow up on operational, investment, employer, and vendor audits.**

Internal and employer audits were provided at each OAC meeting during 2014.

**The OAC will use its discretion in reporting or making recommendations to the Board except in cases when Board action is required by governance policy (see Internal Audit Charter).**

No discretionary items were referred from the OAC to the Board in 2014.

**2014 MAJOR ANNUAL RESPONSIBILITIES  
LISTED IN BOARD GOVERNANCE POLICY HANDBOOK  
JANUARY 2015 STATUS  
OPERATIONS AND AUDIT COMMITTEE RESPONSIBILITIES**

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**OAC actions requiring independent Board review.**

**Selection or removal of a vendor or vendors to administer the ASRS health insurance programs.**

The RFP responses for a five-year contract for ASRS Retiree Medical Benefits to begin January 1, 2015 were discussed at the August 2014 meeting with a recommendation moved to the Board.

**Selection or removal of a vendor to administer the ASRS long term disability program.**

There was no LTD vendor selection or removal in 2014.

**Selection or removal of the ASRS external or internal auditor.**

There was no external or internal auditor selection or removal in 2014.

**Biennial review of the agency's risk management program.**

The next Agency Risk Management Program Audit is due 2015.

**Biennial approval of the internal audit plan.**

The next Internal Audit Biennial Audit Plan for FY 2016 and 2017 will be reviewed and by the OAC in 2015.

**Appropriated budget request proposals.**

Approved and forwarded recommendation to the Board regarding FY 2016 and FY 2017 appropriated budget and continuously appropriated budget at the August 2014, OAC meeting.

**2014 MAJOR ANNUAL RESPONSIBILITIES  
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EXTERNAL AFFAIRS COMMITTEE RESPONSIBILITIES**

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**Legislation**

***1. Work with the Director to identify legislative proposals to facilitate the efficient administration of ASRS operations and report committee recommendations to the Board.***

Conducted an assessment of staff and Board legislative suggestions in mid-summer 2013. Developed costs, strategies and legislative language that were recommended to the full Board in October 2013 for the 2014 session.

Key legislative items passed in 2014 were:

- ASRS membership, section 218 requirements- eliminate the requirement that members must be covered by an employer's Social Security Section 218 Agreement.
- Performing background checks and credit checks on current and prospective employees once the agency establishes a policy on how credit checks would be performed and how the information is relayed to the employee.
- Technical correction to the applicable interest rate for IRS conforming changes for specified actuarial adjustments for ASRS benefits, regarding the stability period during which the applicable interest rate (defined) remains constant in the plan year, and the look-back month that is used to determine the application interest rate in the third full calendar month preceding the first day of the stability period.
- Clarifying the definition of compensation in LTD statutes, A.R.S. § 38-797.

***2. Review new legislation and plan design changes and report Committee findings and recommendations to the Board for action.***

Closely monitored legislation during the 51st Legislature, Second Regular Session that affected the ASRS but not proposed by the agency, reported findings and took action as appropriate.

Key legislative items that were not proposed by ASRS but agency were forced to address:

- Technical changes to the Defined Contribution Plan established in the 2013 legislative session because certain employees were ineligible for Public Safety Personnel Retirement System (PSPRS) because they do not perform hazardous duty but are also ineligible for the ASRS because their position is not covered by the employer's Social Security Section 218 Agreement.
- Allowing Charter Schools; higher education sponsors to obtain their charter through a university to become members of the ASRS.
- Public Pension; Limit on Compensation implements a cap of \$150,000 on earnings eligible for contributions affecting employees hired on or after the effective date.
- Political Subdivision Entities; Remove political subdivision entities from the list of acceptable participants in the ASRS.

***3. Review and monitor Board and ASRS activity regarding state legislative matters to help ensure compliance with the Legislative Review Policy and state law prohibitions on Board advocacy for or against legislation for benefit modifications. (A.R.S. § 38-714)***

Advised the Board, through the agency's Assistant Attorney General, of statutory restrictions on advocacy.

**2014 MAJOR ANNUAL RESPONSIBILITIES  
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**4. *Oversee communicating the actuarial contribution requirements and administrative costs to the legislature and other relevant parties.***

Informed the Speaker of the House, the President of the Senate, the Governor's Office, as well as our assigned House and Senate committees, and our employers of the fund status and proposed contribution rates.

**Administrative Rulemaking**

**1. *Review practices and procedures for inclusion in administrative rules for the ASRS as required and consistent with state law.***

The ASRS welcomed a new rule writer, Ms. Jessica Ross; and, the Regulatory Agenda for 2015 was prepared for approval by the Board and posting. :

**2. *Recommend to the Board the addition, deletion, or modification of administrative rules and substantive Board policies.***

The ASRS promulgated two new rules in 2014. R2-8-120, Designating a Beneficiary; Spousal Consent to Designation became effective October 4, 2014 and R2-8-123, Actuarial Assumptions and Actuarial Value of Assets became effective January 3, 2015. In December 2014, the External Affairs Committee approved the Regulatory Agenda for 2015 with the following rulemaking actions and reviews:

**Expected Rulemakings**

2 A.A.C. 8, Art. 1

- R2-8-104. Definitions
- R2-8-115. Return of Contributions Upon Termination of Membership by Separation from All ASRS Employment by Other Than Retirement or Death; Payment of Survivor Benefits Upon the Death of a Member
- R2-8-116. Reemployment After Retirement

2 A.A.C. 8, Art. 1, Retirement System; Defined Benefit Plan

2 A.A.C. 8, Art.2, Retirement Defined Contribution Program

2 A.A.C. 8, Art. 4, Practice and Procedure Before the Board

2 A.A.C. 8, Art. 5, Purchasing Service Credit

**Five-Year-Review of Rules**

2 A.A.C. 8, Articles 1, 2, 4, and 5

**Annual Communications Program**

**1. *Review the agency's annual communications program to ensure that members, employers, legislature, Governor's Office, and other constituents and interested parties are appropriately notified and/or informed about ASRS' activities, meetings, investments and other information.***

The ASRS completed a major communications project in early 2014 with the rollout of an all-new website.

The new content management system for the ASRS public website was developed by a cross-divisional team under the oversight of the Web Steering Committee and features a completely redesigned site that

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improves organization and timeliness for web information. The new site went live in late March 2014 and set the stage for a complete review of functionality, information, subject areas and presentation.

A significant publicity campaign followed as we introduced the site to our membership.

Highlights of our 2014 overall communications projects:

- ASRS E-Newsletters. Sent January, June, September. More than 250,000 ASRS members have been reached through each of our e-news campaigns.
- *Your Retirement* newsletters. Four quarterly newsletters mailed to more than 130,000 retirees, beneficiaries and disabled members each quarter.
- Birthday Emails to active and inactive members. Began sending emails to members on their birthday in 2013 and continued daily in 2014, including introduction of a second e-card aimed specifically at members nearing retirement. This daily run averages about 650 with a birthday greeting and reminder to log in to their personal secure ASRS account to see their benefit information.
- 2014 Comprehensive Annual Financial Report (CAFR) and Popular Annual Financial Report (PAFR) produced by the Financial Services Division in November. Copies are provided to Governor's Office and key legislators.
- Produced the two Retiree Health Insurance brochures for annual Open Enrollment and Initial Enrollment.
- Daily updates to the online ASRS Bill Tracker were made during the 2014 Legislative session.
- In January, the ASRS released a unique 60-page Guide to the Affordable Health Care Act and the Arizona Health Insurance Marketplace. This guide, useful for non-Medicare retirees and others, included detailed comparison charts on the various health insurance companies participating in the Arizona Health Insurance Marketplace.
- In 2014, the ASRS launched two new social media platforms – Twitter and LinkedIn – as a complement to the ASRS Facebook page. Posts to these mediums are made almost daily as we continue to develop new ways to engage and reach out to our diverse membership.
- Our Member Services Division created several new videos, including one on “The Value of the ASRS.” There are now 20 instructional videos on our ASRS playlist covering a variety of topics, including our many health insurance plans.
- Redesigned and added a new tri-fold brochure on Service Purchase. We now have 6 popular tri-folds made available at ASRS offices and distributed in outreach meetings.
- Redesigned the ASRS Member Handbook to compliment the popular online GPS interactive video tour that is a cornerstone of our Member Education programs.
- Member Services Division also re-formatted their Member Education program to the GPS guide that includes different information along “Your Road to Retirement.”
- Three editions of our *Employer Update* e-newsletters were delivered to 700-plus employer-partners 2014.
- Multiple special subject emails were presented to our employers by the Employer Relations team.

**2014 MAJOR ANNUAL RESPONSIBILITIES  
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**1. *Recommend to the Board the ASRS investment goals and objectives.***

Discussed ASRS Strategic Asset Allocation Schematic. Quarterly reviewed ASRS investment outcomes vs. ASRS investment goals and objectives.

**2. *Recommend to the Board the ASRS strategic asset allocation policy which is expected to achieve the investment goals and objectives.***

In Q4-14, the Director, CIO, IC Chair, IMD staff, and NEPC, ASRS general investment consultant, commenced discussions regarding the framework, objectives, processes and timeline for possibly making changes to ASRS Strategic Asset Allocation Policy (SAAP). As a result, in Q1-15 discussions with the IC ensued and resulted in their recommendation to full Board to approve modifications to ASRS SAAP schematic.

**3. *Recommend to the Board ASRS Strategic Investment Policies and review annually the ASRS Investment Policy Statement (IPS).***

No changes to ASRS SIPs occurred in 2014. A review of the ASRS IPS was rescheduled for January. Changes to ASRS SIPs and IPS require Board approval.

**4. *Review and recommend to the Board changes in investment-related sections of the ASRS Board Governance Policy Handbook.***

The Investment Committee Charter was modified to include the following duty and responsibility: "Review recommendations regarding changes to asset class performance benchmarks. Subsequent approval by the Board."

**5. *Review the Asset Class Committee's activities and asset class presentations.***

Reviewed and discussed the CIO's Investment Report (ASRS Market Value Reports, Asset Class Positioning, Investment House Views, IMD Projects/Initiatives/Research, and Asset Class Committee decisions); NEPC presented an independent review of ASRS Investment Program Oversight Report – both report presented at each IC meeting.

**6. *Review recommendations regarding changes to asset class performance benchmarks. Subsequent approval by the Board is required.***

Reviewed a real estate program performance reporting benchmark error which resulted from ASRS private markets back-office vendor mistakenly reporting gross not net performance. This caused the benchmark to return at the asset class level to be overstated and the performance of the real estate to be understated; the error was subsequently corrected.

**7. *Review the Tactical Fund Positioning/Portfolio Rebalancing actions.***

Reviewed Tactical investment decisions that were made regarding Total Fund and asset class positioning at each IC meeting. In addition, on a monthly basis, the Director and CIO provided the IC Chair and Board Chair with investment program updates. In addition, the development of an Economic Dashboard and Market Information Report were initiated for monthly dissemination to all Trustees.

**8. *Recommend to the Board the selection, and termination of the ASRS general investment consultant(s) and oversee their performance.***

Given ASRS general investment consulting contract expired in March 2014, a General Investment Consultant RFPs was issued in Q2-14. RFP responses were evaluated and IC recommended to the full Board approval that NEPC be retained. The Board approved NEPC as ASRS General Investment Consultant in February 2014.

**2014 MAJOR ANNUAL RESPONSIBILITIES**  
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**9. *Engage the Director and CIO regarding the Investment Management Division's organizational strategic planning.***

Director discussed the ASRS Investment Compensation Plan (ICP) designed to enhance ASRS Investment Management and performance of the Total Fund.

**10. *Receive and discuss annually ASRS investment risk reports.***

Discussed Total Fund risk management reports generated by an independent external risk vendor and securities lending market metrics generated by IMD staff. Risk reports were discussed at each IC meeting and included in the Director's section of the Board packet on a quarterly basis.

**11. *Review annually the administration of the third-party administrator for the Supplemental Retirement Savings Plan (SRSP) and annually report to the Board.***

Reviewed the SRSP (October 2014).

**12. *Review annually the administration of the third party administrator for the Supplemental Salary Deferral Plan (SSDP) and annually report to the board.***

Reviewed the SSDP (October 2014).

**13. *Review annually the administration of the third-party administrator for the DC 38-955 Plan and annually report to the Board.***

Reviewed the SSDP (October 2014).

**14. *Review and comment if necessary on audits related to investment management.***

ASRS Internal Audit (IA) conducted an audit of IMD's Investment Trading Systems to ensure compliance with policies, regulations, etc.; audit findings were favorable and suggested refinements to separations of duties matter which were subsequently implemented.

In addition, monthly independent audit compliance reports are conducted by ASRS Internal Audit and Custody Bank. These pertain to the management of ASRS internally-managed equity and fixed portfolio trading, to compliance with portfolios' letters of direction and clarification and to compliance with state statutes.

**15. *Receive and review asset class committee minutes.***

Asset Class Committee (ACC) minutes are currently disseminated to the IC Chair. Moving forward, ACC minutes will be disseminated to all IC members. The activities and decisions made by the ACC are presented at each IC meeting and to the Board on a quarterly basis.

**2014 MAJOR ANNUAL RESPONSIBILITIES  
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**1. Perform annual performance evaluations of those who have a direct reporting relationship to the Director.**

2014 evaluations to be completed April, 2015.

**2. Conduct an annual actuarial valuation of the ASRS liabilities and submit the results to the Governor and State Legislature as required by State law. (A.R.S. § 38-714)**

System, Plan, Health Insurance and LTD actuarial valuations presented to Board at the December 2014 Board meeting.

2014 CAFR, which contains actuarial information, to be submitted to the Governor and Legislature December 2014.

**3. Conduct an actuarial experience investigation study every five years.**

The next study to be completed in 2018.

**4. Identify strategic issues involving the design or ongoing administration of the defined benefit plan, defined contribution system, health insurance program, long term disability program, the supplemental retirement savings plan, the supplemental salary deferral plan, and the DC 38-955 plan. Initiate analysis or action as appropriate.**

Director held a Multi-chair meeting with the Board and Committee Chairs in July 2014.

Strategic topics discussed by the Board:

January, 2014 – Analysis of potential cost savings, potential customer service flexibility, and modified risk profile of moving ASRS to an in-house disbursement process.

April, 2014 – Sensitivity of pension and health supplement contribution rates and funded status to various investment returns.

June, 2014 – Independent reporting, monitoring and oversight of the ASRS investment program.

May, 2014 – Study of pre-retirement salary changes.

August, 2014 – ASRS operational capacity (budget, staffing, risks: IT security, investment management, customer service

December , 2014 – ASRS membership

Key legislative items that were not proposed by ASRS but agency were forced to address:

- Technical changes to the Defined Contribution Plan established in the 2013 legislative session because certain employees were ineligible for Public Safety Personnel Retirement System (PSPRS) because they do not perform hazardous duty but are also ineligible for the ASRS because their position is not covered by the employer's Social Security Section 218 Agreement.
- Allowing Charter Schools; higher education sponsors to obtain their charter through a university to become members of the ASRS.
- Public Pension; Limit on Compensation implements a cap of \$150,000 on earnings eligible for contributions affecting employees hired on or after the effective date.
- Political Subdivision Entities; Remove political subdivision entities from the list of acceptable participants in the ASRS.

**2014 MAJOR ANNUAL RESPONSIBILITIES  
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**5. Assist the Board in reviewing and adopting actuarial assumptions, funding methods, benefit option factors and actuarial valuation methods for the ASRS.**

Reviewed actuarial assumptions and methods with Actuary during the preparation of valuation reports. System, Plan, Health Insurance and LTD valuations presented November 2014.

**6. Oversee the preparation of the ASRS comprehensive annual financial report.**

2014 System's Comprehensive Annual Financial Report (CAFR) and the Popular Annual Financial Report (PAFR) for Fiscal Year 2014 presented at the December 2014 Board meeting.

**7. Administer the Supplemental Retirement Savings Plan (SRSP) and report to the Investment Committee (IC) annually.**

Facilitated SRSP Committee meetings on 02/13/14, 06/05/14, 06/13/14, 08/14/14, 11/13/14, and 11/20/14. Reported to IC in October 2014.

**8. Administer the Supplemental Salary Deferral Plan (SSDP) and report to the Investment Committee (IC) annually.**

Facilitated SSDP Committee meetings on 02/13/14, 06/05/14, 06/13/14, 08/14/14, and 11/20/14. Reported to IC in October 2014.

**9. Administer the DC 38-955 Plan and report to the Investment Committee (IC) annually.**

Facilitated SSDP Committee meetings on 02/13/14, 06/05/14, 08/14/14, and 11/13/14. Reported to IC in October 2014.

**10. Arrange for an annual fiduciary education session for the Board.**

The Fiduciary training was not held in 2014 but was held March 2015.

**11. Assist the Board in soliciting and selecting the following external service providers:**

**Consulting actuaries and actuarial auditors**

A consulting actuary contract was awarded to Buck Consultants July 1, 2011. Alternate actuaries are contracted for special projects (which include actuarial auditing). Contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewal completed May 15, 2014, and the contract, if all renewals are exercised, will be exhausted on June 30, 2016.

**External financial auditor**

The primary external financial auditor contract was awarded to CliftonLarsonAllen to commence work on the FY 13 audit. Heinfeld, Meech & Company was also awarded a contract to serve as the secondary external financial auditor and for special projects as needed. Contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewal for CliftonLarsenAllen was completed December 1, 2014, and Heinfeld, Meech & Company completed its renewal November 6, 2014. The contract, if all renewals are exercised, will be exhausted on December 31, 2017.

**General investment consultants**

The ASRS general investment consulting contract expired in March 2014, a General Investment Consultant RFPs was issued in Q2-14. RFP responses were evaluated and IC recommended to the full Board approval that NEPC be retained. The Board approved NEPC as ASRS General Investment Consultant in February 2014.

**2014 MAJOR ANNUAL RESPONSIBILITIES  
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**Third-party administration providers for health and long-term disability:**

A new contract was approved by the Board and awarded for a retiree medical benefit program to UnitedHealthcare effective January 1, 2015. The contract is for one year with four annual renewals through December 31, 2020. Our non-Medicare Choice (in-state) had a 3.8% premium increase and Choice Plus (out-of-state) medical plan had a 3.6% increase beginning January 1, 2015. The Medicare Advantage HMO (Urban) had a 2.1% premium increase, Medicare Advantage HMO (Rural) had a 25.4% premium decrease and Senior Supplement Plan retirees had a 1.5% premium decrease.

LTD third-party administration contract was awarded July 1, 2011, to Sedgwick Claim Management Services, Inc. Contract Term is one year with the option to renew for four one-year periods. Annual renewal was completed July 1, 2014, and the contract, if all renewals are exercised, will be exhausted on June 30, 2016.

The Dental insurance contract is in its last year of its five-year contract. An RFP will be issued in February 2015. An evaluation of the responses will be performed and the results and recommendation will be presented to the OAC and then to the Board in May, 2015.

**12. Approve all contract extensions, including the following external service providers:**

**Consulting actuaries and actuarial auditors**

A consulting actuary contract was awarded to Buck Consultants July 1, 2011. Alternate actuaries are contracted for special projects (which include actuarial auditing). Contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewals completed May 15, 2014, and the contract, if all renewals are exercised, will be exhausted on June 30, 2016.

**External financial auditor**

The primary external financial auditor contract was awarded to CliftonLarsonAllen to commence work on the FY 13 audit. Heinfeld, Meech & Company was also awarded a contract to serve as the secondary external financial auditor and for special projects as needed. Contract term is one year with the ASRS option to renew for up to four one-year periods. Annual renewal for CliftonLarsenAllen was completed December 1, 2014, and Heinfeld, Meech & Company completed its renewal November 6, 2014. The contract, if all renewals are exercised, will be exhausted on December 31, 2017.

**General investment consultants**

The ASRS general investment consulting contract expired in March 2014, a General Investment Consultant RFPs was issued in Q2-14. RFP responses were evaluated and IC recommended to the full Board approval that NEPC be retained. The Board approved NEPC as ASRS General Investment Consultant in February 2014.

**Third-party administration providers for health and long-term disability**

See #11 Above (*Assist the Board in soliciting and selecting the following external service providers*)

**13. Review and approve, with the consensus of the CIO, recommendations from ASRS Asset Class committees, to hire and terminate investment managers/partners.**

**Private Markets:**

Completed 24 private markets investments totaling \$1.94 billion across private equity, real estate, opportunistic and private debt portfolios.

**Public Equities:**

Liquidated and transferred from the Domestic Equities Class approximately \$2.0 billion.

Terminated three International Developed Market active managers representing \$1.2 billion.

Hired three International Developed Market active managers representing \$1.2 billion.

**2014 MAJOR ANNUAL RESPONSIBILITIES  
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**Commodities:**

Reduced Exposure by \$100 million.

**14. Review and approve recommendations from ASRS Asset Class committees to hire and terminate Asset Class consultants. The Investment Committee must consent to the Director's recommendation before a primary consultant for an Asset Class committee is hired or terminated.**

No recommendations were made in 2014 to hire or terminate an Asset Class consultant.

**15. Approve the selection, extension and termination of the supplemental retirement savings plan (SRSP), the supplemental savings deferral plan (SSDP), and DC 38-955 plan investment options, and third-party administrators.**

A contract for administering the SRSP was awarded January 1, 2012 to Nationwide Retirement Solutions, Inc. Contract term is one year with the option to renew for four one-year periods. Annual renewal was completed November 21, 2014 and the contract, if all renewals are exercised, will be exhausted on December 31, 2016.

A contract for administering the SSDP was awarded March 1, 2010 to TIAA-CREF. Contract term is one year with the option to renew for four one-year periods. Annual renewal is due February 28, 2014, and the contract will be exhausted on February 28, 2015. An RFP has been issued and a review of the responses is currently under way.

**16. The Board is updated at least annually regarding the agency's progress addressing strategic priorities.**

The first annual report of the new Strategic Plan occurred in September 2014.

**17. In preparation for Board Meetings with Strategic Planning agendas, the Director will ask the Board Chair for direction on how to proceed in discussing, modifying, or developing strategic priorities.**

This was added to the Governance Handbook in October. The Director will consult with the Chair at least one quarter prior to the scheduled report on the Strategic Plan.

**18. At least once annually, during Board meetings with Strategic Planning agendas, the Trustees and Director will determine:**

*Which strategic topics they would like discussed during the year.*

*The number of Board meetings they would like to devote to strategic planning.*

*Preferences for how strategic discussions should be facilitated.*

*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.*

This discussion occurred as part of the Strategic Plan annual report in September 2014. Strategically focused topics that were identified in these meetings will be scheduled for follow up discussion at future Board meetings.

**2014 MAJOR ANNUAL RESPONSIBILITIES  
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ADDITIONAL TRUSTEE REQUEST**

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*Trustee Informational Sessions*

Bankruptcy Seminar – November 20, 2014

# Agenda Item #7

## Director's Report

**7a - Compliance**

**7b - Investments**

**7c - Operations**

**7d - Budget & Staffing**

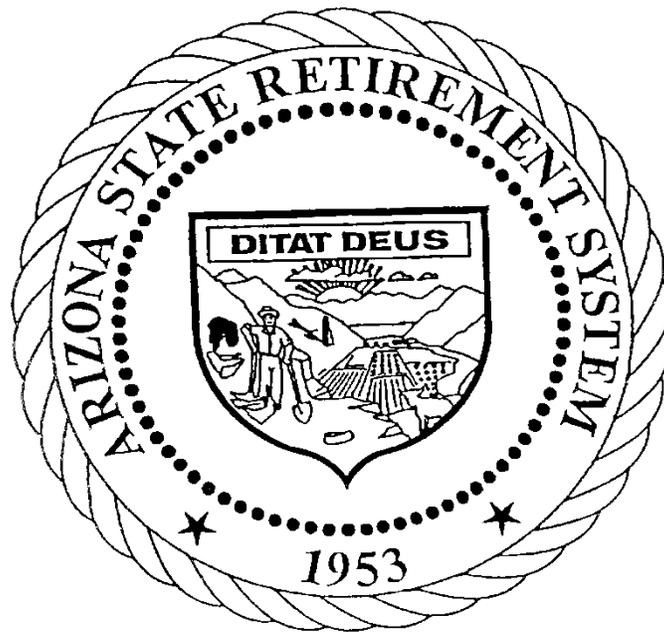
**7e - Cash Flow Statement**

**7f - Appeals**

**7g - Employers Reporting**

# Agenda Item #7a

## Director's Report Compliance





# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778  
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

*Paul Matson*  
Director

## MEMORANDUM

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

**FROM:** Mr. Paul Matson, Director  
Mr. Bernard Glick, Chief Internal Auditor

**DATE:** April 17, 2015

**RE:** Tri-annual Review of Compliance Issues Regarding Total Fund Investments as of February 28, 2015

The Internal Audit Division is charged with the monitoring and reporting, every four months, of certain "compliance" related topics which are addressed in the Arizona Revised Statutes, Section 38-719.

These topics include, but are not limited to, the following;

- Investment in corporate stocks or equity equivalents is limited to no more than 80% of ASRS assets.
- Investment in foreign securities is limited to no more than 40% of ASRS assets.
- Internal investment is limited to 60% of total fund assets.
- No more than 5% of ASRS assets may be invested in securities issued by one institution, except for investments guaranteed by the US or federal agencies, measured at market value.
- No more than 10% of ASRS assets may be invested in bonds or other debt of multinational development banks, measured at market value
- IMD staff acknowledge, in writing, that personal securities trading restrictions are being followed.
- Investments are not included in the Office of Foreign Asset Control (OFAC) prohibitions.

For the four month period ending February 28, 2015 we found no exception to these topics.



# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778  
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

*Paul Matson*  
Director

## MEMORANDUM

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

**FROM:** Mr. Paul Matson, Director  
Mr. Bernard Glick, Chief Internal Auditor

**DATE:** April 17, 2015

**RE:** Internal Audit Review of Internal Investment Validation for the month ending March 31, 2015

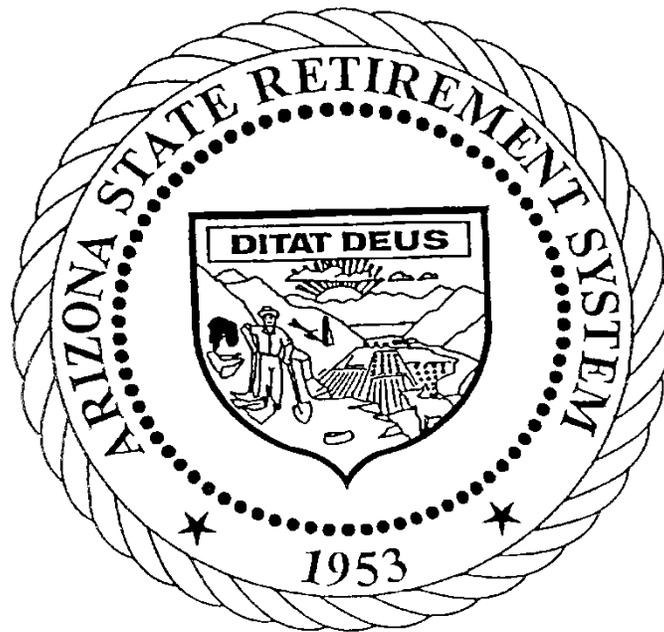
The Internal Audit Division reviewed 2611 trade transactions in the month of March on all the activity in the E2, E3, E4, E6, E7, E8, E9 and F2 accounts. Our review included:

- Determining that the transaction was properly approved.
- Reviewing the transaction for mathematical accuracy.
- Ensuring that the description and ticker symbol matched the CUSIP number.
- Reconciliation of transaction from trade ticket to custody bank transaction download
- Other tests that we deemed appropriate

No infractions were noted during our review. Based on this review, we believe the procedures for executing and reporting internal investment transactions have been followed for this time reportable period.

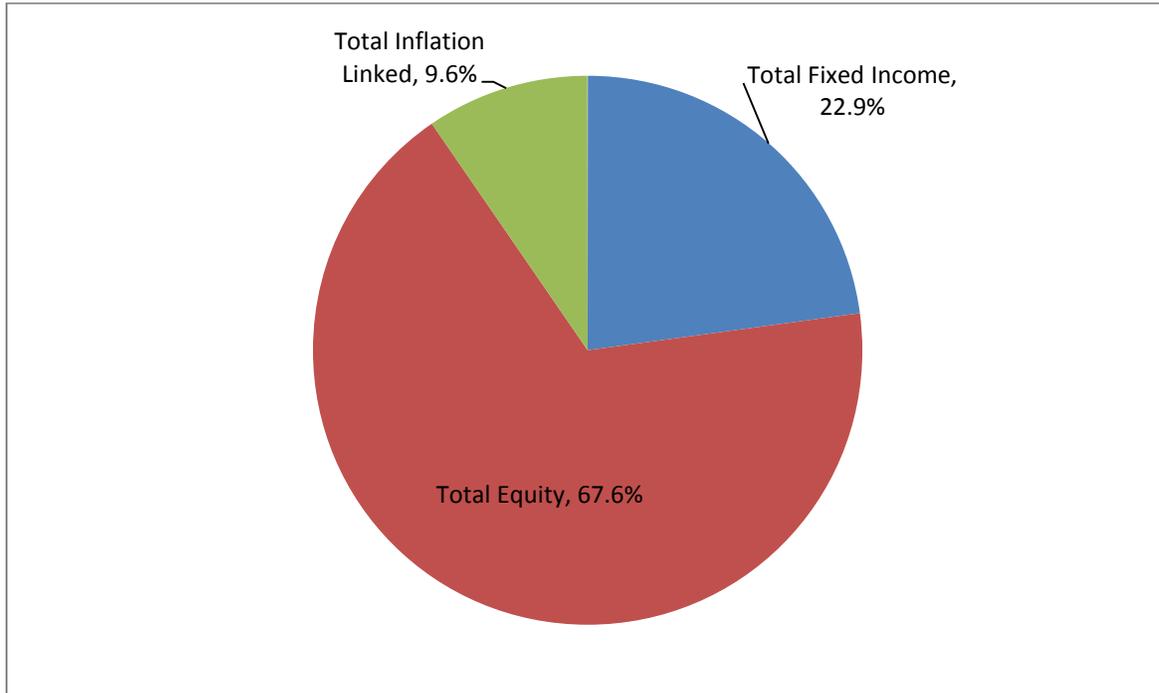
# Agenda Item #7b

## Director's Report Investments

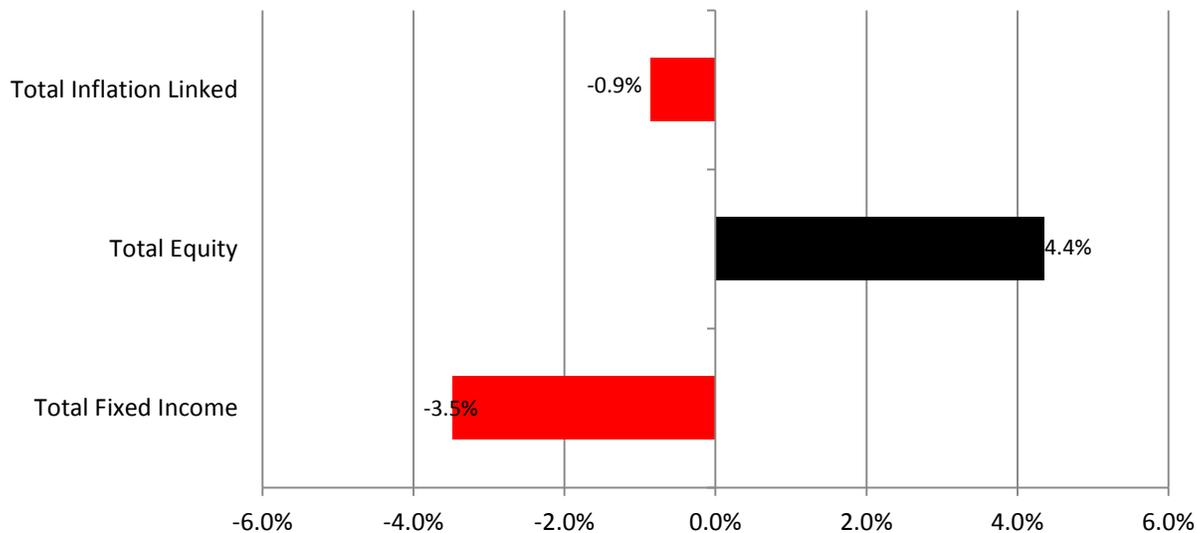


## TOTAL FUND POSITIONING – 02/27/15

### ACTUAL PORTFOLIO



### ACTUAL PORTFOLIO (ASSUMED GTAA ALLOCATION VS. ADJUSTED SAA POLICY \*)



\*Real Estate and Private Equity actual weight is equal to policy weight during the implementation of the asset class.

\*Over/Underweights include both GTAA positions as well as IMD tactical considerations.

Note: Opportunistic & Private Debt, Opportunistic Private Equity, Farmland & Timber, Real Estate and Private Equity market values are reported on a quarter-lag and adjusted to include the current quarter's cash flows. Within the Assumed GTAA Allocation vs. Adjusted SAA Policy chart, Real Estate was prorated to domestic equity, international equity and fixed income. Private Equity was prorated to domestic equity.

**Pension (Plan, System, HBS Assets)**

**ASRS Market Value Report**

As of:

**Friday, February 27, 2015**

Account Manager	Account Manager Style	Fixed Income		Equity		Inflation Linked		Total	Pct of Fund
		Active	Enh/Passive	Active	Enh/Passive	Active	Enh/Passive		
State Street B&T: Boston	Operating Cash (non-assetized)		74,231,692					74,231,692	0.21%
	Operating Cash (assetized)		6,125,287					6,125,287	0.02%
	<b>Cash Total</b>							<b>\$80,356,979</b>	<b>0.23%</b>
								<b>Cash Policy Range</b>	<b>0.00%</b>
GTAAs Managers (2)	Active GTAA	1,227,011,569						1,227,011,569	3.53%
Blackrock: San Francisco	Passive (Intermediate Gov Credit)		24,311,050					24,311,050	0.07%
ASRS: Phoenix	Enhanced Passive F2		1,895,746,948					1,895,746,948	5.45%
Blackrock: San Francisco	Passive (US Debt Index)		444,209,045					444,209,045	1.28%
	<b>Core Fixed Income Total</b>							<b>\$3,591,278,611</b>	<b>10.32%</b>
								<b>Core Fixed Income Policy</b>	<b>13.00%</b>
Columbia: Minneapolis	Active	818,643,514						818,643,514	2.35%
JP Morgan: Indianapolis	Active	486,207,229						486,207,229	1.40%
	<b>High Yield Fixed Income Total</b>							<b>\$1,304,864,498</b>	<b>3.75%</b>
								<b>High Yield Fixed Income Policy</b>	<b>5.00%</b>
	<b>US Fixed Income Total</b>							<b>\$4,896,143,109</b>	<b>14.08%</b>
								<b>US Fixed Income Policy Range: 8% - 28%</b>	<b>18.00%</b>
PIMCO (local): Newport Beach	Active	208,847,324						208,847,324	0.60%
Ashmore (blended): London	Active	209,115,799						209,115,799	0.60%
	<b>EM Debt Total</b>							<b>\$417,963,124</b>	<b>1.20%</b>
								<b>EM Debt Policy</b>	<b>4.00%</b>
	<b>Opportunistic Debt</b>							<b>\$1,059,852,743</b>	<b>3.05%</b>
								<b>Opportunistic Debt Policy Range: 0% - 10%</b>	<b>0.00%</b>
	<b>Private Debt Total</b>							<b>\$1,495,638,193</b>	<b>4.30%</b>
								<b>Private Debt Policy</b>	<b>3.00%</b>
	<b>Fixed Income Total</b>							<b>\$7,949,954,148</b>	<b>22.85%</b>
								<b>Total Fixed Income Policy Range: 15% - 35%</b>	<b>25.00%</b>
Intech: FL	Active (Growth)		506,001,074					506,001,074	1.45%
LSV: Chicago	Active (Value)		852,210,399					852,210,399	2.45%
GTAAs Managers (2)	Active GTAA		885,846,698					885,846,698	2.55%
ASRS: Phoenix	Passive E2			5,295,552,829				5,295,552,829	15.22%
ASRS: Phoenix	Enhanced Passive E7			808,779,766				808,779,766	2.33%
ASRS: Phoenix	Enhanced Passive E8			555,688,340				555,688,340	1.60%
ASRS: Phoenix	Risk Factor Portfolio			563,224,152				563,224,152	1.62%
	<b>Large Cap Equity Total</b>							<b>\$9,467,326,227</b>	<b>27.22%</b>
								<b>Large Cap Policy</b>	<b>23.00%</b>
Wellington: Boston	Active (Core)		446,443,326					446,443,326	1.28%
CRM: New York	Active (Value)		105,969,748					105,969,748	0.30%
ASRS: Phoenix	Passive E3 (Growth)			541,930,911				541,930,911	1.56%
ASRS: Phoenix	Passive E4 (Value)			543,462,936				543,462,936	1.56%
	<b>Mid Cap Equity Total</b>							<b>\$1,637,806,921</b>	<b>4.71%</b>
								<b>Mid Cap Policy</b>	<b>5.00%</b>
TimesSquare: New York	Active SMID (Growth)		487,133,067					487,133,067	1.40%
DFA: Santa Monica	Active (Value)		396,844,222					396,844,222	1.14%
Champlain:Vermont	Active (Core)		96,943,633					96,943,633	0.28%
ASRS: Phoenix	Passive E6			504,938,731				504,938,731	1.45%
	<b>Small Cap Equity Total</b>							<b>\$1,485,859,653</b>	<b>4.27%</b>
								<b>Small Cap Policy</b>	<b>5.00%</b>
	<b>U.S. Equity Total</b>							<b>\$12,590,992,802</b>	<b>36.20%</b>
								<b>US Equity Policy Range: 26% - 38%</b>	<b>33.00%</b>
Brandes: San Diego	Active (Value)		594,664,275					594,664,275	1.71%
GTAAs Managers (2)	Active GTAA		1,034,383,299					1,034,383,299	2.97%
American Century	Active (EAFE)		527,139,168					527,139,168	1.52%
Trinity Street	Active (EAFE)		328,749,655					328,749,655	0.95%
Thompson Siegel Walmsley	Active (EAFE)		156,887,413					156,887,413	0.45%
Blackrock: San Francisco	Passive (EAFE)			2,356,068,519				2,356,068,519	6.77%
	<b>Large Cap Developed Non-US Equity Total</b>							<b>\$5,000,074,547</b>	<b>14.37%</b>
								<b>Large Cap Developed Policy</b>	<b>14.00%</b>
AQR: Greenwich	Active (EAFE SC)		176,865,422					176,865,422	0.51%
DFA: Santa Monica	Active (EAFE SC)		211,025,514					211,025,514	0.61%
Franklin Templeton: San Mateo	Active (EAFE SC)		396,994,397					396,994,397	1.14%
Blackrock: San Francisco	Passive (EAFE SC)			458,313,458				458,313,458	1.32%
	<b>Small Cap Developed Non-US Equity Total</b>							<b>\$1,243,201,372</b>	<b>3.57%</b>
								<b>Small Cap Developed Policy</b>	<b>3.00%</b>
William Blair: Chicago	Active (EM)		471,646,438					471,646,438	1.36%
Eaton Vance: Boston	Active (EM)		480,389,697					480,389,697	1.38%
LSV: Chicago	Active (EM)		297,599,210					297,599,210	0.86%
Blackrock: San Francisco	Passive (EM)			670,086,853				670,086,853	1.93%
	<b>Emerging Markets Equity Total</b>							<b>\$1,919,722,198</b>	<b>5.52%</b>
								<b>Emerging Markets Policy</b>	<b>6.00%</b>
	<b>Non-US Equity Total</b>							<b>\$8,162,998,117</b>	<b>23.47%</b>
								<b>Non-US Equity Policy Range: 16% - 28%</b>	<b>23.00%</b>
	<b>Private Equity Total</b>							<b>\$2,365,588,955</b>	<b>6.80%</b>
								<b>Private Equity Policy Range: 5% - 9%</b>	<b>7.00%</b>
	<b>Opportunistic Equity</b>							<b>\$382,681,559</b>	<b>1.10%</b>
								<b>Opportunistic Equity Policy Range: 0% - 3%</b>	<b>0.00%</b>
	<b>Equity Total</b>							<b>\$23,502,261,432</b>	<b>67.56%</b>
								<b>Total Equity Policy Range: 53% - 73%</b>	<b>63.00%</b>
Gresham: New York						564,247,534		564,247,534	1.62%
GTAAs Managers (2)	Active GTAA					231,845,875		231,845,875	0.67%
	<b>Commodities Total</b>							<b>\$796,093,409</b>	<b>2.29%</b>
								<b>Commodities Policy Range: 1% - 7%</b>	<b>4.00%</b>
GTAAs Manager (1)	Active GTAA					34,880,615		34,880,615	0.10%
	<b>Real Estate Total</b>							<b>\$2,085,342,851</b>	<b>5.99%</b>
								<b>Real Estate Policy Range: 6% - 10%</b>	<b>8.00%</b>
	<b>Infrastructure Total</b>							<b>\$300,000,000</b>	<b>0.86%</b>
								<b>Infrastructure Policy Range: 0% - 3%</b>	<b>0.00%</b>
	<b>Farmland &amp; Timber Total</b>					151,503,684		<b>\$151,503,684</b>	<b>0.44%</b>
								<b>Farmland &amp; Timber Policy Range: 0% - 3%</b>	<b>0.00%</b>
	<b>Opportunistic Inflation Linked Total</b>							<b>\$0</b>	<b>0.00%</b>
								<b>Opportunistic I/L Policy Range: 0% - 3%</b>	<b>0.00%</b>
	<b>Inflation Linked Total</b>							<b>\$3,332,939,945</b>	<b>9.58%</b>
								<b>Inflation Linked Policy Range: 7%-15%</b>	<b>12.00%</b>
	<b>TOTAL Amounts</b>	<b>\$4,445,477,384</b>	<b>\$3,504,476,764</b>	<b>\$11,204,191,968</b>	<b>\$12,298,069,464</b>	<b>\$3,484,443,629</b>	<b>\$0</b>	<b>\$34,785,155,525</b>	<b>Total Fund</b>
	<b>TOTAL Percent</b>	<b>12.78%</b>	<b>10.07%</b>	<b>32.21%</b>	<b>35.35%</b>	<b>10.02%</b>	<b>0.00%</b>		

Asset Class	Actual Portfolio	SAA Policy: Target (Range)	Rebalancing		Assumed - Adjusted		Policy Band check	Passive Min	Passive Actual
			Assumed Port	Adj Policy	% diff	\$ diff			
Cash	0.23%	0%	0.00%		0.00%				
Core	10.32%	13%						50%	71%
High Yield	3.75%	5%							
US Fixed Income	14.08%	18% (8-28%)	13.53%	18.56% (9-29%)	-5.03%	-\$1,751,219,905	OK		
EM Debt	1.20%	4%		4.00%					
Opportunistic Debt	3.05%	0% (0-10%)	3.05%	0% (0-10%)	3.05%	\$1,059,852,743	OK		
Private Debt	4.30%	3%		3.00%					
<b>Total Fixed Income</b>	<b>22.85%</b>	<b>25% (15-35%)</b>	<b>22.08%</b>	<b>25.56% (16-36%)</b>	<b>-3.49%</b>	<b>-\$1,212,726,732</b>	<b>OK</b>		
Large Cap	27.22%	23%							
Mid Cap	4.71%	5%							
Small Cap	4.27%	5%							
US Equity	36.20%	33% (26-38%)	37.87%	34.06% (27-39%)	3.81%	\$1,324,767,189	OK	50%	67%
Developed Large Cap	14.37%	14%							
Developed Small Cap	3.57%	3%							
Emerging Markets	5.52%	6%							
Non-US Equity	23.47%	23% (16-28%)	22.95%	23.5% (17-29%)	-0.55%	-\$192,846,336	OK	30%	50%
Private Equity	6.80%	7% (5-9%)	6.80%	6.8% (5-9%)	0.00%	\$0	OK		
Opportunistic Equity	1.10%	0% (0-3%)	1.10%	0% (0-3%)	1.10%	\$382,681,559	OK		
<b>Total Equity</b>	<b>67.56%</b>	<b>63% (53-70%)</b>	<b>68.72%</b>	<b>64.36% (54-71%)</b>	<b>4.35%</b>	<b>\$1,514,602,412</b>	<b>OK</b>		
Commodities	2.29%	4% (1-7%)	2.01%	4.08% (1-7%)	-2.07%	-\$718,498,749	OK		
Real Estate	5.99%	8% (6-10%)	5.89%	5.99% (4-8%)	-0.10%	-\$34,880,615	OK		
Infrastructure	0.86%	0% (0-3%)	0.86%	0% (0-3%)	0.86%	\$300,000,000	OK		
Farmland & Timber	0.44%	0% (0-3%)	0.44%	0% (0-3%)	0.44%	\$151,503,684	OK		
Opportunistic I/L	0.00%	0% (0-3%)	0.00%	0% (0-3%)	0.00%	\$0	OK		
<b>Total Inflation Linked</b>	<b>9.58%</b>	<b>12% (8-16%)</b>	<b>9.21%</b>	<b>10.08% (6-14%)</b>	<b>-0.87%</b>	<b>-\$301,875,680</b>	<b>OK</b>		
<b>Total</b>	<b>100.00%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>0.00%</b>	<b>\$0</b>		<b>30%</b>	<b>43%</b>
<b>Total GTAA</b>								<b>Internally Managed Portfolios:</b>	
Bridgewater	\$2,823,771,520	8.1%						\$10,146,100,460	29%
Windham	\$590,196,536	1.7%							
<b>Total</b>	<b>\$3,413,968,057</b>	<b>9.8%</b>							
<b>Policy</b>	<b>10% ±5%</b>	<b>OK</b>							
								<b>Opportunistic definitions:</b> An investment in a category that is not included in the ASRS Asset Allocation policy and represents an investment opportunity that is tactical in nature.	

ASRS Pension and HBS Assets  
Public Securities Markets  
Investment Managers Performance Summary

Period Ending Feb 28, 2015  
FINAL



	Style	Inception	Amount (\$mil.)	Net Returns (%)								Excess Returns (basis points)								
				Month	3 Months	YTD	1 Year	Annualized			ITD	Month	3 Months	YTD	1 Year	Annualized			ITD	
								3 Years	5 Years	10 Years						3 Years	5 Years	10 years		
<b>US EQUITY LARGE CAP</b>																				
E2 MODEL	INDEXED	04/01/1997	5,296	5.76	2.28	2.56	15.53	17.97	16.17	8.04	7.91	1	-3	-1	2	-3	-1	5	7	
	<i>S&amp;P 500 INDEX</i>			5.75	2.31	2.57	15.51	18.00	16.18	7.99	---									
INTECH LARGE CAP	QUANTITATIVE	01/01/2003	506	5.92	3.31	4.31	12.13	17.55	16.51	8.18	10.23	-6	9	10	-510	-121	-95	-83	31	
	<i>S&amp;P/CITIGROUP 500 GROWTH</i>			5.98	3.22	4.21	17.22	18.76	17.46	9.01	---									
LSV ASSET MANAGEMENT	QUANTITATIVE	01/01/2003	852	6.63	3.06	2.29	14.08	20.61	16.87	8.94	11.70	114	171	148	46	341	198	204	239	
	<i>LSV CUSTOM INDEX</i>			5.49	1.35	0.81	13.62	17.20	14.89	6.90	---									
E7	INDEXED	08/01/2012	809	4.03	-0.15	0.60	15.85	---	---	---	17.10	4	0	1	-15	---	---	---	6	
	<i>MSCI USA High Dividend Yield Index</i>			3.99	-0.15	0.60	16.00	---	---	---	---									
E8	INDEXED	08/01/2012	556	3.71	3.22	3.13	18.88	---	---	---	17.69	5	-6	-3	12	---	---	---	53	
	<i>MSCI USA Minimum Volatility Index</i>			3.66	3.28	3.16	18.76	---	---	---	---									
<b>TOTAL US EQUITY LARGE CAP</b>			<b>\$ 8,018</b>																	
<b>US EQUITY MID CAP</b>																				
WELLINGTON MANAGEMENT COMPANY LLP	FUNDAMENTAL	07/01/2002	446	7.56	6.43	6.08	11.16	20.08	16.74	11.36	11.97	244	163	213	1	284	-28	131	118	
	<i>S&amp;P 400 MIDCAP INDEX</i>			5.12	4.80	3.94	11.14	17.25	17.02	10.05	---									
E3 MODEL	INDEXED	12/01/2000	542	4.51	5.30	5.06	10.03	16.30	17.86	10.99	9.03	4	-1	0	-11	12	33	55	55	
	<i>S&amp;P/CITIGROUP 400 GROWTH</i>			4.47	5.31	5.06	10.14	16.18	17.53	10.44	---									
CRM MID CAP VALUE	FUNDAMENTAL	01/01/2004	106	6.37	3.59	2.42	7.42	15.93	13.93	8.66	9.99	49	-58	-27	-466	-241	-259	-94	-30	
E4 MODEL	INDEXED	07/01/2002	543	5.89	4.16	2.74	11.92	18.23	16.44	9.86	10.92	1	-1	4	-16	-11	-7	26	19	
	<i>S&amp;P/CITIGROUP 400 VALUE</i>			5.87	4.17	2.70	12.08	18.34	16.51	9.60	---									
<b>TOTAL US EQUITY MID CAP</b>			<b>\$ 1,638</b>																	
<b>US EQUITY SMALL CAP</b>																				
DIMENSIONAL FUND ADVISORS EQFD	QUANTITATIVE	09/01/1998	397	6.90	2.56	1.79	5.22	18.16	16.48	9.07	12.29	101	-52	144	-179	56	-10	6	100	
	<i>DFA BLENDED BENCHMARK</i>			5.89	3.08	0.35	7.01	17.61	16.58	9.01	---									
TIMESQUARE CAPITAL MANAGEMENT	FUNDAMENTAL	04/01/2005	487	7.60	5.73	5.39	7.18	18.35	18.65	---	12.77	24	-132	-31	-244	41	25	---	221	
	<i>RUSSELL 2500 GROWTH</i>			7.36	7.05	5.71	9.62	17.94	18.40	---	---									
CHAMPLAIN INVESTMENT PARTNERS LLC	FUNDAMENTAL	01/01/2008	97	5.85	2.10	0.99	8.92	14.82	16.31	---	10.04	-18	-315	-134	117	-298	-132	---	15	
E6	INDEXED	02/01/2007	505	6.01	5.23	2.29	7.69	17.73	17.49	---	8.75	-2	-2	-3	-6	-7	-14	---	34	
	<i>S&amp;P 600 SMALL CAP</i>			6.03	5.25	2.32	7.75	17.79	17.63	---	---									
<b>TOTAL US EQUITY SMALL CAP</b>			<b>\$ 1,486</b>																	
<b>TOTAL US EQUITY</b>				<b>\$ 11,142</b>																
<b>INTERNATIONAL DEVELOPED LARGE CAP</b>																				
BRANDES INVESTMENT PARTNERS INT EQ	FUNDAMENTAL	10/01/1998	595	8.41	5.03	8.94	2.56	10.77	8.04	5.00	9.35	243	223	244	259	104	-33	-128	292	
	<i>BRANDES CUSTOM INDEX</i>			5.98	2.81	6.50	-0.03	9.73	8.36	6.28	---									
AMERICAN CENTURY	FUNDAMENTAL	07/01/2014	527	5.68	2.35	5.72	---	---	---	---	-0.87	-30	-46	-78	---	---	---	---	247	
BGI EAFE INDEX	INDEXED	07/01/2009	2,363	5.96	2.83	6.50	0.21	9.69	8.09	---	9.95	-2	3	1	24	-3	-8	---	-8	
THOMSON, SIEGEL & WALMSLEY	FUNDAMENTAL	07/01/2014	157	5.60	2.62	5.91	---	---	---	---	-3.22	-38	-19	-59	---	---	---	---	13	

ASRS Pension and HBS Assets  
Public Securities Markets  
Investment Managers Performance Summary

Period Ending Feb 28, 2015  
FINAL



				Net Returns (%)							Excess Returns (basis points)								
	Style	Inception	Amount (\$mil.)	Month	3 Months	YTD	1 Year	Annualized			Month	3 Months	YTD	1 Year	Annualized			ITD	
								3 Years	5 Years	10 Years					3 Years	5 Years	10 years		
TRINITY STREET	FUNDAMENTAL	07/01/2014	329	6.14	2.16	6.12	---	---	---	---	-5.61	17	-65	-38	---	---	---	---	-226
<i>MSCI EAFE NET</i>				5.98	2.81	6.50	---	---	---	---	---								
<b>TOTAL INTERNATIONAL DEVELOPED LARGE CAP</b>			<b>\$ 3,970</b>																
<b>INTERNATIONAL DEVELOPED SMALL CAP</b>																			
AQR CAPITAL	FUNDAMENTAL	06/01/2013	177	5.13	4.79	5.32	-2.18	---	---	---	11.61	-136	-129	-135	25	---	---	---	81
BLACKROCK EAFE SMALL CAP	INDEXED	06/01/2010	460	6.48	6.08	6.66	-2.16	11.17	---	---	12.34	-1	-1	0	26	-15	---	---	-15
DIMENSIONAL FUND ADVISORS INTL SC	QUANTITATIVE	09/01/2005	211	6.76	4.22	5.36	-6.74	10.07	8.54	---	5.70	27	-186	-130	-431	-124	-231	---	-39
FRANKLIN TEMPLETON INVESTMENTS	FUNDAMENTAL	04/01/2011	397	6.68	7.78	7.01	-6.15	12.61	---	---	8.43	19	170	35	-372	130	---	---	157
<i>MSCI EAFE SMALL CAP NET</i>				6.49	6.08	6.66	-2.42	11.31	---	---	---								
<b>TOTAL INTERNATIONAL DEVELOPED SMALL CAP</b>			<b>\$ 1,245</b>																
<b>INTERNATIONAL EMERGING MARKETS</b>																			
BLACKROCK EMERGING MARKETS	INDEXED	10/01/2010	668	3.06	-1.09	3.65	4.87	-0.53	---	---	0.31	-4	-3	-7	-14	-41	---	---	-44
EATON VANCE EMERGING MARKET EQUITY	QUANTITATIVE	12/01/2010	479	3.48	-3.54	2.63	0.19	0.69	---	---	0.59	39	-248	-108	-482	81	---	---	-14
LSV EMERGING MARKET EQUITY	QUANTITATIVE	12/01/2010	297	2.63	-2.66	1.65	6.22	0.29	---	---	1.42	-46	-160	-206	120	42	---	---	70
WILLIAM BLAIR & COMPANY	FUNDAMENTAL	11/01/2010	471	0.55	-1.15	2.07	7.99	4.49	---	---	3.00	-254	-8	-165	298	461	---	---	290
<i>MSCI EMF NET</i>				3.10	-1.07	3.71	5.01	-0.12	---	---	---								
<b>TOTAL INTERNATIONAL EMERGING MARKETS</b>			<b>\$ 1,915</b>																
<b>TOTAL INTERNATIONAL EQUITY</b>			<b>\$ 7,130</b>																
<b>RISK FACTOR PORTFOLIO</b>																			
RISK FACTOR PORTFOLIO	OVERLAY	06/01/2013	563	5.39	3.26	3.28	15.45	---	---	---	18.54								
<b>TOTAL RISK FACTOR PORTFOLIO</b>			<b>\$ 563</b>																
<b>TOTAL EQUITY W/ RISK FACTOR OVERLAY</b>			<b>\$ 18,838</b>																
<b>CORE FIXED INCOME</b>																			
BGI US DEBT FD	INDEXED	05/01/2014	445	-0.92	1.32	1.17	---	---	---	---	4.55	2	9	3	---	---	---	---	20
F2 MODEL	INDEXED	10/01/2000	1,896	-0.91	1.35	1.15	5.17	2.94	4.46	5.06	5.67	3	12	1	12	19	17	24	16
<i>Barclays Aggregate</i>				-0.94	1.23	1.14	5.05	2.76	4.29	4.82	---								
BGI GOVT/CRDTBD INDEX	INDEXED	11/01/2008	24	-0.64	0.73	0.98	2.93	2.15	3.48	---	4.89	6	9	3	17	12	12	---	10
<i>Barclays Gov/Credit Int</i>				-0.70	0.63	0.95	2.77	2.02	3.36	---	---								
<b>TOTAL CORE FIXED INCOME</b>			<b>\$ 2,365</b>																
<b>HIGH YIELD FIXED INCOME</b>																			
COLUMBIA MANAGEMENT INV. ADVISORS, LLC	FUNDAMENTAL	10/01/2009	819	2.01	2.63	3.39	4.74	7.89	9.64	---	9.93	-40	103	30	194	29	26	---	-20
JP MORGAN HIGH YIELD	FUNDAMENTAL	07/01/2013	486	1.88	1.82	2.82	2.68	---	---	---	6.87	-53	23	-27	-12	---	---	---	-11
<i>Barclays Corp High Yield</i>				2.41	1.59	3.09	2.80	---	---	---	---								
<b>TOTAL HIGH YIELD FIXED INCOME</b>			<b>\$ 1,305</b>																

ASRS Pension and HBS Assets  
Public Securities Markets  
Investment Managers Performance Summary

Period Ending Feb 28, 2015  
FINAL



	Style	Inception	Amount (\$mil.)	Net Returns (%)								Excess Returns (basis points)								
				Month	3 Months	YTD	1 Year	Annualized			ITD	Month	3 Months	YTD	1 Year	Annualized			ITD	
								3 Years	5 Years	10 Years						3 Years	5 Years	10 years		
<b>EMERGING MARKETS DEBT</b>																				
ASHMORE EMERGING MKT DBT BLEND	FUNDAMENTAL	01/01/2013	209	0.02	-4.27	0.25	-2.62	---	---	---	-4.16	11	-43	-10	-213	---	---	---	-136	
<i>EMERGING MARKETS BLENDED INDEX</i>																				
PIMCO EMERGING MARKET DEBT LC	FUNDAMENTAL	01/01/2013	209	-0.09	-3.83	0.36	-0.49	---	---	---	---	-17	-16	13	-19	---	---	---	-71	
<i>JPM GBI-EM Global Diversified Index</i>																				
TOTAL EMERGING MARKETS DEBT			<b>\$ 418</b>																	
TOTAL PUBLIC FIXED INCOME			<b>\$ 4,088</b>																	
<b>GTAA</b>																				
BRIDGEWATER ASSOCIATES GLBL TAA	FUNDAMENTAL	01/01/2004	2,834	4.36	5.02	6.22	10.96	12.68	14.37	9.21	9.41	55	325	315	403	203	381	281	272	
<i>GTAA CUSTOM BENCHMARK</i>																				
WINDHAM	QUANTITATIVE	10/01/2011	590	3.81	1.77	3.06	6.92	10.65	10.56	6.40	---	-150	-243	-138	-714	-479	---	---	-499	
<i>WINDHAM CUSTOM INDEX</i>																				
TOTAL GTAA			<b>\$ 3,424</b>																	
<b>GLOBAL INFLATION LINKED</b>																				
GRESHAM	FUNDAMENTAL	09/01/2010	564	3.38	-8.93	-1.30	-21.86	-10.63	---	---	-2.83	80	-52	-45	91	58	---	---	220	
<i>Bloomberg Commodity Index Total Return</i>																				
TOTAL GLOBAL INFLATION LINKED			<b>\$ 564</b>																	
<b>CASH EQUITIZATION</b>																				
SSGM CASH EQUITIZATION	FUNDAMENTAL	01/01/2015	6	4.08	---	3.07	---	---	---	---	3.07	29	---	37	---	---	---	---	37	
<i>CASH EQUITIZATION CUSTOM INDEX</i>																				
TOTAL CASH EQUITIZATION			<b>\$ 6</b>																	
TOTAL PUBLIC MARKET			<b>\$ 26,988</b>																	



	Inception Amount (\$mil.)		Net Returns (%)									Excess Returns (basis points)							
			Annualized									Annualized							
			Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	ITD	Month	3 Months	YTD	1 Year	3 Years	5 Years	10 years	ITD	
BLACKROCK - US DEBT FUND B	01/01/2011	28.4	-0.93	1.32	1.15	5.16	2.80	---	---	4.10	1	9	2	11	5	---	---	4	
<i>Barclays Aggregate</i>			-0.94	1.23	1.14	5.05	2.76	4.29	4.82	---									
BLACKROCK - US HIGH YIELD FUND B	01/01/2011	18.5	2.39	1.94	3.28	3.29	7.36	---	---	7.90	-2	35	19	49	-24	---	---	-14	
<i>Barclays Corp High Yield</i>			2.41	1.59	3.09	2.80	7.60	9.38	7.92	---									
BLACKROCK-LTD-EM BD INDX FD B	01/01/2013	9.0	-1.49	-7.10	-1.23	-6.55	---	---	---	-8.10	-14	-23	-22	-71	---	---	---	-83	
<i>JPM GBI-EM Global Diversified Index</i>			-1.34	-6.88	-1.01	-5.83	-3.53	2.14	6.16	---									
BLACKROCK - RUSSELL 1000 FUND B	01/01/2011	97.8	5.78	2.63	2.88	14.86	18.13	---	---	15.67	0	0	0	-2	-1	---	---	1	
<i>RUSSELL 1000</i>			5.78	2.63	2.87	14.88	18.14	16.39	8.30	---									
BLACKROCK - RUSSELL 2000 FUND B	01/01/2011	17.1	5.94	5.50	2.55	5.83	16.77	---	---	13.20	0	5	2	20	19	---	---	18	
<i>RUSSELL 2000</i>			5.94	5.45	2.53	5.63	16.58	15.97	8.31	---									
BLACKROCK - EAFE INDEX FUND B	01/01/2011	34.1	5.96	2.80	6.48	0.00	9.47	---	---	6.21	-2	0	-2	3	-26	---	---	-28	
<i>MSCI EAFE NET</i>			5.98	2.81	6.50	-0.03	9.73	8.17	5.27	---									
BLACKROCK EAFE SMALL CAP FUND B	01/01/2011	8.7	6.47	6.08	6.67	-2.09	11.19	---	---	7.03	-2	0	1	33	-12	---	---	-16	
<i>MSCI EAFE SMALL CAP NET</i>			6.49	6.08	6.66	-2.42	11.31	10.85	6.42	---									
BLACKROCK MSCI EMERGING MARKETS FUND B	01/01/2011	15.1	3.03	-1.13	3.63	4.79	-0.58	---	---	-1.39	-6	-6	-8	-22	-45	---	---	-47	
<i>MSCI EMF NET</i>			3.10	-1.07	3.71	5.01	-0.12	3.89	---	---									
BGI-LTD- R ESTATE FD	01/01/2005	21.3	-3.56	4.73	2.91	23.99	15.01	17.49	8.81	8.06	-14	-8	2	-19	-124	-87	-48	-46	
<i>WILSHIRE RESI</i>			-3.42	4.81	2.90	24.19	16.26	18.36	9.28	---									
BLACKROCK DJ UBS COMM FUND B	01/01/2011	5.6	2.47	-8.50	-0.93	-23.04	-11.44	---	---	-10.55	-11	-9	-8	-26	-23	---	---	-33	
<i>Bloomberg Commodity Index Total Return</i>			2.58	-8.41	-0.85	-22.77	-11.21	-4.95	-2.71	---									
LONG TERM DISABILITY - CASH	07/01/1995	1.4	0.00	0.00	0.00	0.00	0.01	0.06	1.61	2.70	0	0	0	-3	-7	-2	8	-5	
<i>91 DAY TREASURY BILL</i>			0.00	0.00	0.00	0.03	0.07	0.09	1.53	---									
<b>TOTAL LTD</b>		<b>\$ 257.0</b>																	

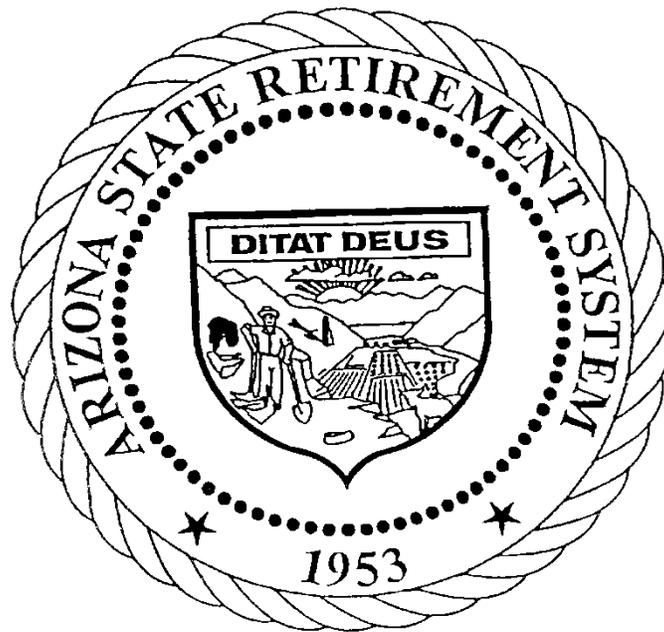
# Long Term Disability (LTD)

Friday, February 27, 2015

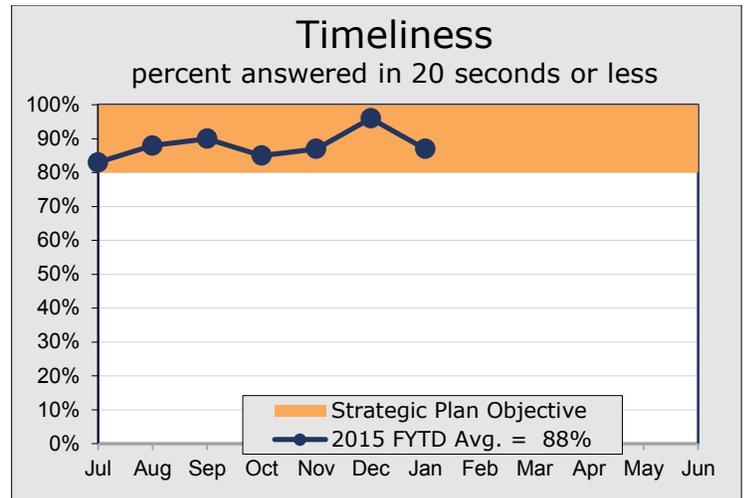
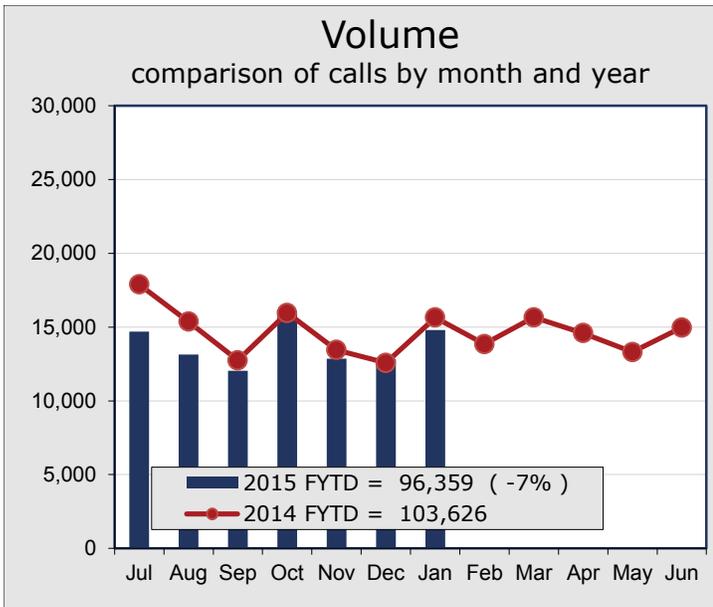
Account Manager	Account Manager Style	Fixed Income	Equity	Inflation Linked	Total	Pct of Fund	Target (Range)
StateStreet B&T: Boston	Cash	\$1,442,579			\$1,442,579	0.56%	
BlackRock: San Francisco	Fixed Core (Passive)	\$28,441,687			\$28,441,687	11.06%	13%
BlackRock: San Francisco	Fixed High Yield (Passive)	\$18,505,323			\$18,505,323	7.20%	8%
BlackRock: San Francisco	Emerging Market Debt (Passive)	\$8,963,348			\$8,963,348	3.49%	4%
						<b>21.75%</b>	<b>25% (15-35%)</b>
BlackRock: San Francisco	Russell 1000 (Passive)		\$97,804,123		\$97,804,123	38.05%	34%
BlackRock: San Francisco	Russell 2000 (Passive)		\$17,076,890		\$17,076,890	6.64%	6%
						<b>44.69%</b>	<b>40% (33-45%)</b>
BlackRock: San Francisco	EAFE (Passive)		\$34,082,225		\$34,082,225	13.26%	14%
BlackRock: San Francisco	EAFE SC (Passive)		\$8,740,291		\$8,740,291	3.40%	3%
BlackRock: San Francisco	Emerging Markets (Passive)		\$15,070,493		\$15,070,493	5.86%	6%
						<b>22.52%</b>	<b>23% (16-28%)</b>
BlackRock: San Francisco	Dow Jones UBS Commodities (Passive)			\$5,619,654	\$5,619,654	2.19%	4% (1-7%)
BlackRock: San Francisco	US Real Estate (Passive)			\$21,302,202	\$21,302,202	8.29%	8% (6-10%)
						<b>10.47%</b>	<b>12% (8-16%)</b>
	<b>TOTAL Amounts</b>	\$57,352,936	\$172,774,021	\$26,921,856	<b>\$257,048,814</b>		
	<b>TOTAL Percent</b>	22.31%	67.21%	10.47%			
	<b>Actual Portfolio</b>	<b>22.31%</b>	<b>67.21%</b>	<b>10.47%</b>			
	<b>Policy</b>	<b>25% (15-35%)</b>	<b>63% (53-70%)</b>	<b>12% (8-16%)</b>			

# Agenda Item #7c

## Director's Report Operations

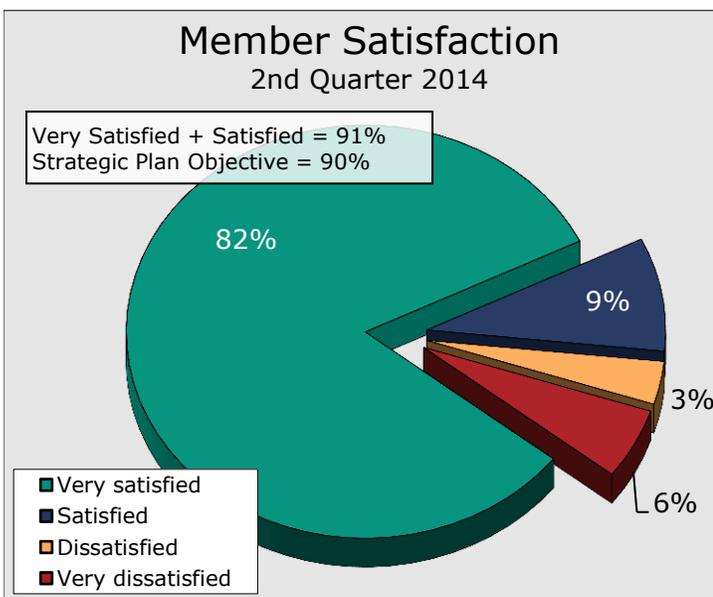
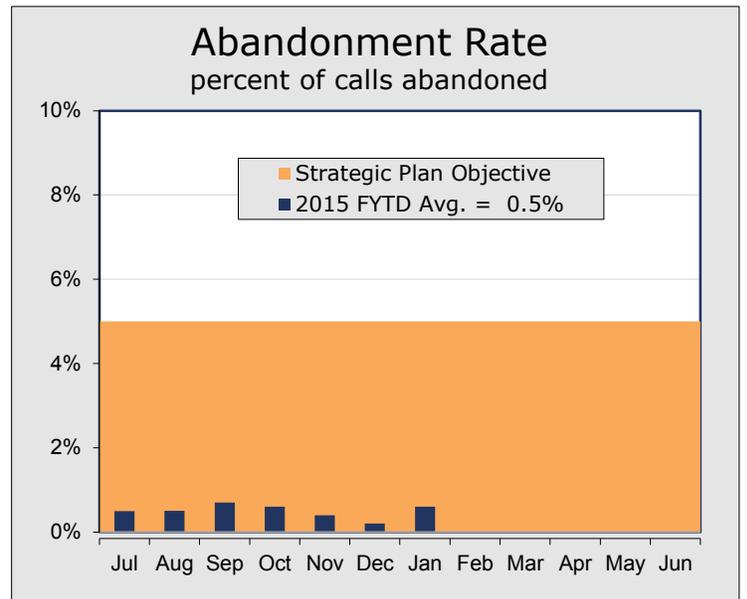
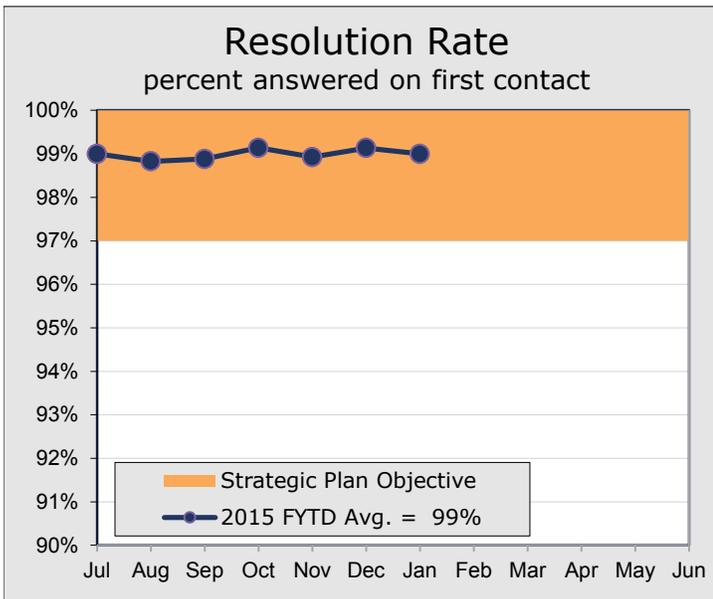


# Member Advisory Center: Phone



### Timeliness (average wait time in seconds)

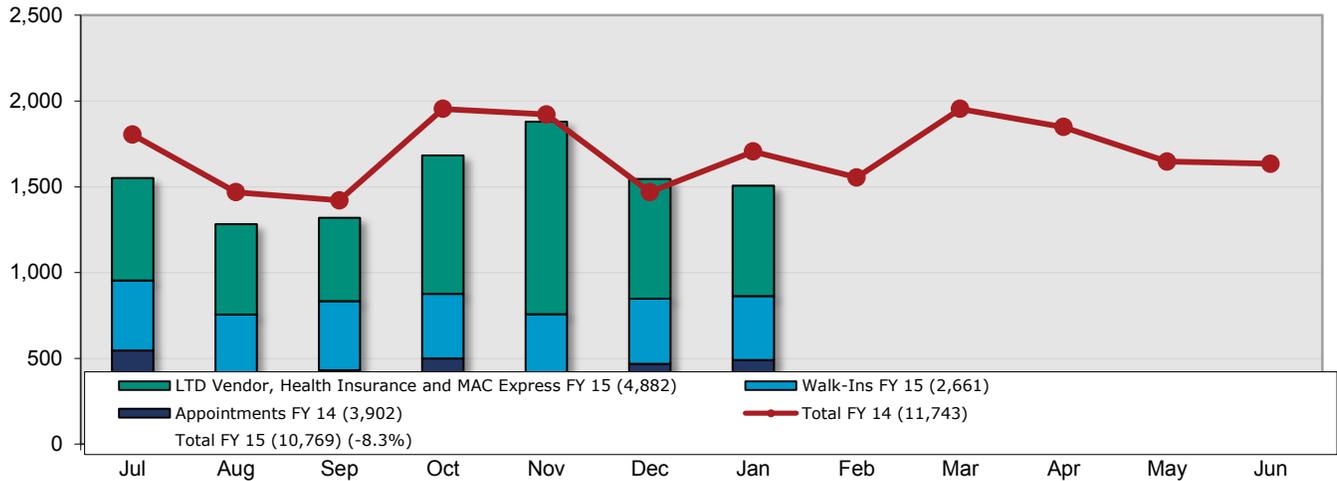
Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Avg. Wait Time (seconds)	12	10	9	13	10	2	13					



# Member Advisory Center: One-on-One

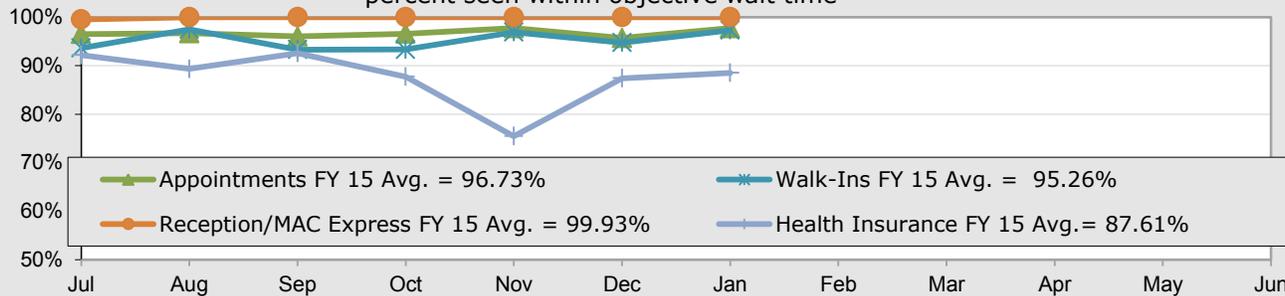
## Volume

number of one-on-one counseling sessions by type



## One-on-One Timeliness

percent seen within objective wait time

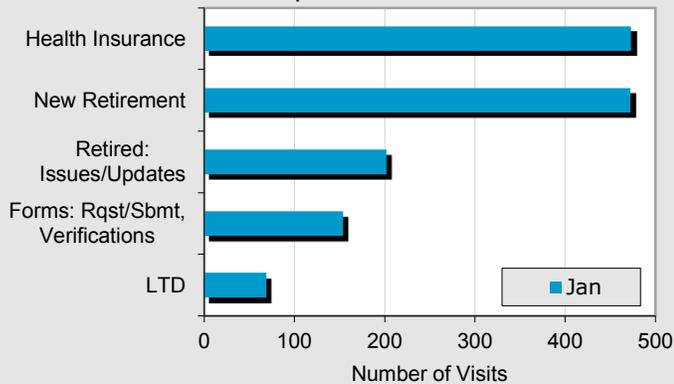


## Timeliness (average wait time in minutes)

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

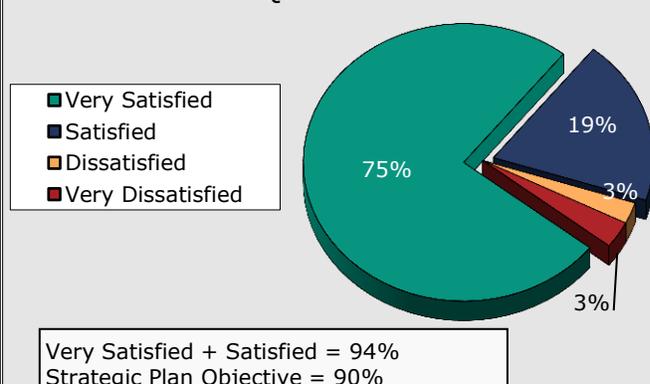
## Reasons for Visit

top five reasons

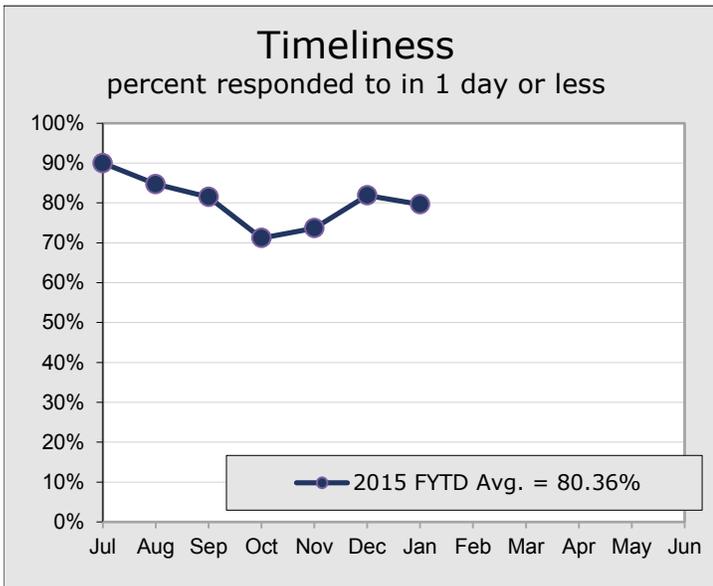
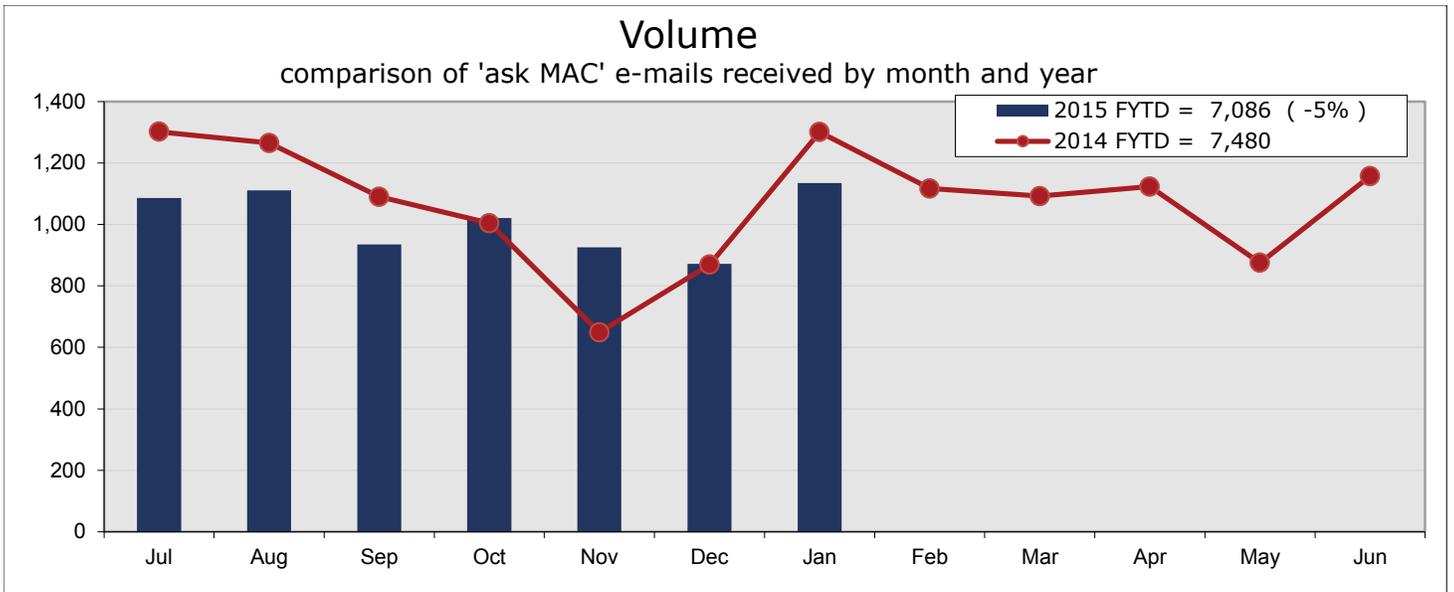


## Member Satisfaction

2nd Quarter 2014

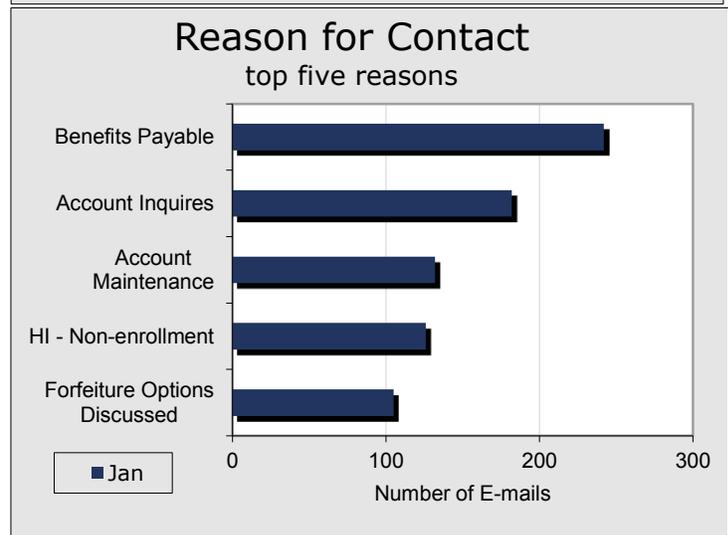
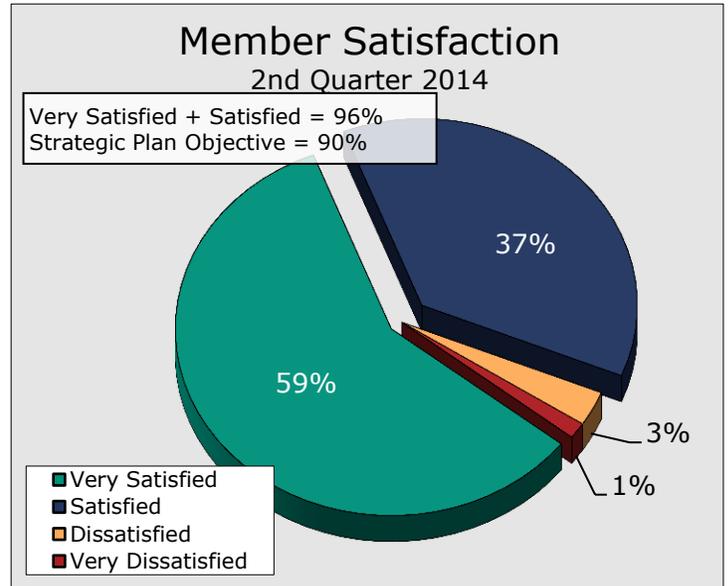


# Member Advisory Center: E-Mail



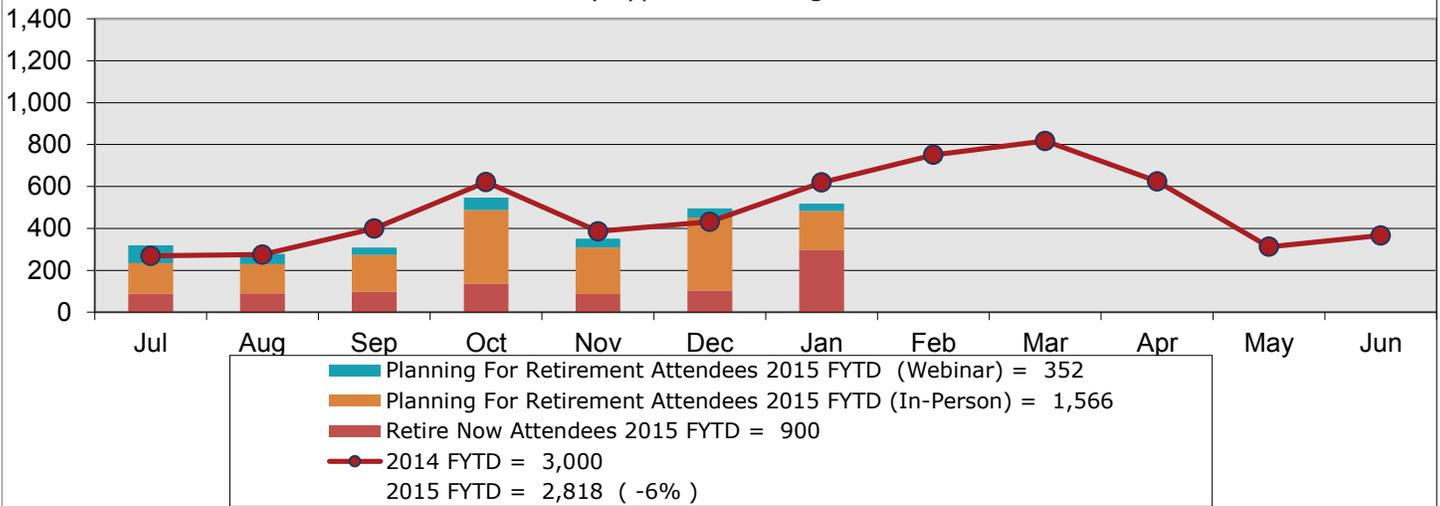
### Timeliness (average response in hours)

8	10	12	12	12	8	9.7						
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	



# Outreach Education and Benefit Estimates

## Total Meeting Attendees by type of meeting

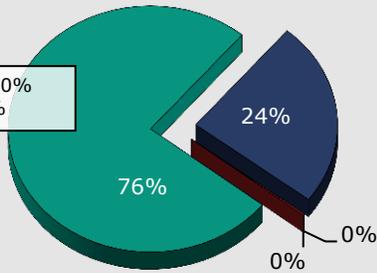


## Member Satisfaction

### Planning for Retirement Meetings 2nd Quarter 2014

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

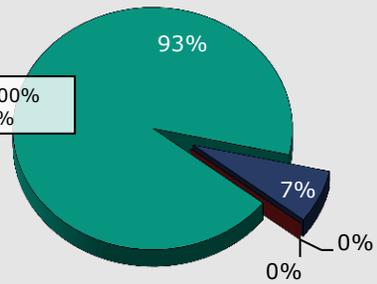
- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied



### Retire Now Meetings 2nd Quarter 2014

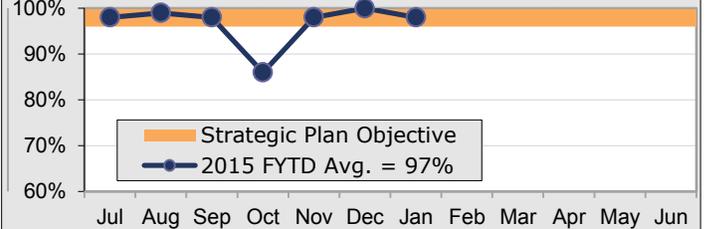
Very Satisfied + Satisfied = 100%  
Strategic Plan Objective = 90%

- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied



## Benefit Estimate Timeliness

percent completed within 3 business days



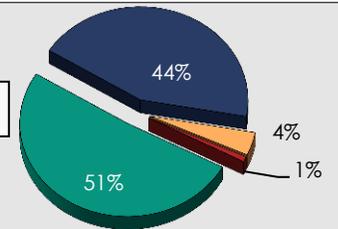
## Benefit Estimate Timeliness (average TAT in days)

Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Average TAT (days)	1	1	1	1	1	1	1	1	1	1	1	1

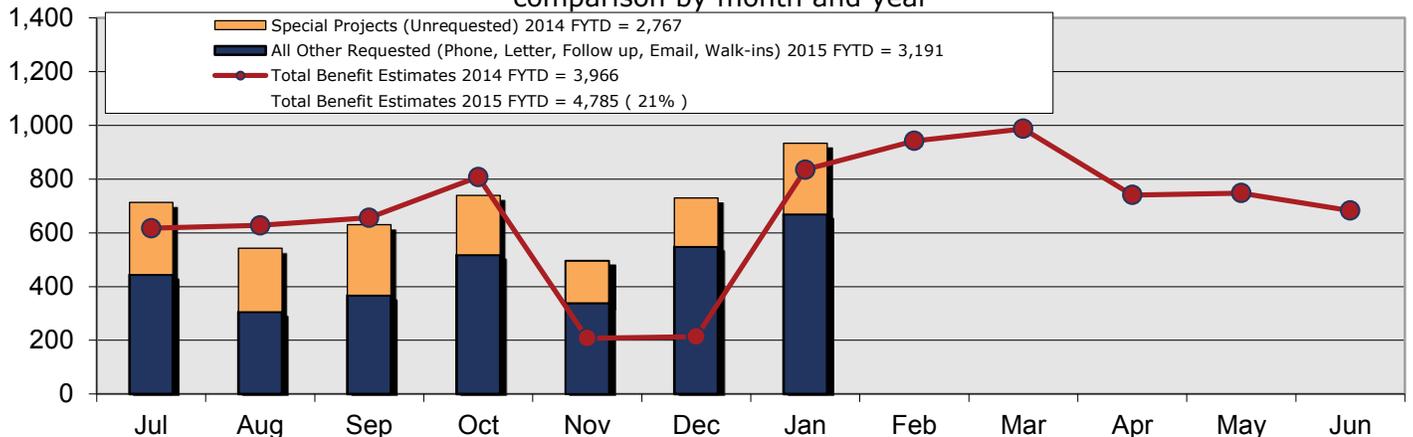
## Benefit Estimates 2nd Quarter 2014

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

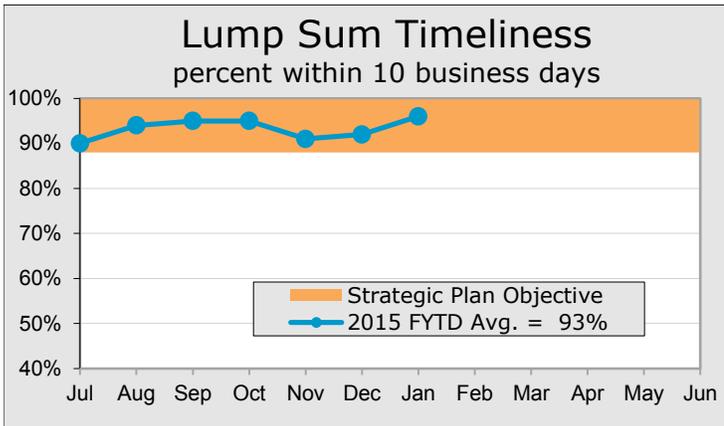
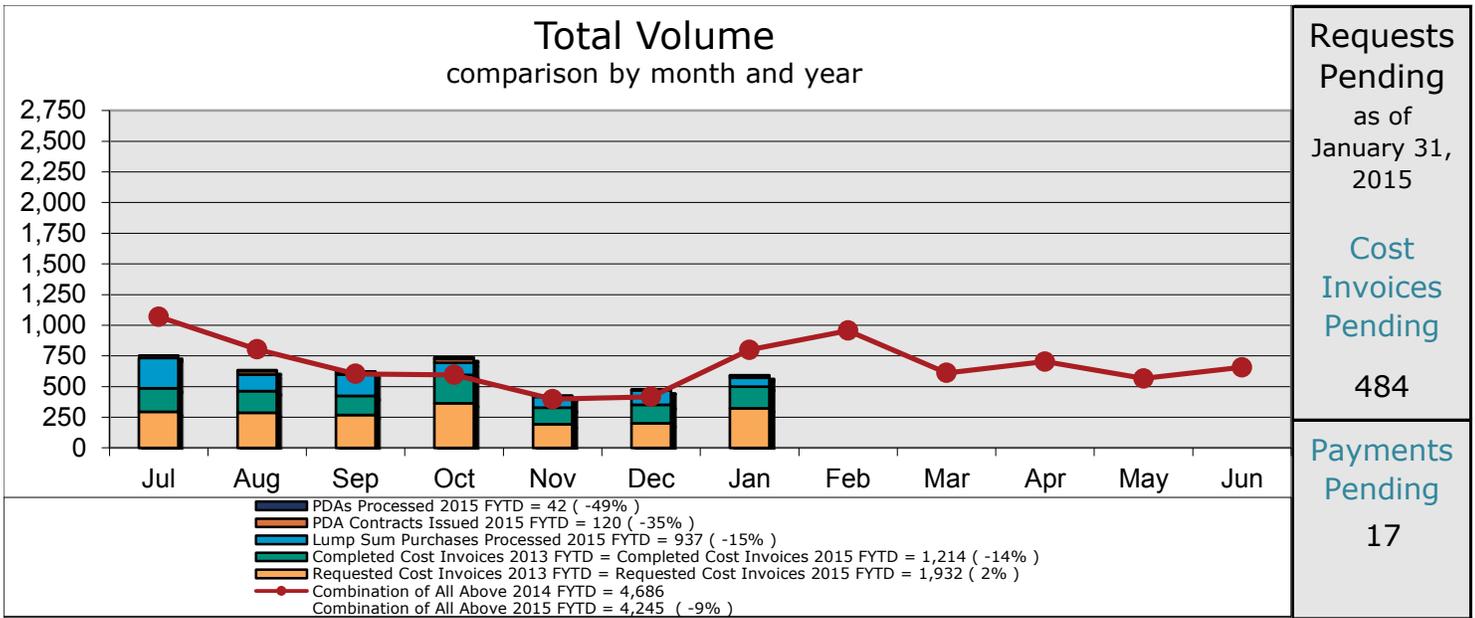
- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied



## Benefit Estimate Volume comparison by month and year

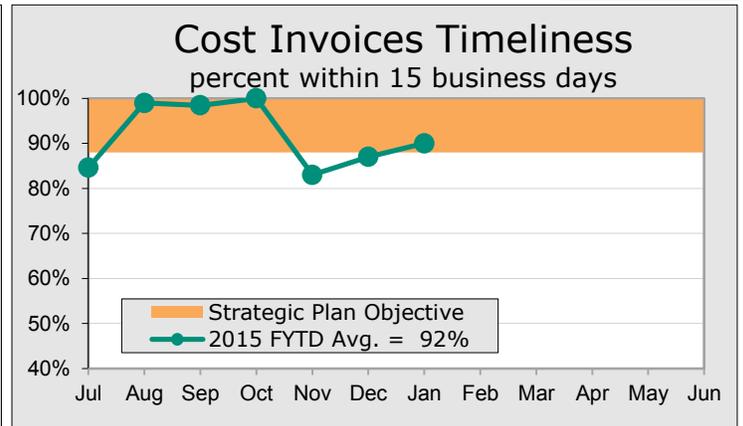


# Service Purchase



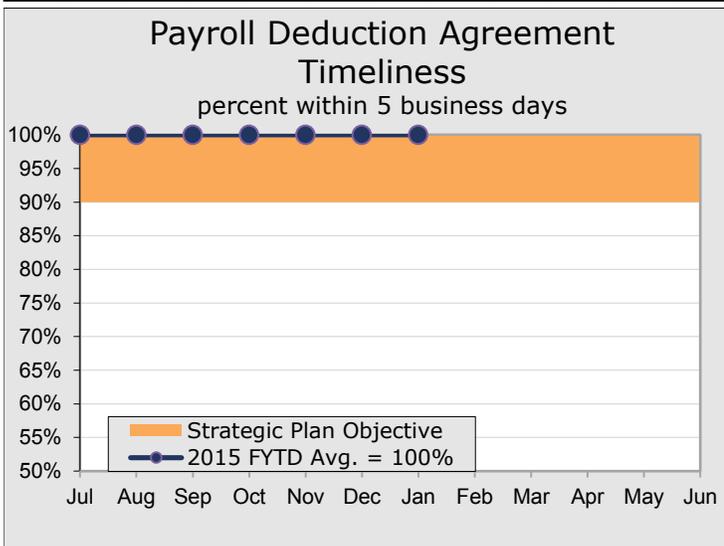
Timeliness (average turnaround time in business days)

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



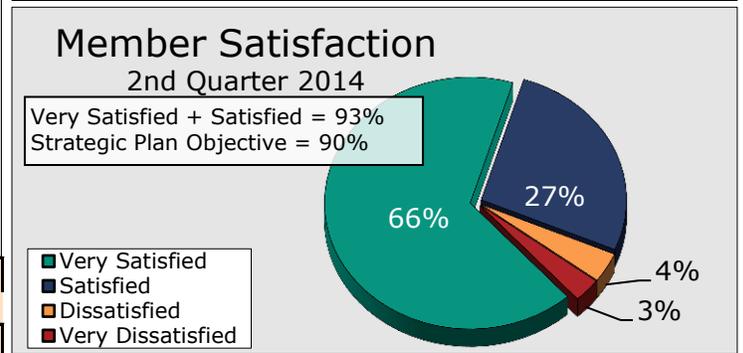
Timeliness (average turnaround time in business days)

7	3	5	5	6	6	5						
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	



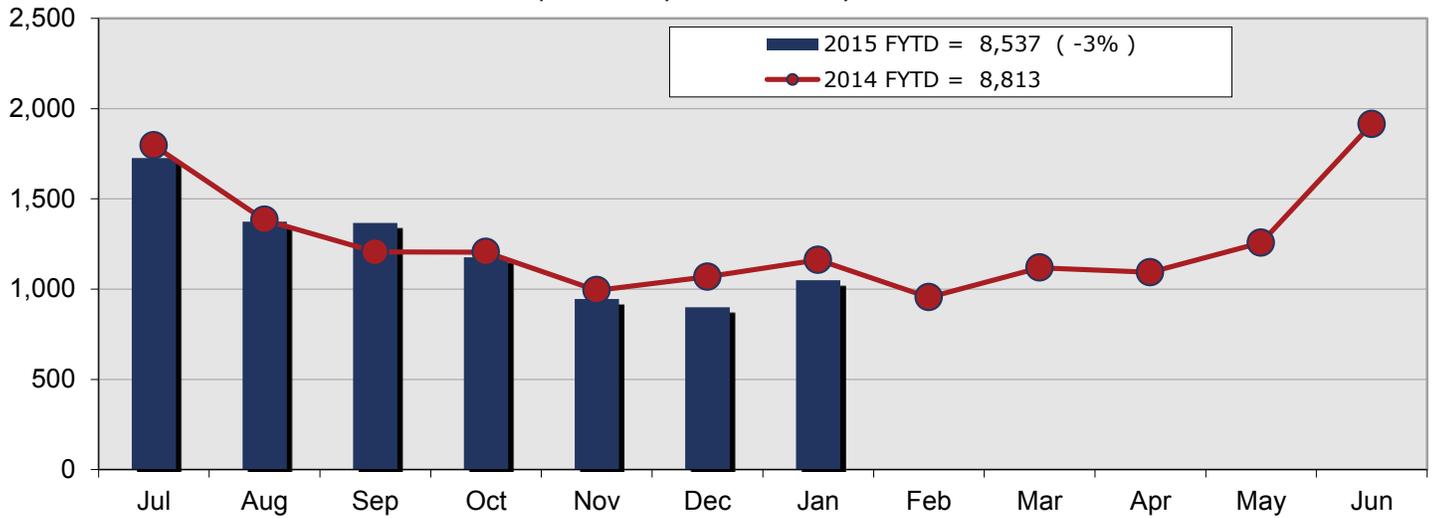
Timeliness (average turnaround time in business days)

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



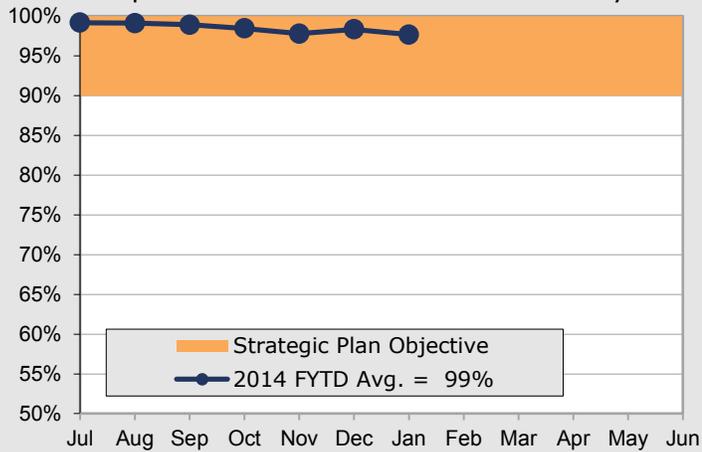
# Refunds

**Volume**  
comparison by month and year

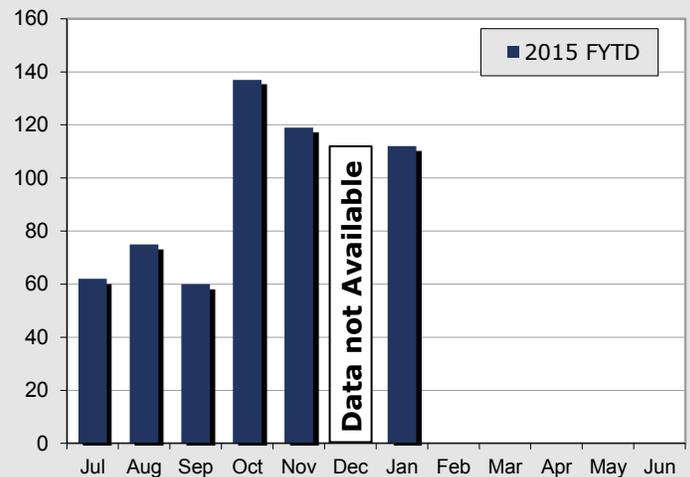


## Timeliness

percent disbursed in 10 business days



## Requests Pending



## Timeliness (average turnaround time in business days)

Month	Turnaround Time (Business Days)
Jul	2
Aug	2
Sep	1
Oct	2
Nov	2
Dec	2
Jan	2
Feb	
Mar	
Apr	
May	
Jun	

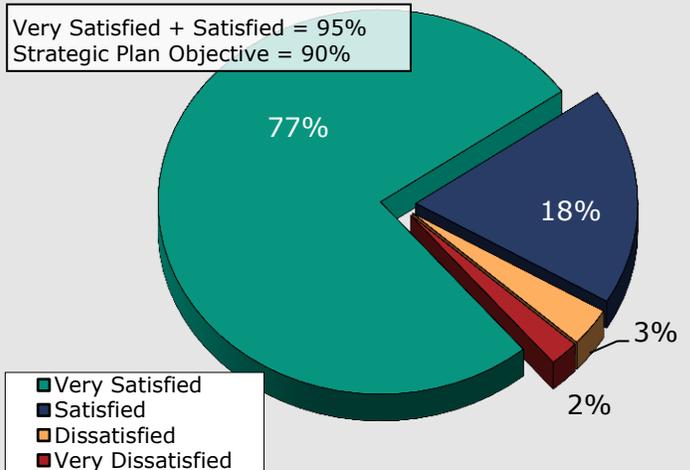
## Refund Quality Rating

FY 2015



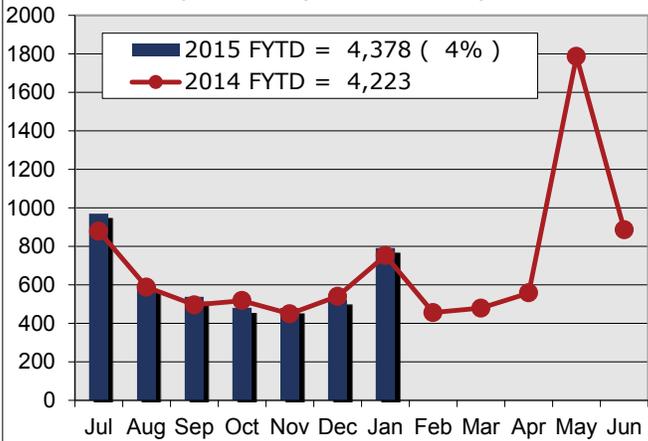
## Member Satisfaction

2nd Quarter 2014

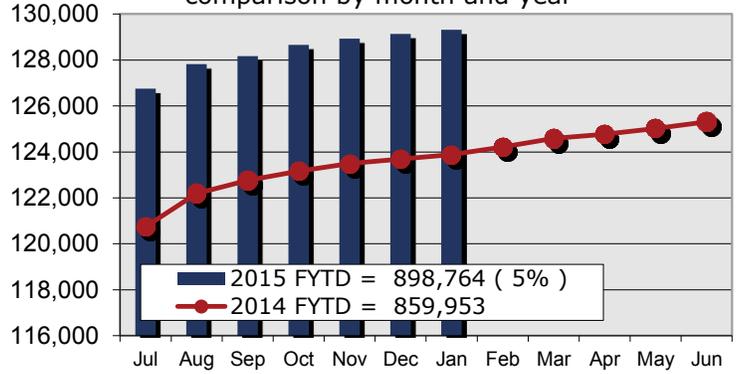


# New Retiree and Pension Payroll

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

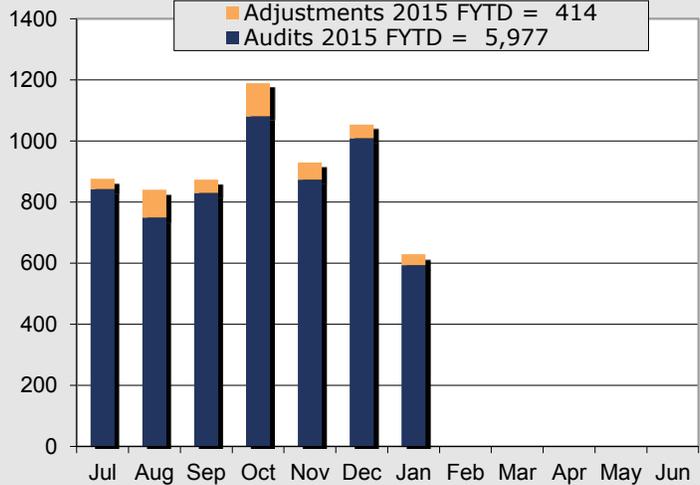
### First Payment Timeliness percent disbursed in 10 business days



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

5	7	8	9	8	6	4						
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	

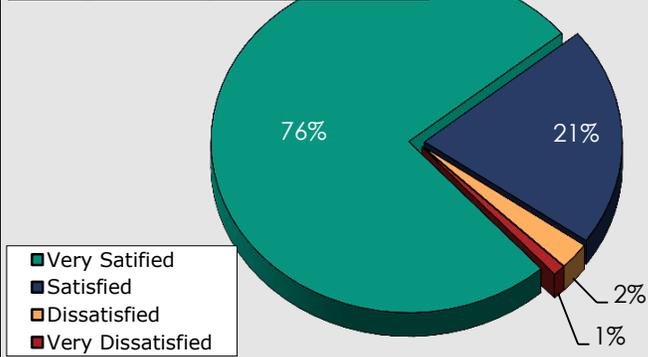
### Audits & Adjustments comparison by month and year



### Member Satisfaction

New Retiree  
2nd Quarter 2014

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



### Adjustments Timeliness

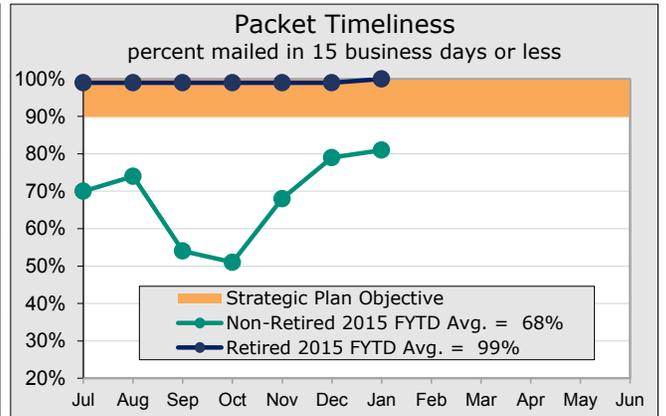
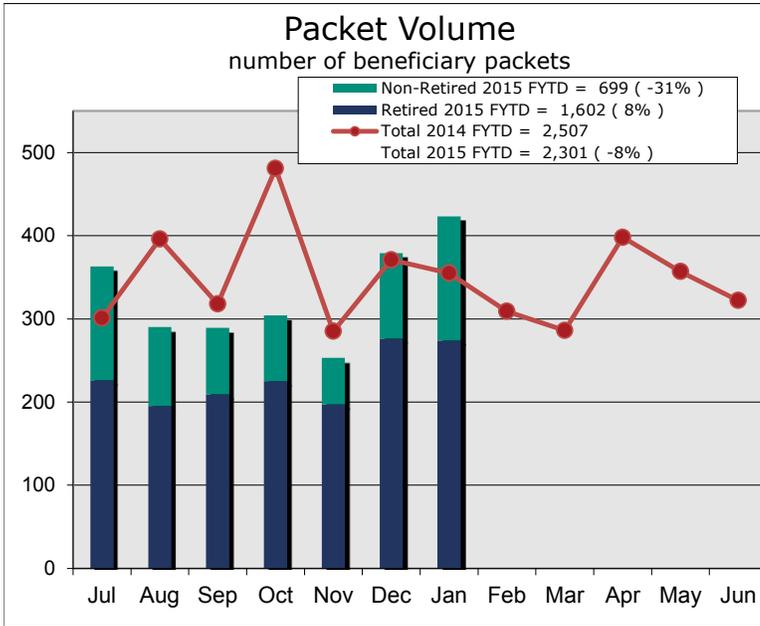
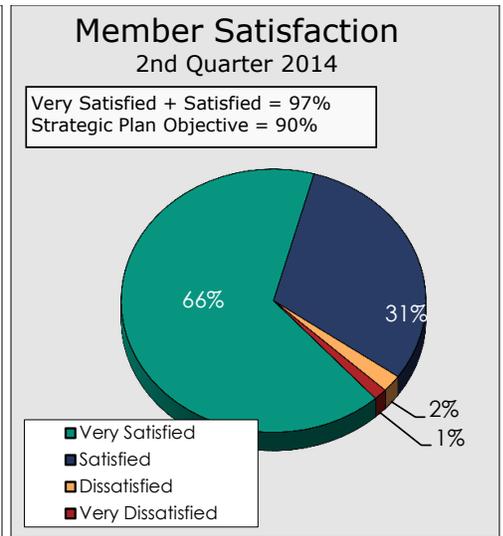
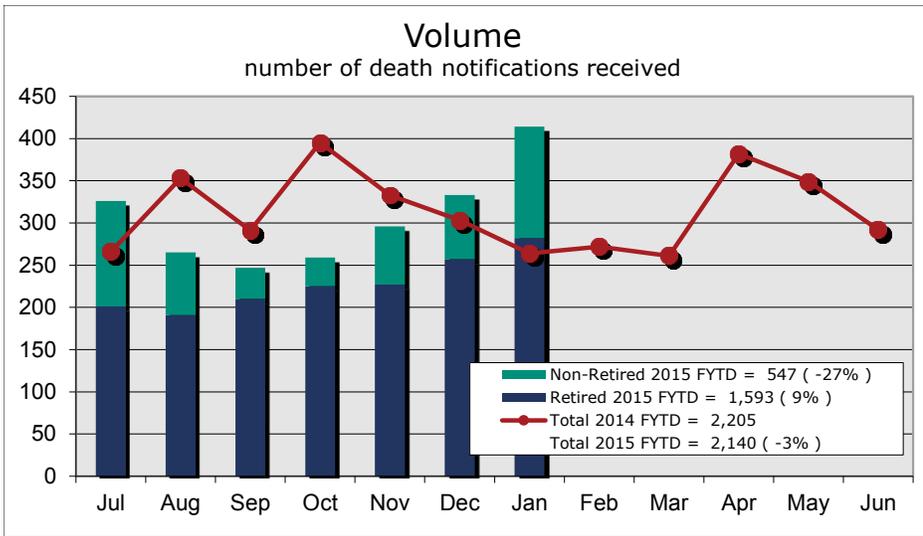
Percent completed in 20 business days



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

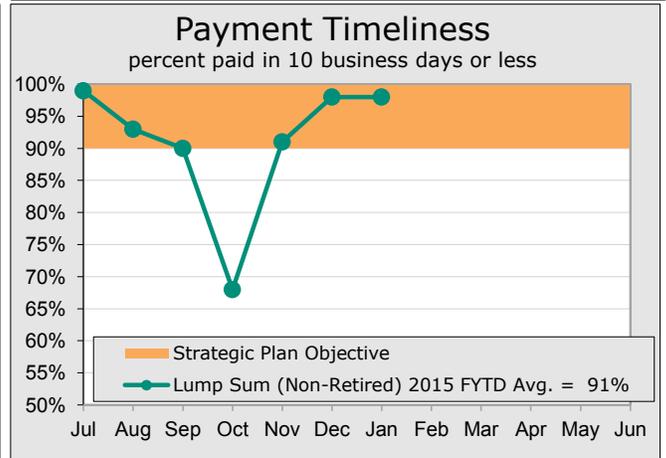
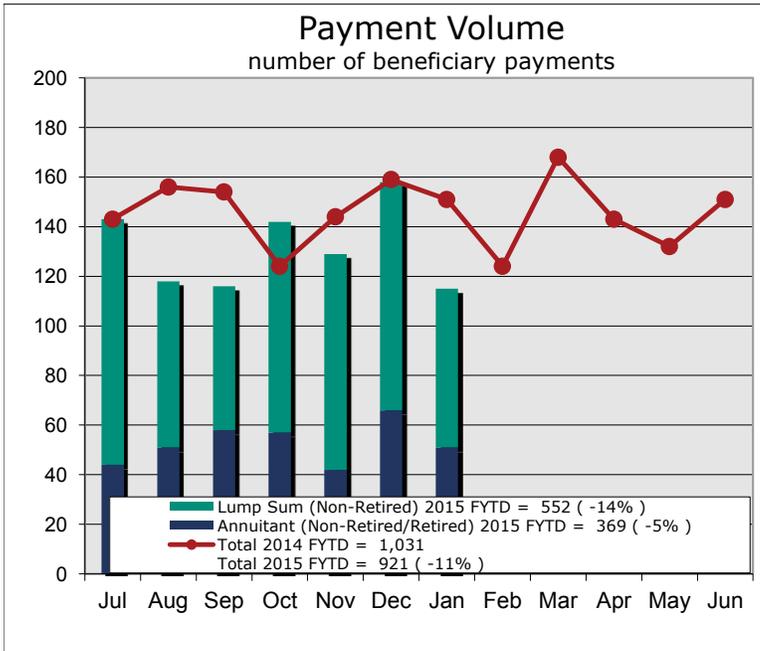
4	8	5	6	4	9	5						
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	

# Survivor Benefits



### Packet Timeliness (average TAT in days)

Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Non Retired	18	14	19	17	16	10	7					
Retired	2	1	1	2	2	3	2					



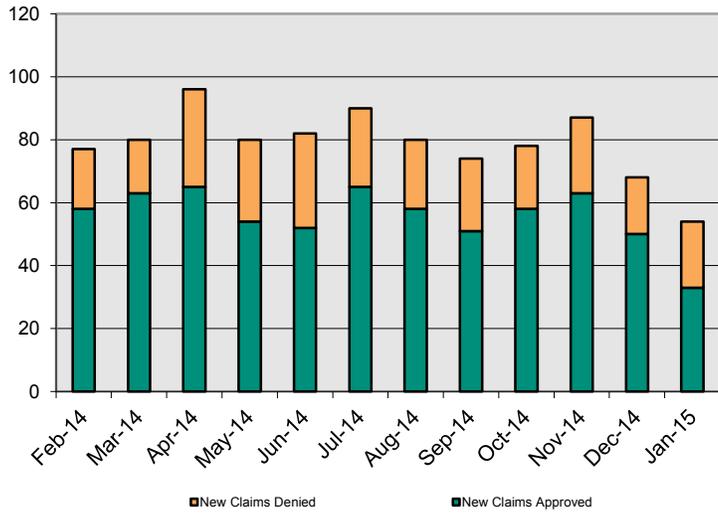
### Payment Timeliness (average TAT in days)

Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Lump Sum (Non-Retired)	3	5	6	8	4	2	2					
Annuity (Retired and Non-Retired)	2	3	3	3	3	1	1					

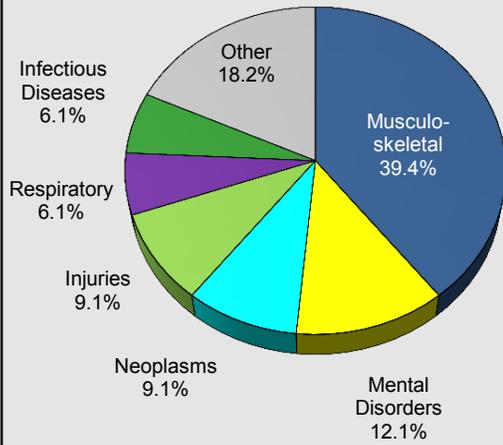
# ASRS Disability Plans - Monthly Highlights

## January 2015

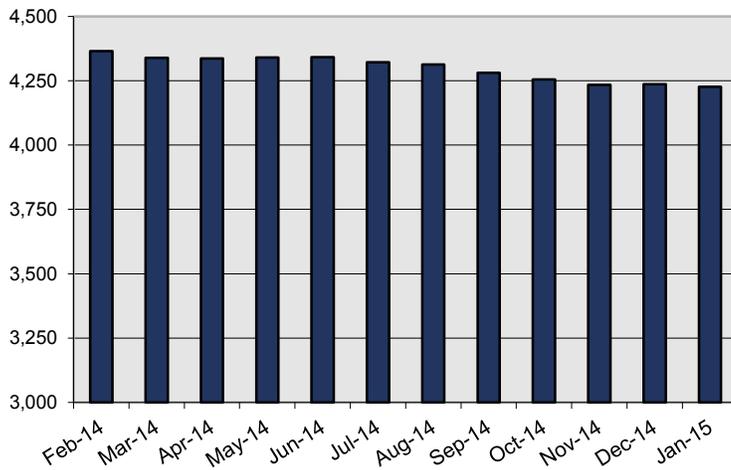
### New Claims Processed



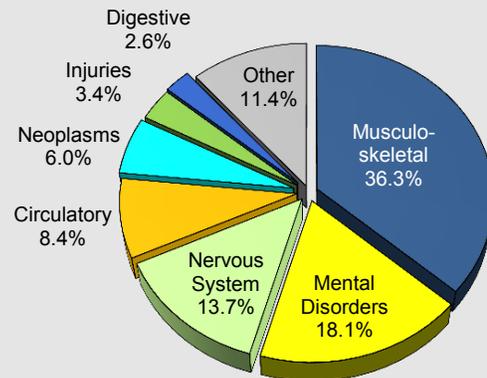
### New Claims Approved



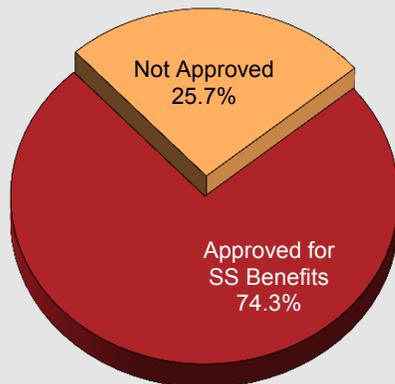
### Open LTD Claims



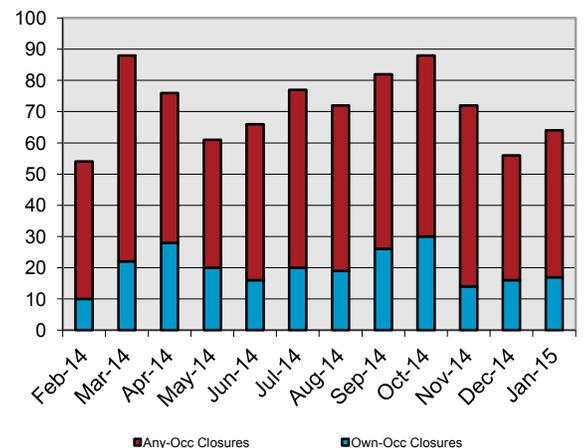
### Open LTD Claims



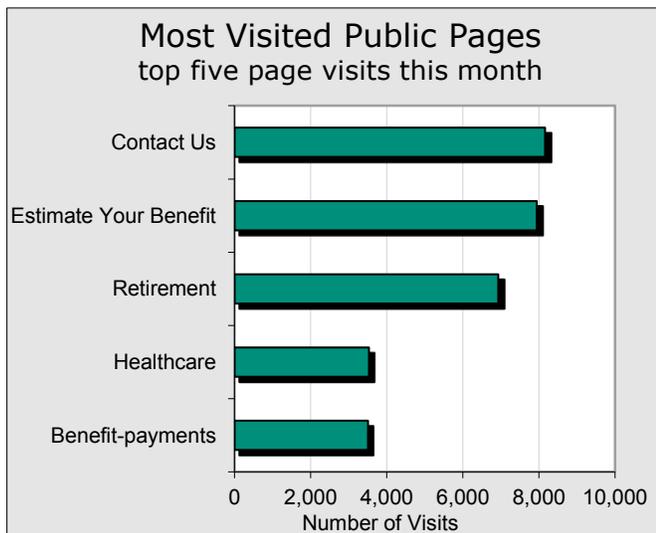
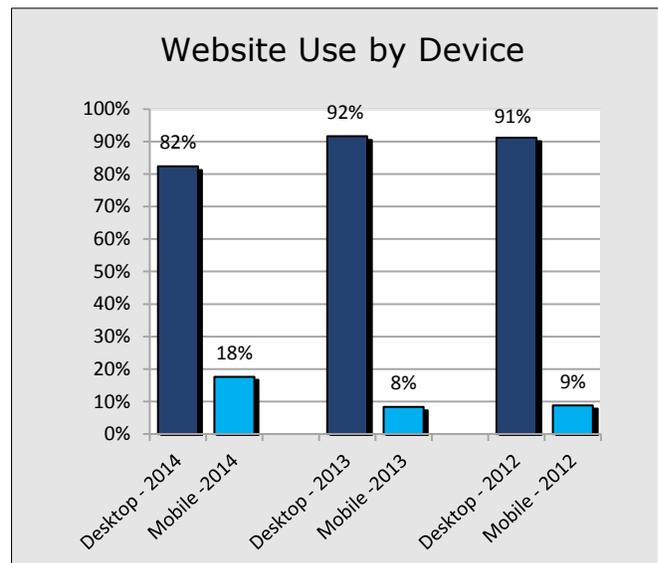
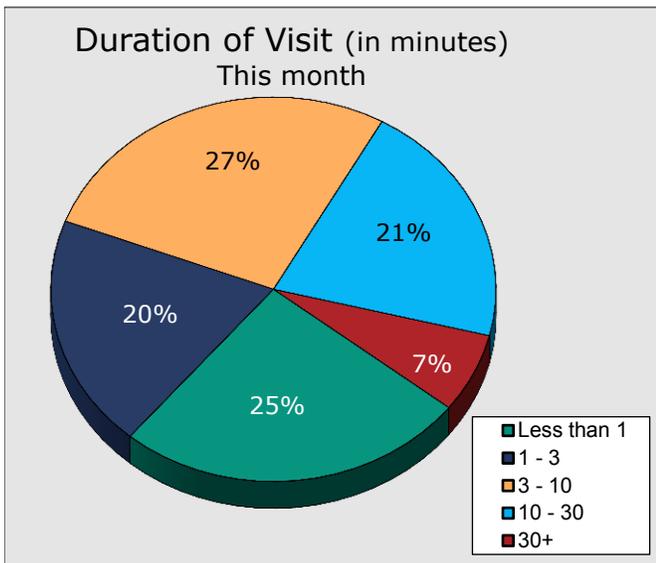
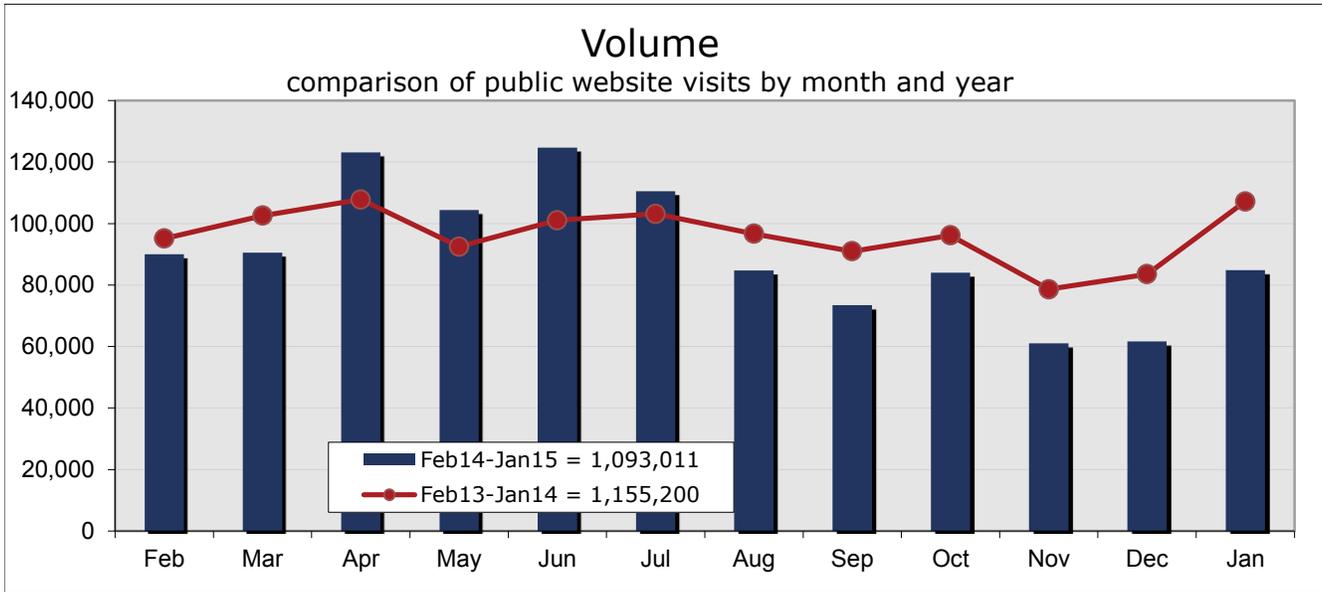
### SS Approval Percentage



### Active Claim Closures



# Public Website: www.azasrs.gov



Followers: 1,328

(Most Recent Data)

Photo

Status

Link

Reach	214	206	160
Post Clicks	14	3	13
Likes, Comments & Shares	4	3	5

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Followers: 119

Impressions per day: 27

Engagement Rate: 5.0%

Link Clicks: 1

Retweets: 1

Favorites: 0

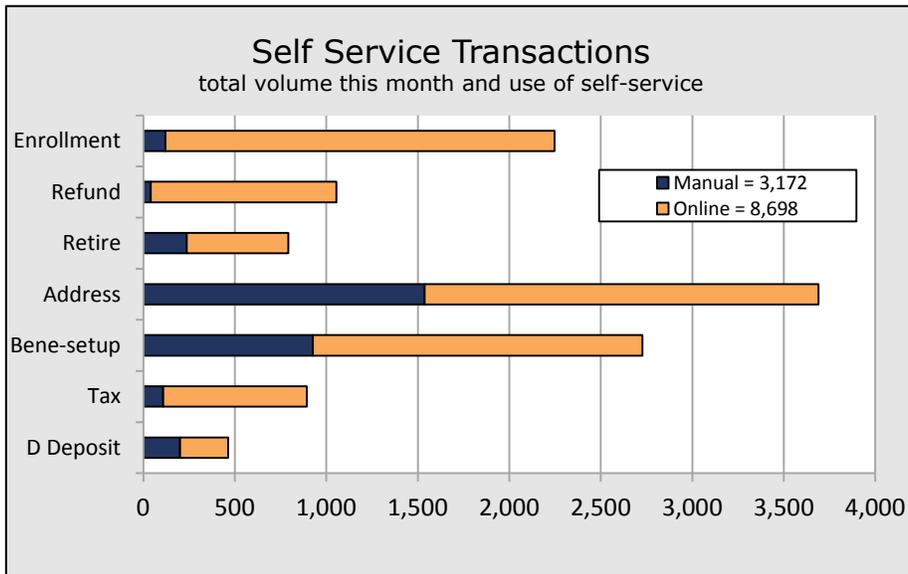
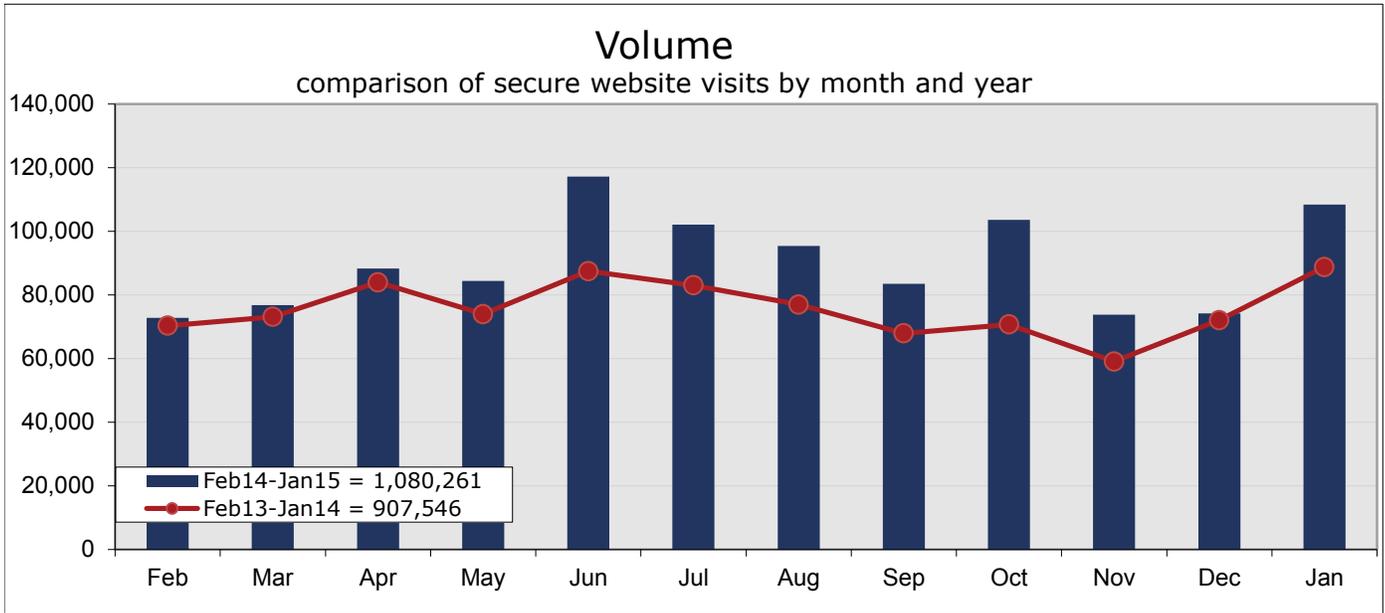
Replies: 1

(Most Recent Data)

■ Original Content

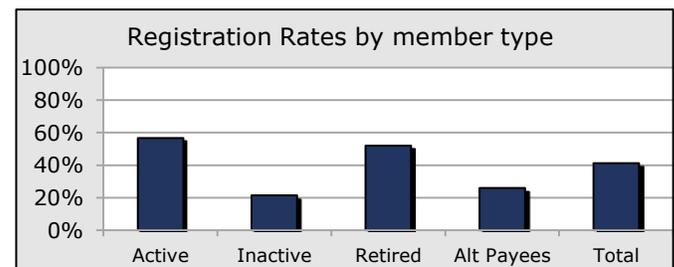
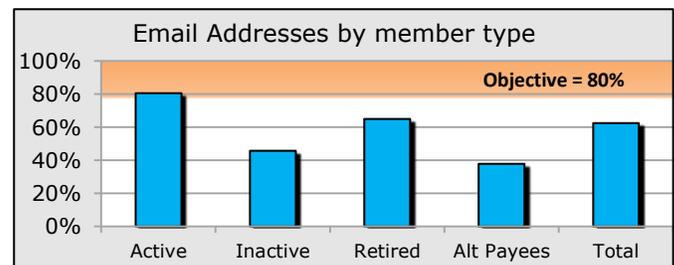
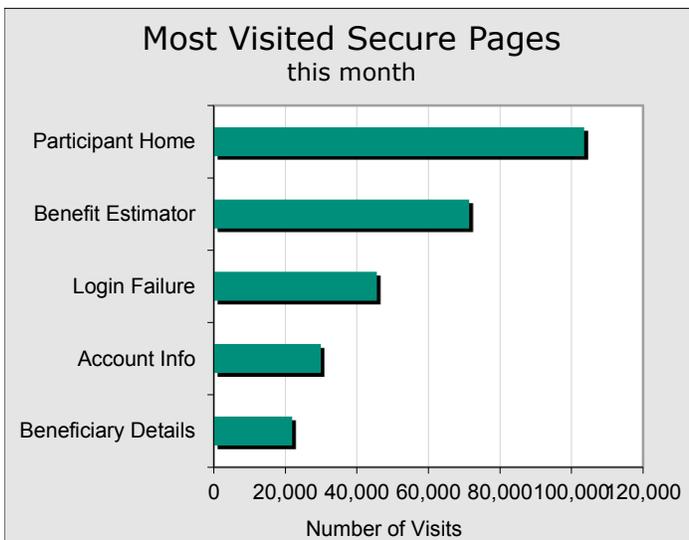
■ 3rd Party Content

# Secure Website: secure.azasrs.gov



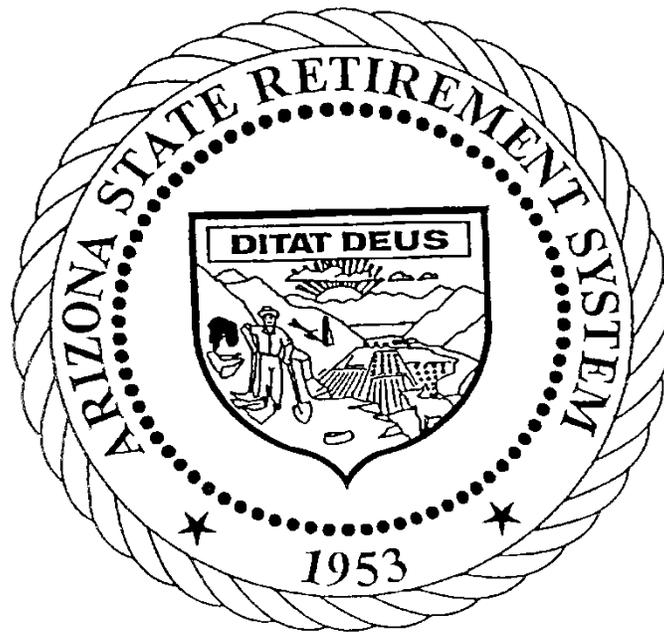
### Historical Comparison of Online Usage

	This month	Last month	Same mo last yr	Objective
Enroll	95%	95%	99%	99%
Ref	96%	91%	92%	90%
Ret	62%	65%	41%	90%
Add	76%	77%	77%	75%
Bene	58%	75%	68%	75%
Tax	79%	76%	72%	75%
DD	48%	49%	44%	75%
<b>Total % online</b>				
	<b>73%</b>	<b>68%</b>	<b>79%</b>	



# Agenda Item #7d

## Director's Report Budget & Staffing



**Arizona State Retirement System**  
**FY 2015 Appropriated Budget**  
**(as of March 31, 2015)**

	APPROPRIATIONS FISCAL YEAR 2015	EXPENDED YTD	% EXPENDED
<b>OPERATING BUDGET</b>			
Personal Services	\$ 12,757,000	\$ 8,616,600	67.54%
Employee Related Expenses	\$ 5,021,000	\$ 3,469,400	69.10%
Professional & Outside Services	\$ 1,079,300	\$ 902,400	83.61%
Travel	\$ 78,600	\$ 61,100	77.74%
Other Operating Expenses	\$ 2,684,800	\$ 1,478,900	55.08%
Equipment	\$ 389,500	\$ 127,900	32.84%
Operating Subtotal	\$ 22,010,200	\$ 14,656,300	66.59%
<b>OTHER APPROPRIATIONS</b>			
Long Term Disability Administration	\$ 2,800,000	\$ 1,540,100	55.00%
Oracle Forms and Reports Modernization (Yr. 2)	\$ 4,484,500	\$ 1,066,300	23.78%
<b>TOTAL FY 2014 Appropriated Funds</b>	<b>\$ 29,294,700</b>	<b>\$ 17,262,700</b>	<b>58.93%</b>

	APPROPRIATIONS PRIOR YEAR	EXPENDED TO DATE	% EXPENDED
<b>PRIOR YEAR LEGISLATIVE APPROPRIATIONS (NON-LAPSING)</b>			
FY 2014 - Oracle Forms and Reports Modernization (Yr. 1)	\$ 1,390,000	\$ 1,390,000	100.00%
FY 2014 - HB 2562 - 401(a) and LTD for Ineligibles	\$ 502,400	\$ 82,100	16.34%
FY 2012 - SB 1614 - ASRS Contribution Rate	\$ 600,000	\$ 595,700	99.28%
FY 2011 - HB 2389 - ASRS Plan Design Changes	\$ 1,341,700	\$ 1,247,100	92.95%

	APPROPRIATIONS REMAINING	EXPENDED YTD	% EXPENDED
<b>PRIOR YEAR OPERATING APPROPRIATIONS (NON-LAPSING)</b>			
FY 2011, ASRS Operating Budget & LTD Admin	\$ 796,800	\$ -	0.00%

## **Budget Summary for Fiscal Year 2015 As of March 31, 2015**

### **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, 2014 through June 30, 2015. 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 nineteen pay periods (73.1% of the annual payrolls) of fiscal year 2015.

### **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. Expended year-to-date amounts reflect payments for services through 2/28/2015.
  
- **Oracle Forms and Reports Modernization**  
The amount appropriated (non-lapsing) for the second year of the software modernization project.

### **Non-Lapsing Appropriations for Legislative Initiatives**

The amount appropriated by the Legislature for the implementation of:

- FY 2014 - Oracle Forms and Reports Modernization (Yr. 1)
- FY 2014 - HB 2562 - 401(a) and LTD for Ineligibles
- FY 2012 - SB 1614 - ASRS Contribution Rate
- 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 2015, 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 2015, CONTINUOUSLY APPROPRIATED REPORT

(with summarized Appropriated Expenses)

DESCRIPTION	EXPENDED YTD as of 3/31/15	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	1,579,000	2,692,000		
Internal Investment Management (Salaries and Benefits)	1,093,000	1,500,000		
<i>Public Markets</i>				
External Investment Management Fees	37,619,000	72,155,000		
Transactional and Other Fees	1,166,000	3,608,000		
<i>Private Markets</i>				
Private Debt and Equity Management Fees	20,400,000	39,160,000		
Private Debt and Equity Performance Incentive and Other Fees	28,742,000	33,286,000		
Real Estate, Farmland and Timber and Infrastructure Management Fees	11,934,000	25,523,000		
Real Estate, Farmland and Timber and Infrastructure Performance Incentive and Other Fees	15,335,000	24,246,000		
Opportunistic Debt and Equity Management Fees	5,691,000	15,000,000		
Opportunistic Debt and Equity Performance Incentive and Other Fees	7,112,000	30,000,000		
<b>Investment Management Expenses</b>	<b>\$ 130,671,000</b>	<b>\$ 247,170,000</b>	<b>0.719%</b>	<b>\$ 449.16</b>
Investment Consulting Services	2,382,000	4,648,000		
Investment Related Legal Services	544,000	1,736,000		
Investment Electronic Information Services	1,254,000	1,783,000		
External Financial Consulting Services	33,000	75,000		
<b>Investment Related Consulting, Legal and Information Services</b>	<b>\$ 4,213,000</b>	<b>\$ 8,242,000</b>	<b>0.024%</b>	<b>\$ 14.98</b>
<b>Rent</b>	<b>1,007,000</b>	<b>1,505,000</b>	<b>0.004%</b>	<b>\$ 2.73</b>
<b>Actuarial Consulting Fees</b>	<b>651,000</b>	<b>1,231,000</b>	<b>0.004%</b>	<b>\$ 2.24</b>
<b>Retiree Payroll (Disbursement Administration)</b>	<b>2,064,000</b>	<b>3,616,000</b>	<b>0.011%</b>	<b>\$ 6.57</b>
<b>Total Continuously Appropriated Expenses</b>	<b>\$ 138,606,000</b>	<b>\$ 261,764,000</b>	<b>0.762%</b>	<b>\$ 475.68</b>
<b>*Total Current Year Appropriated Expenses</b>	<b>\$ 17,663,700</b>	<b>\$ 29,794,700</b>	<b>0.087%</b>	<b>\$ 54.14</b>
<i>*Includes estimate prior year non-lapsing legislative appropriations of \$500,000</i>				
<b>Total Expenses (Continuously Appropriated and Appropriated)</b>	<b>\$ 156,269,700</b>	<b>\$ 291,558,700</b>	<b>0.848%</b>	<b>\$ 529.82</b>

ASRS Estimated Total Market Value of Assets Under Management (AUM) as of December 31, 2014

\$ 34,368,355,000

ASRS Total Membership as of June 30, 2014

550,300

# Continuously Appropriated Expenses for FY 2015 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 2015.
  - 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 2015.

### *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.

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 December 31, 2014.

**Arizona State Retirement System  
Staffing Report  
(March 31, 2015)**

ASRS by Division	247 Full Time Equivalents (FTEs)	New Hires	New Exits	Vacancies	Vacancy Rate
Administrative Services Division (ASD)	16	0.0	0.0	1.5	9.38%
Director's Office (DIR)	12	0.0	0.0	0.0	0.00%
External Affairs (EAD)	11	0.0	0.0	0.0	0.00%
Financial Services (FSD)	62	0.0	1.0	8.75	14.11%
Technology Services (TSD)	49	0.0	0.0	4.0	8.16%
Internal Audit (IAD)	5	0.0	0.0	0.0	0.00%
Investment Management (IMD)	11	0.0	0.0	1.0	9.09%
Member Services (MSD)	81	0.0	0.0	3.25	4.01%
	<b>247</b>	<b>0.0</b>	<b>1.00</b>	<b>18.50</b>	<b>7.49%</b>

Turnover	March 2015 New Hires	March 2015 Exits	Total Exits (Last 12 Months)	Annualized Turnover %
	0.0	1.0	20.25	8.73%

**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 cause a significant impact to the agency. Recruitment for these "Mission Critical" positions may proceed upon approval of the agency director.

To date, five positions have been approved as Mission Critical. One position has been filled – MSD Retirement Advisor Supervisor and four are currently under recruitment – FSD Investment Accountant, FSD Membership Accounting Manager, FSD Accounting Technology Specialist, TSD Senior Information Security Engineer.

Four additional positions are under review for approval to recruit as Mission Critical due to impact and risk to the agency – FSD Management Analyst IV, FSD Accountant II, FSD Management Analyst III and TSD Security Engineer.

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <b>Green</b> = Normal risk <b>Yellow</b> = Greater than normal risk <b>Red</b> = Negative impact			
MSD	MAC (Call Center)	● ○ ○	
MSD	One-on-one Counseling (Appointments/Walk-ins)	● ○ ○	
MSD	E-mail and Written Correspondence	● ○ ○	
MSD	Outreach Education	● ○ ○	
MSD	Tucson: Appointments/Walk-ins/Outreach	● ○ ○	
MSD	Benefit Estimates	● ○ ○	
FSD	Monthly Pension Payroll Processing	● ○ ○	
FSD	New Retiree Processing	○ ● ○	During March 2015, strategic objectives were met, however, normal than greater risk remains due to four vacancies in Benefits Accounting. A significant increase in New Retiree volume is expected in the upcoming summer months and current staffing levels will be unable to meet the business needs without substantial overtime or the addition of temporary resources.
MSD	New Retiree Processing	● ○ ○	
FSD	Survivor Benefit Processing	● ○ ○	

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <b>Green</b> = Normal risk <b>Yellow</b> = Greater than normal risk <b>Red</b> = Negative impact			
MSD	Survivor Benefit Processing	●○○○	
MSD	Refund Processing	●○○○	
MSD/FSD	Service Purchase Processing	●○○○	
FSD	Records Management (data processing/imaging)	●○○○	
IA	Internal Audit	●○○○	
EA	Employer Relations	●○○○	
EA	Rule Writing	●○○○	
EA	Legislative Relations	●○○○	
EA	Communications/Media Relations	●○○○	
EA	Web Services	●○○○	
EA	Health Insurance/LTD Benefits Administration and Communication	●○○○	
MSD	LTD Member Contacts, Benefit Processing	●○○○	

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <span style="color: green;">Green</span> = Normal risk <span style="color: orange;">Yellow</span> = Greater than normal risk <span style="color: red;">Red</span> = Negative impact			
FSD	Health Insurance Member Contacts, Benefit Processing Transfer Processing	<span style="color: green;">●</span> ○ ○	
MSD	Health Insurance	<span style="color: green;">●</span> ○ ○	
FSD	Transfer Processing	<span style="color: green;">●</span> ○ ○	
FSD	General Accounting	○ <span style="color: orange;">●</span> ○	One critical position recently became vacant - Investment Accountant. With this position vacant, deliverables to both internal and external customers will be delayed and potentially deadlines will not be met. Major functions that will be negatively impacted are the preparation of the CAFR, preparation of financial statements for the General Accounting Office, and investment related public records requests. Recruitment is currently underway for the Investment Accountant. Greater than normal risk will continue to be indicated until this position is filled and the FTE is fully trained.
FSD	Contribution Collections and Posting	<span style="color: green;">●</span> ○ ○	
TSD	Network Support	○ <span style="color: orange;">●</span> ○	The Network Support team continues to struggle to meet their business needs and strategic objectives due to insufficient staffing. An external resource was added in March 2015 to work on IT security functions. Recruitment is currently underway to fill a Senior Security Engineer FTE position and recruitment for a Security Engineer FTE position will begin April 2015. Request for Mission Critical status for two additional vacant positions, Security Software Engineer and Network Specialist II, are expected in the near future. Greater than normal risk will remain until these positions are filled and staff are fully trained. Projected time frame for recruitment and training is 5-9 months.

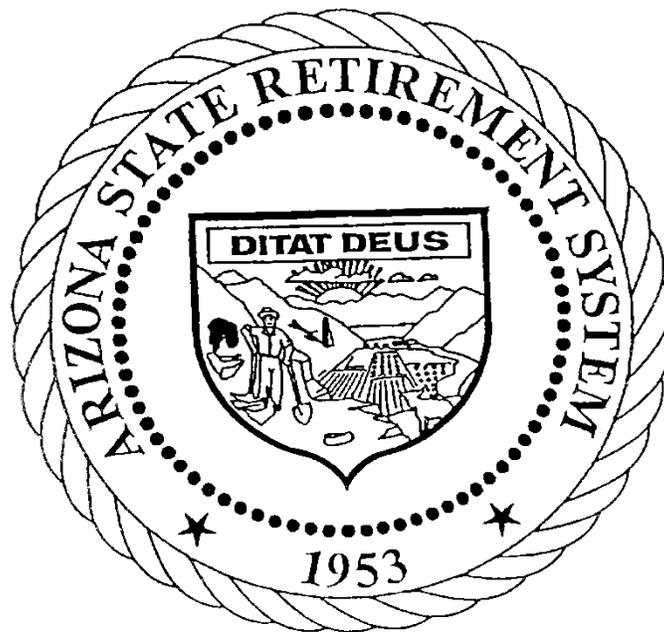
## Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: <span style="color: green;">Green</span> = Normal risk <span style="color: yellow;">Yellow</span> = Greater than normal risk <span style="color: red;">Red</span> = Negative impact			
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 March 2015 was 44 (29 FTEs and 15 external resources). Recruitment for two Software Engineer positions has been put on hold due to the State of Arizona hiring freeze.
IMD	Investment Management	● ○ ○	
DIR	Board/Executive Staff Support	● ○ ○	
DIR	Strategic Planning/Analysis	● ○ ○	
ASD	Human Resources	● ○ ○	
ASD	Training and Development	● ○ ○	
ASD	Contracts and Procurement	● ○ ○	
ASD	Facilities Management	● ○ ○	
ASD	Budget Administration	● ○ ○	



# Agenda Item #7e

## Director's Report Cash Flow Statement

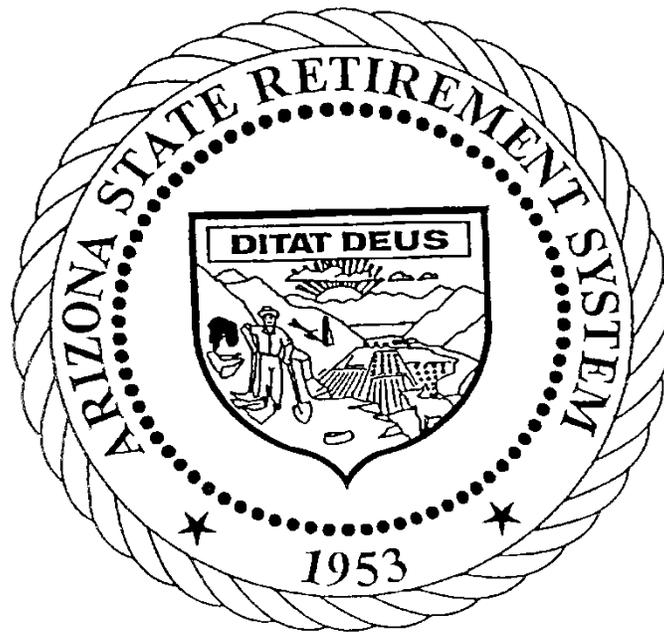


**ARIZONA STATE RETIREMENT SYSTEM**  
**COMBINED STATEMENT OF CHANGES IN TOTAL FUND CASH**  
**FOR THE MONTH ENDED MARCH 31, 2015**

	Retirement Plan Fund	Retirement System Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Current Period March	Fiscal 2015 YTD March	Fiscal 2014 YTD March
<b>ADDITIONS</b>							
Contributions							
Member contributions	\$ 92,467,476	\$ 3,739	\$ -	\$ 968,451	\$ 93,439,667	\$ 751,039,510	\$ 731,100,086
Employer contributions	87,774,018	3,739	4,752,177	968,403	93,498,338	749,835,836	731,192,997
Alternative contributions (ACR)	2,475,641	-	53,182	15,955	2,544,779	18,836,360	17,638,242
Transfers from other plans	141,778	-	-	-	141,778	501,889	714,473
Purchased service	2,171,042	-	-	-	2,171,042	17,445,839	23,894,349
<b>TOTAL CONTRIBUTIONS</b>	<b>185,029,957</b>	<b>7,479</b>	<b>4,805,360</b>	<b>1,952,809</b>	<b>191,795,604</b>	<b>1,537,659,433</b>	<b>1,504,540,146</b>
<b>DEDUCTIONS</b>							
Investment management fees	725,340	-	-	-	725,340	56,165,037	49,204,364
Custody fees	-	-	-	-	-	355,000	608,947
Consultant and legal fees	35,000	-	-	-	35,000	2,883,927	2,062,841
Internal investment activity expense	53,699	-	-	-	53,699	2,514,719	2,361,479
Retirement and disability benefits	217,344,269	3,208,103	7,812,041	5,442,556	233,806,969	2,106,705,989	2,017,552,593
Survivor benefits	1,823,149	7,209	-	-	1,830,358	25,697,769	29,644,410
Refunds to withdrawing members, including interest	17,341,077	5,907	-	-	17,346,984	181,863,798	179,272,284
Administrative expenses	2,495,258	-	-	182,934	2,678,193	22,723,283	21,766,555
Transfers to other plans	86,909	-	-	-	86,909	441,262	777,657
Other	3,396	-	-	-	3,396	10,321	38,567
<b>TOTAL DEDUCTIONS</b>	<b>239,908,097</b>	<b>3,221,219</b>	<b>7,812,041</b>	<b>5,625,490</b>	<b>256,566,847</b>	<b>2,399,361,107</b>	<b>2,303,289,695</b>
<b>INCREASE (DECREASE)</b>	<b>(54,878,140)</b>	<b>(3,213,741)</b>	<b>(3,006,681)</b>	<b>(3,672,682)</b>	<b>(64,771,243)</b>	<b>(861,701,673)</b>	<b>(798,749,549)</b>
From securities lending activities:							
Security loan program	454,890	-	-	-	454,890	3,247,148	1,442,862
Security loan interest expense / (Rebate)	(104,919)	-	-	-	(104,919)	(398,417)	(32,255)
Net income from securities lending activities	559,809	-	-	-	559,809	3,645,564	1,475,117
Capital Calls / (Distributions)							
Farmland and Timber	(1,640,520)	(72,734)	(19,815)	-	(1,733,069)	43,709,092	94,458,518
Infrastructure	-	-	-	-	-	300,000,000	-
Opportunistic Debt	15,883,546	11,451	815,174	-	16,710,172	128,114,494	102,133,351
Opportunistic Equity	(5,484,668)	(86,705)	(256,422)	-	(5,827,795)	22,261,388	71,365,448
Private Debt	10,003,255	95,043	456,217	-	10,554,515	262,535,623	324,215,233
Private Equity	16,236,698	-	709,104	-	16,945,802	154,420,932	27,018,275
Real Estate	(16,522,616)	(56,587)	(809,600)	-	(17,388,802)	(73,769,880)	124,328,733
<b>TOTAL Capital Calls</b>	<b>18,475,696</b>	<b>(109,532)</b>	<b>894,660</b>	<b>-</b>	<b>19,260,824</b>	<b>837,271,649</b>	<b>743,519,556</b>
<b>NET INCREASE (DECREASE)</b>	<b>\$ (72,794,027)</b>	<b>\$ (3,104,209)</b>	<b>\$ (3,901,341)</b>	<b>\$ (3,672,682)</b>	<b>\$ (83,472,258)</b>	<b>\$ (1,695,327,758)</b>	<b>\$ (1,540,793,989)</b>

# Agenda Item #7f

## Director's Report Appeals



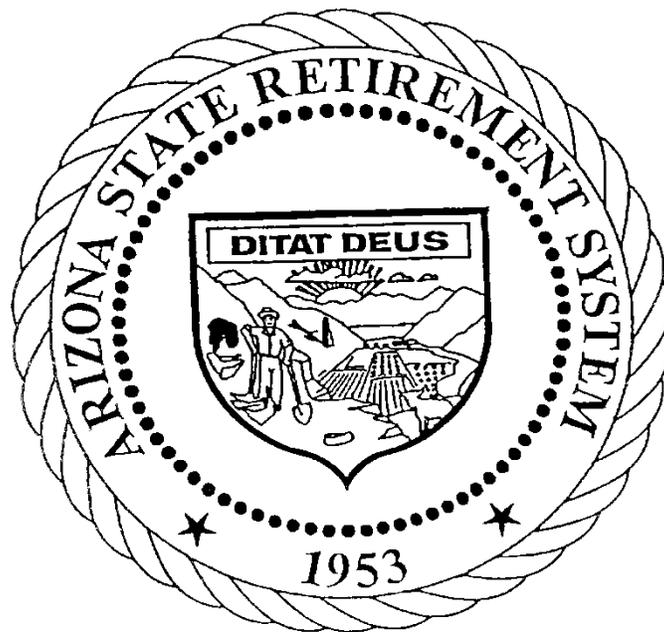
## OUTSTANDING ASRS APPEALS

Date Received	Appeals	Issues/Questions Regarding	Status/Comments
04/16/2012	Arizona State University	Appellant is disputing an ASRS employer termination incentive program invoice.	ASU appealed to the Court of Appeals 02/12/2014. Court of Appeals case number is CA-CV 14-0083. Briefing completed 09/03/2014. <b>Oral Argument held on 04/08/2015.</b>
07/14/2014	Richard K. Hillis & Sharon Di Giacinto	Disputing the ASRS determination that a DRO term is unacceptable.	Recommended decision on 01/30/2015 agenda for Board action. Appellant filed Notice of Appeal on 02/02/2015 with the AZ Superior Court. AZ Superior Court Case number is LC2015-000048.
12/17/2014	The Griffin Foundation	Appellant is appealing the ASRS finding that the Griffin Foundation's employees were not "leased employees".	<b>OAH hearing Continued to 05/14/2015.</b>
01/07/2015	Janet L. Miller	Appellant is appealing the denial of LTD benefits.	OAH hearing held 03/05/2015. Recommended Decision in favor of Appellant issued on 03/17/2015. ASRS settled and approved Appellant's continuation of LTD benefits.
01/12/2015	Melissa Berner	Appealing that her ASRS refund transaction dated 08/25/2009 was invalid.	OAH hearing held on 03/17/2015. <b>Recommended Decision received on 04/06/2015. Appeal scheduled for May 2015 ASRS Board agenda.</b>
02/06/2015	David Lara	Appealing ASRS method of payment of Maria Cardenas' refund benefit.	<b>OAH hearing held on 03/31/2015. Hearing record to be closed on 04/30/2015. Recommended Decision due on 05/20/2015.</b>
03/16/2015	Mehrzaad Korsandi	Disputing ASRS decision not to accept application for Contributions Not Withheld for Service 1998-1999.	<b>OAH hearing scheduled for 05/11/2015.</b>

- Please note any updates have been bolded.

# Agenda Item #7g

## Director's Report Employers Reporting





# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO Box 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778  
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson  
Director

## MEMORANDUM

**TO:** Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board  
**FROM:** Mr. Paul Matson, Director  
**DATE:** April 17, 2015  
**RE:** Delinquent Employers

As of April 9, 2015, 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:

Starshine Academy	\$ 27,000*
Destiny School	\$ 14,000*
American Heritage Academy	\$ 13,000*
Skyline Technical High School	\$ 4,800*
Chevelon Butte	\$ 700*
AZ Conservatory for Arts & Academics	\$ 14,000*
Westwind Middle School	\$ 400*
Westwind Academy	\$ 6,000*
Park View Middle School	\$ 3,200*
Sequoia Choice School	\$ 3,000*
Sequoia Village School	\$ 18,000*
Sequoia Charter School	\$ 8,500*
Pathfinder Academy	\$ 58,000*
Sequoia Ranch School	\$ 14,000*
Sequoia Sch for the Deaf & Hard of Hearing	\$ 24,000*
Redwood Elementary Academy	\$ 6,000*
Sequoia Pathway Academy	\$ 6,000*
	<u>\$ 23,000*</u>
Total	\$243,600*

\*Estimated amount

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

Luz Academy of Tucson	\$ 20,250
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<b>Total</b>	<b>\$263,850*</b>
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**Note: There are no  
materials for Agenda  
Item  
#8 - #11.**