



ARIZONA STATE RETIREMENT SYSTEM

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EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson
Director

AGENDA

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

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

August 22, 2014
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, August 22, 2014, beginning at 8:30 a.m., in the 10th Floor Board Room of the ASRS offices at 3300 N. Central Avenue, Phoenix, Arizona 85012. Trustees of the Board may attend either in person or by telephone conference call.

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

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 RemarksMr. Kevin McCarthy
Board Chair

2. Presentation Regarding PRIDE Award for Improvement (*estimated time 5 minutes to 8:35 a.m.*)
..... Mr. Paul Matson
Director
..... Mr. Anthony Guarino
Deputy Director and Chief Operations Officer

3. Presentation Regarding Government Finance Officers Association (GFOA) Financial Reporting Awards
 - A. Comprehensive Annual Financial Report (CAFR) for Fiscal Year (FY) 2013
 - B. Popular Annual Financial Report (PAFR) for FY 2013
(*estimated time 5 minutes to 8:40 a.m.*) Mr. Paul Matson
..... Mr. Anthony Guarino
..... Ms. Nancy Bennett
Chief Financial Officer

4. Approval of the Minutes of the June 27, 2014 Public Meeting of the ASRS Board
(*estimated time 1 minute to 8:41 a.m.*)Mr. Kevin McCarthy

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

5. Appropriate Action Regarding a Member Appeal Request by Ms. Alice Schireman for Review and Reconsideration of a Final Decision (estimated time 20 minutes to 9:01 a.m.)
.....Ms. Jothi Beljan
Assistant Attorney General
.....Mr. Chris Munns
Attorney General, Solicitor General Section

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(2), notice is hereby given to Trustees of the ASRS Board and the general public that the ASRS Board may vote to go into executive session, which will not be open to the public, for the purpose of discussion or consideration of records exempt by law from public inspection.

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Retiree Health Insurance Program Request For Proposal Number ASRS14-00003727 (estimated time 20 minutes to 9:21 a.m.)
..... Mr. Jeff Tyne
Operations and Audit Committee Chair
..... Mr. Paul Matson
..... Mr. Patrick Klein
Assistant Director, External Affairs
..... Ms. Shireen Boone
Chief Procurement Officer

7. Presentation, Discussion and Appropriate Action Regarding the ASRS Operational Capacity (A FY 2015 Strategic Topic)
A. Budget Process
B. Staffing Strategies
C. Risks: IT Security, Investment Management, Customer Service
(estimated time 20 minutes to 9:41 a.m.)
..... Mr. Anthony Guarino
..... Ms. Martha Rozen
Chief of Administration
..... Ms. Sara Orozco
Manager Strategic Planning

8. Presentation, Discussion and Appropriate Action Regarding the ASRS Budget Related Topics Including:
A. Presentation of the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plan for FY 2015.
B. Presentation of the ASRS Appropriated Budget Request and Estimated ASRS Administrative and Investment Spending Plans for FY 2016 and FY 2017
(estimated time 20 minutes to 10:01 a.m.)
..... Mr. Paul Matson
..... Mr. Anthony Guarino
..... Ms. Martha Rozen
..... Mr. Russ Levine
Procurement and Budget Manager

9. Presentation, Discussion, and Appropriate Action Regarding ASRS Investment Program Updates (*estimated time 15 minutes to 10:16 a.m.*)..... Mr. Gary Dokes
Chief Investment Officer
..... Mr. Dave Underwood
Assistant Chief Investment Officer
- A. ASRS Fund Positioning
 - B. IMD Investment House Views
 - C. Asset Class Committee (ACC) Activities
 - D. Tactical Portfolio Positioning
 - E. Strategic Asset Allocation Policy (SAAP) Implementation
 - F. IMD Projects, Research, and Initiatives
10. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program Q2/2014 (*estimated time 15 minutes to 10:31 a.m.*) Mr. Allan Martin
Partner, NEPC
11. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events (*estimated time 5 minutes to 10:36 a.m.*) Mr. Paul Matson
Director
..... Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
- A. 2014 Compliance Report
 - B. 2014 Investments Report
 - C. 2014 Operations Report
 - D. 2014 Budget and Staffing Reports
 - E. 2014 Cash Flow Statement
 - F. 2014 Appeals Report
 - G. 2014 Employers Reporting
12. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings (*estimated time 15 minutes to 10:51 a.m.*)
- a. Operations and Audit Committee (OAC) Mr. Jeff Tyne, Chair
..... Mr. Anthony Guarino
The next OAC Meeting will be held on October 7, 2014
 - b. External Affairs Committee (EAC) Mr. Kevin McCarthy, Chair
..... Mr. Patrick Klein
The next EAC Meeting will be held on September 12, 2014
 - c. Investment Committee (IC) Mr. Tom Connelly, Chair
..... Mr. Gary Dokes
The next IC Meeting will be held on October 20, 2014
13. Board Requests for Agenda Items (*estimated time 1 minute to 10:52 a.m.*)
..... Mr. Kevin McCarthy
14. 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(G) 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.

15. The next public ASRS Board meeting is scheduled for Friday, September 26, 2014, at 8:30 a.m., at 3300 N. Central Avenue, in the 10th Floor Board room, Phoenix, Arizona.

16. 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 August 15, 2014

ARIZONA STATE RETIREMENT SYSTEM

Gayle Williams
Board Administrator

Date

Paul Matson
Director

Date

Agenda Item

#2



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MEMORANDUM

TO: Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board
FROM: Mr. Paul Matson, Director
DATE: August 14, 2013
RE: **Agenda Item #2:** Presentation Regarding the PRIDE Improvement Award

The ASRS employee recognition program recognizes employees who exemplify various PRIDE characteristics (Professionalism, Results, Improvement, Diversity, Excellence) throughout the year. The third award for 2014 is the PRIDE Improvement award.

The nominees were nominated by their peers because they exemplify the following PRIDE qualities of improvement:

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

- | | |
|--|---|
| <input type="checkbox"/> Promote new ideas | <input type="checkbox"/> Improve relationships |
| <input type="checkbox"/> Solve problems | <input type="checkbox"/> Enhance morale |
| <input type="checkbox"/> Enhance outcomes or performance | <input type="checkbox"/> Increase efficiency, effectiveness or reduce costs |

The nominees for the 2014 PRIDE Improvement Award include:

- Erin Higbee and Lana Menis
- Aaron Chandler
- Noaman Ahmed
- Benefits Accounting Leadership Team (Tracy Rundle, Carrie Waith, Erica Dunphy, Athena Elliston)
- MAC Leadership Team (Scott James, Judy Simpson, Leah Wagner, Jenalee Lewis)

Chosen from the nominees as winners of the 2014 ASRS PRIDE Improvement award are Erin Higbee and Lana Menis. We invite the Board to join ASRS staff in recognizing Erin and Lana as the award recipients of this year's award.

Nominees for the 2014 PRIDE Improvement Award

The Improvement Award is the third of our 2014 bimonthly awards. The following employees were nominated by staff who feel they exemplify the Improvement qualities listed below:

Improvement

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

- Promote new ideas
- Solve problems
- Enhance outcomes or performance
- Improve relationships
- Enhance morale
- Increase efficiency, effectiveness or reduce costs

Erin Higbee and Lana Menis

Erin and Lana worked long and hard to put together a process that complied with A.R.S. §§ 38-723 & 724. These statutes were enacted in 2012 and allow the ASRS to collect delinquent member overpayments via wage garnishment. Steps involved to create the garnishment process were: working with the AG's Office to draft an acceptable garnishment letter to employers; working with DES to create an Interagency Agreement which permits the ASRS to access DES' records in order to find a member's current employer; identifying the population of overpayments that were eligible for garnishment; developing a notification process that complied with the statutes; and finally, working closely with ADOA in an effort to make the process easier for them.

Developing the garnishment process took an entire year of very hard work. The first garnishment letters were sent to employers in April of this year and were small dollar amounts so the process could be tested. To date they have issued 30 garnishment letters and have collected \$3,270 or 54% of the amounts due. Since the process has been successful and the "bugs" worked out, Erin and Lana are now increasing both the volume and dollar amount of garnishments issued. Working together through this process, Erin and Lana emulated continuous quality improvement and enhanced efficiencies. Way to go!

Aaron Chandler

I would like to nominate Aaron Chandler, IQ Admin/Wiki Ninja and Trainer for the PRIDE Improvement Award. Understanding and working with the IQ page on a regular basis is a daunting job that requires the constant ability to embrace change, promote improvement and practice diplomacy. Aaron is continually working behind the scenes to foster and abide by these actions. He is always working to improve the tools used throughout the agency with both his work as a trainer and his work with IQ. He helps me to improve my job efficiency as a Benefit Advisor, as well as others, through various means such as; 1)

keeping the Job Aids current and updated, 2) providing training that is especially effective through his use of both tact and humor, 3) being always available-with a smile, and 4) being always willing to see the teachable moment in everything he does. Aaron is an asset to the agency who goes well above and beyond his job description.

Noaman Ahmed

Noaman has improved the efficiency of the entire TSD department by going above and beyond his job duties while making JIRA and IQ better. The TSD department has added many new dashboards and features to JIRA, all thanks to Noaman. These dashboards are also available to any user at the ASRS so anyone can check on the status of a project, incident or service request. Noaman has also added many useful pages to IQ. These pages are also available to anyone to use and they improve our ability to find information on a daily basis.

Noaman has also recommended the creation of the TSD Bright Idea program which is intended to pull ideas from TSD employees to make TSD's job easier. One of the first results of this new program will be some TSD lunch and learn sessions where TSD employees can learn about new product features during lunch.

Benefits Accounting Leadership Team (Tracy Rundle, Carrie Waith, Erica Dunphy, Athena Elliston)

The Benefits Accounting Leadership Team is being nominated for the PRIDE Improvement award because of the substantial improvement of employee satisfaction in Benefits Accounting. The 2014 Employee Satisfaction Survey results indicate there was an improvement (or sustainment) in 80% of survey responses including communication, recognition, celebrating/rewarding accomplishments, empowerment, innovation, opportunities, projects/assignments, and morale. On average, scores improved by 11.7%. The Benefits Accounting leadership team is to be commended for their dedication and responsiveness to employee feedback.

MAC Leadership Team (Scott James, Judy Simpson, Leah Wagner, Jenalee Lewis)

The MAC leadership team is being nominated for the PRIDE Improvement award because of the substantial improvement of employee satisfaction in MAC. The 2014 Employee Satisfaction Survey results indicate that there was an improvement in 98% of survey responses including communication, recognition, celebrating/rewarding accomplishments, empowerment, innovation, opportunities, projects/assignments, training, physical work space, accountability, and morale. On average, scores improved by 13.4%. The MAC leadership team is to be commended for their dedication and responsiveness to employee feedback.

Agenda Item

#3



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Paul Matson
Director

MEMORANDUM

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

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

DATE: August 15, 2014

RE: **Agenda Item #3:** Presentation Regarding Government Finance Officers Association (GFOA) Financial Reporting Awards

Purpose

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

Recommendation

Informational only; no action required.

Background

It is our pleasure to report to you that the ASRS received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its June 30, 2013, Comprehensive Annual Financial Report (CAFR). This is the twenty-fifth consecutive year the ASRS has received this prestigious award. A Certificate of Achievement is presented by the GFOA to those government units whose annual financial reports are judged to adhere to program standards and represents the highest award in government financial reporting.

It takes many hours of hard work by the ASRS to produce the CAFR each year. Staff who had a substantial part in the ASRS receiving the CAFR award were Nancy Bennett, Liz Rozzell, Erin Higbee, Tanya Wright, John Maczko, Tonia Nemecek, Debbie Motta, Rebecca Fox, Kristin Berry, Lisa Dailey, Lupita Breland, Kerry White and Michael Copeland.

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

In addition, I am pleased to report the ASRS also received the GFOA Award for Outstanding Achievement for the 2013 Popular Annual Financial Report (PAFR). Staff who had a significant part in the ASRS receiving the PAFR award were Nancy Bennett, Liz Rozzell, Erin Higbee, John Maczko and Rebecca Fox.

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

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



Government Finance Officers Association
203 N. LaSalle Street - Suite 2700
Chicago, IL 60601

Phone (312) 977-9700 Fax (312) 977-4806

May 16, 2014

Liz Rozzell
Controller
The Arizona State Retirement System
3300 N. Central Ave, 13th Floor
Phoenix AZ 85012

Dear Ms. Rozzell:

We are pleased to notify you that your comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2013, qualifies for a Certificate of Achievement for Excellence in Financial Reporting. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

Each entity submitting a report to the Certificate of Achievement review process is provided with a "Summary of Grading" form and a confidential list of comments and suggestions for possible improvements in its financial reporting techniques. Your list has been enclosed. You are strongly encouraged to implement the recommended improvements into the next report and submit it to the program. If it is unclear what must be done to implement a comment or if there appears to be a discrepancy between the comment and the information in the CAFR, please contact the Technical Services Center (312) 977-9700 and ask to speak with a Certificate of Achievement Program in-house reviewer.

Certificate of Achievement program policy requires that written responses to the comments and suggestions for improvement accompany the next fiscal year's submission. Your written responses should provide detail about how you choose to address each item that is contained within this report. These responses will be provided to those Special Review Committee members participating in the review.

When a Certificate of Achievement is awarded to a government, an Award of Financial Reporting Achievement (AFRA) is also presented to the individual(s) or department designated by the government as primarily responsible for its having earned the Certificate. As the designated individual we have enclosed your AFRA.

Continuing participants will find a certificate and brass medallion enclosed with these results. First-time recipients will find a certificate enclosed with these results followed by a plaque in about 10 weeks. We hope that you will arrange for a formal presentation of the Certificate and Award of Financial Reporting Achievement, and that appropriate publicity will be given to this notable achievement. A sample news release has been enclosed. We suggest that you provide copies of it to local newspapers, radio stations and television stations. In addition, details of recent recipients of the Certificate of Achievement and other information about Certificate Program results are available in the "Awards Program" area of our website, www.gfoa.org.

A current holder of a Certificate of Achievement may include a reproduction of the award in its immediately subsequent CAFR. A camera ready copy of your Certificate is enclosed for that purpose. If you reproduce your Certificate in your next report, please refer to the enclosed instructions. A Certificate of Achievement is valid for a period of one year. To continue to participate in the Certificate of Achievement Program it will be necessary for you to submit your next CAFR to our review process.

In order to expedite your submission we have enclosed a Certificate of Achievement Program application form to facilitate a timely submission of your next report. This form should be completed and sent (postmarked) with three copies of your report, three copies of your application, three copies of your written responses to the program's comments and suggestions for improvement from the prior year, and any other pertinent material with the appropriate fee by December 31, 2014.

Your continued interest in and support of the Certificate of Achievement Program is most appreciated. If we may be of any further assistance, please contact Delores Smith (dsmith@gfoa.org or (312) 578-5454).

Sincerely,
Government Finance Officers Association

A handwritten signature in cursive script that reads "Stephen J. Gauthier". The signature is written in black ink and is positioned above the typed name.

Stephen J. Gauthier, Director
Technical Services Center

SJG/ds

Agenda Item

#4



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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, June 27, 2014
8:30 a.m., Arizona Time

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

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

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Mike Smarik, Vice-chair
Mr. Brian McNeil
Professor Dennis Hoffman
Mr. Jeff Tyne
Dr. Richard Jacob
Mr. Tom Connelly

Absent: Mr. Kevin McCarthy
Mr. Marc Boatwright

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the May 23, 2014 Public Meeting of the ASRS Board

Motion: Professor Dennis Hoffman moved to approve the Minutes of the May 23, 2014 Public Meeting and Executive Session of the ASRS Board. Mr. Tom Connelly seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

3. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Ms. Alice Schireman's Appeal of Survivor Benefits

Ms. Diana Day, Assistant Attorney General, Solicitor General Section, was present for agenda items #3, #4 and #5, to provide legal advice to the Board, if requested.

Mr. Charles Grube, Assistant Attorney General, Senior Agency Counsel, provided an explanation of Ms. Alice Schireman's appeal, stating Ms. Schireman appealed the denial of survivor benefits on the account of her husband, Mr. Alvin Schireman, after ASRS staff determined there were no remaining benefits payable. The appeal was heard by the Office of Administrative Hearings, which upheld the Director's determination that there were no survivor benefits payable on Mr. Alvin Schireman's ASRS account. Mr. Grube explained to the Board their options of: 1) accepting the ruling of the Administrative Law Judge, 2) rejecting the ruling of the Administrative Law Judge, or 3) modifying the ruling of the Administrative Law Judge.

Ms. Schireman addressed the Board telephonically regarding her appeal. Mr. Manos asked the Board for further questions regarding the appeal; but there were none.

Motion: Mr. Tom Connelly moved to accept the ruling of the Administrative Law Judge to uphold the ASRS Director's determination that there were no survivor benefits payable on Mr. Alvin Schireman's ASRS account. Professor Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

4. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Mr. Arthur Gross' Appeal of His Calculated Retirement Benefit

Mr. Grube, summarized the appeal of Mr. Gross, stating the appeal was regarding Mr. Gross' retirement benefit calculation. Mr. Gross believed the ASRS should utilize only his most recent eleven months of earned salary in his benefit calculation and not salary data associated with his purchase of previous service.

A secondary issue arose during the course of the appeal when the ASRS discovered it had mistakenly calculated Mr. Gross' retirement benefit utilizing a thirty-six month calculation based on Mr. Gross' most recent membership date instead of the appropriate sixty month calculation. The ASRS discovered a solution to this secondary issue which would allow Mr. Gross a thirty-six month calculation, rendering a higher retirement benefit. Mr. Grube then explained the Board's options.

Mr. Gross addressed the Board stating he originally had a question regarding the method used to calculate his average monthly salary and then praised staff for responding to his questions and explaining and clarifying the process to him. Mr. Gross asked the Board to accept the staff-offered solution, which is a modification to the Administrative Law Judge's decision.

Ms. Jenna Orozco responded to Trustee questions and explained the staff-offered solution. Ms. Orozco explained the ASRS could offer Mr. Gross an increased benefit by reallocating his service purchase of Other Public Service to the purchase of his Forfeited Service instead. This method would increase his overall service and also allow the ASRS to calculate his benefit based on a thirty-six month calculation.

Motion: Dr. Richard Jacob moved to accept modification of the Administrative Law Judge ruling based on Mr. Gross' current service credit with the ASRS. Mr. Gross' current earned service credit is April 12, 2013 through February 18, 2014, with the Arizona Department of Corrections as noted in ASRS Exhibit U which makes Mr. Gross eligible for an average monthly compensation calculation pursuant to A.R.S. § 38-711(5)(c), the definition applicable to post July 1, 2011 ASRS members. Mr. Gross is not eligible for an average monthly compensation pursuant to A.R.S. § 38-711(5)(a) because he currently has reinstated ASRS service credit from February 1986 through July 1990, as noted in the hearing transcript, page 27, lines 22-25 and page 28, lines 1-17, not pre-January 1984 forfeited service as required by A.R.S. § 38-711(5)(a). Mr. Mike Smarik seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

5. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Mr. Adam Morris' Appeal of Requested Contributions Not Withheld

Mr. Grube explained Mr. Morris' appeal. Mr. Morris contacted the ASRS about receiving ASRS service credit and associated benefits for his employment period with Glendale Elementary School District. The ASRS issued Contributions Not Withheld (CNW) invoices for some of the time and Mr. Morris appealed, requesting to purchase the remainder of the time. Because neither Mr. Morris nor the District were able to supply records to substantiate Mr. Morris' hours, the ASRS declined the additional service purchase.

The appeal was heard by the Office of Administrative Hearings, which upheld the Director's determination there was insufficient documentation to issue additional CNW invoices. The Judge noted in Conclusion of Law No. 6 the ASRS method in determining CNWs was favorable to the Appellant. Mr. Grube then explained the Board's options.

Neither Mr. Morris nor a representative were present at the Board meeting. There were no questions from the Trustees.

Motion: Professor Dennis Hoffman moved to accept the ruling of the Administrative Law Judge to uphold the ASRS Director's determination there was insufficient documentation to issue additional CNW invoices. Mr. Brian McNeil seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the Actuarial Audits of the
a. Pension Plan and Health Benefit Supplement Program
b. Long Term Disability (LTD) Plan
c. System

Mr. Paul Matson, Director, introduced the item by explaining the ASRS conducts an actuarial audit every five years. The most recent audit of the June 30, 2013 actuarial valuations was completed by Gabriel Roeder Smith & Company (GRS). Mr. Ryan Falls, Senior Consultant & Actuary, GRS, explained their audit process and presented their findings. Additionally, Mr. Charlie Chittenden, Buck Consultants, the contracted ASRS Actuary, provided Buck's response to the audit.

The Audit Summary of Findings was: "Based on our review of the census data, experience study documents, liability replication, liability calculations for a sample of members, and the actuarial valuation reports, we believe the June 30, 2013 actuarial valuations of the ASRS retirement programs are reasonable, are based on appropriate assumptions and methods, and the reports generally comply with the Actuarial Standards of Practice."

Mr. Falls offered his recommendations, stating the ASRS has very sound actuarial valuations and appropriate assumptions. Mr. Falls, Mr. Chittenden and Mr. Matson answered questions from the Trustees regarding the recommendations.

Mr. Matson outlined further Board meeting discussions, stating that at a meeting before this November, when the June 30, 2014 actuarial valuation is presented, the Board will discuss the audit recommendations and the implementation time frame. Mr. Matson indicated that several pro forma analyses would likely be presented including PUC vs. EAN.

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

Mr. Gary Dokes, Chief Investment Officer, addressed the Board regarding ASRS investment program updates for the period ending May 31, 2014, highlighting specific areas of interest and concern. Mr. Dokes presented information on the following items: ASRS Fund Positioning, IMD Investment House Views – June 2014, Asset Class Committee Activities, Tactical Portfolio Positioning, Strategic Asset Allocation (SAA) Policy Implementation, IMD Projects, and Research and Initiatives.

8. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program Q1/2014

Mr. Allan Martin, Consultant, NEPC, addressed the Board regarding NEPC's independent reporting, monitoring, and oversight of the ASRS Investment Program including Total Fund performance through March 31, 2014.

The Total Fund Performance for the period ending March 31, 2014 is:

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	2.3%	13.8%	9.6%	15.9%	7.0%	10.0%
Interim SAA Policy*	2.4%	13.9%	9.5%	15.7%	6.9%	9.8%
Excess Return	-0.1%	-0.1%	0.1%	0.2%	0.1%	0.2%

*Interim SAA Policy: 25% S&P 500/5% S&P 400/5% S&P 600/14% MSCI EAFE/3% MSCI EAFE Small Cap/6% MSCI, Emerging Markets/6% Russell 2000 (lagged one quarter)/15% Barclays Capital Aggregate/5% Barclays Capital High, Yield/4% JP Morgan GBI-EM Global Diversified/2% S&P/LSTA Levered Loan Index + 250 basis points (lagged one quarter)/6% NCREIF ODCE (lagged one quarter)/4% Dow Jones/UBS Commodities Index,

Note: Interim SAA Policy includes a proration of 1% Private Equity, 1% Private Debt, and 2% Real Estate, which are unfunded. Private Equity was prorated to domestic equity; Real Estate was prorated to domestic equity and fixed income; Private Debt was prorated to fixed income.

9. Presentation, Discussion, and Appropriate Action Regarding Board Elections

Mr. Tom Manos introduced the item, reminding Trustees the Board Governance Policy Handbook requires an annual election of the Board Chair and Vice-chair. Mr. Manos stated he came to the decision not to remain Chair, believing it is good governance for the Chair and Vice-chair to rotate occasionally. Mr. Manos said that in the three years he has been Chair, he has been more than satisfied with some of the changes the Board has made.

Motion: Mr. Tom Manos moved to nominate Mr. Kevin McCarthy as ASRS Board Chair with his term to begin July 1, 2014. Mr. Mike Smarik seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

Motion: Mr. Tom Connelly moved to nominate Mr. Mike Smarik to continue serving as ASRS Board Vice-chair. Professor Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

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

Mr. Matson commented the ASRS is restructuring the Securities Lending Program and stated that after taking ourselves out of the market because of the previous potential risks, staff created a program structure with a lower risk profile.

Mr. Matson also commented on the ASRS cash flow and how staff monitors both the internal and external cash flows, each of which is approximately -3% of total fund value. He also stated he is pleased, based upon the CIO's report, to see that staff is aware of the need for very efficient cash management.

The last item Mr. Matson discussed was the Sunset Audit currently being conducted by the Arizona Office of the Auditor General. The audit field work is expected to be completed by December, 2014, with the final report expected approximately May of 2015. The key audited areas include the financial

condition of the ASRS, the sustainability of the ASRS, the Investment Management Program, as well as stakeholder inquiries which include salary spiking and the Investment Management Incentive Compensation Program.

Mr. Brian McNeil referenced the Employers Reporting memo in the Director's report and asked about the bankruptcy collection process for ASRS Employers. Mr. Matson said the State Treasurers Office is used for the collection process but often with small employers; there is insufficient money for collection. Mr. Matson will follow up with Mr. McNeil on the ASRS priority standing as a payee in the collection process for employers.

11. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings

a. Operations and Audit Committee (OAC)

Mr. Jeff Tyne, Chair, said the next OAC meeting will be held on August 12, 2014. Agenda items will include risk management discussions of the IT security audit, the FY16 budget and a review of audits from the Internal Audit Division.

b. External Affairs Committee (EAC)

Mr. Tom Manos said the next EAC meeting will be held on September 12, 2014.

c. Investment Committee (IC)

Mr. Tom Connelly, Chair, said the next IC meeting, held on August 18, 2014, will begin at 1 p.m. to provide ample time for a roundtable of outside speakers discussing possible alternative sources of investment returns.

12. Board Requests for Agenda Items

No requests were made.

13. Call to the Public

No members of the public requested to speak.

14. The next ASRS Board meeting is scheduled for Friday, August 22, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

15. Adjournment of the ASRS Board

Mr. Tom Manos adjourned the June 27, 2014 Board meeting at 10:40 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Gayle Williams
Board Administrator

Date

Paul Matson
Director

Date

Agenda Item

#5



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MEMORANDUM

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

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

DATE: August 15, 2014

RE: **Agenda Item #5:** Appropriate Action Regarding a Member Appeal Request by Mrs. Alice Schireman for Review and Reconsideration of a Final Decision

Purpose

To consider Mrs. Alice Schireman's request to the ASRS Board for Review and Reconsideration of its decision that there are no survivor benefits payable on member Mr. Alvin Schireman's ASRS account.

Background

- A. Mr. Alvin Schireman retired from the ASRS on August 13, 1986, electing a life annuity five (5) year term certain option.
- B. The five-year term certain option provides a member a period certain and life annuity actuarially reduced with payment for five years that are not dependent on the continued lifetime of the member but for whom payments will continue for the member's lifetime beyond the five-year period. The five-year term certain option only provides the member's beneficiary a survivor benefit from a pension if the member passes away within five years of retirement. Any possibility for a survivor benefit to Mr. Schireman's beneficiary ended in August 1991, five years after his retirement date of August 13, 1986.
- C. Upon Mr. Schireman's passing on October 30, 2013, there were no survivor benefits remaining, and the ASRS informed Mr. Schireman's estate of this in November 2013.
- D. Subsequent to this communication, Mr. Schireman's wife, Mrs. Alice Schireman, requested the ASRS add her as beneficiary and pay her a survivor benefit.
- E. In her Recommended Decision dated May 19, 2014, Administrative Law Judge Tammy Eigenheer upheld the ASRS Director's determination that there were no survivor benefits payable on Mr. Alvin Schireman's ASRS account.
- F. At its June 27, 2014 meeting, the ASRS Board upheld the ALJ's ruling that no survivor benefits were payable on Mr. Alvin Schireman's account.

Request for Review

Mrs. Schireman's July 28, 2014 correspondence states that she is requesting a review and reconsideration by the ASRS Board of its decision to accept the Administrative Law Judge's decision.

Arizona Administrative Code R2-8-405(C) entitled "Rehearing: Review of a Final Decision" states the grounds for which a rehearing may be granted. The Board may grant a rehearing or review of a decision for any of the following causes if they materially affect a member'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.

Mrs. Schireman's correspondence states that she is filing her motion based on an error that was committed at the administrative hearing. She asserts that a rescission request of the five-year term certain annuity option was submitted to the ASRS prior to Mr. Schireman's passing.

First, this is factually incorrect. The first rescission request the ASRS received was on December 21, 2013, approximately two months after Mr. Schireman's passing. It should be noted that Mrs. Schireman submitted the form by stamping Mr. Schireman's signature with a signature stamp. Second and more importantly, a rescission request is not applicable to Mr. Schireman's ASRS account. There were no survivor benefits payable to any beneficiary on Mr. Alvin Schireman's account effective August 1991 because Mr. Schireman retired in August 1986 with a five-year term certain annuity for which all payable survivor benefits end five years after a member's retirement.

Board Options

Option 1: The Board may grant Mrs. Schireman's request for review. The Board may review Mrs. Schireman's case today or at a future ASRS Board meeting. After review, the Board may a) overturn its prior decision that there are no survivor benefits payable on Mr. Alvin Schireman's ASRS account or b) uphold its prior decision.

Option 2: The Board may approve Mrs. Schireman's request and grant a rehearing with the Arizona Office of Administrative Hearings. If the Board grants a rehearing with the Office of Administrative hearings, the Board may accept, reject or modify the Administrative Law Judge's decision.

Option 3*: The Board may deny Mrs. Schireman's request for review.

*Staff perspective

Confidential
meeting
materials
were in this
agenda item

Agenda Item

#6



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MEMORANDUM

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

FROM: Mr. Paul Matson, Director
Mr. Patrick M. Klein, Assistant Director, External Affairs
Mr. Edward Rapoport, ASRS Benefits Administrator

DATE: August 13, 2014

RE: **Agenda Item #6:** Presentation, Discussion and Appropriate Action Regarding the 2015 ASRS Retiree Health Insurance Program Request for Proposal Number ASRS14-00003727

Purpose

To review and approve the recommendation of the ASRS Operations and Audit Committee and the Request for Proposal (RFP) Evaluation Committee for a retiree medical benefits program effective January 1, 2015, for the ASRS.

Recommendation

Approve the RFP Evaluation Committee and Operation and Audit Committee's (OAC) recommendation.

Background

The ASRS issued an RFP in early January 2014, for an ASRS retiree medical benefits program. The ASRS will conclude a five-year contract with UnitedHealthcare at the end of 2014. Arizona statutes require the ASRS to bid the program every five years. A new contract will be effective January 1, 2015.

Responses were due in early February. An evaluation committee was assembled and was comprised of Dr. Richard Jacob, ASRS Board Trustee; Paul Matson, ASRS Director; Anthony Guarino, Deputy Director and Chief Operations Officer; Pat Klein, Assistant Director External Affairs; Ed Rapoport, ASRS Benefits Administrator; and with technical assistance from Shireen Boone, Chief Procurement Officer. Benefits consultants from Mercer Consulting also assisted in the process and guided many of the committee's discussions.

Two proposals were submitted by the due date; one from UnitedHealthcare and one from Transamerica Affinity, a broker for Medicare plans only. There was also an electronic submission from an individual person but without an actual offer; i.e., no documentation was provided upon which an evaluation could have been performed.

The Evaluation Committee met periodically from mid-March to mid-July analyzing and comparing responses from vendors based on the evaluation criteria set forth in the solicitation requirements. Some of these criteria included: Quality and Value of Benefit Plan; Pricing (premiums); Performance Guarantees; and, an acceptable Retrospective Rate Adjustment Agreement.

Best and Final Offers were provided on June 13. The Evaluation Committee then asked for specific clarifications regarding vendor responses with those clarifications provided on July 21. The Evaluation Committee convened on July 24 and formalized its recommendation. The OAC, at its August 12, 2014 meeting, moved to recommend to the Board approval of the RFP Evaluation Committee's recommendation.

Attached you will find the RFP Scope of Work and the Evaluation Committee's recommendation confidential exhibit.

SCOPE OF WORK

History and Overview – Arizona State Retirement System (ASRS).

The Arizona State Retirement System (ASRS) was created in 1953 to provide defined contribution retirement benefits to employees of the state, university, and political subdivisions in Arizona. Arizona teachers voted to join the ASRS in 1954, effective January 1, 1955. In 1970, the state legislature authorized the creation of a defined benefit plan contingent upon the election to transfer at least 70 percent of ASRS membership. More than 80 percent voted to transfer to the “plan” effective July 1, 1971.

At the end of fiscal year 2012-2013, total ASRS membership, including active, inactive, and retired members was nearly 542,845, and the number of ASRS employer members was 745, including school districts, state colleges and universities, and local, county, and state governments.

In addition to pension benefits, the ASRS provides a health insurance premium benefit and sponsors medical and dental coverage for retired members. Active members receive long-term disability insurance coverage equal to two-thirds of pay at the time of disablement.

Retirees with ASRS and Public Safety Personnel Retirement System (PSPRS), Elected Officials’ Retirement Plan, Corrections Officer Retirement Plan and the University Optional Retirement Plans with retiree health care coverage may have additional monies reflected in their pension check to help offset or reduce the cost of the retiree’s health insurance premium. The full cost of the health insurance premium is then shown in the deductions column of their monthly payment summary. Details of the Premium Benefit Program may be found on page 49 in the 2014 ASRS Retiree Group Health Insurance Open Enrollment Guide (Exhibit C1).

A.R.S. § 38-782 states that “the Board shall establish group health and accident coverage for eligible retired and disabled members and their dependents. Eligible retired and disabled members are those members who are receiving retirement benefits from ASRS or long-term disability benefits pursuant to section 38-651.03 or article 2.1 of this chapter and who elect not to obtain health and accident insurance through their former employer.” This section further includes retired members and eligible dependents of the Public Safety Personnel Retirement System, Elected Officials’ Retirement Plan, Corrections Officer Retirement Plan, and the University Optional Retirement Plans. If laws are changed to allow current active employees of participating employers or active public employees of non-participating employers to enroll in the plan(s), the Contractor shall accommodate the employees in the contracted plan(s).

Members (eligible retirees, dependents and domestic partners of retirees) eligible to enroll in the coverage shall include: Any retired member of the Arizona State Retirement System (ASRS), Public Safety Personnel Retirement System (PSPRS), Elected Officials’ Retirement Plan (EORP), Corrections Officer Retirement Plan (CORP), University Optional Retirement Plans (UOPR), or any member receiving a Long Term Disability Income Plan benefit who is no longer eligible for health insurance benefits through their former employer’s plan.

The ASRS staff provides administrative support to the ASRS Board to carry out the ASRS statutory mandates. More than 122,257 retired annuitants, their survivors, and disabilitants receive monthly benefits totaling in excess of \$214 million. More than 45,000 retired members are enrolled in the ASRS sponsored medical or dental plans. Approximately 4,400 members are long-term disability income plan recipients.

Federal laws and regulations govern programs affiliated with the health insurance coverage offered to the participants of this program.

The 2014 ASRS Retiree Group Health Insurance Open Enrollment Guide is located in Exhibit C1. Exhibits C2 and C3 are the current plans’ schedule of benefits. The census data including all eligible retirees is contained in Exhibits A1 and A2. The census containing enrollment information is located in Exhibits B1 and B2. The experience data provided by the current carrier is identified in Exhibits D1 through D5. **Please refer to Amendment 1 and Amendment 2 to this solicitation that expands the Exhibits to include additional information.**

Plan designs for the ASRS Medicare eligible are the Medicare Advantage HMO and the Senior Supplement plans. Plan designs for the ASRS non-Medicare eligible are the Choice and Choice Plus plans.

Additional information about the ASRS can be found at www.azasrs.gov.

1. Solicitation Purpose and Program Goals.

- A) ASRS is seeking to continue to provide a Retiree Medical Benefits Program through this solicitation.
- B) ASRS will utilize a fully-insured model for group retiree medical/Rx insurance and is looking to accomplish the following for both Medicare and non-Medicare retirees:

Offer multiple products (i.e., Medicare Advantage HMO, PPO & PFFS products, Medicare Supplement, non-Medicare HMO, PPO, and Indemnity plans) to meet the needs of both Medicare and non-Medicare retirees. ASRS may choose from this menu of products and reserves the right not to offer any one of them. Product design and structure need not be an exact match to the current products offered. Offerors should provide a proposal that supports their “best value” considering price, plan design, network access, customer service, and program provisions.

Offer increased clinical quality programs in the network offerings.

Achieve a “whole group” blended underwriting model for all retirees (i.e., both Medicare and non-Medicare eligibles) enrolled in the ASRS program.

Support a One-way Experience Refund Arrangement similar to the current contract provisions found in Exhibit C5.

It is the intent of this Solicitation to provide a Medicare Advantage product for as many areas as possible within the state of Arizona (i.e., MA-HMO, MA-PPO, MA-PFFS) as well as a Medicare supplement program for ASRS enrollees.

ASRS encourages Offerors to be cognizant of the demographics and to provide alternative plans that may be advantageous to the efficacy of the Retiree Medical Benefits Program.

A discussion of offering a marketplace exchange alternative, whether public or private, for the Medicare and non-Medicare retirees of ASRS some year after the initial year of the contract should be provided.

2. Scope Statement.

The ASRS is interested in providing a menu of medical coverage products that have plan design attributes that promote wellness, high-quality of care, are cost effective, will provide network accessibility for their diverse membership, and provide a strong customer service focus.

3. General Requirements.

- A) The Contractor shall have the capability and requisite experience and expertise to provide the services specified herein to the Arizona State Retirement System (ASRS) in accordance with the provisions and requirements set forth herein. The Contractor shall understand and agree that no quantity of service is guaranteed under the Contract and that the ASRS does not guarantee that the Contractor’s services will be utilized to any degree. The ASRS reserves the right to Contract for the services as a whole, or any of the various parts/scenarios listed separately.
- B) In the performance of the services set forth herein, the Contractor shall expressly understand and agree that a Contract exists between the Contractor and ASRS upon approval and acceptance of a proposal as

set forth in Attachment A: Offer and Acceptance. In addition, the Contractor understands and agrees that the Contract shall be performed on behalf of the ASRS.

- C) The Contractor shall provide a Retiree Medical Benefits Program, hereinafter referred to as the "Program," based on the options the Contractor has selected to underwrite as specified elsewhere in this document.
- D) The Contractor shall agree that participation in the Program shall be at the sole discretion of each retiree. In addition, participation by the individual retirees shall be voluntary.
- E) The Contractor shall agree that, although the underwriting information provided in the exhibits is believed to be reasonably correct, it shall not be considered in any way a warranty, and shall not impair coverage or rates under a policy issued based on the information provided.
- F) The Contractor shall provide the ASRS with a preliminary first renewal on or before April 15, 2015, for the first renewal period, and a firm renewal offer no later than June 1, 2015 for a January 1, 2016 effective date. Preliminary renewals for any subsequent years shall be provided on or before April 15th and firm renewal offers no later than June 1st. Any request shall be accompanied by supporting documentation. Similarly, the Contractor shall provide the ASRS advance notice of program/operation changes or modifications of any type. Offerors are encouraged to supply a multi-year renewal.
- G) The Contractor shall begin the implementation process within ten (10) business days of Contract award. Contractor shall provide a detailed implementation plan for ASRS to review and approve one hundred and twenty (120) days prior to the start of the plan year. The implementation plan shall include a detailed transition-of-care plan for members with open prior authorization who are actively enrolled in case management and/or disease management.
- H) The Contractor shall have its customer call center and website available forty five (45) calendar days before open enrollment begins for: members transitioning from the current contractor, potential new members with questions about ASRS's benefits program, or those who want to view the program information. Customer service representatives must be fully trained on ASRS benefits prior to the effective date of the Plan.
- I) The Contractor shall provide a transition-of-care plan for ASRS approval ninety (90) days prior to the implementation date. The plan shall include a process for any members receiving treatment, scheduled for treatment, or requiring continuation of care for chronic and/or catastrophic treatment.
- J) The Contractor shall provide members a transition of care of care form.
- K) The Contractor shall provide member assistance to those with health transitional care issues.
- L) The Contractor shall furnish to ASRS the name, title, and phone number of two (2) individuals who will coordinate and assure prompt resolution of transitional issues. ASRS shall be notified with any changes to this information within twenty-four (24) hours of any update.
- M) The Contractor shall report to ASRS on all members who have been identified through external or internal notifications. The report shall include but not be limited to: dates identified, status on out-reach efforts, transition-of-care status, removal from transition-of-care reporting, as well as any other information requested by ASRS.
- N) The Contractor shall provide any communications, resources, data, and/or file transfers upon completion of any Contract term to support a successful transition to a new contractor, if required, at no additional cost to ASRS.
- O) Upon completion of the Contract term, the Contractor must provide claims data to the succeeding contractor or to ASRS, as directed and at no additional charge to ASRS. The Contractor must provide a

file for historical paid claims, open prior authorizations, case management, and disease management cases, respectively, to any new contractor selected by ASRS upon termination of the Contract. These files shall be delivered to the aforementioned parties within thirty (30) days of request and in a HIPAA-compliant format.

- P) Upon termination of the Contract, the Contractor shall provide the same reporting and claims processing services for the claims incurred prior to the termination date and processed after the termination date.
- Q) The Contractor shall assist in transition-of-care and/or in the medical management process by working with the facility's social worker/discharge planner to evaluate the member's needs and possible alternatives, assisting the member in completion of paperwork necessary for qualifying for ASRS, federal, or other programs.
- R) The Contractor shall provide standard services such as grievance and appeal procedures, claims investigations, over/under payment reconciliation, patient surveys, and similar activities. Appeal procedures shall adhere to the standards established in Attachment C: Performance Guarantees as directed by ASRS.
- S) The Contractor shall use address labels only for purposes designated by the ASRS, and shall provide assurance that such labels (with names and addresses) shall remain confidential.
- T) The Contractor shall ensure that quality care is provided in all services rendered and shall immediately take necessary corrective steps when inappropriate care is identified.
- U) The Contractor must have the capability to maintain eligibility files and transmit and receive updates from ASRS electronically in format that complies with ASRS requirements. This format is utilized to balance participation from ASRS records to the records of the administrator on a monthly basis. The administrator is expected to maintain a field that has a one-to-one correlation to a field that is specified by ASRS. Also, Contractor(s) must be able to send a reconciliation full file back to ASRS that complies with HIPAA and as well as ASRS as requested. The Contractor agrees to adjust the file format based upon the needs and requirements of ASRS.
- V) The Contractor shall provide a web-based benefit enrollment system and dedicated staff for call center, fulfillment, and future retiree self-service for ASRS that can be managed by the Contractor's staff established on site at ASRS. This system will be presented to ASRS no later than 5/1/2015 for approval and ready for implementation no later than open enrollment for plan year beginning 1/1/2016. The Contractor agrees that ASRS will approve the functionality and efficacy of the system and agrees that this system can be owned or subcontracted upon the approval of ASRS.
- W) Plan benefits must adhere to the required Medicare eligibility formats when applicable and comply with essential health benefits required by the Affordable Care Act (ACA) for non-Medicare.
- X) The Contractor must provide at no additional cost, bi-annual claims data to ASRS in a format as specified in Exhibit D6.
- Y) The Contractor must provide required reports on the program performance as specified in Attachment C: Performance Guarantees stipulated in this solicitation.
- Z) All Offerors must be approved by the Federal Centers for Medicare and Medicaid Services to do business in the State of Arizona and must have arrangements to enroll and provide services to Medicare members of ASRS and must provide services outside of the State of Arizona as required.
- AA) The Contractor will be responsible for all costs associated with any investigation and/or audit necessary to ensure that claims are adjudicated properly.

BB) The Contractor will be responsible for defending any litigation concerning erroneous claims administration or any other issue related to the insured health plan coverage or eligibility.

CC) The Contractor must notify ASRS no later than 48 hours if (a) your Medicare Advantage Plan agreement is placed under investigation by CMS or another federal agency; (b) any member of your executive management team is placed under investigation, indictment, or faces criminal charges related to their employment or duties in your Plan; and (c) if you anticipate or have knowledge of a major problem or impediment that may cause disruption of services to ASRS members or may result in your ability to perform its duties and responsibilities as warranted and represented by the Contractor pursuant to this Solicitation.

4. Specific Benefit Plan Requirements.

A) The Contractor should provide Medicare Advantage HMO, PPO, Supplement and PFFS programs or alternate variations of any or all.

1) Medicare eligible products may include, but not limited to, one or more of the following:

- (a) Medicare Advantage HMO
- (b) Medicare Advantage PPO
- (c) Medicare Advantage PFFS
- (d) Supplemental to Medicare

2) Non-Medicare products may include, but not limited to, one or more of the following:

- (a) HMO
- (b) PPO
- (c) Indemnity (out-of-Arizona)

B) The Contractor shall provide pricing and benefit summaries, including limitations and exclusions for proposed plans.

C) The Contractor must agree that no existing participants will lose coverage as a result of a change in carriers.

5. Funding for Enrollment and Communications.

The Contractor must submit all copies of member materials, web portal member communications, and promotional materials for written approval by ASRS and their subsequent use in promoting the program to eligible retirees. Materials include notification letters, error/correction letters, form letters for additions or changes to network newsletters, or any other written communication.

The open enrollment and communications funding must be viewed by the Contractor as a marketing and advertising business expense and shall include such costs in the proposal. Planned uses for the funds are as follows:

- 1) Development/production of a Benefits Summary/Enrollment Guide two times per year.
- 2) Postage expenses
- 3) Materials development and training for Trainers and Customer Service Operators.
- 4) Contractor will provide additional on-site personnel to assist in all open enrollment activities FOR A PERIOD OF APPROXIMATELY THREE (3) MONTHS ANNUALLY or as long as is required to manage the enrollment and reconciliation process. Dates will vary according to the ASRS open enrollment time schedule. These positions are in addition to any other on-site personnel employed by Contractor.

- 5) All materials shall be co-branded as allowed by CMS and/or the Department of Labor.

The Contractor agrees that ASRS shall approve, in advance, any and all literature that is provided to participants. The Contractor must adhere to approval and notification procedures established by authorities including CMS and DOI. The Contractor shall provide written verification of any federal or state authority that prohibits changes as required by ASRS within 7 working days of requested changes by ASRS.

The allocation of the total expense among various contractors will be based on:

- 1) Contractor(s) shall cover the cost of all open enrollment activities. Expenses may include, but are not limited to postage, printing, telephone, temporary staffing, and meeting and travel expenses.

The ASRS shall not reimburse the Contractor for any enrollment and communication costs.

The Contractor shall provide a survey of member and provider satisfaction annually for ASRS. The Contractor shall obtain approval of the survey instrument from ASRS prior to its use.

The Contractor shall provide customized member communication materials during the transition and implementation activities. Communication materials include network transition pieces that seek to pro-actively notify members of provider election issues.

The Contractor shall have available the following online tools and services, updated at least quarterly, to ensure the accuracy of the information for members and providers as applicable:

- 1) Benefit information including, but not limited to: plan descriptions, summary of benefits and coverage, pharmacy contact information, transition of care, deductibles, co-payment, and coinsurance

6. Contractor Participation is Required with the Following Program Support Functions.

- A) Commitment to participate in the ASRS Health Insurance Advisory Committee as directed at issues related to health care delivery and the overall operation of the medical benefits plan. Meetings are held periodically. Medical and dental plan contractors shall host a conference for approximately twenty (20) people on an alternating basis.
- B) Contractor to supply draft articles and other relevant information for quarterly ASRS retiree newsletters.
- C) The Contractor shall work directly with ASRS and fund the development and production of all communication materials required for open enrollment and ongoing communications throughout the year. The Contractor shall incur the cost of postage expense in mailing materials to eligible members.

7. Eligibility and Mid-Year Plan Election Changes.

- A) The Contractor shall agree to recognize the rights of the members Eligibility for Enrollment as established and documented by ASRS within the Benefit documents attached as Exhibits to this RFP.
- B) The Contractor shall recognize the rights of members to engage in mid-year plan election changes consistent with the following status change rules. Premium rates will be based on the status of the participant after the change becomes effective.

ASRS Requirements:

Status Change	Current Administrative and Election Restrictions
Annual health plan elections	ASRS will coordinate with Contractor(s) regarding the preparation of booklets and forms. ASRS will

	coordinate the open enrollment process. Any eligible Plans may be selected. ASRS determines participant eligibility.
Participant retires	Participant becomes eligible for coverage in ASRS plans. Participant elections are processed by ASRS. Any eligible plan may be selected. ASRS determines participant eligibility.
Participant is determined to be disabled by the ASRS long term disability program administrator or a long-term disability program administered by an ASRS participating employer	Participant becomes eligible for coverage in ASRS plans. Participant elections are processed by ASRS. Any eligible plan may be selected. ASRS determines participant eligibility.
Participant becomes eligible for Medicare due to disability or reaches age 65 during plan year and enrolls in Medicare	Participant must notify ASRS. Disabled participant becoming Medicare eligible or a retiree attaining age 65 may choose any eligible plan available. Other family members, not Medicare eligible, shall not change. Participant elections are processed by ASRS.
Participant moves out of HMO service area during year	Participant must notify ASRS. Participant may change to any eligible plan. The minimum coverage period equals 3 months or until next plan year if less. Participant elections are processed by ASRS.
Participant moves into HMO service area during year	Participant must notify ASRS. Participant may change to HMO plan having appropriate service area. The minimum coverage period equals 3 months or until next plan year if less. Participant elections are processed by ASRS.
Retiree gains dependent through marriage, birth or adoption	Participant must notify ASRS within 31 days. Participant may add new member to plan. Current member(s) may not change plans. Participant elections are processed by ASRS.
Retiree loses dependent due to death, divorce, dependent reaching maximum age	Participant must notify ASRS. Participant may change to single coverage unless other dependents are covered. Participant elections are processed by ASRS.
Retiree dies and insured surviving dependents request coverage continuation	Beneficiary/Dependent must notify ASRS. Continuation of or enrollment in an ASRS retiree health care plan by your beneficiary must be decided within six (6) months of your death. Change becomes effective first of next month following election. Dependent may change to single coverage unless other dependents are covered. Participant elections are processed by ASRS. ASRS determines participant eligibility.
Participant becomes actively employed with an employer who is not an ASRS employer and enrolls for employer-provided health insurance coverage	Participant must notify ASRS. Coverage and premium benefits are suspended. Participant elections are processed by ASRS.
Participant becomes actively employed with an employer who is an ASRS employer and enrolls for employer-provided health insurance coverage	Participant must notify ASRS. Participant becomes ineligible for coverage in ASRS plans due to a change to the status of an actively participating member. Participant elections are processed by ASRS. ASRS determines participant eligibility.
Participant ceases active employment with an employer who is an ASRS employer and terminates coverage in an employer-provided health insurance coverage	Participant must notify ASRS. Participant becomes eligible for coverage in ASRS plans due to a change to the status of a retired member. Participant elections are processed by ASRS. ASRS determines participant eligibility.

8. The Contractor shall agree to add Domestic Partners as an eligible retiree class.
9. The Contractor must provide rates for tiers as specified in Attachment B: ASRS Price Offer.
10. The Contractor shall submit a draft of participant booklets, which contain an explanation of how to procure care, benefit schedule, and exclusions and limitations to the ASRS for approval at least ninety (90) days before scheduled beginning of the annual Open Enrollment period. The Contractor must adhere to approval and notification procedures established by authorities including CMS and DOI.
11. The Contractor shall, upon request by the ASRS, provide for Contractor representation at group open enrollment meetings for participants. Such meetings will be scheduled throughout the State of Arizona and may number anywhere from forty (40) to sixty (60) meetings. The representative(s) shall be responsible for making a brief presentation and answering questions.
12. On a year-round basis, the Contractor shall provide for the printing of enrollment materials based upon ASRS specifications.
13. Contractor must obtain written approval prior to the release of any communication to any eligible or enrolled member of the ASRS program(s).
14. The Contractor shall ensure that participants receive identification cards no later than the first ten (10) days following the effective date of coverage. For participants with family coverage, a minimum of two cards shall be provided.
15. Provider directories shall be delivered on time and in sufficient quantity for distribution during open enrollment or at group meetings. Provider directories shall also be available to members via the internet.
16. The Contractor shall provide or pay for all member communications materials, including but not limited to: postage; enrollment forms; enrollment brochures; claim forms and checks; certificates of insurance; participant booklets; identification cards; provider directories; announcement forms; and any other forms required for proper administration of the plans. The ASRS must review and approve all material prior to its distribution by the Contractor to participants.
17. The Contractor must pay claims in a timely manner, according to the standards described in Attachment C: Performance Guarantees of this document.
 - A) When a claim has been denied, or paid in part, the Contractor shall notify the participant of a right to appeal. A response to an appeal shall be issued in accordance with the Arizona DOL and/or Patient's Bill of Rights or any other industry standards approved by ASRS.
 - B) Payment of claim means the actual preparation and mailing of the amount due the participant or provider of services.
18. The Contractor's claim payment system shall contain, at a minimum, the following data and system edits to assure proper determination of eligibility, proper application of required deductibles, copays, and coinsurance, and availability of data required by ASRS and as required by CMS for all reporting.
19. The Contractor shall determine benefits payable, make any necessary investigations or obtain any supplemental verification, issue claim drafts to participants and maintain client files.
20. The Contractor shall make personnel available to any officer or participant for consultation on matters regarding this program. The Contractor shall honor the right of the policyholder to question the Contractor in any case where the participant's rights under the Contract are in question.
21. The Contractor shall recover all overpayments.

22. The Contractor must respond timely to all inquiries from Medicare within the specified time frames or the Contractor will be liable to pay any penalties as set forth by Medicare.
23. For Indemnity claims, the Contractor shall honor claims in the United States and, for emergency claims, worldwide.
24. The Contractor shall update coverage records upon receipt of the monthly listings of covered participants noting additions, changes, and deletions. The Contractor shall also update coverage records upon receipt of corrections of information printed on the monthly computer reports and/or electronic media provided to the Contractor by the ASRS. The Contractor shall also accept update of coverage information any time the ASRS provides it. Failure to identify a discrepancy within sixty (60) days after the receipt of payment shall be considered as acceptance of the ASRS calculations and records.
25. The Contractor shall provide a monthly eligibility report by plan. Such information should be provided by county and out of state.
26. The Contractor shall set up a toll-free telephone line to the claim paying facility for eligible members located within or outside the State of Arizona. This telephone line will be in place by the contract effective date.
27. A full annual accounting shall be furnished by the Contractor, if experience rated, to the ASRS within 180 days of the end of the policy year, and shall show premium, paid claims, retention, beginning and ending reserves, pooled premiums, and pooled claims, if applicable.
28. The Contractor shall complete a final accounting of all premiums within fifteen (15) months of policy termination. Any remaining surplus shall be refunded whether or not cancellation was on the anniversary date.
29. The Contractor agrees that ASRS will pay the premiums on a self-billed basis. Offeror agrees to direct bill monthly and collect premium from those retirees with insufficient funds to pay premiums out of their retirement checks. No direct pay member should have an outstanding balance greater than three (3) months.
30. A dedicated audit team shall be provided by the Contractor to assist the ASRS with the resolution of discrepancies. This team need not be dedicated solely for ASRS business, but may consist of Contractor employees conducting other business for the Contractor outside of ASRS audit periods. The team may consist of one or more individuals ensuring an appropriate number to complete the audit in a timely fashion.
31. The ASRS reserves the right to conduct a positive enrollment for the initial year of the Contract. The ASRS will determine in subsequent years if a positive Open Enrollment will be conducted. Enrollment meetings will occur at various locations throughout the State.
32. Each type of coverage proposed (e.g., Medicare Advantage HMO, PPO, POS, PFFS, Supplement, Indemnity, etc.) may be written on an experience rated basis, a community rated basis, or a combination of the two; however, a whole group underwriting approach will be used to support the overall financial health of the retiree medical benefits program.
33. The Contractor shall provide the following administrative services for Medical Plans pursuant to this Contract:
 - A) Creating and maintaining claims files.
 - B) Evaluating claims to determine if they have been properly filed and advising claimants in meeting the requirements for additional information and proper completion of claim forms.
 - C) Computing the benefits due in accordance with the current benefit plan document and/or documentation.
 - D) Issuing drafts to the person or assignee entitled thereto, if applicable.

- E) Discussing claims, where appropriate, with physicians and other providers of service.
- F) Obtaining and furnishing information regarding coordination of benefits.
- G) Applying claims control procedures necessary for the effective administration of the plan.
- H) Investigating claims in which the charges appear higher than usual per individual claim.
- I) Timely notification to participants of delayed claim payments which are caused by the presence of duplicate coverage or an error of omission in claim payment documentation.
- J) Verifying eligibility to provider of service.
- K) Establishment of dedicated customer service and claim units for the ASRS is preferred. The ASRS feels a dedicated unit is necessary to assure prompt and accurate service that is essential to the specific needs of retirees.
- L) The Contractor will have the ability to accept all overflow calls from the ASRS during and throughout the ASRS' normal business hours.
- M) Contractor shall provide a minimum of one (1) full-time on-site customer service representative at the ASRS place of business in Phoenix, Arizona for every 10,000 members enrolled in all programs or as needed to maintain a high quality retiree satisfaction level with the program. Contractor shall provide (1) one full-time on-site customer service representative at the ASRS place of business in Tucson, Arizona.
- N) Establishment of quality assurance standards and control mechanism for assurance of compliance with such standards.
- O) Print checks or drafts and corresponding explanation of benefits.
- P) Respond within one working day to any inquiry from the ASRS benefits supervisor or designated staff regarding the disposition of pending claim.

34. Audit.

- A) The Contractor shall agree to an external audit of all Medical and Pharmacy claims by Plan, bi-annually at the expense of the Contractor. ASRS reserves the right to approve the external audit firm selected to conduct the external audit. The Contractor also shall conduct internal audits at the request of ASRS should member service issues, regulatory changes, or failure to meet performance guarantees require ASRS to seek intermittent audit of processes or procedures.

35. Performance Guarantees.

- A) Performance standards for all of the plans offered, as written in Attachment C: Performance Guarantees of this Solicitation, shall be monitored by the Contractor on an account-specific basis for the ASRS. Such performance shall be documented by the Contractor on a regular basis as indicated on Attachment C: Performance Guarantees, and shall be subject to periodic independent audits at the request of the ASRS. If a violation of standards is found, the Contractor will accept financial responsibility for the audit expenses.
- B) Performance guarantees will not exceed 10% of aggregate premiums paid on an annual basis for.

36. Reporting.

- A) Report Turnaround Time: All standard reports are due within forty-five (45) days from the end of the month or quarter, semi-annual reports are due within sixty (60) days from the end of each six (6) months

and annual reports are due within sixty (60) days from the end of the calendar year, as required in Attachment C: Performance Guarantees of this Solicitation, or as specified during implementation

- B) Reports to be provided: All reports will be broken down by type of plan offered (e.g., HMO, PPO, Medicare Supplement, etc.); by participant; by claimant – participant, spouse or dependent child. The reports denoted below shall be provided on an ongoing basis by the Contractor.
- C) The Contractor shall provide the minimum requested data identified in Exhibit D6 to ASRS along with any other required detail necessary for the financial management of the program.
- D) Report Requirements, other:
 - 1) Premium dollars: Monthly. Total billed claims sorted by type of claim (inpatient, outpatient, primary care physician, specialty physician, diagnostic, lab/x-ray, pharmacy, other); Total number of claims; Provider discounts; Ineligible charges broken down as follows: over UCR or allowable amount, no plan benefit or plan provision, not eligible for coverage; Total allowable expenses; Deductible dollars; COB payments broken down as follows: other plan payments, total claims paid sorted by type of claim (inpatient, outpatient, primary care physician, specialty physician, diagnostic lab/x-ray, pharmacy, other); Total members' co-insurance payments; IBNR, Loss-ratio percentage.
 - 2) Large claim report: Quarterly. Showing total dollars paid to-date, diagnosis, and prognosis.
 - 3) Demographics on ASRS Group: Monthly. Sorted by age and gender, plan selected, tier of coverage, and by county.
 - 4) Direct pay member delinquent report: Monthly or as appropriate.
 - 5) Performance Reports: as specified in Attachment C: Performance Guarantees of this Solicitation.
 - 6) Utilization Reports: Monthly. Including inpatient admissions per 1,000 members, inpatient days per 1,000 members, ALOS, Re-admit rates, emergency room visits per 1,000 members, and outpatient surgeries per 1,000 members.
 - 7) Pharmacy Benefit Reports: Quarterly. Including number of prescriptions filled (sorted by generic and brand), ingredient cost, member copayments, net claim costs, generic substitution rate, mail order rate, and formulary compliance, top 25 drugs by drug spend, and top 25 drugs by utilization.
 - 8) Medical Management and Health Improvement Reports: Quarterly. Indicating health risk assessment participation, activities undertaken to encourage participation, participation rates by program and level of risk, results/savings, health fairs or other education seminars with participation rates, etc.
 - 9) Ad-hoc reports: As needed. As requested by the ASRS staff to assist in effective cost management of the program.
 - 10) Any additional reporting requirements as specified in the written implementation plan.

Confidential
meeting
materials
were in this
agenda item

Agenda Item

#7



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Paul Matson
Director

MEMORANDUM

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

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

DATE: August 15, 2014

RE: **Agenda Item #7:** Presentation, Discussion, and Appropriate Action Regarding the ASRS Operational Capacity (A FY 2015 Strategic Topic)

Purpose

To discuss the agency's operational capacity to achieve ASRS priorities, goals, and objectives.

Recommendation

Information item only; no action required.

Background

At the May 23, 2014 meeting, the Board approved a list of strategic topics of interest for discussion in fiscal year 2015. One identified strategic issue was operational capacity, particularly as it relates to budget processes, staffing strategies, information technology and risk management.

Loosely defined, operational capacity refers to the ASRS' ability to do work, to produce efficient outcomes, and to implement key organizational and programmatic functions. At the ASRS, operational capacity is reflected in the agency's ability to address strategic priorities, meet goals and objectives, and achieve its vision.

There are at least three keys that influence our ability to optimize operational capacity and performance at the ASRS:

- Access to Funding,
- Access to Qualified Staff,
- And Access to Safe, Modern Technology.

Access to all three are constrained, controlled, or checked to some extent and in a variety ways: by laws passed, by the Board and its governance policies, by staffs' internal controls, by external entities including the Governor's Office of Strategic Planning and Budget (OSP) and the Joint Legislative Budget Committee (JLBC), and by the Department of Administration (ADOA), in the areas of personnel, procurement, and information technology.

The ASRS conducts periodic formal risk assessments to assess: 1) threats to performance, 2) the adequacy of its internal controls, and 3) other factors, including external constraints, essential to realizing the balanced capacity necessary to operate efficiently, meet service demands and achieve strategic aims.

Working with the Operations and Audit Committee (OAC), staff has conducted assessments related to each of the three key factors noted above. To prepare for this discussion, the staff reviewed those reports, as well as the wide variety of performance metrics the staff uses to gauge the agency's performance.

Access to Funding

The ASRS budget management team, working with the Director and Deputy Director, analyzes, identifies, projects and plans for annual expenditures and presents this information to the ASRS Board of Trustees for approval in the form of annual spending plans. The annual spending plans include an alignment of costs/expenditures with budgetary funding sources as provided for in statute. The information is also reported every month to the Board in the monthly Director's reports. This approach allows for proper checks and balances whereby any variances are noted and brought to the attention of the Board.

The ASRS has shown it can reliably fund its operations and overcome constraints related to its appropriation. The ASRS has demonstrated a successful track record of taking actions to enhance the Plan's cost effectiveness and efficiency. This history has created an environment where the ASRS is typically granted appropriations needed to achieve our strategic aims.

For Fiscal Year 2015, the ASRS has projected its annual spending plan to be approximately \$294 million. If investment management expenses are excluded, the ASRS estimates it will utilize approximately \$34 million this year for overall agency administration, \$22 million of which is appropriated by the legislature. The appropriated budget, which is used to fund the majority of agency operations, is the most tightly controlled and regulated.

The ASRS has implemented controls to mitigate identified risks, including utilizing a robust process for developing a budget request submission:

- Program managers are requested to submit a list of anticipated items required/desired in a fiscal year, along with strong, supporting justification.
- Senior management critically review the requests, consider alternatives, look for reallocations, discuss changes, and collaboratively prioritize resources.
- Executive management further vets proposed approaches to ensure budget requests focus on only what is necessary to meet agency purpose while wearing their fiduciary "hat" to control costs and protect the financial interests of the Trust Fund.
- Board provides further oversight, review, and consideration, and ultimately, approval.
- Staff continues to examine processes and activities and make recommendations throughout the year to reduce and eliminate costs.

History reflects that the agency has been successful in funding projects and staff while retaining unspent appropriated funds/savings in the ASRS Trust Fund.

Access to Qualified Staff

A cornerstone of the ASRS strategic model is that making a purposeful investment in attracting and retaining the right complement of qualified professionals and providing a positive work environment will lead to greater achievement. The strategic goal is to ensure consistent, high performance by supporting an effective operating structure and a workforce that reflects agency values.

The ASRS Board and ADOA, guided by state law, provide the primary checks and balances on the ability to staff the ASRS.

The Agency Budget and Workforce Risk Assessment, conducted in 2013 identified several key risks related to staffing. While these risks cannot be eliminated, control strategies have been implemented to mitigate them to a manageable level. To attract and retain qualified individuals, management:

- Prioritizes recruitments and balances business needs with the cost of attracting and retaining qualified staff.

- Utilizes a variety of compensation strategies – approved variable pay incentive plans as well as base pay adjustments – to remain competitive.
- Reviews position classification and compensation levels and anticipates adjustments necessary to achieve business objectives and/or retain key staff with invaluable historical knowledge of ASRS programs and systems.
- Sponsors the PRIDE Initiative with workgroups specifically focused on work environment issues.

These strategies appear to be working:

- The agency is experiencing lower turnover. The 2014 employee survey results reflect 92 percent of staff view working at the ASRS as a long-term career choice.
- The ASRS approach to recruitment is resulting in higher caliber employees – leading to more internal advancement and reduced talent acquisition costs.
- The PRIDE Initiative has taken hold at the ASRS. The 2014 employee survey results reflect 96 percent of employees are familiar with the PRIDE values; 91 percent clearly understand how to reflect those values in their daily job.

Salary levels remain a concern for the staff. The 2014 employee survey revealed if given the option to change something in their job, 68 percent of staff would change their pay. The agency has the means and is committed to focusing on actions to address this concern, where warranted.

Access to Safe, Modern Technology

In the last decade, the ASRS has increasingly relied on technology to improve service to members, enhance staff productivity, and make the agency more cost effective overall. In addition to Board oversight, the checks and balances that control the ASRS' access to technology solutions include ADOA, as well as the JLBC and OSPB.

By measuring performance and using data wherever possible to support its requests, the agency has generally been successful in gaining support for its strategic technology initiatives. In the current strategic plan, the agency has continued to prioritize technology as a way to:

- Deliver outstanding customer service to members and employers,
- Reduce member reliance on physical and member contacts for service and transaction processing,
- Develop alternate ways for members and employers to receive information and counseling,
- Mitigate the need for staff due to increases in service demand; and
- Ensure the ASRS remains a high service/low cost benefit provider when compared to other public retirement systems.

Management also has a strategic goal to provide members and business users with technology that is high-performing, secure, and able to support evolving business needs. The data reflects that the ASRS is succeeding in meeting its strategic aims. For example:

- Members now have access to a variety of self-service options and approximately half of all retirees and active members have established a secure login.
- More than 90 percent of refunds and half of all retirements are now initiated online.
- More than 2/3 of all basic changes to member account information (address, beneficiary, tax and direct deposit information) are done online.
- Person-to-person contacts (telephone and in-person) through our member advisory center have decreased, which has allowed the agency to reallocate four MSD positions to other divisions within the agency.

- Records management staff has been able to shift some of its resources away from data entry and imaging of paper documents and toward the management of account data, which increases the agency's overall data integrity.
- The Fiscal Year 2013 CEM Benchmarking report (issued April 2014) likewise affirms the ASRS' status as a high service, low cost provider, with technology being a key contributor to the agency's overall cost effectiveness.

Risk Management

Another cornerstone of the strategic model is to ensure sound governance, oversight, and management of the ASRS. It is critical to clarify duties, ensure checks and balances, and provide transparent reporting of performance, trends and outlook. A robust enterprise risk management program helps ensure that capacity remains adequate to mitigate risks and threats which impede the achievement of goals.

To effectively meet the ASRS statutory purpose, the ASRS:

- Follows a Board Governance Policy Handbook, which is reviewed annually and updated as needed.
- Adheres to our Strategic Plan, which is developed with Board direction in establishing strategic priorities.
- Reports performance to the Board on a regular basis.
- Utilizes a formalized risk oversight process, which is directed by the Enterprise Risk Management Committee and overseen by the Operations and Audit Committee of the Board, to ensure adequate attention is paid to issues affecting operational capacity and performance.
- Employs independent contractors to review the strategies and practices employed in program areas – from IT security to investment management – to evaluate the agency's capability of managing risks that could impede its ability to meet goals, objectives, and priorities.
- Participates in benchmarking studies to determine the ASRS' performance against our strategic objectives.

A study performed in 2011 by Cortex Research confirmed that ASRS practices are generally consistent with our peer group and published standards. Identified inconsistencies have been evaluated and, if necessary, remedied.

In the past year, the agency has completed risk assessments on the ASRS budget, workforce, and technology functions. The agency has determined most risks are manageable, and that access to funding, qualified staff and modern technology solutions is generally sufficient. The ASRS is requesting additional funding and resources to further mitigate security-related threats to achieve targeted security maturity levels.

Conclusion

The ASRS is operating at an effective capacity and is able to achieve its priorities, goals and objectives. Further, ASRS performance and capacity compare favorably to industry peers. The ASRS will continue to measure performance, conduct risk assessments and evaluate threats to its ability to implement key organizational and programmatic functions. More in-depth information regarding the agency's ability to meet its strategic priorities will be presented in September 2014 when staff reviews the status of the ASRS Strategic Plan.

Agenda Item

#8



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Paul Matson
Director

MEMORANDUM

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

FROM: Mr. Jeff Tyne, Chair, Operations and Committee (OAC)
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Martha Rozen, Chief of Administrative Services
Mr. Russ Levine, Program Manager for Budget and Procurement

DATE: August 13, 2014

RE: **Agenda Item #8a:** Presentation of the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plan for FY 2015

Purpose

To review and discuss the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plan for Fiscal Year FY 2015.

Recommendation

No action required; informational only

Background

Attached to this memorandum are materials previously presented to the OAC by staff.



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Paul Matson
Director

MEMORANDUM

TO: Arizona State Retirement System (ASRS) Operations and Audit Committee (OAC)

FROM: Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Martha N. Rozen, Chief of Administrative Services
Mr. Russ Levine, Procurement and Budget Program Manager

DATE: August 5, 2014

RE: **Agenda Item #5A** Presentation, Discussion and Appropriate Action Regarding the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plan for Fiscal Year (FY) 2015

Purpose

To review and discuss the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plan for Fiscal Year FY 2015.

Recommendation

Informational only, no action required.

Background

Effective budget planning and administration are a cornerstone of the ASRS Strategic Planning model. Strategically, the ASRS aims to be a high service, low cost pension administrator. The ASRS spending plan for FY 2015 is structured to continue implementation of a service paradigm that reduces the need for manual transactions and physical contacts and is focused on moving member transactions to web-based self-service to further reduce our cost per transaction. This spending plan supports further modernizations and re-engineering of systems, the goal of which is to avoid future costs associated with more costly transactions and processes. Specifically, in FY 2015, the ASRS spending plan is designed to include the following:

- Appropriated funding for the second year of the Oracle Forms and Reports Modernization project that will allow the ASRS to achieve a standard set of technology for our business infrastructure and create additional efficiencies. The software development project has progressed ahead of schedule; therefore, the allotment of appropriations was reallocated over four years rather than the original five year timeline (\$4,484,500).
- Alignment of funds between base appropriations and continuous appropriations.
 - \$1,500,000 for internal investment management personnel salaries and benefits shifted from base operating appropriations to investment continuous appropriations.
 - Appropriated funding for a compensation plan focused on rewarding non-investment staff for performance in achieving established goals, adding to plan assets and/or reducing plan liabilities, reducing risk and costs, improving efficiency, productivity, customer service, and the member experience, and migrating members to self-

- service options, as well as addressing salary levels that are behind the market when compared to other peer organizations (\$750,000).
- Appropriated funding for the ASRS Incentive Compensation Plan (ICP) for Internal Investment Professionals. Incentives earned for FY 2014 performance will be paid during FY 2015 (\$350,000 approximate amount of budget reserved).
 - Appropriated funding to fill appropriated FTE software development positions approved but not funded in FY 2014 (\$400,000).
 - Continued appropriated funding for resources to assist with the implementation of recently passed HB 2050. This bill eliminates the requirement that members must be covered by an employer's Social Security 218 Agreement to be eligible for membership in the Arizona State Retirement System and closes the A.R.S. § 38-955 defined contribution plan, established by HB 2562 in 2013. (\$72,400 shifted from special line item legislative appropriations in FY 2014 to base operating appropriations in FY 2015).
 - Increased investment continuous appropriation expenditures primarily from an increase in investment management fees, which are due to anticipated growth in investable assets.
 - For public markets, the fees are calculated based on the market value of the investments, using the assumption of an 8% annual rate of return less estimated net cash flows of 2.5%.
 - For private markets, there are two fee components:
 - Investment management fees – These fees are calculated based on the percentage of committed capital to the program, which increases each year based on the pacing plan approved by the Private Markets Investment Committee.
 - Performance incentive and other fees – Performance incentive fees include 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, if incurred.

Fees for both public and private markets are correlated to investment performance as well as net cash flows and commitments, respectively.

Attachment A: FY 2015 ASRS Total Appropriated Budget Overview and ASRS Administrative and Investment Spending Plan Schedules

Attachment B: ASRS Pension Cost and Service CEM Benchmarking Results (FY 2013)

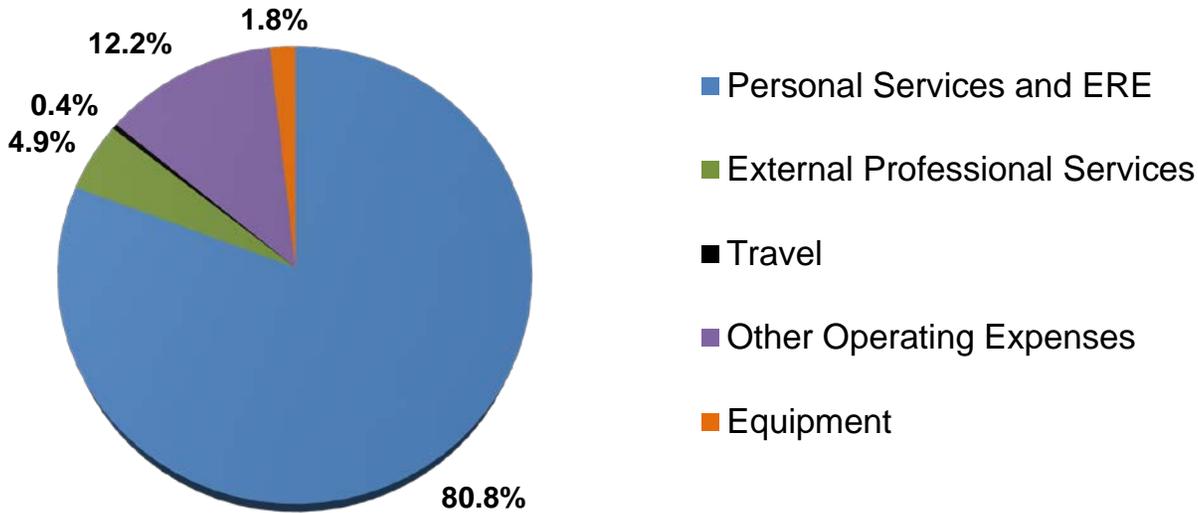
Attachment A

FY 2015 ASRS Total Appropriation Budget Overview and ASRS
Administrative and Investment Spending Plan Schedules

FY 2015 ASRS Total Appropriated Budget Overview

	FY 2014 Appropriations	FY 2015 Appropriations
Personal Services & Employee Related Expenditures	17,697,900	17,778,000
External Professional Services	1,079,300	1,079,300
Travel	78,600	78,600
Other Operating Expenses	2,684,800	2,684,800
Equipment	389,500	389,500
Base Operating Budget Subtotal	21,930,100	22,010,200
Long Term Disability Program Administration (LTD)	2,800,000	2,800,000
Total Appropriated Operating Budget	24,730,100	24,810,200
Special Line Item Appropriations (Legislative Initiatives)		
PIJ: Oracle Forms and Reports Modernization (Yr. 2 of four year Software Development Project)	1,390,000	4,484,500
<u>Initiatives from 2013 Legislative Session</u>	853,400	
SB 1170 - Survivor Benefits Modifications		
HB 2562 - 401(a) and LTD for Ineligibles		
HB 2001 - Statewide IT and Automation Projects		
Total Appropriated Budget	26,973,500	29,294,700

FY 2015 ASRS Base Operating Budget Overview



Personal Services and Employee Related Expenditures (ERE) \$ 17,778,000

*Personal services includes salaries and wages paid to agency employees. Also includes payments for employee leave taken, overtime, leave payouts and Board per diem.

*Includes annual Variable Compensation Strategies Plan & Investment Incentive Compensation Plan (ICP).

*Employee Related Expenditures (ERE) – Cost of an employee's benefit package. ERE includes the following: FICA, Retirement, Worker's Compensation, Health, Dental, and Life Insurance, Retiree Accumulated Sick Leave charges, Personnel Division charges.

*Average ASRS ERE Rate is 40% (The percentage that employee related expenditures represents of the agency's personal services subtotal).

External Professional Services \$ 1,079,300

*Legal services (External legal counsel, Arizona Office of Administrative Hearings fees and staff assigned from Arizona Attorney General's office)(\$300,000)

*Technology resources (\$529,300), temporary staffing (\$100,000) and other professional services (\$150,000)

Travel \$ 78,600

*In-state travel for Member and Employer Outreach Teams, staff and Board Trustees (\$53,600)

*Out-of-state travel (investment related due diligence and educational conferences - \$25,000)

Other Operating Expenses \$ 2,684,800

*Equipment repair and maintenance (\$150,000) and software support and maintenance (\$1,375,000)

*Printing and mailing annual newsletter (\$150,000) and agency printing and postage (\$145,000)

*Telecommunications (\$340,000) and other operating expenditures (\$160,400)

*ADOA Risk Management insurance premium (\$155,000)

*Professional dues, books and subscriptions (\$119,400)

*Education, training and conferences (\$75,000), employee tuition assistance (\$15,000)

Equipment \$ 389,500

*Replacement equipment, furniture, and technology equipment

Base Operating Budget Total \$ 22,010,200

ASRS Administrative and Investment Spending Plan

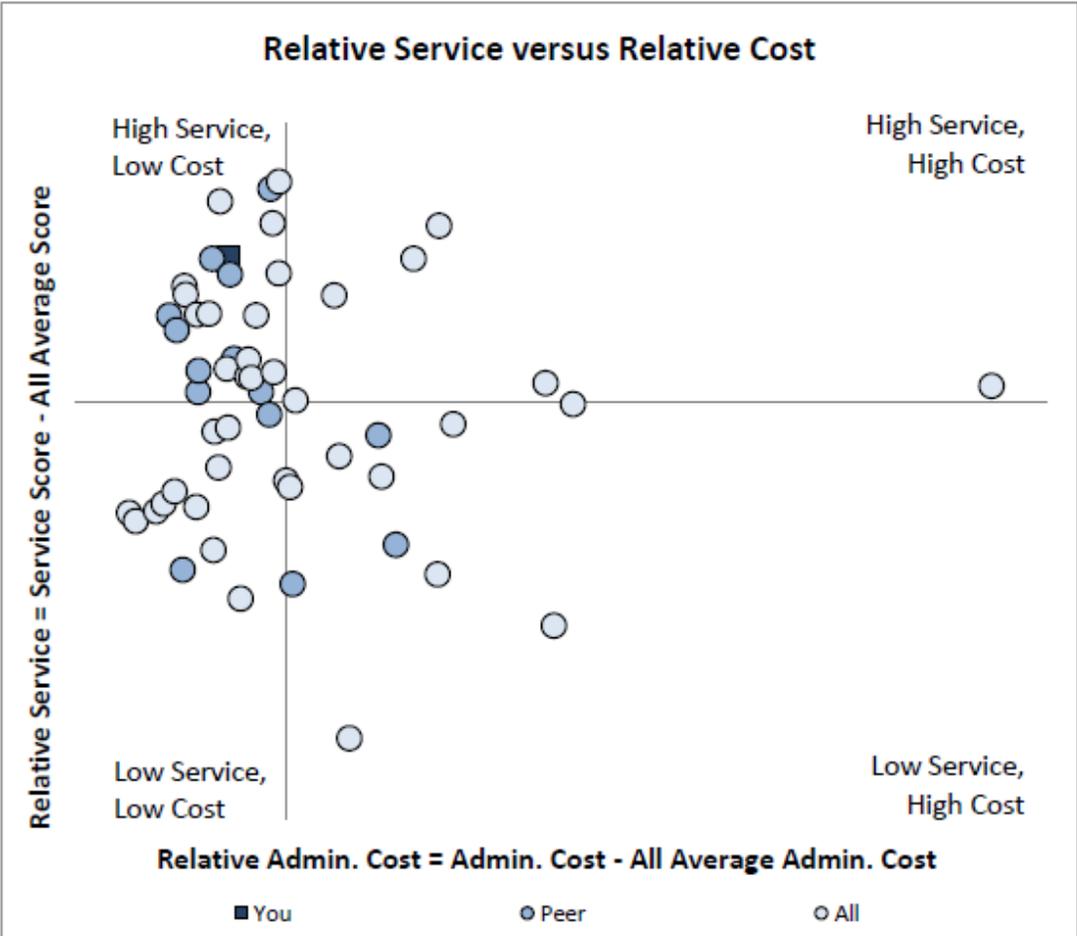
Fiscal Year 2015

(Dollars In Thousands)

	Base Operating Appropriations	+	Long Term Disability Appropriations	+	Oracle Modernization Special Legislative Appropriations	+	Administrative Continuous Appropriations	=	Administrative Subtotal	+	Investment Continuous Appropriations	=	Total
<u>Personal Services (PS) and Employee Related Expenses (ERE)</u>													
PS (Wages and Salaries)	12,225.3								12,225.3		1,183.0		13,408.3
ERE (Employer costs for Benefits, Taxes and ADOA Admin. Fees)	4,897.7								4,897.7		317.0		5,214.7
Variable Compensation Strategies (PS/ERE)	305.0								305.0				305.0
Investment Incentive Compensation Plan (PS/ERE budget reserved)	350.0								350.0				350.0
Total PS and ERE	17,778.0		-		-		-		17,778.0		1,500.0		19,278.0
<u>External Professional Services</u>													
External Investment Management Expenses											251,070.0		251,070.0
LTD Program Administration			2,800.0						2,800.0				2,800.0
Software Programming Costs	529.3				4,484.5		500.0		5,513.8				5,513.8
Actuary & Benefit Consulting							1,225.0		1,225.0				1,225.0
Consulting & Legal Fees	300.0								300.0		5,266.0		5,566.0
Pension Payroll Disbursement Services							1,543.5		1,543.5				1,543.5
Other Outside Services	250.0								250.0				250.0
Total External Professional Services	1,079.3		2,800.0		4,484.5		3,268.5		11,632.3		256,336.0		267,968.3
<u>Travel, Other Operating & Equipment</u>													
Software Licenses & Support	1,375.0								1,375.0				1,375.0
Equipment & Furniture	389.5								389.5				389.5
Telephone	340.0								340.0				340.0
Postage and Delivery	220.0						172.0		392.0				392.0
Insurance	155.0								155.0				155.0
Operating Supplies	160.4								160.4				160.4
Repair & Maintenance	150.0								150.0				150.0
Dues & Subscriptions	119.4								119.4		1,714.0		1,833.4
Education & Training	90.0								90.0				90.0
Travel	78.6								78.6				78.6
External Printing	75.0								75.0				75.0
Office Rent	-						1,505.0		1,505.0				1,505.0
Total Travel, Other Operating & Equipment	3,152.9		-		-		1,677.0		4,829.9		1,714.0		6,543.9
TOTAL	22,010.2		2,800.0		4,484.5		4,945.5		34,240.2		259,550.0		293,790.2

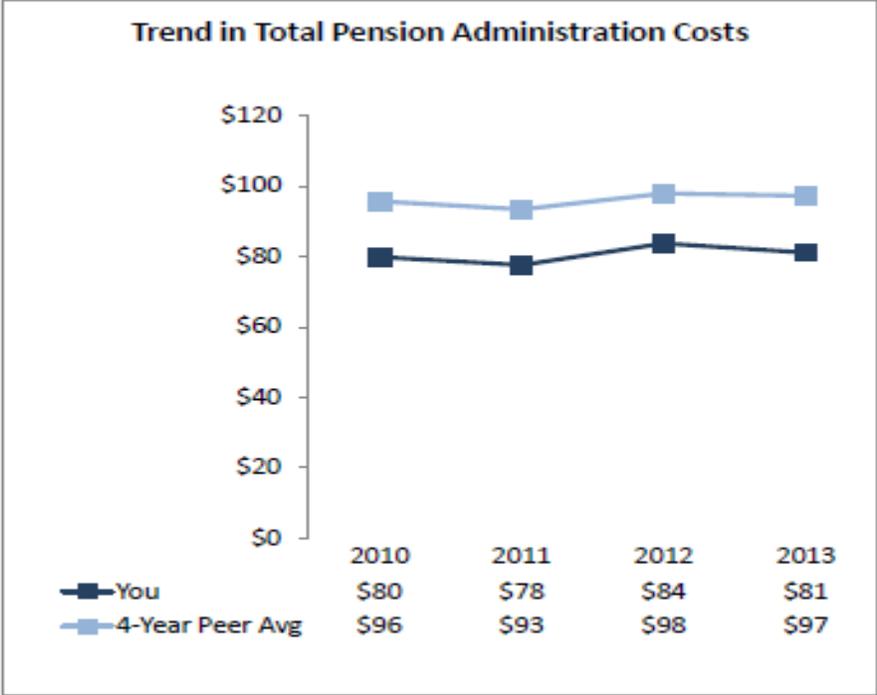
Attachment B
ASRS Pension Cost and Service CEM Benchmarking
Results (FY 2013)

This graph compares cost effectiveness among all participating North American and Dutch pension funds. The ASRS is currently in the High Service, Low Cost sector. One of 15 peers is ranked higher.



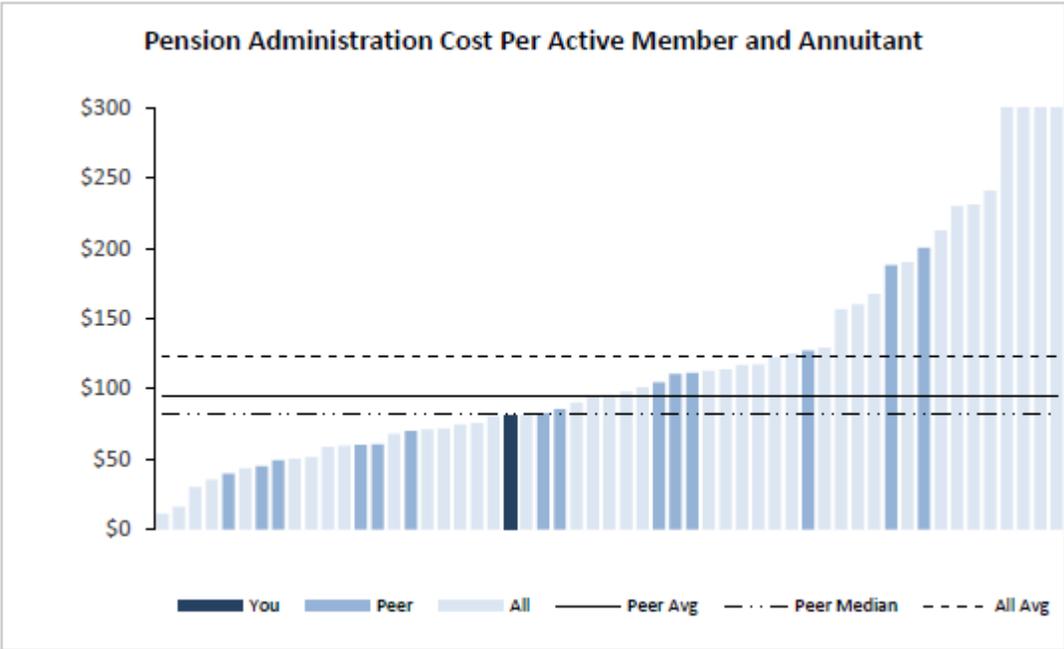
© 2014 CEM Benchmarking Inc.

ASRS trends in service cost have tracked consistently lower than its peers over the last four years.



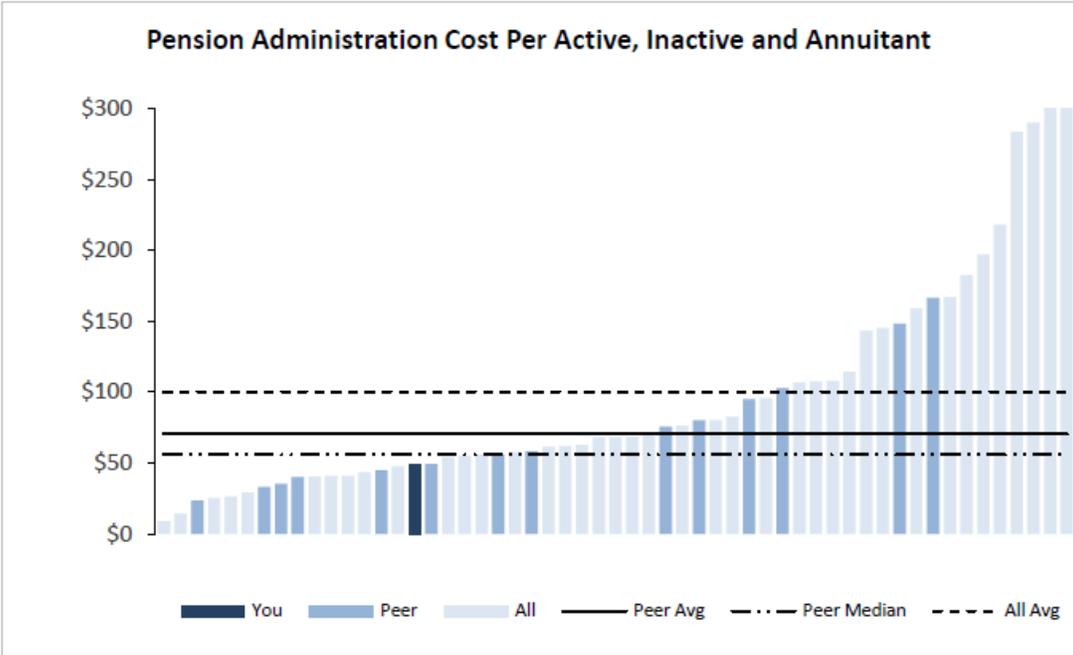
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ASRS costs per active member and annuitant are slightly below the 50th percentile when compared to its peers.



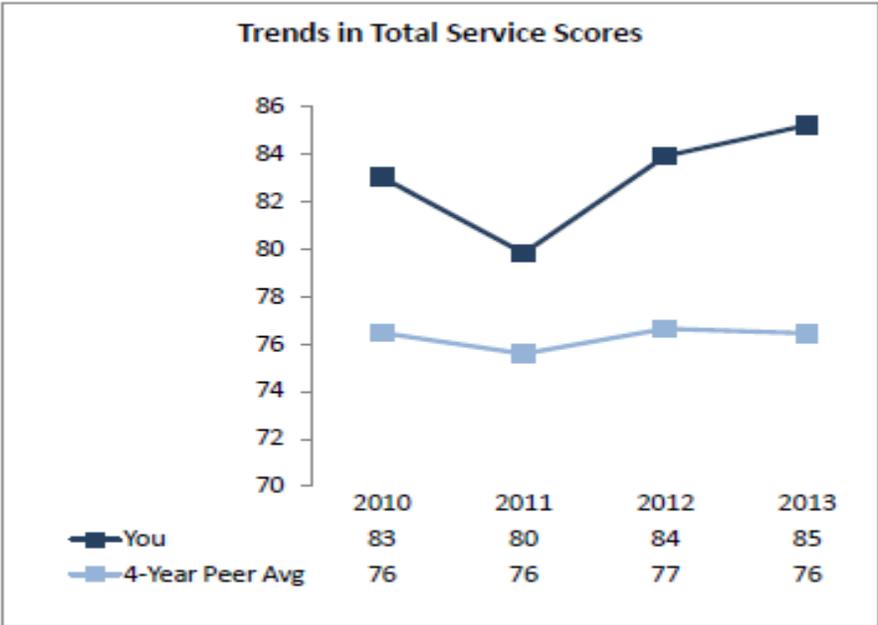
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ASRS costs per active member, inactive member and annuitant are below the 50th percentile with compared to peers.



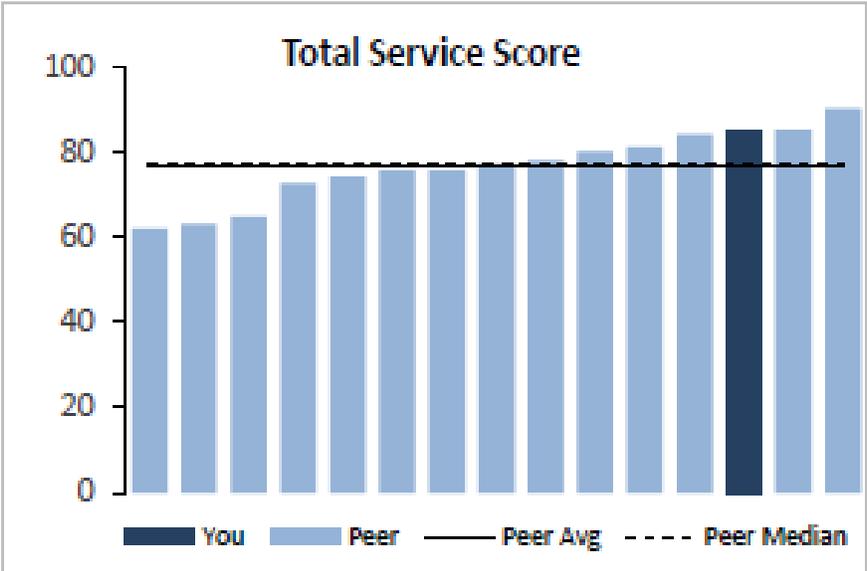
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ASRS trends in service delivery have tracked consistently higher than its peer average over the last four years.



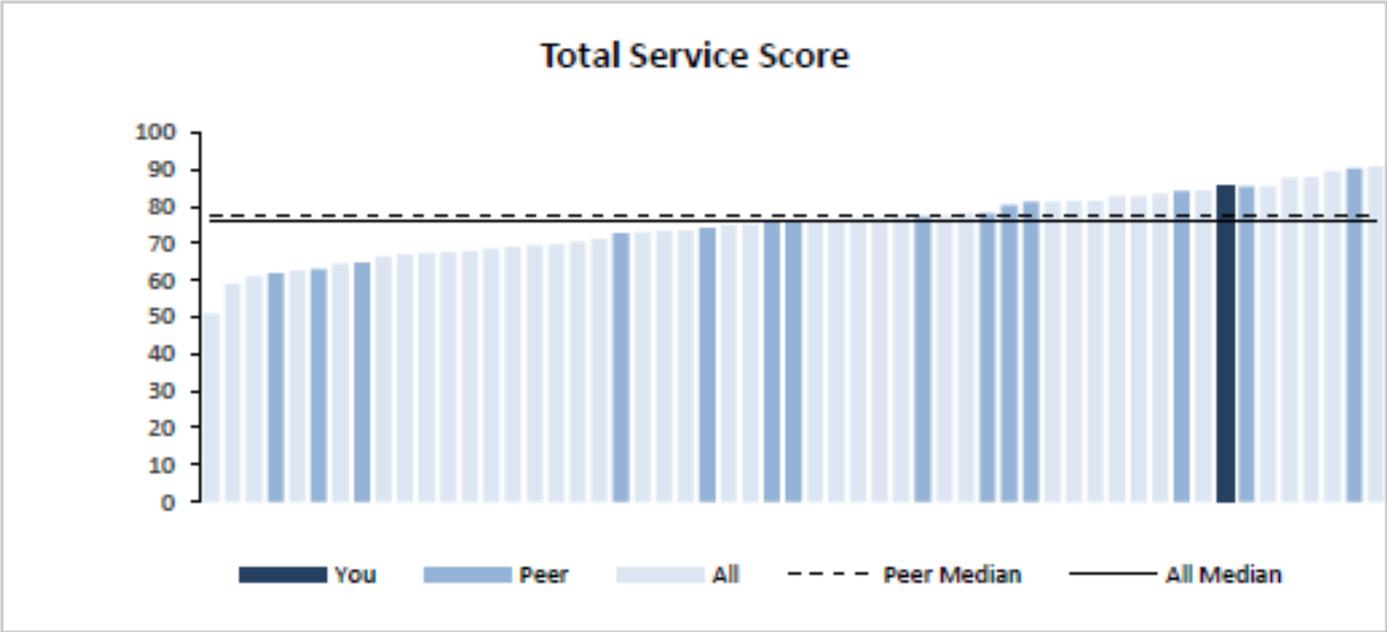
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The ASRS is currently achieving its vision of being a top service performer among its pension peers.



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The ASRS is also a top quartile performer among all participating pension systems.



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ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MEMORANDUM

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

FROM: Mr. Jeff Tyne, Chair, Operations and Committee (OAC)
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Martha Rozen, Chief of Administrative Services
Mr. Russ Levine, Program Manager for Budget and Procurement

DATE: August 12, 2014

RE: **Agenda Item #8b:** Presentation of the ASRS Appropriated Budget Request and Estimated ASRS Administrative and Investment Spending Plans for FY 2016 and FY 2017

Purpose

To review and discuss the ASRS Appropriated Budget Request and Estimated ASRS Administrative and Investment Spending Plans for FY 2016 and FY 2017.

Recommendation

Staff and the OAC recommend that the Board approve an appropriated budget request for FY 2016 in the amount of \$28,106,200 within a total spending plan of \$315,036,200, and an appropriated budget request for FY 2017 in the amount of \$27,659,200 within a total spending plan of \$337,410,200.

This request includes the final two years of the Oracle Forms and Reports Modernization project.

Background

Attached to this memorandum are materials previously presented to the OAC by staff with minor revisions marked in red.



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Paul Matson
Director

MEMORANDUM

TO: Arizona State Retirement System (ASRS) Operations and Audit Committee (OAC)

FROM: Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Martha N. Rozen, Chief of Administrative Services
Mr. Russ Levine, Procurement and Budget Program Manager

DATE: August 5, 2014

RE: **Agenda Item #5B** Presentation, Discussion and Appropriate Action Regarding the ASRS Appropriated Budget Request and Estimated ASRS Administrative and Investment Spending Plans for FY 2016 and FY 2017

Purpose

To review and discuss the ASRS Appropriated Budget Request and Estimated ASRS Administrative and Investment Spending Plans for FY 2016 and FY 2017.

Recommendation

Staff recommends that the OAC accept and forward to the ASRS Board an appropriated budget request for FY 2016 in the amount of \$28,106,200 within a total spending plan of \$315,036,200 and an appropriated budget request for FY 2017 in the amount of \$27,659,200 within a total spending plan of \$337,410,200.

Background

The ASRS budget requests for FY 2016 and FY 2017 have been structured to continue implementation of a service paradigm that reduces the need for manual transactions and physical contacts in favor of web-based alternatives.

Additionally, management hopes to strategically address the following initiatives during FY 2016 and FY 2017:

- Additional funds and full-time equivalent (FTE) positions to address **risk management strategies** that include enhancements to data security efforts (\$923,500 in FY 2016 and \$683,500 in FY 2017, equivalent to a 2.33% annual increase to the ASRS Appropriated Budget).
- An additional FTE to expand the Internal Audit team responsible for reviewing **employer compliance** with ASRS laws, rules and policies (\$102,500 in FY 2016 and \$95,500 in FY 2017, equivalent to a 0.33% annual increase to the ASRS Appropriated Budget).

In total, these requested items result in a modest annual increase to the ASRS Appropriated Budget of 2.66% or an approximate 0.26% increase over the FY 15 ASRS Administrative and Investment Spending Plan ASRS Spending Plan.

By focusing on its vision to be an industry-wide leader and on the achievement of measurable goals and objectives, the ASRS has been able to limit the need for increased funding by providing service to members in a more cost effective, productive, timely and reliable manner. This budget request is in alignment with the strategic vision, goals and objectives encompassed in the ASRS Strategic Plan and will enable the ASRS to meet established goals while maintaining an effective operating cost structure and budget.

Appropriated Budget Topics

1. Technology Risk Management Strategies

Purpose: Request funding to support the addition of **three** full-time staff, **external professional services**, and the purchases of IT security appliances and software in FY 2016 and FY 2017.

Given the sensitive and confidential nature of member data the ASRS possesses and utilizes, it is critical that acceptable safeguards and protections are in place to secure ASRS information technology (IT) systems. The ASRS has adopted standards and controls set by the National Institute of Standards and Technology (NIST), a non-regulatory federal agency within the U.S. Department of Commerce. However, IT risk and security have been increasingly recognized as business issues – not just technical issues. Therefore, as part of overall business planning, the ASRS Enterprise Risk Management (ERM) Steering Committee, led by the Deputy Director and staffed with senior managers, is responsible for the continuous assessment, oversight and monitoring of ASRS IT security practices.

The ASRS regularly partakes in external assessments to assess the effectiveness of its IT security program and controls, risk management strategies, and current infrastructure and security maturity levels. Because each level of increased maturity can provide greater business value, ASRS management is committed to achieving an elevated security maturity level in identified, specific areas (or security zones).

Information technology provides the framework for the ASRS business model. As the threat landscape continues to change and gain sophistication, IT organization, skills, processes, and tools, particularly as they relate to security levels and risk mitigation, need to continue to progress to effectively support and align business and service requirements. The ASRS requires an expanded ASRS Technology Security team who are dedicated subject matter experts to:

- Implement and execute identified improvement initiatives
- Configure and optimize the use of new or existing security tools by reviewing, monitoring, updating, and remediating on a scheduled basis
- Stay relevant and establish new measures as IT security and risk are redefined
- Ensure compliance with regulatory requirements

Achieving overall maturity levels is a multiyear transformation – movement from one level to another is not evenly distributed in effort or time, and requires sustained commitment to avoid significant delays and increased risk.

Recommendation: Staff recommends that the OAC accept and forward to the ASRS Board a funding increase of \$923,500 for FY 2016 and \$683,500 for FY 2017 in the agency budget request to support enhanced technology risk management strategies (See Schedule B3 for detailed expenditure schedule).

2. Internal Audit

Purpose: Request funding for an additional internal audit officer beginning in FY 2016.

Expanded scope of audits

Two recently issued Governmental Accounting Standards Board (GASB) standards (No. 67 and No. 68) substantially change the accounting and financial reporting of public employee pension plans and the state and local governments that participate in such plans. These new standards will require the external auditors of pension plans to obtain a more thorough understanding of the processes and controls used by the plan's management to support the completeness and accuracy of member census data.

In anticipation of this requirement, the Internal Audit Division has expanded the scope of current and future employer audits to include additional testing of significant elements of census data (including date of birth, date of membership and years of service, marital status, eligible compensation, gender, date of termination or retirement). This effort will strengthen the completeness and accuracy assertions sought by the external auditors of the ASRS as well as the external auditors of ASRS employers. This expanded audit scope will require additional time for each employer audit; an additional audit officer will help maintain and potentially increase the number of employers audited each year.

Annual employer audits

With a current team of three audit officers performing employer audits, the Internal Audit Division is able to audit, on average, twelve employers per year. An additional audit officer will increase the coverage of the team and further support the fulfillment of the Internal Audit Division's strategic objective to identify and make recommendations to enhance employer compliance with ASRS laws, rules and policies. These recommendations assist the ASRS Employer Relations team engage and educate employers on common areas of non-compliance, provide information related to new processes and procedures, and encourage utilization of web services for employers.

Recommendation: Staff recommends that the OAC accept and forward to the ASRS Board a funding an increase of \$102,500 for FY 2016 and \$95,500 in FY 2017 in the agency budget request to support an additional resource in the ASRS Internal Audit Division (See Schedule B4 for detailed expenditure schedule).

3. Oracle Forms and Reports Modernization – Special Line Item Appropriation

Purpose: Request funding to complete the Oracle Forms and Reports Modernization software development project in FY 2016 and FY 2017.

The Oracle Forms and Reports Modernization software development project began in FY 2014. To date, the ASRS has achieved successful results and impact of the initial projects is providing greater efficiencies. Because of progress made, the overall timeline for the development effort was reduced from five to four years. Additionally, the allotment of appropriations was reallocated over the shortened project schedule.

The project is enabling the ASRS to:

- Modernize existing legacy technology (Oracle Forms and Reports) to newer open standards-based technologies (Java) while retaining ASRS business logic and data.

- Re-engineer business processes to increase productivity, reduce costs, mitigate risks, improve member satisfaction and improve service turnaround time to members.

Recommendation: Staff recommends that the OAC accept and forward to the ASRS Board funding of \$2,270,000 in FY 2016 and \$2,070,000 in FY 2017 for the completion of the Oracle Forms and Reports Modernization software development project. (See Schedule B5 for detailed expenditure schedule).

4. Long Term Disability Program Administration

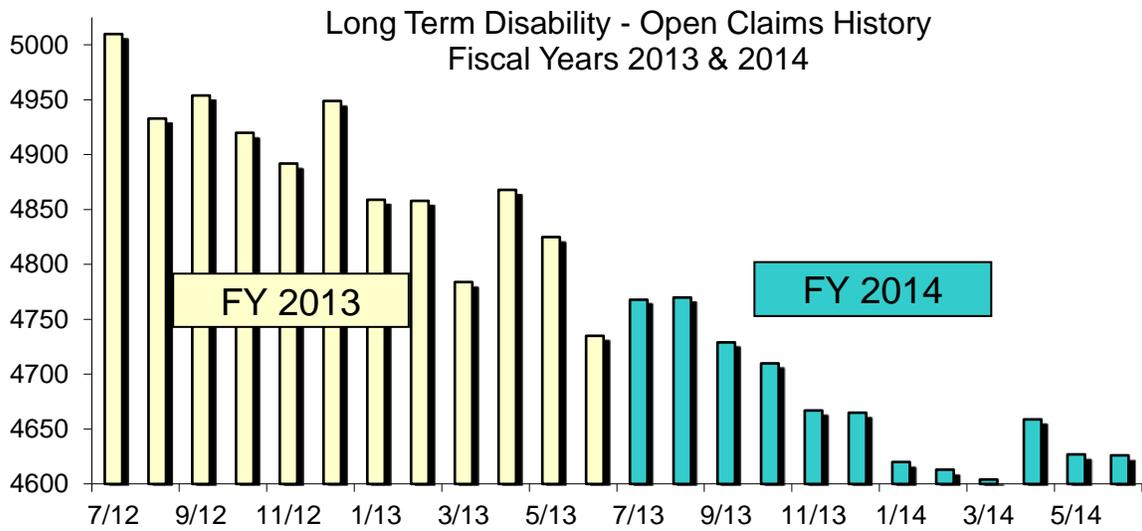
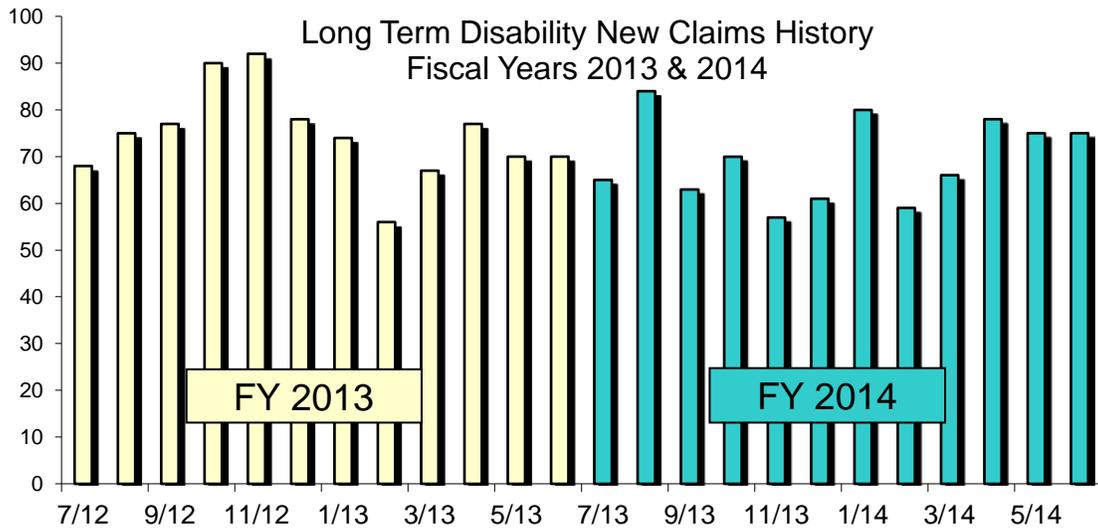
Purpose: To review and accept the Long Term Disability (LTD) Program administration budget request for FY 2016 and FY 2017.

Pursuant to Arizona Revised Statutes (A.R.S.) § 38-797, the ASRS administers an LTD Program, which provides ASRS active members with a monthly benefit designed to partially replace income lost during periods of total disability resulting from a covered injury, sickness, or pregnancy. The administrative costs associated with the program are paid from the LTD Program Trust Fund, which is funded by employee and employer contributions. Currently, the ASRS contracts with a third-party vendor, Sedgwick Claim Management Services, Inc. (Sedgwick CMS) for claims administration and initial decisions regarding disability claims. FY 2014 LTD Program administrative costs consisted of:

- \$13,392 per month for administrative costs (a fixed amount per contract terms).
- \$29 per month for each open (active) claim.
- \$425 per month for each new claim.
- \$135 per month for late claims (submitted 12 months or more after the onset of disability). It is anticipated that the number of late claims will remain at an average of two to three per month.
- \$30,400 per month (on average) in actual costs for plan expenses, which include medical evaluations, rehabilitation expenses, and costs for copies of medical records.

The current contract with Sedgwick CMS, if each extension is granted, will expire on June 30, 2016. A new contract will be in place for FY 2017, thus the costs associated with the administration of the LTD Program may change. Nonetheless, given the decline over the last three fiscal years in the number of ASRS members receiving LTD benefits, an appropriation of \$2,800,000 for LTD Program administration appears to be sufficient. Additionally, statutes allow for the administrative costs associated with the program to be paid from the LTD Program Trust Fund on a continuously appropriated basis. In fiscal years past, when costs have exceeded the appropriations, both appropriated and continuously appropriated funding has been utilized. Dialogue with the Governor's Office of Strategic Planning and Budget, the Arizona Department of Administration General Accounting Office – State Comptroller, staff of the Joint Legislative Budget Committee, and counsel from the Arizona Attorney General's office has resulted in an awareness of the flexibility for payment allowed in statute with regard to the costs associated with the LTD Program.

Recommendation: Staff recommends the OAC accept and forward to the ASRS Board an LTD Program administration request for FY 2016 and FY 2017 equal to the same annual appropriations since FY 2008 (\$2,800,000) (See Schedule B6 for detailed expenditure schedule).



Continuously Appropriated Funding Projections

The ASRS investment and administrative costs are expended in accordance with A.R.S. § 38-721. A.R.S. § 38-721(C) provides that specific expenditures are continuously appropriated in the amount deemed necessary by the Board. These administrative expenses complement ASRS' operations and service functions.

Schedule B7 includes the estimated expenditures for FY 2014 along with the projected funding requirements for FY 2015, FY 2016 and FY 2017.

These specific expenditures, outlined in A.R.S. § 38-721(C), are described below:

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

Includes investment management fees (both external and internal), investment related consulting and legal fees, electronic information (data) services and subscriptions, custodial banking administrative fees and external financial service fees.

- Internal Investment Management – Beginning in FY 2015, the costs of the salaries and benefits for the Investment Management staff (currently 11 FTEs) will be paid from this funding source.

In order to meet the increasing complexities of managing and overseeing new and existing asset classes and investment strategies consistent with those in the Board-approved ASRS Strategic Asset Allocation Policy, the Investment Management Division (IMD) is requesting one additional investment position beginning in FY 2016 (See Schedule B8 for detailed expenditure schedule). This position will support the Private Markets Investment team and will focus on analysis of new opportunities in the markets; timely fulfillment of required due diligence essential to the investment selection process, and management of appropriate investments deemed critical to the success of the asset class.

- Investment Management, Transactional and Other Fees (Public Markets) – These quarterly fees are calculated as a percentage of market value of the underlying investments. Accordingly, the fees are directly correlated with both investment performance as well as net cash flows. The attached projections of investment management fees are based upon the estimated annual rate of return of 8% less estimated net cash flows of approximately 2.5%. Transactional and other fees include foreign taxes and commissions on derivatives and other incidental costs.
- Investment Management, Performance Incentive and Other Fees (Private Markets) – These quarterly fees are calculated based on the percentage of committed capital to the program, which increases each year based on the pacing plan approved by the Private Markets Investment Committee. These fees are correlated to capital commitments in the program. Performance incentive fees include 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. Performance incentive and other fees are only paid if earned or incurred, and therefore may vary each quarter.

- **Rent**

Costs associated with rent as tenants for occupancy in the 3300 Tower in Phoenix and in the satellite office in Tucson.

- **Actuarial consulting fees**

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

- **Retiree Payroll**

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

Attachment: ASRS Budget and Spending Plan Schedules for FY 2016 and FY 2017

Attachment
ASRS Budget and Spending Plan Schedules for
FY 2016 and FY 2017

Total Appropriated Budget Request FY 2016 and FY 2017

	FY 2015 Appropriations	Total Requested FY 2016 Appropriations	Total Requested FY 2017 Appropriations
Personal Services & Employee Related Expenditures	17,778,000	18,282,000	18,322,000
External Professional Services	1,079,300	1,305,300	1,251,300
Travel	78,600	80,100	80,100
Other Operating Expenses	2,684,800	2,701,300	2,746,300
Equipment	389,500	667,500	389,500
Base Operating Budget Subtotal	22,010,200	23,036,200	22,789,200
Long Term Disability Program Administration (LTD)	2,800,000	2,800,000	2,800,000
Total Appropriated Operating Budget	24,810,200	25,836,200	25,589,200
Special Line Item Appropriations (Legislative Initiatives) PIJ: Oracle Forms and Reports (4 Year IT Modernization Project)	4,484,500	2,270,000	2,070,000
Total Appropriated Budget	29,294,700	28,106,200	27,659,200

Policy Issues

- Policy Issue #1 : Technology Risk Management Strategies
- Policy Issue #2 : Internal Audit FTE
- Policy Issue #3 : Oracle Forms and Reports (4 Year IT Modernization Project)

Subtotals

FY 2016		FY 2017	
Change relative to FY 2015 Total Appropriated Budget		Change relative to FY 2015 Total Appropriated Budget	
\$ 923,500	3.15%	\$ 683,500	2.33%
\$ 102,500	0.35%	\$ 95,500	0.33%
\$(2,214,500)	-7.56%	\$(2,414,500)	-8.24%
\$(1,188,500)	-4.06%	\$(1,635,500)	-5.58%

Total Administrative Spending Plan FY 2016 and FY 2017

	FY 2015 Appropriations	Total Requested FY 2016 Appropriations	Total Requested FY 2017 Appropriations
Personal Services & Employee Related Expenditures	17,778,000	18,282,000	18,322,000
External Professional Services	1,079,300	1,305,300	1,251,300
Travel	78,600	80,100	80,100
Other Operating Expenses	2,684,800	2,701,300	2,746,300
Equipment	389,500	667,500	389,500
Base Operating Budget Subtotal	22,010,200	23,036,200	22,789,200
Long Term Disability Program Administration (LTD)	2,800,000	2,800,000	2,800,000
Total Appropriated Operating Budget	24,810,200	25,836,200	25,589,200
Special Line Item Appropriations (Legislative Initiatives) PIJ: Oracle Forms and Reports (4 Year IT Modernization Project)	4,484,500	2,270,000	2,070,000
Total Appropriated Budget	29,294,700	28,106,200	27,659,200
Administrative Continuous Appropriations	4,945,500	5,031,000	5,120,000
Administrative Subtotal	34,240,200	33,137,200	32,779,200
Policy Issues		FY 2016	FY 2017
Policy Issue #1 : Technology Risk Management Strategies		Change relative to FY 2015 Total Administrative Budget	Change relative to FY 2015 Total Administrative Budget
Policy Issue #2 : Internal Audit FTE		\$ 923,500 2.70%	\$ 683,500 2.00%
Policy Issue #3 : Oracle Forms and Reports (4 Year IT Modernization Project)		\$ 102,500 0.30%	\$ 95,500 0.28%
		\$(2,214,500) -6.47%	\$(2,414,500) -7.05%
Subtotals		\$(1,188,500) -3.47%	\$(1,635,500) -4.78%

FY 2016 and FY 2017 Appropriated Budget Request: Technology Risk Management Strategies

Objective: Request additional resources to address risk management strategies that include enhancements to data security efforts.

Funding Requested for FY 2016	Funding Requested for FY 2017
----------------------------------	----------------------------------

Personal Services				295,000	295,000
Fiscal Yr.	Quantity		Description	Salary	
FY 16/17	1	Annual	Senior Information Security Engineer	100,000	100,000
FY 16/17	1	Annual	Senior/Lead Application Developer	100,000	100,000
FY 16/17	1	Annual	Information Security Engineer	95,000	95,000
Employee Related Expenditures (ERE)				118,000	118,000
Fiscal Yr.	Rate		Description		
FY 16/17	40.0%	Annual	Employee Related Expenditures (Rate expressed as a % of Personal Services)		118,000
Professional and Outside Services				226,000	212,000
Fiscal Yr.			Description		
FY 16/17			Professional Consulting Services		226,000
Other Operating Expenses				13,500	58,500
Fiscal Yr.	Quantity	Unit	Description	Unit Cost	
FY 17	1	Annual	New Security Appliances and Software: Annual License and Support Renewal	45,000	45,000
FY 16/17	3	Annual	New FTE Associated Costs (Standard Operating Costs)	4,500	13,500
Equipment				271,000	-
Fiscal Yr.	Quantity	Unit	Description	Unit Cost	
FY 16	1	One-Time	PIJ- Security Appliances and Software	250,000	250,000
FY 16	3	One-Time	New FTE Associated Costs (Equipment)	7,000	21,000
TOTALS - FY 2016 AND FY 2017 APPROPRIATED BUDGET REQUEST				923,500	683,500

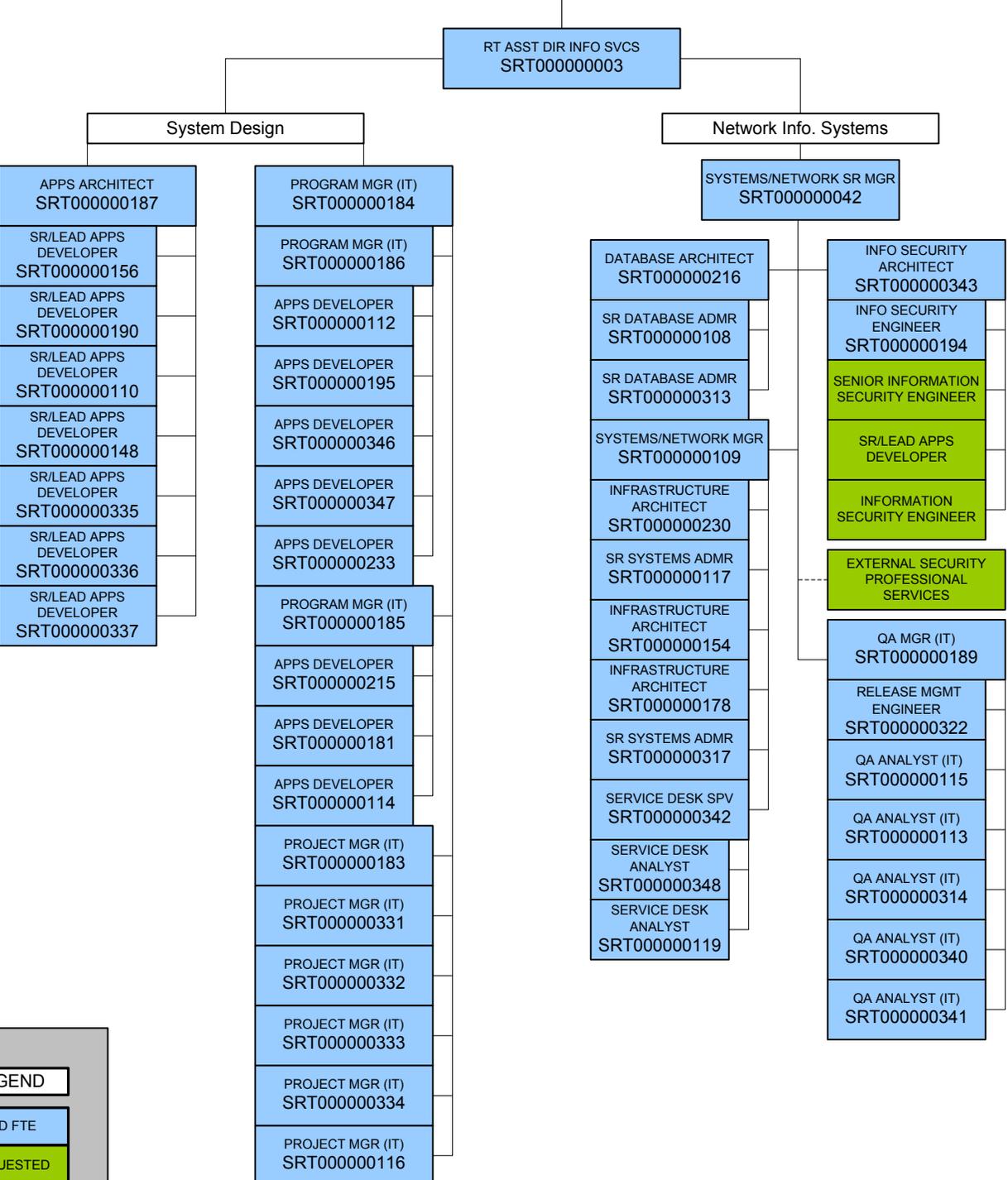
FY 2016 and FY 2017 Appropriated Budget Request: Internal Audit

Objective: Request additional resources to assess and assist employer compliance with ASRS laws, rules, and policies.

Funding Requested for FY 2016	Funding Requested for FY 2017
----------------------------------	----------------------------------

Personal Services					65,000	65,000
Fiscal Yr.	Quantity		Description	Salary		
FY 16/17	1	Annual	FTEs, Employer Audit Officer	65,000	65,000	65,000
Employee Related Expenditures (ERE)					26,000	26,000
Fiscal Yr.	Rate		Description			
FY 16/17	40.0%	Annual	Employee Related Expenditures (Rate expressed as a % of Personal Services)		26,000	26,000
Conference, Education and Travel					1,500	1,500
Fiscal Yr.	Quantity	Unit	Description	Unit Cost		
FY 16/17	1	Annual	Annual Travel Related Expenses	1,500	1,500	1,500
Other Operating Expenses					3,000	3,000
Fiscal Yr.	Quantity	Unit	Description	Unit Cost		
FY 16/17	1	Annual	New FTE Associated Costs (Standard Operating Costs)	3,000	3,000	3,000
Equipment					7,000	-
Fiscal Yr.	Quantity	Unit	Description	Unit Cost		
FY 16/17	1	One-Time	New FTE Associated Costs (Equipment)	7,000	7,000	-
TOTALS - FY 2016 AND FY 2017 APPROPRIATED BUDGET REQUEST					102,500	95,500

TECHNOLOGY SERVICES DIVISION



LEGEND

TSD FTE

REQUESTED

As of 8/11/2014

ASRS HOME

FY 2016 and FY 2017 Appropriated Budget Request: Oracle Forms and Reports Modernization

Special Line Item Project

Objective: Evolve legacy technologies to newer open standards-based technologies and re-engineer business processes to increase productivity, reduce costs, mitigate risks, improve member satisfaction and improve service turnaround time to members.

Appropriation FY 2014	Appropriation FY 2015	Funding Requested for FY 2016	Funding Requested for FY 2017	Project Totals
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External Professional Services				1,330,000	4,484,500	2,270,000	2,070,000	10,154,500
Fiscal Yr.	Quantity	Unit	Description					
FY 14 - FY 17	1	Project	Development Resources	1,330,000	4,484,500	2,270,000	2,070,000	
Other Operating and Equipment				60,000	-	-	-	60,000
Fiscal Yr.	Quantity	Unit	Description					
FY 14	1	One-Time	Project Equipment and Software	60,000				
TOTALS - FY 2016 AND FY 2017 SPECIAL LINE ITEM BUDGET REQUEST				1,390,000	4,484,500	2,270,000	2,070,000	10,214,500

FY 2016 and FY 2017 Appropriated Budget Request - Long Term Disability Program Administration

Description	Actual FY 2013	Appropriation FY 2014	Appropriation FY 2015	Funding Requested for FY 2016	Funding Requested for FY 2017
Administration costs of the LTD program (Appropriated Funding)	2,736,300	2,800,000	2,800,000	2,800,000	2,800,000
TOTALS - FY 2016 AND FY 2017 APPROPRIATED BUDGET REQUEST	2,736,300	2,800,000	2,800,000	2,800,000	2,800,000

ASRS Continuously Appropriated Funding Projections (Dollars In Thousands)

	FY 2014 Estimated	FY 2015 Projection	FY 2016 Projection	FY 2017 Projection
<i>Investment Management Expenses</i>				
Custodial Banking, Security Lending and Master Cash STIF Fees	1,934	2,692	2,692	2,692
Internal Investment Management (Salaries and Benefits)		1,500	1,652	1,645
<u>Public Markets</u>				
External Investment Management Fees	69,830	77,298	81,549	86,035
Transactional and Other Fees	3,323	3,865	4,077	4,302
<u>Private Markets</u>				
Private Equity Management Fees	38,473	39,160	45,210	51,260
Private Equity Performance Incentive and Other Fees	38,163	33,286	38,429	43,571
Real Estate Management Fees	19,464	25,523	27,773	30,023
Real Estate Performance Incentive and Other Fees	20,415	24,246	26,384	28,521
Opportunistic Management Fees	14,106	15,000	15,750	16,500
Opportunistic Performance Incentive and Other Fees	33,697	30,000	31,500	33,000
<i>Subtotal Investment Management Expenses</i>	239,405	252,570	275,016	297,549
<i>Investment Related Consulting, Legal and Information Services</i>				
Investment Consulting Services	2,885	4,310	4,042	4,053
Investment Related Legal Services	1,265	881	881	881
Investment Electronic Information Services	1,481	1,714	1,885	2,073
External Financial Consulting Services	65	75	75	75
<i>Subtotal Investment Related Consulting, Legal and Information Services</i>	5,696	6,980	6,883	7,082
Subtotal Investment Continuous Appropriations	245,101	259,550	281,899	304,631
Rent	1,492	1,505	1,505	1,505
Actuarial Annual Consulting Fees	1,053	1,200	1,200	1,200
Actuarial Special Projects (5 Yr. Actuarial Audit, Benefits Consulting Services)	180	25	25	25
Retiree Payroll (Disbursement Administration)	1,586	1,716	1,801	1,890
Retiree Payroll (Technology Programming/Support)	839	500	500	500
Subtotal Administrative Continuous Appropriations	5,150	4,946	5,031	5,120
Continuously Appropriated Funding Totals	250,251	264,496	286,930	309,751

FY 2016 and FY 2017 Budget Request: Internal Investment Management

Objective: Request additional resource to support asset class extensions and to provide financial analysis within the Investment Management Division.

Funding Requested for FY 2016	Funding Requested for FY 2017
----------------------------------	----------------------------------

Personal Services					100,000	100,000
Fiscal Yr.	Quantity	Unit	Description	Avg. Salary		
FY 16/17	1	Annual	Private Markets Portfolio Analyst	100,000	100,000	100,000
Employee Related Expenditures (ERE)					40,000	40,000
Fiscal Yr.	Rate	Unit	Description			
FY 16/17	40.0%	Annual	Employee Related Expenditures (Rate expressed as a % of Personal Services)		40,000	40,000
Travel					2,000	2,000
Fiscal Yr.	Quantity	Unit	Description	Unit Cost		
FY 16/17	1	Annual	Annual Travel Related Expenses	2,000	2,000	2,000
Other Operating Expenses					3,000	3,000
Fiscal Yr.	Quantity	Unit	Description	Unit Cost		
FY 16/17	1	Annual	New FTE Associated Costs (Standard Operating Costs)	3,000	3,000	3,000
Equipment					7,000	-
Fiscal Yr.	Quantity	Unit	Description	Unit Cost		
FY 16	1	One-Time	New FTE Associated Costs (Equipment)	7,000	7,000	
TOTALS - FY 2016 AND FY 2017 BUDGET REQUEST (INVESTMENT CONTINUOUS APPROPRIATIONS)					152,000	145,000

ASRS Administrative and Investment Spending Plan
Fiscal Year 2016
(Dollars In Thousands)

	Base Operating Appropriations	+ Long Term Disability Appropriations	+ Oracle Modernization Special Legislative Appropriations	+ Administrative Continuous Appropriations	=	Administrative Subtotal	+	Investment Continuous Appropriations	=	Total
Personal Services (PS) and Employee Related Expenses (ERE)										
PS (Wages and Salaries)	12,585.3					12,585.3		1,295.0		13,880.3
ERE (Employer costs for Benefits, Taxes and ADOA Admin. Fees)	5,041.7					5,041.7		357.0		5,398.7
Variable Compensation Strategies (PS/ERE)	305.0					305.0				305.0
Investment Incentive Compensation Plan (PS/ERE budget reserved)	350.0					350.0				350.0
Total PS and ERE	18,282.0	-	-	-		18,282.0		1,652.0		19,934.0
External Professional Services										
External Investment Management Expenses								273,364.0		273,364.0
LTD Program Administration		2,800.0				2,800.0				2,800.0
Software Programming Costs	529.3		2,270.0	500.0		3,299.3				3,299.3
Actuary & Benefit Consulting				1,225.0		1,225.0				1,225.0
Consulting & Legal Fees	526.0					526.0		4,998.0		5,524.0
Pension Payroll Disbursement Services				1,620.0		1,620.0				1,620.0
Other Outside Services	250.0					250.0				250.0
Total External Professional Services	1,305.3	2,800.0	2,270.0	3,345.0		9,720.3		278,362.0		288,082.3
Travel, Other Operating & Equipment										
Software Licenses & Support	1,375.0					1,375.0				1,375.0
Equipment & Furniture	667.5					667.5				667.5
Telephone	340.0					340.0				340.0
Postage and Delivery	220.0			181.0		401.0				401.0
Insurance	155.0					155.0				155.0
Operating Supplies	176.9					176.9				176.9
Repair & Maintenance	150.0					150.0				150.0
Dues & Subscriptions	119.4					119.4		1,885.0		2,004.4
Education & Training	90.0					90.0				90.0
Travel	80.1					80.1				80.1
External Printing	75.0					75.0				75.0
Office Rent	-			1,505.0		1,505.0				1,505.0
Total Travel, Other Operating & Equipment	3,448.9	-	-	1,686.0		5,134.9		1,885.0		7,019.9
TOTAL	23,036.2	2,800.0	2,270.0	5,031.0		33,137.2		281,899.0		315,036.2

ASRS Administrative and Investment Spending Plan
Fiscal Year 2017
(Dollars In Thousands)

	Base Operating Appropriations	+ Long Term Disability Appropriations	+ Oracle Modernization Special Legislative Appropriations	+ Administrative Continuous Appropriations	= Administrative Subtotal	+ Investment Continuous Appropriations	= Total
Personal Services (PS) and Employee Related Expenses (ERE)							
PS (Wages and Salaries)	12,580.3				12,580.3	1,288.0	13,868.3
ERE (Employer costs for Benefits, Taxes and ADOA Admin. Fees)	5,041.7				5,041.7	357.0	5,398.7
Variable Compensation Strategies (PS/ERE)	320.0				320.0		320.0
Investment Incentive Compensation Plan (PS/ERE budget reserved)	380.0				380.0		380.0
Total PS and ERE	18,322.0	-	-	-	18,322.0	1,645.0	19,967.0
External Professional Services							
External Investment Management Expenses						295,904.0	295,904.0
LTD Program Administration		2,800.0			2,800.0		2,800.0
Software Programming Costs	489.3		2,070.0	500.0	3,059.3		3,059.3
Actuary & Benefit Consulting				1,225.0	1,225.0		1,225.0
Consulting & Legal Fees	512.0				512.0	5,009.0	5,521.0
Pension Payroll Disbursement Services				1,700.0	1,700.0		1,700.0
Other Outside Services	250.0				250.0		250.0
Total External Professional Services	1,251.3	2,800.0	2,070.0	3,425.0	9,546.3	300,913.0	310,459.3
Travel, Other Operating & Equipment							
Software Licenses & Support	1,420.0				1,420.0		1,420.0
Equipment & Furniture	389.5				389.5		389.5
Telephone	340.0				340.0		340.0
Postage and Delivery	220.0			190.0	410.0		410.0
Insurance	155.0				155.0		155.0
Operating Supplies	176.9				176.9		176.9
Repair & Maintenance	150.0				150.0		150.0
Dues & Subscriptions	119.4				119.4	2,073.0	2,192.4
Education & Training	90.0				90.0		90.0
Travel	80.1				80.1		80.1
External Printing	75.0				75.0		75.0
Office Rent	-			1,505.0	1,505.0		1,505.0
Total Travel, Other Operating & Equipment	3,215.9	-	-	1,695.0	4,910.9	2,073.0	6,983.9
TOTAL	22,789.2	2,800.0	2,070.0	5,120.0	32,779.2	304,631.0	337,410.2

Total Administrative and Investment Full-Time Equivalent (FTE) Positions

	FY 2015	Total Requested FY 2016	Total Requested FY 2017
Base Operating	235.9	239.9	239.9
Investment Continuous Appropriations	11.0	12.0	12.0
ASRS FTE Position Total	246.90	251.90	251.90
<i>Annual Change</i>	0.0%	2.0%	0.0%

Confidential
meeting
materials
were in this
agenda item

Agenda Item

#9

Arizona State Retirement System

Board of Trustees

Investment Program Updates

August 22, 2014

Presented by:

Gary R. Dokes, Chief Investment Officer, ASRS

David Underwood, Assistant Chief Investment Officer, ASRS

Karl Polen, Head of Private Markets Investing, ASRS

Al Alaimo, Fixed Income Portfolio Manager, ASRS

Eric Glass, Portfolio Manager of Private Markets, ASRS

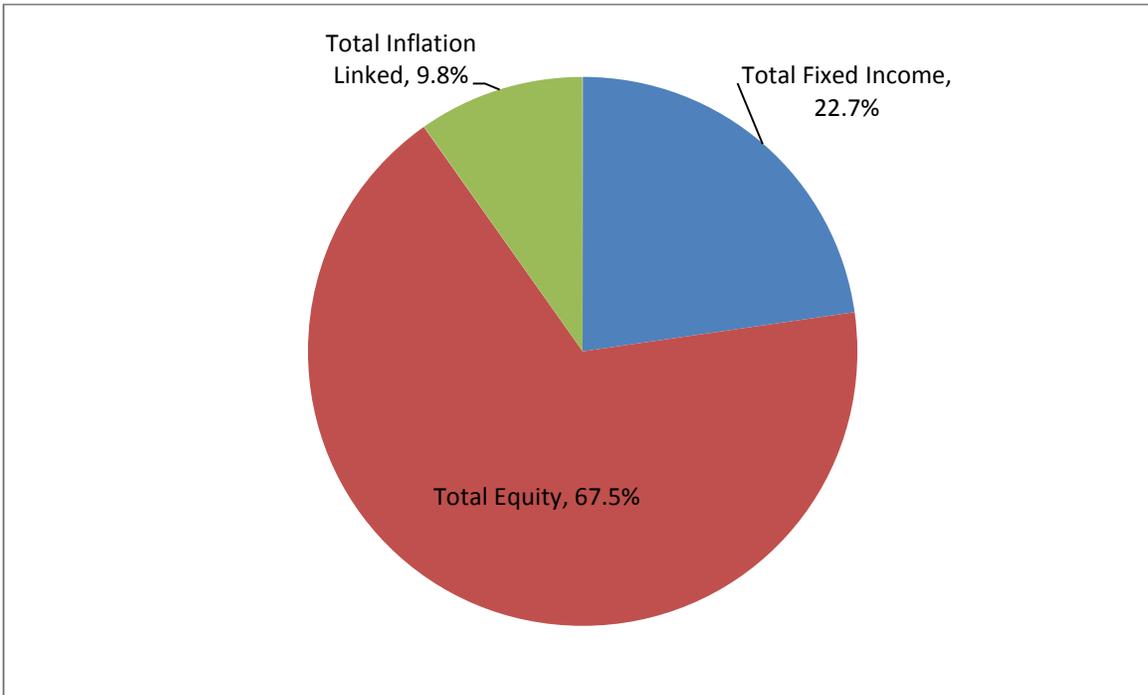


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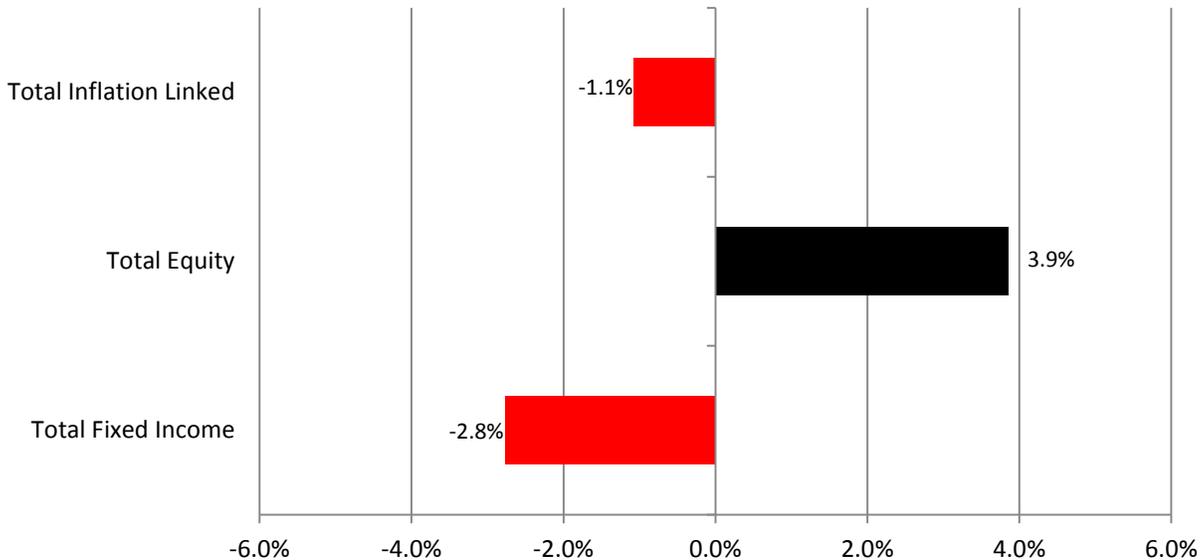
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TOTAL FUND POSITIONING – 7/31/14

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: Thursday, July 31, 2014

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	Master Cash & Pension Acct.		246,491,521					246,491,521	0.72%
	Cash Total							\$246,491,521	0.72%
GTAA Managers (2)	Active GTAA	1,010,227,380						1,010,227,380	2.96%
Blackrock: San Francisco	Passive (Intermediate Gov Credit)		23,823,005					23,823,005	0.07%
ASRS: Phoenix	Enhanced Passive F2		1,915,213,768					1,915,213,768	5.60%
Blackrock: San Francisco	Passive (US Debt Index)		710,102,199					710,102,199	2.08%
	Core Fixed Income Total							\$3,659,366,353	10.70%
	Core Fixed Income Policy								13.00%
Columbia: Minneapolis	Active	638,639,346						638,639,346	1.87%
JP Morgan: Indianapolis	Active	326,435,765						326,435,765	0.95%
	High Yield Fixed Income Total							\$965,091,760	2.82%
	High Yield Fixed Income Policy								5.00%
	US Fixed Income Total							\$4,624,458,112	13.53%
	US Fixed Income Policy Range: 8% - 28%								18.00%
PIMCO (local): Newport Beach	Active	348,625,675						348,625,675	1.02%
Ashmore (blended): London	Active	420,121,150						420,121,150	1.23%
	EM Debt Total							\$768,746,825	2.25%
	EM Debt Policy								4.00%
	Opportunistic Debt							\$963,758,083	2.82%
	Opportunistic Debt Policy Range: 0% - 10%								0.00%
	Private Debt Total							\$1,166,092,915	3.41%
	Private Debt Policy								3.00%
	Fixed Income Total							\$7,769,547,457	22.73%
	Fixed Income Policy Range: 15% - 35%								25.00%
Intech: FL	Active (Growth)			525,783,073				525,783,073	1.54%
LSV: Chicago	Active (Value)			792,350,066				792,350,066	2.32%
GTAA Managers (2)	Active GTAA		1,153,409,350					1,153,409,350	3.37%
ASRS: Phoenix	Passive E2				4,911,434,057			4,911,434,057	14.37%
ASRS: Phoenix	Enhanced Passive E7				780,661,205			780,661,205	2.28%
ASRS: Phoenix	Enhanced Passive E8				502,963,796			502,963,796	1.47%
ASRS: Phoenix	Risk Factor Portfolio				504,342,077			504,342,077	1.48%
	Large Cap Equity Total							\$9,170,956,624	26.83%
	Large Cap Policy								23.00%
Wellington: Boston	Active (Core)			418,802,556				418,802,556	1.23%
CRM: New York	Active (Value)			98,009,203				98,009,203	0.29%
ASRS: Phoenix	Passive E3 (Growth)				506,117,404			506,117,404	1.48%
ASRS: Phoenix	Passive E4 (Value)				523,477,583			523,477,583	1.53%
	Mid Cap Equity Total							\$1,546,406,747	4.52%
	Mid Cap Policy								5.00%
TimesSquare: New York	Active SMID (Growth)			463,314,208				463,314,208	1.36%
DFA: Santa Monica	Active (Value)			408,205,341				408,205,341	1.19%
Champlain: Vermont	Active (Core)			97,440,059				97,440,059	0.29%
ASRS: Phoenix	Passive E6				477,336,693			477,336,693	1.40%
	Small Cap Equity Total							\$1,446,296,302	4.23%
	Small Cap Policy								5.00%
	U.S. Equity Total							\$12,163,659,672	35.58%
	US Equity Policy Range: 26% - 38%								33.00%
Brandes: San Diego	Active (Value)			597,125,321				597,125,321	1.75%
GTAA Managers (2)	Active GTAA			1,099,344,355				1,099,344,355	3.22%
American Century	Active (EAFE)			515,637,136				515,637,136	1.51%
Trinity Street	Active (EAFE)			338,274,413				338,274,413	0.99%
Thompson Siegel Walmsley	Active (EAFE)			158,639,423				158,639,423	0.46%
Blackrock: San Francisco	Passive (EAFE)				2,415,878,835			2,415,878,835	7.07%
	Large Cap Developed Non-US Equity Total							\$5,131,827,240	15.01%
	Large Cap Developed Policy								14.00%
AQR: Greenwich	Active (EAFE SC)			179,040,875				179,040,875	0.52%
DFA: Santa Monica	Active (EAFE SC)			224,645,947				224,645,947	0.66%
Franklin Templeton: San Mateo	Active (EAFE SC)			405,163,482				405,163,482	1.19%
Blackrock: San Francisco	Passive (EAFE SC)				469,991,481			469,991,481	1.37%
	Small Cap Developed Non-US Equity Total							\$1,278,844,735	3.74%
	Small Cap Developed Policy								3.00%
William Blair: Chicago	Active (EM)			484,067,376				484,067,376	1.42%
Eaton Vance: Boston	Active (EM)			528,583,756				528,583,756	1.55%
LSV: Chicago	Active (EM)			325,278,506				325,278,506	0.95%
Blackrock: San Francisco	Passive (EM)				720,983,312			720,983,312	2.11%
	Emerging Markets Equity Total							\$2,058,912,951	6.02%
	Emerging Markets Policy								6.00%
	Non-US Equity Total							\$8,469,584,925	24.78%
	Non-US Equity Policy Range: 16% - 28%								23.00%
	Private Equity Total							\$2,108,435,490	6.17%
	Private Equity Policy Range: 5% - 9%								7.00%
	Opportunistic Equity							\$326,545,463	0.96%
	Opportunistic Equity Policy Range: 0% - 3%								0.00%
	Equity Total							\$23,068,225,551	67.48%
	Total Equity Policy Range: 53% - 73%								63.00%
Gresham: New York						826,503,891		826,503,891	2.42%
GTAA Managers (2)	Active GTAA					367,733,124		367,733,124	1.08%
	Commodities Total							\$1,194,237,015	3.49%
	Commodities Policy Range: 1% - 7%								4.00%
GTAA Manager (1)	Active GTAA					54,554,600		54,554,600	0.16%
	Real Estate Total							\$2,047,719,170	5.99%
	Real Estate Policy Range: 6% - 10%								8.00%
	Infrastructure Total							\$0	0.00%
	Infrastructure Policy Range: 0% - 3%								0.00%
	Farmland & Timber Total					105,648,179		\$105,648,179	0.31%
	Farmland & Timber Policy Range: 0% - 3%								0.00%
	Opportunistic Inflation Linked Total							\$0	0.00%
	Opportunistic I/L Policy Range: 0% - 3%								0.00%
	Inflation Linked Total							\$3,347,604,363	9.79%
	Inflation Linked Policy Range: 7%-15%								12.00%
	TOTAL Amounts	\$3,910,158,880	\$3,859,388,577	\$11,255,026,107	\$11,813,199,443	\$3,453,252,542	\$0	\$34,185,377,370	Total Fund
	TOTAL Percent	11.44%	11.29%	32.92%	34.56%	10.10%	0.00%		

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	0.72%								
Core	10.70%	13%						50%	72%
High Yield	2.82%	5%							
US Fixed Income	13.53%	18% (8-28%)	14.31%	18.56% (9-29%)	-4.25%	-\$1,453,161,492	OK		
EM Debt	2.25%	4%		4.00%					
Opportunistic Debt	2.82%	0% (0-10%)	2.82%	0% (0-10%)	2.82%	\$963,758,083	OK		
Private Debt	3.41%	3%		3.00%					
Total Fixed Income	22.73%	25% (15-35%)	22.79%	25.56% (16-36%)	-2.77%	-\$947,540,085	OK		
Large Cap	26.83%	23%							
Mid Cap	4.52%	5%							
Small Cap	4.23%	5%							
US Equity	35.58%	33% (26-38%)	36.84%	34.7% (28-40%)	2.15%	\$733,742,713	OK	50%	65%
Developed Large Cap	15.01%	14%							
Developed Small Cap	3.74%	3%							
Emerging Markets	6.02%	6%							
Non-US Equity	24.78%	23% (16-28%)	24.25%	23.5% (17-29%)	0.75%	\$257,143,222	OK	30%	50%
Private Equity	6.17%	7% (5-9%)	6.17%	6.17% (4-8%)	0.00%	\$0	OK		
Opportunistic Equity	0.96%	0% (0-3%)	0.96%	0% (0-3%)	0.96%	\$326,545,463	OK		
Total Equity	67.48%	63% (53-70%)	68.22%	64.37% (54-71%)	3.85%	\$1,317,431,399	OK		
Commodities	3.49%	4% (1-7%)	2.85%	4.08% (1-7%)	-1.23%	-\$420,984,893	OK		
Real Estate	5.99%	8% (6-10%)	5.83%	5.99% (4-8%)	-0.16%	-\$54,554,600	OK		
Infrastructure	0.00%	0% (0-3%)	0.00%	0% (0-3%)	0.00%	\$0	OK		
Farmland & Timber	0.31%	0% (0-3%)	0.31%	0% (0-3%)	0.31%	\$105,648,179	OK		
Opportunistic I/L	0.00%	0% (0-3%)	0.00%	0% (0-3%)	0.00%	\$0	OK		
Total Inflation Linked	9.79%	12% (8-16%)	8.99%	10.07% (6-14%)	-1.08%	-\$369,891,314	OK		
Total	100.00%	100%	100.00%	100.00%	0.00%	\$0		30%	43%
Total GTAA								Internally Managed Portfolios:	
Bridgewater	\$3,082,455,550	9.0%						\$9,617,204,506	28%
Windham	\$602,813,257	1.8%							
Total	\$3,685,268,808	10.8%							
Policy	10% ±5%	OK							

Opportunistic definitions:
1) Tactical in nature: Function of market dislocation AND
2a) Outside SAA benchmark, OR
2b) Within SAA benchmark but absolute return oriented

(Notable changes from the previous month are highlighted in RED)

AUGUST 2014

U.S. EQUITIES

Primary Market Metrics & Indicators:

1. Fundamentals: **POSITIVE**

- Economic data suggests stable, sub-trend growth into 2014.
- Persistently high U.S. unemployment raise questions about a sustainable recovery, but no other tailspin issues have surfaced.
- At risk longer term due to stimulus measures; inflation remains generally subdued.
- There is considerable liquidity; Federal Reserve policy remains accommodative.
- Overall U.S. corporate profits are still growing, but with decelerating momentum; **revenues have begun trending up modestly although high profit margins are no longer expanding.**

2. Valuations: **NEUTRAL**

- **Net sideways price movement over July of the major indices left P/E ratios (forward) essentially unchanged from late spring 2014 levels. Though marginally rich, they remain near historic averages: S&P 500, 14.7x-16.2x, S&P MID, 16.5x-19.1x; S&P SC600, 16.5x-20.2x.**
- Historic P/Es imply advances of 5-10% for mid and small caps; 9-12% for S&P 500.
- Still rising earnings and low yields on 10-Yr Treasury notes combine for equity risk premiums that are favorably above the 4.0% long-range average for large caps, but market advances have trimmed those of mid- and small-caps to near 3.0%.

3. Sentiment: **NEUTRAL (change from POSITIVE)**

- **Short-term caution has moved up a notch following the sustained advance of equity markets throughout 2013 and 1H2014 without a significant pullback.**
- Lessened near-term equity market volatility (i.e., VIX Index) still reflects growing acceptance of risk-oriented assets.
- Asset flows that had gone to bonds and non-U.S. equities until 2013 continue to shift toward equities, though not necessarily to stock mutual funds

Commentary:

Throughout 1Q2014, IMD systematically pared back the allocation of U.S. stocks to address capital calls in the Plan's private equity and real estate asset classes. Proportionally more was withdrawn from the smallcap and midcap sub-classes. Strong price advances in 2013 outpaced earnings growth in these categories to the extent that their short-run risk premiums are less compelling than the larger-cap counterparts. This has also been reflected in the waning performance of smallcap stocks *relative* to largecap and midcap counterparts over 2014. Smallcaps are off by about **2.5%**; largecaps and midcaps are up **4.9%** and **2.4%**, respectively.

Notwithstanding some opinions that prices of U.S. stocks are greatly overextended and thus due for a precipitous decline, data suggests otherwise. Valuations of domestic equities are full, but generally don't yet exceed long-term average valuations by much. Business conditions are constructive if not vibrant. Moreover,

the equity markets have been resilient in spite of unsettling political events and have rebounded on shallow dips over 1H2014. Rather than setting up for an abrupt decline, in re-rating over the past year, the markets have pulled forward some return from future periods. This implies that future equity returns will still be available; they just are unlikely to be of the magnitude as those experienced over the past year.

This drives our now “**NEUTRAL**” opinion on Sentiment and the unchanged opinions of “**POSITIVE**” on Fundamentals and “**NEUTRAL**” on Valuations. Employing that tactically, IMD may further reduce ASRS U.S. Equity assets. Reallocations of U.S. Equity over the past year subsidized some of the Plan’s monthly obligations, but moved mostly to the Fund’s non-public, private markets asset classes.

CURRENT PORTFOLIO POSTURE: Overweight vs. SAA target

NON – U.S. EQUITIES

Primary Market Metrics & Indicators:

1. Fundamentals: **POSITIVE**
 - GDP growth in the Eurozone has begun to look less recessionary while that of the lesser-developed economies remains off its pace, but comparatively stronger.
 - Relatively inexpensive and available money supports a shift toward risk assets.
 - Monetary and economic policies are focused on controlling economic growth and fiscal stability.
2. Valuations: **POSITIVE**
 - Reasonable global valuations relative to U.S.; price-to-book values of **1.4x - 1.6x**; P/Es of **13.0x – 16.0x** on trend earnings.
 - Dividend yields are incrementally more favorable with most ranging from 1.5x to 1.6x that of the S&P500.
3. Sentiment: **POSITIVE**
 - Money flows continue toward both U.S. and non-U.S. equities; excepting the emerging economies markets, investors are less guarded and remain constructive on global risks.
 - Major non-U.S. markets performances are keeping pace with those of the U.S.

Commentary:

Global equities have begun responding positively to stabilizing economic momentum across major economies. Weaker than expected economic readings earlier in the year from China and the U.S. triggered corrections in the equities markets and a 50 basis points decline in U.S. 10-year bond yields. It is also attributable to a 5% relative underperformance of global cyclical equities versus more defensive stocks. U.S. ISM indices and their international PMI counterparts are rising; this often leads to better performance of equities and to an extent, markets have reacted. Adding to confidence is that PMI new orders globally are mid-range, so any slide back would be small and thus not transfer into major negative signal to the equities markets. Various measures of global monetary conditions such as policy rates, money supply growth and currency valuation continue to ease and the tapering policy of the U.S. Federal Reserve is not yet bringing about a broad tightening of monetary conditions.

Available liquidity is supportive for re-rating equity risk premiums. Equity risk premiums on international stocks of over 5% exceed those of the U.S. by about 100 basis points. Both imply ample compensation for

investment, more so for the former. Falling yields among high-yield bonds and other compressions of credit spreads are further magnifying the relative advantage available in current equity risk premiums.

The Japanese equities markets continue to be challenged after responding well earlier in 2013. Japanese economic reform continues, but the markets are waiting for follow-on to the Abe policies. They might be unduly bearish. The solid gains in personal consumption from the spurt of income growth are now appearing vulnerable to this new round of taxes. Most remain of the opinion that the Bank of Japan will need to ease additionally if hoped-for 2% annualized inflation targets are to be met. The bulk of the rise in inflation so far this year has come via higher import prices, which now are set to fall back. This suggests the BoJ will need to expand its program of bond purchases in 2H2014, and possibly further broadening of quantitative easing.

Emerging markets (EM) overall, are enigmatic, but of late are trading more favorably. Having undergone two years of price correction, valuations for the most part remain attractive as compared to those of the developed economies. But an inherent “value trap” persists, as economic fundamentals continue to shift about for the larger countries, weaken for those with large external debt balances yet are surprisingly solid for many others. Up until recently, capital was withdrawn indiscriminately from EM equity markets, despite select opportunities at the specific company level. Staff is watching this equilibration with interest of for opportunities to shift the allocation of the sub-class to above policy weight.

CURRENT PORTFOLIO POSTURE: Marginally Overweight vs. SAA target

FIXED INCOME

Primary Markets Metrics & Indicators:

1. Fundamentals: NEUTRAL

- Over the past few years, fundamentals in the fixed income markets have been dominated by an extremely accommodative monetary policy by the Federal Reserve. This has included massive, unprecedented bond buying programs of both treasury bonds and agency MBS securities known as “quantitative easing” that began in 2009 during the credit crisis and continues to this day. The Fed has now gradually begun to reduce its monthly purchases with a potential complete cessation of bond buying by the end of this year. In addition, the Fed has pledged to keep short-term rates near zero over an extended time depending on select economic targets and conditions.
- While these policies have kept interest rates artificially low, the potential cessation of bond buying activities along with an improving U.S. economic outlook could lead to higher **long-term** interest rates over an intermediate to long-term time frame. **It is also possible that economic conditions improve enough in the near-term that the Fed could raise short-term interest rates in 2015 or 2016.**
- **This year**, long-term interest rates have fallen in response to a combination of factors including some disappointing economic data, concerns about global growth, some geopolitical uncertainty (ex. Ukraine, **Gaza**), subdued inflation expectations and possible short covering by investors positioned for rising rates.

2. Valuations: NEGATIVE

- **Overall, we view the public fixed income markets as generally unattractive due to low overall yield and spreads. However, we believe very attractive opportunities exist in both private and opportunistic debt. We have been reducing our exposure to public fixed income markets such as**

high yield, emerging market debt, core fixed income and asset-backed securities in order to fund private and opportunistic debt mandates offering significantly higher expected returns.

- The core fixed income market is relatively unattractive due to low overall yields as Treasury rates remain at low levels, investment-grade credit spreads are relatively tight and spreads on agency MBS are somewhat compressed due to aggressive buying by the Fed. Ultimately, we believe the Fed will end its aggressive bond buying, and Treasury rates will rise over the intermediate-term from artificially low levels in the current market. That being said, core fixed income remains a safe haven in times of market turbulence and tends to perform well when risky assets such as equities sell off.
- With a benign outlook for corporate defaults and an overall demand in the market for yield, the valuation of high yield bonds has substantially compressed since mid-2012. As a result, the market has lost much of its return potential relative to prior years and will likely achieve low to mid-single-digit returns over the coming year.
- While emerging market debt denominated in local currencies offers attractive yields, it comes with the added risk that emerging market currencies depreciate in value relative to the U.S. dollar resulting in poor returns as happened in 2013. Of most concern is the potential for a sustained period of US dollar appreciation as has occurred periodically in the past (such as the 1990's) that could adversely affect the returns of EM local currency debt going forward.
- Private debt offers the most attractive opportunity in the fixed income markets with double-digit yields readily available for investors willing to accept illiquidity.
- Select areas of opportunistic debt such as distressed debt (both corporate and structured credit) also offer opportunities to potentially achieve double-digit returns.

3. Sentiment: **NEUTRAL**

- Following a multi-decade period of declining interest rates, IMD has modest concerns that investors sentiment is shifting away from fixed income. That being said, going forward, IMD believes demand will continue for income producing assets particularly those which offer a yield premium.
- **Recently, technical selling pressure has led to higher spreads and yields in the high yield bond market.**

Commentary:

IMD remains underweight in its overall fixed income target due to the relatively low yields offered in the public fixed income markets as well as the risk of potentially higher treasury rates. ASRS is currently underweight in its SAAP target for core fixed income, high yield and emerging market debt. While core fixed income offers important defensive characteristics to potentially balance out the overall risks of the total fund portfolio, low levels of U.S. Treasuries and generally tight spreads in the investment-grade bond markets make it generally unattractive.

Furthermore, IMD remains concerned about the potential for higher Treasury rates and the impact on returns for core fixed income, should the Fed completely end its quantitative easing programs. In high yield, which historically is less sensitive to higher interest rates, spreads have compressed to levels which make potential returns much less compelling than in prior years. In emerging market debt, we are concerned about the currency risk embedded in the local currency bond markets of this asset class.

IMD sees the most attractive opportunities in fixed income in select credit markets -- particularly private debt and opportunistic debt -- where compelling yield and total return opportunities exist. Opportunistic debt

includes a number of mandates such as distressed debt (both corporate and structured credit) and excess mortgage-servicing rights that are likely to provide very attractive returns.

CURRENT PORTFOLIO POSTURE: Underweight vs. SAA target

REAL ESTATE

Primary Market Metrics & Indicators:

1. Fundamentals: **POSITIVE**

- Improved levels of demand and easing credit conditions, combined with broad improvement in the economy, are supportive of continued expansion of commercial lending and building. Better levels of occupancy while there is a lack of construction has resulted in rising rents.
- Our review of property market fundamentals leads to emphasize apartments, industrial properties, medical office buildings, senior housing self-storage, and student housing in our current investing efforts for demographic and macro policy reasons.
- There are relatively few foreclosures on high quality property, but there continues to be pressures on refinancing of legacy leverage structures and we participate in those transactions through several of our manager relationships.
- Single family housing continues to exhibit tight supply and moderate demand driven by healing household balance sheets, improved employment conditions, and continued affordability. This should lead to reacceleration of new construction and continued moderate price increases. Recovery in construction and NOI has been led by apartments to date.

2. Valuations: **NEUTRAL**

- On a total market basis, valuations have recovered from recession lows but are still about 5% below prior peak. However, coastal markets have rebounded more strongly than interior markets.
- High quality coastal market properties are trading at historic low cap rates; however these cap rates still reflect approximately a normal spread to treasury. The financing market for assets of this quality has recovered and supports these valuations by providing fixed rate financing that mitigates the risk of later cap rate expansion. International investors looking for safe assets have contributed to demand in the coastal markets.
- Recent increases in treasury rates do not appear to have affected commercial real estate valuations. Many observers believe that ~100bps of rate increase was already discounted into cap rates.
- REITs are trading at a 4% premium to NAV with an average dividend yield of 3.8%. This reflects a 120bps spread to the 10 year treasury, which is a bit higher than the historical average of 108bps.

3. Sentiment: **POSITIVE**

- U.S. focused real estate fund raising rose 13% to \$76 billion per year. U.S. focused dry powder has trended down to approximately \$80 billion.
- Global commercial real estate transaction volume peaked at around \$700 billion in 2007, but dropped to about a third of that during the global financial crisis. Current volume of approximately \$550 billion is double the recession trough, but still well below the peak.
- Debt availability has improved considerably since the depth of the recession, but is still tight by historic standards for all but the most desirable properties. Construction financing remains a considerable challenge, even for well justified projects.

Commentary:

IMD continues to implement its separate account real estate strategic manager program. ASRS adopted an updated pacing and implementation plan in December, calling for \$500 million in new commitments in 2014 including \$350M allocated to niche and tactical opportunities.

CURRENT PORTFOLIO POSTURE: Underweight *vs. SAA target *in program funding/build-out phase

PRIVATE EQUITY

Primary Market Metrics & Indicators:

1. Fundamentals: **POSITIVE**

- The U.S. economy continues to show steady improvement.
 - ◇ The energy sector is dynamic with massive new investment in “tight oil” and related infrastructure and services, with supply improvements also resulting in improved energy efficiency particularly of benefit to manufacturers.
 - ◇ Healthcare is being reshaped to implement the requirements of “Obamacare”
 - ◇ The U.S. continues to be a global leader in technology innovation.
- Europe continues to struggle in recovering from the financial crisis although recent data suggests a pickup in economic activity. Its problems are exacerbated by a unified currency without unified fiscal policy and it is expected to experience a very slow recovery.
- Emerging markets have slowed while the largest emerging markets are transitioning to focus on domestic consumption.

2. Valuations: **NEUTRAL**

- Purchase price multiples in 2013 (through Q3) were 8.4x, roughly flat from 2012 levels and below 2007 peak valuations. Over the course of 2013, large deal multiples rose from 10x to 11x while small deals fell from 4.0x to 2.5x.
- The leveraged loan and high yield debt markets were active in 2013 reaching multi-year highs for net issuance, albeit principally for refinancing. Single B high yield spreads have recently dipped below 350 bps.
- Total leverage in 2013 (through Q3) ticked up to 5.3x from 5.1x in 2012, although still down ~0.8x turn from the 2007 peak.

3. Sentiment: **NEUTRAL**

- Globally, year-to-date \$236B (417 funds) have closed through Q2 2014 compared to \$522B (1,097 funds) closed in aggregate for 2013. Dry powder of nearly \$1.2T globally in all categories rose from \$1.1T at the end of 2013.
- The global number of buyout deals rose from 732 in Q1 to 766 in Q2 2014 while the aggregate value of deals remained approximately flat at \$80B.
- Exits rose in Q2 2014 to 394 at an aggregate value of \$137B representing the second highest count and the highest value since Q2 2006.
- The IPO market in Q2 2014 had the largest value of exits (\$30B) in 4 quarters.

Commentary:

Areas of emphasis are U.S middle market buyout with focus on managers with strong operational capability. Vertical strategies in energy, healthcare and technology are under consideration. IMD will reduce emphasis on large buyout strategies though larger managers with specialized deal flow remain of interest. IMD will

continue to monitor Europe for a favorable reentry point. IMD's pacing plan calls for \$550M in commitments for 2014, with an additional \$50M carried over from 2013.

CURRENT PORTFOLIO POSTURE: Underweight * vs. SAA target*in program funding/build-out phase

COMMODITIES

Primary Market Metrics & Indicators:

1. Fundamentals: **NEGATIVE**

- The Fed continued to taper its QE program by \$10B per month and **reiterated that inflation continues to run below the FOMC's long-term objective.**
- Recent data indicates the US economy has momentum but most commodity sectors appear well supplied, particularly for the current global growth environment.
- **Nearly 75% of the corn & soybean crops are rated good/excellent, ahead of last year at this time.** Energy markets reflect the continued growth in US production **as the Brent/WTI spread continues to narrow.** Metals have been mixed as precious metals have benefitted **as a US dollar hedge** while industrial metals still exhibit weak demand.

2. Valuations: **NEUTRAL**

- **The index rose to nearly 280 in April 2014 but has steadily sold off to its current level of 260.**
- **YTD: coffee, nickel, & hogs have been the leaders; cotton and corn are the biggest laggards.**
- The index on a year-to-date basis is up **2.9%**, **modest ag losses offset by modest gains in energy and precious metals.**

3. Sentiment: **NEUTRAL**

- **The moderate growth and inflation environment in the U.S. year-to-date has tempered investor enthusiasm for commodities and resulted in modest inflows into commodities.**
- Exogenous **geopolitical** shocks have **not resulted in price spikes; weather has been favorable.**
- Looking across the individual commodities, most remain well supplied, which has been reflected in prices as inflationary fears have abated.

Commentary:

IMD has maintained a tactical underweight relative to the SAAP during 2013 and into 2014 after recognizing the potential effects of Fed tapering and Chinese transition. IMD recognizes that Fed tapering will be data dependent but the Fed has been clear about its intention to reduce stimulus. China's transition to a more consumer oriented economy will be gradual but the era of infrastructure build-out which fueled a portion of the demand for commodities is abating. IMD will closely monitor the growth and inflation dynamics globally with improving economic conditions and inflationary pressures serving as a catalyst which may initiate a neutral position.

CURRENT PORTFOLIO POSTURE: Underweight vs. SAA target

OPPORTUNISTIC INVESTMENTS

IMD continues to monitor and assess co-investment flow from real estate, private equity and debt managers for select opportunistic investments with favorable capital market dynamics. Opportunistic investments are tactical in nature AND are outside ASRS SAAP benchmarks or absolute return oriented.

CURRENT PORTFOLIO POSTURE: Approx. 3.7% of ASRS TOTAL MARKET VALUE

GLOSSARY

Commentary: Provides verbiage on 1) the current asset class market environment and possible changes to this environment and 2) ASRS asset class portfolio positioning relative to ASRS SAA policy, its rationale for positioning and anticipated changes which may occur in such positioning.

Current Portfolio Posture: Indicates ASRS asset class position relative to its asset allocation policy weight. “Overweight” indicates an asset class weight is greater than its policy target, “Neutral” indicates an equal weight and “Underweight” indicates a lesser weight than its policy target.

Investment House Views: Synthesizes IMD’s current and forward-looking investment perspectives and tactical positioning in asset classes and investment strategies in which the ASRS invests.

Primary Market Metrics and Indicators: Broadly-defined metrics (Fundamentals, Valuations, and Sentiments) applied universally to ASRS asset classes and used collectively to evaluate existing market conditions. Indicators (“Positive,” “Neutral” and “Negative”) reflect IMD’s existing views of these metrics and, in addition to other factors, generally determine the basis for the existing (and possible future changes) to ASRS aggregate portfolio position relative to or within ASRS SAA policy targets.

2014 ASSET CLASS COMMITTEE AND IC MEETINGS

2014		Asset Class Committees				Board Committee		Grand Totals	
		Private Market Committee (PRIFMC)		Public Market Committee (PUBMC)		Investment Committee (IC)			
Quarter	Month	Dates		Total	Dates		Total		
1 st	January	1/15	1/31	2	1/31		1	9	
	February	2/21		1	2/20 2/24		2		
	March	3/24		1	3/27		1		
2 nd	April	04/22		1	04/17		1	9	
	May	05/12	05/27	3					
		05/28							
June	06/19	06/26	2	06/23		1			
3 rd	July	07/01	07/14	3				3	
		07/21							
	August								
September									
4 th	October								
	November								
	December								
Totals				13			3	5	21

06/19/14:

➤ **Real Estate Investments**

- The Committee approved the recommendation made by USAA to sell one of two buildings acquired from the Fresh 'n Easy Bankruptcy estate earlier this year which are located in Stockton, CA. The sale was at approximate 30% profit margin on the acquisition made in April. RCLCO recommended taking the profit on this sale rather than taking the leasing risk of continuing to own the building. The sale subsequently closed.

06/26/14

➤ **Real Estate Program**

- The Committee reviewed and discussed ASRS exposure apartments and for sale residential noting that the exposures appear reasonable and appropriate. In addition, the Committee discussed the private equity pipeline which will be updated in Q4-14 as a guideline to make investments in 2015.

➤ **Private Equity Program**

- The Committee approved a \$40 million investment to FFL IV, a growth oriented mid-market private equity generalist founded in 1997 by, among others, Tully Friedman.
- The Committee approved a \$50 million investment to Veritas V, a middle market firm focused on firms who provide services to government entities.

07/01/14

➤ **Real Estate Investments**

- The Committee approved a \$100 million commitment to a niche and tactical real estate GP who specializes in street level urban retail in major cities. Final contract negotiations are pending. This investment is part of the “niche and tactical” investment program.
- The Committee approved variance to the Ventas investment criteria respect to neighborhood demographics and market positioning of a medical building located in Sacramento, CA.

07/14/14

➤ **Real Estate Investments**

- The Committee approved due diligence on an investment in a Seattle property with Lowe Enterprises, a real estate investment firm. Pending full reporting and subsequent recommendation of investment approval by the Committee. This investment was intended as part of the niche tactical program, but on closer examination of the subject property with additional diligence as authorized by the committee, the real estate consultant recommended against proceeding with the investment.

07/21/14

➤ **Private Opportunistic Investments**

- The Committee approved ASRS participation in secondary offering by TPG Specialty Lending (TSLX). As a result, ASRS sold a portion of its 2.2 million shares in TSLX at net proceeds that will produce a realized IRR of approximately 18% to 19% on the shares sold. ASRS's remaining shares are subject to lockups that will expire on rolling time frames over the coming eight months.

TACTICAL PORTFOLIO POSITIONING

Asset class tactical positioning is a function of Investment House Views and an assessment of relative value between ASRS asset classes and their positioning to ASRS Strategic Asset Allocation Policy (SAAP).

Most notable, ASRS continues to remain underweight to U.S. small and mid-cap equities, high yield (HY) debt and EM debt relative to their respective SAAP targets. In aggregate, these have positively contributed to ASRS performance relative to ASRS TF benchmark.

Recent repositioning trades occurred in HY debt in Q2-14 which further underweighted HY relative to policy; 2.8% actual compared to a 5% policy. This repositioning was due to the richness of HY on an absolute yield and risk premium spread basis. In late June, U.S. Corporate High Yield Index posted both historical lows in absolute yield (4.83%) and in spread-to-Treasuries (3.23%). This positioning was favorable given that in late July technical selling pressure on HY ETFs (exchange-traded funds) resulted in HY yields/spreads widening by over 80 bps. The funds were used for capital calls in private and opportunistic debt and to fund external cash flow needs.

The CIO and IMD PMs will discuss these tactical portfolios repositioning in more detail at the IC meeting.

Note: tactical portfolio positioning is captured in the ASRS Asset Allocation report; the performance results of tactical positioning (vs. policy targets) are reflected in the ASRS Quarterly Total Fund Performance Attribution Analysis.

IMD (INVESTMENT MANAGEMENT DIVISION) ACTIVITIES, PROJECTS AND RESEARCH INITIATIVES

- The Director and CIO have begun discussions with NEPC regarding a review of and modifications to ASRS Asset Allocation Policy. As part of this process, an agenda item will be included on future IC agendas during this development process which is intended for the Director and CIO to provide an update on the process and solicit input and perspectives from IC Trustees. The Study is anticipated to be completed in Q4-14.
- Implementation of the redesigned ASRS securities lending program is pending final contract negotiations with State Street. The program will include two parts: 'base lending' to initiate a conservative strategic lending program and 'opportunistic lending' to profit from relatively large or one-off individual lending transactions, the latter of which will be evaluated and approved on a case-by-case basis by the Director and CIO.
- IMD enhanced cash management program document continues to be developed. Upon final approval by the CIO and pending final contract negotiation with State Street, implementation is anticipated to occur within the next 90 days. The goals of the program are to provide required Fund liquidity, mitigate cash drag, minimize transaction costs and optimize manager portfolios rebalancing.

- An IC/IMD Investment Roundtable is scheduled for August 18 which will focus on the following interrelated topics: Equity Risk Factors, Smart Beta Constructs and New/Alternative Beta/Alpha Investment Strategies. Participation will include both internal and external subject matter experts who will provide their perspectives on the agenda topics.
- As a standard course of business, IMD meets with both incumbent and potential investment managers to discuss macro-economies and capital markets as well as providing a means to review new initiatives, relationships and new strategy offerings. Since the last IC meeting, IMD has met via conference call or in-person with a total of 59 investment managers: Private markets (RE, PE, Debt) – 37 and Public markets (Equity and Debt) – 22.
- IMD internally manages 7 public equities and fixed income portfolios which had an aggregate market value of over \$9.8 billion or 30% of Total Fund. For the 1-year ending June 30, 4 of 7 met or exceeded their benchmarks, and 7 of 7 portfolios met or exceeded their benchmarks on an inception-to-date basis.

Executive Presentation

To: Arizona State Retirement System

truView Risk Report June 30, 2014

Produced by State Street Investment Analytics, Risk Services

Monthly Reallocation Summary*

Month Ending July 31, 2014

Portfolio Reductions

- TOTAL FIXED INCOME
 - \$60M – F2 (Core)
 - \$150M – COLUMBIA (High Yield)
- TOTAL EMERGING MKT DEBT
 - \$150M – ASHMORE
- **TOTAL REDUCTIONS****
 - **\$310M**

Portfolio Additions

- TOTAL MASTER CASH
 - \$310M – MASTER CASH
- **TOTAL ADDITIONS****
 - **\$310M**

*Based on State Street accounting records for public markets and therefore exclude private market drawdowns.

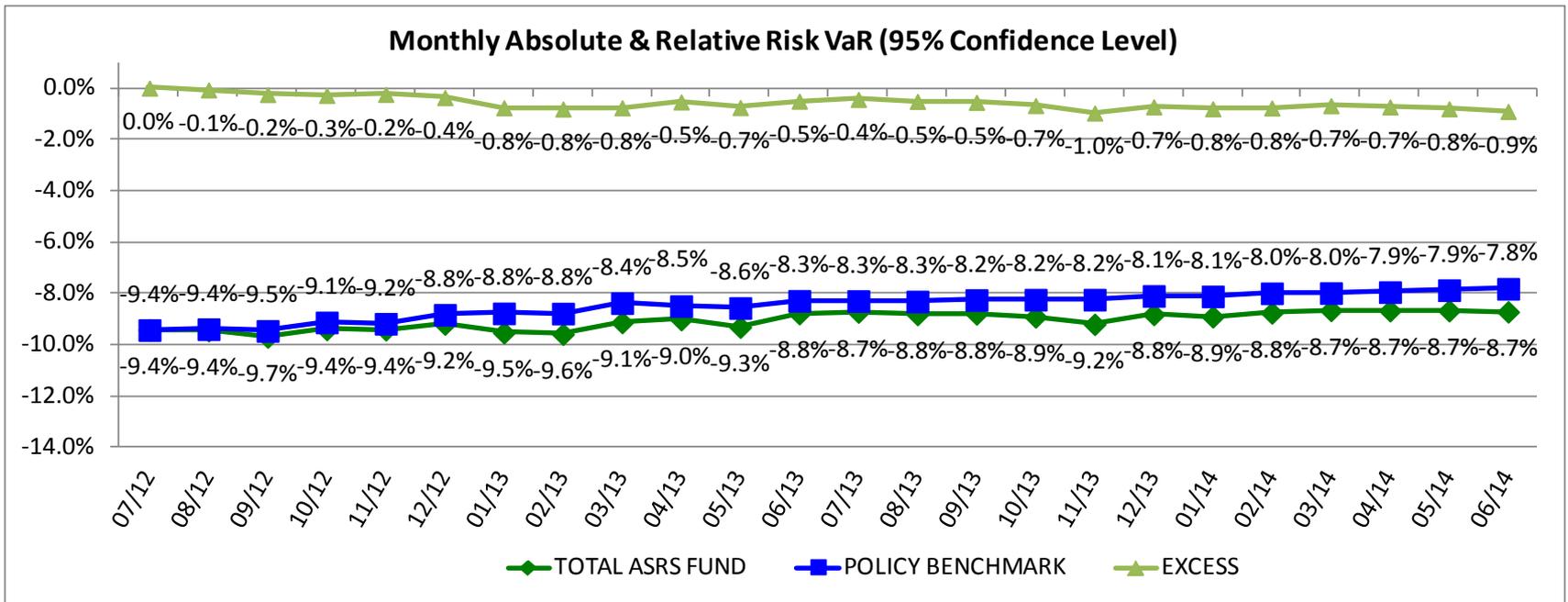
**Reductions and additions do not include plan distributions.

Monthly Risk Summary

Month Ending June 30, 2014

Month-end Risk Profile

- Historical Risk (95% VaR) for all asset classes remain relatively constant from prior months with minimal changes. Total Plan risk increased a marginal 5bps. The Policy Benchmark decreased 5bps. A steady market environment has helped produce a stable risk profile since the beginning of this year.
- Excess risk over the Policy Benchmark increased 10bps from the prior month to settle at -0.9%.



ARIZONA STATE RETIREMENT SYSTEM

TOTAL PLAN EXPOSURE OVERVIEW

As of June 30, 2014

Sector (Public US Equity Only)	\$ Value	% Value	**Blended US BM	Difference
CONSUMER NON-CYCLICAL	\$ 2,444,461,869	21.7%	21.8%	(0.1%)
FINANCIAL	\$ 1,740,063,894	15.4%	16.4%	(0.9%)
INDUSTRIAL	\$ 1,309,261,051	11.6%	10.5%	1.1%
TECHNOLOGY	\$ 1,276,193,072	11.3%	12.9%	(1.6%)
CONSUMER CYCLICAL	\$ 1,091,418,951	9.7%	9.2%	0.4%
ENERGY	\$ 1,027,794,511	9.1%	10.9%	(1.7%)
COMMUNICATIONS	\$ 942,599,105	8.4%	11.8%	(3.4%)
FUNDS	\$ 507,626,175	4.5%	0.0%	4.5%
BASIC MATERIALS	\$ 387,845,289	3.4%	3.3%	0.2%
UTILITIES	\$ 378,084,582	3.4%	3.2%	0.2%
CASH	\$ 119,672,114	1.1%	0.0%	1.1%
GOVERNMENT	\$ 28,118,853	0.2%	0.0%	0.2%
INDEX	\$ 10,077,895	0.1%	0.0%	0.1%
DIVERSIFIED	\$ 2,298,070	0.0%	0.0%	(0.0%)
GRAND TOTAL	\$ 11,265,515,431	100.0%	100.0%	0.0%

Country Category (Total Plan)	\$ Value	% Value	*Blended TOTAL BM	Difference
NORTH AMERICA	\$ 25,619,191,361	74.8%	66.7%	8.1%
EUROPE DEVELOPED	\$ 4,076,845,235	11.9%	14.6%	(2.7%)
ASIA DEVELOPED	\$ 1,938,665,343	5.7%	8.9%	(3.2%)
ASIA EM	\$ 1,306,161,184	3.8%	4.4%	(0.6%)
LATIN AMERICA	\$ 746,208,246	2.2%	3.1%	(1.0%)
AFRICA	\$ 284,245,479	0.8%	0.8%	(0.0%)
EUROPE EM	\$ 167,071,251	0.5%	1.0%	(0.5%)
MIDDLE EAST	\$ 99,246,474	0.3%	0.4%	(0.1%)
GRAND TOTAL	\$ 34,237,634,574	100.0%	100.0%	0.0%

Market Cap^ (Public Equities Only)	\$ Value	% Value	*Blended TOTAL BM	Difference
1) 0 - 100M	\$ 3,321,015	0.0%	0.0%	0.0%
2) 100M - 500M	\$ 644,396,725	3.1%	1.2%	1.9%
3) 500M - 1B	\$ 383,246,497	1.9%	3.3%	(1.4%)
4) 1B - 5B	\$ 3,364,137,337	16.4%	22.4%	(6.0%)
5) 5B - 10B	\$ 2,418,985,161	11.8%	10.7%	1.1%
6) 10B - 50B	\$ 6,007,869,864	29.3%	28.2%	1.1%
7) >50B	\$ 7,654,450,962	37.4%	34.2%	3.2%
GRAND TOTAL	\$ 20,476,407,561	100.0%	100.0%	100.0%

^Excludes cash and non-traded securities

Top 20 Issuer (Total Plan)	\$ Value	% Value	Market Cap	Sector	Industry Group
1 CASH***	\$ 1,554,055,919	4.5%		CASH	Cash
2 SPDR S&P 500 ETF TRUST	\$ 1,320,953,424	3.9%	7) 50B+	FUNDS	EQUITY FUND
3 US TREASURY N/B	\$ 994,395,835	2.9%		GOVERNMENT	SOVEREIGN
4 FANNIE MAE	\$ 848,618,739	2.5%		MORTGAGE SECURITIES	FNMA COLLATERAL
5 TREASURY BILL	\$ 760,705,110	2.2%		GOVERNMENT	SOVEREIGN
6 APPLE INC	\$ 222,148,491	0.7%	7) 50B+	TECHNOLOGY	COMPUTERS
7 FREDDIE MAC	\$ 215,301,690	0.6%		MORTGAGE SECURITIES	FGLMC COLLATERAL
8 EXXON MOBIL CORP	\$ 189,241,752	0.6%	7) 50B+	ENERGY	OIL&GAS
9 MICROSOFT CORP	\$ 157,395,588	0.5%	7) 50B+	TECHNOLOGY	SOFTWARE
10 JOHNSON & JOHNSON	\$ 142,836,188	0.4%	7) 50B+	CONSUMER NON-CYCLICAL	PHARMACEUTICALS
11 VANGUARD TOTAL STOCK MARKET ET	\$ 132,591,859	0.4%	6) 10B - 50B	FUNDS	EQUITY FUND
12 GOVERNMENT NATIONAL MORTGAGE	\$ 131,235,415	0.4%		MORTGAGE SECURITIES	GNMA COLLATERAL
13 ISHARES MSCI USA VALUE FACTOR ET	\$ 128,593,950	0.4%	2) 100M - 500M	FUNDS	EQUITY FUND
14 CHEVRON CORP	\$ 127,745,382	0.4%	7) 50B+	ENERGY	OIL&GAS
15 ISHARES MSCI USA MOMENTUM FACTO	\$ 127,532,160	0.4%	2) 100M - 500M	FUNDS	EQUITY FUND
16 ISHARES MSCI USA QUALITY FACTOR I	\$ 127,057,865	0.4%	2) 100M - 500M	FUNDS	EQUITY FUND
17 ISHARES MSCI USA SIZE FACTOR ETF	\$ 124,442,200	0.4%	2) 100M - 500M	FUNDS	EQUITY FUND
18 PFIZER INC	\$ 119,026,727	0.4%	7) 50B+	CONSUMER NON-CYCLICAL	PHARMACEUTICALS
19 VANGUARD FTSE DEVELOPED MARKE	\$ 111,867,107	0.3%	6) 10B - 50B	FUNDS	EQUITY FUND
20 AT&T INC	\$ 104,912,706	0.3%	7) 50B+	COMMUNICATIONS	TELECOMMUNICATIONS

*Blended TOTAL BM: 26% SP500, 5% SP400, 5% SP600, 5% R2000, 14% MSCI EAFE, 6% MSCI EM, 3% MSCI Sml Cap, 17% BC US AGG, 5% BC US HY, 6% FTSE NAREIT GLOBAL, 4% DJ-UBS COMMODITY, 4% JPM EMBI.

**Blended US BM: 72% SP500, 14% SP400, 14% SP600.

***Cash does not represent an IMD tactical view; Cash includes the ASRS Master Cash balance, manager-level portfolio cash & equivalents and cash collateralizing sundry portfolio-level futures contracts.

ARIZONA STATE RETIREMENT SYSTEM

As of June 30, 2014

INTERNATIONAL EQUITY EXPOSURE OVERVIEW

Sector (Public Intl Equity Only)	\$ Value	% Value	*Blended NON-US BM	Difference
FINANCIAL	\$ 1,802,442,598	24.3%	25.0%	(0.6%)
CONSUMER NON-CYCLICAL	\$ 1,349,784,325	18.2%	18.6%	(0.4%)
INDUSTRIAL	\$ 979,712,000	13.2%	11.8%	1.4%
CONSUMER CYCLICAL	\$ 919,275,753	12.4%	11.8%	0.6%
COMMUNICATIONS	\$ 671,405,133	9.1%	8.4%	0.6%
ENERGY	\$ 471,746,928	6.4%	7.4%	(1.1%)
BASIC MATERIALS	\$ 442,178,265	6.0%	7.6%	(1.6%)
TECHNOLOGY	\$ 358,000,851	4.8%	4.9%	(0.1%)
UTILITIES	\$ 225,990,444	3.0%	3.5%	(0.4%)
CASH	\$ 106,111,742	1.4%	0.0%	1.4%
DIVERSIFIED	\$ 67,636,229	0.9%	1.0%	(0.1%)
INDEX	\$ 15,646,156	0.2%	0.0%	0.2%
FUNDS	\$ 25,906	0.0%	0.0%	0.0%
FX	\$ 19,459	0.0%	0.0%	0.0%
GRAND TOTAL	\$ 7,409,975,788	100.0%	100.0%	0.0%

Country Category (Public Intl Equity Only)	\$ Value	% Value	*Blended NON-US BM	Difference
EUROPE DEVELOPED	\$ 3,581,365,445	48.3%	48.7%	(0.3%)
ASIA DEVELOPED	\$ 1,887,367,413	25.5%	29.9%	(4.5%)
ASIA EMERGING	\$ 1,033,919,577	14.0%	13.1%	0.8%
LATIN AMERICA	\$ 429,524,472	5.8%	4.9%	0.9%
AFRICA	\$ 179,639,462	2.4%	2.0%	0.4%
NORTH AMERICA	\$ 141,480,750	1.9%	0.1%	1.8%
MIDDLE EAST	\$ 81,828,577	1.1%	0.7%	0.4%
EUROPE EMERGING	\$ 74,850,092	1.0%	0.6%	0.4%
GRAND TOTAL	\$ 7,409,975,788	100.0%	100.0%	0.0%

Top 20 Industry Groups (Public Intl Only)	\$ Value	% Value	*Blended NON-US BM	Difference
1 BANKS	\$ 967,673,160	13.1%	13.6%	(0.5%)
2 TELECOMMUNICATIONS	\$ 436,113,556	5.9%	5.7%	0.2%
3 PHARMACEUTICALS	\$ 426,503,965	5.8%	6.3%	(0.5%)
4 OIL&GAS	\$ 412,709,532	5.6%	6.6%	(1.1%)
5 INSURANCE	\$ 384,462,842	5.2%	4.5%	0.7%
6 FOOD	\$ 352,774,575	4.8%	4.6%	0.2%
7 RETAIL	\$ 265,503,011	3.6%	3.1%	0.5%
8 AUTO MANUFACTURERS	\$ 249,031,648	3.4%	3.2%	0.2%
9 CHEMICALS	\$ 199,916,084	2.7%	3.3%	(0.6%)
10 SEMICONDUCTORS	\$ 199,552,916	2.7%	2.8%	(0.1%)
11 COMMERCIAL SERVICES	\$ 198,788,621	2.7%	1.9%	0.8%
12 DIVERSIFIED FINAN SERV	\$ 179,984,609	2.4%	2.6%	(0.2%)
13 ELECTRIC	\$ 159,297,091	2.1%	2.3%	(0.2%)
14 BUILDING MATERIALS	\$ 152,355,658	2.1%	1.4%	0.7%
15 REAL ESTATE	\$ 152,038,286	2.1%	2.1%	(0.1%)
16 ENGINEERING&CONSTRUCTIC	\$ 146,487,655	2.0%	1.8%	0.2%
17 MINING	\$ 138,542,392	1.9%	2.7%	(0.8%)
18 BEVERAGES	\$ 131,449,807	1.8%	2.1%	(0.3%)
19 MISCELLANEOUS MANUFACTI	\$ 114,287,989	1.5%	1.2%	0.4%
20 ELECTRONICS	\$ 112,299,449	1.5%	1.5%	(0.0%)

Market Cap** (Public Intl Equities Only)	\$ Value	% Value	*Blended NON-US BM	Difference
1) 0 - 100M	\$ 3,024,707	0.0%	0.0%	0.0%
2) 100M - 500M	\$ 104,345,207	1.4%	0.7%	0.7%
3) 500M - 1B	\$ 230,055,592	3.2%	1.9%	1.2%
4) 1B - 5B	\$ 1,373,580,181	18.9%	15.0%	3.8%
5) 5B - 10B	\$ 954,693,260	13.1%	12.1%	1.0%
6) 10B - 50B	\$ 2,600,923,948	35.7%	35.8%	(0.1%)
7) >50B	\$ 2,011,719,935	27.6%	34.4%	(6.7%)
GRAND TOTAL	\$ 7,278,342,829	100.0%	100.0%	100.0%

**Excludes cash and non-traded securities

*Blended NON-US BM: 61% MSCI EAFE, 26% MSCI EM, 13% MSCI Sml Cap.

ARIZONA STATE RETIREMENT SYSTEM

TOTAL FIXED INCOME EXPOSURE OVERVIEW

As of June 30, 2014

Sector (Public Fixed Income Only)	\$ Value	% Value	*Blended FI BM	Difference
GOVERNMENT	\$ 1,654,213,884	34.9%	40.6%	(5.7%)
MORTGAGE SECURITIES	\$ 887,819,999	18.8%	19.9%	(1.1%)
FINANCIAL	\$ 369,595,056	7.8%	8.6%	(0.8%)
COMMUNICATIONS	\$ 320,492,037	6.8%	5.5%	1.3%
CONSUMER NON-CYCLICAL	\$ 303,883,436	6.4%	5.4%	1.0%
CASH	\$ 289,251,930	6.1%	0.0%	6.1%
ENERGY	\$ 261,462,535	5.5%	6.6%	(1.1%)
CONSUMER CYCLICAL	\$ 189,054,805	4.0%	3.6%	0.4%
INDUSTRIAL	\$ 155,067,557	3.3%	3.2%	0.1%
TECHNOLOGY	\$ 82,130,774	1.7%	1.4%	0.3%
UTILITIES	\$ 81,251,186	1.7%	2.2%	(0.5%)
BASIC MATERIALS	\$ 69,041,353	1.5%	2.4%	(0.9%)
INDEX	\$ 29,240,830	0.6%	0.0%	0.6%
BANK LOANS	\$ 15,904,820	0.3%	0.0%	0.3%
ASSET BACKED SECURITIES	\$ 8,938,291	0.2%	0.3%	(0.1%)
FUNDS	\$ 7,183,580	0.2%	0.0%	0.2%
DIVERSIFIED	\$ 5,748,973	0.1%	0.2%	(0.1%)
FX	\$ 3,243,094	0.1%	0.0%	0.1%
FIXED INCOME	\$ 995,453	0.0%	0.0%	0.0%
SWAP	\$ (62,235)	(0.0%)	0.0%	(0.0%)
GRAND TOTAL	\$ 4,734,457,357	100.0%	100.0%	0.0%

Top 20 Industry Groups (Public Fixed Income Only)	\$ Value	% Value	*Blended FI BM	Difference
1 SOVEREIGN	\$ 1,577,512,874	33.3%	38.7%	(5.3%)
2 FNMA COLLATERAL	\$ 621,027,299	13.1%	8.7%	4.4%
3 Cash	\$ 289,251,930	6.1%	0.0%	6.1%
4 TELECOMMUNICATIONS	\$ 188,364,022	4.0%	3.2%	0.8%
5 OIL&GAS	\$ 186,398,681	3.9%	4.9%	(0.9%)
6 BANKS	\$ 153,212,140	3.2%	4.9%	(1.7%)
7 FGLMC COLLATERAL	\$ 124,968,265	2.6%	5.1%	(2.4%)
8 DIVERSIFIED FINAN SERV	\$ 121,547,222	2.6%	2.2%	0.3%
9 MEDIA	\$ 113,095,121	2.4%	2.0%	0.4%
10 HEALTHCARE-SERVICES	\$ 81,459,469	1.7%	1.1%	0.6%
11 ELECTRIC	\$ 80,324,275	1.7%	2.1%	(0.4%)
12 COMMERCIAL MBS	\$ 73,539,056	1.6%	1.1%	0.5%
13 RETAIL	\$ 66,245,985	1.4%	1.3%	0.1%
14 COMMERCIAL SERVICES	\$ 56,013,514	1.2%	0.9%	0.3%
15 PIPELINES	\$ 53,387,753	1.1%	1.2%	(0.1%)
16 SOFTWARE	\$ 50,742,163	1.1%	0.6%	0.4%
17 NONE	\$ 49,515,084	1.0%	0.0%	1.0%
18 PHARMACEUTICALS	\$ 48,207,794	1.0%	1.0%	0.0%
19 MUNICIPAL	\$ 45,135,002	1.0%	0.6%	0.3%
20 INSURANCE	\$ 44,414,668	0.9%	0.8%	0.2%

Credit Rating Group** (Public Fixed Income Only)	\$ Value	% Value	*Blended FI BM	Difference
01) AAA	\$ 2,204,590,047	46.6%	47.1%	(0.6%)
02) AA	\$ 155,477,446	3.3%	3.8%	(0.5%)
03) A	\$ 518,377,312	10.9%	9.5%	1.5%
04) BBB	\$ 626,915,802	13.2%	14.8%	(1.5%)
05) BB	\$ 516,227,768	10.9%	12.1%	(1.2%)
06) B	\$ 463,419,485	9.8%	9.1%	0.7%
07) CCC	\$ 158,494,793	3.3%	3.0%	0.3%
08) CC	\$ -	0.0%	0.0%	(0.0%)
09) C	\$ 87,798	0.0%	0.0%	(0.0%)
10) D	\$ -	0.0%	0.0%	0.0%
11) Not Rated	\$ 90,866,905	1.9%	0.6%	1.3%
GRAND TOTAL	\$ 4,734,457,357	100.0%	100.0%	0.0%

Maturity Bucket (Public Fixed Income Only)	\$ Value	% Value	*Blended FI BM	Difference
0-1Y	\$ 431,762,422	9.2%	0.3%	8.9%
1Y-3Y	\$ 600,604,752	12.8%	18.5%	(5.7%)
3Y-5Y	\$ 691,646,199	14.7%	16.6%	(1.9%)
5Y-10Y	\$ 1,657,365,020	35.3%	30.4%	4.9%
10Y-15Y	\$ 200,004,444	4.3%	6.0%	(1.7%)
15Y+	\$ 1,116,408,555	23.8%	28.3%	(4.5%)
GRAND TOTAL	\$ 4,697,791,392	100.0%	100.0%	100.0%

*Blended TOTAL BM: 66% BC US AGG, 19% BC US HY, 15% JPM EMBI.

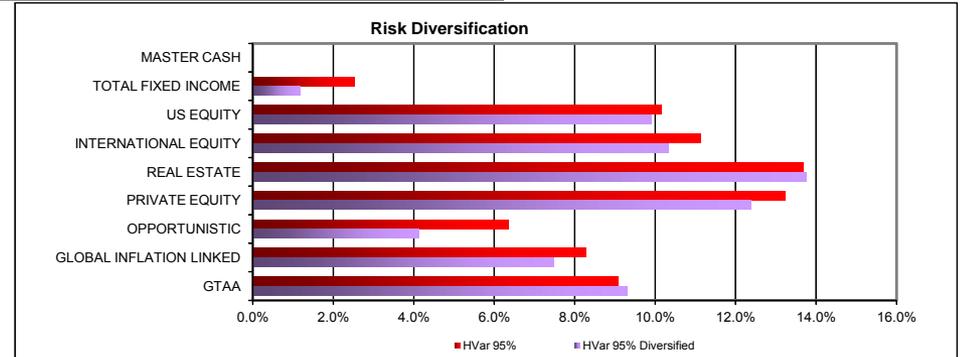
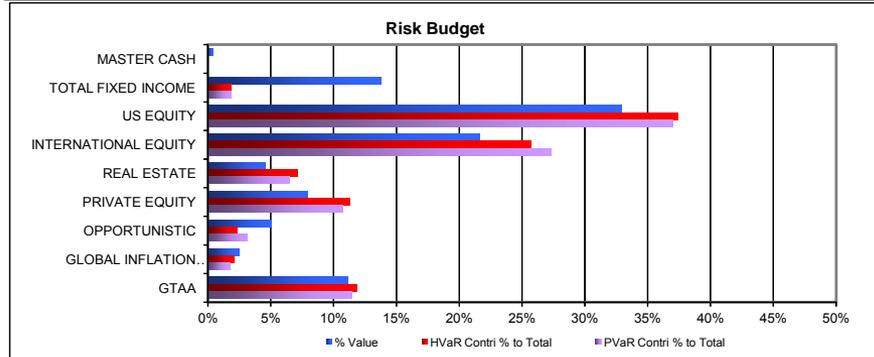
ARIZONA STATE RETIREMENT SYSTEM
As of June 30, 2014

TOTAL PLAN RISK OVERVIEW

Strategy	\$ Value	% Value	Historical VaR 95%	HVaR Contri 95%	HVaR Contri % to Total	Parametric VaR 95%	PVaR Contri 95%	PVaR Contri % to Total	Exp Tail Loss 95%	Exp Tail Loss Contri 95%	Exp Tail Loss Contri % to Total	Max Loss	Std Dev	Downside Risk (8%)	Downside Risk Contri (8%)	Downside Risk Contri (8%) to Total
MONTHLY RISK																
MASTER CASH	\$ 146,781,061	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	(0.6%)	(0.0%)	0.0%
TOTAL FIXED INCOME	\$ 4,734,457,357	14%	(2.5%)	(0.2%)	1.9%	(2.1%)	(0.2%)	1.9%	(3.7%)	(0.2%)	1.7%	(5.5%)	1.3%	(1.4%)	(0.1%)	2.1%
US EQUITY	\$ 11,265,515,431	33%	(10.2%)	(3.3%)	37.4%	(9.1%)	(2.9%)	37.0%	(16.4%)	(5.3%)	37.8%	(30.7%)	6.4%	(4.8%)	(1.5%)	37.0%
INTERNATIONAL EQUITY	\$ 7,409,975,788	22%	(11.1%)	(2.2%)	25.7%	(10.4%)	(2.2%)	27.3%	(17.0%)	(3.6%)	25.9%	(37.2%)	7.1%	(5.1%)	(1.1%)	26.5%
REAL ESTATE	\$ 1,561,925,922	5%	(13.7%)	(0.6%)	7.2%	(12.1%)	(0.5%)	6.5%	(21.4%)	(0.9%)	6.4%	(39.5%)	7.9%	(6.0%)	(0.3%)	6.4%
PRIVATE EQUITY	\$ 2,726,823,431	8%	(13.3%)	(1.0%)	11.3%	(11.3%)	(0.9%)	10.8%	(19.9%)	(1.6%)	11.1%	(36.3%)	7.4%	(5.7%)	(0.4%)	10.9%
OPPORTUNISTIC	\$ 1,730,472,873	5%	(6.4%)	(0.2%)	2.4%	(5.5%)	(0.3%)	3.2%	(10.9%)	(0.5%)	3.7%	(21.7%)	3.8%	(3.1%)	(0.1%)	3.4%
GLOBAL INFLATION LINKED	\$ 849,096,467	2%	(8.3%)	(0.2%)	2.1%	(8.0%)	(0.1%)	2.8%	(13.1%)	(0.3%)	1.9%	(26.9%)	5.1%	(4.1%)	(0.1%)	1.9%
GTAA	\$ 3,812,586,243	11%	(9.1%)	(1.0%)	11.9%	(8.3%)	(0.9%)	11.5%	(14.6%)	(1.6%)	11.5%	(30.8%)	5.4%	(4.3%)	(0.5%)	11.8%
GRAND TOTAL	\$ 34,237,634,574	100%	(8.7%)	(8.7%)	100.0%	(7.9%)	(7.9%)	100.0%	(14.0%)	(14.0%)	100.0%	(28.8%)	5.4%	(4.1%)	(4.1%)	100.0%
INTERIM POLICY BENCHMARK			(7.8%)			(7.2%)			(12.4%)			(25.7%)	6.4%	(3.7%)		

ANNUALIZED RISK																
MASTER CASH	\$ 146,781,061	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	N/A	0.0%	(2.2%)	(0.0%)	0.0%
TOTAL FIXED INCOME	\$ 4,734,457,357	14%	(8.8%)	(0.6%)	1.9%	(7.4%)	(0.5%)	1.9%	(12.7%)	(0.8%)	1.7%	N/A	4.4%	(4.8%)	(0.3%)	2.1%
US EQUITY	\$ 11,265,515,431	33%	(35.2%)	(11.3%)	37.4%	(31.6%)	(10.2%)	37.0%	(58.8%)	(18.3%)	37.8%	N/A	22.0%	(16.0%)	(5.2%)	37.0%
INTERNATIONAL EQUITY	\$ 7,409,975,788	22%	(38.6%)	(7.8%)	25.7%	(36.1%)	(7.5%)	27.3%	(58.8%)	(12.5%)	25.9%	N/A	24.5%	(17.5%)	(3.7%)	26.5%
REAL ESTATE	\$ 1,561,925,922	5%	(47.5%)	(2.2%)	7.2%	(42.0%)	(1.8%)	6.5%	(74.1%)	(3.1%)	6.4%	N/A	27.3%	(20.7%)	(0.9%)	6.4%
PRIVATE EQUITY	\$ 2,726,823,431	8%	(45.9%)	(3.4%)	11.3%	(39.2%)	(3.0%)	10.8%	(68.8%)	(5.4%)	11.1%	N/A	25.8%	(19.7%)	(1.5%)	10.9%
OPPORTUNISTIC	\$ 1,730,472,873	5%	(22.0%)	(0.7%)	2.4%	(19.0%)	(0.9%)	3.2%	(37.8%)	(1.8%)	3.7%	N/A	13.1%	(10.6%)	(0.5%)	3.4%
GLOBAL INFLATION LINKED	\$ 849,096,467	2%	(28.7%)	(0.6%)	2.1%	(27.8%)	(0.5%)	1.8%	(45.5%)	(0.9%)	1.9%	N/A	17.8%	(14.1%)	(0.3%)	1.9%
GTAA	\$ 3,812,586,243	11%	(31.5%)	(3.6%)	11.9%	(28.8%)	(3.2%)	11.5%	(50.6%)	(5.6%)	11.5%	N/A	18.8%	(15.0%)	(1.7%)	11.8%
GRAND TOTAL	\$ 34,237,634,574	100%	(30.2%)	(30.2%)	100.0%	(27.5%)	(27.5%)	100.0%	(48.4%)	(48.4%)	100.0%	N/A	18.7%	(14.1%)	(14.1%)	100.0%
INTERIM POLICY BENCHMARK			(27.1%)			(25.0%)			(43.1%)			N/A	22.0%	(12.7%)		

Strategy	\$ Value	% Value	Beta SP500	Corr SP500	Beta MSCI EAFE	Corr MSCI EAFE	Duration	Convexity	Notional Exposure	Gross Exposure	Gross Leverage
MASTER CASH	\$ 146,781,061	0%	0.00		0.00				\$ 146,781,061	\$ 146,781,061	100.0%
TOTAL FIXED INCOME	\$ 4,734,457,357	14%	0.09	0.41	0.10	0.52	4.69	(0.035)	\$ 4,425,958,777	\$ 5,224,549,013	110.4%
US EQUITY	\$ 11,265,515,431	33%	1.09	0.99	0.84	0.91	0.37	0.001	\$ 11,386,461,500	\$ 11,267,377,973	100.0%
INTERNATIONAL EQUITY	\$ 7,409,975,788	22%	1.11	0.90	1.03	0.98	0.01	0.000	\$ 7,410,511,814	\$ 7,440,949,109	100.4%
REAL ESTATE	\$ 1,561,925,922	5%	1.23	0.89	1.05	0.90			\$ 1,561,925,922	\$ 1,561,928,389	100.0%
PRIVATE EQUITY	\$ 2,726,823,431	8%	1.25	0.96	0.95	0.86			\$ 2,726,823,431	\$ 2,726,823,431	100.0%
OPPORTUNISTIC	\$ 1,730,472,873	5%	0.59	0.89	0.48	0.85	(0.75)	(0.125)	\$ 1,753,210,803	\$ 1,730,472,873	100.0%
GLOBAL INFLATION LINKED	\$ 849,096,467	2%	0.30	0.67	0.26	0.69	0.17	0.000	\$ 1,711,601,708	\$ 849,096,467	100.0%
GTAA	\$ 3,812,586,243	11%	0.55	0.97	0.46	0.97	5.24	(0.314)	\$ 8,068,329,335	\$ 7,875,223,975	206.6%
GRAND TOTAL	\$ 34,237,634,574	100%	0.83	0.97	0.69	0.96	4.08	(0.058)	\$ 39,191,604,353	\$ 38,823,202,293	113.4%

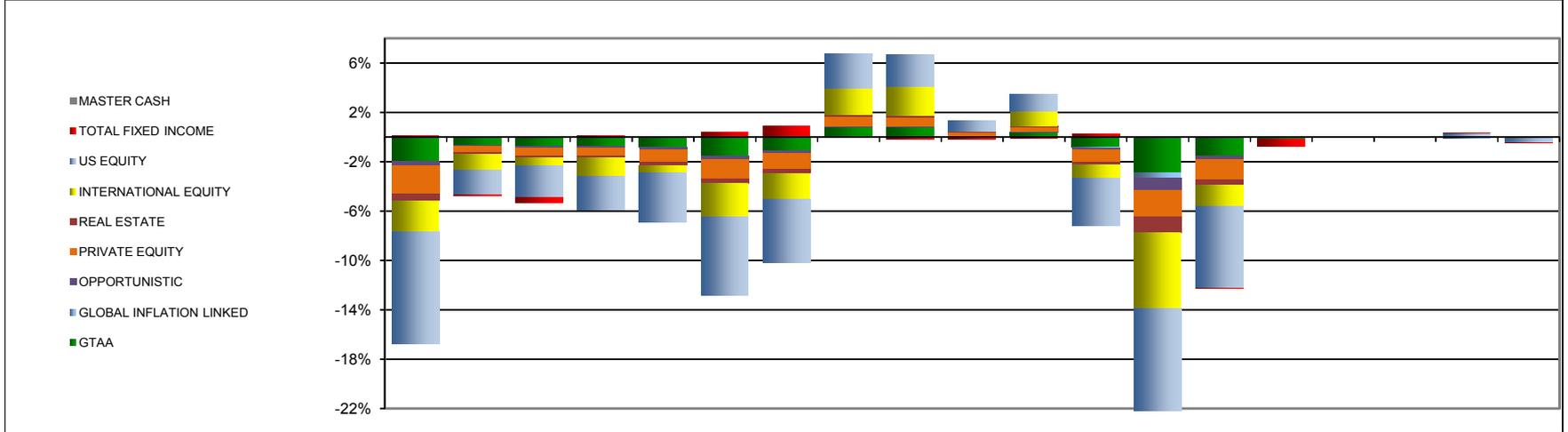


ARIZONA STATE RETIREMENT SYSTEM
As of June 30, 2014

TOTAL PLAN STRESS TESTS

Strategy	\$ Value	% Value	Historical Scenarios														Predictive Scenarios					
			Black Monday - 5 Day	Gulf War - 5 Day	Bond Crisis: Feb 94 - May 94	Asian Crisis 97-98 - 5 day	Russian Crisis - 5 Day	Nasdaq Correction: July 98 - Aug 98	Russian Debt Crisis: Oct	IR Steepening: Sept 98 - Nov 98	Emerging Markets Rally: Jan 99 - May 99	Fed Tightening: April - June 99	Nasdaq Rally: Nov 99 - Jan 00	9/11 Attack - 5 Day	09-10-2008	S&P 500 -20%	IR Parallel Shift +100bps	Spread Up 10%	Inflation +1%	Gold Shock -20%	Oil Shock -20%	
Stress Test Stand Alone																						
MASTER CASH	\$ 146,781,061	0.4%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
TOTAL FIXED INCOME	\$ 4,734,457,357	13.8%	1.0	(0.6)	(3.5)	1.0	0.6	2.6	6.7	(0.7)	(1.7)	(0.8)	(1.1)	1.6	(4.5)	(0.1)	(4.5)	0.0	0.4	0.0	(0.0)	
US EQUITY	\$ 11,265,515,431	32.9%	(27.6)	(6.1)	(7.8)	(8.3)	(12.2)	(19.4)	(15.7)	8.6	7.9	2.8	4.2	(11.8)	(26.7)	(20.3)	0.0	0.0	0.0	0.7	(1.1)	
INTERNATIONAL EQUITY	\$ 7,409,975,788	21.6%	(11.6)	(6.0)	(2.9)	(6.6)	(2.9)	(12.2)	(9.7)	9.6	10.8	(0.3)	5.6	(4.9)	(28.6)	(8.0)	0.0	0.0	(0.0)	0.3	0.2	
REAL ESTATE	\$ 1,561,925,922	4.6%	(12.3)	(2.7)	(3.5)	(3.7)	(5.4)	(8.6)	(7.0)	3.9	3.5	1.3	1.9	(5.2)	(28.2)	(9.0)	0.0	0.0	0.0	0.0	0.0	
PRIVATE EQUITY	\$ 2,726,823,431	8.0%	(28.8)	(6.4)	(8.2)	(8.7)	(12.8)	(20.3)	(16.4)	9.1	8.3	3.0	4.4	(12.3)	(27.0)	(21.2)	0.0	0.0	0.0	0.0	(0.0)	
OPPORTUNISTIC	\$ 1,730,472,873	5.1%	(7.6)	(1.7)	(2.1)	(2.3)	(3.4)	(5.4)	(4.4)	2.4	2.2	0.8	1.2	(3.3)	(19.6)	(5.6)	0.0	0.0	(0.0)	0.0	0.0	
GLOBAL INFLATION LINKED	\$ 849,096,467	2.5%	(0.0)	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.2)	(0.0)	0.0	0.0	0.0	(0.0)	(16.9)	0.0	0.1	0.0	(0.0)	(4.9)	(3.4)	
GTAA	\$ 3,812,586,243	11.1%	(17.3)	(5.9)	(6.8)	(6.5)	(7.5)	(13.4)	(9.8)	7.2	7.3	0.7	3.5	(7.6)	(25.8)	(13.4)	(1.8)	0.0	0.1	(0.3)	(0.5)	
GRAND TOTAL	\$ 34,237,634,574	100.0%	(16.6)	(4.7)	(5.3)	(5.8)	(6.8)	(12.5)	(9.3)	6.6	6.5	1.2	3.3	(6.9)	(23.3)	(12.3)	(0.8)	0.0	0.1	0.1	(0.5)	
INTERIM POLICY BENCHMARK			(15.0)	(4.4)	(6.2)	(5.5)	(6.0)	(11.8)	(7.7)	6.7	6.5	1.0	3.1	(6.1)	(20.7)	(11.0)	(1.4)	0.0	0.1	0.0	(0.7)	

Stress Test Contribution																						
MASTER CASH	\$ 146,781,061	0.4%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
TOTAL FIXED INCOME	\$ 4,734,457,357	13.8%	0.1	(0.1)	(0.5)	0.1	0.1	0.4	0.9	(0.1)	(0.2)	(0.1)	(0.2)	0.2	(0.6)	(0.0)	(0.6)	0.0	0.1	0.0	(0.0)	
US EQUITY	\$ 11,265,515,431	32.9%	(9.1)	(2.0)	(2.6)	(2.7)	(4.0)	(6.4)	(5.1)	2.8	2.6	0.9	1.4	(3.9)	(8.8)	(6.7)	0.0	0.0	0.0	0.2	(0.4)	
INTERNATIONAL EQUITY	\$ 7,409,975,788	21.6%	(2.5)	(1.3)	(0.6)	(1.4)	(0.6)	(2.6)	(2.1)	2.1	2.3	(0.1)	1.2	(1.1)	(6.2)	(1.7)	0.0	0.0	(0.0)	0.1	0.0	
REAL ESTATE	\$ 1,561,925,922	4.6%	(0.6)	(0.1)	(0.2)	(0.2)	(0.2)	(0.4)	(0.3)	0.2	0.2	0.1	0.1	(0.2)	(1.3)	(0.4)	0.0	0.0	0.0	0.0	0.0	
PRIVATE EQUITY	\$ 2,726,823,431	8.0%	(2.3)	(0.5)	(0.7)	(0.7)	(1.0)	(1.6)	(1.3)	0.7	0.7	0.2	0.3	(1.0)	(2.2)	(1.7)	0.0	0.0	0.0	0.0	(0.0)	
OPPORTUNISTIC	\$ 1,730,472,873	5.1%	(0.4)	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)	(0.2)	0.1	0.1	0.0	0.1	(0.2)	(1.0)	(0.3)	0.0	0.0	(0.0)	0.0	0.0	
GLOBAL INFLATION LINKED	\$ 849,096,467	2.5%	(0.0)	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0	(0.0)	(0.4)	0.0	0.0	0.0	(0.0)	(0.1)	(0.1)	
GTAA	\$ 3,812,586,243	11.1%	(1.9)	(0.7)	(0.8)	(0.7)	(0.8)	(1.5)	(1.1)	0.8	0.8	0.1	0.4	(0.8)	(2.9)	(1.5)	(0.2)	0.0	0.0	(0.0)	(0.1)	
GRAND TOTAL	\$ 34,237,634,574	100.0%	(16.6)	(4.7)	(5.3)	(5.8)	(6.8)	(12.5)	(9.3)	6.6	6.5	1.2	3.3	(6.9)	(23.3)	(12.3)	(0.8)	0.0	0.1	0.1	(0.5)	
INTERIM POLICY BENCHMARK			(15.0)	(4.4)	(6.2)	(5.5)	(6.0)	(11.8)	(7.7)	6.7	6.5	1.0	3.1	(6.1)	(20.7)	(11.0)	(1.4)	0.0	0.1	0.0	(0.7)	



GLOSSARY	DEFINITION	INTERPRETATION
Historical VaR 95%	A risk metric that is derived from a full revaluation historical simulation of the risk factors impacting a portfolio, <u>making no assumption of the tail distribution</u> , and reporting the largest loss likely to be suffered over a holding period (1Month for ASRS) 5 times out of 100, or 1 month out of 20	Value at Risk is a number, measured in price units or as percentage of portfolio value, which tells you that in a defined large percentage of cases (usually 95% or 99%) your portfolio is likely to not lose more than that amount of money. Or said the other way around, in a defined small percentage of cases (5% or 1%) your loss is expected to be greater than that number.
HVaR Contri 95%	This is the decomposition of the VaR, making it an additive measure, showing positive values where risk is decreased and correlations are negative.	
HVaR Contri % to Total	This is the VaR contribution displayed in percent.	
Parametric VaR 95%	A risk metric that is derived from a full revaluation historical simulation of the risk factors impacting a portfolio, <u>making a Normal distribution assumption of the tail distribution</u> , and reporting the largest loss likely to be suffered over a holding period (1Month for ASRS) 5 times out of 100, or 1 month out of 20.	Value at Risk is a number, measured in price units or as percentage of portfolio value, which tells you that in a defined large percentage of cases (usually 95% or 99%) your portfolio is likely to not lose more than that amount of money. Or said the other way around, in a defined small percentage of cases (5% or 1%) your loss is expected to be greater than that number.
PVaR Contri 95%	This is the decomposition of the VaR, making it an additive measure, showing positive values where risk is decreased and correlations are negative.	
PVaR Contri % to Total	This is the VaR contribution displayed in percent.	
Exp Tail Loss 95%	Also known as Conditional VaR or ETL, it is derived by taking a weighted average between the VaR and losses exceeding the VaR. If VaR is reported at 95.0%, then ETL will average the losses between 95.1% to 99.9%. It is a risk measure that assesses the risk beyond VaR and into the tail end of the distribution of loss.	A measure that produces better incentives for traders than VaR is expected shortfall. This is also sometimes referred to as Conditional VaR, or tail loss. <u>Where VaR asks the question 'how bad can things get?', expected shortfall asks 'if things do get bad, what is our expected loss?'</u>
Exp Tail Loss Contri 95%	This is the decomposition of the ETL making it an additive measure, showing positive values where risk is decreased and correlations are negative.	
Exp Tail Loss Contri % to Total	This is the ETL contribution displayed in percent.	
Max Loss	The maximum projected loss.	
Downside Risk (8.7%)	A risk metric that distinguishes between "good" and "bad" returns by assigning risk only to those returns below a return specified by an investor. Downside risk is considered a more effective risk measure than standard deviation (volatility) for two important reasons: 1) it is investor specific, and 2) it identifies return distributions that have higher probabilities for negative ("left tail") market events. Downside risk is also referred to as downside deviation or target semi-deviation.	A 5 % downside risk with an 8.7% MAR means that the conditional average underperformance (below 8.7% annual) is 5%, adjusted for a positive skew (greater than the MAR). Effectively, downside risk amplifies a big loss (by squaring the distance of that loss to the target) and smoothes out the risk measure by taking into account the gains setting them up to be equal to the target MAR.
Downside Risk Contri (8.7%)	This is the decomposition of the downside risk, making it an additive measure, showing positive values where risk is decreased and correlations are negative.	
Downside Risk Contri (8.7%) to Total	This is the downside risk contribution displayed in percent.	

Securities Lending Risk Metrics

	2 – Year Swap Spread (bps)	S&P/ISDA U.S. Financials Select 10 Index	5-Year Financial OAS (bps)	TED Spread (bps)	CBOE VIX Index (vol)	Windham Systemic Risk	Windham Turbulence
7/31/2014	20	59	95	22	17	Low	Low
6/30/2014	13	53	96	21	12	Low	Low
5/31/2014	14	54	99	20	11	Low	Low
4/30/2014	12	56	99	20	13	Low	Low
3/31/2014	13	61	103	20	14	Low	Low
2/28/2014	13	60	104	19	14	Low	Low
1/31/2014	13	71	111	22	18	Low	Low
12/31/2013	11	60	109	18	14	Low	Low
11/30/2013	9	68	118	18	14	Low	Low
10/31/2013	12	79	125	21	14	Low	Moderate
9/30/2013	14	90	139	24	17	Low	Moderate
8/31/2013	16	89	142	24	17	Low	High
7/31/2013	17	91	142	23	13	Low	High
6/30/2013	16	106	158	24	17	Low	High
5/31/2013	16	84	134	25	16	Low	Moderate
4/30/2013	14	91	137	23	14	Low	Moderate
3/31/2013	18	101	142	21	13	Low	Low
2/28/2013	15	99	141	18	16	Low	Low
1/31/2013	17	101	146	23	14	Low	Low
12/31/2012	14	116	155	27	18	Low	Low
11/30/2012	12	126	163	23	16	Low	Moderate
10/31/2012	10	130	158	21	19	Low	Moderate
9/30/2012	13	142	179	27	16	Low	Moderate
8/31/2012	18	164	206	35	17	Low	High
7/31/2012	20	179	223	35	19	Low	High
6/30/2012	25	191	253	38	17	Low	Moderate
5/31/2012	35	221	272	40	24	Low	Moderate
4/30/2012	29	179	239	37	17	Low	Moderate
3/31/2012	25	158	227	40	16	Low	Moderate
2/29/2012	26	171	245	41	18	Low	Moderate
1/31/2012	30	186	278	49	19	High	Moderate
12/31/2011	48	248	337	57	23	High	Moderate
11/30/2011	42	263	349	53	28	High	Moderate
10/31/2011	33	219	281	44	30	High	Moderate
9/30/2011	33	268	332	35	43	High	Moderate

RISK FACTORS		Green	Yellow	Red
1	2 – Year Swap Spread	< 40 bps	40 - 60 bps	> 60 bps
2	S&P/ISDA US Financial Select 10	< 100 bps	100 - 200 bps	> 200 bps
3	5-Year Financial OAS	< 125 bps	125 - 200 bps	> 200 bps
4	TED Spread	< 50 bps	50 - 100 bps	> 100 bps
5	CBOE VIX Index	< 25 Vol	25 - 35 Vol	> 35 Vol
6	Windham Systemic Risk	Low	n/a	High
7	Windham Turbulence	Low	Moderate	High

LEGEND

2 – Year Swap Spread	The spread paid by the fixed-rate payer of an interest rate swap over the rate of the 2-year Treasury. The reported 2-year swap spread from Bloomberg is a composite price - calculated average of best bid/ask pricing.
S&P/ISDA US Financial Select 10	The S&P/ISDA US Financial Select 10 tracks major domestic financial 5-year CDS rates. The Index uses an average weighting methodology of the current liquid, "on the run" active contract.
5-Year Financial OAS	The Barclay's U.S. Aggregate Financial Average Option Adjusted Spread; the option adjusted investment grade financial corporate bond spread over 5-year Treasury bonds.
TED Spread	The TED Spread is calculated as the difference between three-month LIBOR expressed in USD and the corresponding yield on 3-month Treasury Bills, expressed in basis points.
CBOE VIX Index	The Chicago Board Options Exchange VIX Index measures the weighted average implied volatility of the S&P 500 using call and put prices over the front two months with a wide range of strike prices.
Windham Systemic Risk	Windham Capital's proprietary measure of the extent to which markets are unified or tightly coupled, called the absorption ratio. When markets are tightly coupled, they are more fragile and negative shocks propagate more quickly and broadly than when markets are loosely linked. Windham reports Systemic Risk as High or Low; there is no Moderate designation for Systemic Risk.
Windham Turbulence	Windham Capital's proprietary measure of the statistical unusualness of a set of returns given their historical pattern of behavior; including extreme price moves, decoupling of correlated assets and convergence of uncorrelated assets. Windham reports Turbulence as High, Moderate, or Low.

Agenda Item

#10



NEPC, LLC

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

From: Mr. Allan Martin, Partner, Consultant, NEPC
Mr. Dan LeBeau, Consultant, NEPC

Date: August 18, 2014

Subject: Agenda Item #10: Presentation, Discussion and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight of the ASRS Investment Program – Includes Total Fund Q2-14

Purpose

To present and discuss information regarding the independent reporting, monitoring and oversight of the ASRS Investment Program.

Recommendation

Informational only; no action required.

Background

NEPC is responsible for providing an independent reporting, monitoring and oversight function from the Investment Program information which is presented by the CIO and IMD.

As a result, NEPC has developed reports for both the Investment Committee and Board designed to 1) provide the appropriate level of investment information for the purposes of independent oversight (ASRS SAAP compliance, Asset Class Committee minutes review, investment selection due diligence packet compliance, etc.); 2) provide ASRS investment program performance relative to its goals/objectives (presented quarterly); and 3) communicate NEPC's perspectives on the market environment, investment outlook or other initiatives or topics they believe are important to convey to the Board.

As of June 30, 2014 the Total Fund's market value was approximately \$34.6 billion.

For the one-year period ending June 30, 2014, the Total Fund returned 18.6% (net of fees), outperforming the Interim SAA Policy by 0.8%. For the three-year period, the Total Fund produced a return of 10.8% per annum, outperforming the Interim SAA Policy by 0.4%. Over the past ten years, the Total Fund has returned 7.5% per annum, and since inception, the portfolio's performance is 10.1%.

NEPC will provide a review of Total Fund performance and an independent assessment of the ASRS investment program.

Attachments:

- NEPC's Independent Reporting, Monitoring and Oversight reports

Arizona State Retirement System

Independent ASRS Investment Program Oversight for the Period Ending June 30, 2014

August 22, 2014

Allan Martin, Partner, NEPC
Dan LeBeau, Consultant, NEPC



- ASRS Investment Objectives/Performance
- Independent Oversight/Compliance
 - SAA Policy Compliance
 - Total Fund and Asset Class Analysis
 - Asset Class Committee Monitoring
- Market Environment Update and Outlook
- Appendix: SAA Policy History

ASRS Investment Objectives/Performance

Note: All of the data shown on the following pages is as of June 30, 2014 and reflects the deduction of investment manager fees, unless otherwise noted.



Macro

- Objective #1: Achieve a twenty-year rolling annual total fund net rate of return equal to or greater than the actuarial assumed interest rate.
- Objective #2: Achieve one- and three-year rolling annual total fund net rates of return equal to or greater than the return of the ASRS Strategic Asset Allocation Policy (SAAP) Benchmark.
- Objective #3: Achieve one- and three-year rolling annual net rates of return for ASRS strategic asset classes that are equal to or greater than their respective strategic asset class benchmarks.
- Objective #4: Ensure sufficient monies are available to meet pension benefits, health insurance, member refunds, administrative payments, and other cash flow requirements.

Micro

Source: ASRS Strategic Plan, March 2013

- Objective #1: Achieve a twenty-year rolling annual total fund net rate of return equal to or greater than the actuarial assumed interest rate.

	<u>20 Year Annualized Return</u>
Total Fund	8.9%
Constant 8%	<u>8.0%</u>
Excess Return	0.9%

Goal Met: Yes

Total Fund Performance

- Objective #2: Achieve one- and three-year rolling annual total fund net rates of return equal to or greater than the return of the ASRS Strategic Asset Allocation Policy (SAAP) Benchmark.

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	3.9%	18.6%	10.8%	14.2%	7.5%	10.1%
Interim SAA Policy¹	3.5%	17.8%	10.4%	13.6%	7.2%	9.8%
Excess Return	0.4%	0.8%	0.4%	0.6%	0.3%	0.3%

1 Year Goal Met: Yes
3 Year Goal Met: Yes

¹Composition of SAA Policy can be found in the appendix.

Arizona State Retirement System
Total Fund Attribution Analysis

Total Plan	1 Year	3 Years	5 Years
Allocation Effect ¹	0.85%	0.39%	0.37%
Manager Selection Effect ²	-0.37%	0.02%	0.08%
Interaction Effect ³	0.31%	0.09%	0.29%
Residual ⁴	0.00%	-0.09%	-0.11%
Excess Return	0.79%	0.41%	0.63%

The Brinson-Fachler Attribution model explains excess return by identifying the size of contributors or detractors from excess return based on the three effects defined below:

1. Allocation Effect: Measures the impact of the decision to over/under weight assets classes relative to Interim SAAP weights. (Return Asset Class Index – Total Interim Policy Index Return) × (Weight Asset Class Portfolio – Weight Asset Class Interim Policy Index)

2. Manager Selection Effect: Measures the impact of over/under performance of asset classes in the portfolio relative to the asset class benchmarks in the Interim SAAP benchmark. [Weight Asset Class Benchmark × (Return Portfolio Asset Class – Return Asset Class in Interim Policy Index)]

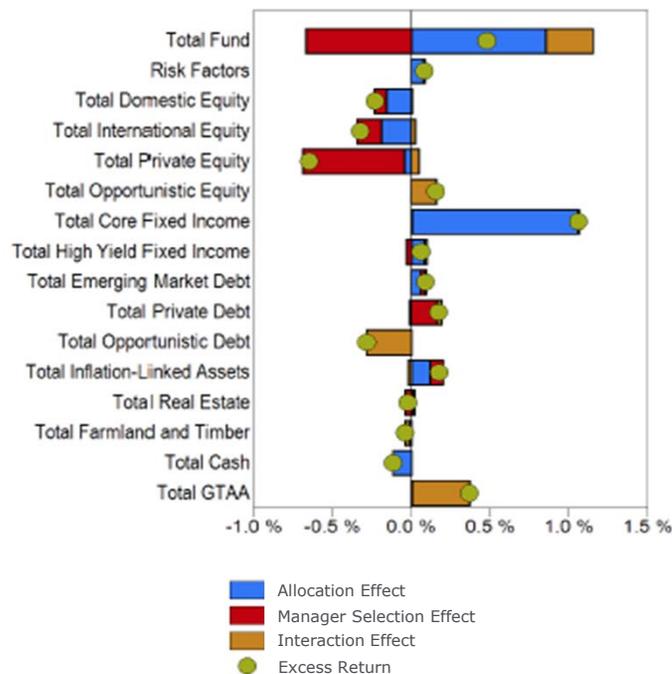
3. Interaction Effect: Measures the impact of over/under weighting decisions and over/under performance. (Return Asset Class Portfolio (Weight Asset Class Portfolio – Weight Asset Class Policy Index)) – (Return Asset Class Index (Weight Asset Class Portfolio – Weight Asset Class Index))

4. Residual: Contribution to excess return not captured in Allocation Effect, Manager Selection Effect and Interaction Effect.

Arizona State Retirement System

Total Fund Attribution Detail

Attribution Effects
1 Year Ending June 30, 2014



1 Year Excess Return: +0.79%

- Allocation Effect: +0.85%
 - Public Markets Fixed Income tactical underweight (+1.20%)
 - Commodities tactical underweight (+0.12%)
 - International Equity tactical underweight (-0.19%)
 - Domestic Equity tactical underweight (-0.16%)
- Manager Selection Effect: -0.37%
 - Private Equity underperformed due to various managers (-0.46%)
 - International Equity underperformed due to small cap managers (-0.15%)
 - Private Debt outperformed due to various managers (+0.18%)
- Interaction Effect: +0.31%
 - GTAA outperformed due to Bridgewater (+0.36%)
 - Opportunistic Equity outperformed due to various managers (+0.15%)
 - Opportunistic Debt underperformed due to various managers (-0.25%)
- Residual: 0.00%

The Brinson-Fachler Attribution model explains excess return by identifying the size of contributors or detractors from excess return based on the three effects defined below:

Allocation Effect: Measures the impact of the decision to over/under weight assets classes relative to Interim SAAP benchmark weights. $(\text{Return Asset Class Index} - \text{Total Interim Policy Index Return}) \times (\text{Weight Asset Class Portfolio} - \text{Weight Asset Class Interim Policy Index})$

Manager Selection Effect: Measures the impact of over/under performance of asset classes in the portfolio relative to the asset class benchmarks in the Interim SAAP benchmark. $[\text{Weight Asset Class Benchmark} \times (\text{Return Portfolio Asset Class} - \text{Return Asset Class in Interim Policy Index})]$

Interaction Effect: Measures the impact of over/under weighting decisions and over/under performance. $(\text{Return Asset Class Portfolio} (\text{Weight Asset Class Portfolio} - \text{Weight Asset Class Policy Index})) - (\text{Return Asset Class Index} (\text{Weight Asset Class Portfolio} - \text{Weight Asset Class Index}))$

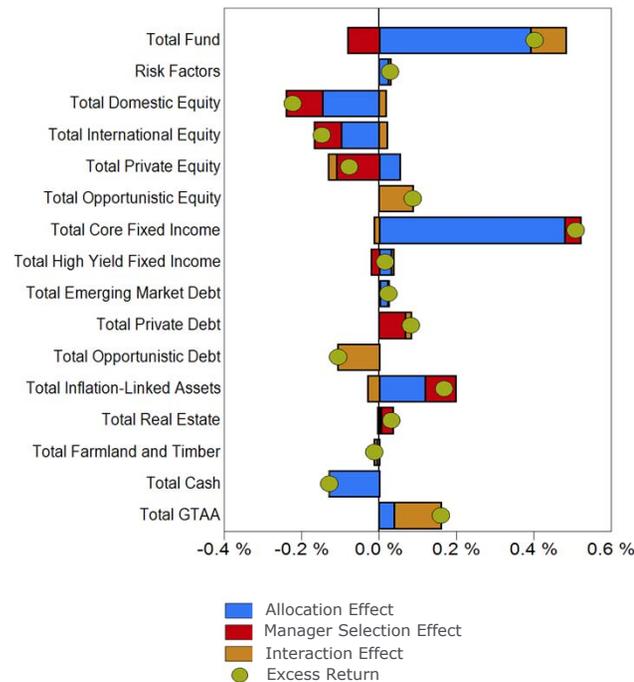
Residual: Contribution to excess return not captured in Allocation Effect, Manager Selection Effect and Interaction Effect.



Arizona State Retirement System

Total Fund Attribution Detail

Attribution Effects
3 Years Ending June 30, 2014



3 Year Excess Return: +0.41%

- Allocation Effect: +0.39%
 - Public Markets Fixed Income tactical underweight (+0.53%)
 - Commodities tactical underweight (+0.12%)
 - Domestic Equity tactical underweight (-0.15%)
- Manager Selection Effect: +0.02%
 - Domestic Equity underperformed due to various managers (-0.09%)
 - International Equity underperformed due to various managers (-0.07%)
 - Commodities outperformed due to Gresham (+0.08%)
- Interaction Effect: +0.09%
 - GTAA outperformed due to Bridgewater (+0.12%)
 - Opportunistic Equity outperformed due to various managers (+0.09%)
 - Opportunistic Debt underperformed due to various managers (-0.09%)
- Residual: -0.09%

The Brinson-Fachler Attribution model explains excess return by identifying the size of contributors or detractors from excess return based on the three effects defined below:

Allocation Effect: Measures the impact of the decision to over/under weight assets classes relative to Interim SAAP benchmark weights. $(\text{Return Asset Class Index} - \text{Total Interim Policy Index Return}) \times (\text{Weight Asset Class Portfolio} - \text{Weight Asset Class Interim Policy Index})$

Manager Selection Effect: Measures the impact of over/under performance of asset classes in the portfolio relative to the asset class benchmarks in the Interim SAAP benchmark. $[\text{Weight Asset Class Benchmark} \times (\text{Return Portfolio Asset Class} - \text{Return Asset Class in Interim Policy Index})]$

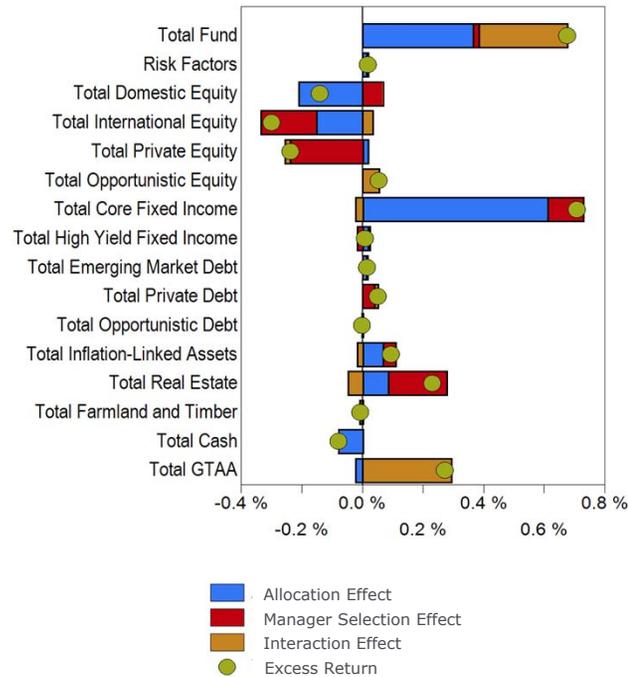
Interaction Effect: Measures the impact of over/under weighting decisions and over/under performance. $(\text{Return Asset Class Portfolio} (\text{Weight Asset Class Portfolio} - \text{Weight Asset Class Policy Index})) - (\text{Return Asset Class Index} (\text{Weight Asset Class Portfolio} - \text{Weight Asset Class Index}))$

Residual: Contribution to excess return not captured in Allocation Effect, Manager Selection Effect and Interaction Effect.

Arizona State Retirement System

Total Fund Attribution Detail

Attribution Effects
5 Years Ending June 30, 2014



5 Year Excess Return: +0.63%

- Allocation Effect: +0.37%
 - Public Markets Fixed Income tactical underweight (+0.64%)
 - Real Estate underweight (+0.09%)
 - Domestic Equity tactical underweight (-0.21%)
 - International Equity tactical underweight (-0.15%)
- Manager Selection Effect: +0.08%
 - Real Estate outperformed due to various managers (+0.21%)
 - Public Markets Fixed Income outperformed due to various managers (+0.10%)
 - Private Equity underperformed due to various managers (-0.20%)
 - International Equity underperformed due to various managers (-0.18%)
- Interaction Effect: +0.29%
 - GTAA outperformed due to Bridgewater (+0.29%)
- Residual: -0.11%

The Brinson-Fachler Attribution model explains excess return by identifying the size of contributors or detractors from excess return based on the three effects defined below:

Allocation Effect: Measures the impact of the decision to over/under weight assets classes relative to Interim SAAP benchmark weights. $(\text{Return Asset Class Index} - \text{Total Interim Policy Index Return}) \times (\text{Weight Asset Class Portfolio} - \text{Weight Asset Class Interim Policy Index})$

Manager Selection Effect: Measures the impact of over/under performance of asset classes in the portfolio relative to the asset class benchmarks in the Interim SAAP benchmark. $[\text{Weight Asset Class Benchmark} \times (\text{Return Portfolio Asset Class} - \text{Return Asset Class in Interim Policy Index})]$

Interaction Effect: Measures the impact of over/under weighting decisions and over/under performance. $(\text{Return Asset Class Portfolio} (\text{Weight Asset Class Portfolio} - \text{Weight Asset Class Policy Index})) - (\text{Return Asset Class Index} (\text{Weight Asset Class Portfolio} - \text{Weight Asset Class Index}))$

Residual: Contribution to excess return not captured in Allocation Effect, Manager Selection Effect and Interaction Effect.

Asset Class Performance vs. Benchmark – Public Markets

- Objective #3: Achieve one- and three-year rolling annual net rates of return for ASRS strategic asset classes that are equal to or greater than their respective strategic asset class benchmarks.

	1 Year Return	3 Year Return
ASRS Total Domestic and Int'l Equity ¹	23.3%	12.8%
ASRS Custom Total Equity Benchmark	23.7%	13.0%
Excess Return	-0.4%	-0.2%
ASRS Domestic Equity	24.7%	16.1%
ASRS Custom Domestic Equity Benchmark	24.9%	16.5%
Excess Return	-0.2%	-0.4%
ASRS International Equity	21.3%	6.4%
ASRS Custom Int'l Equity Benchmark	22.0%	6.6%
Excess Return	-0.7%	-0.2%
ASRS Public Markets Fixed Income	6.0%	4.5%
ASRS Custom Fixed Income Benchmark	6.0%	4.4%
Excess Return	0.0%	0.1%
ASRS Inflation-Linked	10.1%	-3.3%
ASRS Custom Inflation-Linked Benchmark	8.2%	-5.2%
Excess Return	1.9%	1.9%
ASRS GTAA	21.2%	11.8%
ASRS Custom GTAA Benchmark	17.9%	10.7%
Excess Return	3.3%	1.1%

¹Performance of ASRS Total Domestic and Int'l Equity includes the performance of the ASRS Domestic Equity and ASRS International Equity asset classes and the Equity Risk Factor Portfolio with an inception date of 6/1/2013.

Note: Composition of ASRS Custom Asset Class Benchmarks can be found in the appendix.

**Goal Met:
Partially**

Asset Class Performance vs. Benchmark – Private Markets¹

- Objective #3: Achieve one- and three-year rolling annual net rates of return for ASRS strategic asset classes that are equal to or greater than their respective strategic asset class benchmarks.

	1 Year Return	3 Year Return	IRR Since Inception	Inception Date
ASRS Private Equity	17.8%	15.3%	12.9%	Oct-07
Russell 2000	24.9%	13.2%	16.3%	
Excess Return	-7.1%	2.1%	-3.4%	
ASRS Opportunistic Equity ²	37.9%	24.7%	37.3%	Apr-11
ASRS Private Debt	15.0%	--	15.7%	Jul-12
S&P/LSTA Levered Loan Index + 250 bps	6.9%	--	8.2%	
Excess Return	8.1%	--	7.5%	
ASRS Opportunistic Debt ²	9.6%	8.2%	12.2%	Jan-08
ASRS Real Estate	13.7%	12.9%	5.8%	Oct-05
NFI - ODCE Index	12.7%	12.0%	5.0%	
Excess Return	1.0%	0.9%	0.8%	
ASRS Farmland and Timber	--	--	1.3%	Jul-13
CPI ex-Food and Energy + 350 bps	--	--	2.7%	
Excess Return	--	--	-1.4%	

¹Performance of private markets portfolios and corresponding benchmarks is reported on a one quarter lag. Performance shown as of March 31, 2014.

²Net absolute rate of return expectations range from 10-14% per annum.

Note: Time-weighted performance of private markets portfolios shown for the one- and three-year periods to reconcile Total Fund performance as it is reported on a time-weighted basis. Due to the drawdown nature of private markets portfolios in which the investment managers call capital over time, dollar-weighted performance, or internal rate of return (IRR) is a more appropriate measure of the performance of ASRS private markets portfolios.

**Goal Met:
Partially**

Cash Management

- Objective #4: Ensure sufficient monies are available to meet pension benefits, health insurance, member refunds, administrative payments, and other cash flow requirements.

Month	Cash In	Cash Out	Balance as of 1st Business Day
Jul-13	\$490,407,958	(\$185,679,872)	\$307,287,872
Aug-13	\$364,853,179	(\$188,310,189)	\$205,962,942
Sep-13	\$303,470,007	(\$189,505,809)	\$95,194,585
Oct-13	\$404,897,845	(\$190,046,089)	\$200,202,122
Nov-13	\$213,012,636	(\$190,661,495)	\$126,730,318
Dec-13	\$560,544,992	(\$190,590,864)	\$317,630,570
Jan-14	\$386,764,591	(\$190,949,369)	\$352,809,530
Feb-14	\$210,787,413	(\$191,680,149)	\$189,010,112
Mar-14	\$679,587,225	(\$192,454,469)	\$486,243,101
Apr-14	\$455,478,123	(\$192,789,720)	\$246,095,874
May-14	\$328,489,975	(\$193,063,809)	\$162,815,927
Jun-14	\$143,781,061	(\$193,481,152)	\$90,885,762

All Pension Obligations, Capital Calls and Other Requirements Met with Available Cash

Goal Met: Yes

Note:

Cash In - The balance as of the business day prior to the monthly pension run payment, comprised of month-to-date contributions and excess cash held to fund manager(s) or as a tactical allocation.

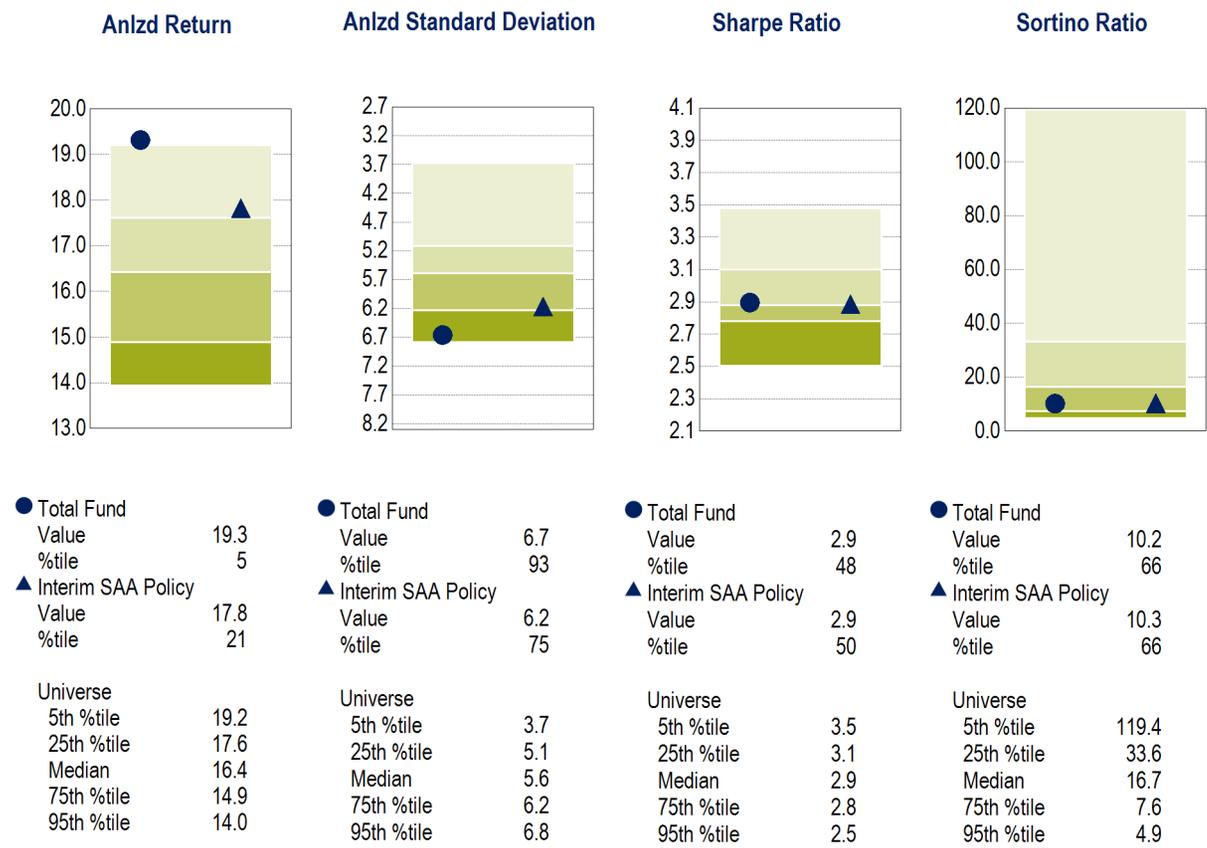
Cash Out - The monthly pension run payment.



Total Fund Risk Statistics vs. Peer Universe

Total Fund vs. IFx Public DB > \$1B Gross(USD)(peer)

1 Year



Note: The information contained herein is for comparison purposes only and is not a Total Fund benchmark. Peer universe comparisons are subject to several limitations, including: peer groups are not comprehensive; several funds are included in multiple peer groups; peer groups are constructed using gross of fee returns; and survivorship bias in that poorly performing funds may not longer report results.

Universes are constructed using gross of fee returns; therefore, ASRS rank is based on gross of fee returns.

Rankings are from highest (1) to lowest (100) in the InvestorForce Public Funds > \$1 Billion Universe.

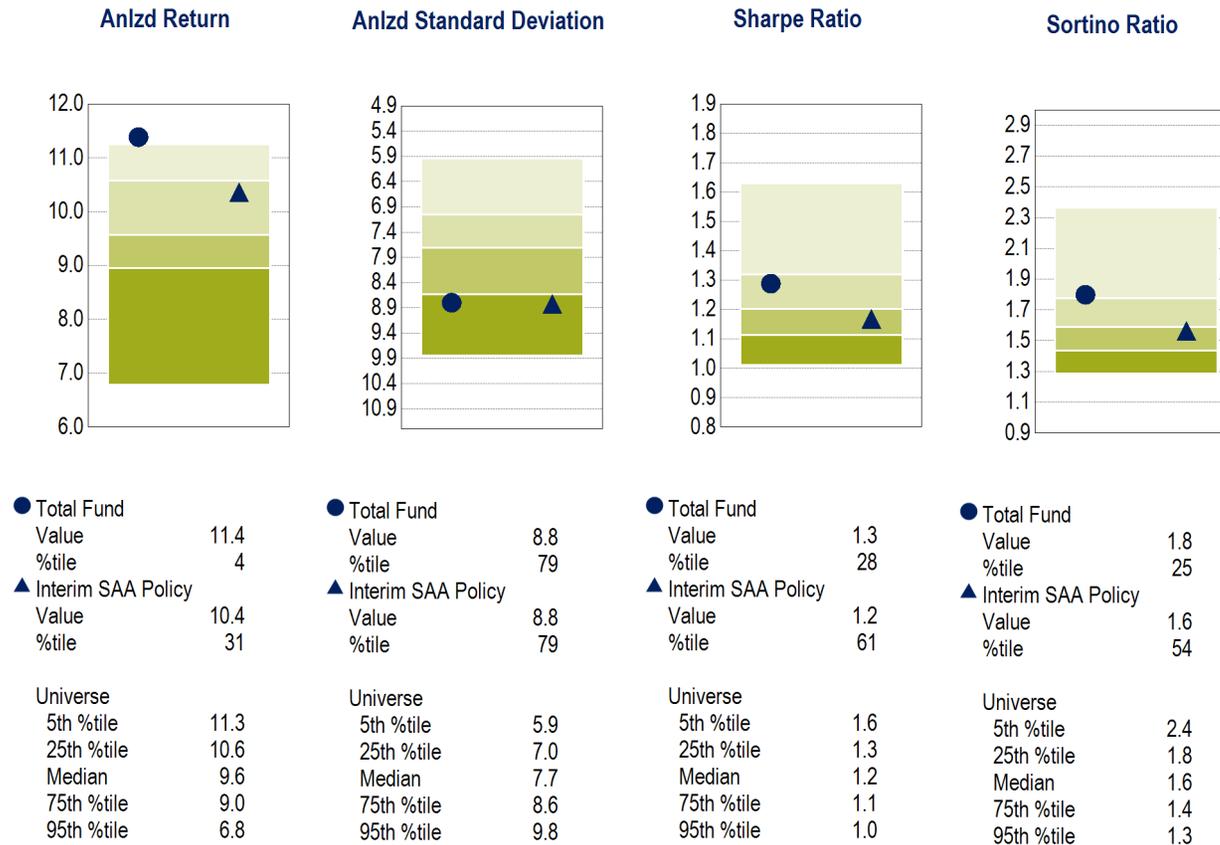
The InvestorForce Public Funds > \$1 Billion Universe contains 53 observations for the period ending June 30, 2014, with total assets of \$503.2 billion.

Composition of Interim SAA Policy can be found in the appendix.

Total Fund Risk Statistics vs. Peer Universe

Total Fund vs. IFx Public DB > \$1B Gross(USD)(peer)

3 Year



Note: The information contained herein is for comparison purposes only and is not a Total Fund benchmark. Peer universe comparisons are subject to several limitations, including: peer groups are not comprehensive; several funds are included in multiple peer groups; peer groups are constructed using gross of fee returns; and survivorship bias in that poorly performing funds may not longer report results.

Universes are constructed using gross of fee returns; therefore, ASRS rank is based on gross of fee returns.

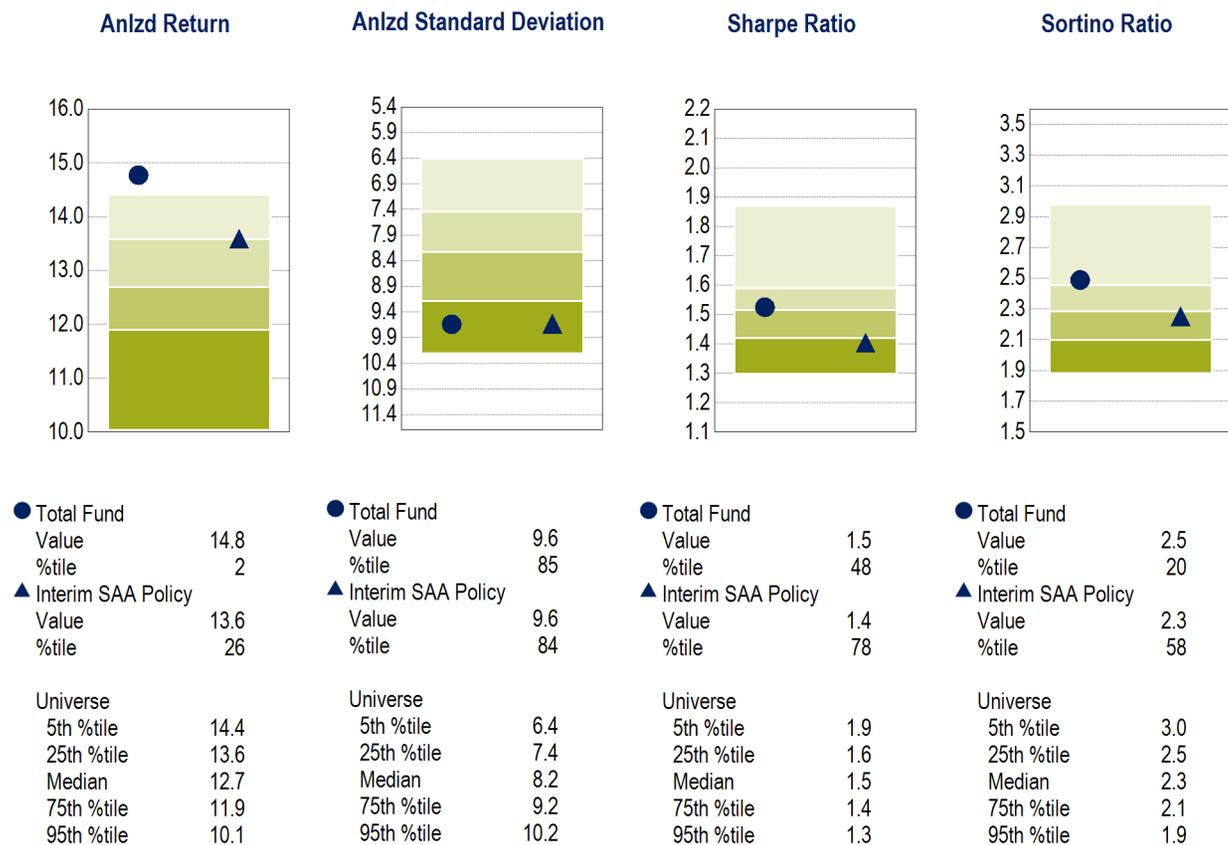
Rankings are from highest (1) to lowest (100) in the InvestorForce Public Funds > \$1 Billion Universe.

The InvestorForce Public Funds > \$1 Billion Universe contains 53 observations for the period ending June 30, 2014, with total assets of \$503.2 billion.

Composition of Interim SAA Policy can be found in the appendix.

Total Fund Risk Statistics vs. Peer Universe

Total Fund vs. IFx Public DB > \$1B Gross(USD)(peer)
5 Year



Note: The information contained herein is for comparison purposes only and is not a Total Fund benchmark. Peer universe comparisons are subject to several limitations, including: peer groups are not comprehensive; several funds are included in multiple peer groups; peer groups are constructed using gross of fee returns; and survivorship bias in that poorly performing funds may not longer report results.

Universes are constructed using gross of fee returns; therefore, ASRS rank is based on gross of fee returns.

Rankings are from highest (1) to lowest (100) in the InvestorForce Public Funds > \$1 Billion Universe.

The InvestorForce Public Funds > \$1 Billion Universe contains 53 observations for the period ending June 30, 2014, with total assets of \$503.2 billion.

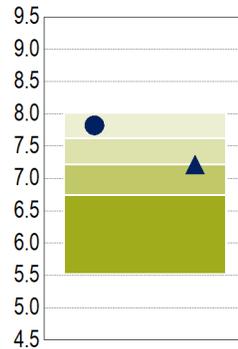
Composition of Interim SAA Policy can be found in the appendix.

Total Fund Risk Statistics vs. Peer Universe

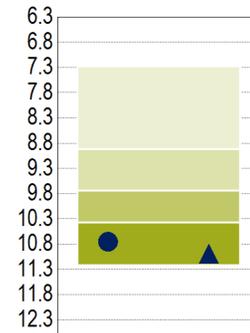
Total Fund vs. IFx Public DB > \$1B Gross(USD)(peer)

10 Year

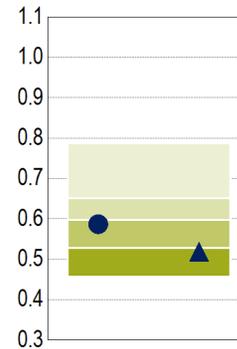
Anlzd Return



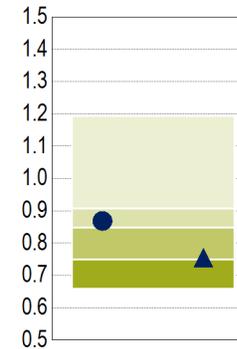
Anlzd Standard Deviation



Sharpe Ratio



Sortino Ratio



● Total Fund

Value 7.8
%tile 14

▲ Interim SAA Policy

Value 7.2
%tile 51

Universe

5th %tile 8.0
25th %tile 7.6
Median 7.2
75th %tile 6.8
95th %tile 5.5

● Total Fund

Value 10.8
%tile 84

▲ Interim SAA Policy

Value 11.0
%tile 88

Universe

5th %tile 7.3
25th %tile 8.9
Median 9.7
75th %tile 10.4
95th %tile 11.2

● Total Fund

Value 0.6
%tile 53

▲ Interim SAA Policy

Value 0.5
%tile 84

Universe

5th %tile 0.8
25th %tile 0.7
Median 0.6
75th %tile 0.5
95th %tile 0.5

● Total Fund

Value 0.9
%tile 46

▲ Interim SAA Policy

Value 0.8
%tile 73

Universe

5th %tile 1.2
25th %tile 0.9
Median 0.9
75th %tile 0.8
95th %tile 0.7

Note: The information contained herein is for comparison purposes only and is not a Total Fund benchmark. Peer universe comparisons are subject to several limitations, including: peer groups are not comprehensive; several funds are included in multiple peer groups; peer groups are constructed using gross of fee returns; and survivorship bias in that poorly performing funds may not longer report results.

Universes are constructed using gross of fee returns; therefore, ASRS rank is based on gross of fee returns.

Rankings are from highest (1) to lowest (100) in the InvestorForce Public Funds > \$1 Billion Universe.

The InvestorForce Public Funds > \$1 Billion Universe contains 53 observations for the period ending June 30, 2014, with total assets of \$503.2 billion.

Composition of Interim SAA Policy can be found in the appendix.

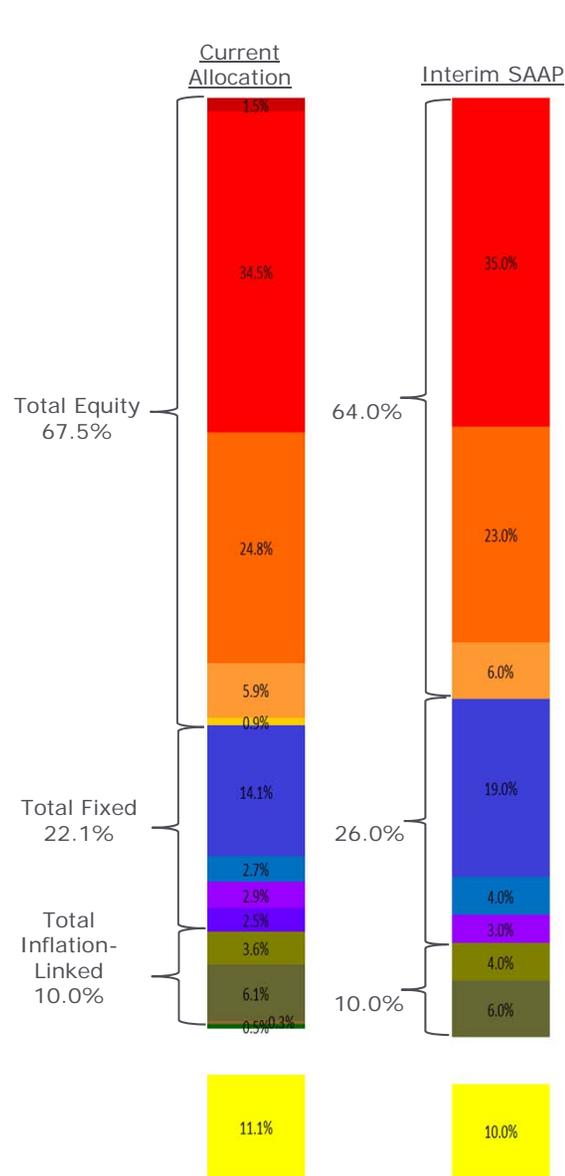
Independent Oversight/Compliance

Note: All of the data shown on the following pages is as of June 30, 2014 and reflects the deduction of investment manager fees, unless otherwise noted.



Arizona State Retirement System

SAA Policy Compliance



	Current Mkt Value	Current Allocation	Interim SAAP	Difference	Policy Range	Within Range
Total Domestic and International Equity¹	\$21,002,624,404	60.7%	58.0%	2.7%		
Domestic Equity³	\$11,932,907,793	34.5%	35.0%	-0.5%	26% - 38%	Yes
U.S. Large Cap ²	\$8,798,213,296	25.4%	25.0%	0.4%		
U.S. Mid Cap	\$1,617,021,411	4.7%	5.0%	-0.3%		
U.S. Small Cap	\$1,517,673,087	4.4%	5.0%	-0.6%		
International Equity³	\$8,559,773,331	24.8%	23.0%	1.8%	16% - 28%	Yes
Developed Large Cap ²	\$5,238,391,811	15.1%	14.0%	1.1%		
Developed Small Cap	\$1,316,336,952	3.8%	3.0%	0.8%		
Emerging Markets	\$2,005,044,567	5.8%	6.0%	-0.2%		
Private Equity⁴	\$2,024,799,846	5.9%	6.0%	-0.1%	5% - 9%	Yes
Opportunistic Equity^{4,6}	\$303,016,570	0.9%	0.0%	0.9%	0% - 3%	Yes
Total Equity	\$23,330,440,820	67.5%	64.0%	3.5%	53% - 70%	Yes
U.S. Fixed Income	\$4,868,615,355	14.1%	19.0%	-4.9%	8% - 28%	Yes
Core ²	\$3,788,122,267	11.0%	14.0%	-3.0%		
High Yield	\$1,080,493,088	3.1%	5.0%	-1.9%		
Emerging Market Debt	\$919,071,262	2.7%	4.0%	-1.3%		
Private Debt⁴	\$995,628,704	2.9%	3.0%	-0.1%		
Opportunistic Debt^{4,6}	\$866,602,999	2.5%	0.0%	2.5%	0% - 10%	Yes
Total Fixed Income	\$7,649,918,320	22.1%	26.0%	-3.9%	15% - 35%	Yes
Commodities²	\$1,242,441,935	3.6%	4.0%	-0.4%	1% - 7%	Yes
Real Estate^{2,4}	\$2,097,648,141	6.1%	6.0%	0.1%	6% - 10%	Yes
Infrastructure	\$0	0.0%	0.0%	0.0%	0% - 3%	Yes
Farmland and Timber⁴	\$105,648,160	0.3%	0.0%	0.3%	0% - 3%	Yes
Opportunistic Inflation-Linked⁶	\$0	0.0%	0.0%	0.0%	0% - 3%	Yes
Total Inflation-Linked	\$3,445,738,236	10.0%	10.0%	0.0%	8% - 16%	Yes
Cash⁵	\$158,399,573	0.5%	0.0%	0.5%		
Total	\$34,584,496,949	100.0%	100.0%	0.0%		

Global Tactical Asset Allocation (GTAA)² \$3,825,309,338 11.1% 10.0% 1.1% 5% - 15% Yes

¹Total Domestic and International Equity includes Equity Risk Factor Portfolio with assets of \$509.9 million.

²GTAA allocation distributed into U.S. Large Cap Equity, Int'l Developed Large Cap Equity, Core Fixed Income, Commodities and Real Estate.

³Domestic and International Equity market values include residual values remaining in terminated manager accounts.

⁴Values shown for private markets portfolios include cash flows that occurred during 2Q2014.

⁵Cash includes money for the upcoming monthly pension distribution. Value shown also includes assets in liquidating GTAA account.

⁶Aggregate Opportunistic asset classes not to exceed 10%.

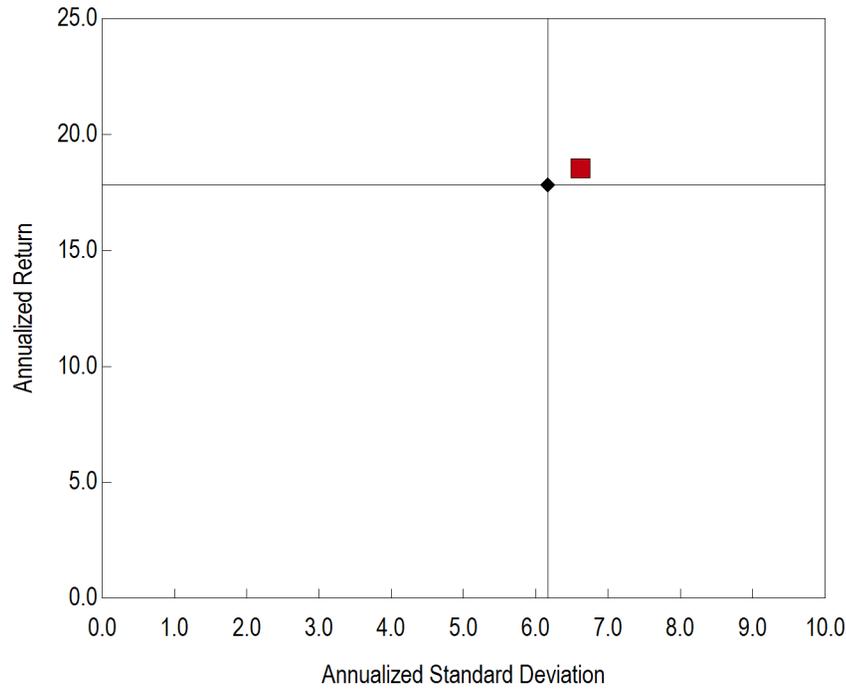
Note: Interim SAA Policy includes proration of 1% Private Equity and 2% Real Estate, which are unfunded.

Policy Ranges shown are relative to the long-term SAAP, causing some asset classes to be out of range while implementation of the long-term SAAP is in process.

Market values include manager held cash.

Total Fund Analysis

1 Year Ending June 30, 2014

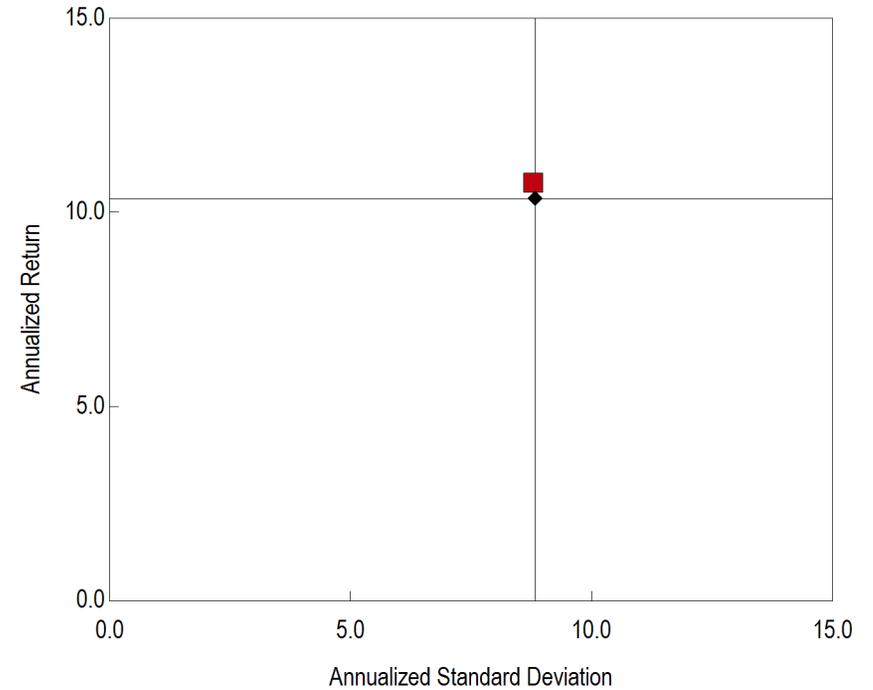


■ Total Fund
◆ Interim SAA Policy

1 Year Ending June 30, 2014

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio	Sortino Ratio
Total Fund	18.6%	6.6%	2.8	9.4
Interim SAA Policy	17.8%	6.2%	2.9	10.3

3 Years Ending June 30, 2014



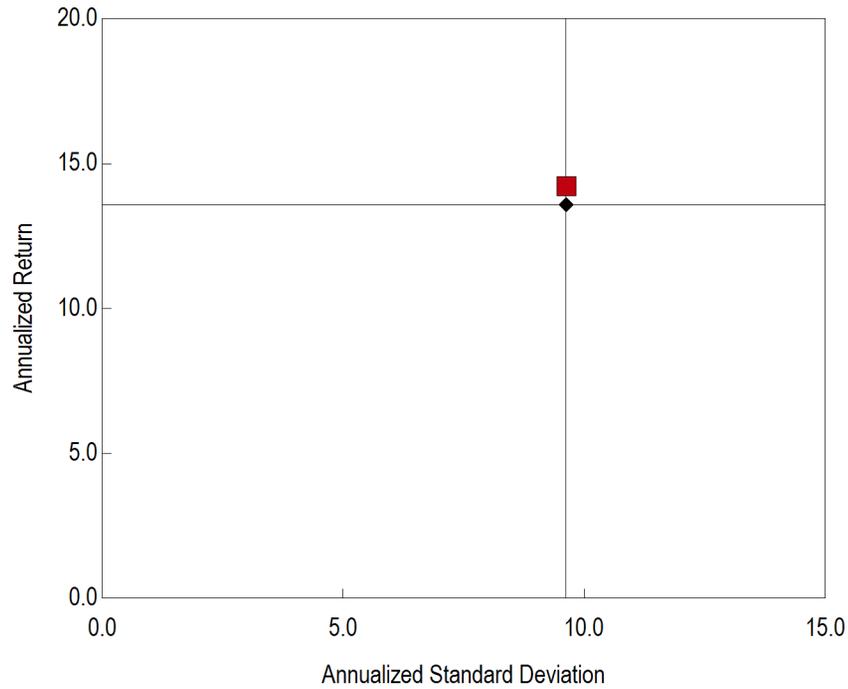
■ Total Fund
◆ Interim SAA Policy

3 Years Ending June 30, 2014

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio	Sortino Ratio
Total Fund	10.8%	8.8%	1.2	1.7
Interim SAA Policy	10.4%	8.8%	1.2	1.6

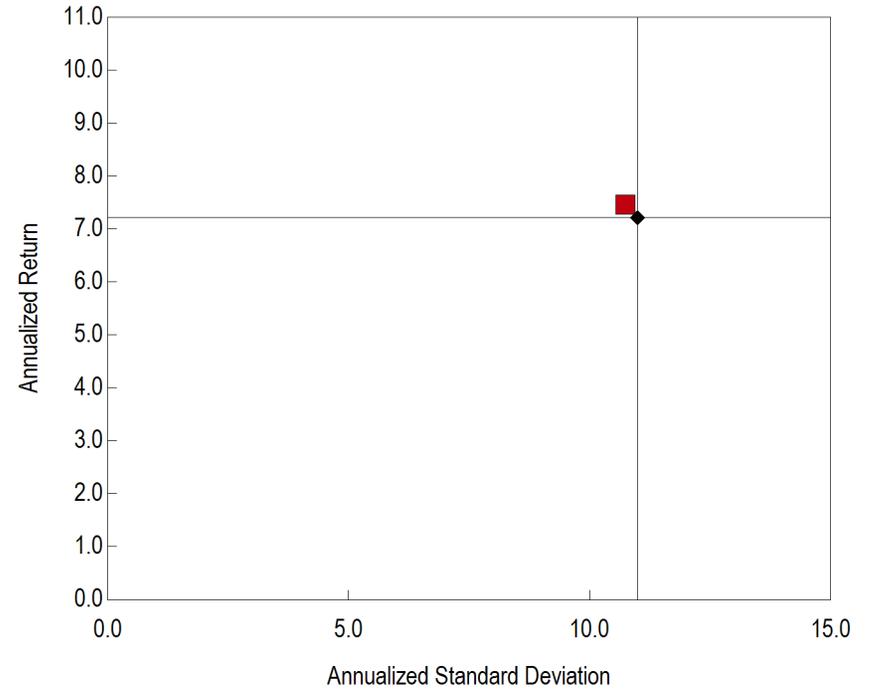
Total Fund Analysis

5 Years Ending June 30, 2014



■ Total Fund
◆ Interim SAA Policy

10 Years Ending June 30, 2014



■ Total Fund
◆ Interim SAA Policy

5 Years Ending June 30, 2014

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio	Sortino Ratio
Total Fund	14.2%	9.6%	1.5	2.4
Interim SAA Policy	13.6%	9.6%	1.4	2.3

10 Years Ending June 30, 2014

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio	Sortino Ratio
Total Fund	7.5%	10.7%	0.6	0.8
Interim SAA Policy	7.2%	11.0%	0.5	0.8

Arizona State Retirement System

Asset Class Performance Summary - Public Markets

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	6 Mo (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Inception (%)	Since
Total Fund	34,584,496,949	100	3.9	--	6.4	--	18.6	--	10.8	--	14.2	--	7.5	--	10.1	Jul-75
<i>Interim SAA Policy</i>			<u>3.5</u>	--	<u>6.0</u>	--	<u>17.8</u>	--	<u>10.4</u>	--	<u>13.6</u>	--	<u>7.2</u>	--	<u>9.8</u>	<i>Jul-75</i>
Over/Under			0.4		0.4		0.8		0.4		0.6		0.3		0.3	
<i>Actual Benchmark</i>			3.6	--	6.2	--	18.5	--	10.7	--	13.4	--	7.2	--	--	<i>Jul-75</i>
Total Domestic and International Equity¹	18,684,824,880	54.0	4.6	--	6.1	--	23.3	--	12.8	--	17.0	--	7.9	--	7.1	Jan-98
<i>ASRS Custom Total Equity Benchmark</i>			<u>4.6</u>	--	<u>6.1</u>	--	<u>23.7</u>	--	<u>13.0</u>	--	<u>17.0</u>	--	<u>7.9</u>	--	<u>6.4</u>	<i>Jan-98</i>
Over/Under			0.0		0.0		-0.4		-0.2		0.0		0.0		0.7	
Total Domestic Equity	10,754,644,989	31.1	4.7	32	6.6	36	24.7	51	16.1	36	19.8	42	8.7	57	11.4	Jul-75
<i>ASRS Custom Domestic Equity Benchmark</i>			<u>4.6</u>	35	<u>6.6</u>	36	<u>24.9</u>	49	<u>16.5</u>	31	<u>19.7</u>	46	<u>8.3</u>	67	<u>11.5</u>	<i>Jul-75</i>
Over/Under			0.1		0.0		-0.2		-0.4		0.1		0.4		-0.1	
<i>eA All US Equity Net Median</i>			3.9		5.6		24.8		15.1		19.4		8.9		12.6	<i>Jul-75</i>
Total International Equity	7,420,236,611	21.5	4.3	47	5.4	43	21.3	57	6.4	65	11.1	78	6.7	87	6.6	Apr-87
<i>ASRS Custom Int'l Equity Benchmark</i>			<u>4.5</u>	39	<u>5.3</u>	48	<u>22.0</u>	53	<u>6.6</u>	63	<u>11.9</u>	70	<u>8.0</u>	68	<u>6.3</u>	<i>Apr-87</i>
Over/Under			-0.2		0.1		-0.7		-0.2		-0.8		-1.3		0.3	
<i>eA All ACWI ex-US Equity Net Median</i>			4.1		4.9		22.4		7.1		12.8		8.6		8.0	<i>Apr-87</i>
Total Public Markets Fixed Income	4,715,412,922	13.6	2.5	26	4.4	38	6.0	35	4.5	46	5.9	47	5.4	38	8.6	Jul-75
<i>ASRS Custom Fixed Income Benchmark</i>			<u>2.5</u>	26	<u>4.7</u>	34	<u>6.0</u>	35	<u>4.4</u>	48	<u>5.3</u>	56	<u>5.2</u>	44	--	<i>Jul-75</i>
Over/Under			0.0		-0.3		0.0		0.1		0.6		0.2		--	
<i>eA All US Fixed Inc Net Median</i>			1.9		3.8		4.7		4.2		5.7		4.9		8.3	<i>Jul-75</i>
Total Inflation-Linked Assets	862,286,560	2.5	1.9	--	7.1	--	10.1	--	-3.3	--	--	--	--	--	1.9	Feb-10
<i>ASRS Custom Inflation-Linked Benchmark</i>			<u>0.1</u>	--	<u>7.1</u>	--	<u>8.2</u>	--	<u>-5.2</u>	--	<u>1.3</u>	--	<u>3.1</u>	--	<u>0.0</u>	<i>Feb-10</i>
Over/Under			1.8		0.0		1.9		1.9						1.9	
Total GTAA	3,825,309,338	11.1	5.2	10	7.4	8	21.2	2	11.8	1	16.2	1	8.8	32	8.5	Jan-04
<i>ASRS Custom GTAA Benchmark</i>			<u>3.8</u>	38	<u>5.7</u>	23	<u>17.9</u>	9	<u>10.7</u>	8	<u>13.3</u>	8	<u>6.9</u>	65	<u>6.9</u>	<i>Jan-04</i>
Over/Under			1.4		1.7		3.3		1.1		2.9		1.9		1.6	
<i>eA Global TAA Net Median</i>			3.4		4.5		10.4		5.5		7.5		7.9		7.8	<i>Jan-04</i>

¹Performance of ASRS Total Domestic and International Equity includes the performance of the ASRS Domestic and International Equity asset classes and the Equity Risk Factor Portfolio with an inception date of 6/1/2013. NEPC began calculating Total Domestic and International Equity performance in January 2009. Monthly performance data from January 1998 - December 2008 was provided by State Street.

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

Composition of Interim SAA Policy and ASRS Custom Asset Class Benchmarks can be found in the appendix.

Arizona State Retirement System

Asset Class Performance Summary - Private Markets

	Market Value (\$)	% of Portfolio	3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	Inception (%)	IRR (%)	Since
Total Fund	34,584,496,949	100	3.9	18.6	10.8	14.2	10.1	--	Jul-75
<i>Interim SAA Policy</i>			<u>3.5</u>	<u>17.8</u>	<u>10.4</u>	<u>13.6</u>	<u>9.8</u>	--	<i>Jul-75</i>
Over/Under			0.4	0.8	0.4	0.6	0.3	--	
<i>Actual Benchmark</i>			3.6	18.5	10.7	13.4	--	--	<i>Jul-75</i>
Total Private Equity	2,025,652,373	5.9	2.8	17.8	15.3	16.2	4.6	12.9	Oct-07
<i>Russell 2000 1 QTR Lagged</i>			<u>1.1</u>	<u>24.9</u>	<u>13.2</u>	<u>24.3</u>	<u>7.3</u>	<u>16.3</u>	<i>Oct-07</i>
Over/Under			1.7	-7.1	2.1	-8.1	-2.7	-3.4	
Total Opportunistic Equity¹	303,016,570	0.9	4.8	37.9	24.7	--	24.7	37.3	Apr-11
Total Private Debt	938,621,983	2.7	2.7	15.0	--	--	16.4	15.7	Jul-12
<i>S&P/LSTA Leveraged Loan Index + 250 bps 1 QTR Lagged</i>			<u>1.8</u>	<u>6.9</u>	<u>--</u>	<u>--</u>	<u>9.1</u>	<u>8.2</u>	<i>Jul-12</i>
Over/Under			0.9	8.1	--	--	7.3	7.5	
Total Opportunistic Debt¹	866,602,999	2.5	3.2	9.6	8.2	--	9.0	12.2	Jan-08
Total Real Estate	2,052,350,985	5.9	2.4	13.7	12.9	11.2	3.7	5.8	Oct-05
<i>NCREIF ODCE 1 QTR Lagged</i>			<u>2.3</u>	<u>12.7</u>	<u>12.0</u>	<u>6.3</u>	<u>4.9</u>	<u>5.0</u>	<i>Oct-05</i>
Over/Under			0.1	1.0	0.9	4.9	-1.2	0.8	
Total Farmland and Timber	95,555,137	0.3	0.3	--	--	--	-46.4	1.3	Jul-13
<i>CPI ex-Food and Energy + 350 bps 1 QTR Lagged</i>			<u>1.3</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>3.9</u>	<u>2.7</u>	<i>Jul-13</i>
Over/Under			-1.0	--	--	--	-50.3	-1.4	

¹Net absolute rate of return expectations range from 10-14% per annum.

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

Performance data for Total Private Equity, Total Opportunistic Equity, Total Private Debt, Total Opportunistic Debt, Total Real Estate, and Total Farmland and Timber and corresponding benchmarks is lagged by one quarter. Performance data and market values provided by Credit Suisse Fund Group.

Prior to 3Q 2012, the performance of the Total Private Debt and Total Opportunistic Debt asset classes was reported in aggregate. Effective 6/30/2012, the Fund's allocations to Private Debt and Opportunistic Debt were separated and will be reported separately going forward.

Time-weighted performance of private markets portfolios shown to reconcile Total Fund performance as it is reported on a time-weighted basis. Due to the drawdown nature of private markets portfolios in which the investment managers call capital over time, dollar-weighted performance, or internal rate of return (IRR) is a more appropriate measure of ASRS private markets portfolios.

Composition of Interim SAA Policy can be found in the appendix.

Arizona State Retirement System

Public Market Asset Class Analysis

3 Years Ending June 30, 2014

	% of Tot	Anlzd Ret	Rank	Anlzd Std Dev	Rank	Anlzd AJ	Rank	Tracking Error	Rank	Info Ratio	Rank	Beta	Sharpe Ratio
Total Fund	100.0%	10.8%	--	8.8%	--	0.5%	--	1.1%	--	0.4	--	1.0	1.2
Interim SAA Policy	--	10.4%	--	8.8%	--	--	--	--	--	--	--	--	1.2
Total Domestic and International Equity	54.0%	12.8%	--	13.6%	--	0.0%	--	0.6%	--	-0.3	--	1.0	0.9
ASRS Custom Total Equity Benchmark	--	13.0%	--	13.7%	--	--	--	--	--	--	--	--	0.9
Total Domestic Equity	31.1%	16.1%	36	13.2%	30	-0.4%	32	0.6%	1	-0.6	74	1.0	1.2
ASRS Custom Domestic Equity Benchmark	--	16.5%	31	13.1%	29	--	28	--	--	--	--	--	1.3
Total International Equity	21.5%	6.4%	65	16.0%	36	0.0%	62	0.7%	1	-0.2	80	1.0	0.4
ASRS Custom Int'l Equity Benchmark	--	6.6%	63	16.5%	49	--	62	--	--	--	--	--	0.4
Total Public Markets Fixed Income	13.6%	4.5%	46	3.6%	66	-0.2%	96	0.5%	1	0.3	38	1.1	1.2
ASRS Custom Public Markets Fixed Income Benchmark	--	4.4%	48	3.3%	62	--	91	--	--	--	--	--	1.3
Total Inflation-Linked Assets	2.5%	-3.3%	--	14.3%	--	1.6%	--	2.3%	--	0.8	--	1.0	-0.2
ASRS Custom Inflation-Linked Benchmark	--	-5.2%	--	14.7%	--	--	--	--	--	--	--	--	-0.4
Total GTAA	11.1%	11.8%	1	9.2%	67	1.1%	18	1.6%	1	0.7	1	1.0	1.3
ASRS Custom GTAA Benchmark	--	10.7%	8	9.1%	63	--	28	--	--	--	--	--	1.2

Note: Performance is reported net of fees.

Note: Underlying composites do not add up to 100% because the chart excludes private market composites.

Ranks for statistics shown above are based on the respective universe against which the portfolio is ranked on the asset class performance summary that precedes this section of the analysis.

Rankings are from highest (1) to lowest (100) in the eVestment Alliance Universe.

Composition of Interim SAA Policy and ASRS Custom Benchmarks can be found in the appendix.

Arizona State Retirement System

Public Market Asset Class Analysis

5 Years Ending June 30, 2014

	% of Tot	Anlzd Ret	Rank	Anlzd Std Dev	Rank	Anlzd AJ	Rank	Tracking Error	Rank	Info Ratio	Rank	Beta	Sharpe Ratio
Total Fund	100.0%	14.2%	--	9.6%	--	0.7%	--	1.0%	--	0.6	--	1.0	1.5
Interim SAA Policy	--	13.6%	--	9.6%	--	--	--	--	--	--	--	--	1.4
Total Domestic and International Equity	54.0%	17.0%	--	14.5%	--	0.2%	--	0.7%	--	0.0	--	1.0	1.2
ASRS Custom Total Equity Benchmark	--	17.0%	--	14.6%	--	--	--	--	--	--	--	--	1.2
Total Domestic Equity	31.1%	19.8%	42	14.2%	32	0.0%	34	0.5%	1	0.3	20	1.0	1.4
ASRS Custom Domestic Equity Benchmark	--	19.7%	46	14.1%	30	--	35	--	--	--	--	--	1.4
Total International Equity	21.5%	11.1%	78	16.5%	34	-0.5%	72	1.2%	1	-0.7	99	1.0	0.7
ASRS Custom Int'l Equity Benchmark	--	11.9%	70	16.8%	49	--	66	--	--	--	--	--	0.7
Total Public Markets Fixed Income	13.6%	5.9%	47	3.3%	60	0.4%	77	0.7%	1	0.8	34	1.0	1.8
ASRS Custom Public Markets Fixed Income Benchmark	--	5.3%	56	3.1%	56	--	89	--	--	--	--	--	1.7
Total Inflation-Linked Assets	2.5%	--	--	--	--	--	--	--	--	--	--	--	--
ASRS Custom Inflation-Linked Benchmark	--	1.3%	--	12.9%	--	--	--	--	--	--	--	--	0.1
Total GTAA	11.1%	16.2%	1	10.2%	90	2.6%	10	1.9%	6	1.5	1	1.0	1.6
ASRS Custom GTAA Benchmark	--	13.3%	8	9.9%	83	--	51	--	--	--	--	--	1.3

Note: Performance is reported net of fees.

Note: Underlying composites do not add up to 100% because the chart excludes private market composites.

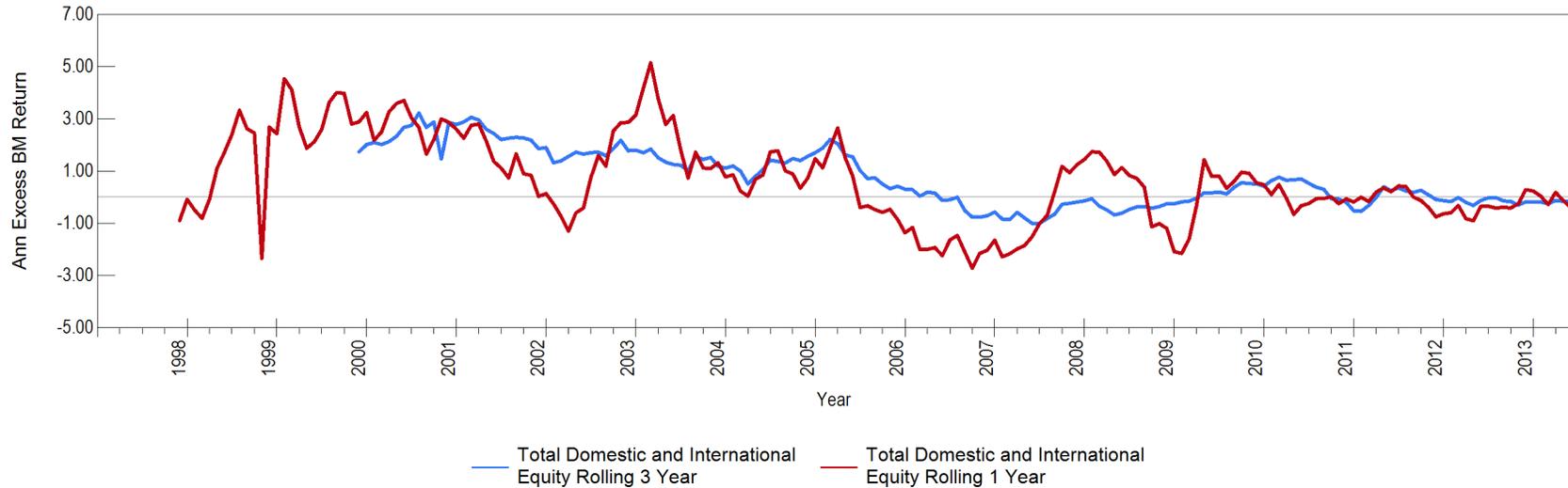
Ranks for statistics shown above are based on the respective universe against which the portfolio is ranked on the asset class performance summary that precedes this section of the analysis.

Rankings are from highest (1) to lowest (100) in the eVestment Alliance Universe.

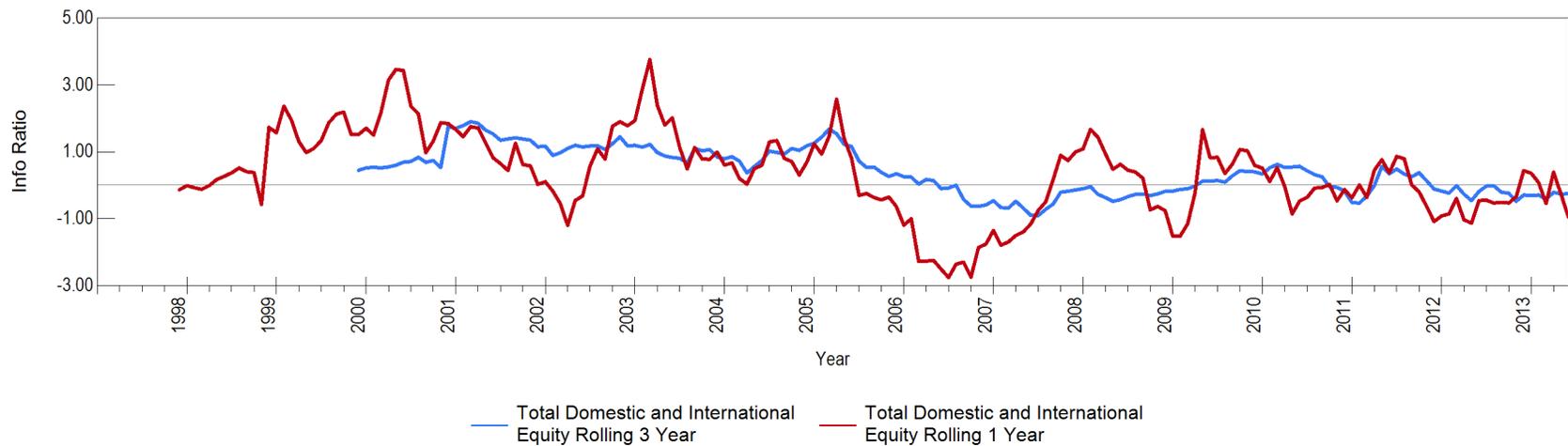
Composition of Interim SAA Policy and ASRS Custom Benchmarks can be found in the appendix.

Asset Class Analysis - Total Domestic and International Equity

Rolling Annual Excess Benchmark Return

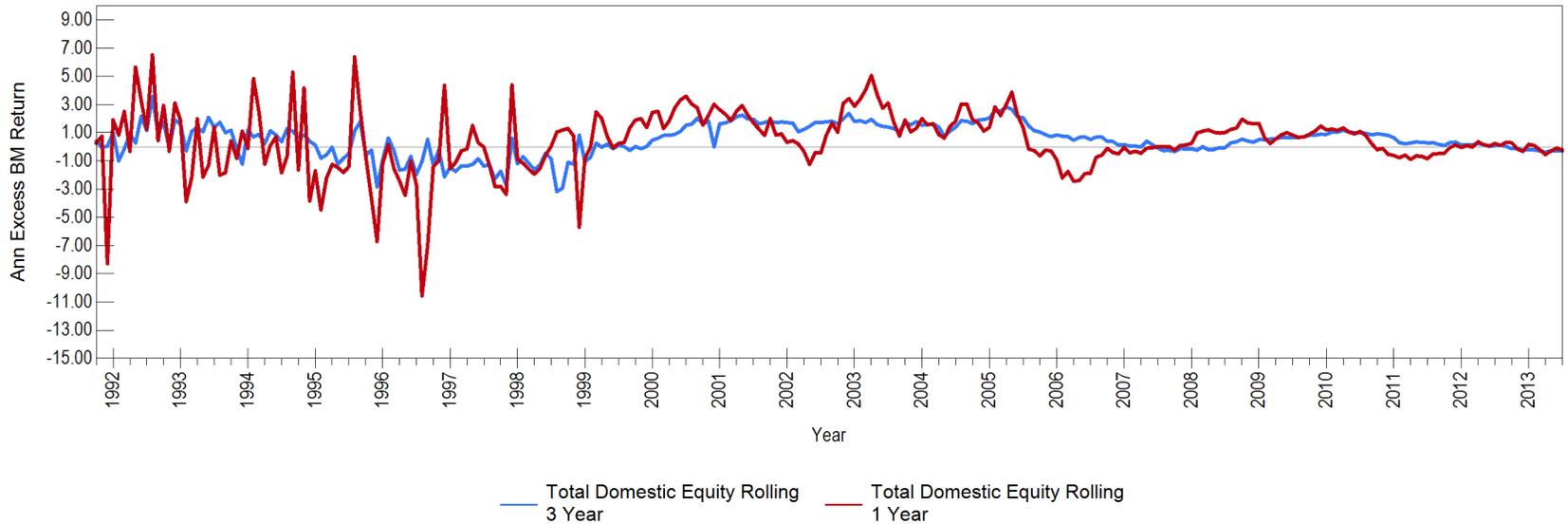


Rolling Information Ratio



Asset Class Analysis - Total Domestic Equity

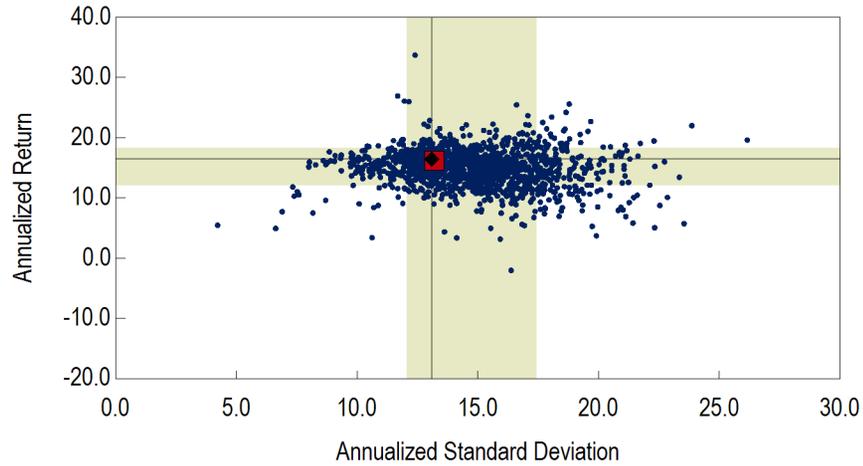
Rolling Annual Excess Benchmark Return



eA All US Equity Net Accounts

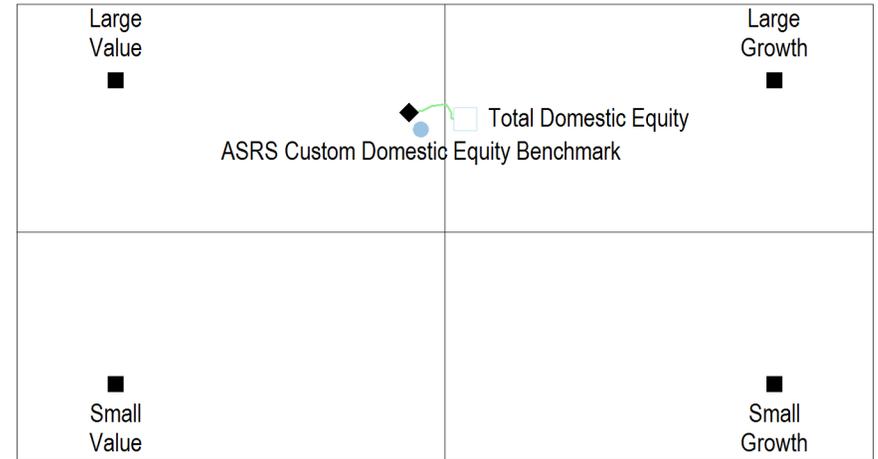


3 Year Risk Return



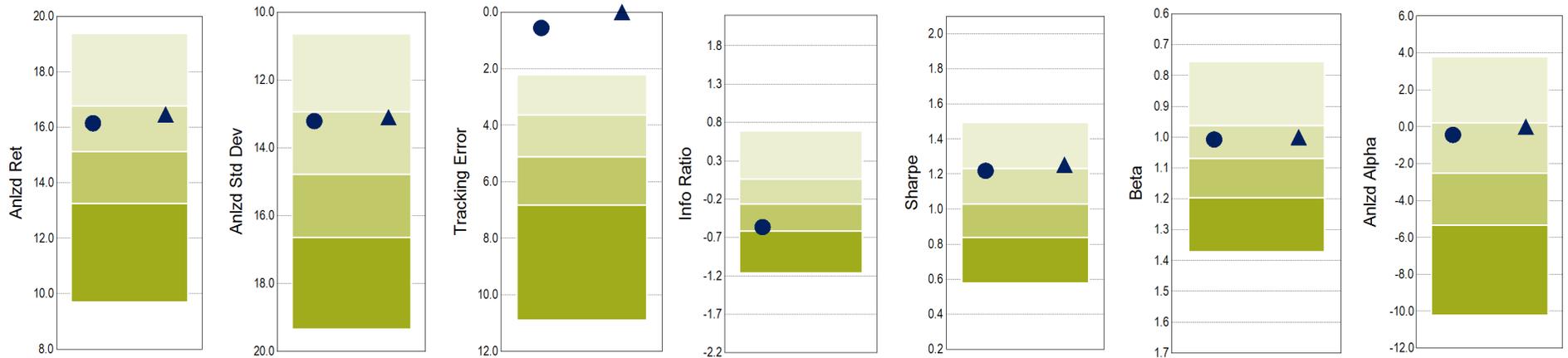
- Total Domestic Equity
- ◆ ASRS Custom Domestic Equity Benchmark
- 68% Confidence Interval
- eA All US Equity Net

3 Year Style Map



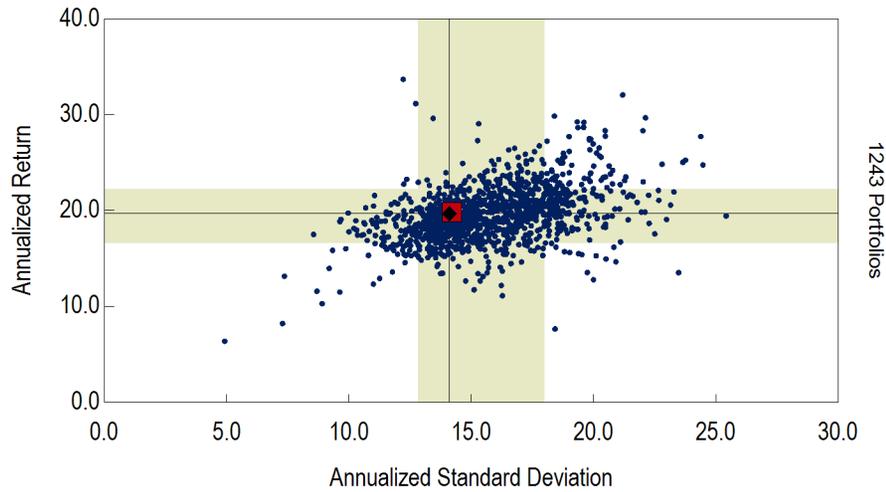
- First Rolling Period
- ◆ Last Rolling Period

*Style map is returns based.



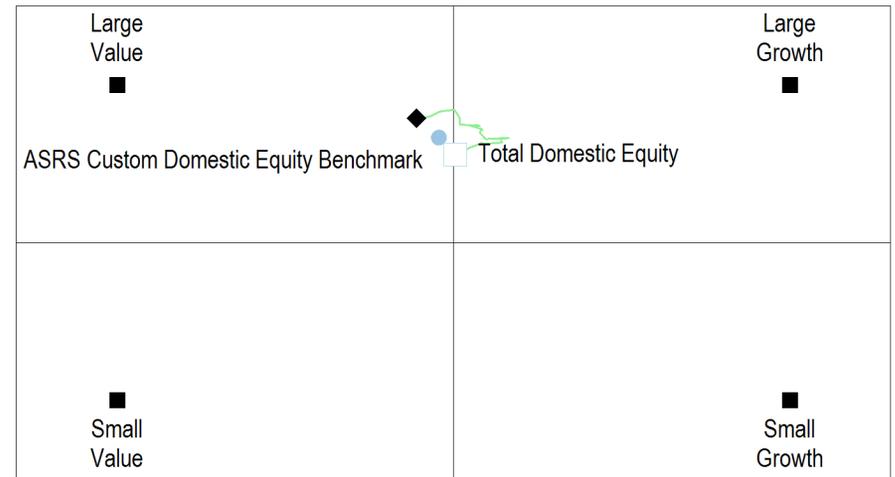
- Total Domestic Equity
- ▲ ASRS Custom Domestic Equity Benchmark
- 5th to 25th Percentile
- 25th to Median
- Median to 75th Percentile
- 75th to 95th Percentile

5 Year Risk Return



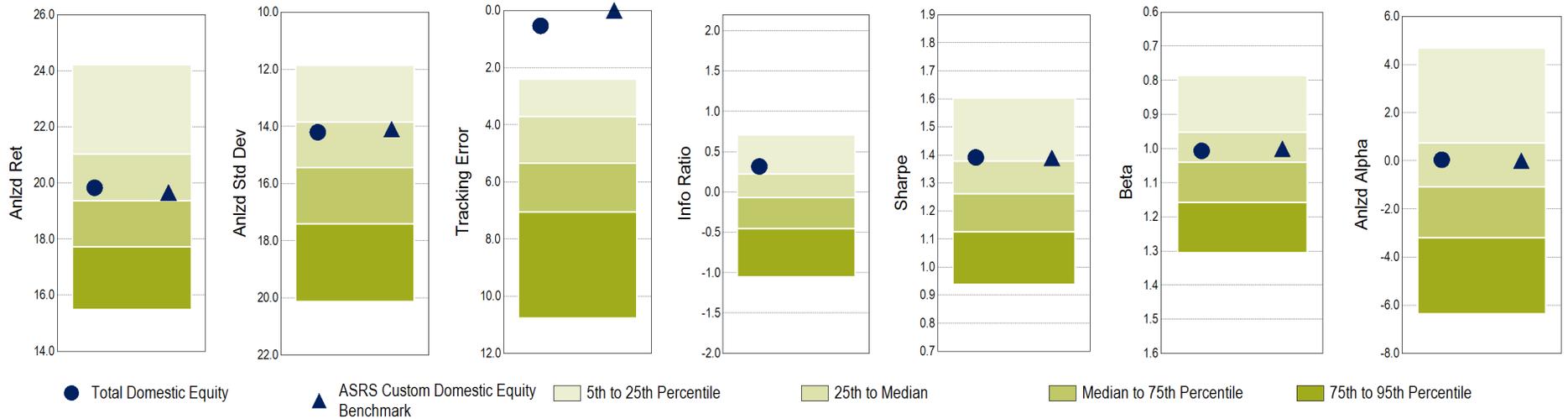
- Total Domestic Equity
- ◆ ASRS Custom Domestic Equity Benchmark
- 68% Confidence Interval
- eA All US Equity Net

5 Year Style Map



- First Rolling Period
- ◆ Last Rolling Period

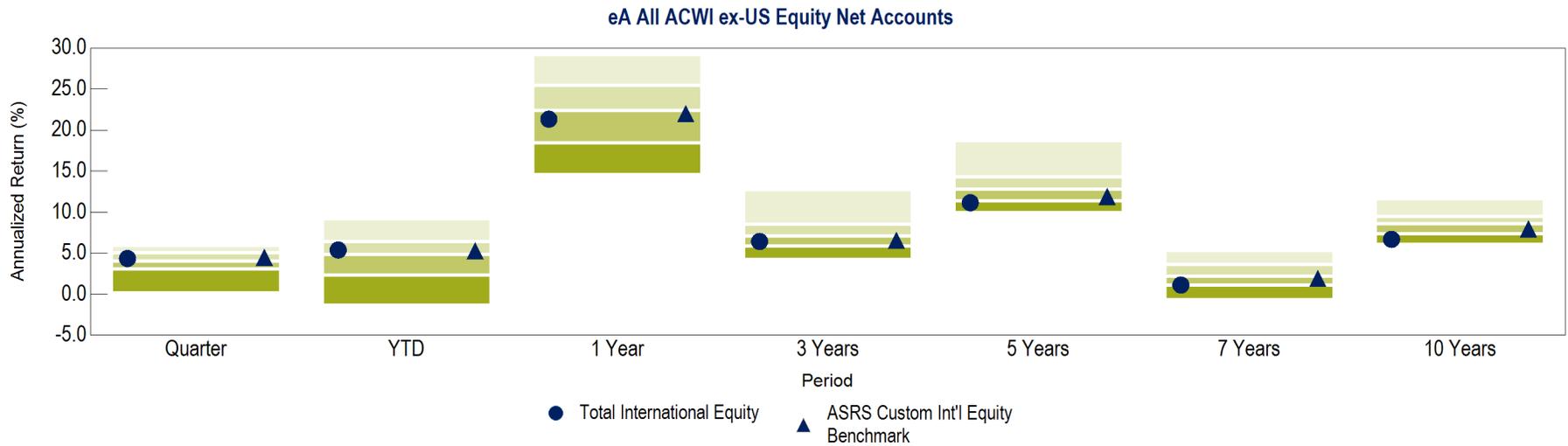
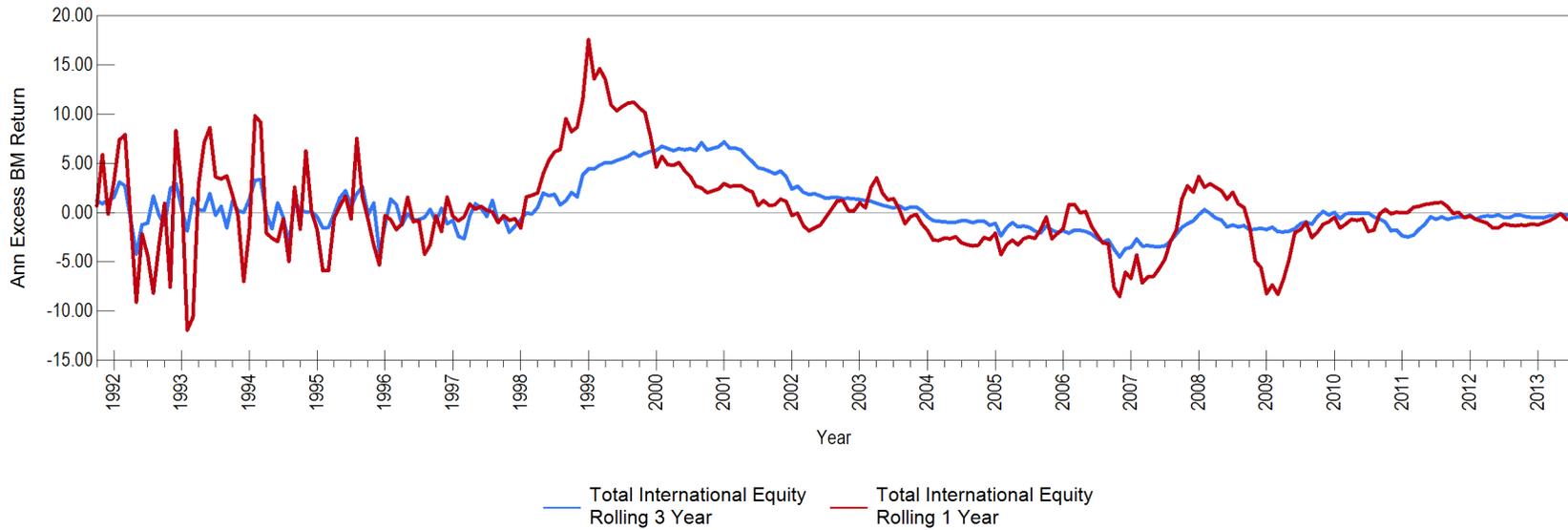
*Style map is returns based.



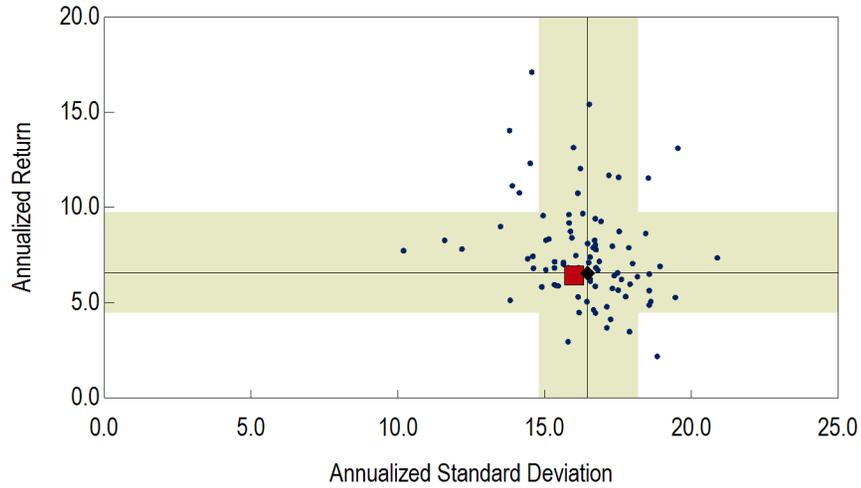
- Total Domestic Equity
- ▲ ASRS Custom Domestic Equity Benchmark
- 5th to 25th Percentile
- 25th to Median
- Median to 75th Percentile
- 75th to 95th Percentile

Asset Class Analysis - Total International Equity

Rolling Annual Excess Benchmark Return

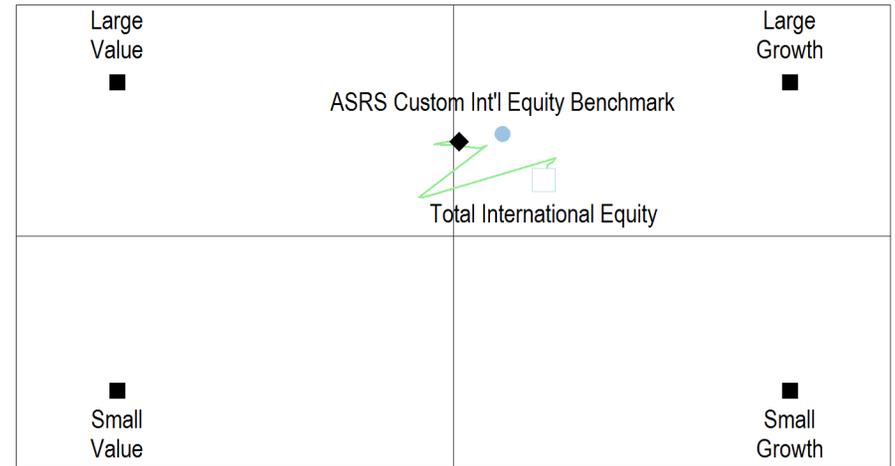


3 Year Risk Return



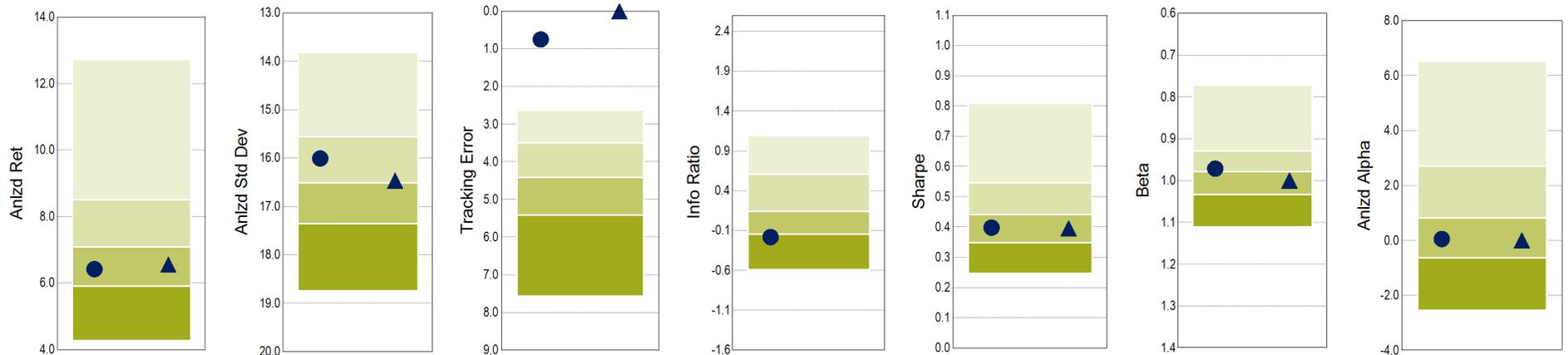
- Total International Equity
- ◆ ASRS Custom Int'l Equity Benchmark
- 68% Confidence Interval
- eA All ACWI ex-US Equity Net

3 Year Style Map



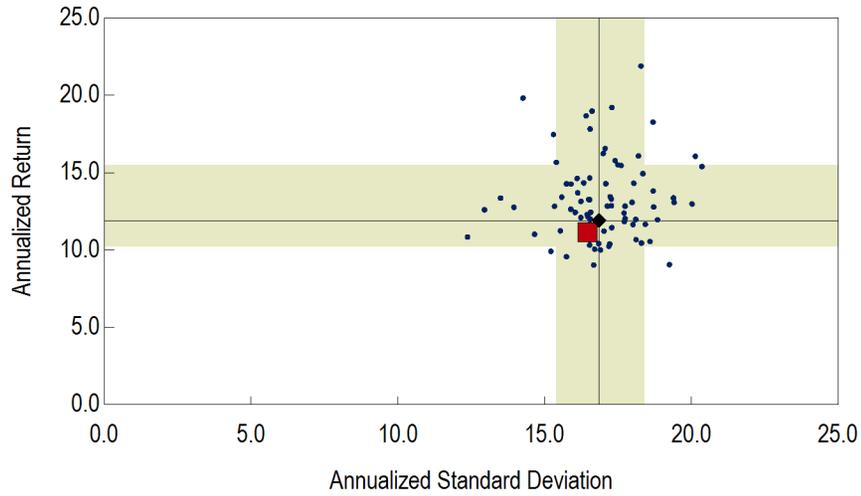
- First Rolling Period
- ◆ Last Rolling Period

*Style map is returns based.



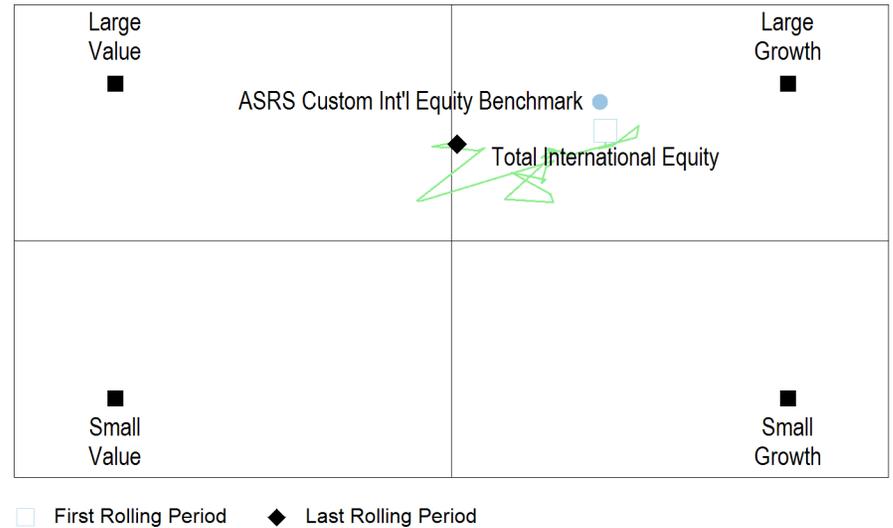
- Total International Equity
- ▲ ASRS Custom Int'l Equity Benchmark
- 5th to 25th Percentile
- 25th to Median
- Median to 75th Percentile
- 75th to 95th Percentile

5 Year Risk Return



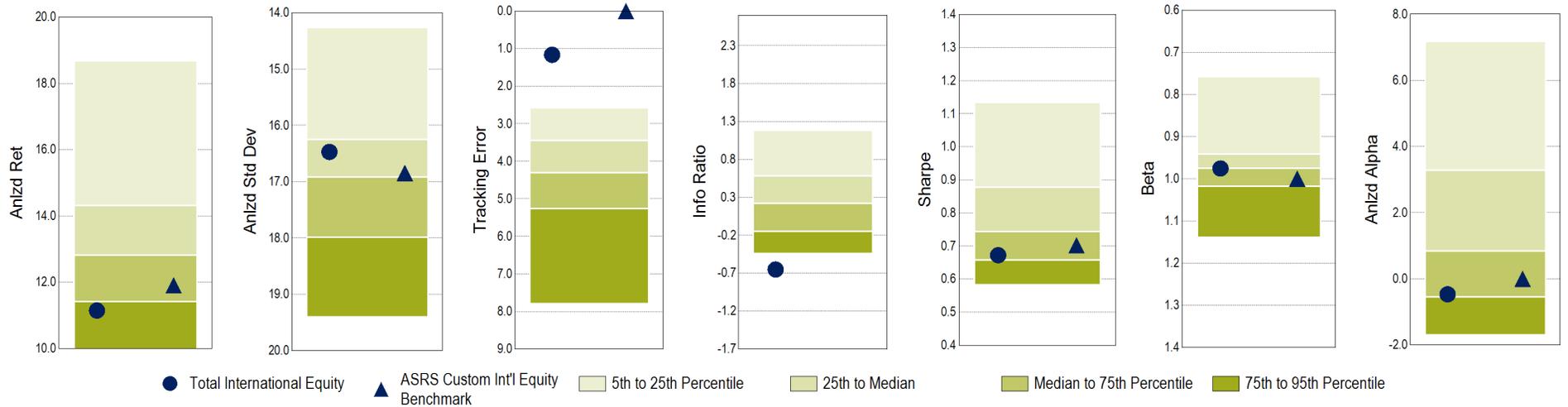
- Total International Equity
- ◆ ASRS Custom Int'l Equity Benchmark
- 68% Confidence Interval
- eA All ACWI ex-US Equity Net

5 Year Style Map



- First Rolling Period
- ◆ Last Rolling Period

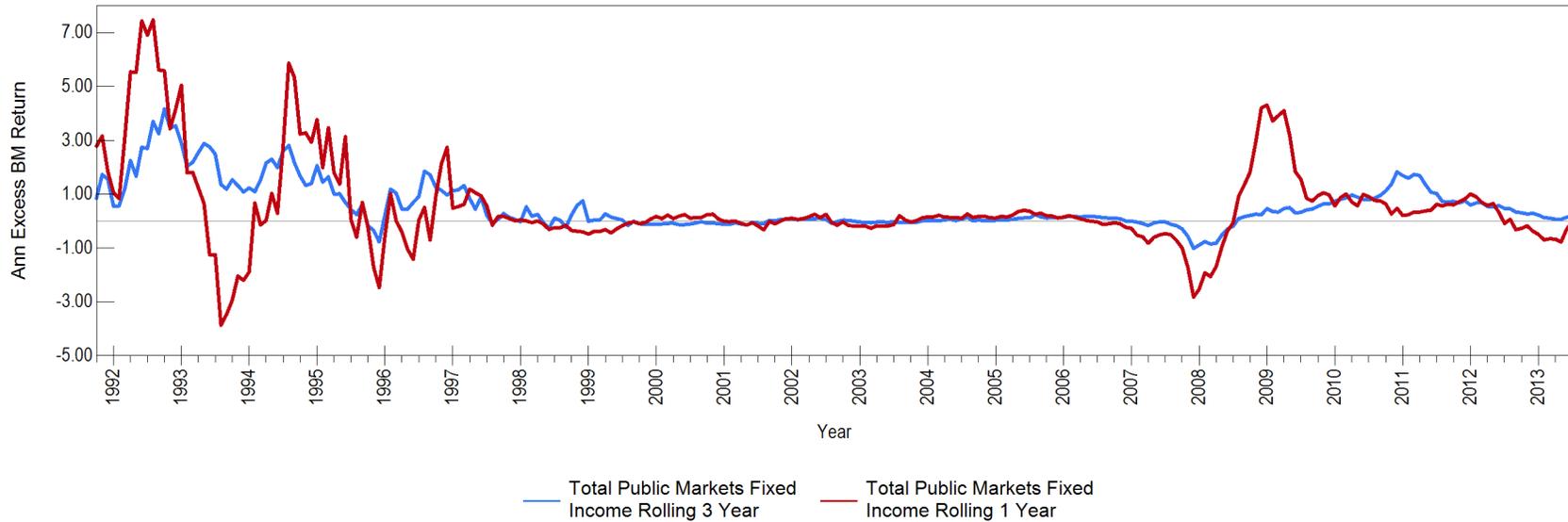
*Style map is returns based.



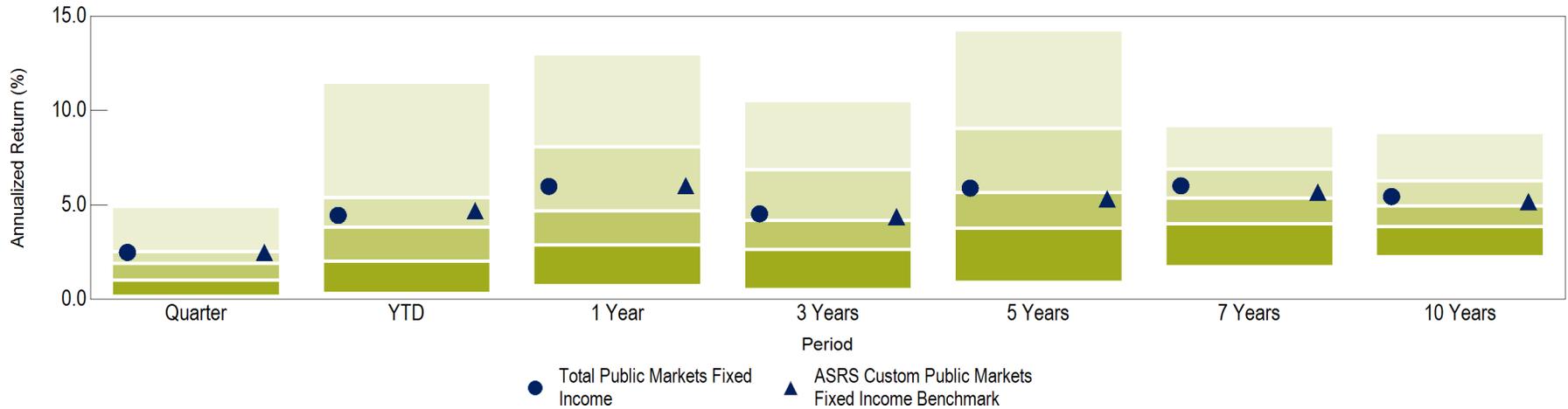
- Total International Equity
- ▲ ASRS Custom Int'l Equity Benchmark
- 5th to 25th Percentile
- 25th to Median
- Median to 75th Percentile
- 75th to 95th Percentile

Asset Class Analysis - Total Public Markets Fixed Income

Rolling Annual Excess Benchmark Return

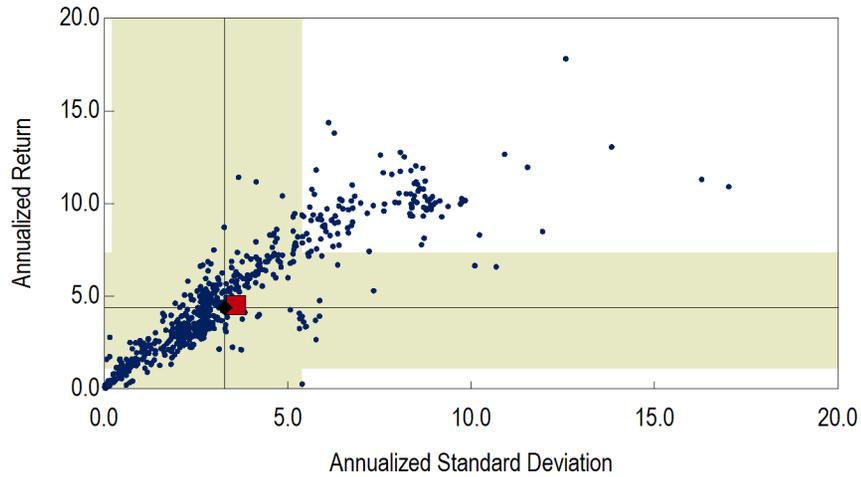


eA All US Fixed Inc Net Accounts



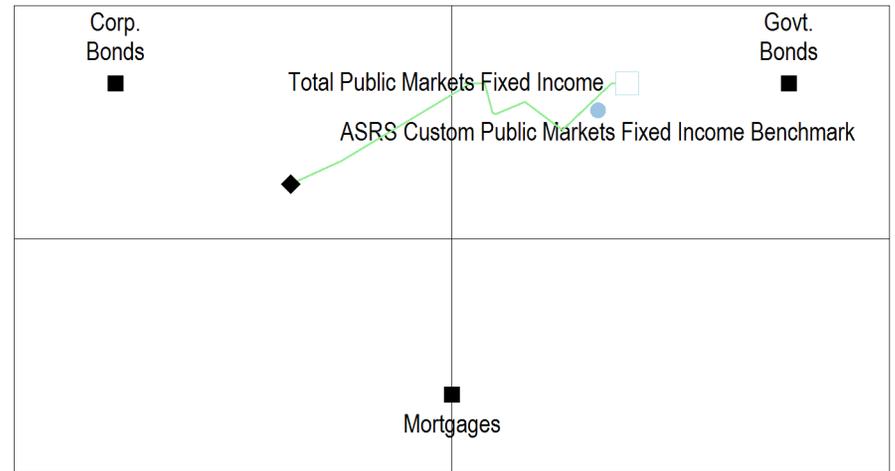
Asset Class Analysis - Total Public Markets Fixed Income

3 Year Risk Return



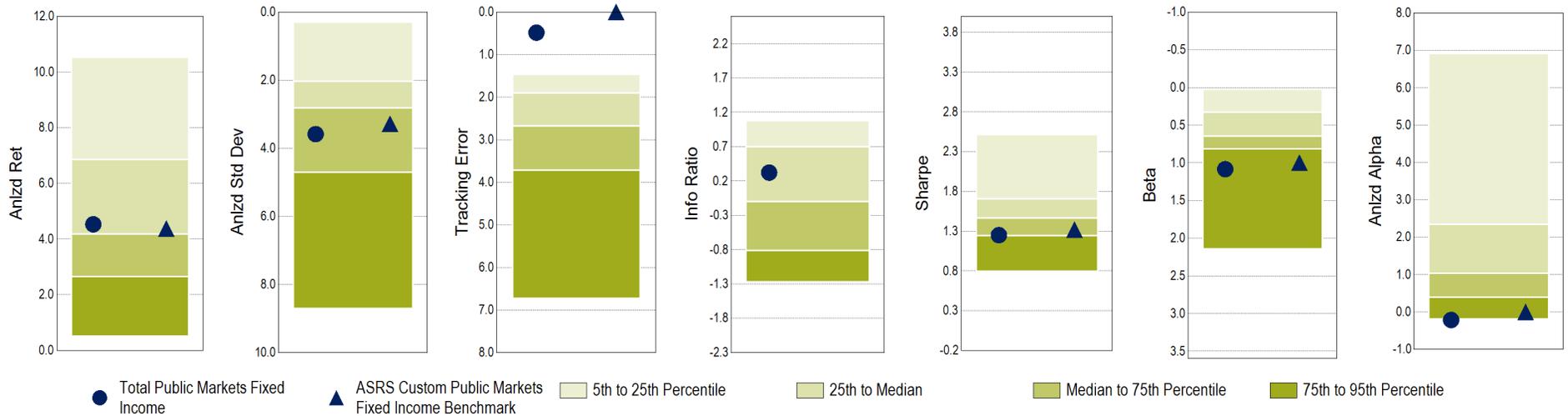
- Total Public Markets Fixed Income
- ◆ ASRS Custom Public Markets Fixed Income Benchmark
- 68% Confidence Interval
- eA All US Fixed Inc Net

3 Year Style Map



- First Rolling Period
- ◆ Last Rolling Period

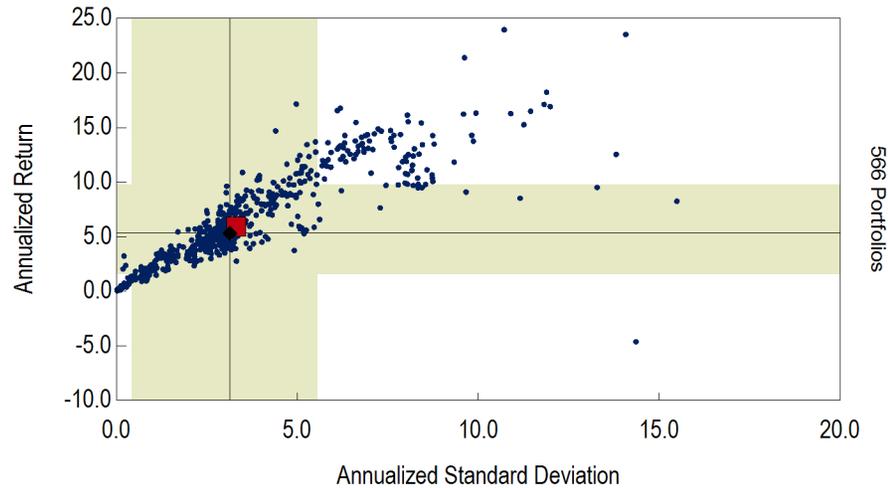
*Style map is returns based.



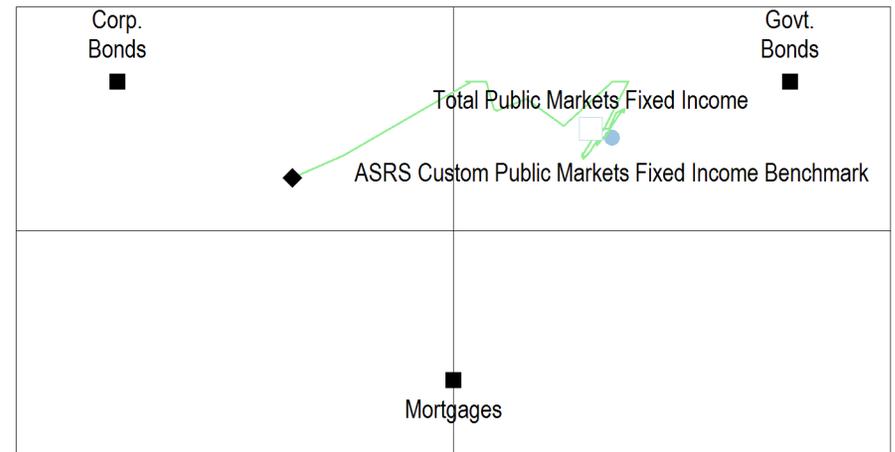
- Total Public Markets Fixed Income
- ▲ ASRS Custom Public Markets Fixed Income Benchmark
- 5th to 25th Percentile
- 25th to Median
- Median to 75th Percentile
- 75th to 95th Percentile

Asset Class Analysis - Total Public Markets Fixed Income

5 Year Risk Return



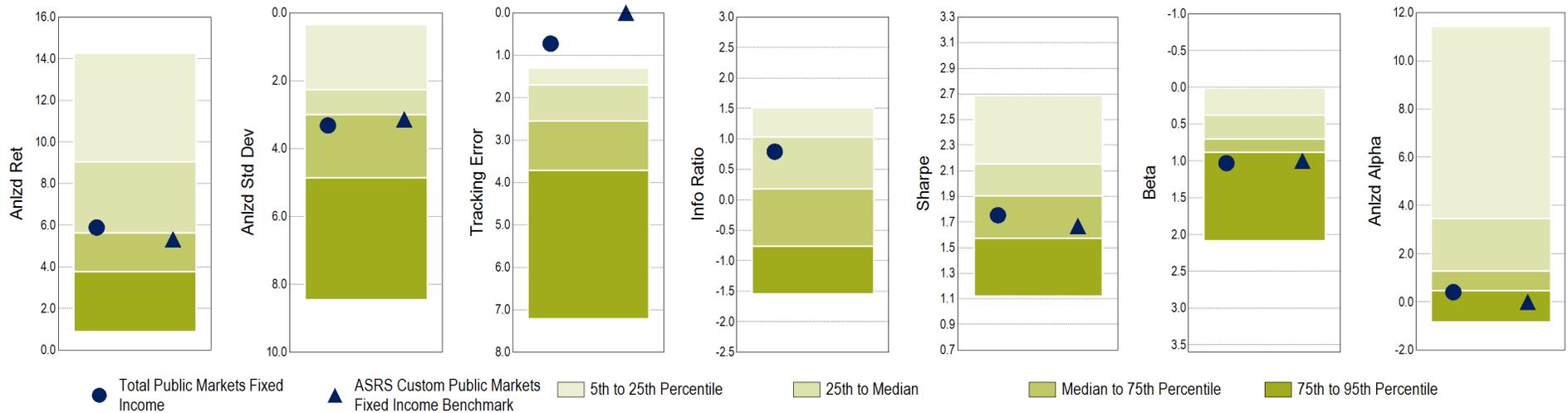
5 Year Style Map



- Total Public Markets Fixed Income
- ◆ ASRS Custom Public Markets Fixed Income Benchmark
- 68% Confidence Interval
- eA All US Fixed Inc Net

- First Rolling Period
- ◆ Last Rolling Period

*Style map is returns based.

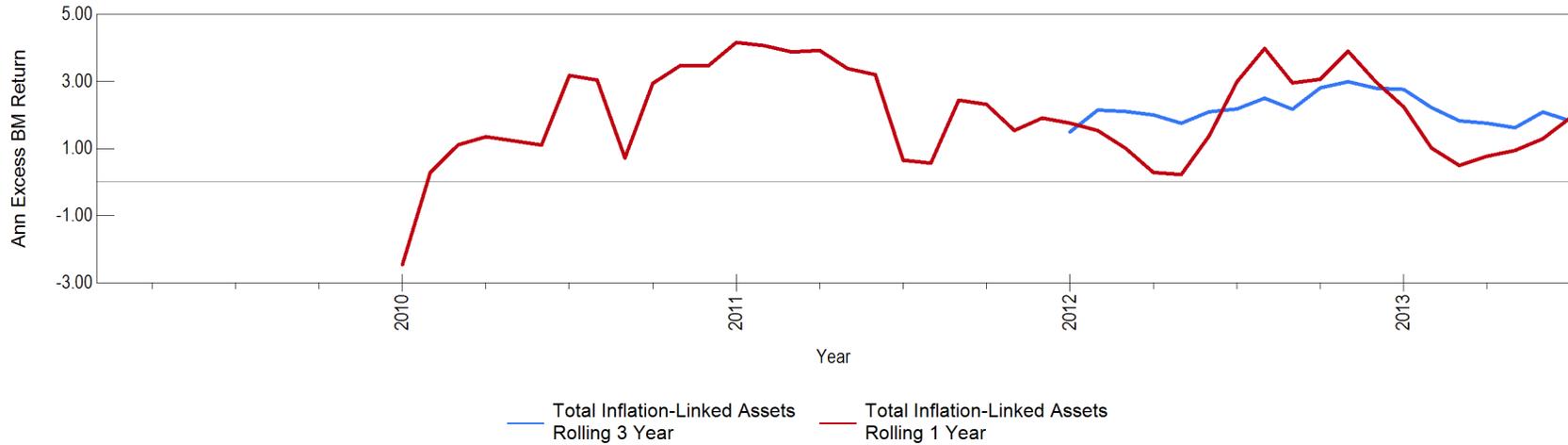


- Total Public Markets Fixed Income
- ▲ ASRS Custom Public Markets Fixed Income Benchmark
- 5th to 25th Percentile
- 25th to Median
- Median to 75th Percentile
- 75th to 95th Percentile

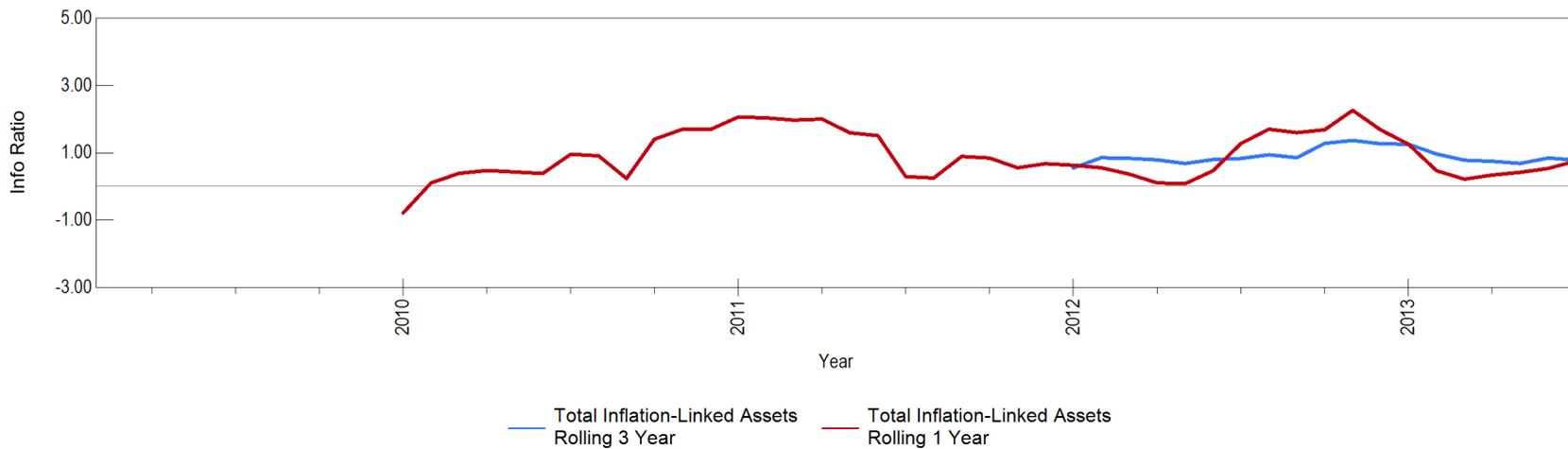


Asset Class Analysis - Total Inflation-Linked Assets

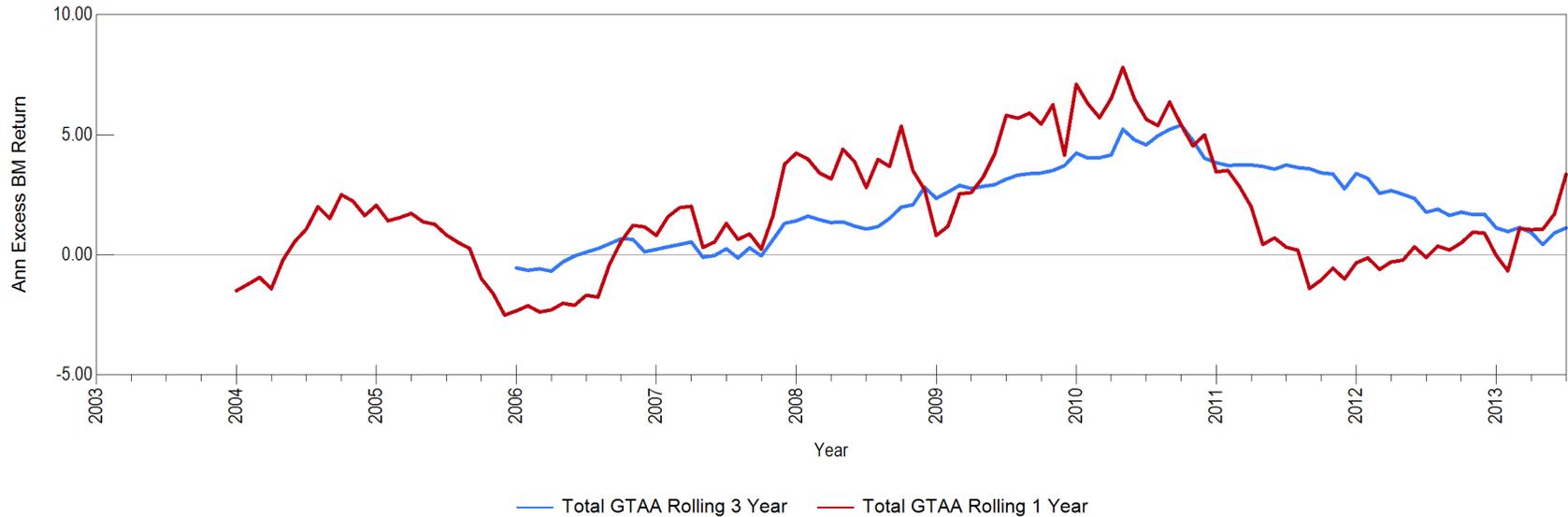
Rolling Annual Excess Benchmark Return



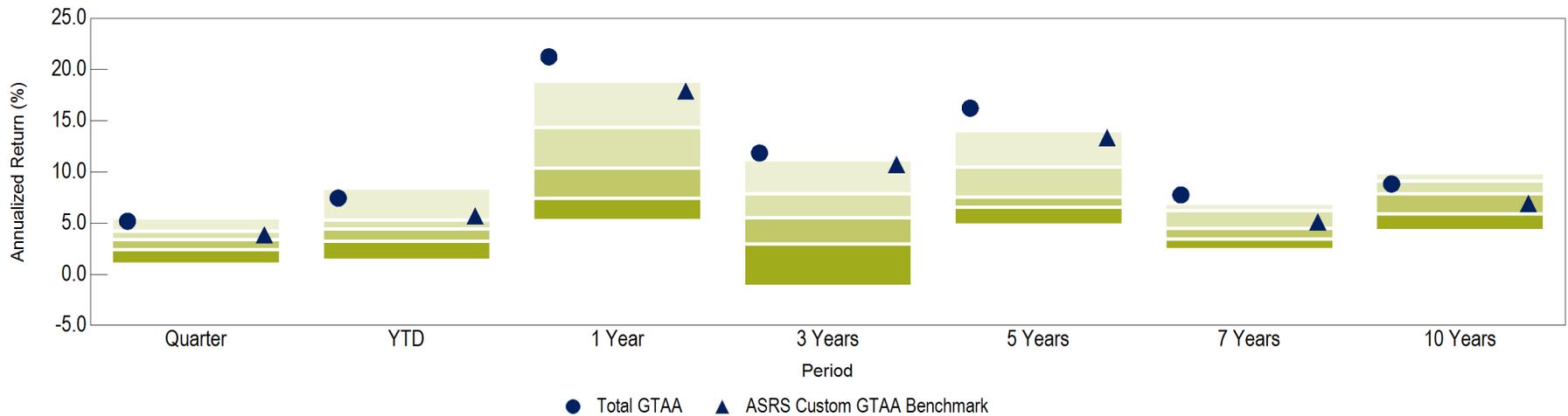
Rolling Information Ratio

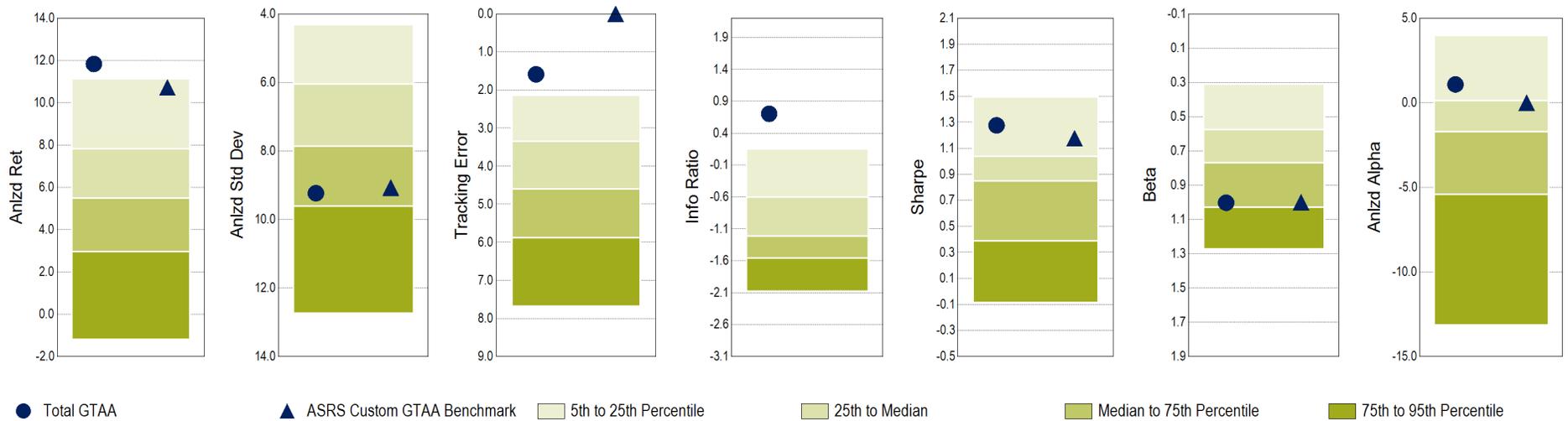
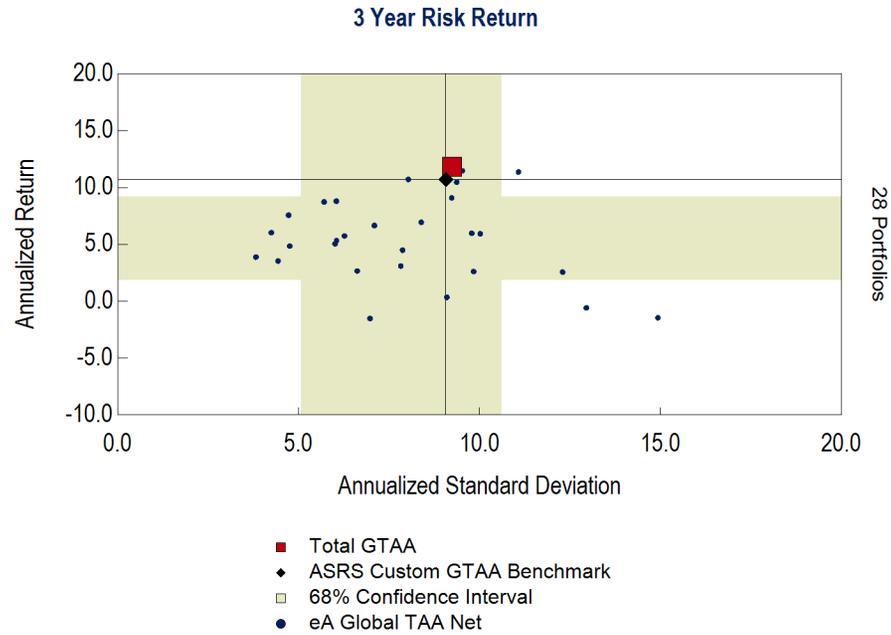


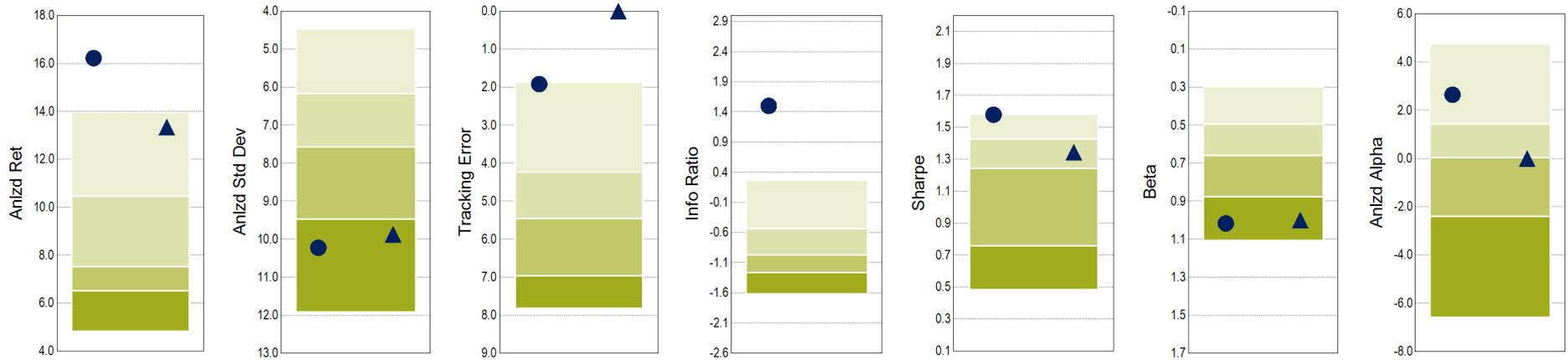
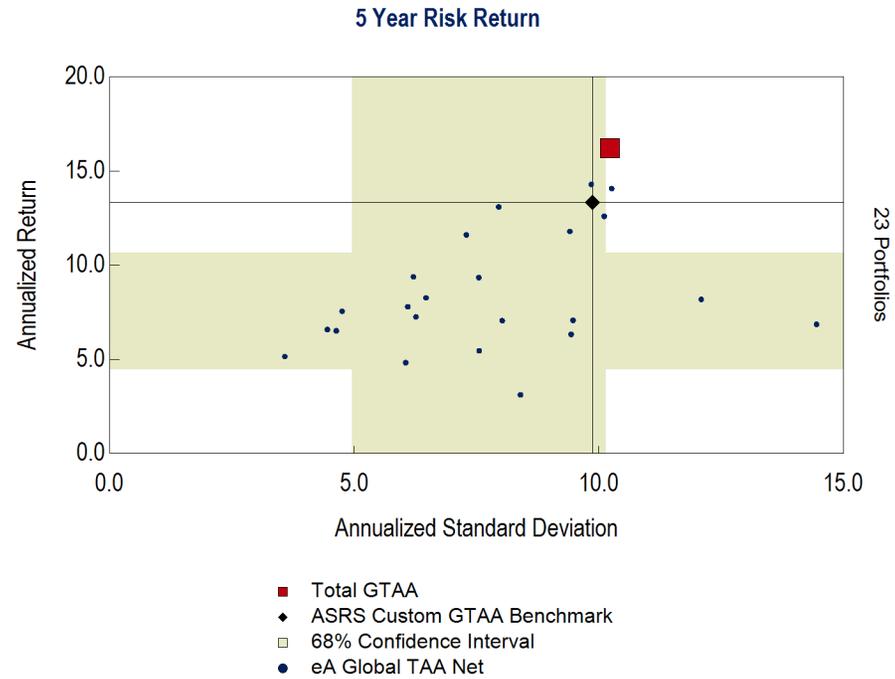
Rolling Annual Excess Benchmark Return



eA Global TAA Net Accounts







- **Five Asset Class Committee meetings have been held since the last time we provided an update on the ASRS Asset Class Committee Meetings.**

- **June 19, 2014 – Ad-Hoc Private Markets Committee**
 - Niche and Tactical Real Estate Investment Disposition Recommendation
 - The Committee heard a recommendation from IMD Staff and RCLCO to sell a property that was a part of the niche and tactical real estate investment portfolio and generated a profit of at least 30% after a two month holding period.
 - Committee approved the recommendation.

- **June 26, 2014 – Private Markets Committee**
 - Private Equity Monthly Status Report, General Discussion and Deal Flow
 - IMD Staff provided a mid-year update on the private equity pacing plan, noting that the current targeted 2014 pace of investments is approximately \$100 million higher than anticipated; however, due to higher than expected returns across other areas of the portfolio, the SAAP target of 7% will not be exceeded.
 - Private Equity Manager Recommendation (\$40 million)
 - Consistent with strategic plan at the Total Fund level (SAAP Target to Private Equity is 7%)
 - Due diligence process was followed in accordance with SIP 006 – Investment Manager, Partner, and Co-Investment Selection and Oversight.
 - Committee approved the recommendation.
 - Private Equity Manager Recommendation (\$50 million)
 - Consistent with strategic plan at the Total Fund level (SAAP Target to Private Equity is 7%)
 - Due diligence process was followed in accordance with SIP 006 – Investment Manager, Partner, and Co-Investment Selection and Oversight.
 - Committee approved the recommendation.
 - Niche and Tactical Real Estate Manager Recommendation (\$100 million)
 - The Committee approved continuing due diligence on this opportunity at its May meeting and RCLCO provided further diligence and results on this opportunity within the urban retail space.
 - The Committee postponed voting on this matter pending completion of background checks.

- **July 1, 2014 – Ad Hoc Private Markets Committee**

- Niche and Tactical Real Estate Investment Manager Recommendation (\$100 million – deferred from 6/26/2014 PRIVMC meeting)
 - Consistent with strategic plan at the Total Fund level (SAAP Target to Real Estate is 8%)
 - Due diligence process was followed in accordance with SIP006 – Investment Manager, Partner, and Co-Investment Selection and Oversight.
 - Committee approved the recommendation.
- Real Estate Investment Discussion
 - RCLCO recommended a variance be granted to change the underwriting criteria of an investment.
 - Committee approved the recommendation.

- **July 14, 2014 – Ad Hoc Private Markets Committee**

- Niche and Tactical Real Estate Investment Discussion
 - At the 2/21/2014 PRIVMC meeting, the Committee approved the pursuit of niche and tactical investments in the real estate asset class in accordance with a documented procedure that includes approval by the Committee before conducting a full due diligence review.
 - IMD Staff and RCLCO presented a potential investment and the Committee authorized further due diligence. In addition, the Committee requested that IMD Staff and RCLCO explore the possibility of increasing the size of the potential investment.

- **July 21, 2014 – Private Markets Committee**

- Private Equity Monthly Status Report, General Discussion and Deal Flow
- Opportunistic Equity Disposition Recommendation
 - The Committee heard a recommendation from IMD Staff regarding the disposition of ownership in a private company that is part of the Opportunistic Equity portfolio and has since gone public.
 - Committee approved the recommendation.

General Observations

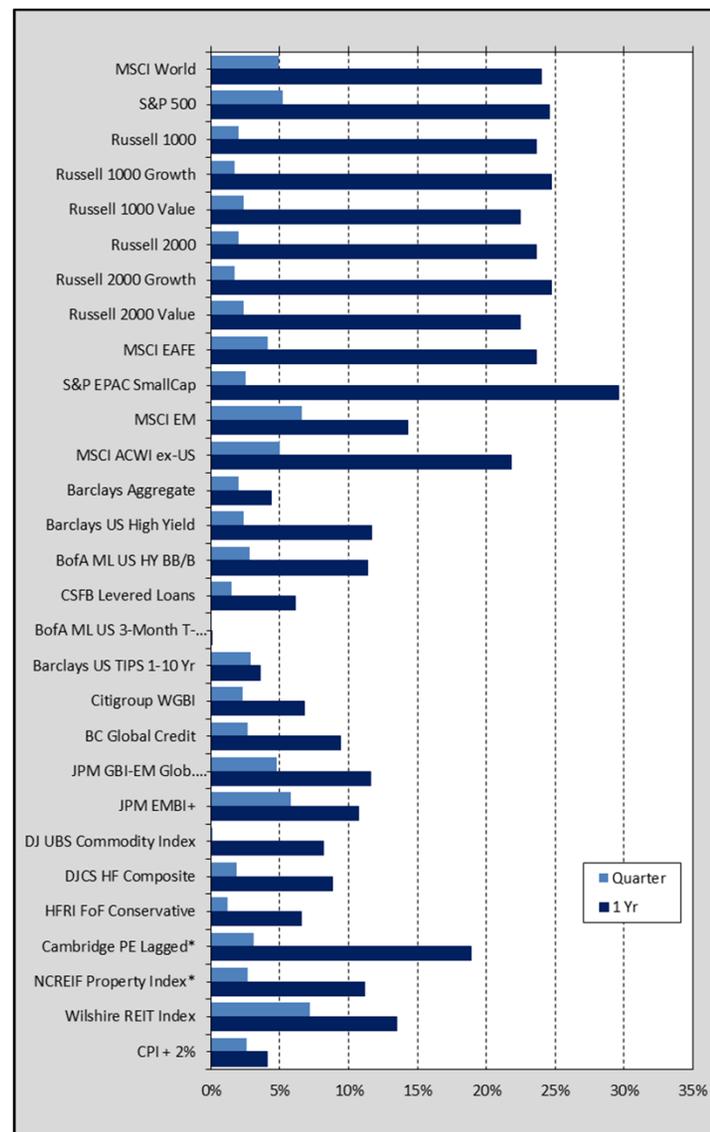
- **The Fund continues to make significant progress moving the portfolio from the Interim SAAP toward the long-term SAAP.**
 - The Interim SAAP progressed toward the long-term SAAP target with a decrease of 1% in U.S. Core Fixed Income to 14% and an increase in Private Debt of 1% to 3%, bringing the Private Debt asset class to its long-term SAAP target weight.
 - Full implementation results in a further reduction of 2% within U.S. Equities and 1% within U.S. Core Fixed Income and an increase of 1% to Private Equity, and 2% to Real Estate.
- **Strong absolute and relative Total Fund performance continues, largely due to the Fund's exposure to global equities.**
 - The Fund's volatility ranks in the bottom quartile of its peer group over all time periods reported herein due to its overweight to equities relative to peers.
 - Continued build-out of private debt and opportunistic debt asset classes provides an opportunity to generate equity-like returns with less volatility.
 - Tactical underweight in Core Fixed Income continues to be a source of value creation on a relative basis for the Fund.
- **Valuations across many asset classes appear stretched**
 - Excluding emerging markets, equity P/E ratios are above long-term averages.
 - Credit spreads continue to tighten globally from insatiable demand.
- **Global Asset Allocation program has added 0.30% of value at the Total Fund level over the past five years.**
 - Strategies combine top-down asset class selection, portfolio construction and risk management techniques
 - Tactical asset class weighting can add value above static, strategic allocation by taking advantage of mispricings and exploiting relationships between global markets
 - Return expectations are subdued across risky asset classes. Tactical asset allocation strategies can be used to identify sources of value
 - Taking full advantage of diversification benefits can produce a more efficient portfolio, especially in highly volatile markets
- **Tactical positioning consistent with IMD House Views**

Market Environment Update and Outlook



- **Second quarter GDP grew at a rate of 4% (according to the advance estimate) after decreasing by 2.1% in the first quarter.**
 - Retail sales (ended June) rose to 3.7% on a year-over-year growth rate basis.
 - The inventory-to-sales ratio has remained mostly flat since early 2010 and closed at 1.29 in May.
 - Corporate profits as a percent of GDP fell from secular highs to 11.6% at the end of Q1 2014 but remain elevated relative to historical levels.
 - The U.S. trade deficit decreased in May.
- **The unemployment rate fell to 6.1% in June; U-6, a broader measure of unemployment, fell to 12.1% during the second quarter.**
- **The Case-Schiller Home Price Index (as of 3/31) stayed nearly flat at 150.79 and is only slightly below the highest level (150.92) it has reached since prior to the financial crisis.**
- **Rolling 12-month CPI increased to 2.1% at the end of May; Capacity Utilization rose slightly to 79.1% in May.**
- **Fed Funds rate remains at 0.25%, while the 10-year Treasury Yield finished June at 2.53%.**
- **The Fed balance sheet continues to increase in 2014, while European Central Bank balance sheets have decreased.**
 - Large economies continue easing (Japan to the extreme), while the ECB cut its main lending rate imposing a negative excess deposit rate.
- **S&P valuations rose in June remaining above the 10-year and long-term averages, which are nearly equal at 16.4x, using current price/earnings ratios.**
 - Cyclically adjusted Shiller PE ratios, are well above the long-term average of 17.6x and above the 10-year average of 23.0x.
 - VIX continues to remain near historically low levels.

		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
World Equity Benchmarks						
MSCI World	World	4.9%	24.0%	11.8%	15.0%	7.2%
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity Benchmarks						
S&P 500	Large Core	5.2%	24.6%	16.6%	18.8%	7.8%
Russell 1000	Large Core	2.0%	23.6%	14.6%	20.2%	8.7%
Russell 1000 Growth	Large Growth	1.7%	24.7%	14.5%	20.5%	9.0%
Russell 1000 Value	Large Value	2.4%	22.5%	14.6%	19.9%	8.2%
Russell 2000	Small Core	2.0%	23.6%	14.6%	20.2%	8.7%
Russell 2000 Growth	Small Growth	1.7%	24.7%	14.5%	20.5%	9.0%
Russell 2000 Value	Small Value	2.4%	22.5%	14.6%	19.9%	8.2%
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
International Equity Benchmarks						
MSCI EAFE	International Developed	4.1%	23.6%	8.1%	11.8%	6.9%
S&P EPAC SmallCap	Small Cap Int'l	2.5%	29.6%	9.8%	15.2%	9.6%
MSCI EM	Emerging Equity	6.6%	14.3%	-0.4%	9.2%	11.9%
MSCI ACWI ex-US	World ex-US	5.0%	21.8%	5.7%	11.1%	7.7%
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Fixed Income Benchmarks						
Barclays Aggregate	Core Bonds	2.0%	4.4%	3.7%	4.9%	4.9%
Barclays US High Yield	High Yield	2.4%	11.7%	9.5%	14.0%	9.1%
BofA ML US HY BB/B	High Yield	2.8%	11.4%	8.8%	12.6%	8.6%
CSFB Levered Loans	Bank Loans	1.5%	6.1%	5.7%	8.8%	5.0%
BofA ML US 3-Month T-Bill	Cash	0.0%	0.1%	0.1%	0.1%	1.6%
Barclays US TIPS 1-10 Yr	Inflation	2.9%	3.6%	2.2%	4.5%	4.6%
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Global Fixed Income Benchmarks						
Citigroup WGBI	World Gov. Bonds	2.3%	6.8%	1.6%	3.6%	4.8%
BC Global Credit	Global Bonds	2.7%	9.4%	5.1%	7.0%	5.6%
JPM GBI-EM Glob. Diversified	Em. Mkt. Bonds (Local)	4.8%	11.6%	7.4%	10.3%	9.3%
JPM EMBI+	Em. Mkt. Bonds	5.8%	10.7%	7.2%	10.1%	9.6%
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Alternative Benchmarks						
DJ UBS Commodity Index	Commodity	0.1%	8.2%	-5.2%	2.0%	0.9%
DJCS HF Composite	Hedge Fund	1.9%	8.8%	5.2%	7.8%	6.4%
HFRI FoF Conservative	Fund of Funds	1.2%	6.6%	3.4%	4.1%	2.8%
Cambridge PE Lagged*	Private Equity	3.1%	18.9%	14.4%	17.3%	14.9%
NCREIF Property Index*	Real Estate	2.7%	11.2%	11.7%	7.9%	8.7%
Wilshire REIT Index	REIT	7.2%	13.5%	11.7%	24.0%	9.5%
CPI + 2%	Inflation/Real Assets	2.6%	4.1%	3.9%	4.1%	4.6%



* As of 3/31/2014

Positives

- **Early stages of Taper generally accepted by marketplace**
 - Though priced in, “normalization” of rates appears optimistic given dovish Fed comments
- **Q2 GDP growth estimated at 4%**
 - U.S. employment gains have resulted in a positive outlook for consumption
- **ECB’s move to cut main lending rate and impose a negative excess deposit rate for banks met with tepid investor reaction**
- **Developed world inflation is low**
 - Allows Fed continued flexibility to work through Taper
- **Emerging markets made further progress**
 - Positive flows, expectations for global growth and valuations may provide tailwind
- **Volatility remains subdued and markets relatively stable**

Negatives

- **Potential geopolitical instability**
 - Instability in Iraq, Israel and Ukraine could have spillover effects away from oil price shocks
- **Benign market environment in Europe obscures challenging underlying economic conditions**
- **Inflation experienced an uptick**
 - Supply disruptions contributed to food and energy price increases
- **Chinese economic stimulus aided Q2 results but China still lagged broader emerging markets**
- **Valuations beginning to stretch above long-term averages**
 - Developed Equity P/Es above median
 - Credit spreads near historically low levels

Global Equity

- **U.S. equities advanced in the second quarter amid improving economic data underscoring growth in the United States and Europe.**
- **Large cap stocks outperformed small cap stocks during the quarter, with the S&P 500 Index returning 5.2% versus 2.1% for the Russell 2000 Index.**
- **International equities slightly underperformed U.S. markets during the quarter, returning 5.0%, as measured by the MSCI ACWI ex-U.S. Index.**
 - Developed markets returned 4.1% as measured by the MSCI EAFE Index. Within developed markets, Japan was one of the better performing regions, returning roughly 6.6% during the quarter amid positive remarks on structural reform from Prime Minister Abe.
 - Emerging markets returned 6.6% as measured by the MSCI Emerging Markets Index. Returns during the quarter were bolstered by improving conditions in the Ukraine (conditions have since deteriorated), positive election results in India, and better economic conditions in China. Turkey and India were the best performing markets, returning 15% and 13%, respectively.

Private Equity

- **New private equity commitments totaled \$92.1 billion in Q2 2014, bringing total new commitments to \$173.1 billion in the first half of the year. 2014 is on track to be the fifth straight year of increasing commitments.**
 - While the overall trend was up, commitments to North American private equity funds fell 3% in the first half of the year. The relative value of European and Asian private equity may be outweighing the risks of investing overseas.
- **Buyout and growth equity funds have raised \$88.5 billion through the first half of the year, with mega buyout firms accounting for 31% of all buyout/growth equity funds.**
- **Venture capital commitments were \$27.2 billion in the first six months of the year, nearly matching the total raised in all of 2013.**
 - At 16% of total private equity raised, commitments are just below the 10-year historic relative average.
- **Mezzanine funds continue to face strong headwinds from a robust high yield market and an expanding supply of private debt.**
- **Asian private equity commitments accelerated in 2014 to \$21.7 billion.**
 - Represents 13% of 2014 total across all geographies and 72% of all Asian PE funds raised in 2013.
 - Approximately three-fourths of Asia PE raised in the 1st half of 2014 was by China funds.

Fixed Income

- **Bond markets continued their rally from the first quarter as strong performance in Treasuries spurred a rally across fixed income sectors.**
- **The 10-year Treasury yield fell almost 20 basis points during the quarter, finishing at 2.53%.**
- **The Treasury yield curve flattened as two-year yields rose slightly to 0.47% from 0.44%.**
- **Treasury Inflation-Protected Securities, or TIPS, outperformed nominal Treasuries due to increased inflation (expectations and actual), with the Barclays US TIPS Index posting gains of 3.8% during the quarter.**
- **Despite record new supply, investment grade credit posted strong performance, with spreads narrowing seven basis points to 96 basis points.**
 - The U.S. Credit Index gained 2.7% and the Long Duration Credit Index returned 5.0% in the second quarter.
- **High yield bonds returned 2.4%, aided by a decline in Treasury yields and a tightening of credit spreads.**
 - Spreads on high yield credit declined to 337 basis points, a post-crisis low, from 358 basis points at the end of the first quarter.
- **Additional monetary accommodation implemented by the ECB helped to extend a rally in emerging markets debt.**
 - Local currency (JP Morgan GBI-EM Global Diversified – Unhedged) and external currency (JP Morgan EMBI+) emerging markets debt had a stellar second quarter, returning 4.0% and 5.8%, respectively.

Commodities

- **Commodities posted modest gains in the second quarter with the DJ UBS essentially flat while the GSCI returned 2.7%.**
 - Commodity prices experienced high variability among sub-sectors.
- **Further tensions in the Middle East pushed energy prices higher while record low livestock inventories in the U.S. caused cattle prices to spike.**
- **Poor weather conditions in the growing regions, combined with severe cold weather, sparked supply related rallies earlier in the quarter in corn and natural gas before reversing course and trading downward during the second half of the quarter.**

Real Estate

- **NEPC continues to be neutral on core real estate in the U.S. and remains positive on non-core real estate, that is, value-add and opportunistic strategies, particularly in Europe.**
- **Within U.S. core real estate, strong fundamentals continue to be the story along with attractive income spreads relative to interest rates.**
 - The concerns for U.S. core real estate (and U.S. real estate, broadly) continues to be plentiful capital that is driving up pricing; and the market's expectation for higher future interest rates and their impact on capitalization rates and capital values.
- **U.S. REITs have rebounded in 2014 following weak performance in 2013.**
 - 16.2% compounded return through Q2 versus 2.9% annual return in 2013 and 2.3% 20-year average annual return.
 - REITs are trading at slight premiums to NAV with high FFO multiples; indicative of higher public market growth expectations.
- **Overall, the non-core real estate investment environment in the U.S. is normalizing; however, select areas remain attractive.**
 - Non-major markets have been slower to rebound relative to major markets and select property types/geographies remain distressed.
- **Europe is viewed as the best place for a marginal dollar of non-core real estate investment.**
 - Europe is emerging from multi-year recession, but recovery is slow.
 - Banks in EU are still overleveraged and have significant real estate exposure (banks in Europe hold 90%+ of real estate debt or €2,300B; in the U.S. banks hold 49% of real estate debt).

Real Assets/Inflation-Linked Assets

- **NEPC believes that energy, specifically in North America, represents an attractive opportunity in the up-stream and mid-stream parts of the energy value chain.**
- **Agriculture and metals/mining opportunities seem appealing based on long-term demographic trends despite a less certain short-term outlook.**
 - NEPC believes in long-term demand drivers for agriculture, especially for row crops such as corn and soy.
- **Timber is an area of portfolios where we would recommend underweight positions as total return targets are low with a relatively small market opportunity and managers seeking deals outside the U.S.**

- **Interpreting and understanding the low volatility environment is a key challenge.**
 - Low volatility can persist for long periods as a tailwind to markets but can also lead to complacency as excesses build in capital markets.
 - Assess portfolio risk exposure and determine reasonable levels of portfolio liquidity and dry powder for future opportunities.
- **Persistent low volatility may obscure underlying economic risks.**
 - Global growth expectations remain subdued.
 - EM balance of payment concerns remain as some countries slow the pace of reforms.
 - China growth softens as credit growth continues to expand.
 - Geopolitical risks pushing oil prices higher.
- **As taper of QE concludes, there is the potential for increased volatility as markets seek visibility into the Fed's monetary policy for 2015.**
- **Valuations across many asset classes appear stretched.**
 - Excluding EM, equity P-E ratios are above long-term averages.
 - Credit spreads continue to tighten globally from insatiable demand.
- **NEPC themes remain consistent.**
 - Investors would be wise to rebalance to policy targets and maintain portfolio risk balance.
 - Allocate to emerging markets and private markets for higher returns in a low return world.
 - Look for opportunities to be dynamic – particularly in credit markets.

NEPC Updates

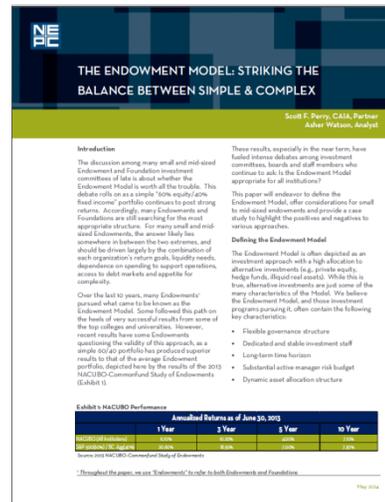
Second Quarter 2014

Highlights of Second Quarter Happenings at NEPC

NEPC Research

Recent White Papers Posted

- *2Q Market Thoughts — “The Volatility Conundrum”* (July 2014)
- *The Endowment Model: Striking the Balance Between Simple & Complex* (May 2014) – Scott F. Perry, CAIA, Partner
- *Hangover Redux: The Impact of Capital Overhang on Private Equity Investing* (May 2014) – Chuck Tedeschi, Senior Consultant, Private Markets Research; Melissa Mendenhall, Consultant, Private Markets Research



News from NEPC

- NEPC is pleased to announce the selection of MSCI’s BarraOne and HedgePlatform for risk management and reporting. “This broader relationship with MSCI will provide NEPC with leading risk tools for both total plan risk and hedge fund risk. We are particularly excited about the plans to integrate the InvestorForce Reporting platform with BarraOne,” noted Dan Kelly, Chief Operating Officer of NEPC.

Professional Staff Updates

New Client Strategy Team

- Provides high level Research and Consulting Services to all practice areas and develops sophisticated client Research. The team offers a centralized senior level resource pool for all clients that require expertise in asset allocation, defined contribution and alternative assets.
- Led by **Chris Levell, ASA, CFA, CAIA, Partner** focusing on asset allocation
- Supported by **Ross Bremen, CFA, Partner** (Defined Contribution) and **Sean Gill, CFA, CAIA, Partner** (Alternative Assets)



Appendix: SAA Policy History



Strategic Asset Allocation Policy (SAAP) History

- 7/1/75 – 12/31/79 – 40% S&P 500/60% Barclays Capital Aggregate
- 1/1/80 – 12/31/83 – 50% S&P 500/50% Barclays Capital Aggregate
- 1/1/84 – 12/31/91 – 60% S&P 500/40% Barclays Capital Aggregate
- 1/1/92 – 12/31/94 – 50% S&P 500/10% MSCI EAFE/40% Barclays Capital Aggregate
- 1/1/95 – 6/30/97 – 45% S&P 500/15% MSCI EAFE/40% Barclays Capital Aggregate
- 7/1/97 – 12/31/99 – 50% S&P 500/15% MSCI EAFE/35% Barclays Capital Aggregate
- 1/1/00 – 9/30/03 – 53% S&P 500/17% MSCI EAFE/30% Barclays Capital Aggregate
- 10/1/03 – 12/31/06 – 53% S&P 500/15% MSCI EAFE/ACWI ex-U.S.¹/26% Barclays Capital Aggregate/6% NCREIF ODCE (lagged one quarter)
- 1/1/07 – 10/31/2009 – 31% S&P 500/7% S&P 400/7% S&P 600/18% MSCI ACWI ex-U.S./5% Russell 2000 (lagged one quarter)/26% Barclays Capital Aggregate/6% NCREIF ODCE (lagged one quarter)
- 11/1/2009 – 6/30/2012 – 28% S&P 500/6% S&P 400/6% S&P 600/13% MSCI EAFE/2% MSCI EAFE Small Cap/3% MSCI Emerging Markets/7% Russell 2000 (lagged one quarter)/24% Barclays Capital Aggregate/2% Barclays Capital High Yield/6% NCREIF ODCE (lagged one quarter)/3% Dow Jones/UBS Commodities Index
- **7/1/2012 – Present – 23% S&P 500/5% S&P 400/5% S&P 600/14% MSCI EAFE/3% MSCI EAFE Small Cap/6% MSCI Emerging Markets/7% Russell 2000 (lagged one quarter)/13% Barclays Capital Aggregate/5% Barclays Capital High Yield/4% JP Morgan GBI-EM Global Diversified/3% S&P/LSTA Levered Loan Index + 250 basis points (lagged one quarter)/8% NCREIF ODCE (lagged one quarter)/4% Dow Jones/UBS Commodities Index**
- *Interim SAA Policy: 25% S&P 500/5% S&P 400/5% S&P 600/14% MSCI EAFE/3% MSCI EAFE Small Cap/6% MSCI Emerging Markets/6% Russell 2000 (lagged one quarter)/14% Barclays Capital Aggregate/5% Barclays Capital High Yield/4% JP Morgan GBI-EM Global Diversified/3% S&P/LSTA Levered Loan Index + 250 basis points (lagged one quarter)/6% NCREIF ODCE (lagged one quarter)/4% Dow Jones/UBS Commodities Index

Note: Interim SAA Policy includes a proration of 1% Private Equity and 2% Real Estate, which are unfunded. Private Equity was prorated to domestic equity; Real Estate was prorated to domestic equity and fixed income. Recently approved Strategic Asset Allocation Policy effective July 1, 2012.

¹MSCI EAFE/ACWI ex-U.S. Benchmark is the MSCI EAFE Index prior to 10/1/2005 and the MSCI ACWI ex-U.S. thereafter.

Note: All MSCI indices changed from Gross to Net of dividend withholding taxes effective 1/1/2014.



ASRS Custom Asset Class Benchmark History

- **ASRS Custom Total Equity Benchmark** was 77% S&P 500, 23% MSCI EAFE through 12/31/1999; 76% S&P 500, 24% MSCI EAFE through 9/30/2003; 78% S&P 500, 22% MSCI EAFE/ACWI ex-U.S.¹ through 12/31/2006; 49% S&P 500, 11% S&P 400, 11% S&P 600, 29% MSCI ACWI ex-U.S. through 10/31/2009; 48% S&P 500, 10% S&P 400, 10% S&P 600, 23% MSCI EAFE, 4% MSCI EAFE Small Cap, 5% MSCI Emerging Markets through 6/30/2012; 41% S&P 500, 9% S&P 400, 9% S&P 600, 25% MSCI EAFE, 5% MSCI EAFE Small Cap, 11% MSCI Emerging Markets thereafter.
- **ASRS Custom Domestic Equity Benchmark** was S&P 500 through 12/31/2006; 74% S&P 500, 13% S&P 400, 13% S&P 600 through 12/31/2010; 70% S&P 500, 15% S&P 400, and 15% S&P 600 thereafter.
- **ASRS Custom International Equity Benchmark** was MSCI EAFE through 9/30/2005; MSCI ACWI ex-U.S. through 12/31/2010; 72% MSCI EAFE, 11% MSCI EAFE Small Cap and 17% MSCI Emerging Markets through 6/30/2012; 61% MSCI EAFE, 13% MSCI EAFE Small Cap and 26% MSCI Emerging Markets thereafter.
- **ASRS Custom Public Markets Fixed Income Benchmark** was Barclays Capital U.S. Aggregate Index through 12/31/2010; 93% Barclays Capital U.S. Aggregate Index, 7% Barclays Capital U.S. High Yield Bond Index through 12/31/2012; 59% Barclays Capital U.S. Aggregate Index, 23% Barclays Capital U.S. High Yield Bond Index, 18% JP Morgan GBI-EM Global Diversified thereafter.
- **ASRS Custom GTAA Benchmark** was 56% S&P 500, 16% MSCI EAFE, 28% Barclays Capital Aggregate through 9/30/2011; 50% S&P 500, 19% MSCI EAFE, 28% Barclays Capital Aggregate, and 3% DJ UBS Commodities Index through 06/30/2012; 43% S&P 500, 25% MSCI EAFE, 28% Barclays Capital Aggregate, and 4% DJ UBS Commodities Index thereafter.
- **ASRS Custom Inflation-Linked Benchmark** was 100% Barclays Capital U.S. TIPS through 7/31/2010; 50% Barclays Capital U.S. TIPS, 50% DJ UBS Commodities Index through 8/31/2010; 30% Barclays Capital U.S. TIPS, 70% DJ UBS Commodities Index through 5/31/2011; 100% DJ UBS Commodities Index thereafter.

¹MSCI EAFE/ACWI ex-U.S. Benchmark is the MSCI EAFE Index prior to 10/1/2005 and the MSCI ACWI ex-U.S. thereafter.

Note: All MSCI indices changed from Gross to Net of dividend withholding taxes effective 1/1/2014.



- **The client's custodian bank is NEPC's preferred data source unless otherwise directed. NEPC reconciles custodian data to manager data. If the custodian cannot provide accurate data, manager data may be used.**
- **Trailing time period returns are determined by geometrically linking the holding period returns, from the first full month after inception to the report date. Rates of Return are annualized when the time period is longer than a year. Performance is presented gross and/or net of fees as indicated.**
- **For managers funded in the middle of a month, the 'since inception' return will start with the first full month, although actual inception dates and cash flows are included in all respective Composite calculations.**
- **This report may contain forward-looking statements that are based on NEPC's estimates, opinions and beliefs, but NEPC cannot guarantee that any plan will achieve its targeted return or meet other goals.**

- **Past performance is no guarantee of future results.**
- **All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.**
- **Some index returns displayed in this report or used in calculation of a policy, allocation or custom benchmark may not be available from the source or may be preliminary and subject to change.**
- **NEPC's source for portfolio pricing, calculation of accruals, and transaction information is the Plan's custodian bank. Information on market indices and security characteristics is received from other sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained herein.**
- **This report is provided as a management aid for the client's internal use only. Performance in this report does not constitute a recommendation by NEPC.**
- **This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.**

Agenda Item #11

Director's Report

11a - Compliance

11b - Investments

11c - Operations

11d - Budget & Staffing

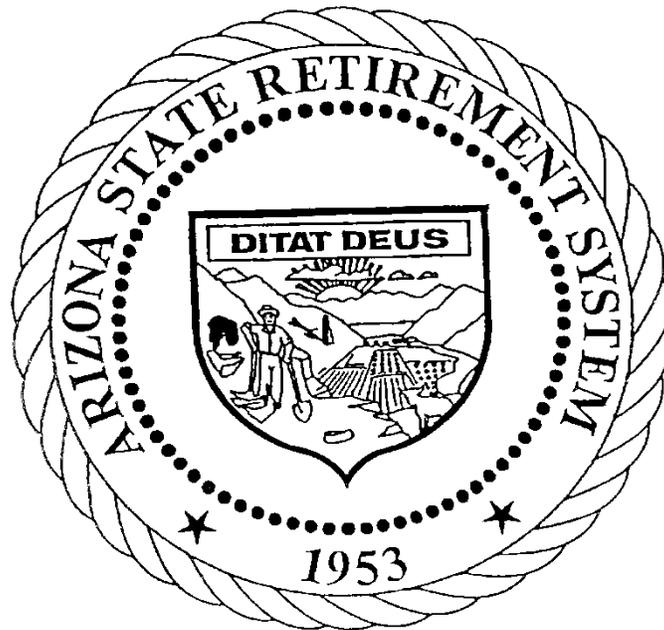
11e - Cash Flow Statement

11f - Appeals

11g - Employers Reporting

Agenda Item #11a

Director's Report Compliance





ARIZONA STATE RETIREMENT SYSTEM

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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: August 11, 2014

RE: Tri-annual Review of Compliance Issues Regarding Total Fund Investments as of June 30, 2014

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 June 30, 2014 we found no exception to these topics.

cc: Gary Dokes, Chief Investment Officer
Gloria Trujillo, Administrative Project Analyst



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Paul Matson
Director

MEMORANDUM

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

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

DATE: August 11, 2014

RE: Internal Audit Review of Internal Investment Validation for the two months ending **June 30, and July 31, 2014**

The Internal Audit Division reviewed 2,321 trade transactions in the month of June and 212 trade transactions in the month of July 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.

cc; Gary Dokes, Chief Investment Officer
Gloria Trujillo, Administrative Project Analyst



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Paul Matson
Director

MEMORANDUM

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

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

DATE: August 11, 2014

RE: Internal Audit Review of Refunds Processed for the Period January 1, 2014 to June 30, 2014

The Internal Audit Division (IAD) tested a sample of all refunds sent to members (6,750) for the period of January 1, 2014 through June 30, 2014. A total of 205 refunds were tested for accuracy of the calculation. We used judgmental sampling to determine our selection of refund recipients. A reportable error is one in which the error represents more than 1% of the gross refund.

From the testing of the 205 samples selected, we found no reportable errors for this time period.

cc: Anthony Guarino, Deputy Director and Chief Operations Officer
Dave King, Assistant Director, Member Services Division
Nancy Bennett, Assistant Director, Financial Services Division
Sara Orozco, Senior Management Analyst
Brian Crockett, Management Analyst



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Paul Matson
Director

MEMORANDUM

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

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

DATE: August 11, 2014

RE: Internal Audit review of Service Purchase Cost Invoices for the six months ended June 30, 2014

The Internal Audit Division randomly tested a sample of all service purchase invoices sent to members from January 1, 2014 – June 30, 2014 (1,194). A total of 190 invoices were tested. They were reviewed for accuracy of both the credited service to the member and the cost of the service purchased. The following is the breakdown of the invoices tested in our completed sample: 83 Forfeited Service (FS); 48 Other Public Service (OPS); 12 Military Service (MS); 7 Leave of Absence (LOA), and 40 Contributions Not Withheld (CNW). The sample size was determined based on the expected rate of an error occurring in relation to the entire population, (plus or minus 5 percent).

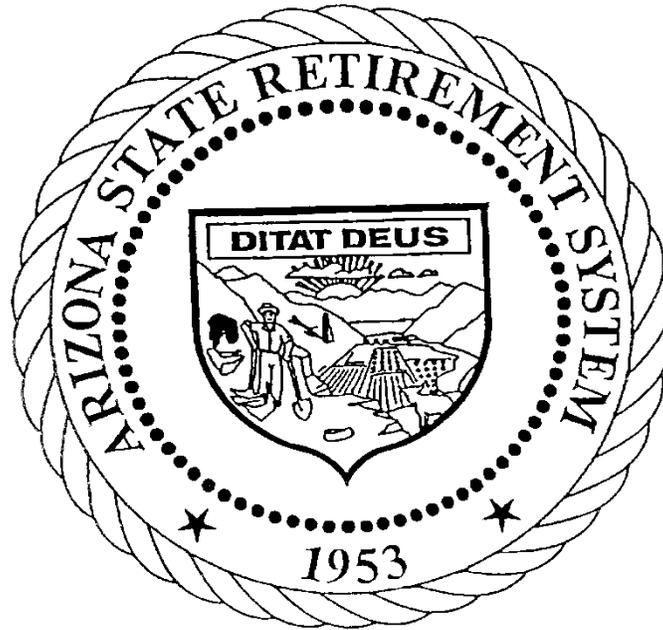
During the six months tested, we found no reportable errors;

The agency standard for quality, based on the Strategic Plan, is 98 percent for the sample tested. 190 correct cost letters out of 190 sampled = 100 percent quality rating.

cc: Anthony Guarino, Deputy Director and Chief Operations Officer
Dave King, Assistant Director, Member Services Division
Nancy Bennett, Assistant Director, Financial Services Division
Sara Orozco, Senior Management Analyst
Brian Crockett, Management Analyst

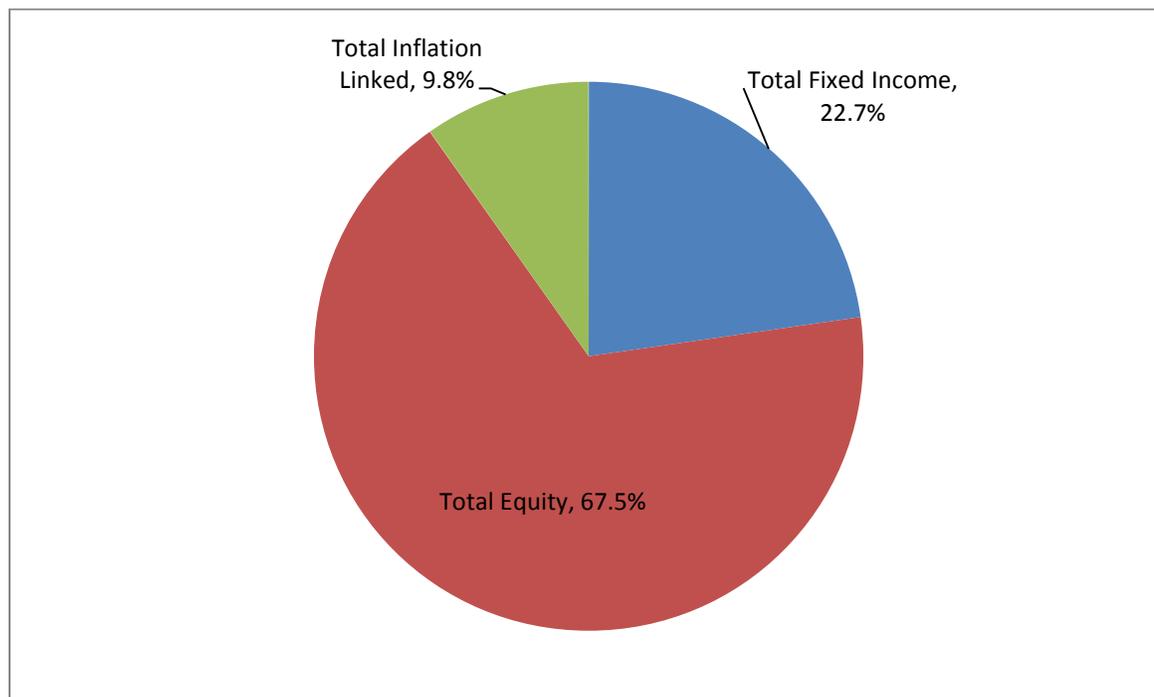
Agenda Item #11b

Director's Report Investments

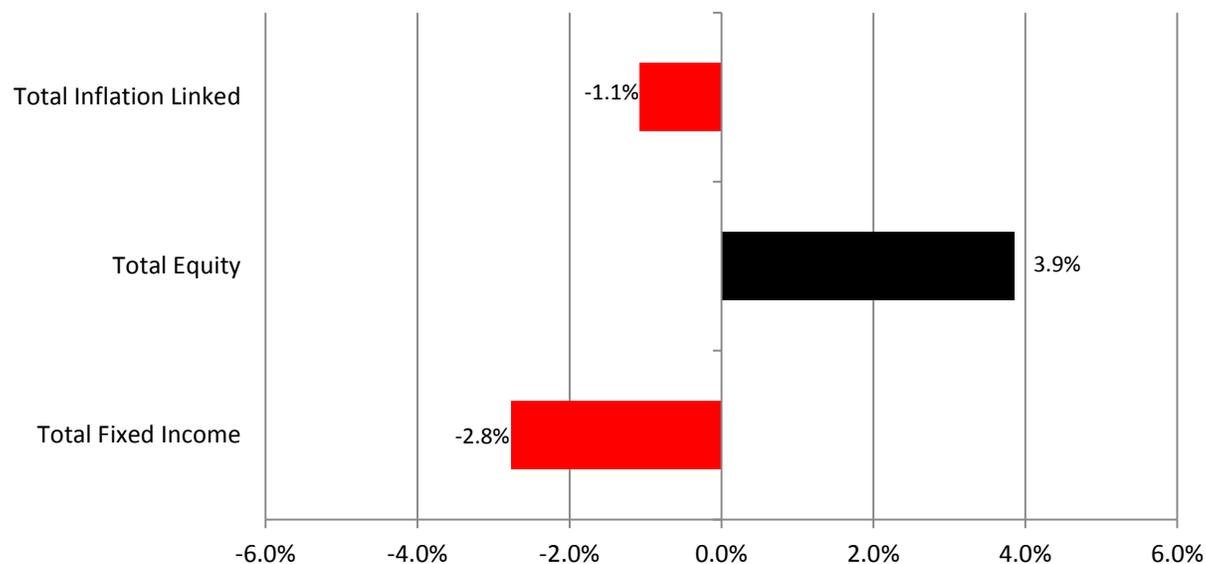


TOTAL FUND POSITIONING – 7/31/14

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:

Thursday, July 31, 2014

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	Master Cash & Pension Acct.		246,491,521					246,491,521	0.72%
	Cash Total							\$246,491,521	0.72%
GTAAs Managers (2)	Active GTAA	1,010,227,380						1,010,227,380	2.96%
Blackrock: San Francisco	Passive (Intermediate Gov Credit)		23,823,005					23,823,005	0.07%
ASRS: Phoenix	Enhanced Passive F2		1,915,213,768					1,915,213,768	5.60%
Blackrock: San Francisco	Passive (US Debt Index)		710,102,199					710,102,199	2.08%
	Core Fixed Income Total							\$3,659,366,353	10.70%
	Core Fixed Income Policy								13.00%
Columbia: Minneapolis	Active	638,639,346						638,639,346	1.87%
JP Morgan: Indianapolis	Active	326,435,765						326,435,765	0.95%
	High Yield Fixed Income Total							\$965,091,760	2.82%
	High Yield Fixed Income Policy								5.00%
	US Fixed Income Total							\$4,624,458,112	13.53%
	US Fixed Income Policy Range: 8% - 28%								18.00%
PIMCO (local): Newport Beach	Active	348,625,675						348,625,675	1.02%
Ashmore (blended): London	Active	420,121,150						420,121,150	1.23%
	EM Debt Total							\$768,746,825	2.25%
	EM Debt Policy								4.00%
	Opportunistic Debt							\$963,758,083	2.82%
	Opportunistic Debt Policy Range: 0% - 10%								0.00%
	Private Debt Total							\$1,166,092,915	3.41%
	Private Debt Policy								3.00%
	Fixed Income Total							\$7,769,547,457	22.73%
	Total Fixed Income Policy Range: 15% - 35%								25.00%
Intech: FL	Active (Growth)			525,783,073				525,783,073	1.54%
LSV: Chicago	Active (Value)			792,350,066				792,350,066	2.32%
GTAAs Managers (2)	Active GTAA			1,153,409,350				1,153,409,350	3.37%
ASRS: Phoenix	Passive E2				4,911,434,057			4,911,434,057	14.37%
ASRS: Phoenix	Enhanced Passive E7				780,661,205			780,661,205	2.28%
ASRS: Phoenix	Enhanced Passive E8				502,963,796			502,963,796	1.47%
ASRS: Phoenix	Risk Factor Portfolio				504,342,077			504,342,077	1.48%
	Large Cap Equity Total							\$9,170,956,624	26.83%
	Large Cap Policy								23.00%
Wellington: Boston	Active (Core)			418,802,556				418,802,556	1.23%
CRM: New York	Active (Value)			98,009,203				98,009,203	0.29%
ASRS: Phoenix	Passive E3 (Growth)				506,117,404			506,117,404	1.48%
ASRS: Phoenix	Passive E4 (Value)				523,477,583			523,477,583	1.53%
	Mid Cap Equity Total							\$1,546,406,747	4.52%
	Mid Cap Policy								5.00%
TimesSquare: New York	Active SMID (Growth)			463,314,208				463,314,208	1.36%
DFA: Santa Monica	Active (Value)			408,205,341				408,205,341	1.19%
Champlain: Vermont	Active (Core)			97,440,059				97,440,059	0.29%
ASRS: Phoenix	Passive E6				477,336,693			477,336,693	1.40%
	Small Cap Equity Total							\$1,446,296,302	4.23%
	Small Cap Policy								5.00%
	U.S. Equity Total							\$12,163,659,672	35.58%
	US Equity Policy Range: 26% - 38%								33.00%
Brandes: San Diego	Active (Value)			597,125,321				597,125,321	1.75%
GTAAs Managers (2)	Active GTAA			1,099,344,355				1,099,344,355	3.22%
American Century	Active (EAFE)			515,637,136				515,637,136	1.51%
Trinity Street	Active (EAFE)			338,274,413				338,274,413	0.99%
Thompson Siegel Walmsley	Active (EAFE)			158,639,423				158,639,423	0.46%
Blackrock: San Francisco	Passive (EAFE)				2,415,878,835			2,415,878,835	7.07%
	Large Cap Developed Non-US Equity Total							\$5,131,827,240	15.01%
	Large Cap Developed Policy								14.00%
AQR: Greenwich	Active (EAFE SC)			179,040,875				179,040,875	0.52%
DFA: Santa Monica	Active (EAFE SC)			224,645,947				224,645,947	0.66%
Franklin Templeton: San Mateo	Active (EAFE SC)			405,163,482				405,163,482	1.19%
Blackrock: San Francisco	Passive (EAFE SC)				469,991,481			469,991,481	1.37%
	Small Cap Developed Non-US Equity Total							\$1,278,844,735	3.74%
	Small Cap Developed Policy								3.00%
William Blair: Chicago	Active (EM)			484,067,376				484,067,376	1.42%
Eaton Vance: Boston	Active (EM)			528,583,756				528,583,756	1.55%
LSV: Chicago	Active (EM)			325,278,506				325,278,506	0.95%
Blackrock: San Francisco	Passive (EM)				720,983,312			720,983,312	2.11%
	Emerging Markets Equity Total							\$2,058,912,951	6.02%
	Emerging Markets Policy								6.00%
	Non-US Equity Total							\$8,469,584,925	24.78%
	Non-US Equity Policy Range: 16% - 28%								23.00%
	Private Equity Total							\$2,108,435,490	6.17%
	Private Equity Policy Range: 5% - 9%								7.00%
	Opportunistic Equity							\$326,545,463	0.96%
	Opportunistic Equity Policy Range: 0% - 3%								0.00%
	Equity Total							\$23,068,225,551	67.48%
	Total Equity Policy Range: 53% - 73%								63.00%
Gresham: New York						826,503,891		826,503,891	2.42%
GTAAs Managers (2)	Active GTAA					367,733,124		367,733,124	1.08%
	Commodities Total							\$1,194,237,015	3.49%
	Commodities Policy Range: 1% - 7%								4.00%
GTAAs Manager (1)	Active GTAA					54,554,600		54,554,600	0.16%
	Real Estate Total							\$2,047,719,170	5.99%
	Real Estate Policy Range: 6% - 10%								8.00%
	Infrastructure Total							\$0	0.00%
	Infrastructure Policy Range: 0% - 3%								0.00%
	Farmland & Timber Total					105,648,179		\$105,648,179	0.31%
	Farmland & Timber Policy Range: 0% - 3%								0.00%
	Opportunistic Inflation Linked Total							\$0	0.00%
	Opportunistic I/L Policy Range: 0% - 3%								0.00%
	Inflation Linked Total							\$3,347,604,363	9.79%
	Inflation Linked Policy Range: 7%-15%								12.00%
	TOTAL Amounts	\$3,910,158,880	\$3,859,388,577	\$11,255,026,107	\$11,813,199,443	\$3,453,252,542	\$0		
	TOTAL Percent	11.44%	11.29%	32.92%	34.56%	10.10%	0.00%	\$34,185,377,370	Total Fund

Asset Class	Actual Portfolio	SAA Policy:	Rebalancing		Assumed - Adjusted		Policy Band check Actual - Adj	Passive Min	Passive Actual
		Target (Range)	Assumed Port	Adj Policy	% diff	\$ diff			
Cash	0.72%								
Core	10.70%	13%						50%	72%
High Yield	2.82%	5%							
US Fixed Income	13.53%	18% (8-28%)	14.31%	18.56% (9-29%)	-4.25%	-\$1,453,161,492	OK		
EM Debt	2.25%	4%		4.00%					
Opportunistic Debt	2.82%	0% (0-10%)	2.82%	0% (0-10%)	2.82%	\$963,758,083	OK		
Private Debt	3.41%	3%		3.00%					
Total Fixed Income	22.73%	25% (15-35%)	22.79%	25.56% (16-36%)	-2.77%	-\$947,540,085	OK		
Large Cap	26.83%	23%							
Mid Cap	4.52%	5%							
Small Cap	4.23%	5%							
US Equity	35.58%	33% (26-38%)	36.84%	34.7% (28-40%)	2.15%	\$733,742,713	OK	50%	65%
Developed Large Cap	15.01%	14%							
Developed Small Cap	3.74%	3%							
Emerging Markets	6.02%	6%							
Non-US Equity	24.78%	23% (16-28%)	24.25%	23.5% (17-29%)	0.75%	\$257,143,222	OK	30%	50%
Private Equity	6.17%	7% (5-9%)	6.17%	6.17% (4-8%)	0.00%	\$0	OK		
Opportunistic Equity	0.96%	0% (0-3%)	0.96%	0% (0-3%)	0.96%	\$326,545,463	OK		
Total Equity	67.48%	63% (53-70%)	68.22%	64.37% (54-71%)	3.85%	\$1,317,431,399	OK		
Commodities	3.49%	4% (1-7%)	2.85%	4.08% (1-7%)	-1.23%	-\$420,984,893	OK		
Real Estate	5.99%	8% (6-10%)	5.83%	5.99% (4-8%)	-0.16%	-\$54,554,600	OK		
Infrastructure	0.00%	0% (0-3%)	0.00%	0% (0-3%)	0.00%	\$0	OK		
Farmland & Timber	0.31%	0% (0-3%)	0.31%	0% (0-3%)	0.31%	\$105,648,179	OK		
Opportunistic I/L	0.00%	0% (0-3%)	0.00%	0% (0-3%)	0.00%	\$0	OK		
Total Inflation Linked	9.79%	12% (8-16%)	8.99%	10.07% (6-14%)	-1.08%	-\$369,891,314	OK		
Total	100.00%	100%	100.00%	100.00%	0.00%	\$0		30%	43%
Total GTAA								Internally Managed Portfolios:	
Bridgewater	\$3,082,455,550	9.0%						\$9,617,204,506	28%
Windham	\$602,813,257	1.8%							
Total	\$3,685,268,808	10.8%							
Policy	10% ±5%	OK							

Opportunistic definitions:
1) Tactical in nature: Function of market dislocation AND
2a) Outside SAA benchmark, OR
2b) Within SAA benchmark but absolute return oriented

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

Period Ending Jun 30, 2014
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		
US EQUITY LARGE CAP																				
E2 MODEL	INDEXED	04/01/1997	4,980	2.07	5.26	7.14	24.61	16.56	18.84	7.83	7.70	1	2	0	0	-2	0	5	8	
	<i>S&P 500 INDEX</i>			2.07	5.23	7.14	24.61	16.58	18.83	7.78	---									
INTECH LARGE CAP	QUANTITATIVE	01/01/2003	531	1.28	5.13	5.25	26.24	14.95	18.34	7.85	10.02	-80	-68	-204	-89	-200	-85	-31	55	
	<i>S&P/CITIGROUP 500 GROWTH</i>			2.08	5.82	7.29	27.13	16.96	19.19	8.16	---									
LSV ASSET MANAGEMENT	QUANTITATIVE	01/01/2003	804	2.31	4.40	7.74	27.58	18.74	21.52	9.73	11.87	25	-20	78	560	248	300	239	254	
	<i>LSV CUSTOM INDEX</i>			2.05	4.60	6.96	21.99	16.25	18.52	7.34	---									
E7	INDEXED	08/01/2012	794	1.77	5.82	8.28	21.48	---	---	---	19.62	1	0	-4	-1	---	---	---	14	
	<i>MSCI USA High Dividend Yield Index</i>			1.77	5.82	8.32	21.49	---	---	---	---									
E8	INDEXED	08/01/2012	511	1.33	4.08	6.22	17.73	---	---	---	16.70	2	17	15	46	---	---	---	75	
	<i>MSCI USA Minimum Volatility Index</i>			1.31	3.92	6.07	17.27	---	---	---	---									
TOTAL US EQUITY LARGE CAP			\$ 7,620																	
US EQUITY MID CAP																				
WELLINGTON MANAGEMENT COMPANY LLP	FUNDAMENTAL	07/01/2002	440	5.21	6.72	10.48	31.57	16.69	20.52	12.37	12.12	107	239	298	633	143	-115	186	125	
	<i>S&P 400 MIDCAP INDEX</i>			4.14	4.33	7.50	25.24	15.26	21.67	10.50	---									
E3 MODEL	INDEXED	12/01/2000	528	3.94	2.88	5.11	23.34	13.76	22.04	11.19	8.91	-1	-1	1	14	21	51	55	58	
	<i>S&P/CITIGROUP 400 GROWTH</i>			3.95	2.90	5.10	23.20	13.56	21.52	10.64	---									
CRM MID CAP VALUE	FUNDAMENTAL	01/01/2004	102	2.48	3.39	4.70	23.25	12.52	16.93	9.68	10.25	-185	-242	-534	-413	-453	-493	-64	-25	
E4 MODEL	INDEXED	07/01/2002	547	4.32	5.77	9.97	27.20	16.85	21.81	10.58	11.14	0	-4	-7	-18	-21	-4	26	21	
	<i>S&P/CITIGROUP 400 VALUE</i>			4.33	5.82	10.04	27.38	17.06	21.86	10.32	---									
TOTAL US EQUITY MID CAP			\$ 1,617																	
US EQUITY SMALL CAP																				
DIMENSIONAL FUND ADVISORS EQFD	QUANTITATIVE	09/01/1998	429	4.72	4.06	5.94	28.39	17.72	24.45	10.33	12.87	81	178	148	298	-19	278	52	131	
	<i>DFA BLENDED BENCHMARK</i>			3.92	2.28	4.46	25.41	17.91	21.67	9.81	---									
TIMESQUARE CAPITAL MANAGEMENT	FUNDAMENTAL	04/01/2005	481	4.25	1.78	0.40	23.19	17.66	22.80	---	12.89	-102	-111	-357	-307	278	115	---	255	
	<i>RUSSELL 2500 GROWTH</i>			5.27	2.90	3.97	26.26	14.88	21.65	---	---									
CHAMPLAIN INVESTMENT PARTNERS LLC	FUNDAMENTAL	01/01/2008	103	5.15	2.43	0.52	17.66	13.43	18.69	---	10.20	44	36	-269	-788	-338	-329	---	5	
E6	INDEXED	02/01/2007	505	4.75	2.12	3.16	25.46	16.74	21.81	---	8.88	4	6	-6	-7	-7	-16	---	38	
	<i>S&P 600 SMALL CAP</i>			4.71	2.07	3.22	25.54	16.81	21.98	---	---									
TOTAL US EQUITY SMALL CAP			\$ 1,518																	
TOTAL US EQUITY				\$ 10,755																
INTERNATIONAL DEVELOPED LARGE CAP																				
BRANDES INVESTMENT PARTNERS INT EQ	FUNDAMENTAL	10/01/1998	610	1.10	4.66	7.38	28.37	9.58	11.12	7.07	9.97	13	57	260	470	112	-171	-134	303	
	<i>BRANDES CUSTOM INDEX</i>			0.96	4.09	4.78	23.66	8.47	12.82	8.41	---									
HANSBERGER GLOBAL INVESTORS LC	FUNDAMENTAL	08/01/2005	2	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	
	<i>HANSBERGER CUSTOM INDEX</i>			0.96	---	---	---	---	---	---	---									
ABERDEEN ASSET MANAGEMENT	FUNDAMENTAL	03/01/2011	2	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	
AMERICAN CENTURY	FUNDAMENTAL	06/01/2014	531	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	



				Net Returns (%)							Excess Returns (basis points)								
	Style	Inception	Amount (\$mil.)	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	
BGI EAFE INDEX	INDEXED	07/01/2009	2,443	0.99	4.25	5.02	23.85	8.38	12.10	---	12.10	2	17	24	19	-9	-9	---	-9
THOMSON, SIEGEL & WALMSLEY	FUNDAMENTAL	06/01/2014	162	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
TRINITY STREET	FUNDAMENTAL	06/01/2014	347	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
WALTER SCOTT & PARTNERS	FUNDAMENTAL	04/01/2011	1	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
MSCI EAFE NET				0.96	---	---	---	---	---	---	---								
TOTAL INTERNATIONAL DEVELOPED LARGE CAP			\$ 4,097																
INTERNATIONAL DEVELOPED SMALL CAP																			
AQR CAPITAL		06/01/2013	182	2.04	2.04	4.95	28.97	---	---	---	23.08	55	-3	-55	-19	---	---	---	64
BLACKROCK EAFE SMALL CAP	INDEXED	06/01/2010	477	1.49	2.15	5.50	28.96	9.82	---	---	15.56	1	7	0	-21	-29	---	---	-24
DIMENSIONAL FUND ADVISORS INTL SC	QUANTITATIVE	09/01/2005	231	2.16	2.36	8.33	34.02	10.59	13.87	---	7.31	67	28	282	485	48	-165	---	27
FRANKLIN TEMPLETON INVESTMENTS	FUNDAMENTAL	04/01/2011	426	2.44	1.27	2.33	26.09	14.06	---	---	12.84	95	-81	-318	-307	395	---	---	320
MSCI EAFE SMALL CAP NET				1.49	2.08	5.50	29.16	10.11	---	---	---								
TOTAL INTERNATIONAL DEVELOPED SMALL CAP			\$ 1,316																
INTERNATIONAL EMERGING MARKETS																			
BLACKROCK EMERGING MARKETS	INDEXED	10/01/2010	699	2.69	6.62	5.95	14.17	-0.62	---	---	1.62	3	2	-18	-32	-50	---	---	-48
EATON VANCE EMERGING MARKET EQUITY	QUANTITATIVE	12/01/2010	518	1.53	6.01	6.97	15.81	1.54	---	---	3.13	-113	-59	83	132	166	---	---	99
LSV EMERGING MARKET EQUITY	QUANTITATIVE	12/01/2010	316	3.32	9.04	8.53	18.38	1.01	---	---	3.64	67	244	239	389	113	---	---	150
WILLIAM BLAIR & COMPANY	FUNDAMENTAL	11/01/2010	472	3.08	6.90	7.76	16.92	4.11	---	---	3.73	42	30	162	243	422	---	---	238
MSCI EMF NET				2.66	6.60	6.14	14.49	-0.11	---	---	---								
TOTAL INTERNATIONAL EMERGING MARKETS			\$ 2,005																
TOTAL INTERNATIONAL EQUITY			\$ 7,418																
RISK FACTOR PORTFOLIO																			
RISK FACTOR PORTFOLIO	OVERLAY	06/01/2013	510	1.86	4.70	6.32	23.98	---	---	---	20.08								
TOTAL RISK FACTOR PORTFOLIO			\$ 510																
TOTAL EQUITY W/ RISK FACTOR OVERLAY			\$ 18,685																
CORE FIXED INCOME																			
BGI US DEBT FD	INDEXED	10/01/2004	712	0.11	---	---	---	---	---	---	---	6	---	---	---	---	---	---	---
F2 MODEL	INDEXED	10/01/2000	1,980	0.11	2.01	3.78	4.55	3.99	5.10	5.17	5.71	6	-3	-14	18	32	25	24	15
Barclays Aggregate				0.05	2.04	3.93	4.37	3.66	4.85	4.93	---								
BGI GOVT/CRDTBD INDEX	INDEXED	11/01/2008	24	-0.02	1.29	2.36	3.00	2.96	4.18	---	5.12	5	5	11	14	13	9	---	10
Barclays Gov/Credit Int				-0.07	1.23	2.25	2.86	2.83	4.09	---	---								
TOTAL CORE FIXED INCOME			\$ 2,716																
HIGH YIELD FIXED INCOME																			
COLUMBIA MANAGEMENT INV. ADVISORS, LLC	FUNDAMENTAL	10/01/2009	749	0.80	2.31	5.25	11.14	9.38	---	---	10.89	-4	-9	-21	-59	-10	---	---	-71
JP MORGAN HIGH YIELD		07/01/2013	331	0.89	2.01	4.80	11.12	---	---	---	11.12	5	-39	-66	-61	---	---	---	-61

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

Period Ending Jun 30, 2014
FINAL



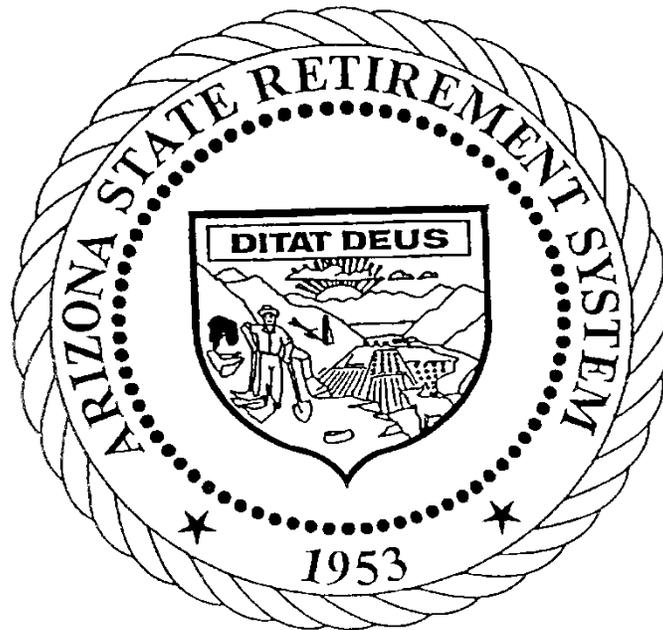
	Style	Inception	Amount (\$mil.)	Net Returns (%)								Excess Returns (basis points)							
				Month	3 Months	YTD	1 Year	Annualized			ITD	Month	3 Months	YTD	1 Year	Annualized			ITD
								3 Years	5 Years	10 Years						3 Years	5 Years	10 years	
SHENKMAN CAPITAL MANAGEMENT	FUNDAMENTAL	10/01/2009	0	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
<i>Barclays Corp High Yield</i>				0.84	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
TOTAL HIGH YIELD FIXED INCOME			\$ 1,080																
EMERGING MARKETS DEBT																			
ASHMORE EMERGING MKT DBT BLEND	FUNDAMENTAL	01/01/2013	570	1.07	4.68	6.23	6.04	---	---	---	-0.06	30	53	-53	-122	---	---	---	-22
<i>EMERGING MARKETS BLENDED INDEX</i>				0.77	4.15	6.76	7.26	---	---	---	---								
PIMCO EMERGING MARKET DEBT LC	FUNDAMENTAL	01/01/2013	349	0.18	3.65	6.10	3.28	---	---	---	-3.55	-82	-38	10	-64	---	---	---	-118
<i>JPM GBI-EM Global Diversified Index</i>				1.00	4.02	5.99	3.91	---	---	---	---								
TOTAL EMERGING MARKETS DEBT			\$ 919																
TOTAL PUBLIC FIXED INCOME			\$ 4,715																
GTAA																			
BRIDGEWATER ASSOCIATES GBL TAA	FUNDAMENTAL	01/01/2004	3,212	1.71	5.28	7.64	22.06	13.04	17.55	9.77	9.50	54	143	194	418	232	421	286	265
<i>GTAA CUSTOM BENCHMARK</i>				1.17	3.85	5.70	17.88	10.72	13.34	6.92	---								
WINDHAM	QUANTITATIVE	10/01/2011	613	2.15	4.61	6.37	17.08	---	---	---	13.22	98	50	-18	-56	---	---	---	-316
<i>WINDHAM CUSTOM INDEX</i>				1.17	4.11	6.55	17.64	---	---	---	---								
TOTAL GTAA			\$ 3,825																
GLOBAL INFLATION LINKED																			
GRESHAM	FUNDAMENTAL	09/01/2010	862	1.50	1.90	7.11	10.11	-3.00	---	---	3.73	91	182	3	189	217	---	---	290
<i>Bloomberg Commodity Index Total Return</i>				0.60	0.08	7.08	8.21	-5.17	---	---	---								
TOTAL GLOBAL INFLATION LINKED			\$ 862																
TOTAL PUBLIC MARKET			\$ 28,235																



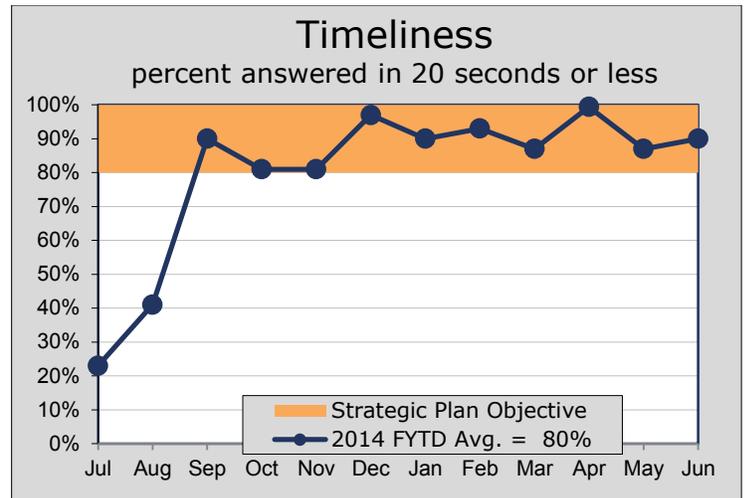
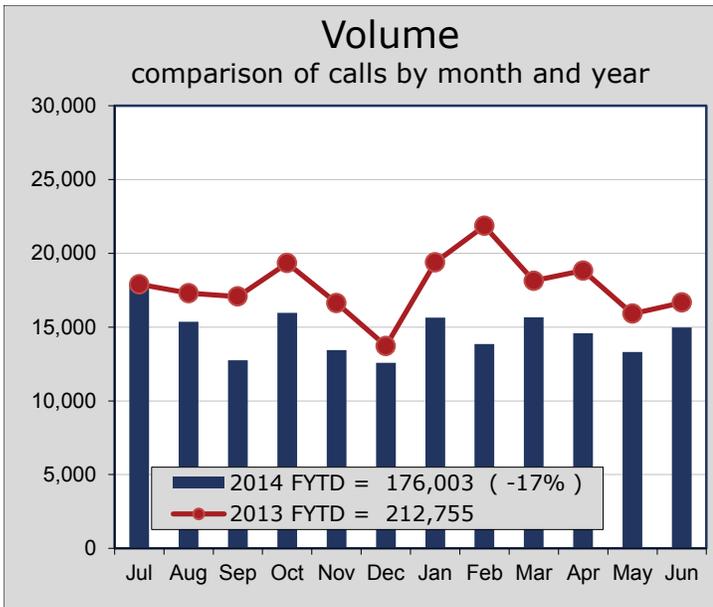
			Net Returns (%)								Excess Returns (basis points)							
	Inception	Amount (\$mil.)	Annualized								Annualized							
			Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	ITD	Month	3 Months	YTD	1 Year	3 Years	5 Years	10 years	ITD
BLACKROCK - US DEBT FUND B	01/01/2011	31.6	0.10	2.11	4.05	4.36	3.70	---	---	3.96	5	7	12	-1	4	---	---	3
<i>Barclays Aggregate</i>			0.05	2.04	3.93	4.37	3.66	4.85	4.93	---								
BLACKROCK - US HIGH YIELD FUND B	01/01/2011	18.4	1.02	2.63	5.66	12.02	9.16	---	---	9.30	19	23	20	29	-32	---	---	-30
<i>Barclays Corp High Yield</i>			0.84	2.41	5.46	11.73	9.48	13.98	9.05	---								
BLACKROCK-LTD-EM BD INDX FD B	01/01/2013	10.2	1.00	3.95	5.84	3.19	---	---	---	-3.19	0	-7	-16	-72	---	---	---	-82
<i>JPM GBI-EM Global Diversified Index</i>			1.00	4.02	5.99	3.91	1.16	7.42	10.01	---								
BLACKROCK - RUSSELL 1000 FUND B	01/01/2011	101.0	2.28	5.11	7.24	25.28	16.62	---	---	16.16	0	-1	-3	-7	0	---	---	1
<i>RUSSELL 1000</i>			2.27	5.12	7.27	25.35	16.63	19.25	8.19	---								
BLACKROCK - RUSSELL 2000 FUND B	01/01/2011	19.6	5.34	2.07	3.24	23.81	14.73	---	---	14.50	2	3	5	17	16	---	---	17
<i>RUSSELL 2000</i>			5.32	2.05	3.19	23.64	14.57	20.21	8.70	---								
BLACKROCK - EAFE INDEX FUND B	01/01/2011	39.6	0.95	4.12	4.83	23.58	8.15	---	---	8.50	-1	4	5	-9	-32	---	---	-33
<i>MSCI EAFE NET</i>			0.96	4.09	4.78	23.66	8.47	12.19	---	---								
BLACKROCK EAFE SMALL CAP FUND B	01/01/2011	9.6	1.51	2.14	5.52	29.06	9.84	---	---	9.59	2	7	2	-10	-28	---	---	-28
<i>MSCI EAFE SMALL CAP NET</i>			1.49	2.08	5.50	29.16	10.11	15.52	---	---								
BLACKROCK MSCI EMERGING MARKETS FUND B	01/01/2011	16.4	2.66	6.59	5.91	14.06	-0.63	---	---	-0.32	1	-1	-23	-43	-52	---	---	-51
<i>MSCI EMF NET</i>			2.66	6.60	6.14	14.49	-0.11	---	---	---								
BGI-LTD- R ESTATE FD	01/01/2005	22.4	0.89	7.14	18.09	13.09	11.05	23.59	---	7.09	-12	-8	17	-67	-123	-96	---	-49
<i>WILSHIRE RESI</i>			1.01	7.22	17.92	13.76	12.28	24.55	9.68	---								
BLACKROCK DJ UBS COMM FUND B	01/01/2011	7.3	0.60	0.00	6.90	7.84	-5.54	---	---	-5.50	1	-9	-18	-37	-38	---	---	-34
<i>Bloomberg Commodity Index Total Return</i>			0.60	0.08	7.08	8.21	-5.17	1.99	0.87	---								
LONG TERM DISABILITY - CASH	07/01/1995	2.8	0.00	0.00	0.00	0.00	0.02	0.10	1.73	2.79	-1	-1	-2	-5	-6	-1	9	-5
<i>91 DAY TREASURY BILL</i>			0.01	0.01	0.02	0.05	0.07	0.11	1.65	---								
TOTAL LTD		\$ 278.9																

Agenda Item #11c

Director's Report Operations

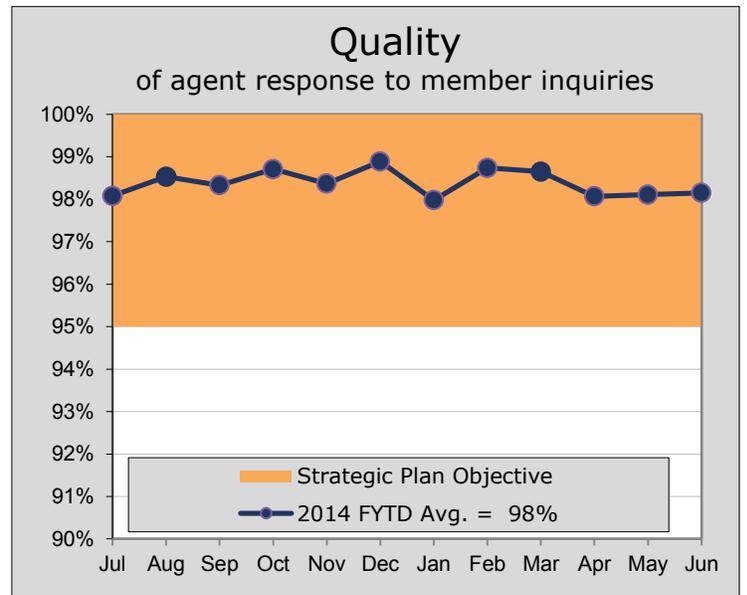
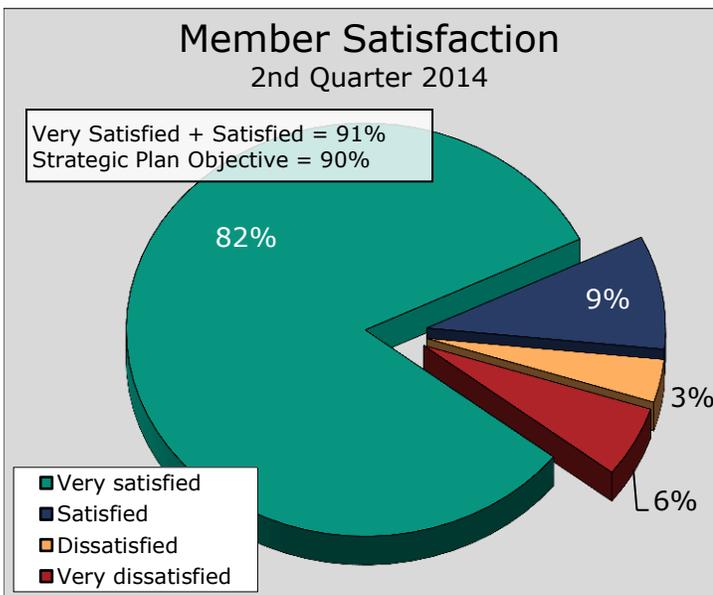
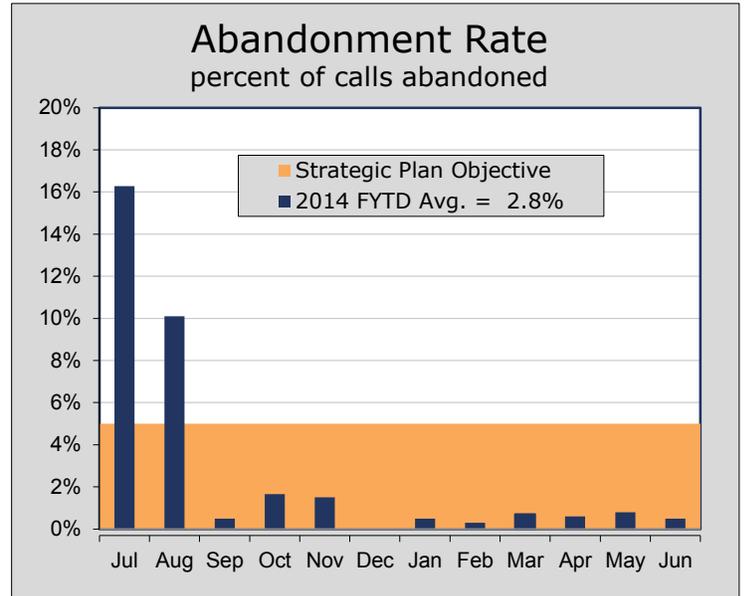
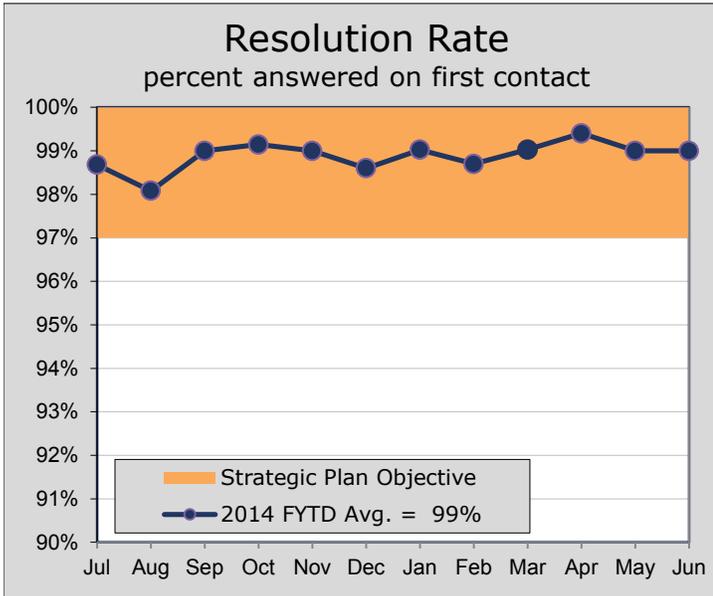


Member Advisory Center: Phone



Timeliness (average wait time in seconds)

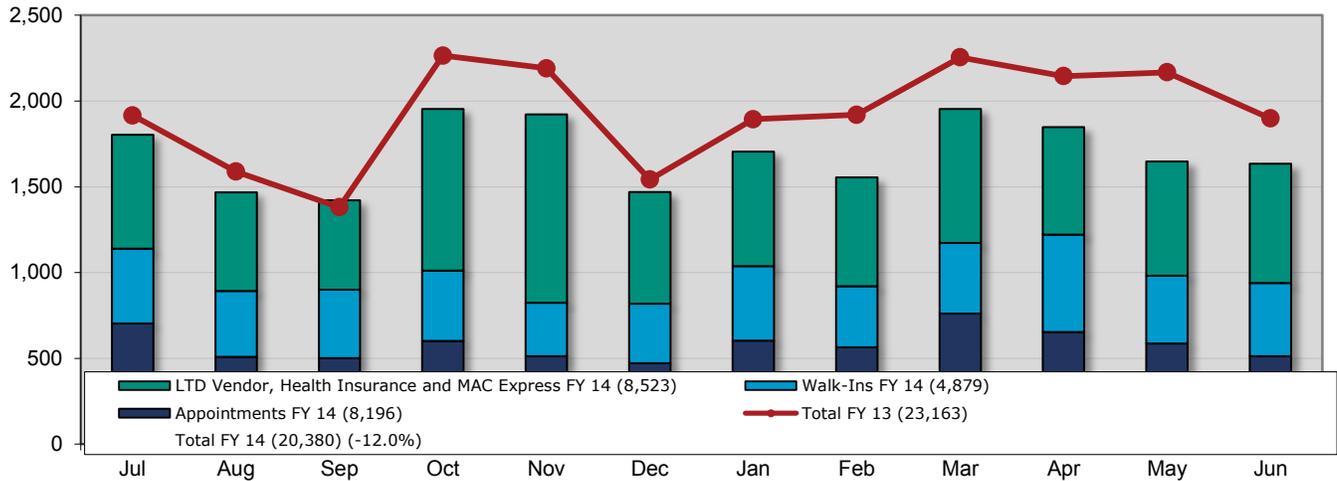
261	152	10	24	23	58	55	7	14	12	15	9
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



Member Advisory Center: One-on-One

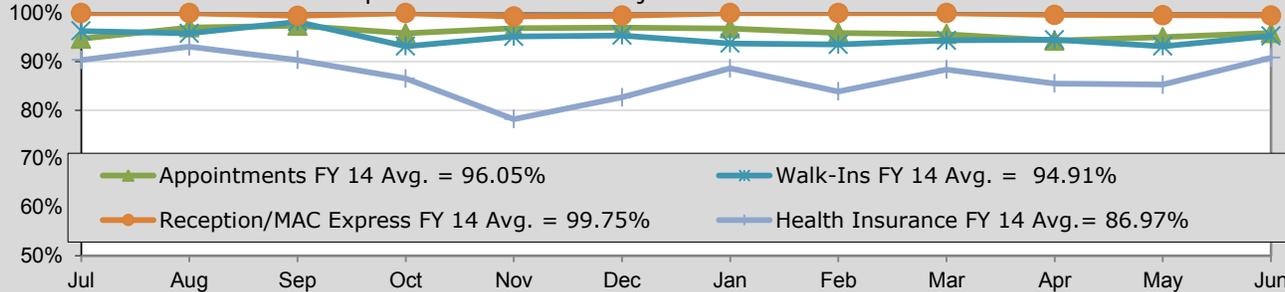
Volume

number of one-on-one counseling sessions by type



One-on-One Timeliness

percent seen within objective wait time

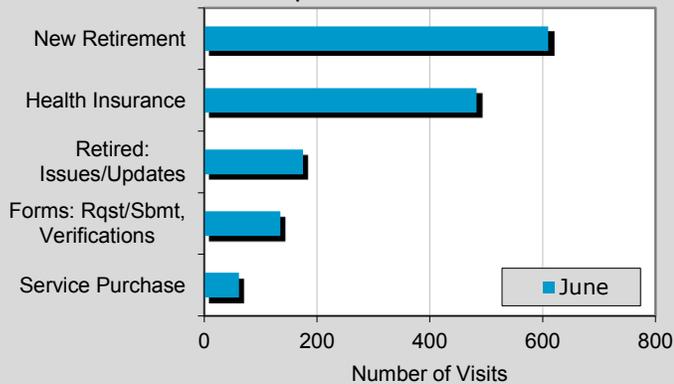


Timeliness (average wait time in minutes)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Appointments	2	1	1	1	1	1	1	1	1	2	1	1
Walk-Ins	7	8	6	8	7	8	9	10	8	7	7	7
Reception/Express	0	0	0	1	1	1	0	0	0	0	0	0
Health Insurance	6	5	5	7	9	7	6	7	7	7	7	5
LTD Vendor	n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	0	n/a	0

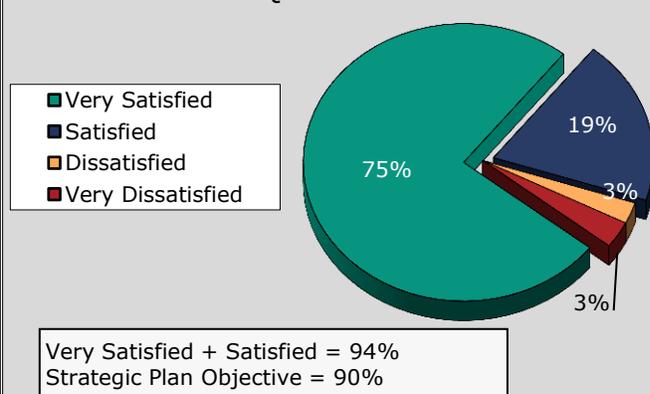
Reasons for Visit

top five reasons



Member Satisfaction

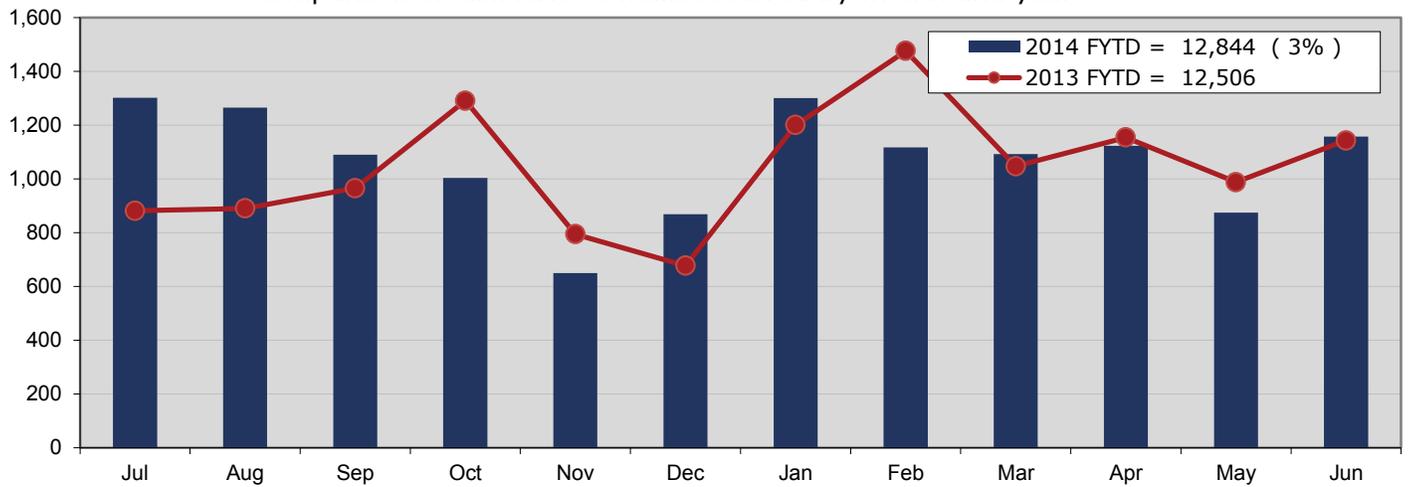
2nd Quarter 2014



Member Advisory Center: E-Mail

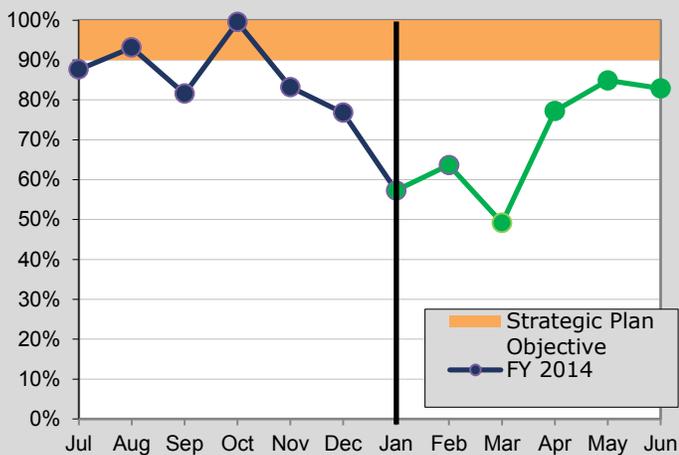
Volume

comparison of 'ask MAC' e-mails received by month and year



Timeliness

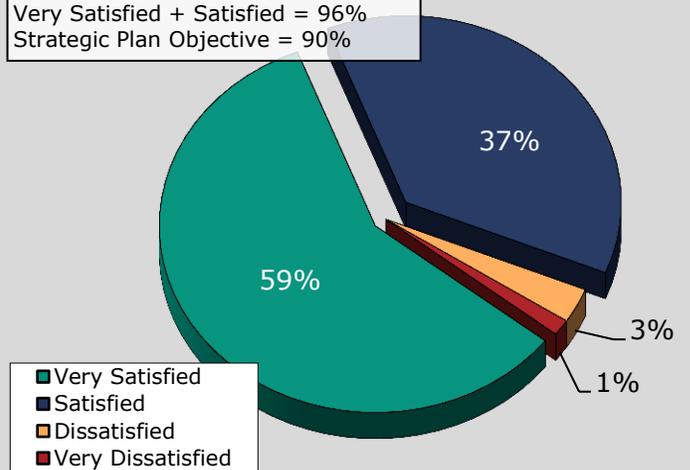
percent responded to in 1 day or less



Member Satisfaction

2nd Quarter 2014

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



Timeliness (average response in business days)

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

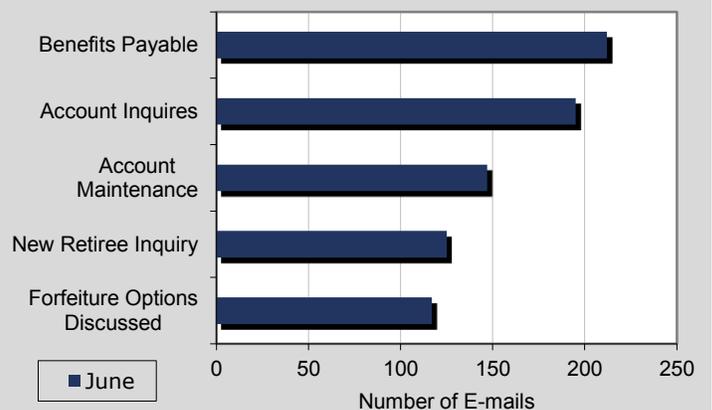
Timeliness (average response in hours)

						24.0	21.8	25.4	16.5	9.8	12.4
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

* Timeliness measure has been changed from measuring the number of business days to respond to the number of hours to respond. This change was effective starting in January 2014 and noted by the vertical line in the chart above.

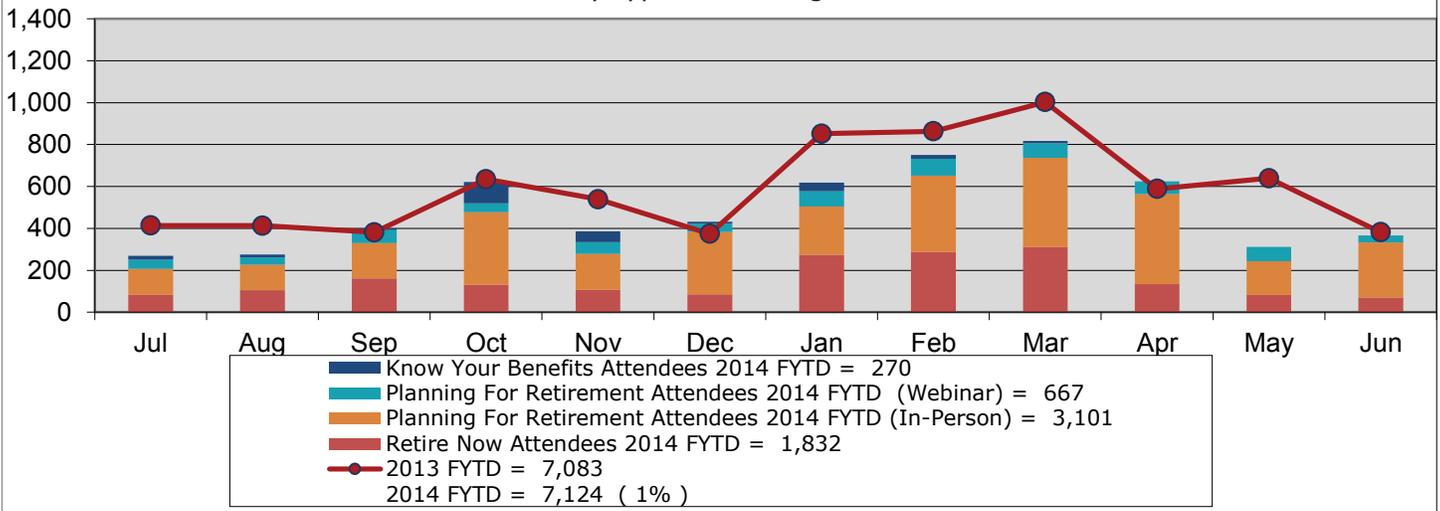
Reason for Contact

top five reasons



Outreach Education and Benefit Estimates

Total Meeting Attendees by type of meeting

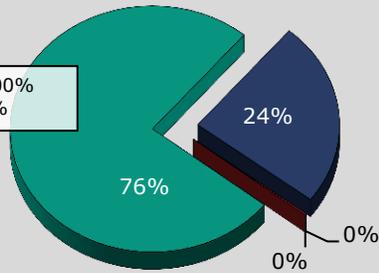


Member Satisfaction

Planning for Retirement Meetings 2nd Quarter 2014

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

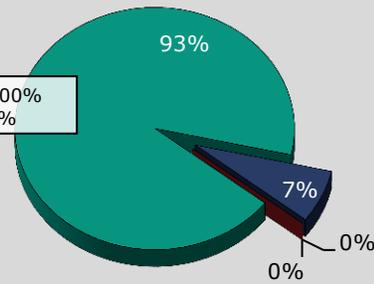
- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied



Retire Now Meetings 2nd Quarter 2014

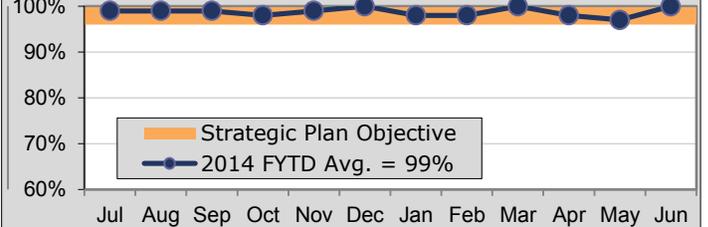
Very Satisfied + Satisfied = 100%
Strategic Plan Objective = 90%

- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied



Benefit Estimate Timeliness

percent completed within 3 business days



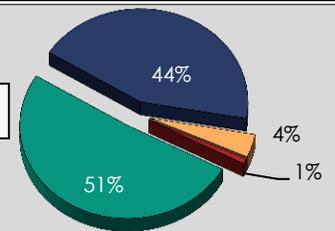
Benefit Estimate Timeliness (average TAT in days)

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

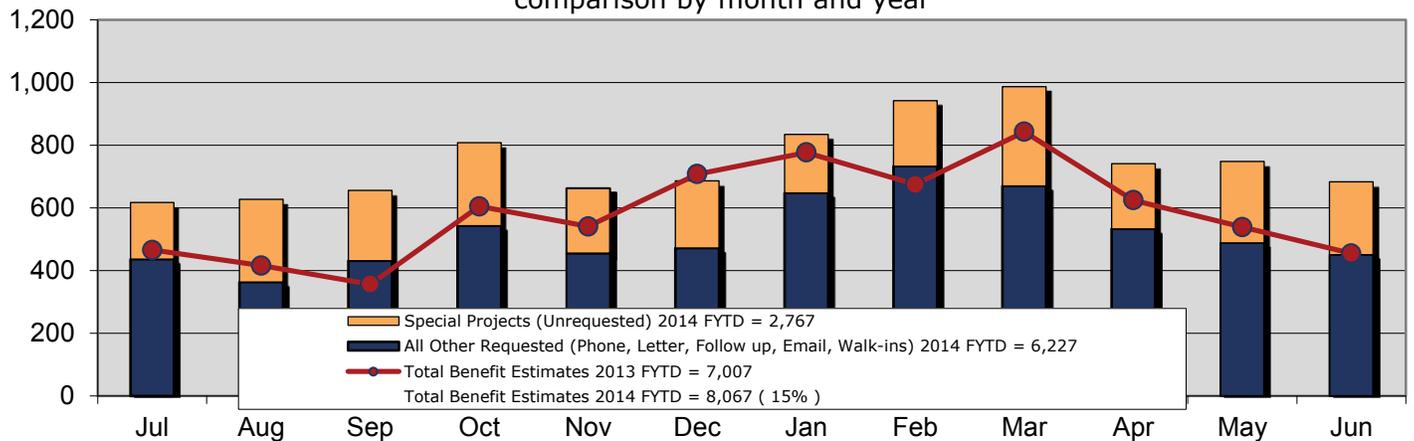
Benefit Estimates 2nd Quarter 2014

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

- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied

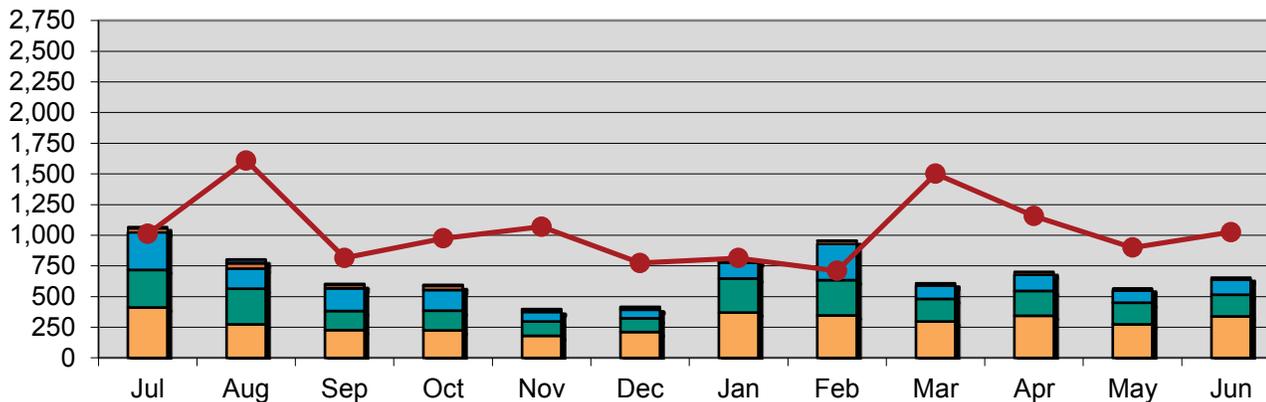


Benefit Estimate Volume comparison by month and year



Service Purchase

Total Volume comparison by month and year



PDA's Processed 2014 FYTD = 110 (-13%)
 PDA Contracts Issued 2014 FYTD = 268 (-35%)
 Lump Sum Purchases Processed 2014 FYTD = 1,862 (-42%)
 Completed Cost Invoices 2013 FYTD = Completed Cost Invoices 2014 FYTD = 2,441 (-29%)
 Requested Cost Invoices 2013 FYTD = Requested Cost Invoices 2014 FYTD = 3,500 (-32%)
 Combination of All Above 2013 FYTD = 12,358
 Combination of All Above 2014 FYTD = 6,958 (-44%)

Requests Pending
as of
June 30,
2014

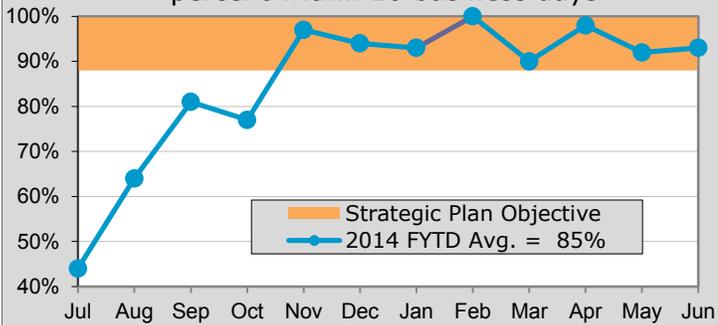
Cost Invoices Pending

465

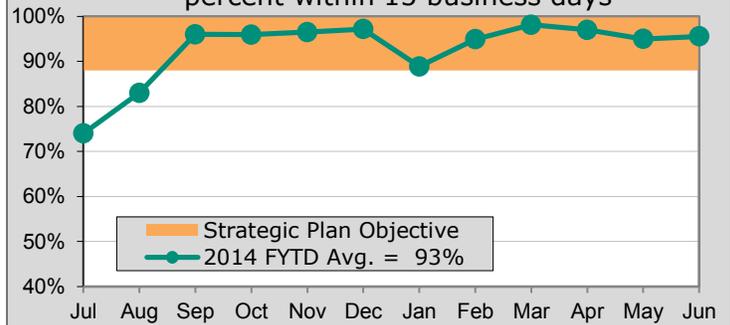
Payments Pending

N/A

Lump Sum Timeliness percent within 10 business days



Cost Invoices Timeliness percent within 15 business days



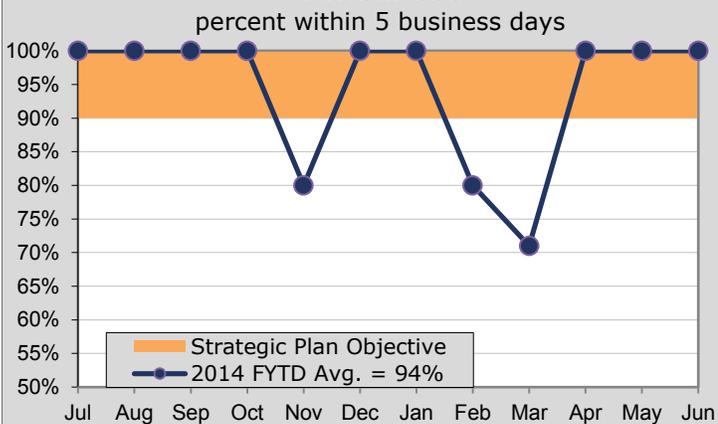
Timeliness (average turnaround time in business days)

8	5	4	2	2	3	2	1	2	1	2	2
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

Timeliness (average turnaround time in business days)

10	9	4	4	3	4	6	3	3	4	5	4
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

Payroll Deduction Agreement Timeliness percent within 5 business days



Cost Invoice Quality Rating FY 2014

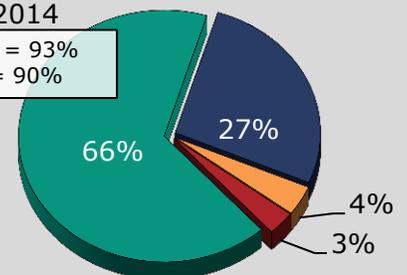


Member Satisfaction

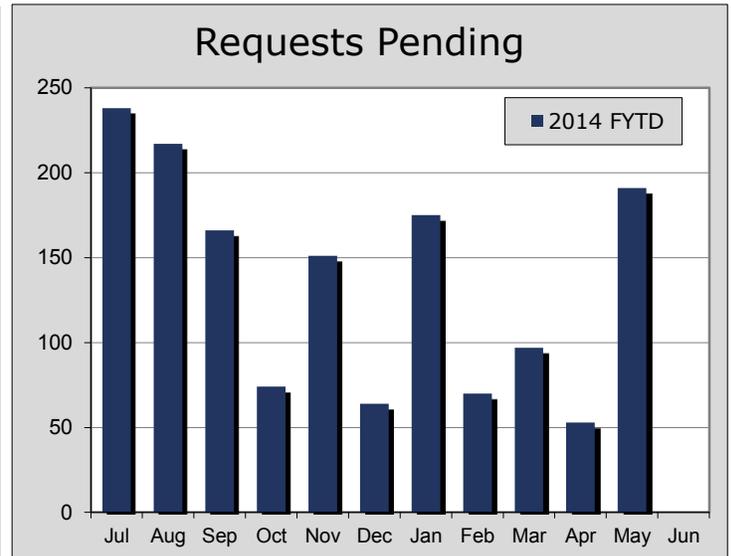
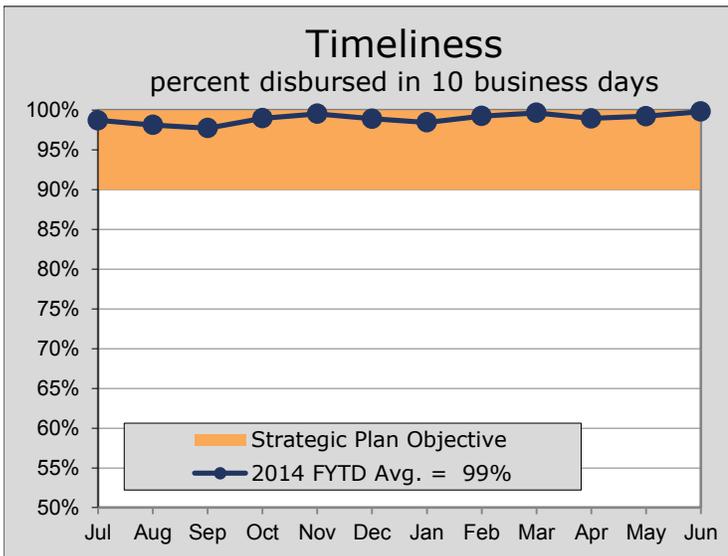
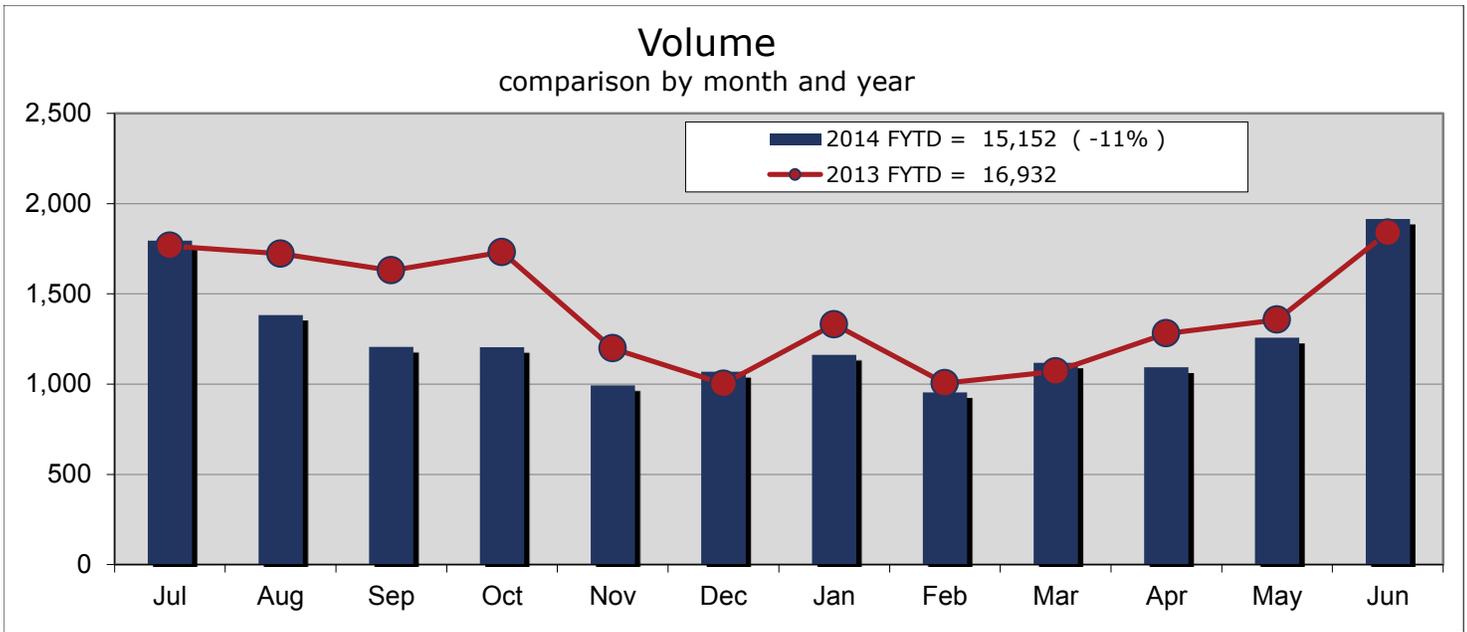
2nd Quarter 2014

Very Satisfied + Satisfied = 93%
Strategic Plan Objective = 90%

Very Satisfied
 Satisfied
 Dissatisfied
 Very Dissatisfied

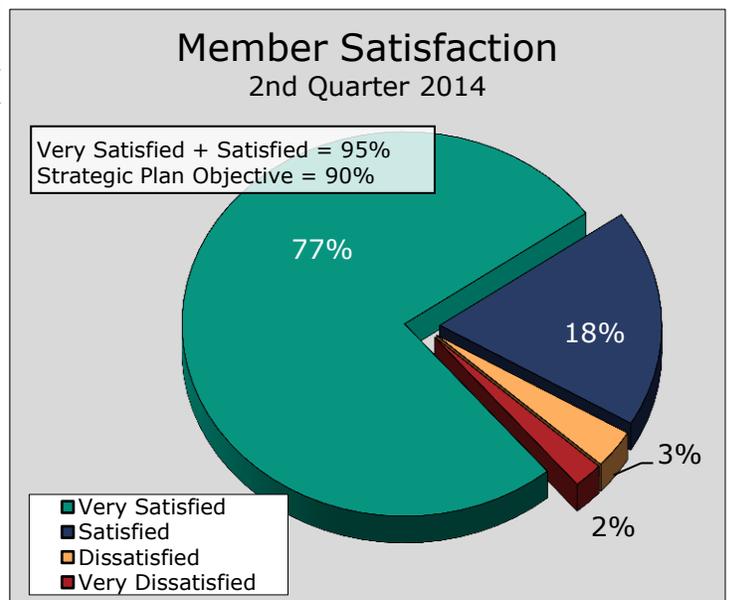
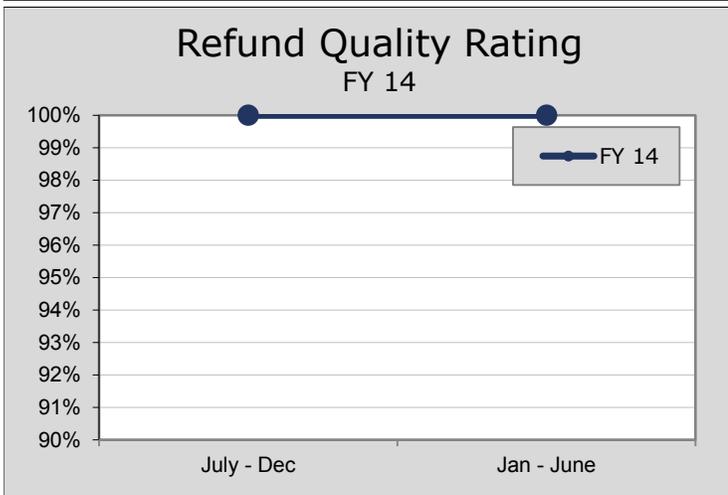


Refunds



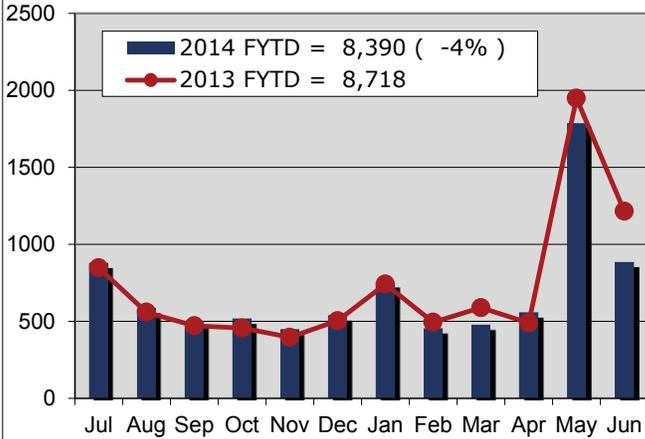
Timeliness (average turnaround time in business days)

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

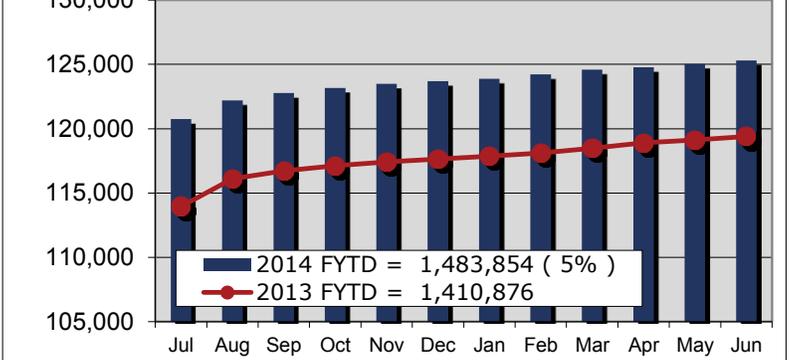


New Retiree and Pension Payroll

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%	99.9%	100%	100%	100%	100%	100%	100%	100%	100%
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	

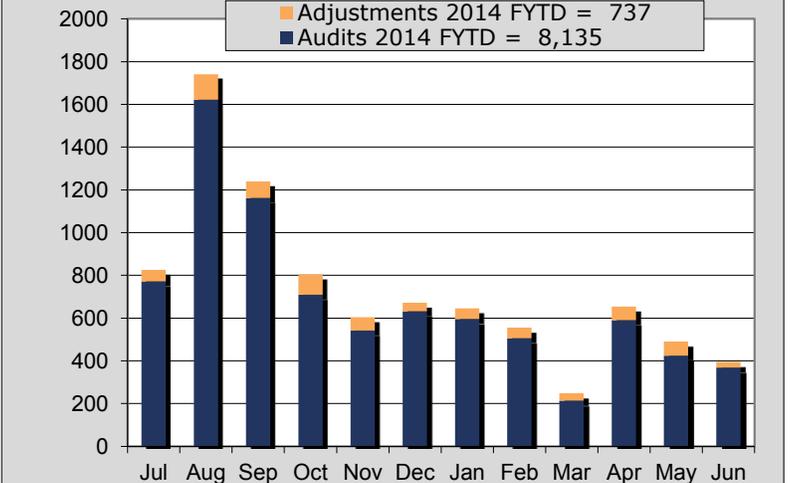
First Payment Timeliness percent disbursed in 10 business days



First Payment Timeliness (average turnaround time in days)

7	5	9	9	9	7	6	8	7	9	3	6
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

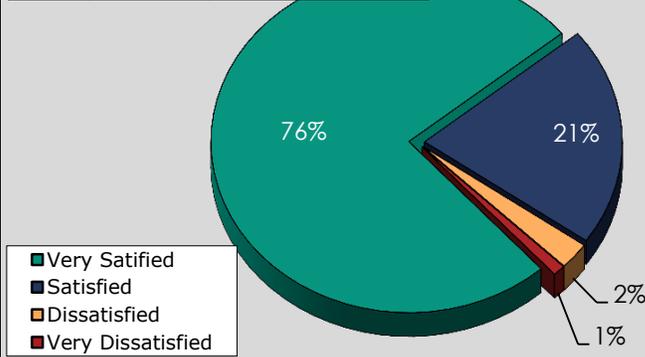
Audits & Adjustments comparison by month and year



Member Satisfaction

New Retiree
2nd Quarter 2014

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



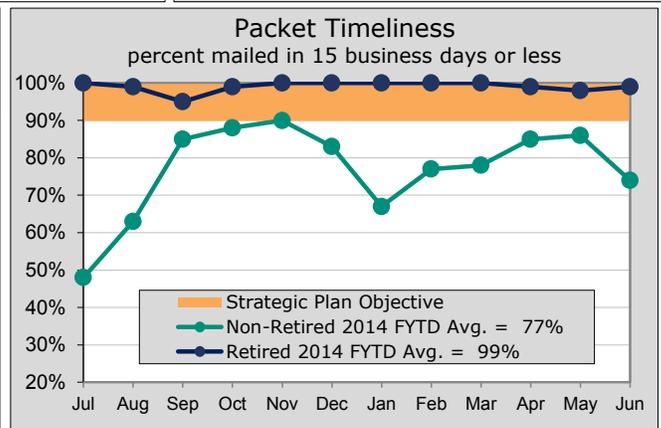
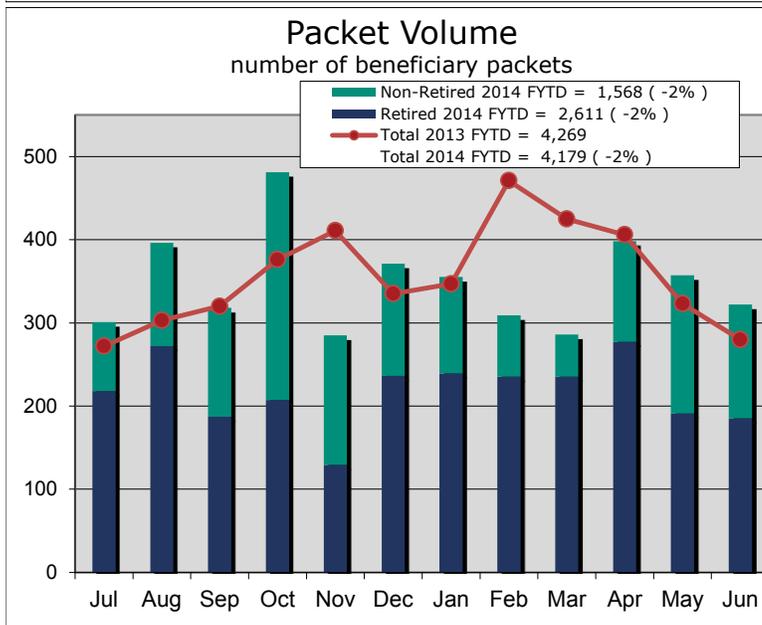
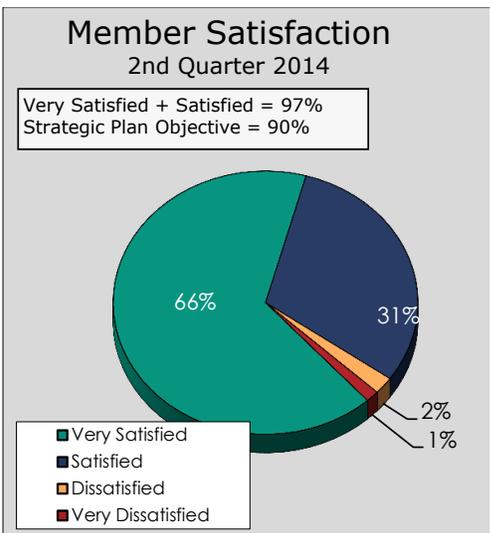
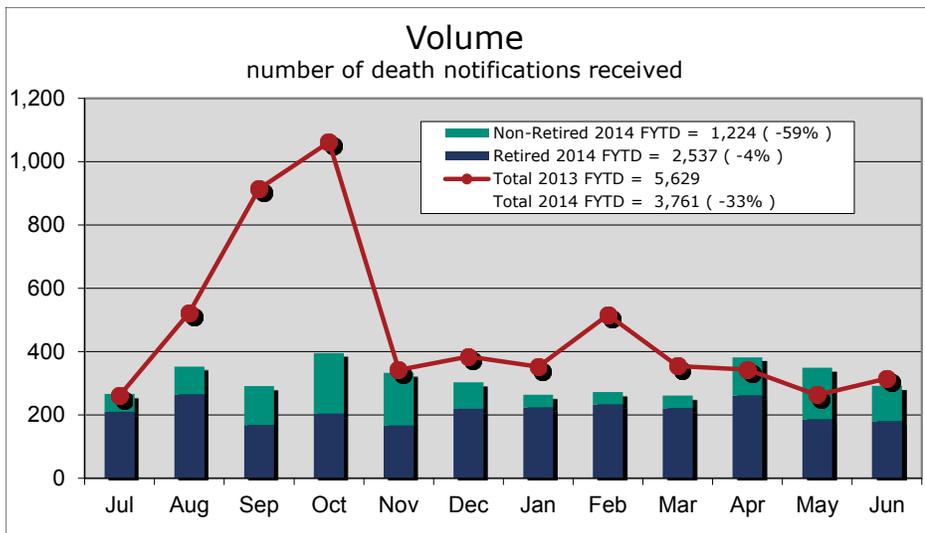
Adjustments Timeliness



Adjustments Timeliness (average turnaround time in days)

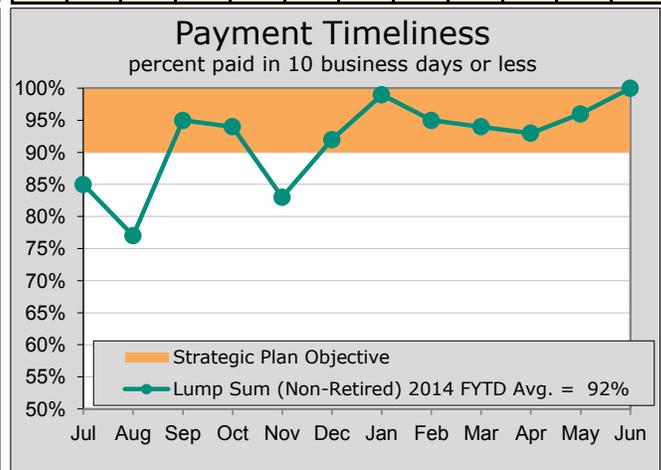
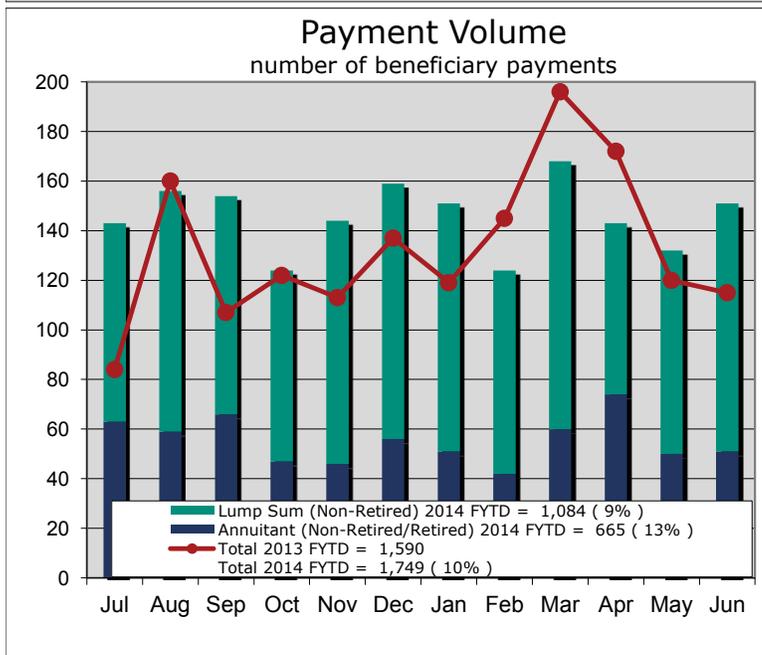
2	2	2	1	3	3	1	2	3	6	5	4
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

Survivor Benefits



Packet Timeliness (average TAT in days)

Month	Non-Retired	Retired
Jul	17	3
Aug	22	3
Sep	7	4
Oct	8	2
Nov	7	2
Dec	13	2
Jan	19	2
Feb	8	2
Mar	17	2
Apr	9	2
May	6	2
Jun	8	2



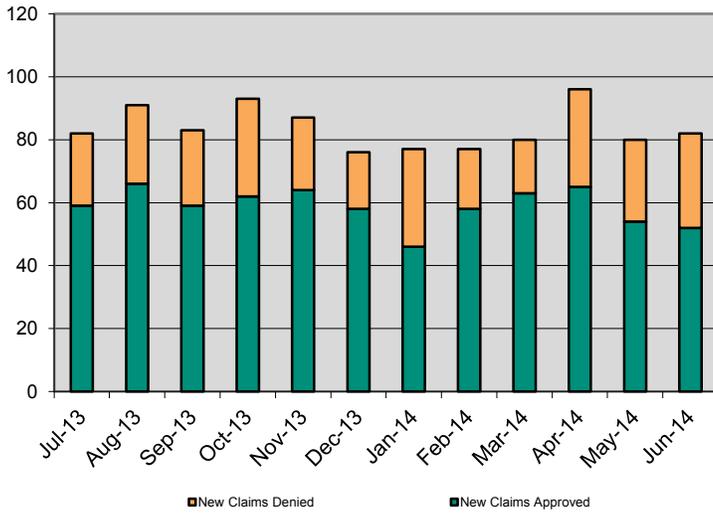
Payment Timeliness (average TAT in days)

Month	Lump Sum (Non-Retired)	Annuity (Retired and Non-Retired)
Jul	7	5
Aug	6	6
Sep	5	4
Oct	5	4
Nov	7	4
Dec	5	2
Jan	2	2
Feb	2	1
Mar	3	2
Apr	5	4
May	4	2
Jun	2	2

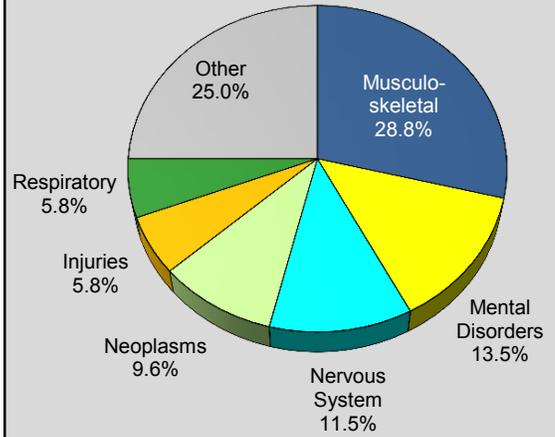
ASRS Disability Plans - Monthly Highlights

June 2014

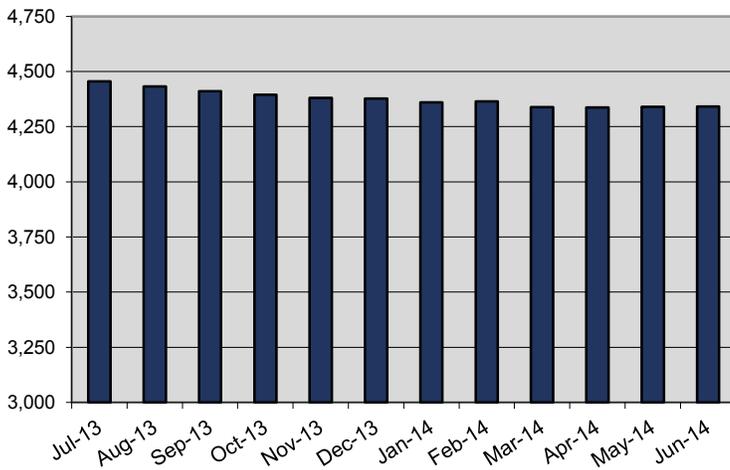
New Claims Processed



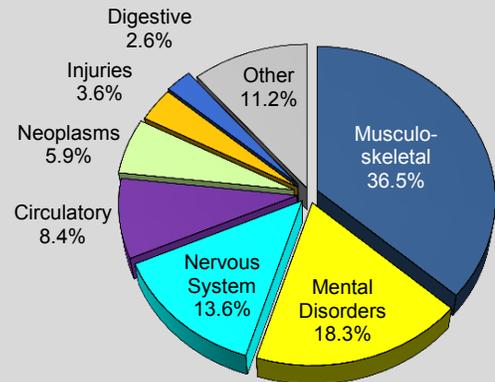
New Claims Approved



Open LTD Claims



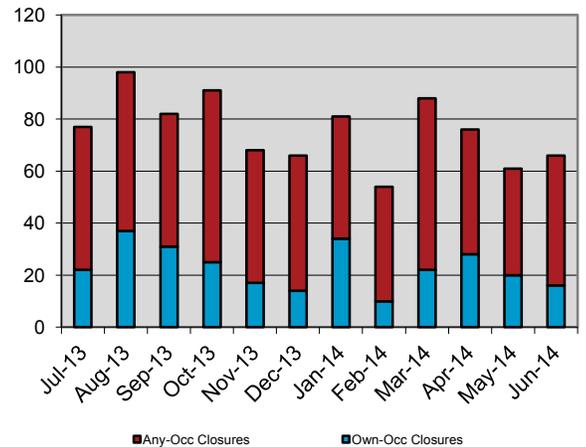
Open LTD Claims



SS Approval Percentage

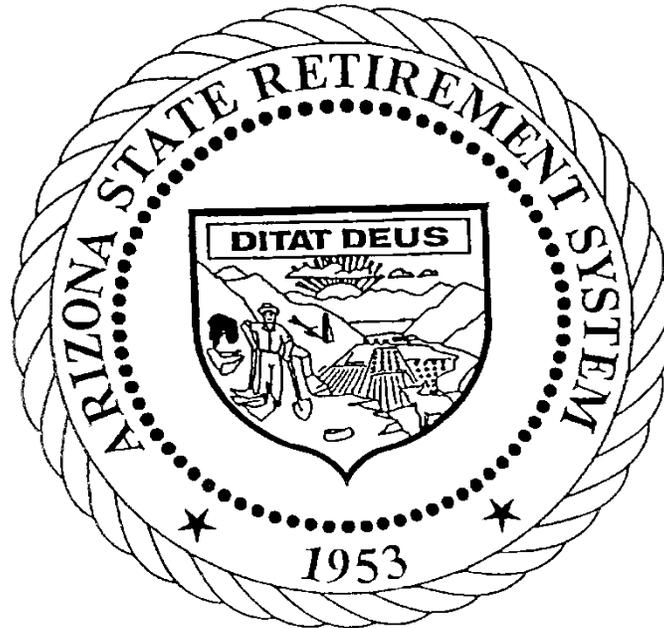


Active Claim Closures



Agenda Item #11d

Director's Report Budget & Staffing



Arizona State Retirement System
FY 2014 Appropriated Budget
(Final Unaudited Estimate)

	APPROPRIATIONS FISCAL YEAR 2014	EXPENDED YTD	% EXPENDED
OPERATING BUDGET			
Personal Services	\$ 13,024,000	\$ 12,641,600	97.06%
Employee Related Expenses	\$ 4,987,500	\$ 4,877,800	97.80%
Professional & Outside Services	\$ 775,000	\$ 1,693,100	218.46%
Travel	\$ 98,600	\$ 78,800	79.92%
Other Operating Expenses	\$ 2,655,500	\$ 1,915,400	72.13%
Equipment	\$ 389,500	\$ 236,800	60.80%
Operating Subtotal	\$ 21,930,100	\$ 21,443,500	97.78%
OTHER APPROPRIATIONS			
Long Term Disability Administration	\$ 2,800,000	\$ 2,532,400	90.44%
Oracle Forms and Reports Modernization	\$ 1,390,000	\$ 1,117,400	80.39%
HB 2001 - Statewide IT and Automation Projects	\$ 151,000	\$ -	0.00%
SB 1170 - Survivor Benefits Modifications	\$ 200,000	\$ 200,000	100.00%
HB 2562 - 401(a) and LTD for Ineligibles	\$ 502,400	\$ 12,600	2.51%
TOTAL FY 2014 Appropriated Funds	\$ 26,973,500	\$ 25,305,900	93.82%

	APPROPRIATIONS PRIOR YEAR	EXPENDED TO DATE	% EXPENDED
PRIOR YEAR LEGISLATIVE APPROPRIATIONS (NON-LAPSING)			
FY 2013 - HB 2745 - Distribution Modifications	\$ 47,000	\$ 21,600	45.96%
FY 2013 - SB 1119 - Spousal Consent Modifications	\$ 200,000	\$ 61,300	30.65%
FY 2012 - SB 1609 - ACR Plan Design Changes	\$ 250,000	\$ 250,000	100.00%
FY 2012 - SB 1614 - ASRS Contribution Rate	\$ 600,000	\$ 577,600	96.27%
FY 2011 - HB 2389 - ASRS Plan Design Changes	\$ 1,341,700	\$ 1,206,300	89.91%

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

Final Budget Summary for Fiscal Year 2014

Operating Budget

The operating budget information on the previous page is based on funding approved by the Board and the Legislature for the fiscal year July 1, 2013 through June 30, 2014. These ASRS operating expenses are distinguished from other areas of ASRS spending authority: such as expenditures for investment management and benefits payments. 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 year to date include all expenditures anticipated and accrued through June 30, 2014.

Other Appropriations

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

- **Long Term Disability Administration Fund**
The amount appropriated for the administration costs of the LTD program.
- **Oracle Forms and Reports Modernization**
The amount appropriated (non-lapsing) for the first year of a five year software modernization project. Unspent appropriations are available for use in future years.

Non-Lapsing Appropriations for Legislative Initiatives

The amount appropriated by the Legislature for the implementation of:

- FY 2014 - HB 2001 - Statewide IT and Automation Projects
- FY 2014 - HB 2562 - 401(a) and LTD for Ineligibles
- FY 2014 - SB 1170 - Survivor Benefits Modifications
- FY 2013 - HB 2745 - Distribution Modifications
- FY 2013 - SB 1119 - Spousal Consent Modifications
- FY 2012 - SB 1609 - Alternate Contribution Rate Plan Design Changes
- 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 Appropriated column represents funds that have been approved by the Legislature and the ASRS Board for FY 2014, 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 year-to-date. This column is intended to be a guide to the rate of spending during the fiscal year.

ASRS FISCAL YEAR 2014, CONTINUOUSLY APPROPRIATED REPORT

(with summarized Appropriated Expenses)

DESCRIPTION	FY 2014 ACTUAL EXPENSES (UNAUDITED)	EST. ANNUAL EXPENSES AS % OF AUM	EST. ANNUAL EXPENSES PER MEMBER
Custodial Banking, Security Lending and Master Cash STIF Fees	1,934,000		
<i>Public Markets</i>			
External Investment Management Fees	69,830,000		
Transactional and Other Fees	3,323,000		
<i>Private Markets</i>			
Private Equity Management Fees	38,473,000		
Private Equity Performance Incentive and Other Fees	38,163,000		
Real Estate Management Fees	19,464,000		
Real Estate Performance Incentive and Other Fees	20,415,000		
Opportunistic Management Fees	14,106,000		
Opportunistic Performance Incentive and Other Fees	33,697,000		
Investment Management Expenses	\$ 239,405,000	0.741%	\$ 441.46
Investment Consulting Services	2,885,000		
Investment Related Legal Services	1,265,000		
Investment Electronic Information Services	1,481,000		
Investment Related Consulting, Legal and Information Services	\$ 5,631,000	0.017%	\$ 10.38
Financial Consulting Services	65,000	0.0002%	\$ 0.12
Rent	1,492,000	0.005%	\$ 2.75
Actuarial Consulting Fees	\$ 1,233,000	0.004%	\$ 2.27
Retiree Payroll (Disbursement Administration)	\$ 2,425,000	0.008%	\$ 4.47
Total Continuously Appropriated Expenses	\$ 250,251,000	0.774%	\$ 461.46
*Total Current Year Appropriated Expenses	\$ 25,997,600	0.080%	\$ 47.94
<i>*Includes current year appropriation and prior year non-lapsing appropriations</i>			
Total Expenses (Continuously Appropriated and Appropriated)	\$ 276,248,600	0.855%	\$ 509.40

ASRS Four Quarter Average Total Market Value of Assets Under Management (AUM) during FY 2014
ASRS Total Membership as of June 30, 2013

\$ 32,320,450,000
542,300

Continuously Appropriated Expenses for FY 2014

Final 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

Investment management fees

- Public Markets
 - External investment management fees (public)
 - Transactional and other fees include foreign taxes and commissions on derivatives and other incidental costs.
- Private Markets
 - Private Equity, Real Estate and Opportunistic 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.

Investment 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 final estimated (unaudited) expenditures for fiscal year 2014.

Arizona State Retirement System
FY 2015 Appropriated Budget
(as of July 31, 2014)

	APPROPRIATIONS FISCAL YEAR 2015	EXPENDED YTD	% EXPENDED
OPERATING BUDGET			
Personal Services	\$ 12,755,000	\$ 855,900	6.71%
Employee Related Expenses	\$ 5,023,000	\$ 347,800	6.92%
Professional & Outside Services	\$ 1,079,300	\$ 94,000	8.71%
Travel	\$ 78,600	\$ 200	0.25%
Other Operating Expenses	\$ 2,684,800	\$ 206,600	7.70%
Equipment	\$ 389,500	\$ -	0.00%
Operating Subtotal	\$ 22,010,200	\$ 1,504,500	6.84%
OTHER APPROPRIATIONS			
Long Term Disability Administration	\$ 2,800,000	\$ -	0.00%
Oracle Forms and Reports Modernization (Yr. 2)	\$ 4,484,500	\$ 71,400	1.59%
TOTAL FY 2014 Appropriated Funds	\$ 29,294,700	\$ 1,575,900	5.38%

	APPROPRIATIONS PRIOR YEAR	EXPENDED TO DATE	% EXPENDED
PRIOR YEAR LEGISLATIVE APPROPRIATIONS (NON-LAPSING)			
FY 2014 - Oracle Forms and Reports Modernization (Yr. 1)	\$ 1,390,000	\$ 1,137,700	81.85%
FY 2014 - HB 2562 - 401(a) and LTD for Ineligibles	\$ 502,400	\$ 21,200	4.22%
FY 2012 - SB 1614 - ASRS Contribution Rate	\$ 600,000	\$ 585,600	97.60%
FY 2011 - HB 2389 - ASRS Plan Design Changes	\$ 1,341,700	\$ 1,215,700	90.61%

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

Budget Summary for Fiscal Year 2015 As of July 31, 2014

Operating Budget

The operating budget information on the previous page is based on funding approved by the Board and the Legislature for the 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 two pay periods (7.7 % 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.

- **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 Appropriated 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 year-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	ESTIMATED ANNUAL EXPENSES <small>(Projections updated quarterly)</small>	EST. ANNUAL EXPENSES AS % OF AUM	EST. ANNUAL EXPENSES PER MEMBER
Custodial Banking, Security Lending and Master Cash STIF Fees	2,692,000		
Internal Investment Management (Salaries and Benefits)	1,500,000		
<u>Public Markets</u>			
External Investment Management Fees	77,298,000		
Transactional and Other Fees	3,865,000		
<u>Private Markets</u>			
Private Equity Management Fees	39,160,000		
Private Equity Performance Incentive and Other Fees	33,286,000		
Real Estate Management Fees	25,523,000		
Real Estate Performance Incentive and Other Fees	24,246,000		
Opportunistic Management Fees	15,000,000		
Opportunistic Performance Incentive and Other Fees	30,000,000		
Investment Management Expenses	\$ 252,570,000	0.730%	\$ 465.74
Investment Consulting Services	4,310,000		
Investment Related Legal Services	881,000		
Investment Electronic Information Services	1,714,000		
External Financial Consulting Services	75,000		
Investment Related Consulting, Legal and Information Services	\$ 6,980,000	0.020%	\$ 12.87
Rent	1,505,000	0.004%	\$ 2.78
Actuarial Consulting Fees	\$ 1,225,000	0.004%	\$ 2.26
Retiree Payroll (Disbursement Administration)	\$ 2,215,500	0.006%	\$ 4.09
Total Continuously Appropriated Expenses	\$ 264,495,500	0.765%	\$ 487.73
*Total Current Year Appropriated Expenses	\$ 29,794,700	0.086%	\$ 54.94
<small>*Includes estimate prior year non-lapsing legislative appropriations of \$500,000</small>			
Total Expenses (Continuously Appropriated and Appropriated)	\$ 294,290,200	0.851%	\$ 542.67

ASRS Estimated Total Market Value of Assets Under Management (AUM) as of June 30, 2014

\$ 34,584,497,000

ASRS Total Membership as of June 30, 2013

542,300

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)
 - Transactional and other fees include foreign taxes and commissions on derivatives and other incidental costs.
- Private Markets
 - Private Equity, Real Estate and Opportunistic 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.

Investment 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 will be reported monthly and estimated annual expenses will be reviewed and adjusted quarterly.

**Arizona State Retirement System
Staffing Report
(July 31, 2014)**

ASRS by Division	247 Full Time Equivalents (FTEs)	New Hires	New Exits	Vacancies	Vacancy Rate
Administrative Services Division (ASD)	16	1.0	0	2.5	15.63%
Director's Office (DIR)	11	0	0	2.0	18.18%
External Affairs (EAD)	11	0	0	1.0	9.09%
Financial Services (FSD)	62	0	1.0	3.5	5.66%
Technology Services (TSD)	48	0	0	5.0	10.42%
Internal Audit (IAD)	5	0	0	0	0.00%
Investment Management (IMD)	11	0	1.0	2.0	18.18%
Member Services (MSD)	83	0	0.5	3.75	4.52%
	247	1.0	2.5	19.75	8.00%

Turnover	July 2014 New Hires	July 2014 Exits	Total Exits (Last 12 Months)	Annualized Turnover %
	1.0	2.5	29	12.56%

ASD – Management Analyst: Currently recruiting
 DIR – Survey Administrator: Currently recruiting
 EAD – Rules Writer: Currently recruiting
 FSD – Accountant I: Currently recruiting
 IMD – Assistant Portfolio Manager: Recruitment to start August 2014
 MSD – Retirement Advisor Senior: Recruitment complete for three positions, start date 08/18/2014
 TSD – Build/Release Engineer: Currently recruiting
 TSD – Network Specialist I: Recruitment complete, start date 09/02/2014
 TSD – Software Engineer (2): Currently recruiting for two positions
 TSD – Project Management/Business Analyst: Currently recruiting

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
MSD	MAC (Call Center)	● ○ ○	
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	● ○ ○	
MSD	New Retiree Processing	● ○ ○	
FSD	Survivor Benefit Processing	● ○ ○	
MSD	Survivor Benefit Processing	● ○ ○	
MSD	Refund Processing	● ○ ○	

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
MSD/FSD	Service Purchase Processing	● ○ ○	
FSD	Records Management (data processing/imaging)	● ○ ○	
IA	Internal Audit	● ○ ○	
EA	Employer Relations	● ○ ○	
EA	Rule Writing	○ ● ○	Limited rule writing functions have been carried out by ASRS staff and through the procurement of outside professional services. Executive management has prioritized recently several rulemakings that will impact the ability of limited and external resources to accomplish objectives in a timely manner. The Rules Writer position is currently under recruitment.
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: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
FSD	Health Insurance Member Contacts, Benefit Processing Transfer Processing	● ○ ○	
MSD	Health Insurance	● ○ ○	
FSD	Transfer Processing	● ○ ○	
FSD	General Accounting	● ○ ○	
FSD	Contribution Collections and Posting	● ○ ○	
TSD	Network Support	○ ● ○	The addition of the security professional has helped in our security activities while demonstrating the need for more resources to continue to mature the security program. In addition, our current daily tasks continue to consume our Tier I and Tier II resources making it difficult to manage user requests and complete the system upgrades. Currently recruiting for a Build/Release Engineer.
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 is 42 (28 FTEs and 14 external resources). In July, one external resource exited. In August 2014, one external resource will be added. Currently recruiting for three FTEs, two Software Engineers and one Project Manager/Business Analyst.
IMD	Investment Management	● ○ ○	
DIR	Board/Executive Staff Support	○ ● ○	For the months of June and July 2014, the management support staff struggled to meet business needs and strategic objectives. A temporary

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
			resource has been added to assist the team until staffing levels return to normal. Recruitment for two positions will start in August 2014.
DIR	Strategic Planning/Analysis	○●○	Enhancements to the agency's enterprise wide risk management program implemented as a result of an internal audit, coupled with an increasing need throughout the agency for analysis, project management, and survey development/administration, are impacting the current resources' ability to develop, monitor, and report on strategic priorities, goals, and objectives. Currently recruiting for a Survey Administrator.
ASD	Human Resources	●○○	
ASD	Training and Development	○●○	In July 2014, staffing was insufficient to meet the Training and Development Team's business needs and strategic objectives. Significant factors causing the strain on staffing are due to increased program development requests and implementation of strategies to improve retention. In the last two months two FTEs were hired. Training and Development will continue to show a greater than normal risk until new FTEs are fully trained.
ASD	Contracts and Procurement	●○○	
ASD	Facilities Management	●○○	
ASD	Budget Administration	●○○	

ASRS 2014 Out of State Travel Expenditures

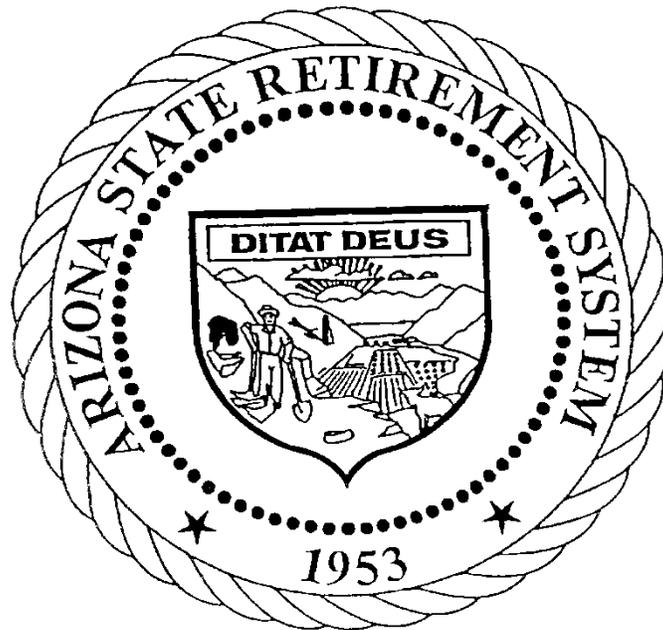
*Numbers are Unaudited

<u>Date</u>	<u>Purpose</u>	<u>Location</u>	<u>Attendee</u>	<u>Cost</u>
March 18 - 22, 2014	Partner's Group Annual Meeting and Conference	Miami, FL	Paul Matson	\$2,517.02
April 8 -10, 2014	Oak Hill Capital Partner Annual Meeting	Oakland, CA	Eric Glass	\$222.38
April 22 - 25, 2014	Institutional Investor Roundtable Conference	Los Angeles, CA	Dave Underwood	\$125.00
April 28 - May 3, 2014	Due Diligence Littlejohn, PLA Residential Fund	New York, NY	Karl Polen	\$2,403.26
April 30 - May 1, 2014	MSCI Barra Conference	Austin, TX	Keith Guido	\$211.24
May 4 - 7, 2014	67th Chartered Financial Analyst Conference	Seattle, WA	Gary Dokes	\$770.44
May 4 - 7, 2014	Arizona Public Pension Fund Auditors	Las Vegas, NV	Adel Korish	\$955.76
May 4 - 7, 2014	Arizona Public Pension Fund Auditors	Las Vegas, NV	Larry Rennaker	\$955.76
May 4 - 7, 2014	Arizona Public Pension Fund Auditors	Las Vegas, NV	Bernard Glick	\$955.76
May 5 - 8, 2014	CEM Conference	Portland, OR	Dave King	\$936.18
May 5 - 8, 2014	CEM Conference	Portland, OR	Anthony Guarino	\$1,008.18
May 5 - 8, 2014	CEM Conference	Portland, OR	Sara Orozco	\$984.22
May 6 - 9, 2014	NASIP Conference	Salt Lake City, UT	Kerry White	\$1,538.73
May 13 - 17, 2014	Due Diligence, R/Finance 2014 Conference	Chicago, IL	Karl Polen	\$1,570.83
May 15 - 23, 2014	Due Diligence, PE Advisory Board Meeting	Cambridge, England	Eric Glass	\$1,546.80
			Total:	\$16,701.56

*Final amounts may vary due to adjustments in per diem and reimbursements.

Agenda Item #11e

Director's Report Cash Flow Statement



**ARIZONA STATE RETIREMENT SYSTEM
COMBINED STATEMENT OF CHANGES IN TOTAL FUND CASH
FOR THE MONTH ENDED JUNE 30, 2014**

	Retirement Plan Fund	Retirement System Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Current Period June	Fiscal 2014 YTD June	Fiscal 2013 YTD June
ADDITIONS							
Contributions:							
Member contributions	\$ 83,894,653	\$ 3,683	\$ -	\$ 1,785,567	\$ 85,683,902	\$ 1,015,844,184	\$ 968,884,512
Employer contributions	79,965,002	3,683	4,454,539	1,785,581	86,208,804	1,016,462,565	967,965,237
Alternative contributions (ACR)	1,842,189	-	41,773	37,596	1,921,558	24,356,810	21,823,924
ERRP reimbursement*	-	-	-	-	-	-	-
Transfers from other plans	78,762	-	-	-	78,762	1,044,463	1,232,600
Purchased service	2,445,569	-	-	-	2,445,569	30,087,683	70,790,399
TOTAL CONTRIBUTIONS	168,226,174	7,366	4,496,312	3,608,743	176,338,595	2,087,795,706	2,030,696,671
DEDUCTIONS							
Investment management fees and monitoring services	979,838	-	-	-	979,838	66,987,698	60,910,952
Retirement and disability benefits	208,366,941	3,268,697	8,562,165	5,222,862	225,420,664	2,690,867,815	2,566,274,591
Survivor benefits	2,550,270	-	-	-	2,550,270	39,337,802	38,441,533
Refunds to withdrawing members, including interest	33,468,975	2,217	-	-	33,471,192	246,639,356	218,606,673
Administrative expenses	2,974,652	-	-	210,972	3,185,624	36,527,339	38,716,921
Transfers to other plans	4,110	-	-	-	4,110	914,778	725,100
Other	60	-	-	-	60	45,130	(69,729)
TOTAL DEDUCTIONS	248,344,845	3,270,914	8,562,165	5,433,834	265,611,758	3,081,319,919	2,923,606,041
INCREASE (DECREASE)	(80,118,671)	(3,263,548)	(4,065,853)	(1,825,091)	(89,273,163)	(993,524,213)	(892,909,370)
From securities lending activities:							
Security loan program	220,337	-	-	-	220,337	1,918,691	1,818,831
Security loan interest expense / (Rebate)	(44,758)	-	-	-	(44,758)	(139,119)	(1,135,252)
Net income from securities lending activities	265,095	-	-	-	265,095	2,057,810	2,954,083
Capital Calls / (Distributions)							
Real Estate	(42,314,394)	(483,630)	(1,887,663)	-	(44,685,687)	77,821,675	83,241,130
Private Equity	8,271,962	-	364,633	-	8,636,595	80,126,081	191,617,777
Opportunistic Investments**	302,948,053	3,870,641	13,459,489	-	320,278,183	993,143,350	490,178,383
TOTAL Capital Calls	268,905,620	3,387,011	11,936,460	-	284,229,091	1,151,091,106	765,037,290
NET INCREASE (DECREASE)	\$ (348,759,196)	\$ (6,650,560)	\$ (16,002,312)	\$ (1,825,091)	\$ (373,237,159)	\$ (2,142,557,509)	\$ (1,654,992,577)

* Represents Early Retirement Reinsurance Program reimbursements from Federal Government.

Funds can only be used to offset retiree health insurance costs per federal guidelines.

** Private Debt is included in Opportunistic Investments.

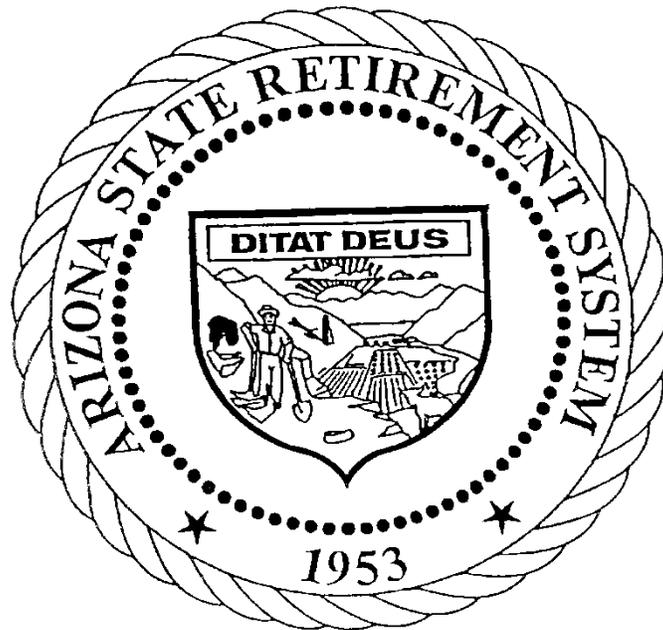
ARIZONA STATE RETIREMENT SYSTEM
COMBINED STATEMENT OF CHANGES IN TOTAL FUND CASH
FOR THE MONTH ENDED JULY 31, 2014

	Retirement Plan Fund	Retirement System Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Current Period July	Fiscal 2015 YTD July	Fiscal 2014 YTD July
ADDITIONS							
Contributions:							
Member contributions	\$ 62,275,094	\$ 2,520	\$ -	\$ 887,801	\$ 63,165,416	\$ 63,165,416	\$ 60,201,369
Employer contributions	59,614,063	2,520	3,247,432	887,619	63,751,635	63,751,635	60,609,766
Alternative contributions (ACR)	1,320,077	-	29,075	16,897	1,366,050	1,366,050	1,199,943
ERRP reimbursement*	-	-	-	-	-	-	-
Transfers from other plans	46,317	-	-	-	46,317	46,317	-
Purchased service	3,459,494	-	-	-	3,459,494	3,459,494	3,147,439
TOTAL CONTRIBUTIONS	126,715,045	5,041	3,276,508	1,792,318	131,788,911	131,788,911	125,158,517
DEDUCTIONS							
Investment management fees and monitoring services	8,810,065	-	-	-	8,810,065	8,810,065	11,751,871
Retirement and disability benefits	221,249,446	3,526,194	8,989,793	5,250,645	239,016,078	239,016,078	228,647,485
Survivor benefits	3,545,617	5,486	-	-	3,551,103	3,551,103	2,394,586
Refunds to withdrawing members, including interest	30,603,153	-	-	-	30,603,153	30,603,153	32,307,943
Administrative expenses	3,444,951	-	-	-	3,444,951	3,444,951	2,884,921
Transfers to other plans	86,825	-	-	-	86,825	86,825	142,393
Other	3,730	-	-	-	3,730	3,730	8,383
TOTAL DEDUCTIONS	267,743,788	3,531,680	8,989,793	5,250,645	285,515,906	285,515,906	278,137,583
INCREASE (DECREASE)	(141,028,743)	(3,526,639)	(5,713,286)	(3,458,328)	(153,726,995)	(153,726,995)	(152,979,065)
From securities lending activities:							
Security loan program	146,055	-	-	-	146,055	146,055	348,872
Security loan interest expense / (Rebate)	(31,859)	-	-	-	(31,859)	(31,859)	28,827
Net income from securities lending activities	177,914	-	-	-	177,914	177,914	320,045
Capital Calls / (Distributions)							
Private Equity	20,724,437	-	910,816	-	21,635,253	21,635,253	1,298,974
Opportunistic Equity	(1,588,947)	1,634	(72,818)	-	(1,660,131)	(1,660,131)	8,336,006
Opportunistic Debt	53,776,254	619,723	2,383,619	-	56,779,596	56,779,596	(3,841,166)
Private Debt	(7,266,599)	(100,011)	(337,337)	-	(7,703,946)	(7,703,946)	18,379,993
Real Estate	(9,505,170)	(100,790)	(418,947)	-	(10,024,906)	(10,024,906)	(41,565,359)
TOTAL Capital Calls	56,139,975	420,557	2,465,334	-	59,025,865	59,025,865	(17,391,552)
NET INCREASE (DECREASE)	\$ (196,990,804)	\$ (3,947,195)	\$ (8,178,619)	\$ (3,458,328)	\$ (212,574,946)	\$ (212,574,946)	\$ (135,267,469)

* Represents Early Retirement Reinsurance Program reimbursements from Federal Government.
Funds can only be used to offset retiree health insurance costs per federal guidelines.

Agenda Item #11f

Director's Report Appeals



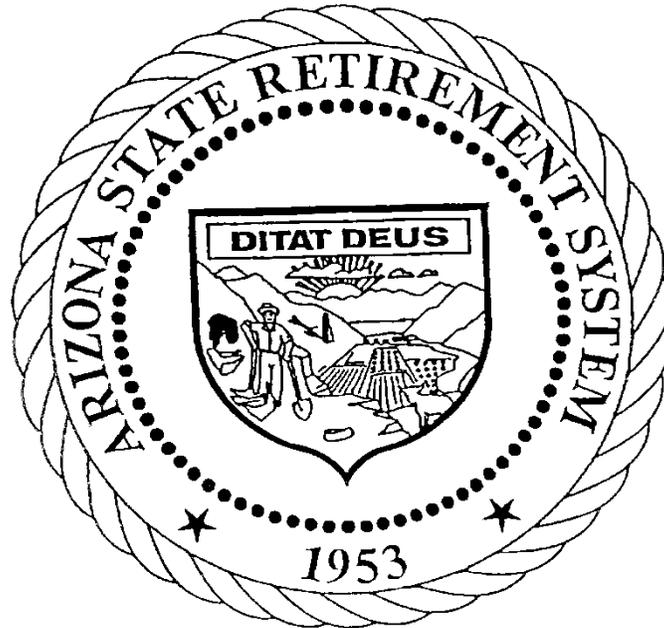
OUTSTANDING ASRS APPEALS

Date Received	Appeals	Issues/Questions Regarding	Status/Comments
01/23/2012	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 will be completed 09/03/2014.
06/21/2012	Bonnie Pendergast	Appellant is seeking to purchase 9.89 service years.	OAH decision affirming ASRS staff decision; affirmed by ASRS Board 09/21/2012; MCSC appeal Case No. LC2012-000596 ASRS Board decision on 02/12/2013. Overturned. ASRS filed appeal to the Court of Appeals on 03/12/2013. Decision Affirming Superior Court. ASRS filed Petition for Review.
04/22/2013	Luz Academy of Tucson & Adalberto M. Guerrero Middle School	Appellant is disputing an ASRS audit that designated four individuals as ineligible for ASRS membership.	OAH decision partially affirming ASRS staff decision; accepted by ASRS Board on 09/27/2013. Luz Academy appealed to Superior Court. MCSC Case No. LC2013-000572-001DT. Oral Argument held August 4, 2014.
02/4/2014	Alice Schireman	Appellant is disputing that there are no ASRS survivor benefits remaining on ASRS member, Alvin Schireman's account.	OAH hearing held on 04/10/2014. Recommended decision on 06/27/2014 agenda for Board action. Request for Reconsideration received 07/31/2014. On ASRS Board agenda 08/22/2014.
07/01/2014	Lenny Tasa-Bennett	Disputing the denial of his LTD benefits.	OAH Hearing scheduled for 08/18/2014.
07/08/2014	Paula C. Winter	Disputing the denial of her LTD benefits.	OAH hearing scheduled for 09/02/2014.
07/14/2014	Richard K. Hillis & Sharon Di Giacinto	Disputing the ASRS determination that term DRO is unacceptable.	OAH Hearing scheduled for 09/10/2014.

- Please note any updates have been bolded.

Agenda Item #11g

Director's Report Employers Reporting





ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MEMORANDUM

TO: Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board
FROM: Mr. Paul Matson, Director
DATE: August 13, 2014
RE: Delinquent Employers

The Financial Services Division of the Arizona State Retirement System has been working on the fiscal year end close for 2014. The main focus has been to ensure all payrolls from employers have been received and posted to member accounts. As a result, delinquent notifications are not sent during this time period. The delinquent notifications will continue next month following our posting of 2015 fiscal year contributions.