

HOW...

ASRS Employees Deliver Service With PRIDE!

PROFESSIONALISM

We promote, strive for and expect individuals, teams, and divisions to possess professional qualities and skills to lead the organization.

- Displays a friendly, respectful and courteous demeanor even when confronted by adversity
- Has proactive and responsive approach to internal and external customer needs
- Possesses good communication and active listening skills
- Is a trusted contributor (manager, leader, SME, analyst, teammate)
- Takes personal accountability • Has subject matter expertise
- Has critical thinking skills • Has an honest, fair, non-judgmental mind-set
- Is adaptable to beneficial change • Adheres to the ASRS Code of Conduct

RESULTS

We treasure the achievements of individuals, teams, divisions and the agency that energize the organization.

- Meets goals and objectives
- Completes projects
- Produces quality work products
- Satisfies customers
- Attains individual accomplishments
- Manages risks successfully

IMPROVEMENT

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

- Promotes new ideas
- Enhances outcomes and performance
- Solves problems
- Enhances morale
- Improves relationships
- Increases efficiency, effectiveness or reduces costs

DIVERSITY

We recognize that utilizing different talents, strengths and points of view, strengthens the agency and helps propel outcomes greater than the sum of individual contributors.

- Encourages an attitude of openness and a free flow of ideas and opinions
- Treats others with dignity and respect
- Works effectively to accomplish goals with teams comprised of dissimilar individuals
- Recognizes and promotes skills in others attained on and off the job

EXCELLENCE

We celebrate individuals, teams and divisions who exceed expectations and deliver service with a PRIDE that permeates the organization.

- Surpasses member, stakeholder and associate expectations
- Demonstrates a willingness to go the extra mile to engender a positive public image
- Embraces change in a manner that inspires others
- Accepts responsibility and challenges with enthusiasm
- Takes a personal interest in promoting teamwork through effective use of communication (verbal, non-verbal, written and technological techniques)
- Creates a motivated, healthy and productive work environment that celebrates and rewards the accomplishments of others



**ARIZONA STATE
RETIREMENT SYSTEM**



ARIZONA STATE RETIREMENT SYSTEM

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

Paul Matson
Director

AGENDA

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

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

May 29, 2015
8:30 a.m.

Pursuant to A.R.S. § 38-431.02 (F), notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Board and to the general public that the ASRS Board will hold a meeting open to the public on Friday, May 29, 2015, 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 Results (*estimated time 5 minutes*).....
.....Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
3. Approval of the Minutes of the April 24, 2015 Public Meetings and Executive Session of the ASRS Board (*estimated time 1 minute*)Mr. Kevin McCarthy

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

4. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Melissa Berner's Appeal to Reinstate her ASRS Account (*estimated time 20 minutes*)Ms. Jothi Beljan
Assistant Attorney General
.....Mr. Chris Munns
Attorney General, Solicitor General Section

5. Presentation, Discussion, and Appropriate Action Regarding the ASRS Investment Policy Statement (IPS) (*estimated time 15 minutes*)Mr. Tom Connelly
Chair, Investment Committee
.....Mr. Gary Dokes
Chief Investment Officer
.....Mr. Allan Martin
Partner, NEPC

6. Presentation, Discussion and Appropriate Action Regarding the ASRS Biennial Audit Plan for Fiscal Year 2016/2017 (*estimated time 15 minutes*) Mr. Jeff Tyne
Chair, Operations & Audit Committee
..... Mr. Bernard Glick
Chief Internal Auditor

7. Presentation, Discussion, and Appropriate Action Regarding Strategic Topics to be Discussed by the Board During Fiscal Year 2016 (*estimated time 20 minutes*) Mr. Anthony Guarino

8. Notification of Upcoming Board Elections to Occur at the June 26, 2015 Board Meeting (*estimated time 5 minutes*)Mr. Kevin McCarthy

9. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events (*estimated time 5 minutes*)..... Mr. Anthony Guarino
 - A. 2015 Compliance Report
 - B. 2015 Investments Report
 - C. 2015 Operations Report
 - D. 2015 Budget and Staffing Reports
 - E. 2015 Cash Flow Statement
 - F. 2015 Appeals Report
 - G. 2015 Employers Reporting

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

10. Presentation, Discussion, and Appropriate Action with Regard to the Court of Appeals Decision in the *Arizona State University vs. Arizona State Retirement System Case (estimated time 20 minutes)*Ms. Jothi Beljan

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.

11. Presentation, Discussion, and Appropriate Action Regarding the ASRS Retiree Dental Benefits Program Request For Proposals (*estimated time 15 minutes*) Mr. Jeff Tyne
.....Mr. Patrick Klein
Assistant Director, External Affairs
.....Mr. Russ Levine
Procurement and Budget Manager

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(1), notice is hereby given to Trustees of the ASRS Board and the general public that the ASRS Board shall vote to go into executive session, which will not be open to the public, for the purpose of the Director's annual review

12. Presentation, Discussion, and Appropriate Action Regarding the review of the Director and Employment Contract for the Director (*estimated time 15 minutes*)Mr. Kevin McCarthy

13. Presentation and Discussion with Regard to Informational Updates from Prior and Upcoming Committee Meetings (*estimated time 15 minutes*)

- a. Operations and Audit Committee (OAC)Mr. Jeff Tyne, Chair
.....Mr. Anthony Guarino

The next OAC Meeting will be held on June 9, 2015

- b. External Affairs Committee (EAC)Dr. Richard Jacob, Chair
.....Mr. Patrick Klein

The next EAC Meeting will be held on September 11, 2015

- c. Investment Committee (IC) Mr. Tom Connelly, Chair
.....Mr. Gary Dokes

The next IC Meeting will be held on June 22, 2015

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

15. Call to the PublicMr. Kevin McCarthy

Those wishing to address the ASRS Board are required to complete a Request to Speak form before the meeting indicating their desire to speak. Request to Speak forms are available at the sign-in desk and should be given to the Board Administrator. Trustees of the Board are prohibited by A.R.S. § 38-431.01(H) from discussing or taking legal action on

matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the Board may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

16. The next regular public ASRS Board meeting is scheduled for Friday, June 26, 2015, at 8:30 a.m., at 3300 N. Central Avenue, in the 10th Floor Board room, Phoenix, Arizona.

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(2), notice is hereby given to Trustees of the ASRS Board and the general public that the ASRS Board shall 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.

17. Presentation, Discussion and Appropriate Action Regarding the Office of the Auditor General's Sunset Review of the Arizona State Retirement System, including the Arthur J. Gallagher & Company Investment Management Audit (*estimated time 30 minutes*).....
.....Mr. Kevin McCarthy
.....Arthur J. Gallagher & Co.
.....Auditor General

18. 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 May 22, 2015

ARIZONA STATE RETIREMENT SYSTEM

Melanie A. Alexander
Board Administrator

Anthony Guarino
Deputy Director & Chief Operations Officer



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: May 22, 2015
RE: **Agenda Item #2:** Presentation Regarding the PRIDE Results Award

The ASRS employee recognition program recognizes employees who exemplify various PRIDE characteristics (Professionalism, Results, Improvement, Diversity, Excellence) throughout the year. The second award for 2015 is the PRIDE Results award.

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

We treasure the achievements of individuals, teams, divisions and the agency that energize the organization:

- | | |
|--|--|
| <input type="checkbox"/> Meet goals and objectives | <input type="checkbox"/> Attain individual accomplishments |
| <input type="checkbox"/> Satisfy customers | <input type="checkbox"/> Produce quality work products |
| <input type="checkbox"/> Complete projects | <input type="checkbox"/> Successfully manage risks |

The nominees for the 2015 PRIDE Results Award are:

- Non-Call Center Phone Upgrade Team: Sean Stevens, Thomas Neith, John Davis, Nick Dalmolin, Brandon Wilson, Michael Zych, Donna McNally, Aaron Chandler, Jean Langston, Brian Thompson, Harold Greene, Courtney Micheau, and Gary Rodriguez
- ASRS Tucson Team: Gary Rodriguez, Dennis Balkema, Dennis Griggs, Jane Hennessy, Jose Palmer, Kim Beck, Lupita Higuera, and Mona Gibson
- Clifton Vere
- FSD Mailroom Staff – John Mathine and Cincy Gould
- Gayle Williams

Chosen as winners of the 2015 ASRS PRIDE Results award is the **Non-Call Center Phone Upgrade Team**. We invite the Board to join the ASRS staff in recognizing the following members of the team: Sean Stevens, Thomas Neith, John Davis, Nick Dalmolin, Brandon Wilson, Michael Zych, Donna McNally, Aaron Chandler, Jean Langston, Brian Thompson, Harold Greene, Courtney Micheau, and Gary Rodriguez.

Nominees for the 2015 PRIDE Results Award

The Results Award is the second of our 2015 bimonthly awards. The following employees were nominated by staff who feel they exemplify the results qualities listed below:

RESULTS

We treasure the achievements of individuals, teams, divisions and the agency that energize the organization:

- Meet goals and objectives
- Satisfy customers
- Complete projects
- Attain individual accomplishments
- Produce quality work products
- Successfully manage risks

NON-CALL CENTER PHONE UPGRADE TEAM

Sean Stevens, Thomas Neith, John Davis, Nick Dalmolin, Brandon Wilson, Michael Zych, Donna McNally, Aaron Chandler, Jean Langston, Brian Thompson, Harold Greene, Courtney Micheau, Gary Rodriguez

On Friday, February 27, it became necessary to perform an emergency upgrade to our non-call center phone system. This required significant effort by a number of people in the ASRS as well as coordination with our AZNet II contract vendors within a very short time window. This team provided outstanding support and assistance with the upgrade which included training documentation produced by Donna's team after an emergency training session on the new phones. This documentation was ready in time to be distributed at the same time the phones were deployed, which provided a rich customer experience on Monday morning. We had to coordinate access for the myriad of technicians who would be running from floor to floor throughout the evening. Courtney was instrumental in making sure we had badges with the appropriate access and made special arrangements with security in the event we ran into difficulty. Our network staff including Sean, Thom, John, Nick, Brandon, Michael were very supportive resolving issues and assisting the AZNet II technicians from the afternoon and through the long evening. Brandon even provided testing support on Saturday morning. Sean came in on Sunday and ensured the helpdesk phones were functioning for Monday morning. Gary stayed late Friday evening in Tucson assisting the technician onsite to ensure that Tucson was functional for Monday as well. On Monday morning, the trainers including Donna, Aaron, Jean, Brian, and Harold were stationed on the various floors to provide assistance to anyone who had questions or difficulty in setting up or using their new phones. This type of upgrade was an unusual and extraordinary event and it was indeed a pleasure to work with such a dedicated team to turn an emergency into a success. We also received recognition from ADOA - ASET (who is the oversight for AZNet II contract) for taking ownership for our refresh. They stated they wished more agencies engaged in that way

ASRS TUCSON TEAM

Gary Rodriguez, Dennis Balkema, Dennis Griggs, Jane Hennessy, Jose Palmer, Kim Beck, Lupita Higuera, Mona Gibson

I am happy to nominate our ASRS Tucson Team for RESULTS! The Tucson Team consistently meets and exceeds our PRIDE definition for "Results." Though this is a satellite office, Tucson provides many individual and team contributions to the success of ASRS Strategic Goals and initiatives. Tucson has successfully achieved and exceeded all MSD Strategic Goals and actively has Benefit Advisors participating in other key areas to complement the ASRS Mission. Tucson has staff working with the A3

Project, ASRS Appeals, MSAC Customer Support, Remote Online Counseling, ASRS Work Environment and Employee Committees to name a few. This all while, providing excellent customer service to our walk-in members, those in for scheduled 1 on 1 LTD and regular pre-retirement appointments, on-site and remote Outreach presentations and member meetings. The Advisors also provide medical and dental information as a complement to specialized member meetings.

The ASRS Tucson Team, has been instrumental in projects related the conceptual design, rollout and promotion of multiple ASRS information brochures, pamphlets and other printed materials currently in use at ASRS-sponsored benefit fairs, retirement meetings and available in our local offices. ASRS Tucson staff are a very dedicated and cohesive team that complements each others skills, abilities and supports one another in times of high member volume and challenge. This team is able to successfully manage risks and still maintain strong and viable productivity without negative opposition or drama.

Tucson works with other ASRS divisions and groups in the spirit of cooperation and collaboration to perpetuate the ASRS PRIDE Vision and Values. For the benefit of the entire organization, to successfully represent and service our ASRS members statewide, and especially in southern Arizona. We celebrate our achievements and actively energize MSD and our entire ASRS organization. Please join me in recognizing this dedicated and "Results" oriented Team-ASRS Tucson!

CLIFTON VERE

Clifton is a very well rounded employee, but he definitely excels in Results. As an accountant II, Clifton reviews work from many different areas including the more common new retirees, adjustments and survivor benefits as well as the less common (and more complex) military call ups, CNWs and transfers. He does an excellent job of balancing his time in each area based on upcoming cut offs so that our team is able meet its objectives. He is quickly becoming the go-to person among his peers and is often sought out for resolution of more complex issues. Clifton keeps his supervisor apprised and up to date on the status of various queues and work needing to be done in order to meet objectives. He completes Member Inquiries and pending appeal questions timely, keeping members satisfied. Clifton works well above the expectations for production and quality output and is a great example for his peers to follow and is well deserved of the PRIDE Results Award.

FSD MAILROOM STAFF – JOHN MATHINE AND CINCY GOULD

I want to recognize the mailroom staff, John Mathine and Cincy Gould for their results in the remodeling and organization of the Concourse Mailroom. Both John and Cincy worked very hard to ensure that the room was cleared in order for the floor to be re-surfaced, they moved the entire mail operation to a temporary position while the make-over was being completed. During this entire process not one piece of mail was lost, misplaced, or not delivered as necessary. In fact, during the remodel they actually improved some of the processes and carried them over to the new operations. Again join me in thanking John and Cincy for a job well done.

GAYLE WILLIAMS

This nomination is to recognize the efforts of Gayle Williams who I have observed is results driven. She organizes and manages a variety of assignments, many of which transcend the entire organization. She inspires "staff working together" to successfully manage events that result in very satisfied customers or shall I say "ASRS employees." A prime example is the recent and annual event "the picnic." She manages to garner support from every area of the agency to pitch in with a long, long list of assignments and everything on that list is accomplished with RESULTS that surpass expectations each and every spring! Additionally, through the MSS team, meetings are organized, minutes are taken, compiled and provided, materials are compiled and distributed - all in an extraordinarily professionally and complete manner with outstanding quality work products also known as "RESULTS."



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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, April 24, 2015
8:30 A.M., MST

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Kevin McCarthy, Chair of the ASRS Board, called the meeting to order at 8:32 A.M., Arizona Time.

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

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Kevin McCarthy, Chair
Mr. Jeff Tyne
Dr. Richard Jacob
Mr. Tom Connelly
Professor Dennis Hoffman

Absent: Mr. Tom Manos

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the March 27, 2015 Public Meeting of the ASRS Board

Motion: Dr. Richard Jacob moved to approve the Minutes of the March 27, 2015 Public Meeting of the ASRS Board. Prof. Dennis Hoffman seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 1 excused, and 3 vacancies, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding 2015 ASRS Legislative Initiatives and Legislative Update

This agenda item was taken out of order and was formerly listed as agenda item #4.

Mr. Patrick Klein, Assistant Director External Affairs and Mr. Nicholas Ponder, Government Relations Officer, provided a summary to the Board regarding the 2015 Legislative Session and the ASRS legislative initiatives. Mr. Ponder advised the Board that the Fifty-second Legislature First Regular Session adjourned at 3:37 a.m. on April 3, 2015, and highlighted the following:

- HB2480, Weights and Measures Department; transfer. This bill consolidates duties of the Department of Weights and Measures into the Arizona Department of Transportation (ADOT)

and Arizona Department of Environmental Quality (ADEQ). This bill minimally affects the ASRS as it will be a consolidation of employers.

- SB1480, agency consolidation; budget reconciliation bill. This bill merges the Department of Racing into the Department of Gaming, the Department of Behavioral Health Services into AHCCCS and establishes the State Board of Appraisals as a division of the Department of Financial Institutions. This bill minimally affects the ASRS as it will be a consolidation of employers.
- HB 2320, firearms; permit holders; public places. Passed in the Senate Appropriations Committee on March 24, 2015; however, failed in the Senate COW roll call vote March 30, 2015. Therefore, there will be no changes as far as the ASRS is concerned with respect to allowing conceal carry weapons in the building.

In summary, Mr. Ponder advised the Board that six out of the seven bills the ASRS proposed to the Legislature passed and were signed by the Governor. Mr. Ponder took a moment to thank staff and the Board for their support during this legislative session. The Board thanked Mr. Ponder for all his efforts and a very quick turnaround in preparing the legislative summary. Mr. McCarthy asked about the future intentions regarding HB2340 that was never assigned to any committee. Mr. Ponder stated that it was still the intention of working with outside counsel to identify case law and address the Legislature's concern. Mr. Ponder is hopeful that this bill will pass in the next Legislative Session should all the concerns be addressed. Mr. Klein added that work will be done over the summer to compile a packet of proposed legislation for the 2016 Legislative Session to be formalized for further discussion at the September 11, 2015 External Affairs Committee meeting.

4. Presentation and Discussion Regarding the Arizona State Retirement System (ASRS) Administrative Appeals Process including Administrative Law Judge (ALJ) Decisions and the Role of Trustees with Regard to Accepting, Rejecting and Modifying an ALJ Decision

This agenda item was taken out of order and was formerly listed as agenda item #3.

Ms. Jothi Beljan, Assistant Attorney General, provided a summary of the appeals process, the role of the Trustees with regard to accepting, rejecting or modifying an Administrative Law Judge (ALJ) Recommended Decision and consideration for rejecting or modifying an ALJ Decision. Ms. Beljan responded to questions from the Board such as, who provides the Board legal advice in an appeal, when is it appropriate to consider new information, how detailed does the basis for a modification have to be, to name a few.

In conclusion, Ms. Beljan offered additional future education regarding this matter to include a Solicitor General representative if the Board felt it would be helpful.

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

Mr. Paul Matson presented the draft ASRS Funding Policy to the Board. Mr. David Kershner, Ms. Sara Orozco, Mr. Anthony Guarino and Mr. Gary Dokes were present to answer questions from the Board. Mr. Matson explained that the Funding Policy is not intended to be a desk procedure but sets the parameters within which decisions are contemplated, leading to appropriate funding of the liabilities.

The Board commended staff for creating the Funding Policy and believes it is an important document that requires more time to review and discuss prior to adopting. Trustees offered input with regard to including Performance Based Incentives into the policy. Once the policy has been amended, the Board will review at a future meeting to determine whether any additional amendments need to be made before adopting the policy.

6. Presentation, Discussion, and Appropriate Action Regarding the Board Governance Policy Handbook Annual Responsibilities Review

Mr. Paul Matson provided a brief overview of the Board Governance Policy Handbook Annual Responsibilities and noted that the Board, the Committees and the Director have met all of the objectives in the Governance Handbook and completed all required tasks. Mr. Matson identified one deviation from the handbook with regard to the timing of the Board of Trustee's Review and the Director's Review. The handbook indicates the two reviews are to be completed one month apart, but this year they will be completed at the same time. Mr. Matson also highlighted a typographical error contained on page 3, #14 of the report, indicating it should read, "April 2015" not "April 2014."

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

Mr. Paul Matson stated he was available to answer any questions the Board may have regarding the Director's Report. Mr. Matson provided a brief update regarding the fiscal year-to-date Investment Total Fund Rate of Return and indicated that it is approximately 4%.

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

a. Operations and Audit Committee (OAC)

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

b. External Affairs Committee (EAC)

Dr. Richard Jacob announced the next EAC meeting will be held on September 11, 2015 at 10:30 a.m. in the 14th floor conference room and will focus on the upcoming legislative agenda.

c. Investment Committee (IC)

Mr. Tom Connelly announced the next IC meeting will be held on June 22, 2015 at 2:30 p.m. in the 14th floor conference room and will focus on the ASRS Investment Program Update with the independent program oversight report from NEPC, the Total Fund Performance for the first quarter of 2015, Total Fixed Income for both, public and private and conducting a risk assessment.

9. Board Requests for Agenda Items

Draft Funding Policy Review.

10. Call to the Public

Detective Mark Potts, requested to address the Board and ASRS staff to express his appreciation as this is the last meeting he will attend due to his retirement. Detective Potts stated that the Board and staff have been nothing but professional and respectful toward him during his time and it has been a pleasure working with everyone and a great experience.

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

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

12. Adjournment of the ASRS Board

Motion: Mr. Tom Connelly moved to adjourn the April 24, 2015 Board meeting at 10:20 A.M. Mr. Jeff Tyne seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 1 excused and 3 vacancies, the motion was approved.

ARIZONA STATE RETIREMENT SYSTEM

Melanie A. Alexander
Board Administrator

Paul Matson
Director



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, April 24, 2015
9:30 a.m., MST

The Arizona State Retirement System (ASRS) Board met in the 14th Floor Conference Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Kevin McCarthy, Chair of the ASRS Board, called the meeting to order at 10:32 a.m., Arizona time.

The meeting was NOT teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Kevin McCarthy, Chair
Mr. Tom Connelly
Professor Dennis Hoffman
Dr. Richard Jacob
Mr. Jeff Tyne

Absent: Mr. Tom Manos

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion and Appropriate Action Regarding the Board Governance Evaluations

- a) Trustees' 2014 Self-Evaluation
- b) Board 2014 Self-Evaluation
- c) Critical Issues of 2015

The Overall Board Evaluation document taken from the Board Governance Policy Handbook prompts the Trustees to consider the following statements while reviewing their performance:

1. The Board maintains an effective oversight role with regard to benefits and investment issues.
2. The Board knows and understands the ASRS Strategic Plan, and reflects this understanding when addressing key issues throughout the year.
3. The Board engages in long-range strategic thinking and planning.
4. The Board has achieved the business objectives it set out to accomplish this past year.
5. The Board stays abreast of issues and trends affecting the ASRS, using this information to assess and guide the ASRS over the long term.
6. The Board conducts a comprehensive evaluation of the Director annually.
7. The Board ensures that new Trustees receive a prompt, thorough orientation.

8. Board meetings are conducted in a manner that ensures open communication, meaningful participation, and sound resolution of issues.
9. The Board meeting agendas are well-balanced, allowing time for the most critical issues.
10. The Board and Committee meetings are handled efficiently.
11. The Committees are effective, focusing on pertinent topics and allocating reasonable time.
12. The Board is well-educated on both benefit and investment issues.
13. The Board recognizes its policy-making role and reconsiders and revises policies as necessary.
14. The Board is consistently prepared for meetings.
15. The Board as a whole, and Trustees as individuals, evaluates their performance on an annual basis.
16. The Board reviews and adopts a reasonable operating budget that is followed and monitored throughout the year.
17. The Board periodically monitors investment performance and measures it against relevant benchmarks.
18. The Board periodically monitors service to members.
19. The Board comprehends and respects the difference between its policy-making role and the Director's management role.
20. Board goals, expectations, and concerns are promptly, candidly and effectively communicated to the Director.
21. The Board anticipates issues and does not often find itself reacting to "crisis" situations.

Mr. McCarthy identified one item that was scored as "sometimes," which was item #12; however, all other scores were favorable, which is consistent with previous years. The Trustees discussed at some length a few of the overall comments submitted and items #10, #11, and #21 from the Overall Board Evaluation document, offering input regarding better use of the External Affairs Committee, media outreach parameters, effective meetings, oversight, and possessing an effective knowledge base. Trustees provided positive feedback regarding 2014 Board interactions.

Also discussed, for the future, was the need for more investment expertise on the Board and additional education for all Trustees, once all positions have been filled, to encompass the Board's role with regard to meeting management and what their focus should be and what should be relinquished to staff.

3. Presentation, Discussion and Appropriate Action with Regard to the Review of the Director of the ASRS

Mr. McCarthy provided a brief summary regarding the purpose of the Director's review and future items to be considered.

Motion: Mr. Tom Connelly moved to go into executive session. Dr. Richard Jacob seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 1 excused, and 3 vacancies, the motion was approved.

The Board convened to executive session at 11:19 a.m.

Adjournment of the ASRS Board

Mr. McCarthy adjourned the Board meeting at 11:44 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Melanie A. Alexander, Board Administrator

Kevin McCarthy, Chair

DRAFT



ARIZONA STATE RETIREMENT SYSTEM

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

MEMORANDUM

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

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

DATE: May 22, 2015

RE: **Agenda Item #4:** Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Melissa Berner's Appeal to Reinstate her ASRS Account

Purpose

To approve, modify or reject the Administrative Law Judge's ruling to uphold the Director's determination that Melissa Berner is denied having ASRS funds be reinstated into her ASRS account.

Applicable Law

The ASRS processed Melissa Berner's 2009 refund application in accordance with A.R.S. § 38-740 and A.A.C. R2-8-115.

Facts of the Case

- A. Melissa Berner was employed by Cave Creek Unified School District and was an ASRS actively contributing member from August 1998 to July 2000.
- B. The ASRS received a paper refund application on August 25, 2009 requesting to refund Melissa Berner's ASRS account and to transfer those funds to a TD Ameritrade account. The ASRS processed the refund application and deposited a total of \$4,139.92 into the TD Ameritrade account on or approximately August 31, 2009.
- C. The ASRS mailed a Direct Deposit Summary to Ms. Berner on August 31, 2009. Additionally, Ms. Berner's subsequent TD Ameritrade monthly statement would have reflected the ASRS deposit into her TD Ameritrade account. In January 2010, the ASRS mailed Ms. Berner a Form 1099-R for tax year 2009 showing the refund transaction. Prior to the refund transaction, the ASRS mailed annual member statements to Ms. Berner in 2004 through 2009. After the refund transaction, no further member statements were mailed to Ms. Berner providing additional notice to Ms. Berner of the refund.
- D. In August 2014, Ms. Berner returned to active ASRS membership when she began employment at Glendale Elementary School District. Ms. Berner testified that at this time she first learned that her ASRS account had been refunded in August 2009. Ms. Berner subsequently contacted the ASRS and asserted that her husband at the time in August

2009 completed the refund application. Ms. Berner appealed and requested the ASRS to reinstate her ASRS account and the funds that were withdrawn in 2009.

- E. In December 2014, the ASRS issued a Director Decision that no further funds were owed to Melissa Berner. The ASRS processed the refund application and paid the member contributions and interest from Melissa Berner's account. Ms. Berner received a refund of ASRS contributions associated with the time period August 21, 1998 to August 25, 2009 and is not entitled to any other funds from the ASRS or a reinstatement of her ASRS account. The ASRS advised Ms. Berner that if her husband requested the ASRS refund, then her proper remedy is to address the matter with the Maricopa County Superior Court in the division of marital property.
- F. In her Recommended Decision dated April 6, 2015, Administrative Law Judge Tammy Eigenheer upheld the ASRS Director's determination and denied Ms. Melissa Berner's appeal. The Recommended Decision, Conclusion of Law No. 5 states, "Further, it is significant the Application was received and processed while Appellant was married to her now ex-husband. As noted by the family court judge, this constitutes a marital issue. There is no evidence that the funds were not combined with marital assets and Appellant received some benefit from the funds prior to the divorce proceeding."

ASRS Recommended Motion

The ASRS Board accepts the Recommended Decision.



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Paul Matson
Director

MEMORANDUM

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

FROM: Mr. Tom Connelly, Chair, Investment Committee (IC)
Mr. Paul Matson, Director
Mr. Gary R. Dokes, Chief Investment Officer

DATE: May 22, 2015

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

Purpose

To present, discuss, and take appropriate action regarding the ASRS Investment Policy Statement.

Recommendations

Move to approve the IC's recommended proposed changes to the ASRS Investment Policy Statement as denoted in Exhibit 1.

Background

The ASRS has developed numerous investment documents which individually address specific aspects of its investment management program. These include the ASRS Investment Goals & Objectives, Investment Beliefs, Strategic Asset Allocation Policy (SAAP), Strategic Investment Policies (SIP), and the Board Governance Policy Handbook.

The Investment Policy Statement aggregates the aforementioned documents into a single macro-level investment document which capture key components of the ASRS investment program.

As the result of review and discussions between the Director and CIO, revisions to the IPS were made. Revisions are marked in red in Exhibit 1 and reflect the development and implementation of the ASRS Cash Management Program, and provide greater clarity of verbiage in the investment cash considerations section.

Attachments:

- ASRS Investment Policy Statement – Exhibit 1 (Proposed)

Exhibit 1 - Proposed



Investment Policy Statement (IPS)

**BOARD APPROVED: 02/18/2011
REVISED: 11/16/2012
REVISED: 08/23/2013**

Arizona State Retirement System

**3300 N CENTRAL AVENUE
PHOENIX, AZ 85012**

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PURPOSE

The purpose of this Investment Policy Statement (IPS) is to set forth the investment, beliefs, goals & objectives, constraints and establish the guidelines for the development and implementation of the ASRS strategic and tactical asset allocation policy.

The ASRS recognizes that a well-articulated investment policy is important to the long-term success of achieving the ASRS investment objectives. As such, the ASRS has developed this IPS with the following goals in mind:

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

INVESTMENT GOALS & OBJECTIVES

The ASRS has established a set of Investment Goals and Objectives that describe the macro-level expected outcomes that the ASRS seeks to achieve.

GOALS:

1. Maximizes Fund Rates of Return for Acceptable Levels of Fund Risk.

This goal has an asset oriented focus. Here, the returns generated or earned by the investment Fund should be considered in conjunction with the risk or volatility that the Fund will support, where risk is essentially the possibility of a change in the value of the ASRS Fund attributed to changes in economic conditions, interest rates, dividend policy and other variables in any given year.

2. Achieves 75th Percentile Rates of Return Compared to Peers.

This goal compares the performance of ASRS' aggregate investment portfolio to other public pension funds with over \$1 billion of assets under management. Though ASRS' asset allocation policy will differ from other public pension funds given its risk return profile and investment beliefs, it is common practice to compare returns between comparable public pension funds.

3. Achieves Long-term Fund Rates of Return Equal to or Greater than the Actuarial Assumed Interest Rate.

This goal has a liability oriented focus. Here, the returns generated or earned by the investment Fund should be considered in conjunction with the actuarial assumed interest rate, where this interest rate is essentially an estimate of the long-term average of the combination of expected inflation rates and expected real rates of return. The actuarial assumed interest rate is also the discount rate used to calculate the present value of liabilities.

4. Achieves Long-term Economic and Actuarial Funded Statuses of 100 percent.

This goal has a funded-status oriented focus. Here, the structuring of the investment Fund should be considered in conjunction with the level, volatility, and direction of the economic and actuarial funded status of the Fund. Although both actuarial and economic funded status levels are valuable for discussion and decision-making, economic-funded status is more reflective of financial condition and long-term policy implications. Economic-funded status is defined as the actual or market value of investments as a percentage of the actual or market value of liabilities and excludes such accounting constructs as smoothing and amortization.

5. Mitigates Contribution Rate Volatility.

This goal has a contribution-rate orientation focus. Here, the structuring of the investment Fund should be considered in conjunction with the level, volatility, and direction of the contribution rates that will need to be paid by both employees and employers in the Fund. In general, lower levels and volatility in contribution rates are preferred.

Collectively, the above goals¹ incorporate the following elements that are important for a fund's comprehensive investment structure:

1. Complementary use of absolute and relative rates-of-return perspectives.
2. Complementary use of asset-only and asset-liability perspectives.
3. Complementary use of economic and actuarial perspectives.

OBJECTIVES:

Total Fund Performance

1. Achieve a 20-year rolling annual total fund net rate of return equal to or greater than the actuarial assumed interest rate.
2. Achieve 1-year and 3-year rolling annual total fund net rates of return equal to or greater than the return of the ASRS asset allocation policy (SAAP) Benchmark.

¹ Though important, Safety of Principal is not denoted as a separate goal, given its incorporation in other goals and the general acceptability of Modern Portfolio Theory. Liquidity of the Fund is also not denoted separately as it is a normal investment operating function and acts more as a constraint than an investment goal.

Asset Class Performance

3. Achieve 1-year and 3-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.

Cash Flow Performance

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

Refer to the ASRS Strategic Plan.

INVESTMENT BELIEFS

Frame of Reference

The following Investment Beliefs have been established to ensure the development of congruent and synergistic investment strategies, and to ensure the effective and efficient allocation of resources. These Investment Beliefs determine the general paradigm within which investment strategies are developed, investment ideas are reviewed, and investment decisions are implemented.

Modifications to these Investment Beliefs will occur if experiential, academic, conceptual, and/or practical perspectives suggest that a superior belief system exists.

Investment Beliefs

1. **Asset Class Decisions are Key:** In general, decisions with respect to which asset classes and sub-asset classes to invest in, and the allocations to these asset classes and sub-asset classes, have a greater impact on total fund investment returns than decisions in which specific securities to invest.
2. **Theories and Concepts Must be Sound:** Over longer periods of time, investment outcomes (e.g. rates of return, volatility) conform to logical theories and concepts. Significant deviations (e.g. internet bubble, pre-subprime erosion of risk premiums) from theoretically and conceptually sound investment constructs are usually not sustainable and are typically self-reverting.
3. **House Capital Market Views Are Imperative:** The development and articulation of sound *House Views* (e.g. views on interest rates, corporate spreads, asset valuations) will ensure consistency among investment decisions, clarity of investment direction, baselines for debates, and conformity of understanding.
4. **Investment Strategies Must be Forward Looking:** Investment strategies will be developed based on forward-looking insights, rather than simply on successful strategies of the past.

Asset class valuations and security valuations are significantly affected by endogenous outcomes (e.g. earnings, GDP growth rates, competitive barriers) that are probabilistic, and these outcomes are typically well analyzed by the investment industry.

Asset class valuations and security valuations are also significantly affected by random outcomes (e.g. natural disasters, certain supply & demand shocks) that are virtually unpredictable, and these outcomes are typically not analyzed directly by the investment industry.

Asset class valuations and security valuations are also significantly affected by exogenous outcomes (e.g. foreign policies, global cultural interactions) that can possibly be modeled, and these outcomes are typically not analyzed by the investment industry.

5. **Public Markets are Generally Informationally Efficient:**

Asset Class Valuations

Asset class valuations (e.g. stock market levels versus interest rate levels) are often in equilibrium with one another, but anomalous situations do occur which result in disequilibria between asset class valuations. These disequilibria offer valuable investment opportunities which we will pro-actively seek and capitalize on.

Security Valuations

Security valuations (e.g. IBM versus Cisco) are often in equilibrium with one another, but private markets and anomalous public market situations do occur which result in disequilibria between security valuations. These disequilibria offer valuable investment opportunities which we will pro-actively seek and capitalize on.

The extent of informational efficiency varies across asset classes.

Private markets offer significant opportunities for asset mispricing and manager excellence which we will pro-actively seek and capitalize on.

6. **Market Frictions are Highly Relevant:** Market frictions (e.g. management fees, carried interest, revenue sharing, expenses, costs, transaction spreads, market impacts, taxes, commissions) can be significantly detrimental to investment performance and as a result transactions will be initiated only to the extent there is a strong level of conviction that they will result in increased investment returns or decreased risks net of all market frictions.

7. **Internal Investment Professionals are the Foundation of a Successful Investment Program:** In-house investment management capability engaged in direct portfolio management results in superior investment decision-making.

In-house investment management pro-actively monitors capital markets in order to determine mispricing opportunities & allocate capital and will successfully increase risk adjusted returns.

In-house investment professionals are more closely aligned with, and have a better understanding of, the purpose and risk & reward tolerance of the ASRS than external parties.

In-house investment professionals will impact direct investment negotiations, better align economic interests, and influence investment industry conditions (e.g. private deal structures, fee levels, introduction of innovative products & strategies).

8. **External Investment Management is Beneficial:** External investment organizations can often offer greater expertise, resources, and/or flexibility than internal personnel for various investment strategies.

9. **Investment Consultants:** Investment consultants will be effectively utilized in the following four general categories, and utilization of consultants will be focused on situations where there is a demonstrable need in at least one of the four areas:

- Independence: When oversight or controls should be enhanced

- Perspective: When internal perspectives are not broad enough
 - Special Skills: When internal skills are not deep enough
 - Resource Allocation: When IMD's resources can be enhanced.
10. **Trustee Expertise:** Trustees often have expertise in various areas of investment management, and this expertise should be utilized while ensuring separation between Board oversight and staff management.

Refer to IMD Investment Beliefs.

INVESTMENT CONSTRAINTS/CONSIDERATIONS

1. Arizona State Statutes

ASRS investments may be limited by Arizona Revised Statutes. To ensure compliance, checks and balances have been established which both reside within and external to the ASRS Investment Management Division. Reporting processes are implemented and, as appropriate, disseminated to the Director, Board Committees, and Board. The ASRS monitors its investment compliance to applicable investment Arizona statutes and regulations. Checks and balances have been established which both reside within and external to the ASRS Investment Management Division. Reporting protocols are implemented and, as appropriate, disseminated to the Director and the Board.

2. Time Horizon

The ASRS is managed on a going-concern basis. The following timeframes are utilized for portfolio construction decisions and contribution rate determination:

Portfolio Construction Decisions:

*Strategic asset allocations focus on medium term (3-5 years) capital market expectations, subject to the constraint of meeting the long-term assumed actuarial rate based on long-term (30 year) Capital Market Assumptions.

*Tactical deviation decisions are based on shorter term (less than 3-5years) capital market expectations.

Contribution Rate Determination:

*Liabilities are discounted based upon long-term (30 year) capital market expectations.

*Contribution rates are set based upon longer-term (currently 10 year) investment valuation smoothing periods, and longer-term (currently 30 years 'closed') deficit/surplus amortization periods.

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

Contribution rates are the realized cash flow financial outputs, and based upon the above, they are relatively insensitive to shorter-term portfolio volatilities. This enables the ASRS to combine the traditional cross-sectional diversification benefits of a large employee pooled plan with time-series diversification benefits of a multi-generational plan, resulting in higher expected short-term return volatility which enables higher expected long-term returns.

~~The ASRS is managed on an on-going concern basis with primary emphasis placed on long-term capital market expectations (20-30+ years), which are evaluated in the context of relevant ranges of probable investment return outcomes.~~

3. Liquidity and Cash-Flow

The ASRS maintains a long-term investment horizon; however, managing short-term liquidity and cash-flow is paramount to ensure that pension obligations, health insurance, member refunds, administrative payments and other cash-flow requirements are made. This requires Investment Management and Financial Services Divisions to anticipate internal and external cash-flow needs, and to efficiently manage transactions in order to mitigate the costs of ensuring adequate liquidity.

~~The ASRS maintains a long-term investment horizon; however, managing liquidity and cash-flow is paramount to ensure that pension obligations, health insurance, member refunds, administrative payments and other cash-flow requirements are made. This requires Investment Management and Financial Services Divisions to anticipate internal and external cash-flow needs in order to preclude the use of alternative liquidity vehicles.~~

RISK MANAGEMENT, MONITORING AND REPORTING

The ASRS applies a risk management framework for identifying, managing and reporting on ASRS Investments. These include, but are not limited to, operational risk (e.g., internal and external portfolio(s) guideline compliance, cash management, securities lending, IMD business continuity, etc.) and investment risk (e.g., deviations from target allocation, manager oversight, performance measurement/attribution, ability to achieve investment objectives, etc.).

In conjunction with the agency risk management program, appropriate steps are taken to provide reasonable assurance to Executive Management and the Board that investment management programs are designed, implemented and maintained to achieve investment goals and objectives as referenced in the ASRS Strategic Plan.

Responsibilities reside with the ASRS investment staff, custody bank, general consultant, project consultants, investment managers, and ASRS Internal Audit.

Reporting periodicity and the level of investment information dissemination vary depending upon target audience. Daily report generation and investment monitoring reside with the custody bank and IMD/Internal Audit; Quarterly/Annual aggregate, portfolio positions, and asset class performance are reported to the IC/Board.

The use of leverage is defined in the applicable ASRS investment documentation. For separate account public market investments (internally or externally managed portfolios), authorization to permit or not permit leverage is explicitly denoted in the managers' Letter of Direction and Clarification; monitoring is conducted by IMD and ASRS consultants. For commingled public and private markets investments, authorization to permit or not permit leverage is explicitly denoted in the managers' contracts or partner agreements; monitoring is conducted by the designated partnership agreement external auditor and, as applicable, reviewed at limited partnership advisory meetings.

The use of derivatives is defined in the applicable ASRS investment documentation. For separate account public market investments (internally or externally managed portfolios), authorization to permit or not permit derivatives is explicitly denoted in the managers' Letter of Direction and Clarification; monitoring is conducted by IMD and ASRS consultants. For commingled public and private markets investments, authorization to permit or not permit derivatives is explicitly denoted in the managers' contracts or partner agreements; monitoring is conducted by the designated partnership agreement external auditor and, as applicable, reviewed at limited partnership advisory meetings.

The management of currency exposure is defined in the applicable ASRS investment documentation. For separate account public market investments (internally or externally managed portfolios), authorization to permit or not permit currency hedging is explicitly denoted in the managers' Letter of Direction and Clarification; monitoring is conducted by IMD and ASRS consultants. For commingled public and private markets investments, authorization to permit or not permit currency hedging is explicitly denoted in the managers' contracts or partner agreements; monitoring is conducted by the designated partnership agreement external auditor and, as applicable, reviewed at limited partnership advisory meetings.

ASSET ALLOCATION

As part of strategic asset allocation development, the ASRS asset mix will reflect investments in strategic and tactical asset classes and strategies whose collective risk/return profile are anticipated to achieve its long-term investment rate of return goals and objectives.

The ASRS employs a dynamic strategic asset allocation study approach whose initiation and periodicity will primarily be a function of market dynamics. The strategic asset allocation is used to determine the long-term policy asset weights. Investment opportunities and asset classes are constantly evolving and developing, such that they may become attractive and suitable for institutional investment portfolios before the next scheduled policy review. Therefore, asset allocation reviews in addition to periodic studies are conducted as warranted or triennially, whichever is shorter.

The strategic asset allocation study may include, but not be limited to, the following:

- Discussion and analysis of existing and evolving asset classes and investment strategies.
- Evaluation of expected sources of investment returns, risk and diversification (quantitatively/qualitatively).
- Reviewing investment industry developments (academic and pragmatic).
- Utilization of quantitative tools (e.g., efficient frontier mean-variance optimization, risk budgeting) and evaluation of multiple scenarios.
- Reviewing and engaging discussions regarding capital market assumptions.
- Reviewing asset allocation policies from other public and non-public entities.

Refer to the ASRS Strategic Asset Allocation Policy (SAAP) Schematic

REBALANCING

The ASRS has established and maintains an asset class rebalancing policy(s) which encompasses the guidelines and processes for identifying and determining potential courses of action precipitated by the ASRS asset class over/under weight deviations relative to its broad strategic asset allocation policy (SAAP), ASRS cash-flow needs and/or to take tactical positions between and within SAAP asset classes.

The frequency and magnitude of portfolio rebalancing is determined by the Investment Rebalancing Committee consisting of the Director, CIO, and IMD Asset Class Portfolio Managers. The CIO reports asset class rebalancing activities to the Director and, through the Director, to the Investment Committee and full Board.

Refer to the Strategic Investment Policy – Rebalancing

VOTING OF PORTFOLIO PROXIES

The ASRS votes its ownership interest with an objective of maximizing the present value of its investment. Proxy voting for the ASRS internally-managed equity (“E”) portfolios and those assigned to external U.S. and non-U.S. equity managers shall not be influenced or directed by political or social prerogatives that may diminish or impair the economic value of an investment.

The ASRS currently engages Institutional Shareholder Services (ISS) and employs its research and voting guidelines for the voting of proxies for the “E” portfolios. This process is not applicable to ASRS externally-managed equity portfolios.

The ASRS external equity managers use their discretion to vote their portfolio proxies; voting records are monitored for consistency with both the individual external manager’s voting policy and the ISS proxy voting policy. External equity manager voting records found to be inconsistent with or different from the ISS proxy voting policy are researched and documented. IMD retains the right to direct external equity managers’ voting on any issue(s) if doing so is deemed beneficial to the Fund.

SECURITIES LITIGATION

The ASRS monitors and participates in securities litigations when appropriate to protect the ASRS interests. From time to time, class action lawsuits are brought against companies, their directors, and/or their officers, as well as third parties such as the companies’ independent public accountants, for alleged violations of federal and state securities laws relating to various disclosure obligations and breaches of fiduciary or other duties. As a shareholder or bondholder, the ASRS may join or initiate a securities class action or pursue a private action when securities fraud and other acts of wrongdoing have taken place.

Monitoring and reporting is carried out by the ASRS contracted outside counsel who may make recommendations to the ASRS and depending on the merits of the recommendation are discussed by the Securities Litigations Oversight Committee (SLOC). In the event the SLOC recommends the ASRS consider pursuing lead plaintiff or private action, Board approval is required before such action can be taken.

Refer to the Strategic Investment Policy – Securities Litigation

SECURITIES LENDING

The ASRS is allowed to lend securities with either the custody bank or tri-party in a separate account or commingled security lending structure. The **CIO and Director IMD** will determine the ASRS securities lending program parameters (risk profile, aggregate lending balance, types of securities on loan, collateral requirements, etc.). The ASRS securities lending program primarily focuses on identifying loan intrinsic value.

MANAGEMENT OF INVESTMENT MANAGEMENT FEES (COST)

The ASRS strives to maintain an efficient and relatively low aggregate investment management fee structure. The ASRS internally-manage public market portfolios are managed to provide beta-like market returns with low management fees (approx 1 bps); external public and private portfolios are anticipated to generally provide alpha, take active risk and enable the ASRS the ability to access market capital opportunities which may not be available through ASRS internal investment program.

To the extent possible, the ASRS negotiates and monitors investment fees for external public and private investment managers. For external public equity managers, securities-level transaction(s) cost analyses will be evaluated by IMD staff. Those managers whose transaction costs appear high relative to the market in which they trade or who use soft dollars may be subject to participation to the ASRS commission recapture program.

The ASRS IMD staff will oversee public manager portfolio transitions, e.g., securities from one public manager to another. These transactions may be executed on a security-level basis by either IMD staff or through an intermediary who may possess skills and/or can execute transactions on a more effective cost basis. Pre- and post-transaction cost analyses (commission, trading costs, market impact, etc.) are evaluated by the IMD staff.

ROLES & RESPONSIBILITIES

The ASRS Board governance structure provides the Investment Committee (IC) with general investment oversight responsibilities. In addition, the Directors' Asset Class Committees implement Board policies and provide detail oversight of the ASRS investments. Specific duties of the IC and Asset Class Committees are outlined in the ASRS Board Governance Policy Handbook.

Refer to the ASRS Board Governance Policy Handbook



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Paul Matson
Director

MEMORANDUM

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

FROM: Mr. Bernard Glick, Chief Internal Auditor

DATE: May 22, 2015

RE: **Agenda Item #6:** Presentation, Discussion, and Appropriate Action Regarding the ASRS Biennial Audit Plan for Fiscal Year 2016/2017

Purpose

To review the proposed ASRS Internal Audit Division (IAD) Biennial Audit Plan for Fiscal Years Ending 2016 and 2017, as developed under the oversight of and approved by the Operations and Audit Committee (OAC).

Recommendation

The OAC and staff recommend the Board approve the Biennial Audit Plan for FY 2016 and 2017.

Background

The IAD has prepared a Biennial Audit Plan for the agency that proposes the auditable activities for the period July 1, 2015 through June 30, 2017, and is based on a Risk Assessment conducted by ASRS executive and senior managers, under the oversight of the OAC, and in collaboration with the IAD.

The total hours available to perform audits or audit-related work will be 6,500 for both years of the plan. (See schedules on page 6 of the report.) Though this is a biennial plan, the OAC reserves the right to re-evaluate the plan and recommend changes to the Board at the end of the first fiscal year (2016) or another prudent time.

The IAD will report to the OAC quarterly on the status of the Audit Plan. The quarterly report will contain the budgeted and actual hours for each audit assigned.

An explanation of the objectives, scope, estimated hours, and reason for each audit appears on pages 8 through 11 of the report. The audits assigned in 2013/2014 - 2014/2015 appear in the Appendix, on page 12 of the report.

ARIZONA STATE RETIREMENT SYSTEM

INTERNAL AUDIT BIENNIAL WORK PLAN

FOR

FISCAL YEARS ENDING 2016 AND 2017

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RISK ASSESSMENT AND RESOURCE ALLOCATION

RISK ASSESSMENT PURPOSE

The Arizona State Retirement System (ASRS) executive and senior managers, under the oversight of the Operations and Audit Committee (OAC), and in collaboration with the Internal Audit Division (IAD), performs a risk assessment to ensure the ASRS is taking appropriate steps to mitigate risks which threaten administrative effectiveness. The risk assessment is used by the IAD to determine what services or service areas should be audited and to facilitate the development of its two-year audit plan.

Risk affects the ability of the ASRS to maintain its financial strength and the quality of its services. There is no practical way to reduce risk to zero. Therefore, management must continually make judgments regarding the level of risk it is willing to accept. Risk assessment is a systematic process for accessing and integrating professional judgments about probable adverse conditions or events. The assessment is ongoing and conducted in accordance with principles espoused in the 2004 Committee of Sponsored Organizations report (COSO) of the Treadway Commission, considered the authoritative source on risk assessment. The OAC reviews the results of the current risk assessment prepared by management and adds their own suggestions.

AUDITABLE SERVICES MATRIX

For risk assessment and audit planning purposes, the IAD divided the ASRS operations into the following potential auditable areas:

- Member Services Division (MSD)
- External Affairs Division (EAD)
- Technology Services Division (TSD)
- Investment Management Division (IMD)
- Director's Office (including Legal Services) (DIR)
- Administrative Services Division (ASD)
- Financial Services Division (including Payroll, Accounts Receivable, Accounts Payable, Retirement Payroll, Financial Reporting, Investment Accounting, Contribution Accounting) (FSD)

RISK RANKING

Risks are developed using material developed by the Association of Public Pension Plan Fund Auditors (APPFA) in a document titled "Operational Risks of Defined Benefit and Related Plans" prepared in 2003. This document was redesigned to meet the current and particular needs of the ASRS.

Under the oversight of the OAC, the ASRS executive and senior managers identify and rate risk factors as follows:

- Inherent Impact: major, moderate, minor
- Risk tolerance: high, medium, low
- Controls: strong, some vulnerability, weak
- Likelihood: likely, some likelihood, not likely
- Residual impact: major, moderate, minor

Following each risk identified by the Enterprise Risk Management Committee, a control strategy of options are prepared on how the agency will respond to the risks and the actions the agency will take to mitigate them.

In addition to mapping the agency's strategy regarding risks, the risk assessment provides the IAD with a logical method of identifying activities for the Audit Plan. The following areas of risk which require IAD involvement were identified by the agency's current Risk Assessment.

AREAS OF POTENTIAL RISK IDENTIFIED IN RISK ASSESSMENT

() = page number of ASRS Risk Assessment document (which will be made available at the OAC meeting).

PENSION/SURVIVOR BENEFITS PROCESSING (PG. 77- 81 OF THE RISK ASSESSMENT)

Determine if pensions/survivor benefits are accurately calculated; if eligibility is properly determined; or if fraudulent payments are made. This is reviewed annually by sampling the prior year's new retirements/survivor benefit requests processed. These risks are addressed on *page 9* of the audit plan which includes an annual review of the final benefit calculation.

REFUNDS PROCESSING (PG. 77- 79 OF THE RISK ASSESSMENT)

Determine if refunds are accurately calculated. A quality review should be performed every six months for refund accuracy. This risk is addressed on *page 9* of the audit plan.

SERVICE PURCHASE PROCESSING INVOICES (PG. 91- 94 OF THE RISK ASSESSMENT)

Determine if service purchase invoices are calculated accurately and credited service is properly allocated. A quality review should be performed every six months for invoice accuracy. This risk is addressed on *page 9* of the audit plan.

EMPLOYER AUDITS /HEALTH INSURANCE SUPPLEMENTS (PGS. 99, 121-122 OF THE RISK ASSESSMENT)

Determine if eligible members are identified and enrolled by employers; contributions and insurance supplements are calculated correctly; if employers pay into ASRS the proper Alternate Contribution rate for retirees who continue to work or if members manipulate reported data or contributions for fraudulent purposes; if employers adequately perform their administrative duties and responsibilities including notifying the ASRS of incentives to employees and other fraudulent acts. These risks are addressed in Employer Audits, *page 10 of the audit plan*.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) #68 EMPLOYER DEMOGRAPHICS PG. 106-107 OF THE RISK ASSESSMENT)

Determine if the member information regarding age of member, years of service, eligibility and eligible compensation are in agreement between the employer and the ASRS. This is now required information on all financial statements produced by pension plans. These risks are identified on *page 10* of the audit plan.

DATA INTEGRITY/ INFORMATION SECURITY (PG. 133 - 137 OF THE RISK ASSESSMENT)

Determine if information systems and the data produced and stored are secure from external and internal threats, including illegal, unethical or fraudulent data manipulation; or identity theft of financial disbursements; or if software is outdated and not supportable. These risks are addressed in TSD Information Security on *page 12* of the audit plan.

SOFTWARE LICENSING (PG. 81 OF THE RISK ASSESSMENT)

Determine if there is a risk the agency is ignoring copyright laws on software or downloading inappropriate software. These risks are addressed on *page 10* of the audit plan.

Auditable activities were determined primarily by the risk assessment. However, they are not the only criteria for audit activity. Also included within the audit plan are:

AUDIT AREAS REQUIRING ANNUAL REVIEW DUE TO MATERIALITY OR GOVERNANCE REQUIREMENTS

INVESTMENT MANAGEMENT DIVISION (IMD) COMPLIANCE

The Agency has decided to outsource its investment compliance function. We will review the reports they submit as to compliance with statute, the ASRS Investment policy/procedures or Letters of Understanding; these risks are addressed on *page 12* of the audit plan.

FRAUD HOTLINE

Determine if internal control structures (Board Governance and Oversight, Management, Enterprise Risk Management, and Audit) are sufficient to ensure adequate controls and mitigate known threats to the Plan and organization. These risks are addressed on *page 11* of the audit plan.

DIVISIONS/SERVICES THAT HAVE NOT BEEN AUDITED WITHIN THE PAST FIVE YEARS

MANAGEMENT/ADMINISTRATION FEES (AGENCY AND INVESTMENTS)

Determine if the ASRS is properly charged for services contracted for by outside vendors per the terms of their agreed contract. These risks are addressed on *page 11* of the audit plan.

PROCUREMENT AND BID PROCESS

Determine if the agency is following the State Procurement Office rules and regulations for purchasing goods and services and there are proper controls for the Agency credit card use. Is there proper documentation for the requisition, purchase and receipt of goods and services? These risks are addressed on *page 11* of the audit plan.

WEB SERVICES, SOCIAL MEDIA POST IMPLEMENTATION (PG. 50 OF THE RISK ASSESSMENT)

Determine if the all of the areas of the Agency's website are adequately safeguarded; if account data displayed to members and employers on the secure website is correct; if changes made by members and employers on the ASRS website are accurately reflected in the ASRS database; if communication materials on the website (press releases, fact sheets, member and employer handbooks, webinars, webcasts, etc.) are correct and up-to-date; if the website is visually appealing, easy to use, or is otherwise effective and resulting in a positive public image for the ASRS. These risks are addressed on *page 11* of the audit plan.

MANAGEMENT / OPERATIONS COMMITTEE REQUESTED AUDITS

MEMBER STATEMENT TESTING

Management has requested annual reviews of member statements before release to the members. In 2016 and 2017 we will test the online, real-time statements. See *page 7* of the audit plan (Audit Related).

AUDIT HOURS AVAILABLE

Audit work time available was determined using 1,500 hours for one Full Time Equivalent (FTE) per year and was allocated as follows:

<u>Auditor Hours*</u>	<u>Individual</u>	<u>2015/2016</u> <u>2016/2017</u> <u>Staff (5)</u>
Total work hours (2,080 hours less vacation, holiday, sick)	1,735	8,675
Less: Formal training	-65	-325
Meetings	-170	-850
Administrative time, correspondence, time reports, house-keeping, computer delays, other non-chargeable time	<u>-200</u>	<u>-1000</u>
Time available to perform audits/audit related (1 year)	1,300	6,500

*The work for Fiscal Year Ending (FYE) 2016 and FYE 2017 is restricted by the audit hours available. Hours reported above were based on the actual hours expended in FYE 2014/15.

To audit the auditable activities with the frequency identified in the audit plan and risk assessment, the estimated hours required annually to adequately service the agency appear below.

<u>Audit Type</u>	<u>2015/2016</u>	<u>% of time</u>	<u>2016/2017</u>	<u>% of time</u>
Total hours assigned to audits	6,000	70%	6,000	70%
 <u>Audit Related</u>				
Consulting, Director/Board Requests	300	3%	200	2%
Chief Auditor Requests **	100	1%	100	1%
Member Statement Testing	100	1%	100	1%
Risk Assessment – Audit Plan	<u>0</u>		<u>100</u>	1%
Subtotal – Audits & Audit Related	6,500	75%	6,500	75%
Office operations, reviewing work, PASE, hiring, other administrative duties	1,000	11%	1,000	11%
Training, meetings	<u>1,175</u>	<u>14%</u>	<u>1,175</u>	<u>14%</u>
Total work time per year	8,675	100%	8,675	100%

** Must be approved by the Operations and Audit Committee.

Each group of activities, with total hours allocated for each audit per year, follows.

An explanation of each audit, the division responsible, the objectives and scope of the audit and the reason for the audit appear on *pages 9 – 13* of this report.

	<i>FY 2015/16</i>
	<u>Total Budgeted</u>
<u>Audit Descriptions</u>	<u>Hours</u>
Pension/Survivor Benefits – Final Audit	200
Refunds Processing	150
Service Purchase Invoices	150
Employer Audits (12)	3,200
GASB 68 Employer demographic testing	400
Software licensing (moved from 2014/15 audit plan)	150
WEB Services Post Implementation	450
Fraud Hotline	200
Procurement, Bid Process	450
Management/Administration fees- Agency vendors	500
Follow Up of Previous Year's Audits	<u>150</u>
Hours available for 2015/16 Audits	<u>6,000</u>

	<i>FY 2016/17</i>
	<u>Total Budgeted</u>
<u>Audit Descriptions</u>	<u>Hours</u>
Pension/Survivor Benefits – Final Audit	200
Refunds Processing	150
Service Purchase Invoices	150
Employer Audits (12)	3,200
GASB 68 Employer demographic testing	500
Investment compliance vendor review	500
Fraud Hotline	200
Data integrity	450
Management/Administration fees – Investments	500
Follow Up of Previous Year's Audits	<u>150</u>
Hours available for 2016/17 Audits	<u>6,000</u>

OAC REPORTING RESPONSIBILITIES

The OAC has oversight of the audit function and will receive quarterly reports outlining the status of the audit plan. The report will contain budgeted and actual time spent on audits assigned for the fiscal year.

The audit descriptions for the prior Biennial Audit Plan for FYE 2014 and 2015 appear in the Appendix of this report on *page 13*.

AUDIT DESCRIPTIONS

A detailed listing of the audits for the FYE 2016 and FYE 2017 follows. Included for each audit are the objectives, the scope and the reason that the audit was included in this plan.

PENSION/SURVIVOR BENEFITS PROCESSING

Estimated Hours: FYE 2016 – 200 hours; FYE 2017 – 200 hours

Division Responsible: FSD

Objectives: To determine if the final audits for new retiree's pensions and survivor benefits are calculated accurately and based on the criteria used to determine the benefit calculation.

Scope will include: Audits will be based on a sample of new retiree and survivor benefit calculations, for the current year, taken after the final audit is completed by FSD.

Reasons for audit frequency: The agency processed 9,400 new retirements, 1,084 Lump sum survivor benefit and 665 Survivor annuity requests and paid out \$2.56 billion in retirement and survivor benefits in FYE 2014. The payments should reflect an accurate accounting of all criteria necessary to determine the benefit payable to the member. This was identified by the agency as an area of risk per the risk assessment.

REFUNDS PROCESSING

Estimated Hours: FYE 2016 – 150 hours; FYE 2017 – 150 hours

Division Responsible: MSD

Objectives: To determine if forfeitures are valid and calculated correctly.

Scope will include: A sample will be selected and reviewed twice a year for accuracy.

Reasons for audit frequency: During FYE 2014, 16,472 refunds were issued representing member withdrawals amounting to \$246 million. This was identified by the agency as an area of risk per the risk assessment.

SERVICE PURCHASE PROCESSING INVOICES

Estimated Hours: FYE 2016 – 150 hours; FYE 2017 – 150 hours

Division Responsible: MSD

Objectives: To determine if invoices for service purchase are calculated correctly for both service credit and cost of the service purchased and to determine if they follow the new requirements per ASRS policy.

Scope will include: Examining a representative sample of service purchase invoices prepared. A report will be issued to the ASRS Board in six-month intervals. Each category of service purchase invoices will be tested.

Reasons for audit frequency: For Calendar year 2014, over 2,200 invoices have been sent to our membership requesting service purchase. Repurchases for FYE 2014 amounted to \$32.4 million. This service area was identified as a risk per the agency risk assessment.

EMPLOYER AUDITS/ HEALTH INSURANCE SUPPLEMENTS (20 PER YEAR)

Estimated Hours: FYE 2016 – 3,200 hours; FYE 2017 – 3,200 hours

Division Responsible: FSD (Contribution Accounting), EAD

Objectives: To determine if: 1) employers are following ASRS state statutes and policies for making contributions of their “eligible employees;” 2) employers are following ASRS state statutes and policy regarding retiree return to work; 3) employers are manipulating payroll data (spiking) for fraudulent purposes; 4) employers are receiving correct health insurance supplements for eligible employees; 5) employers are notifying the ASRS of termination incentives to employees’ pay.

Scope will include: Twenty employers will be picked for audit each year. The IAD will review the past 12 months of the payroll records of each employer selected for audit.

Reasons for audit frequency: Retirement benefits are paid based on the reporting of contributions from eligible employees of participating employers. For the FYE 2014, the IAD identified 78 “eligible” non-contributors and employers were assessed over \$146,000 in contributions not withheld and \$28,400 in accrued interest. Additionally, our audits removed 774 ineligible employees from ASRS membership. We also recovered \$42,362 in Health insurance supplement overpayments. There are currently 707 employers reporting contributions to the ASRS. This was identified as a risk per the agency risk assessment.

GASB 68 EMPLOYER DEMOGRAPHICS (27 PER YEAR)

Estimated Hours: FYE 2016 – 400 hours; FYE 2017 – 500 hours

Division Responsibility: Agency Wide

Objectives: To determine if: 1) Membership information obtained from the employers and used in the determination of the valuation of the fund is in agreement with the ASRS records. We will be reviewing the age of the member, their eligibility, reported salary and their total credited service.

Scope will include: Twenty seven employers will be picked for audit by the external auditors for fiscal years 2014 and 2015. They will sample twenty five employees from each employer.

Reasons for audit frequency: This is now an annual requirement for all pension plans by the Governmental accounting standards Board. To save the agency money on additional audit fees. Internal audit, under the guidance of the external auditors will do the field work for this new requirement.

SOFTWARE LICENSING

Estimated Hours: FYE 2016 – 150 hours

Division Responsible: TSD

Objectives: To determine if the agency is observing copyright laws on purchased software.

Scope will include: Reviewing all current software and related licensing agreements.

Reasons for audit frequency: This audit is done periodically to avoid lawsuits on software copyright infringement.

WEB SERVICES, SOCIAL MEDIA POST IMPLEMENTATION

Estimated Hours: FYE 2016 – 450 hours

Division Responsible: TSD

Objectives: To determine that the WEB and social media services provided to members meets the goals and objectives of the ASRS; and whether adequate controls, policies and procedures are in place for a secure WEB and Facebook page.

Scope will include: All activity related to the services provided

Reasons for audit frequency: This area has never been audited.

FRAUD HOTLINE

Estimated Hours: FYE 2016 – 200 hours; FYE 2017 – 200 hours

Division Responsible: Agency Wide

Objectives: To investigate improprieties from internal or external sources reported to IAD.

Reasons for audit frequency: To satisfy ASRS governance requirements.

PROCUREMENT AND BID PROCESS

Estimated Hours: FYE 2016 –450 hours

Division Responsible: ASD

Objectives: To determine if there is mutual interdepartmental confidence and coordination between the ASRS's operating divisions and the procurement function; to determine whether there is a good relationship between the ASRS and its vendors; to determine adherence to federal and state standards; to determine that all contracts are properly monitored for adherence by both parties to the contract.

Scope will include: All contracts and procurements in effect for the 2014 and 2015 fiscal years.

Reasons for audit frequency: During 2014 the ASRS procured \$12,633,000 in professional services, communications, facilities, software and equipment, education, meetings and travel, along with general expenses. This area has not been audited in the past 5 years.

MANAGEMENT /ADMINISTRATION FEES- AGENCY AND INVESTMENTS

Estimated Hours: FYE 2016 (Agency) – 500 hours FYE 2017 (Investments) – 500 hours

Division Responsible: Agency Wide, IMD

Objectives: Ensure the ASRS is paying only for services contracted for with the Vendor and that the performance of the services and the accuracy of the billings are monitored;

Scope will include: Sample of vendors performing management services for the ASRS selected from FY 2015

Reason for audit frequency: In 2014, the Agency paid out \$1,556,759 for pension related expenses, \$2,532,000 for LTD administrative expenses and \$1,853,336 for investment related expenses.

INVESTMENT MANAGEMENT DIVISION COMPLIANCE

Estimated Hours: FYE 2017 – 500 hours

Division Responsible: IMD

Objectives: To review the investment compliance services provided by our custody bank and determine if the ASRS investments are in compliance with state statutes, letters of direction and the Board-approved asset allocation policies.

Scope will include: Review the procedures and reports prepared by the compliance area of the custody bank for the year ended FY2016.

Reasons for audit frequency: The in-house investment function manages portfolios amounting to \$34,514,600,000 (market value as of June 30, 2014).

DATA INTEGRITY/INFORMATION SECURITY

Estimated Hours: FYE 2017 – 450 hours

Division Responsible: TSD

Objectives: To determine if the agency is following statewide policies, standards and procedures based on Enterprise Architecture (EA) strategies and framework; the agency has complied with the findings of the independent penetration audit; the agency has processes for identity management, documented security strategies, policies and standards; the agency has incident response plans to ensure all software in use by the agency is current and supportable by the vendor; and the agency has adequate hardware and software controls in place.

Scope will include: September, 2012 (last presentation to OAC) to August 30, 2013.

Reasons for audit frequency: A penetration audit was completed in 2009 and in 2010 by an independent vendor, and deficiencies were noted in both years. This was identified by the agency as an area of risk per the agency risk assessment.

FOLLOW-UP OF PRIOR YEAR AUDITS

Estimated Hours: FYE 2016 – 150 hours; FYE 2017 – 150 hours

Division Responsible: Agency Wide

Objectives: To determine if entities audited in the prior year have successfully addressed and corrected the findings noted during the audit as promised in their responses.

Scope will include: Reviewing the responses to prior audits and reviewing the evidence that the finding has been addressed and corrected.

Reasons for audit frequency: One of the requirements of the international standards of Internal auditing as implemented by the Institute of Internal Auditors requires the determination that corrective action was taken on all findings brought to management's attention.

TOTAL TIME FOR AUDITS

FYE 2016 – 6,000 hours

FYE 2017 – 6,000 hours

APPENDIX

<u>Audit Descriptions</u>	<u>FY 2013/14 Total Budgeted Hours</u>
Pension/Survivor Benefits – Final Audit	200
Refunds Processing	150
Service Purchase Invoices	150
Employer Audits (20) Including Self Audits	4,250
Continuous Audit Monitoring – General Accounting	250
Investment Management Trade Tickets, Compliance	550
Fraud Hotline	200
Spreadsheet review	350
Long term disability program	350
Information Security	400
Follow Up of Previous Year’s Audits	<u>150</u>
Hours available for 2013/14 Audits	<u>7,000</u>

<u>Audit Descriptions</u>	<u>FY 2014/15 Total Budgeted Hours</u>
Pension/Survivor Benefits – Final Audit	200
Refunds Processing	150
Service Purchase Invoices	150
Employer Audits (20) Including Self Audits	4,250
Continuous Audit Monitoring – General Accounting	250
Investment Management Trade Tickets, Compliance	550
Fraud Hotline	200
WEB Services, Social media	300
IMD Software trading system review	300
Quadros	300
Software licensing	200
Follow Up of Previous Year’s Audits	<u>150</u>
Hours available for 2014/15 Audits	<u>7,000</u>



ARIZONA STATE RETIREMENT SYSTEM

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

Paul Matson
Director

MEMORANDUM

TO: Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board
FROM: Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
DATE: May 22, 2015
RE: **Agenda Item #7:** Presentation, Discussion, and Appropriate Action Regarding Strategic Topics to be Discussed by the Board during Fiscal Year 2016

Purpose

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

Recommendation

Information item only; no action required.

Background

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

The topics that were identified and discussed in Fiscal Year 2015 are contained on the following two pages.

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

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

Staff requests that Trustees review the list of topics discussed over the past year and provide the Director or staff with any topics you would like discussed in Fiscal Year 2016.

Once gathered, staff will bring a list of possible topics to the Board for discussion in June.

Strategic Topics Discussed in Fiscal Year 2015

1. Operational Capacity

This agenda item discussed the 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.

Conclusion: The ASRS is operating at an effective capacity and is able to achieve its priorities, goals and objectives.

Presented to the Board: August 2014

2. Membership Rules

This agenda item discussed ASRS membership rules, statutes, and associated concerns, including:

- Current definitions
- Administrative complexities and issues
- Part-time employment
- Possible options for the agency to consider in addressing the various issues
- Efforts currently underway

Conclusion: Currently, staff has no precise way to know the number of members who are currently working part-time, or have worked part-time during their career. Without this information it would be difficult to assess the impact to employers and the ASRS of any possible change in membership rules.

Currently, the ASRS is currently working with employers to expand the payroll reporting format to include the number of hours worked during a pay period. Once the new format is implemented, staff will need to collect the hours worked data for a number of years before it can assess the impact of part-time and limited time employment and make recommendations for future actions.

Presented to the Board: December 2014

3. Member Service Paradigm

This agenda item discussed the current state of the Member Services Division, including:

- Current member service model
- Current status of each program area
- Current administrative complexities and challenges
- Current efforts underway
- Strategic priorities and initiatives for member services for the next 3 to 5 years

Conclusion: The Member Services Division is performing at optimal levels and has been largely successful in meeting its strategic goals and objectives. Over the next several years, the ASRS will work on the following initiatives:

1. Examining how it uses Personally Identifiable Information (PII) in its various member interactions (member contacts, correspondence, internal reports etc.) to identify possibilities for reducing the need to request and use member PII.
2. Ensuring that the agency is capturing and recording all of its various member contacts
3. Continue its focus on expanding the use and effectiveness of online interactions; and
4. Maximizing agency efficiency and increasing customer service

Presented to the Board: January 2015

4. Asset Allocation Study – Part 1 and 2

February 2015: This agenda item discussed the most recent Asset Allocation Study and recommended changes to the Strategic Asset Allocation Policy.

Conclusion: The proposed primary changes (and rationale) to ASRS existing asset allocation policy are as follows:

- Reduce Allocations to Public U.S. Equities, Emerging Market Debt, Commodities, Core Bonds, Emerging Market Equity, and High Yield Debt
- Increase Allocations to Private Debt, Public Non-U.S. Equities, Real Estate, and Private Equity
- Add Treasuries as a separate asset class, and retain Infrastructure and Farmland/Timber, each with a 0% Target
- Rename “GTAA” to “Multi-Asset Class Strategies” and reduce allocation from 10% to 5% with a 0-12% target range, and partially restructure by replacing some beta exposure with alpha exposure
- Establish Policy Target Ranges primarily at the broad asset class categories
- Remove Minimum Passive % Targets for public equity and fixed income

March 2015: This agenda item discussed recommended changes to the SAAP recommendation discussed in February. At the February 27 Board meeting, the Board approved a new Strategic Asset Allocation Policy (SAAP). It was subsequently determined that individual ranges for the three ‘Opportunistic Investments’ were incorrectly included.

Conclusion: The Director, CIO and General Investment Consultant recommended a modification to the February 27 approved SAAP Schematic that corrects and clarifies the original intent of the ranges for ASRS opportunistic investments as follows:

1. Maintain the aggregate policy target allocation of 0% and range of 0-10%. Rationale: to provide flexibility to evaluate and select opportunistic investments which may be temporarily available and may be relatively more attractive from a risk/return perspective than other investments. Aggregate Opportunistic Investments consists of Debt, Equity, and Inflation-Linked which are defined as investments that are not included in the ASRS Asset Allocation policy and represents investment opportunities that are tactical in nature.
2. Eliminate the policy ranges for each Opportunistic Investment asset class, i.e., the 0-3% policy ranges. Rationale: a) to correct the original intent of the 0-10% range which pertains to the aggregate opportunistic investments and not establish policy range limits for each subset of opportunistic investments by asset class and b) to clarify a mathematical inconsistency between the aggregate opportunistic policy range limit of 0-10%; and the underlying three asset class policy ranges limited of 0-3%, i.e., $3 \times 3\% = 9\%$.

Presented to the Board: February 2015 and March 2015

5. Board Governance

The Director provided a high-level summary of the ASRS Board Governance process, stating that the creation of the ASRS Board Governance was based on five elements:

1. Determining the optimal and appropriate allocation of roles of the organization (Board and staff);
2. Determining effective controls;
3. Determining effective communication mechanisms;

4. Determining an efficient organizational structure; and
5. Documentation

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

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

Conclusion: The Director cited some of the differences between ASRS governance practices and those around the country, including:

- Although the ASRS does not have control over the determination and appointment of Trustees, the current system requiring both executive nomination and subsequent senatorial approval with staggered terms has worked well. De-politicizing Board appointments and staffing appears to be beneficial for pension funds.
- The delegation of investment decision-making is not common and has resulted in more timely decisions and a more action oriented framework. The Director indicated that this is unique and not the standard across the United States. Mr. Connelly added that separation of decision-making and oversight was an additional advantage of this level of delegation.
- In response to a question on whether the Director recommended any further changes, the Director responded by saying there were several items that should be periodically discussed but not necessarily on an annual basis. Those items are decision-making with respect to: procurement, staffing and compensation, and budget, each of which the ASRS does not have currently.

Presented to Board: March 2015

6. Fiduciary Role of Trustees

An external vendor, 3Ethos, made a presentation and facilitated a discussion regarding fiduciary education with a focus on integrating leadership, stewardship and governance. Some specific topics discussed were as follows:

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

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

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

Presented to Board: March 2015

7. Health Care – Part 1

This agenda item discussed retiree health insurance and health benefit supplement programs, their histories, and current statuses. The ASRS has offered retiree health insurance plans and health benefit supplements since 1989. This meeting focused on the a high-level overview of:

A. Programs Offered:

1. Current ASRS programs offered by coverage: medical, dental, vision, WellCard
2. Current ASRS programs offered by group: Medicare and non-Medicare programs
3. Current ASRS program designs: benefits, premiums, and copayments
4. Current Health Benefit Supplement levels
5. Current and Projected Funded Status
6. Current and Projected Contribution Rates
7. Other

B. Landscape & Impacts

1. Federal Mandated Arizona Exchange: benefit designs and premiums compared to the ASRS program
2. ADOA Programs: benefit designs and premiums compared to the ASRS program
3. Marketplace cost trends
4. Marketplace product development and other dynamics
5. Other

Conclusion: An additional OAC meeting has been scheduled in June to discuss strategic items of interest.

Presented to the Operations and Audit Committee: May 2015

8. Health Care – Part 2

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

1. Reaffirm or not the ASRS program goals: Affordability, Accessibility, and Meaningful
2. Whole Case Underwriting & Resulting Cross Subsidizations: Discuss future direction
3. Direction of non-Medicare and Medicare coverage
4. Retrospective Rate Adjustment Agreement Fund: Current balance, utilization options, allocation options
5. Other

OAC Presentation Date: June 2015

9. Employer Service Paradigm

This agenda item will discuss the following topics related to ASRS Employer Services:

- Current Services Offered
- Current Challenges
- Efforts Underway

Tentative Board Presentation Date: June 2015

Strategic Priorities

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

1. ENSURE PLAN SUSTAINABILITY

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

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

2. OPTIMIZE RISK MANAGEMENT

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

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

3. OPTIMIZE INVESTMENT ORGANIZATION AND STRATEGIES

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

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

4. ENSURE OUTSTANDING CUSTOMER SERVICE

A quality workforce will deliver outstanding customer service directed toward:

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

5. ENSURE HIGH PRODUCTIVITY

Maximize productivity by:

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

K. STRATEGIC PLANNING POLICY (updated 10/25/2013)

General

Strategic planning is essential to ensuring the sound governance, oversight, and management of the ASRS. Since 1998, the ASRS has built its operation around a strategic model based on five organizing principles:

1. Look ahead with clarity of purpose by establishing an agency Vision, Values, Priorities, and Goals
2. Measure performance
3. Initiate strategic initiatives, as needed
4. Construct cost-efficient budgets and an effective workforce; and
5. Implement strong governance practices

The objectives of this policy are to:

1. Ensure that strategic priorities of the ASRS are primarily determined by the Board of Trustees, with active engagement, including recommendations, by the Director and senior staff.
2. Outline the process the ASRS will utilize when developing a Strategic Plan.
3. Describe how the Director will communicate with the Board regarding the agency's progress implementing the plan.

Strategic Planning Policy

The Board and Director will work collaboratively to ensure that:

1. Strategic priorities facing the ASRS over the short, medium, and long-term are identified, discussed, prioritized, and included in the Strategic Plan.
2. Strategic planning discussions remain focused on strategic issues that have been identified, and the strategic direction of the ASRS.
3. Strategies are developed and incorporated into the Strategic Plan to address the short, medium, and long-term priorities that have been identified by the Board.
4. The Board is updated at least annually regarding the agency's progress addressing strategic priorities.
5. Adequate resources are in place to support the successful execution of the Strategic Plan.
6. The agency's governance policy is periodically examined and updated to ensure that sound governance practices are in place.
7. Delineation of authority and autonomy is regularly discussed.

Strategic Planning Development Process

1. In preparation for Board meetings with strategic planning agenda items, the Director will ask the Board Chair for direction on how to proceed in discussing, modifying, or developing strategic priorities.
2. At least once annually, during Board meetings with strategic planning agenda items, the Trustees and Director will determine:
 - a. Which strategic topics they would like discussed during the year.
 - b. The number of Board meetings they would like to devote to strategic planning.
 - c. Preferences for how strategic discussions should be facilitated.
 - d. To facilitate the discussion, the Director will provide Trustees with a recap of:
 - Strategically-focused topics that have been discussed at prior Board and Committee meetings,
 - Strategically focused topics that have been requested by Trustees, but not yet scheduled for discussion,
 - Strategically focused topics that the Director recommends be considered for discussion.
3. Based on Trustee feedback, staff will develop a planning schedule for the upcoming year.

4. During strategic planning sessions, staff will provide background information, if needed, on topic areas that have been scheduled for discussion. This background information could include topical research, performance data, or staff's current analysis of the organization's strengths, weaknesses, opportunities, and threats, or other material requested by Trustees.
5. The Strategic Plan can be modified iteratively over its term or it can be modified only in preparation for a new Strategic Plan.
6. In the final year of the current Strategic Plan, trustees and the Director will focus Board Meetings with strategic planning agenda items on the identification of priorities for the next Strategic Plan.

Strategic Plan Reporting

1. Once the Board has identified its strategic priorities, the Director will work with staff to develop implementation strategies and performance measures for each of the priorities.
2. Staff will report at least annually to the Board on its progress addressing the strategic priorities that have been identified.
3. Trustees or the Director may request that priorities be added or deleted as needed.



ARIZONA STATE RETIREMENT SYSTEM

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

Paul Matson
Director

MEMORANDUM

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

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

DATE: May 18, 2015

RE: Internal Audit Review of Internal Investment Validation for the month ending April 30, 2015

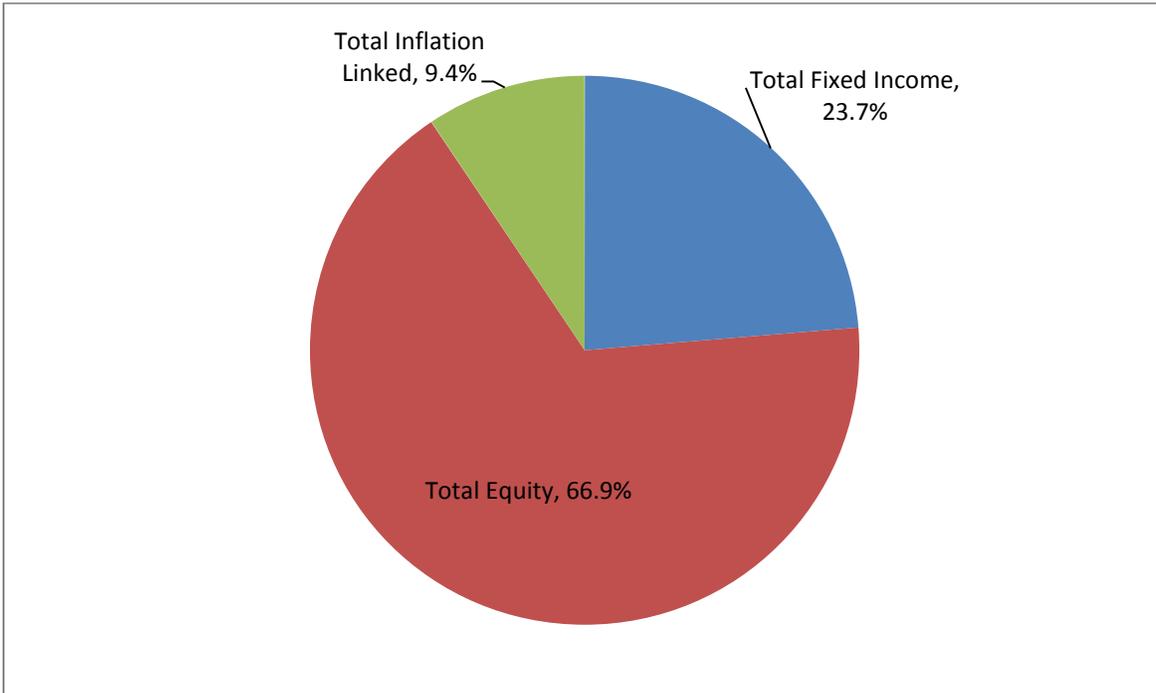
The Internal Audit Division reviewed 1005 trade transactions in the month of April on all the activity in the E2, E3, E4, E6, E7, E8, E9 and F2 accounts. Our review included:

- 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

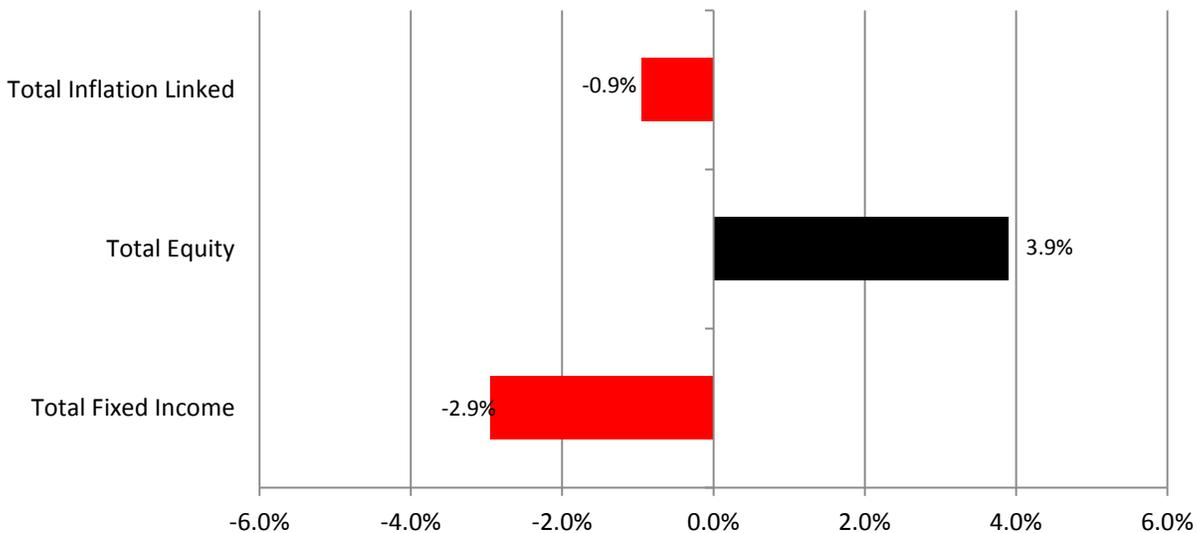
No infractions were noted during our review. Based on this review, we believe the procedures for executing and reporting internal investment transactions have been followed for this time reportable period.

TOTAL FUND POSITIONING – 03/31/15

ACTUAL PORTFOLIO



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



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

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

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

Pension (Plan, System, HBS Assets)

ASRS Market Value Report

As of:

Tuesday, March 31, 2015

Account Manager	Account Manager Style	Fixed Income		Equity		Inflation Linked		Total	Pct of Fund
		Active	Enh/Passive	Active	Enh/Passive	Active	Enh/Passive		
State Street B&T: Boston	Operating Cash (non-assetized)		100,828,001					100,828,001	0.29%
	Operating Cash (assetized)		318,268,545					318,268,545	0.92%
	Cash Total							\$419,096,546	1.21%
								Cash Policy Range	0.00%
GTAA Managers (2)	Active GTAA	1,312,120,950						1,312,120,950	3.78%
Blackrock: San Francisco	Passive (Intermediate Gov Credit)		24,418,976					24,418,976	0.07%
ASRS: Phoenix	Enhanced Passive F2		1,904,720,163					1,904,720,163	5.48%
Blackrock: San Francisco	Passive (US Debt Index)		669,943,277					669,943,277	1.93%
	Core Fixed Income Total							\$3,911,203,366	11.26%
								Core Fixed Income Policy	13.00%
Columbia: Minneapolis	Active	815,093,132						815,093,132	2.35%
JP Morgan: Indianapolis	Active	484,638,218						484,638,218	1.40%
	High Yield Fixed Income Total							\$1,299,745,105	3.74%
								High Yield Fixed Income Policy	5.00%
	US Fixed Income Total							\$5,210,948,470	15.00%
								US Fixed Income Policy Range: 8% - 28%	18.00%
	EM Debt Total							\$3,115,375	0.01%
								EM Debt Policy	4.00%
	Opportunistic Debt							\$1,076,562,804	3.10%
								Opportunistic Debt Policy Range: 0% - 10%	0.00%
	Private Debt Total							\$1,516,300,726	4.36%
								Private Debt Policy	3.00%
	Fixed Income Total							\$8,226,023,922	23.68%
								Total Fixed Income Policy Range: 15% - 35%	25.00%
Intech: FL	Active (Growth)			495,171,188				495,171,188	1.43%
LSV: Chicago	Active (Value)			844,804,655				844,804,655	2.43%
GTAA Managers (2)	Active GTAA			858,900,390				858,900,390	2.47%
ASRS: Phoenix	Passive E2				5,211,448,756			5,211,448,756	15.00%
ASRS: Phoenix	Enhanced Passive E7				789,270,592			789,270,592	2.27%
ASRS: Phoenix	Enhanced Passive E8				551,467,896			551,467,896	1.59%
ASRS: Phoenix	Risk Factor Portfolio				557,093,777			557,093,777	1.60%
	Large Cap Equity Total							\$9,308,179,961	26.79%
								Large Cap Policy	23.00%
Wellington: Boston	Active (Core)			446,769,591				446,769,591	1.29%
CRM: New York	Active (Value)			106,371,843				106,371,843	0.31%
ASRS: Phoenix	Passive E3 (Growth)				554,938,915			554,938,915	1.60%
ASRS: Phoenix	Passive E4 (Value)				544,505,891			544,505,891	1.57%
	Mid Cap Equity Total							\$1,652,586,240	4.76%
								Mid Cap Policy	5.00%
TimesSquare: New York	Active SMID (Growth)			491,344,144				491,344,144	1.41%
DFA: Santa Monica	Active (Value)			403,585,072				403,585,072	1.16%
Champlain: Vermont	Active (Core)			99,309,136				99,309,136	0.29%
ASRS: Phoenix	Passive E6				513,297,070			513,297,070	1.48%
	Small Cap Equity Total							\$1,507,535,422	4.34%
								Small Cap Policy	5.00%
	U.S. Equity Total							\$12,468,301,623	35.89%
								US Equity Policy Range: 26% - 38%	33.00%
Brandes: San Diego	Active (Value)			583,785,875				583,785,875	1.68%
GTAA Managers (2)	Active GTAA			959,747,665				959,747,665	2.76%
American Century	Active (EAFE)			517,678,217				517,678,217	1.49%
Trinity Street	Active (EAFE)			325,265,553				325,265,553	0.94%
Thompson Siegel Walmsley	Active (EAFE)			155,196,533				155,196,533	0.45%
Blackrock: San Francisco	Passive (EAFE)				2,356,220,677			2,356,220,677	6.78%
	Large Cap Developed Non-US Equity Total							\$4,899,889,032	14.10%
								Large Cap Developed Policy	14.00%
AQR: Greenwich	Active (EAFE SC)			175,679,964				175,679,964	0.51%
DFA: Santa Monica	Active (EAFE SC)			206,721,084				206,721,084	0.60%
Franklin Templeton: San Mateo	Active (EAFE SC)			396,478,416				396,478,416	1.14%
Blackrock: San Francisco	Passive (EAFE SC)				457,150,394			457,150,394	1.32%
	Small Cap Developed Non-US Equity Total							\$1,236,032,226	3.56%
								Small Cap Developed Policy	3.00%
William Blair: Chicago	Active (EM)			467,695,438				467,695,438	1.35%
Eaton Vance: Boston	Active (EM)			464,919,096				464,919,096	1.34%
LSV: Chicago	Active (EM)			291,967,908				291,967,908	0.84%
Blackrock: San Francisco	Passive (EM)				654,419,872			654,419,872	1.88%
	Emerging Markets Equity Total							\$1,879,002,314	5.41%
								Emerging Markets Policy	6.00%
	Non-US Equity Total							\$8,014,923,572	23.07%
								Non-US Equity Policy Range: 16% - 28%	23.00%
	Private Equity Total							\$2,381,642,099	6.86%
								Private Equity Policy Range: 5% - 9%	7.00%
	Opportunistic Equity							\$378,357,676	1.09%
								Opportunistic Equity Policy Range: 0% - 3%	0.00%
	Equity Total							\$23,243,224,970	66.91%
								Total Equity Policy Range: 53% - 73%	63.00%
Gresham: New York						538,609,503		538,609,503	1.55%
GTAA Managers (2)	Active GTAA					212,622,662		212,622,662	0.61%
	Commodities Total							\$751,232,165	2.16%
								Commodities Policy Range: 1% - 7%	4.00%
GTAA Manager (1)	Active GTAA					34,997,561		34,997,561	0.10%
	Real Estate Total							\$2,068,637,770	5.95%
								Real Estate Policy Range: 6% - 10%	8.00%
	Infrastructure Total							\$300,000,000	0.86%
								Infrastructure Policy Range: 0% - 3%	0.00%
	Farmland & Timber Total					149,770,674		\$149,770,674	0.43%
								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							\$3,269,640,609	9.41%
								Inflation Linked Policy Range: 7%-15%	12.00%
	TOTAL Amounts	\$4,131,282,155	\$4,094,741,767	\$11,053,388,423	\$12,189,836,547	\$3,419,411,283	\$0	\$34,738,889,501	Total Fund
	TOTAL Percent	11.89%	11.79%	31.82%	35.09%	9.84%	0.00%		

Asset Class	Actual	SAA Policy:	Rebalancing		Assumed - Adjusted		Policy Band check	Passive	Passive
	Portfolio	Target (Range)	Assumed Port	Adj Policy	% diff	\$ diff		Actual - Adj	Min
Cash	1.21%	0%	0.00%		0.00%				
Core	11.26%	13%						50%	73%
High Yield	3.74%	5%							
US Fixed Income	15.00%	18% (8-28%)	15.15%	18.57% (9-29%)	-3.42%	-\$1,188,059,609	OK		
EM Debt	0.01%	4%		4.00%					
Opportunistic Debt	3.10%	0% (0-10%)	3.10%	0% (0-10%)	3.10%	\$1,076,562,804	OK		
Private Debt	4.36%	3%		3.00%					
Total Fixed Income	23.68%	25% (15-35%)	22.63%	25.57% (16-36%)	-2.95%	-\$1,023,802,969	OK		
Large Cap	26.79%	23%							
Mid Cap	4.76%	5%							
Small Cap	4.34%	5%							
US Equity	35.89%	33% (26-38%)	37.60%	34.02% (27-39%)	3.58%	\$1,242,691,341	OK	50%	67%
Developed Large Cap	14.10%	14%							
Developed Small Cap	3.56%	3%							
Emerging Markets	5.41%	6%							
Non-US Equity	23.07%	23% (16-28%)	22.74%	23.51% (17-29%)	-0.77%	-\$267,789,719	OK	30%	50%
Private Equity	6.86%	7% (5-9%)	6.86%	6.86% (5-9%)	0.00%	\$0	OK		
Opportunistic Equity	1.09%	0% (0-3%)	1.09%	0% (0-3%)	1.09%	\$378,357,676	OK		
Total Equity	66.91%	63% (53-70%)	68.29%	64.39% (54-71%)	3.90%	\$1,353,259,298	OK		
Commodities	2.16%	4% (1-7%)	1.94%	4.08% (1-7%)	-2.14%	-\$744,229,443	OK		
Real Estate	5.95%	8% (6-10%)	5.85%	5.95% (4-8%)	-0.10%	-\$34,997,561	OK		
Infrastructure	0.86%	0% (0-3%)	0.86%	0% (0-3%)	0.86%	\$300,000,000	OK		
Farmland & Timber	0.43%	0% (0-3%)	0.43%	0% (0-3%)	0.43%	\$149,770,674	OK		
Opportunistic I/L	0.00%	0% (0-3%)	0.00%	0% (0-3%)	0.00%	\$0	OK		
Total Inflation Linked	9.41%	12% (8-16%)	9.09%	10.04% (6-14%)	-0.95%	-\$329,456,330	OK		
Total	100.00%	100%	100%	100%	0.00%	\$0		30%	44%
								Internally Managed Portfolios:	
								\$10,069,649,283	
								29%	
Total GTAA									
Bridgewater	\$2,793,145,734	8.0%						Opportunistic definitions: An investment in a category that is not included in the ASRS Asset Allocation policy and represents an investment opportunity that is tactical in nature.	
Windham	\$585,243,494	1.7%							
Total	\$3,378,389,228	9.7%							
Policy	10% ±5%	OK							

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

Period Ending Mar 31, 2015
FINAL



	Style	Inception	Amount (\$mil.)	Net Returns (%)								Excess Returns (basis points)								
				Month	3 Months	YTD	1 Year	Annualized			ITD	Month	3 Months	YTD	1 Year	Annualized			ITD	
								3 Years	5 Years	10 Years						3 Years	5 Years	10 years		
US EQUITY LARGE CAP																				
E2 MODEL	INDEXED	04/01/1997	5,211	-1.59	0.93	0.93	12.76	16.08	14.45	8.06	7.78	-1	-2	-2	3	-3	-1	5	7	
	<i>S&P 500 INDEX</i>			-1.58	0.95	0.95	12.73	16.11	14.47	8.01	---									
INTECH LARGE CAP	QUANTITATIVE	01/01/2003	495	-2.14	2.08	2.08	12.21	15.27	14.63	8.11	9.96	-47	-39	-39	-390	-159	-114	-91	26	
	<i>S&P/CITIGROUP 500 GROWTH</i>			-1.67	2.47	2.47	16.11	16.85	15.77	9.02	---									
LSV ASSET MANAGEMENT	QUANTITATIVE	01/01/2003	845	-0.87	1.40	1.40	9.43	19.19	15.26	9.01	11.53	61	208	208	31	385	212	207	242	
	<i>LSV CUSTOM INDEX</i>			-1.48	-0.69	-0.69	9.12	15.34	13.14	6.93	---									
E7	INDEXED	08/01/2012	789	-2.41	-1.83	-1.83	10.12	---	---	---	15.45	-2	-2	-2	-11	---	---	---	5	
	<i>MSCI USA High Dividend Yield Index</i>			-2.39	-1.81	-1.81	10.24	---	---	---	---									
E8	INDEXED	08/01/2012	551	-0.76	2.34	2.34	17.00	---	---	---	16.74	-4	-7	-7	7	---	---	---	50	
	<i>MSCI USA Minimum Volatility Index</i>			-0.72	2.41	2.41	16.93	---	---	---	---									
TOTAL US EQUITY LARGE CAP			\$ 7,892																	
US EQUITY MID CAP																				
WELLINGTON MANAGEMENT COMPANY LLP	FUNDAMENTAL	07/01/2002	447	-0.05	6.02	6.02	13.17	18.85	15.26	11.50	11.88	-137	71	71	97	182	-46	118	105	
	<i>S&P 400 MIDCAP INDEX</i>			1.32	5.31	5.31	12.19	17.03	15.72	10.32	---									
E3 MODEL	INDEXED	12/01/2000	555	2.40	7.58	7.58	13.24	16.58	16.64	11.39	9.15	2	3	3	-4	13	32	55	55	
	<i>S&P/CITIGROUP 400 GROWTH</i>			2.38	7.55	7.55	13.28	16.45	16.31	10.84	---									
CRM MID CAP VALUE	FUNDAMENTAL	01/01/2004	106	0.37	2.80	2.80	7.86	14.92	12.75	8.74	9.95	24	-3	-3	-299	-264	-235	-98	-27	
E4 MODEL	INDEXED	07/01/2002	545	0.19	2.94	2.94	10.81	17.49	15.04	9.99	10.86	6	11	11	-4	-8	-7	26	20	
	<i>S&P/CITIGROUP 400 VALUE</i>			0.13	2.83	2.83	10.85	17.57	15.10	9.72	---									
TOTAL US EQUITY MID CAP			\$ 1,653																	
US EQUITY SMALL CAP																				
DIMENSIONAL FUND ADVISORS EQFD	QUANTITATIVE	09/01/1998	404	1.63	3.45	3.45	5.25	18.13	15.13	9.39	12.33	70	216	216	-140	124	7	5	104	
	<i>DFA BLENDED BENCHMARK</i>			0.93	1.29	1.29	6.65	16.89	15.06	9.34	---									
CHAMPLAIN INVESTMENT PARTNERS LLC	FUNDAMENTAL	01/01/2008	99	2.44	3.45	3.45	10.78	14.71	15.59	---	10.28	83	-52	-52	206	-259	-66	---	28	
E6	INDEXED	02/01/2007	513	1.66	3.99	3.99	8.81	17.25	16.12	---	8.87	5	2	2	10	-4	-13	---	35	
	<i>S&P 600 SMALL CAP</i>			1.60	3.96	3.96	8.72	17.30	16.25	---	---									
TIMESQUARE CAPITAL MANAGEMENT	FUNDAMENTAL	04/01/2005	409	0.78	6.21	6.21	9.99	18.01	17.43	12.74	12.74	-86	-123	-123	-384	10	46	210	210	
	<i>TIMESQUARE BLENDED BENCHMARK</i>			1.64	7.44	7.44	13.83	17.91	16.97	10.64	---									
TOTAL US EQUITY SMALL CAP			\$ 1,425																	
TOTAL US EQUITY				\$ 10,970																
INTERNATIONAL DEVELOPED LARGE CAP																				
BRANDES INVESTMENT PARTNERS INT EQ	FUNDAMENTAL	10/01/1998	584	-1.85	6.92	6.92	-0.21	9.95	6.42	5.11	9.18	-34	204	204	71	63	-19	-127	288	
	<i>BRANDES CUSTOM INDEX</i>			-1.52	4.88	4.88	-0.92	9.32	6.61	6.38	---									
AMERICAN CENTURY	FUNDAMENTAL	07/01/2014	518	-1.82	3.79	3.79	---	---	---	---	-2.67	-30	-109	-109	---	---	---	---	214	
BGI EAFE INDEX	INDEXED	07/01/2009	2,329	-1.44	4.97	4.97	-0.65	9.32	6.48	---	9.52	8	9	9	26	0	-5	---	-6	
THOMSON, SIEGEL & WALMSLEY	FUNDAMENTAL	07/01/2014	155	-1.06	4.79	4.79	---	---	---	---	-4.24	46	-9	-9	---	---	---	---	57	

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

Period Ending Mar 31, 2015
FINAL



				Net Returns (%)							Excess Returns (basis points)								
	Style	Inception	Amount (\$mil.)	Month	3 Months	YTD	1 Year	Annualized			Month	3 Months	YTD	1 Year	Annualized			ITD	
								3 Years	5 Years	10 Years					3 Years	5 Years	10 years		
TRINITY STREET	FUNDAMENTAL	07/01/2014	325	-1.05	5.00	5.00	---	---	---	---	-6.60	47	12	12	---	---	---	---	-179
<i>MSCI EAFE NET</i>				-1.52	4.88	4.88	---	---	---	---	---								
TOTAL INTERNATIONAL DEVELOPED LARGE CAP			\$ 3,911																
INTERNATIONAL DEVELOPED SMALL CAP																			
AQR CAPITAL	FUNDAMENTAL	06/01/2013	176	-0.67	4.61	4.61	-1.91	---	---	---	10.63	36	-95	-95	101	---	---	---	98
BLACKROCK EAFE SMALL CAP	INDEXED	06/01/2010	455	-0.97	5.63	5.63	-2.60	10.76	---	---	11.89	6	7	7	32	-12	---	---	-13
DIMENSIONAL FUND ADVISORS INTL SC	QUANTITATIVE	09/01/2005	207	-2.03	3.22	3.22	-8.99	9.59	6.52	---	5.42	-100	-234	-234	-607	-129	-254	---	-50
FRANKLIN TEMPLETON INVESTMENTS	FUNDAMENTAL	04/01/2011	396	-0.13	6.87	6.87	-6.26	12.51	---	---	8.20	90	131	131	-334	162	---	---	178
<i>MSCI EAFE SMALL CAP NET</i>				-1.03	5.56	5.56	-2.92	10.88	---	---	---								
TOTAL INTERNATIONAL DEVELOPED SMALL CAP			\$ 1,234																
INTERNATIONAL EMERGING MARKETS																			
BLACKROCK EMERGING MARKETS	INDEXED	10/01/2010	658	-1.43	2.17	2.17	0.31	0.12	---	---	-0.02	-1	-7	-7	-12	-40	---	---	-43
EATON VANCE EMERGING MARKET EQUITY	QUANTITATIVE	12/01/2010	465	-2.98	-0.43	-0.43	-5.57	0.12	---	---	-0.12	-156	-267	-267	-600	-41	---	---	-50
LSV EMERGING MARKET EQUITY	QUANTITATIVE	12/01/2010	293	-1.59	0.03	0.03	0.22	0.92	---	---	1.02	-17	-221	-221	-21	39	---	---	64
WILLIAM BLAIR & COMPANY	FUNDAMENTAL	11/01/2010	470	-0.09	1.97	1.97	6.13	4.40	---	---	2.92	133	-26	-26	569	388	---	---	315
<i>MSCI EMF NET</i>				-1.42	2.24	2.24	0.44	0.53	---	---	---								
TOTAL INTERNATIONAL EMERGING MARKETS			\$ 1,886																
TOTAL INTERNATIONAL EQUITY			\$ 7,031																
RISK FACTOR PORTFOLIO																			
RISK FACTOR PORTFOLIO	OVERLAY	06/01/2013	557	-1.09	2.16	2.16	14.38	---	---	---	16.91								
TOTAL RISK FACTOR PORTFOLIO			\$ 557																
TOTAL EQUITY W/ RISK FACTOR OVERLAY			\$ 18,560																
CORE FIXED INCOME																			
BGI US DEBT FD	INDEXED	05/01/2014	671	0.45	1.63	1.63	---	---	---	---	5.03	-1	2	2	---	---	---	---	19
F2 MODEL	INDEXED	10/01/2000	1,905	0.47	1.62	1.62	5.86	3.27	4.57	5.17	5.67	1	2	2	14	16	15	25	16
<i>Barclays Aggregate</i>				0.46	1.61	1.61	5.72	3.10	4.41	4.93	---								
BGI GOVT/CRDTBD INDEX	INDEXED	11/01/2008	24	0.45	1.44	1.44	3.70	2.43	3.63	---	4.89	-4	-1	-1	11	12	11	---	10
<i>Barclays Gov/Credit Int</i>				0.49	1.45	1.45	3.58	2.31	3.52	---	---								
TOTAL CORE FIXED INCOME			\$ 2,600																
HIGH YIELD FIXED INCOME																			
COLUMBIA MANAGEMENT INV. ADVISORS, LLC	FUNDAMENTAL	10/01/2009	815	-0.43	2.94	2.94	4.12	7.92	8.98	---	9.69	11	42	42	212	47	39	---	-18

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

Period Ending Mar 31, 2015
FINAL



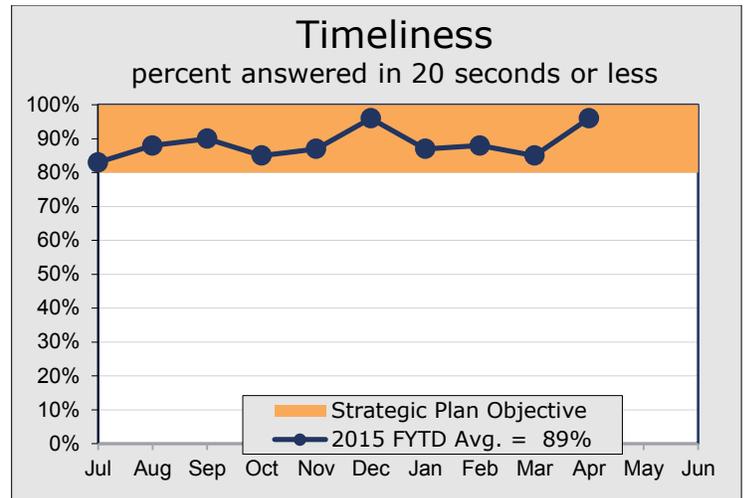
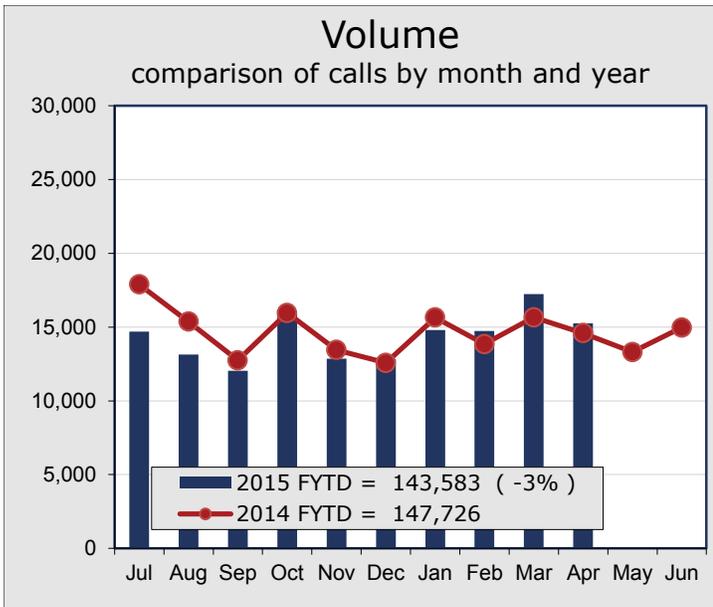
	Style	Inception	Amount (\$mil.)	Net Returns (%)								Excess Returns (basis points)							
				Month	3 Months	YTD	1 Year	Annualized			ITD	Month	3 Months	YTD	1 Year	Annualized			ITD
								3 Years	5 Years	10 Years						3 Years	5 Years	10 years	
JP MORGAN HIGH YIELD	FUNDAMENTAL	07/01/2013	485	-0.27	2.54	2.54	2.27	---	---	---	6.36	27	1	1	27	---	---	---	6
<i>Barclays Corp High Yield</i>				-0.55	2.52	2.52	2.00	---	---	---	---								
TOTAL HIGH YIELD FIXED INCOME			\$ 1,300																
TOTAL PUBLIC FIXED INCOME			\$ 3,900																
MULTI-ASSET CLASS STRATEGIES																			
BRIDGEWATER ASSOCIATES GBL TAA	FUNDAMENTAL	01/01/2004	2,802	-0.06	6.15	6.15	10.75	12.20	13.50	9.38	9.33	107	426	426	522	245	413	293	280
<i>BRIDGEWATER CUSTOM BENCHMARK</i>				-1.14	1.89	1.89	5.53	9.76	9.37	6.45	---								
WINDHAM	QUANTITATIVE	10/01/2011	585	-0.84	0.85	0.85	-0.50	5.81	---	---	8.68	15	-122	-122	-728	-430	---	---	-480
<i>WINDHAM CUSTOM INDEX</i>				-0.99	2.07	2.07	6.78	10.10	---	---	---								
TOTAL MULTI-ASSET CLASS STRATEGIES			\$ 3,387																
TOTAL MULTI-ASSET CLASS STRATEGIES			\$ 3,387																
GLOBAL INFLATION LINKED																			
GRESHAM	FUNDAMENTAL	09/01/2010	538	-4.58	-5.82	-5.82	-25.71	-10.92	---	---	-3.77	55	12	12	133	60	---	---	226
<i>Bloomberg Commodity Index Total Return</i>				-5.14	-5.94	-5.94	-27.04	-11.52	---	---	---								
TOTAL GLOBAL INFLATION LINKED			\$ 538																
CASH ASSETIZATION																			
SSGM CASH ASSETIZATION	FUNDAMENTAL	02/01/2015	317	0.00	---	---	---	---	---	---	4.08	48	---	---	---	---	---	---	79
<i>CASH ASSETIZATION CUSTOM INDEX</i>				-0.48	---	---	---	---	---	---	---								
TOTAL CASH ASSETIZATION			\$ 317																
TOTAL PUBLIC MARKET			\$ 26,807																

Long Term Disability (LTD)

Tuesday, March 31, 2015

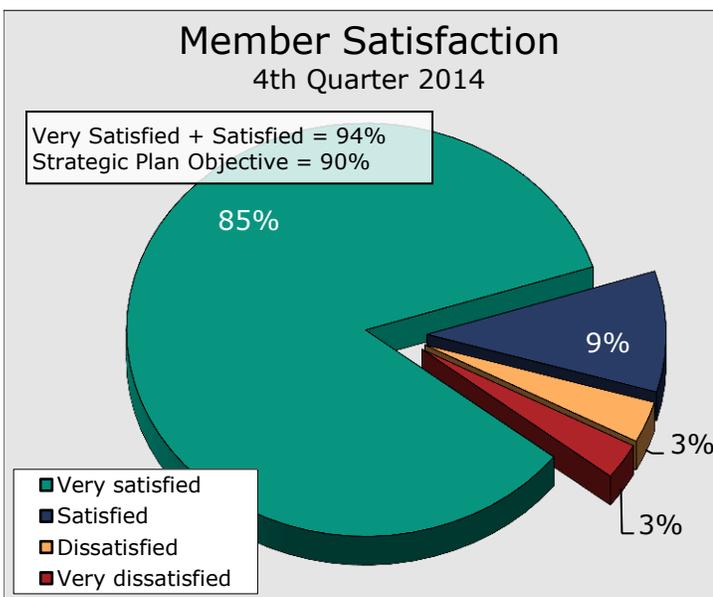
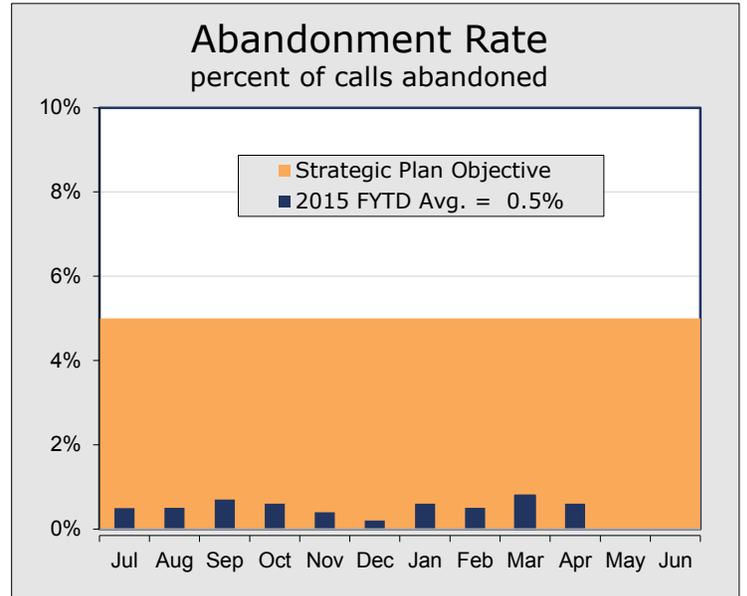
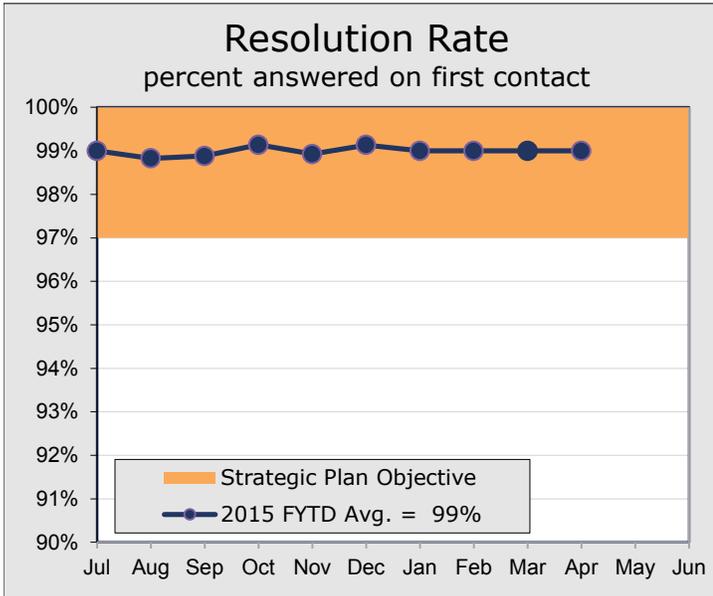
Account Manager	Account Manager Style	Fixed Income	Equity	Inflation Linked	Total	Pct of Fund	Target (Range)
StateStreet B&T: Boston	Cash	\$1,791,502			\$1,791,502	0.71%	
BlackRock: San Francisco	Fixed Core (Passive)	\$27,519,993			\$27,519,993	10.97%	13%
BlackRock: San Francisco	Fixed High Yield (Passive)	\$18,330,892			\$18,330,892	7.31%	8%
BlackRock: San Francisco	Emerging Market Debt (Passive)	\$8,707,904			\$8,707,904	3.47%	4%
BlackRock: San Francisco	Russel 1000 (Passive)		\$93,193,479		\$93,193,479	21.74%	25% (15-35%)
BlackRock: San Francisco	Russell 2000 (Passive)		\$17,203,097		\$17,203,097	37.14%	34%
BlackRock: San Francisco	EAFE (Passive)		\$33,937,980		\$33,937,980	6.86%	6%
BlackRock: San Francisco	EAFE SC (Passive)		\$8,681,669		\$8,681,669	43.99%	40% (33-45%)
BlackRock: San Francisco	Emerging Markets (Passive)		\$14,603,428		\$14,603,428	13.52%	14%
BlackRock: San Francisco	Dow Jones UBS Commodities (Passive)			\$5,400,570	\$5,400,570	3.46%	3%
BlackRock: San Francisco	US Real Estate (Passive)			\$21,562,281	\$21,562,281	5.82%	6%
	TOTAL Amounts	\$56,350,291	\$167,619,652	\$26,962,851	\$250,932,794	22.80%	23% (16-28%)
	TOTAL Percent	22.46%	66.80%	10.75%		2.15%	4% (1-7%)
	Actual Portfolio	22.46%	66.80%	10.75%		8.59%	8% (6-10%)
	Policy	25% (15-35%)	63% (53-70%)	12% (8-16%)		10.75%	12% (8-16%)

Member Advisory Center: Phone



Timeliness (average wait time in seconds)

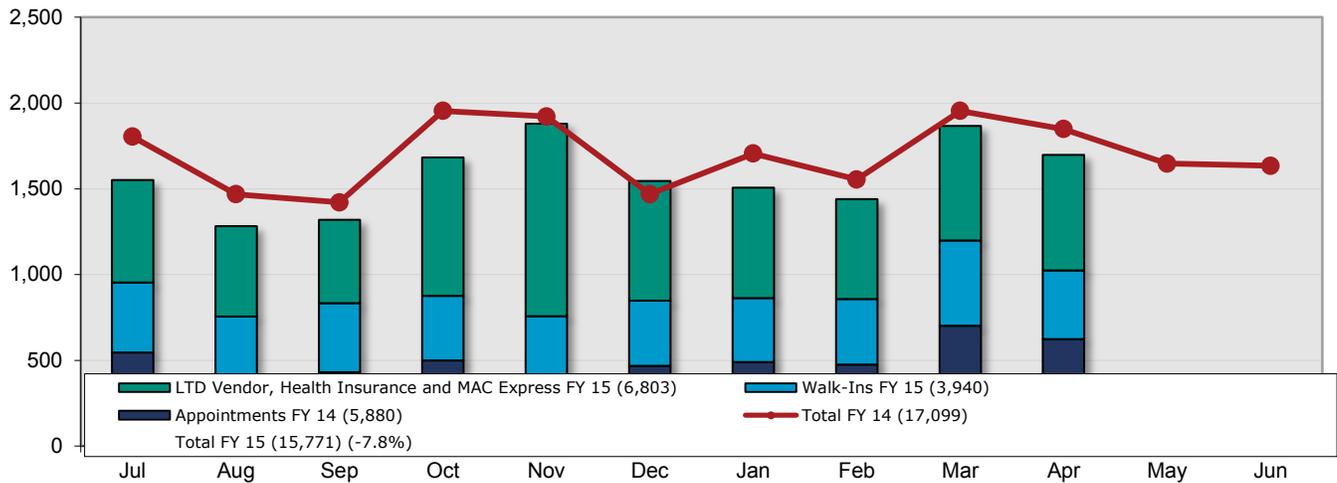
Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Avg. Wait Time (seconds)	12	10	9	13	10	2	13	11	14	10		



Member Advisory Center: One-on-One

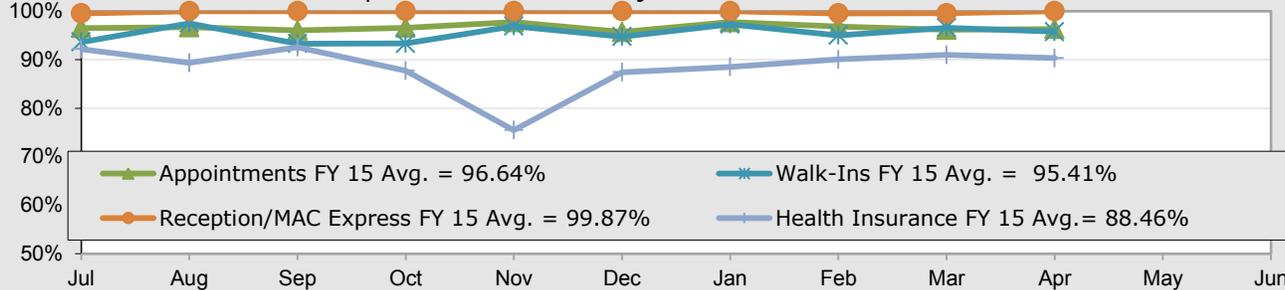
Volume

number of one-on-one counseling sessions by type



One-on-One Timeliness

percent seen within objective wait time

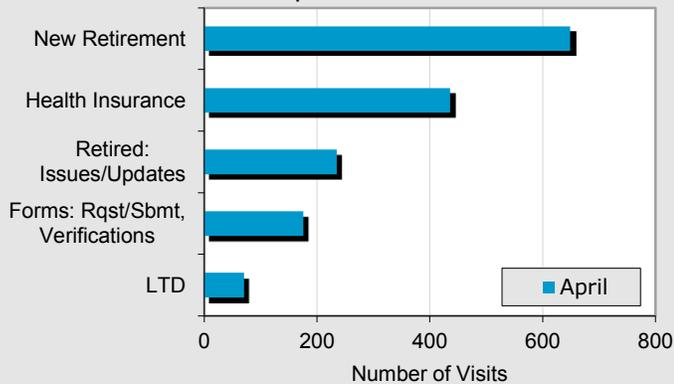


Timeliness (average wait time in minutes)

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

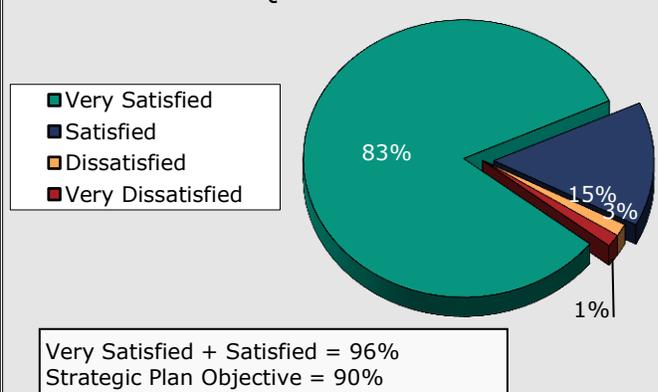
Reasons for Visit

top five reasons

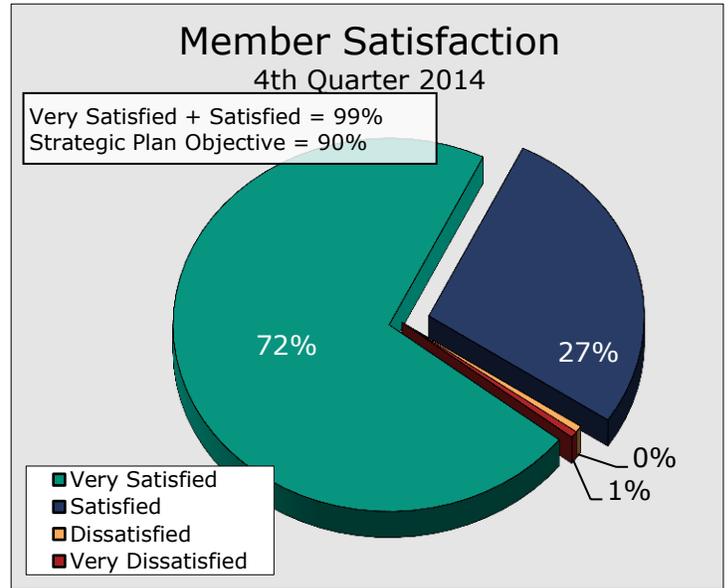
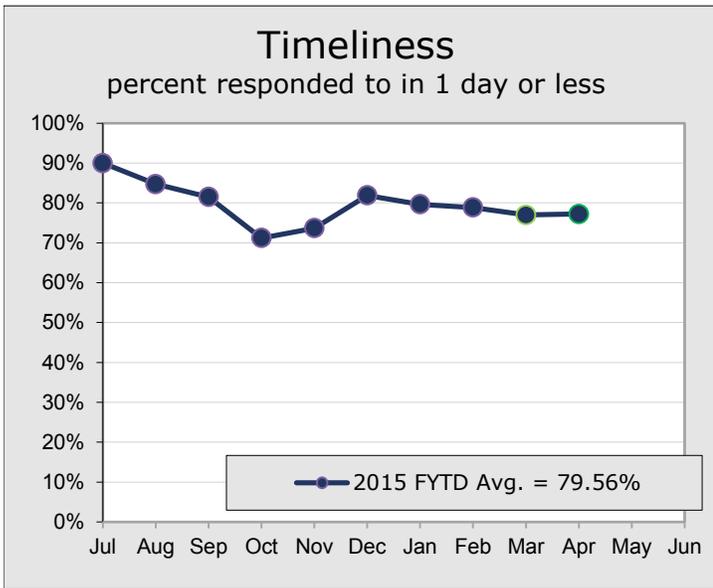
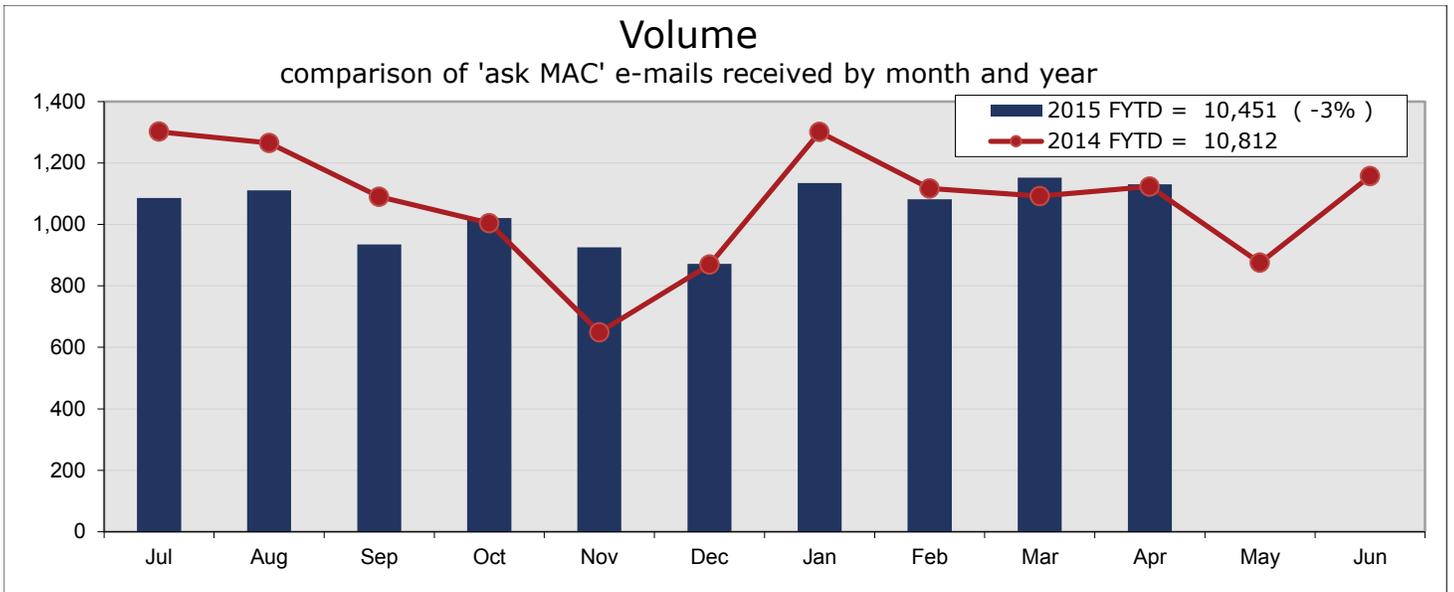


Member Satisfaction

4th Quarter 2014



Member Advisory Center: E-Mail



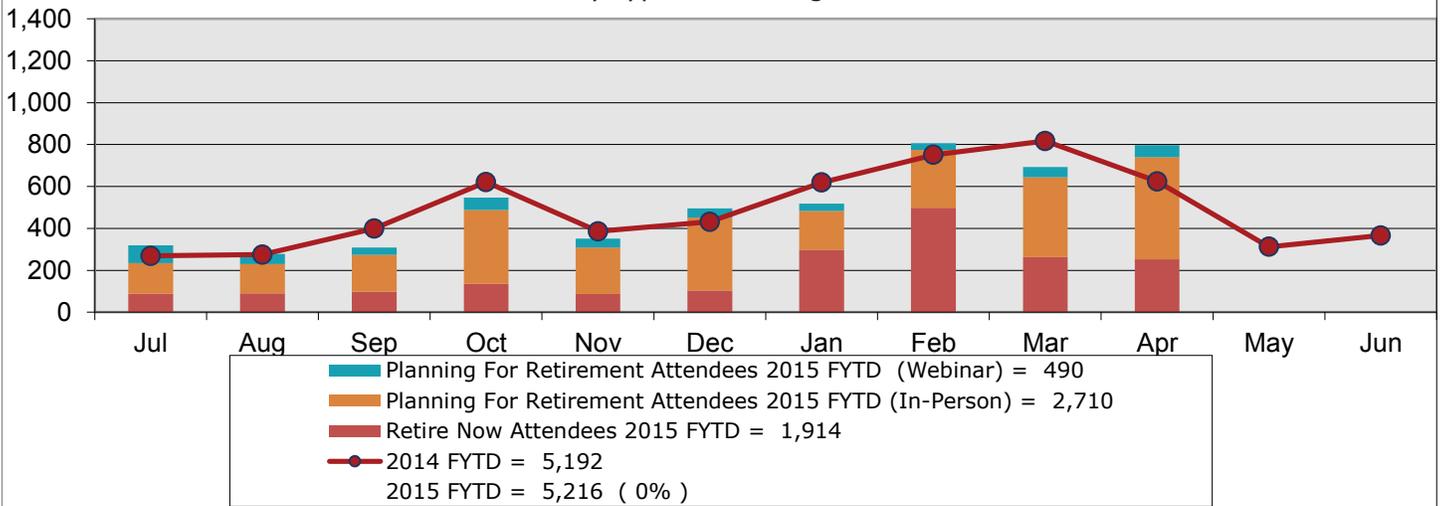
Timeliness (average response in hours)

8	10	12	12	12	8	10	16	15	16		
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



Outreach Education and Benefit Estimates

Total Meeting Attendees by type of meeting

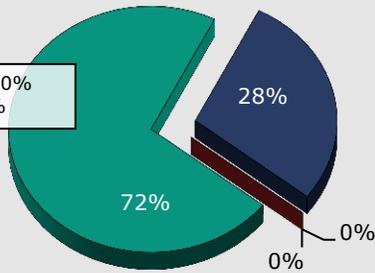


Member Satisfaction

Planning for Retirement Meetings 4th Quarter 2014

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

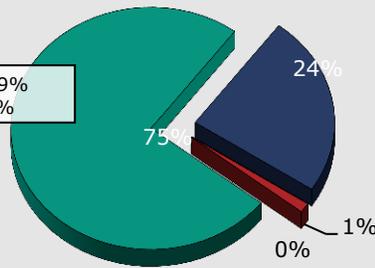
- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied



Retire Now Meetings 4th Quarter 2014

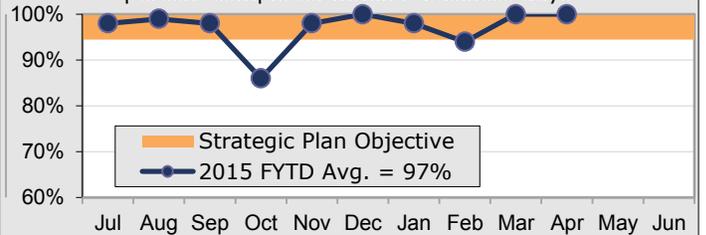
Very Satisfied + Satisfied = 99%
Strategic Plan Objective = 90%

- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied



Benefit Estimate Timeliness

percent completed within 3 business days



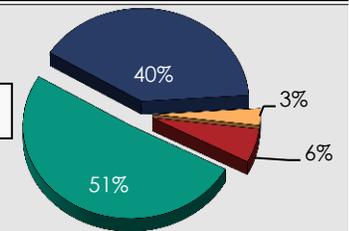
Benefit Estimate Timeliness (average TAT in days)

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

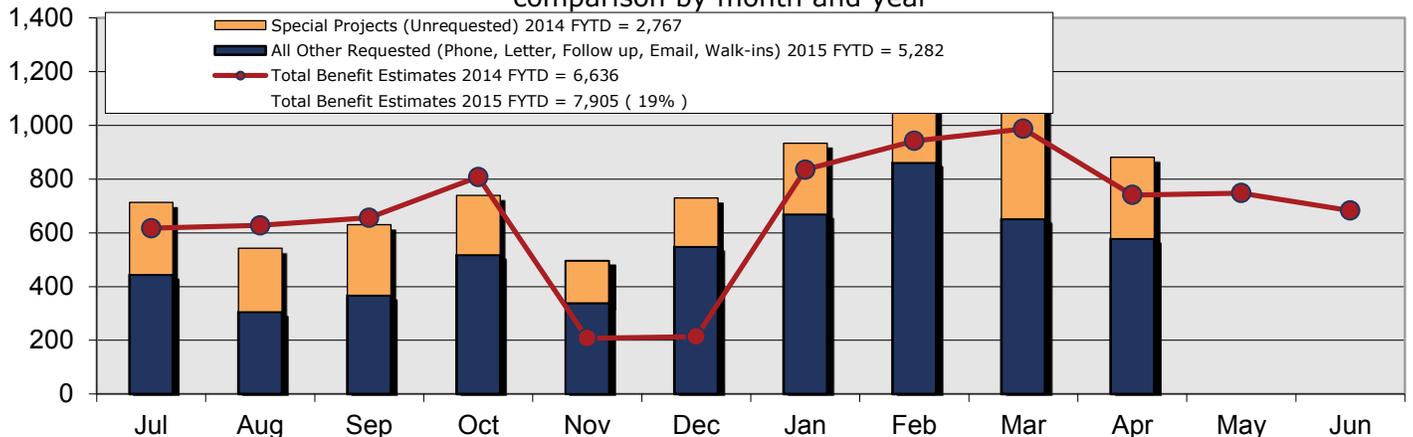
Benefit Estimates 4th Quarter 2014

Very Satisfied + Satisfied = 91%
Strategic Plan Objective = 90%

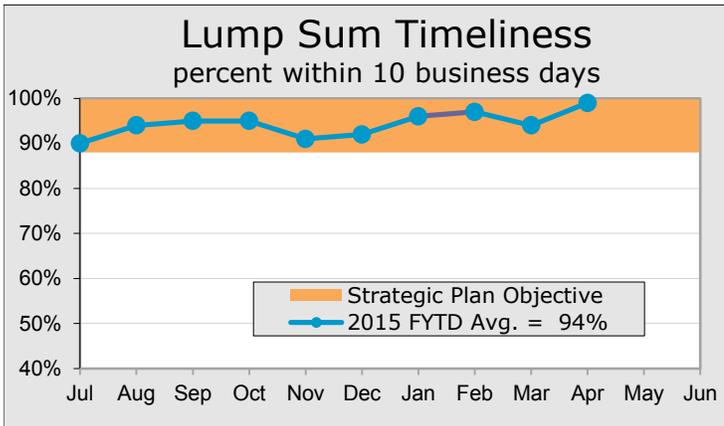
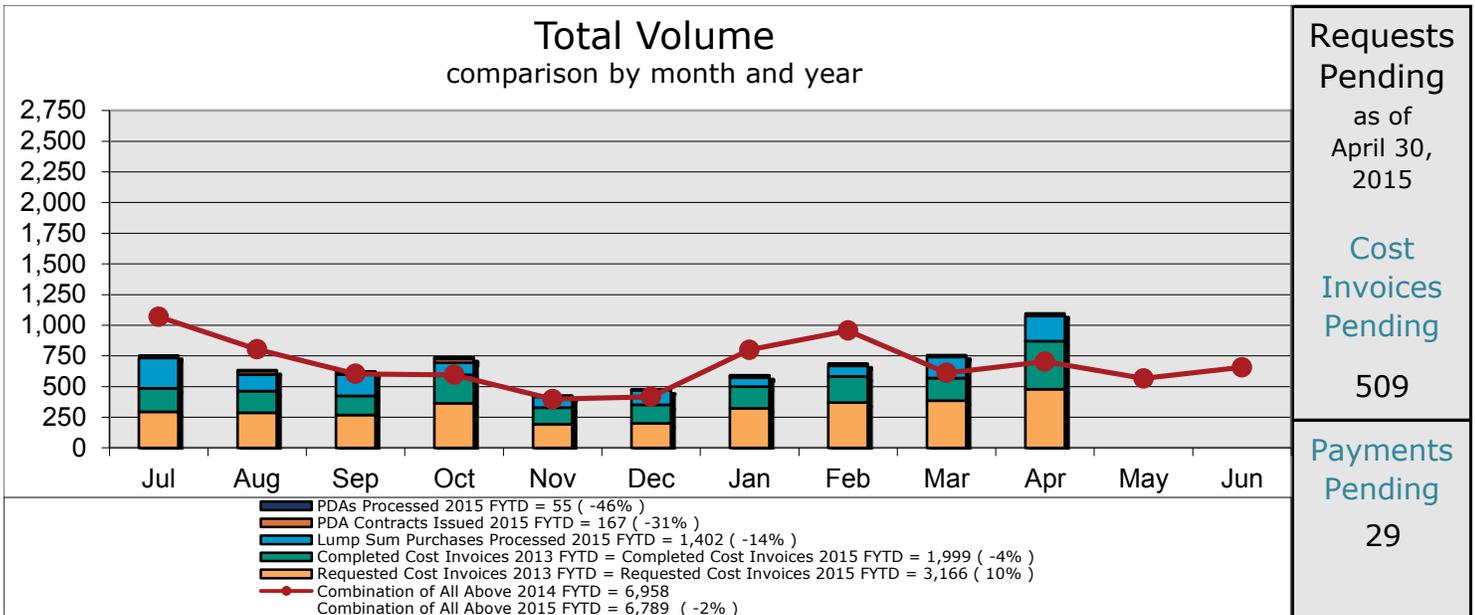
- Very Satisfied
- Satisfied
- Dissatisfied
- Very Dissatisfied



Benefit Estimate Volume comparison by month and year

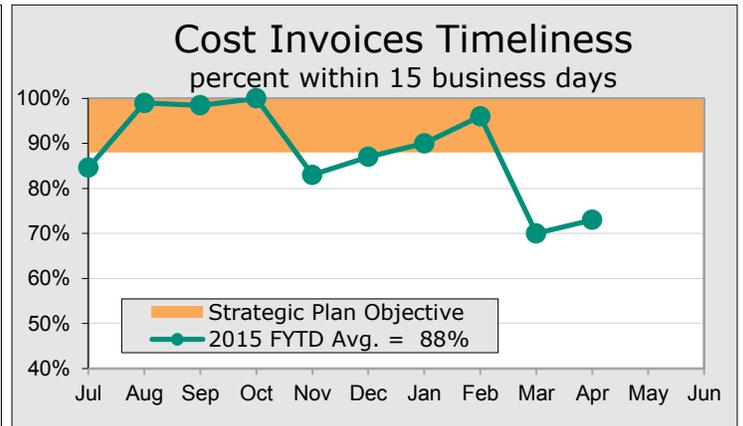


Service Purchase



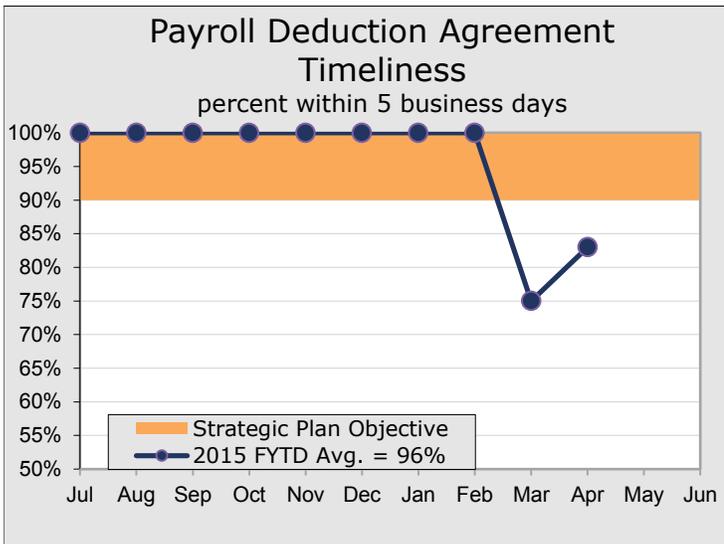
Timeliness (average turnaround time in business days)

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



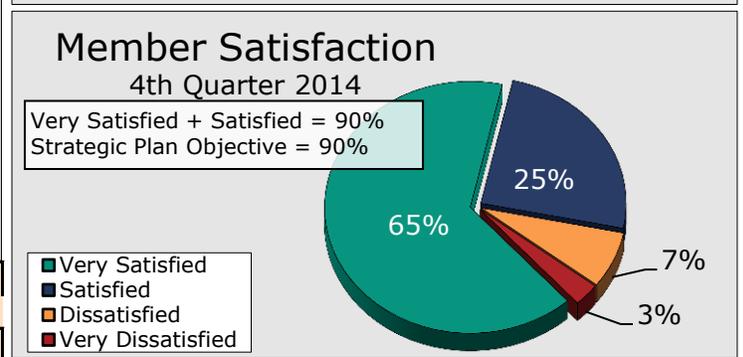
Timeliness (average turnaround time in business days)

7	3	5	5	6	6	5	4	8	10		
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



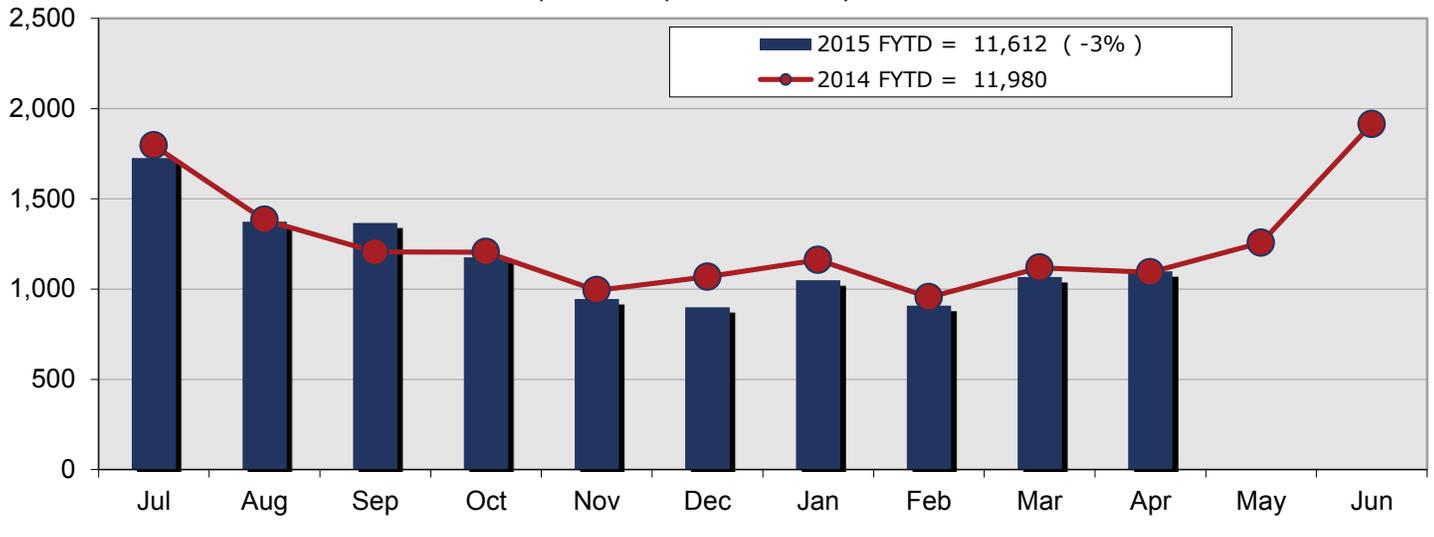
Timeliness (average turnaround time in business days)

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



Refunds

Volume
comparison by month and year

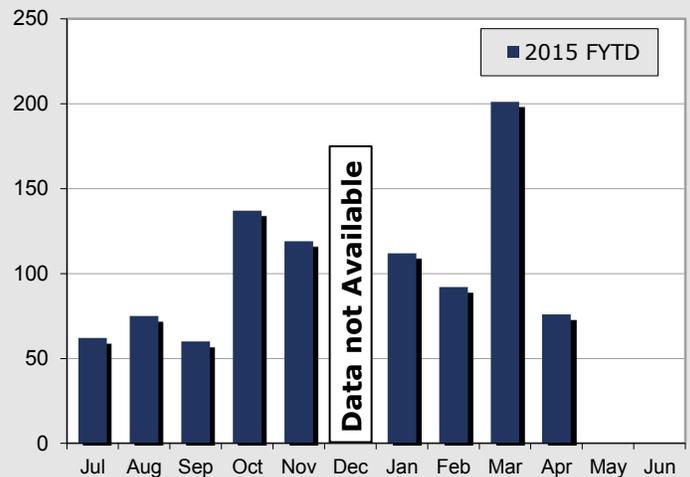


Timeliness

percent disbursed in 10 business days



Requests Pending

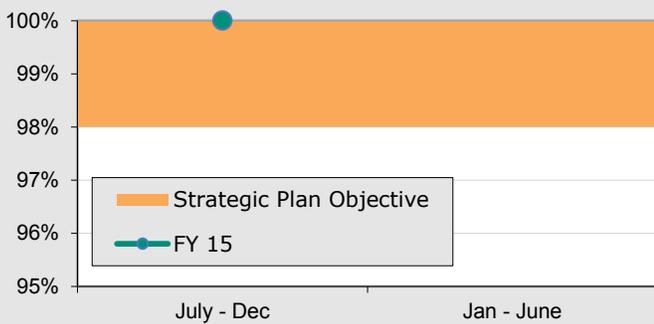


Timeliness (average turnaround time in business days)

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

Refund Quality Rating

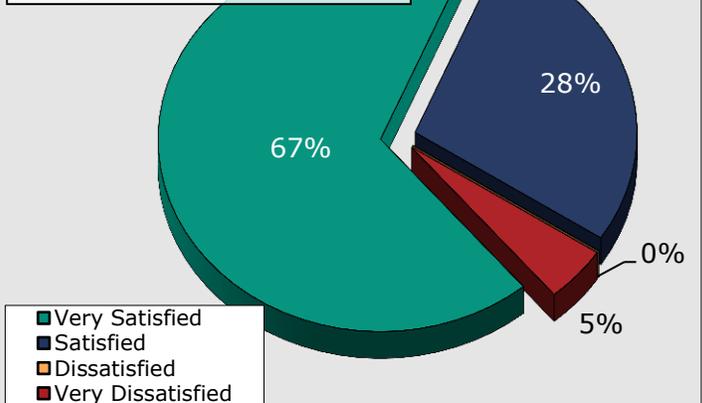
FY 2015



Member Satisfaction

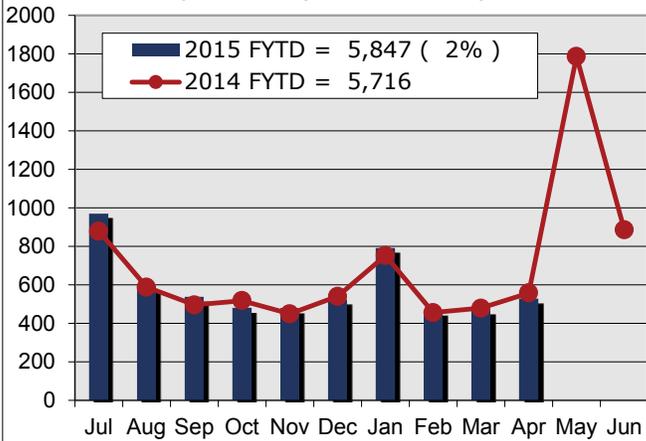
4th Quarter 2014

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

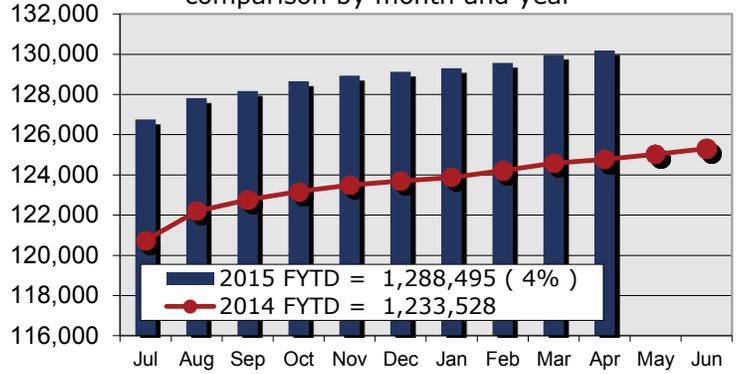


New Retiree and Pension Payroll

First Payment Volume comparison by month and year



Pension Volume comparison by month and year



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

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

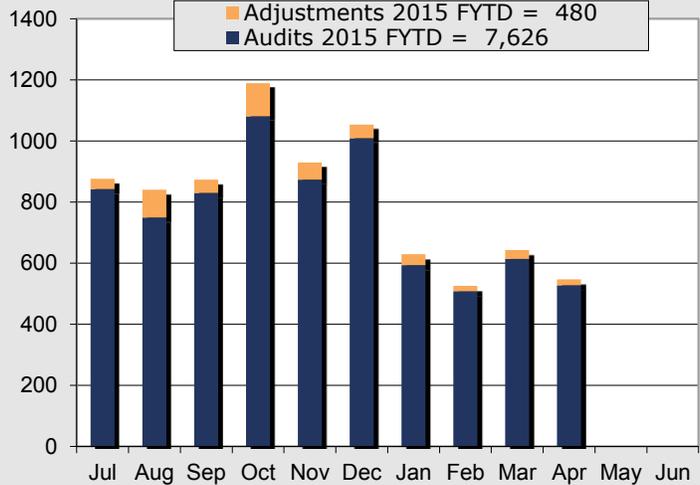
First Payment Timeliness percent disbursed in 10 business days



First Payment Timeliness (average turnaround time in days)

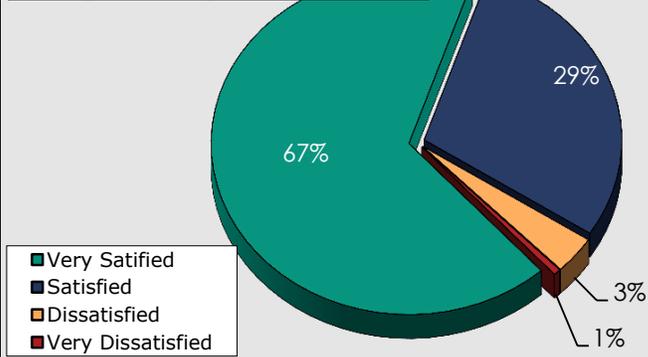
5	7	8	9	8	6	4	7	8	9		
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

Audits & Adjustments comparison by month and year

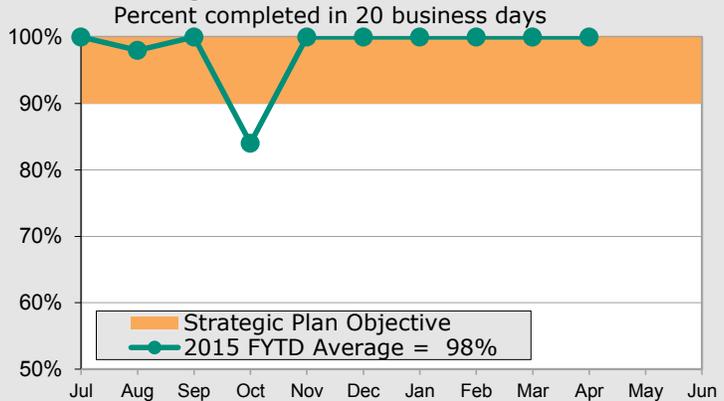


Member Satisfaction New Retiree 4th Quarter 2014

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



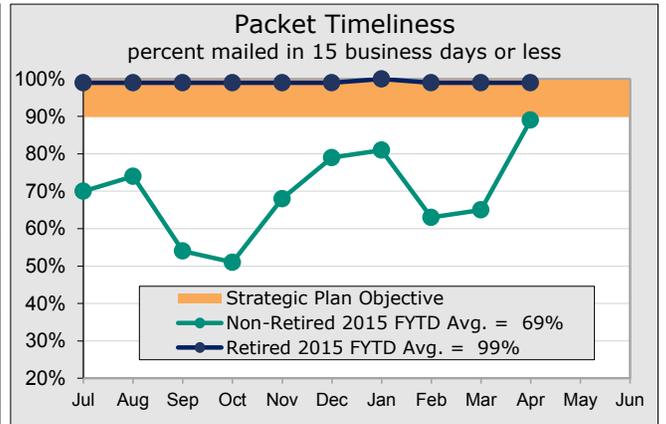
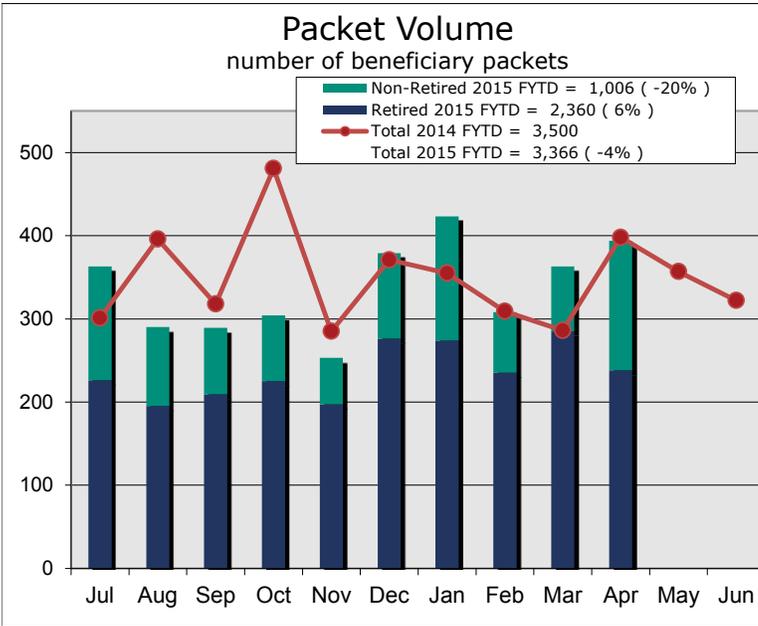
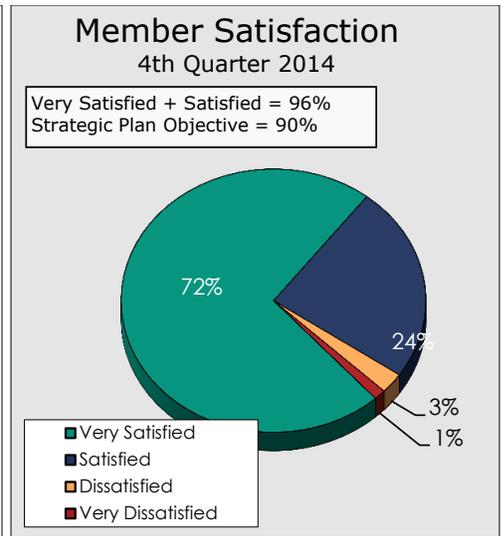
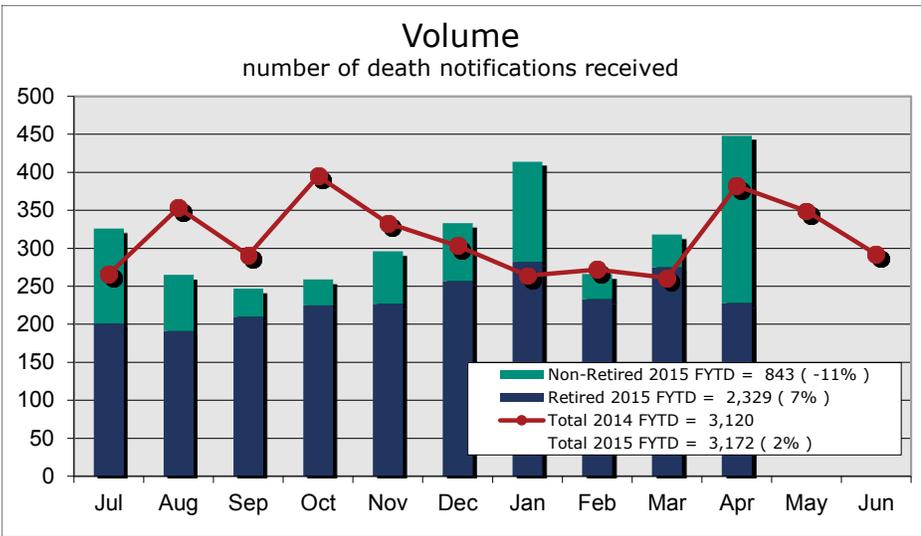
Adjustments Timeliness Percent completed in 20 business days



Adjustments Timeliness (average turnaround time in days)

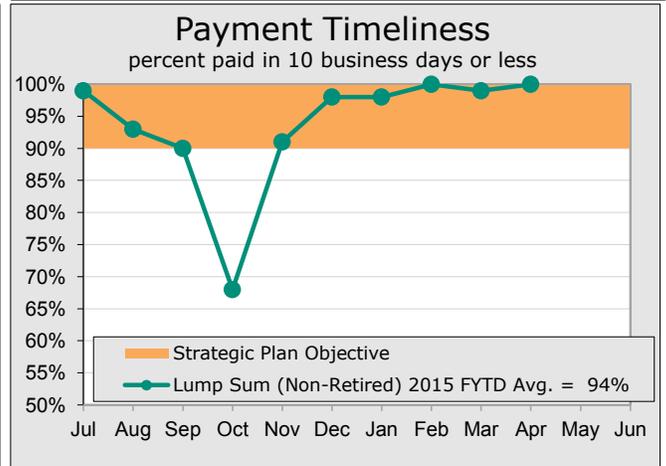
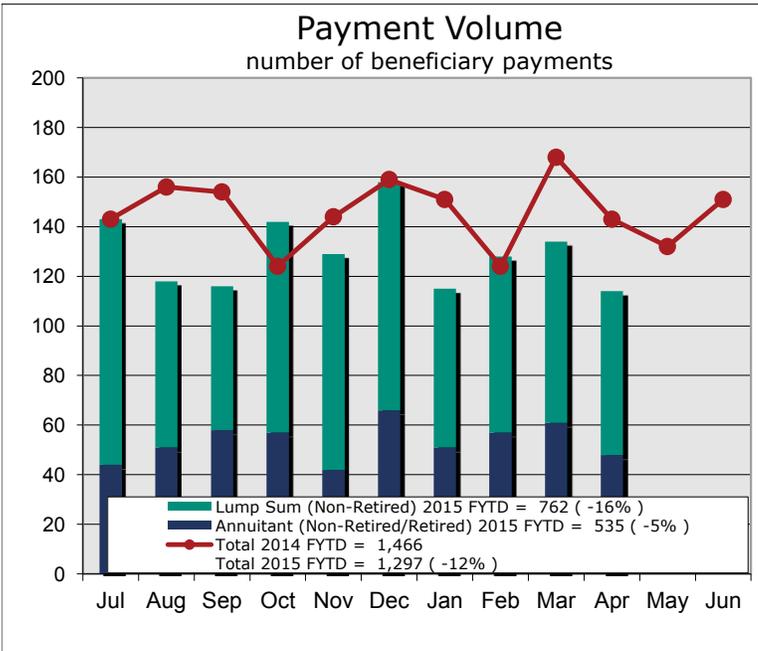
4	8	5	6	4	9	5	2	2	2		
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

Survivor Benefits



Packet Timeliness (average TAT in days)

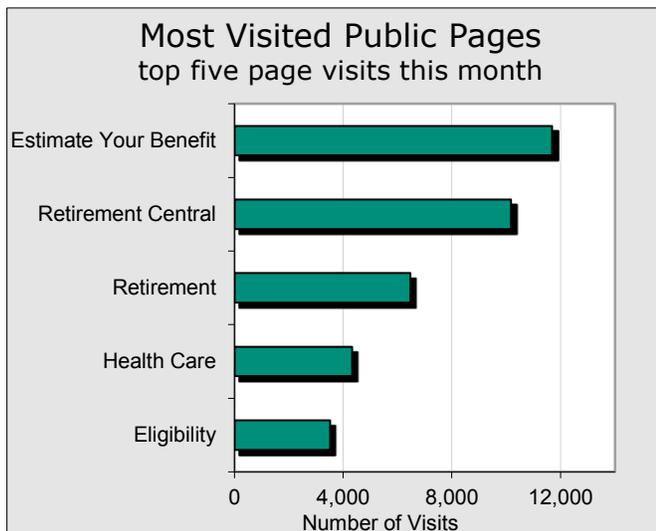
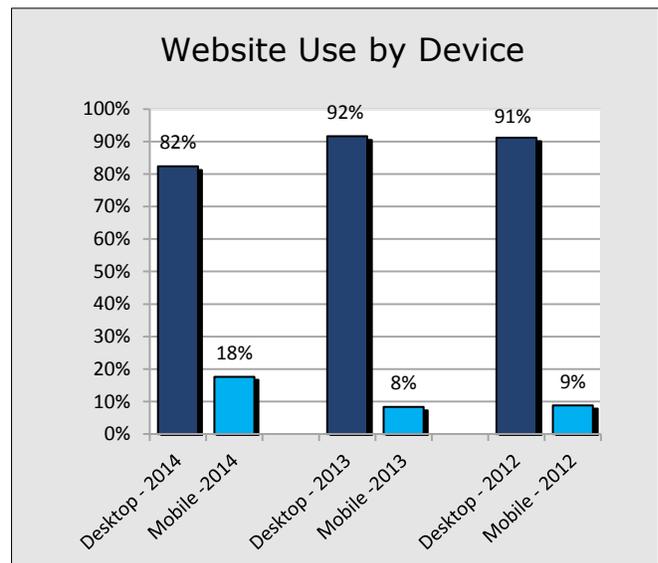
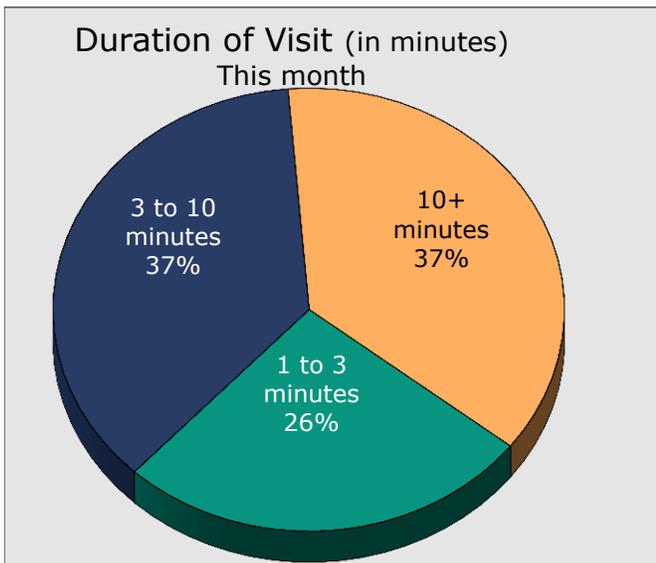
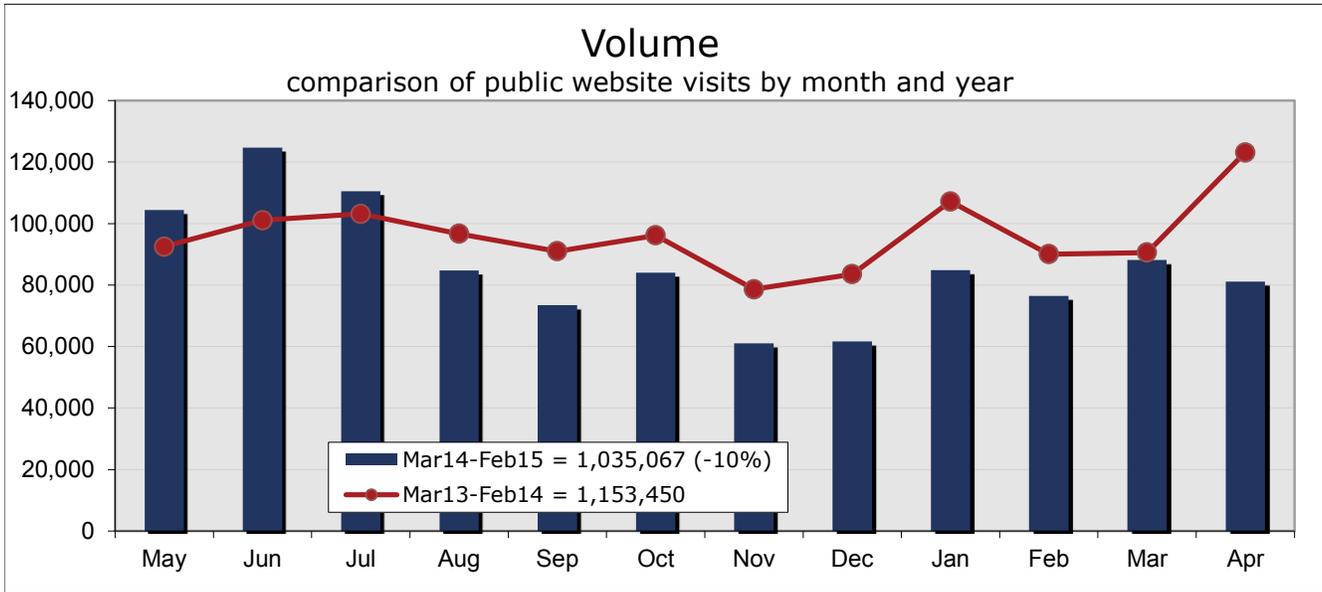
Non Retired											
18	14	19	17	16	10	7	19	16	12		
Retired											
2	1	1	2	2	3	2	2	2	2		
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



Payment Timeliness (average TAT in days)

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

Public Website: www.azasrs.gov



facebook

Followers: 1,481 (+2%)

(Most Recent Data)

	Photos	Updates	Links
Views	144	247	240
Clicks	3	9	12
Likes, Comments & Shares	5	11	4

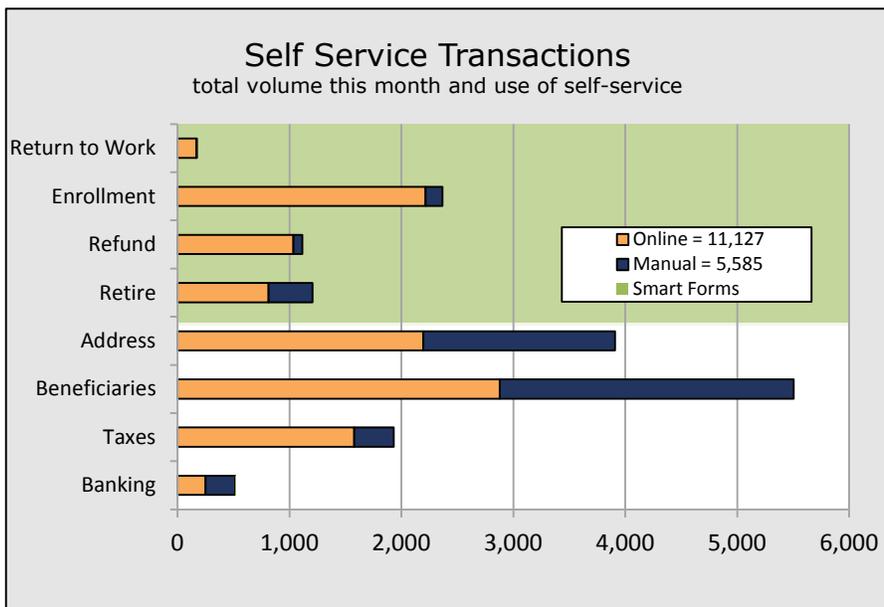
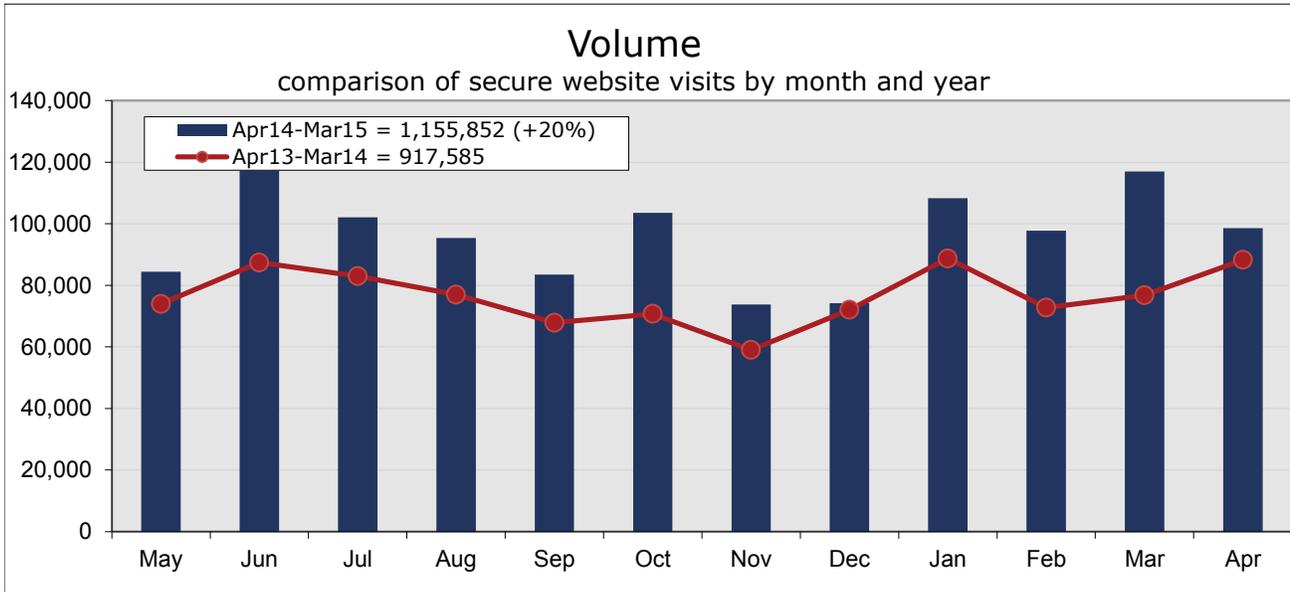
twitter

Followers: 187 (+5%)

(Most Recent Data)

Content Type	Percentage
Original Content	79%
3rd Party Content	13%

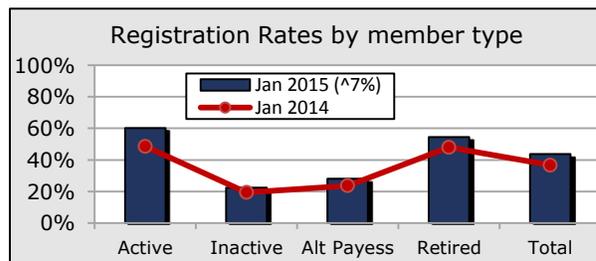
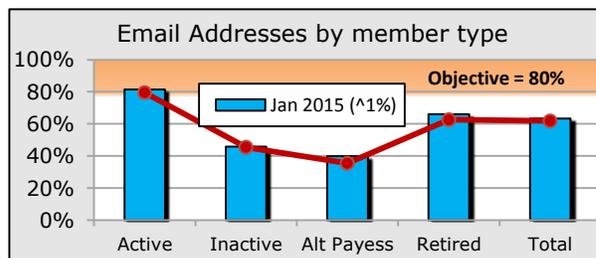
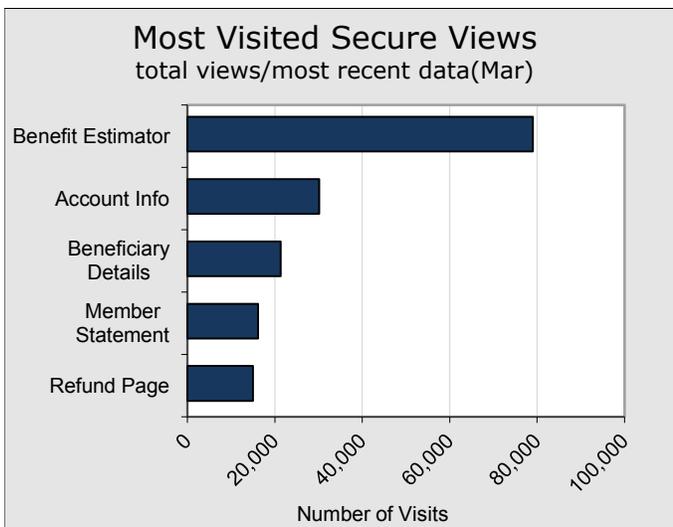
Secure Website: secure.azasrs.gov



Historical Comparison of Online Usage

	This month	12mo Min	12mo Max	12mo Avg	Objective
RTW	98%	39%	98%	75%	n/a
Enroll	94%	81%	99%	92%	99%
Ref	93%	83%	98%	90%	90%
Ret	67%	52%	70%	60%	90%
Add	67%	72%	88%	77%	75%
Bene	52%	52%	83%	69%	75%
Tax	82%	65%	88%	78%	75%
DD	48%	32%	57%	46%	75%

Total online this month: 67%



Arizona State Retirement System
FY 2015 Appropriated Budget
(as of April 30, 2015)

	APPROPRIATIONS FISCAL YEAR 2015	EXPENDED YTD	% EXPENDED
OPERATING BUDGET			
Personal Services	\$ 12,757,000	\$ 9,974,100	78.19%
Employee Related Expenses	\$ 5,021,000	\$ 4,004,100	79.75%
Professional & Outside Services	\$ 1,079,300	\$ 1,046,600	96.97%
Travel	\$ 78,600	\$ 69,700	88.68%
Other Operating Expenses	\$ 2,684,800	\$ 1,706,200	63.55%
Equipment	\$ 389,500	\$ 139,600	35.84%
Operating Subtotal	\$ 22,010,200	\$ 16,940,300	76.97%
OTHER APPROPRIATIONS			
Long Term Disability Administration	\$ 2,800,000	\$ 1,540,100	55.00%
Oracle Forms and Reports Modernization (Yr. 2)	\$ 4,484,500	\$ 1,274,000	28.41%
TOTAL FY 2014 Appropriated Funds	\$ 29,294,700	\$ 19,754,400	67.43%

	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	\$ 1,390,000	100.00%
FY 2014 - HB 2562 - 401(a) and LTD for Ineligibles	\$ 502,400	\$ 89,300	17.77%
FY 2012 - SB 1614 - ASRS Contribution Rate	\$ 600,000	\$ 595,700	99.28%
FY 2011 - HB 2389 - ASRS Plan Design Changes	\$ 1,341,700	\$ 1,247,100	92.95%

	APPROPRIATIONS REMAINING	EXPENDED YTD	% EXPENDED
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 April 30, 2015

Operating Budget

The operating budget information on the previous page is based on funding approved by the Board and the Legislature for fiscal year July 1, 2014 through June 30, 2015. These ASRS operating expenses are distinguished from other areas of ASRS spending authority: such as expenditures for investment management and benefits payments. Administrative salaries and employee benefits, supplies, equipment and ongoing operational costs associated with information and financial systems for the ASRS Board and ASRS employees are funded from the operating budget. Expenditures to date include twenty-two pay periods (84.6 % of the annual payrolls) of fiscal year 2015.

Other Appropriations

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

- **Long Term Disability Administration Fund**
The amount appropriated for the administration costs of the LTD program. Expended year-to-date amounts reflect payments for services through 2/28/2015.

- **Oracle Forms and Reports Modernization**
The amount appropriated (non-lapsing) for the second year of the software modernization project.

Non-Lapsing Appropriations for Legislative Initiatives

The amount appropriated by the Legislature for the implementation of:

- FY 2014 - Oracle Forms and Reports Modernization (Yr. 1)
- FY 2014 - HB 2562 - 401(a) and LTD for Ineligibles
- FY 2012 - SB 1614 - ASRS Contribution Rate
- FY 2011 - HB 2389 - ASRS Plan Design Changes
- FY 2011 - ASRS Operating Budget and LTD Admin
 - HB 2024, Section 93 modified the FY 2011 ASRS appropriations to be non-lapsing appropriations. The ASRS has the ability to utilize the unspent portion of these appropriations in ensuing fiscal years.

Explanation of Columns

- 1) The *Appropriations* column represents funds that have been approved by the Legislature and the ASRS Board for FY 2015, and includes prior year legislative appropriations.

- 2) The *Expended* column represents the expenditures to date.

- 3) The *% Expended* column identifies the portion of each line item that has been expended to date. This column is intended to be a guide to the rate of spending during the fiscal year.

ASRS FISCAL YEAR 2015, CONTINUOUSLY APPROPRIATED REPORT

(with summarized Appropriated Expenses)

DESCRIPTION	EXPENDED YTD as of 4/30/15	ESTIMATED ANNUAL EXPENSES (Projections updated quarterly)	EST. ANNUAL EXPENSES AS % OF TOTAL AUM	EST. ANNUAL EXPENSES PER MEMBER
Custodial Banking, Security Lending and Master Cash STIF Fees	2,106,000	3,077,000		
Internal Investment Management (Salaries and Benefits)	1,255,000	1,500,000		
<i>Public Markets</i>				
External Investment Management Fees	40,048,000	72,155,000		
Transactional and Other Fees	1,105,000	2,165,000		
<i>Private Markets</i>				
Private Debt and Equity Management Fees	26,459,000	39,160,000		
Private Debt and Equity Performance Incentive and Other Fees	37,034,000	50,000,000		
Real Estate, Farmland and Timber and Infrastructure Management Fees	17,455,000	25,523,000		
Real Estate, Farmland and Timber and Infrastructure Performance Incentive and Other Fees	24,277,000	32,400,000		
Opportunistic Debt and Equity Management Fees	8,522,000	12,000,000		
Opportunistic Debt and Equity Performance Incentive and Other Fees	6,585,000	10,000,000		
Investment Management Expenses	\$ 164,846,000	\$ 247,980,000	0.709%	\$ 450.63
Investment Consulting Services	2,912,000	4,875,000		
Investment Related Legal Services	669,000	1,150,000		
Investment Electronic Information Services	1,322,000	1,783,000		
External Financial Consulting Services	33,000	75,000		
Investment Related Consulting, Legal and Information Services	\$ 4,936,000	\$ 7,883,000	0.023%	\$ 14.32
Rent	1,133,000	1,505,000	0.004%	\$ 2.73
Actuarial Consulting Fees	651,000	1,231,000	0.004%	\$ 2.24
Retiree Payroll (Disbursement Administration)	2,131,000	2,916,000	0.008%	\$ 5.30
Total Continuously Appropriated Expenses	\$ 173,697,000	\$ 261,515,000	0.747%	\$ 475.22
*Total Current Year Appropriated Expenses	\$ 20,570,800	\$ 29,794,700	0.085%	\$ 54.14
<i>*Includes estimate prior year non-lapsing legislative appropriations of \$500,000</i>				
Total Expenses (Continuously Appropriated and Appropriated)	\$ 194,267,800	\$ 291,309,700	0.833%	\$ 529.37

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

\$ 34,989,822,000

ASRS Total Membership as of June 30, 2014

550,300

Continuously Appropriated Expenses for FY 2015 Estimated Expenditures

The Arizona State Retirement System (ASRS) investment and administrative costs are expended in accordance with Arizona Revised Statutes (A.R.S.), Title 38, Chapter 5, Article 2, Section 38-721. A.R.S. Section 38-721, Subsection C, lists specific expenditures that are continuously appropriated and are allowable in the amount deemed necessary by the Board.

These specific expenditures are described below:

1. Investment management fees and related consulting fees necessary to meet the Board's investment objectives

Internal Investment management

- ASRS Investment Management Division staff base salaries and employer portion of staff benefits and payroll taxes.

External investment management fees

- Public Markets
 - External investment management fees (public).
 - Management fees (public) year-to-date expenditure amounts reflect the fees due for the first two quarters of FY 2015 and twenty percent of the fees due for the third quarter of FY 2015.
 - Transactional and other fees include foreign taxes and commissions on derivatives and other incidental costs.
- Private Markets
 - Private Debt and Equity, Real Estate, Farmland and Timber and Infrastructure and Opportunistic Debt and Equity investment management fees.
 - Performance incentive fees include performance incentives and carried interest, which are only paid upon successful performance of the manager after other return hurdles are met. Other fees are the ASRS proportional share of the transactional and operational cost of the underlying investment structure. Each of these fees is only paid if earned or incurred, and therefore may vary each quarter.
 - Management and performance incentive fees year-to-date expenditure amounts reflect the fees due for the first three quarters of FY 2015.

Consulting fees

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

2. Rent

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

3. Actuarial consulting fees

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

4. Retiree Payroll

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

The report includes projected expenditures for the current fiscal year. Actual expenditures are reported monthly and estimated annual expenses are reviewed and adjusted quarterly. The estimated annual expenses reflected were last updated as of the close of the quarter ending March 31, 2015.

**Arizona State Retirement System
Staffing Report
(April 30, 2015)**

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

Turnover	April 2015 New Hires	April 2015 Exits	Total Exits (Last 12 Months)	Annualized Turnover %
	0.0	0.0	19.25	8.29%

Recruitments

Beginning February 2015, All ASRS recruitments were placed on hold until further notice due to the State of Arizona hiring freeze. Specific ASRS positions are critical to the core functions and operations of the agency and if left unfilled will cause a significant impact to the agency. Recruitment for these "Mission Critical" positions may proceed upon approval of the agency director.

To date, thirteen positions have been approved as Mission Critical.

- Two positions have been filled – MSD Retirement Advisor Supervisor and FSD Accounting Technology Specialist
- Ten positions are under recruitment – FSD Investment Accountant, FSD Membership Accounting Manager, FSD Management Analyst IV, FSD Management Analyst III, FSD Accountant II, TSD Senior Information Security Engineer, TSD Information Security Engineer, TSD Software Engineer (x2), and TSD Network Specialist II.
- One recruitment will start in May 2015 - MSD Benefits Technician

Two additional positions are under review for Mission Critical status – FSD Mailroom/Printing Specialist and MSD Retirement Advisor Supervisor.

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	○ ● ○	During April 2015, strategic objectives were met with the assistance of one external resource. Four Benefit Accounting positions are vacant and with the significant increase in New Retiree volume expected in the upcoming summer months; current staffing levels will be unable to meet the business needs. We are currently recruiting for three vacancies: Accountant II, Benefits Analyst III, and Benefits Analyst IV. Greater than normal risk will remain until these positions are filled and staff are fully trained.
MSD	New Retiree Processing	● ○ ○	
FSD	Survivor Benefit Processing	● ○ ○	

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

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

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: 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		One critical position recently became vacant - Investment Accountant. With this position vacant, deliverables to both internal and external customers will be delayed and potentially deadlines will not be met. Major functions that will be negatively impacted are the preparation of the CAFR, preparation of financial statements for the General Accounting Office, and investment related public records requests. Recruitment is currently underway for the Investment Accountant. Greater than normal risk will continue to be indicated until this position is filled and the FTE is fully trained.
FSD	Contribution Collections and Posting		
TSD	Network Support		The Network Support team continues to struggle to meet their business needs and strategic objectives due to insufficient staffing. An external resource was added in March 2015 to work on IT security functions. Recruitments are currently underway for three positions - Senior Security Engineer, Security Engineer, and Network Specialist II. Request for Mission Critical status for an additional vacant position, Security Software Engineer, is expected in the near future. Greater than normal risk will remain until these positions are filled and staff are fully trained. Projected time frame for recruitment and training is 5-9 months.

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
TSD	Business Applications Development and Support	● ○ ○	The planned workload requires a complement of 44 total resources (31 FTEs and 13 external resources). Our current complement of resources for April 2015 was 43 (29 FTEs and 14 external resources). One external resource left in April 2015. Recruitment for two Software Engineer positions has resumed. One external resource will be added and start in May 2015.
IMD	Investment Management	● ○ ○	
DIR	Board/Executive Staff Support	● ○ ○	
DIR	Strategic Planning/Analysis	● ○ ○	
ASD	Human Resources	● ○ ○	
ASD	Training and Development	● ○ ○	
ASD	Contracts and Procurement	● ○ ○	
ASD	Facilities Management	● ○ ○	
ASD	Budget Administration	● ○ ○	

ARIZONA STATE RETIREMENT SYSTEM
COMBINED STATEMENT OF CHANGES IN TOTAL FUND CASH
FOR THE MONTH ENDED APRIL 30, 2015

	Retirement Plan Fund	Retirement System Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Current Period April	Fiscal 2015 YTD April	Fiscal 2014 YTD April
ADDITIONS							
Contributions							
Member contributions	\$ 81,871,817	\$ 2,882	\$ -	\$ 856,964	\$ 82,731,662	\$ 833,774,523	\$ 812,814,869
Employer contributions	77,684,123	2,882	4,207,946	856,965	82,751,915	832,563,599	812,919,964
Alternative contributions (ACR)	2,078,317	-	44,647	13,393	2,136,357	20,982,973	19,690,144
Transfers from other plans	153,423	-	-	-	153,423	655,312	740,506
Purchased service	2,158,564	-	-	-	2,158,564	19,603,339	25,784,583
TOTAL CONTRIBUTIONS	163,946,243	5,763	4,252,593	1,727,322	169,931,921	1,707,579,746	1,671,950,066
DEDUCTIONS							
Investment management fees	2,429,377	-	-	-	2,429,377	58,594,414	53,037,739
Custody fees	350,000	-	-	-	350,000	1,055,000	910,268
Consultant and legal fees	535,890	-	-	-	535,890	3,456,088	2,590,547
Internal investment activity expense	38,678	-	-	-	38,678	2,686,663	2,673,268
Retirement and disability benefits	215,921,455	3,183,846	7,675,732	5,168,252	231,949,285	2,338,015,057	2,240,050,896
Survivor benefits	1,698,315	-	-	-	1,698,315	27,398,786	33,305,801
Refunds to withdrawing members, including interest	21,124,425	-	-	-	21,124,425	202,988,223	197,523,127
Administrative expenses	2,757,263	-	-	-	2,757,263	25,267,645	24,652,486
Transfers to other plans	14,396	-	-	-	14,396	455,658	867,030
Other	426	-	-	-	426	10,748	42,747
TOTAL DEDUCTIONS	244,870,224	3,183,846	7,675,732	5,168,252	260,898,055	2,659,928,282	2,555,653,909
INCREASE (DECREASE)	(80,923,981)	(3,178,083)	(3,423,139)	(3,440,931)	(90,966,134)	(952,348,536)	(883,703,843)
From securities lending activities:							
Security loan program	494,144	-	-	-	494,144	3,765,949	1,442,862
Security loan interest expense / (Rebate)	(158,492)	-	-	-	(158,492)	(556,908)	(32,255)
Net income from securities lending activities	652,636	-	-	-	652,636	4,322,857	1,475,117
Capital Calls / (Distributions)							
Farmland and Timber	-	-	-	-	-	43,709,092	98,528,285
Infrastructure	-	-	-	-	-	300,000,000	-
Opportunistic Debt	1,439,751	(24,550)	70,211	-	1,485,412	129,599,906	166,731,208
Opportunistic Equity	64,801,568	675,394	2,852,150	-	68,329,112	90,590,499	82,137,290
Private Debt	26,340,521	272,092	1,199,814	-	27,812,427	290,348,050	279,667,210
Private Equity	(10,281,996)	-	(492,109)	-	(10,774,106)	143,646,827	43,049,016
Real Estate	64,299,397	748,283	2,916,054	-	67,963,734	(5,806,147)	124,298,051
TOTAL Capital Calls	146,599,241	1,671,219	6,546,118	-	154,816,578	992,088,228	794,411,060
NET INCREASE (DECREASE)	\$ (226,870,586)	\$ (4,849,302)	\$ (9,969,257)	\$ (3,440,931)	\$ (245,130,076)	\$ (1,940,113,907)	\$ (1,676,639,786)

OUTSTANDING ASRS APPEALS

Date Received	Appeals	Issues/Questions Regarding	Status/Comments
04/16/2012	Arizona State University	Appellant is disputing an ASRS employer termination incentive program invoice.	ASU appealed to the Court of Appeals 02/12/2014. Court of Appeals case number is CA-CV 14-0083. Briefing completed 09/03/2014. Oral Argument held on 04/08/2015. Final Opinion issued on 05/05/2015 reversing the Superior Court's decision affirming the ruling of the ASRS Board. ASRS Motion for Reconsideration filed in the Court of Appeals on 05/19/2015.
07/14/2014	Richard K. Hillis & Sharon Di Giacinto	Disputing the ASRS determination that a DRO term is unacceptable.	Recommended decision on 01/30/2015 agenda for Board action. Appellant filed Notice of Appeal on 02/02/2015 with the AZ Superior Court. AZ Superior Court Case number is LC2015-000048.
12/17/2014	The Griffin Foundation	Appellant is appealing the ASRS determination that the Appellant owes contributions from October 2010 to present.	OAH hearing held on 05/14/2015.
01/12/2015	Melissa Berner	Appealing that her ASRS refund transaction dated 08/25/2009 was invalid.	OAH hearing held on 03/17/2015. Recommended Decision on 05/29/2015 Board Agenda.
02/06/2015	David Lara	Appealing ASRS method of payment of Maria Cardenas' refund benefit.	OAH hearing held on 03/31/2015. Hearing record to be closed on 04/30/2015. Recommended Decision received 05/15/2015 upholding Appellant's appeal request. Recommended Decision on 06/26/2015 Board Agenda.
03/16/2015	Mehrzaad Korsandi	Disputing ASRS decision not to accept application for Contributions Not Withheld for Service 1998-1999.	OAH hearing held on 05/11/2015.
05/11/2015	Robert Merritt	Disputing ASRS calculation method of service transfer credit.	OAH hearing scheduled for 07/08/2015.

- Please note any updates have been bolded.



ARIZONA STATE RETIREMENT SYSTEM

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

*Paul Matson
Director*

MEMORANDUM

TO: Mr. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board
FROM: Mr. Paul Matson, Director
DATE: May 22, 2015
RE: Delinquent Employers

As of May 14, 2015 the following employers have failed to remit contributions by a date certain. These employers have received a letter advising them that the ASRS will initiate collection procedures unless they contact us within five days:

Starshine Academy	\$ 27,000*
Westwind Academy	\$ 10,500
Park View Middle School	\$ 6,000
Colorado River Sewage System	\$ 6,800*
Great Expectation Academy	\$ 15,000*
Total	\$ 65,300*

*Estimated amount

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

Luz Academy of Tucson	\$ 20,250
-----------------------	-----------

Total

\$ 85,550*

IN THE
ARIZONA COURT OF APPEALS
DIVISION ONE

ARIZONA STATE UNIVERSITY ex rel. ARIZONA BOARD OF
REGENTS, a body corporate, *Plaintiff/Appellant*,

v.

ARIZONA STATE RETIREMENT SYSTEM, a body corporate,
Defendant/Appellee.

No. 1 CA-CV 14-0083
FILED 5-5-2015

Appeal from the Superior Court in Maricopa County
No. LC2012-000689-001
The Honorable Crane McClennen, Judge

REVERSED AND REMANDED

COUNSEL

Osborn Maledon P.A., Phoenix
By Thomas L. Hudson, Eric M. Fraser
Co-Counsel for Plaintiff/Appellant

Office of General Counsel, Arizona State University, Tempe
By Lisa K. Hudson
Co-Counsel for Plaintiff/Appellant

Arizona Attorney General's Office, Phoenix
By Jothi Beljan
Counsel for Defendant/Appellee

ASU v. AZ RETIREMENT
Opinion of the Court

OPINION

Judge Patricia K. Norris delivered the opinion of the Court, in which Presiding Judge Margaret H. Downie and Judge Randall M. Howe joined.

NORRIS, Judge:

¶1 The dispositive question in this appeal is whether Defendant/Appellee, the Arizona State Retirement System, was required to follow the rulemaking procedure set forth in Arizona’s Administrative Procedure Act before enforcing a policy under which it charged Plaintiff/Appellant, Arizona State University, for an actuarial unfunded liability reportedly arising when 17 University employees retired. We hold that it was, and because the System failed to follow the rulemaking procedure, the policy is invalid. Accordingly, we reverse and remand to the superior court for entry of an order directing the System to refund the improper charge, with interest thereon if and as authorized by law.

FACTS AND PROCEDURAL BACKGROUND

¶2 The System administers a trust fund which provides retirement and disability benefits in the form of periodic, or lump sum, pension payments to eligible employees of the state and participating political subdivision employers. Ariz. Rev. Stat. (“A.R.S.”) §§ 38-711(13), -712, -727, -729, -757, -758, -760, -762 to -764 (2015).¹ The employees, known as “members,” may also elect to receive one of several health insurance supplemental benefits. A.R.S. §§ 38-711(23), -783 (2015). Member and employer contributions fund the trust, along with interest on fund assets and investment returns. A.R.S. §§ 38-718, -735 to -737 (2015). To monitor the trust’s financial health, the System compares the assets it has accumulated to pay for members’ earned benefits with the liabilities it owes for those benefits. *See* A.R.S. § 38-737(A). When liabilities owed for past service exceed assets accumulated to pay those liabilities, an unfunded actuarial accrued liability exists.

¹Although the Arizona Legislature amended certain statutes cited in this opinion after the events giving rise to the dispute between the parties, these revisions are immaterial to our resolution of this appeal. Thus, we refer to the current version of these and all other statutes cited in this opinion.

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¶3 Each year, the System’s actuary determines the contribution rates necessary to fund the System’s present and future obligations to its members plus payments on any amortized unfunded actuarial accrued liability. A.R.S. §§ 38-736, -737. In determining the contribution rates, the actuary relies on assumptions about members’ expected benefit elections, payroll growth, retirement rates, mortality rates, interest rates, and investment returns. The System conducts empirical studies every five years to improve its assumptions. *See* A.R.S. § 38-714(G) (2015).

¶4 The System may incur an actuarial unfunded liability when an employer offers incentives to encourage its employee-members to retire. For example, when an employer increases a member’s salary beyond System expectations in exchange for a promise to retire, that member’s monthly pension, calculated using the increased salary, *see* A.R.S. § 38-711(5)(ii)(b), -757 to -759 (2015), may likely exceed the amount the System expected to pay out to that member, thus resulting in an unfunded liability.² A termination incentive program may also result in an unfunded liability by causing members to retire and collect benefits sooner and for longer than the System expected.

¶5 To address the financial impact of termination incentive programs, *see* Amended Senate Fact Sheet, H.B. 2052, 46 Leg., 2d Reg. Sess. (March 11, 2004), in 2004 the Legislature enacted A.R.S. § 38-749 (2015). 2004 Ariz. Sess. Laws, ch. 106, § 1 (2d Reg. Sess.). Under this statute, “[i]f a termination incentive program that is offered by an employer results in an actuarial unfunded liability” to the System, the employer must pay the System “the amount of the unfunded liability.” A.R.S. § 38-749(A). The statute directs the System to “determine the amount of the unfunded liability in consultation with its actuary.” *Id.*³

²Like the parties, their witnesses, and A.R.S. § 38-749 (2015), we use the term “actuarial unfunded liability” interchangeably with “unfunded liability.”

³A.R.S. § 38-749, in full, provides:

A. If a termination incentive program that is offered by an employer results in an actuarial unfunded liability to [the System], the employer shall pay to [the System] the amount of the unfunded liability. [The System] shall

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determine the amount of the unfunded liability in consultation with its actuary.

B. An employer shall notify [the System] if the employer plans to implement a termination incentive program that may affect [System] funding.

C. If [the System] determines that an employer has implemented a termination incentive program that results in an actuarial unfunded liability to [the System], [the System] shall assess the cost of the unfunded liability to that employer. If the employer does not remit full payment of all monies due within ninety days after being notified by [the System] of the amount due, the unpaid amount accrues interest until the amount is paid in full. The interest rate is the interest rate assumption that is approved by the board for actuarial equivalency for the period in question to the date payment is received.

D. For the purposes of this section, "termination incentive program":

1. Means a total increase in compensation of thirty per cent or more that is given to a member in any one or more years before termination that are used to calculate the member's average monthly compensation if that increase in compensation is used to calculate the member's retirement benefit and that increase in compensation is not attributed to a promotion.

2. Means anything of value, including any monies, credited service or points that the employer provides to or on behalf of a member that is conditioned on the member's termination except for payments to an employee for accrued vacation, sick leave or

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¶6 Although A.R.S. § 38-749 refers to an “actuarial unfunded liability,” the statute does not explain how to determine when a termination incentive program results in an actuarial unfunded liability or how to calculate “the amount of the unfunded liability.” To answer these questions, the System’s executive staff discussed the statute with the System’s actuary. They considered two methods of calculating the unfunded liability, one which would discount the charge to employers by the amount of additional benefits a member would have received if he or she had continued working instead of retiring and one which would not provide employers with this discount. As a result of these discussions, the System’s executive staff adopted the first method and directed the System’s actuary to draft the System’s “Policy on Employer Early Termination Incentive Programs” to memorialize how the System would implement A.R.S. § 38-749.

¶7 The Policy requires employers to notify the System of all members who participate in a termination incentive program and to disclose their demographic and salary information, as well as their benefits elections. Using this information, the System’s actuary calculates the present value, under System actuarial assumptions, of the member’s future benefits as if he or she had not retired (“active liability”) and the present value, under System actuarial assumptions, of the member’s future benefits taking into account his or her actual retirement date and actual benefit elections (“retired liability”).

¶8 Under the Policy, when retired liability exceeds active liability, an unfunded liability results from the member’s participation in the termination incentive program, and the employer is liable for the difference. When, however, a member’s active liability exceeds his or her retired liability, the employer will receive credit. If credits exceed liabilities, the employer does not receive reimbursement; there is merely no charge. The System has applied the Policy consistently to all System employers.

¶9 In 2011, the University offered one year’s salary as an incentive payment to eligible employees if they agreed to retire that year.

compensatory time unless the payment is enhanced beyond the employer’s customary payment.

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Seventeen System members accepted the University's offer.⁴ Applying the Policy, the System determined the University's termination incentive program resulted in an unfunded liability of \$1,149,103, which it then charged to the University. The University paid the charge, but appealed it, arguing the System had, first, adopted a rule without following the rulemaking procedure provided by Arizona's Administrative Procedure Act ("APA"), codified at A.R.S. §§ 41-1001 to -1092 (2013 & Supp. 2014); and, second, charged the University for retirements that did not result in an actuarial unfunded liability.

¶10 At a hearing before the Office of Administrative Hearings, the University's actuarial expert and the System's actuary agreed that "actuarial standards of practice are not detailed enough to give us specific direction about how to interpret a term like unfunded liability." The University's expert offered an alternative method of calculating actuarial unfunded liability, consistent, in her opinion, with generally accepted actuarial standards, the System's actuarial assumptions, and A.R.S. § 38-749. Based on that method, she testified the University's termination incentive program did not result in any unfunded liability because it did not cause more members to retire than the System had projected based on its assumptions.

¶11 The University's expert also testified the System should not charge employers for unfunded liability resulting from members' benefits elections because whether a member elects the benefit option predicted by the System's assumptions or a more expensive option has nothing to do with that member's participation in a termination incentive program. She pointed out the System charged the University for one member's health benefit election, even though, under System assumptions, the member had a 100% chance of retiring that year; and, thus, his retirement was not the result of a termination incentive program.

¶12 The System's actuary and the System's Assistant Director of External Affairs also acknowledged that A.R.S. § 38-749 does not explain how to determine whether a termination incentive program results in an actuarial unfunded liability or how to calculate that unfunded liability. The System's actuary testified that the other method of calculating unfunded liability he had discussed with executive staff before they adopted the Policy, see *supra* ¶ 6, is consistent with A.R.S. § 38-749, the

⁴This incentive payment was not compensation for the purpose of calculating the members' retirement benefits. See generally A.R.S. § 38-711(5)(ii)(b), -757 to -759.

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System’s actuarial assumptions, and generally accepted actuarial standards. He explained the System had, however, “interpreted” the term “unfunded liability” in the manner reflected in the Policy because it was “less onerous for employers.”

¶13 The administrative law judge ruled in favor of the System, finding the University had failed to show the System’s “methodology for calculating unfunded liability resulting from a[] . . . termination incentive program . . . [was] unreasonable, or an abuse of discretion, or contrary to law.” The administrative law judge also found that because A.R.S. § 38-749 did not require the System to adopt a rule before implementing the Policy, it was not required to do so. The System’s board accepted the administrative law judge’s findings of fact and conclusions of law with immaterial alterations, and the University filed an action for judicial review in the superior court. *See* A.R.S. § 12-905 (2003). The superior court upheld the board’s determination, and this appeal followed.

DISCUSSION

I. The Policy is a Rule

¶14 On appeal, the University argues the Policy is a rule within the meaning of the APA and, therefore, because the System adopted it without following the rulemaking procedure provided in the APA, it is void. Reviewing this issue *de novo*, but granting deference to the System’s interpretation of statutes and its own regulations, *see Carondelet Health Servs., Inc. v. Ariz. Health Care Cost Containment Sys. Admin.*, 182 Ariz. 221, 226, 895 P.2d 133, 138 (App. 1994), we agree with the University.⁵

¶15 The APA defines “rule” as:

an agency statement of general applicability
that implements, interprets or prescribes law
or policy, or describes the procedure or

⁵The University also argues the System’s method of determining whether a termination incentive program “results” in actuarial unfunded liability and calculating the amount of that liability is contrary to law and arbitrary and capricious. Given our resolution of the rulemaking issue, we do not need to address this argument.

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practice requirements of an agency. Rule includes prescribing fees or the amendment or repeal of a prior rule but does not include intraagency memoranda that are not delegation agreements.

A.R.S. § 41-1001(19) (Supp. 2014).

¶16 Thus, barring any exemptions, an agency statement is a rule, subject to the APA's rulemaking procedure, if it, first, is generally applicable, and, second, implements, interprets or prescribes law or policy, or describes the procedure or practice requirements of an agency. At the administrative hearing, the System acknowledged it had applied the Policy consistently to all System employers since its adoption, and, thus, the Policy satisfies the general applicability requirement. *See Carondelet*, 182 Ariz. at 227, 895 P.2d at 139 (agency admission that "its methodology is generally applied to all hospitals" satisfies general applicability element).

¶17 The Policy also satisfies the second requirement. As discussed, the System adopted the Policy to implement A.R.S. § 38-749. The ordinary meaning of the word "implement" is "[t]o put into practical effect; carry out." American Heritage Dictionary 880 (4th ed. 2006); *see Stout v. Taylor*, 233 Ariz. 275, 278, ¶ 12, 311 P.3d 1088, 1091 (App. 2013) (court may refer to established and widely used dictionaries to determine ordinary meaning of word). By charging employers under the Policy for an unfunded liability which results from termination incentive programs, the System has put A.R.S. § 38-749 into practical effect. *See* A.R.S. § 41-1001(19); *Carondelet*, 182 Ariz. at 227, 895 P.2d at 139 (agency methodology was a rule because, among other reasons, it implemented a session law).

¶18 Further, the Policy interprets A.R.S. § 38-749. The plain language of the statute leaves open questions such as: how to determine if a termination incentive program "results in an actuarial unfunded liability"; how to calculate the amount of an unfunded liability; and whether to charge employers if members elect more expensive benefit options than the System assumed, even though these elections may not, strictly speaking, be the result of a termination incentive program. *Cf. Sw. Ambulance, Inc. v. Ariz. Dep't of Health Servs.*, 183 Ariz. 258, 261, 902 P.2d 1362, 1365 (App. 1995), *superseded by statute*, 1998 Ariz. Sess. Laws, ch. 57, § 39 (2d Reg. Sess.) (ambulance services rate schedules were rules because they specified "how a fraction of an hour is to be charged, how mileage is to be charged, the assessment of charges for the transport of multiple

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patients, what constitutes a minimum charge, [and] when the rate for advanced life support may be charged”).

¶19 Like the hospital reimbursement methodology at issue in *Carondelet*, the Policy involves a “complex calculation with subjective components whose inclusion, or even definition, have a significant effect” on the amount the System charges employers. See 182 Ariz. at 227, 895 P.2d at 139. And, like the session law at issue in *Carondelet*, the governing statute here, A.R.S. § 38-749, “does not set forth the calculations to be made and leaves much” to the System’s discretion. See *id.* at 227–28, 895 P.2d at 139–40. *Carondelet* involved a session law which directed the Arizona Health Care Cost Containment System (“AHCCCS”) to adjust its hospital reimbursement multipliers based on new six-month charges and volume reports. *Id.* at 224, 895 P.2d at 136. We held the methodology AHCCCS adopted to implement the session law was a rule because, among other reasons, the session law did “not set forth the calculations to be made” and did not direct “how the amount of reimbursement [was to] be determined.” *Id.* at 228, 895 P.2d at 140. Similarly, A.R.S. § 38-749 directs the System to make a calculation, but it does not specify how the calculation is to be made. In other words, to implement A.R.S. § 38-749, one must first interpret it.

¶20 Despite the foregoing, the System contends the Policy does not implement or interpret A.R.S. § 38-749, arguing the statute is self-executing and leaves no room for agency discretion. According to the System, unlike the challenged policies in *Carondelet* and *Southwest Ambulance*, the Policy here does not involve “subjective” judgments and merely applies “the same actuarial assumptions used to operate the entire defined-benefit plan and the same calculation used to calculate the plan’s liability.”

¶21 The evidence presented at the administrative hearing squarely contradicts this position. As discussed, the System’s actuary and Assistant Director of External Affairs both conceded A.R.S. § 38-749 does not explain how the amount of an unfunded liability should be calculated. Both the University’s actuarial expert and the System’s actuary offered alternative methods of calculating the amount of an unfunded liability that they testified were consistent with A.R.S. § 38-749, the System’s actuarial assumptions, and generally applicable actuarial standards of practice. In fact, the System’s actuary testified the System considered two methods of making the calculation, and it selected the calculation that appears in the Policy not because it was more consistent with A.R.S. § 38-749 or the System’s actuarial assumptions, but because it was “less onerous for employers.” Thus, to carry out its mandate under A.R.S. § 38-

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749, the System was required to exercise judgment and discretion in crafting the Policy, and it, in fact, did so. *See Carondelet*, 182 Ariz. at 228–29, 895 P.2d at 140–41 (session law not self-executing because it left matters to agency’s discretion and did not direct any one particular course of action).

¶22 Accordingly, the Policy was a rule within the meaning of the APA.

II. In the Absence of an Exemption, an Agency Must Comply with the APA

¶23 The System argues that even if the Policy is a rule, it was not required to comply with the APA because the Legislature did not expressly require rulemaking in A.R.S. § 38-749. Although we agree A.R.S. § 38-749 says nothing about rulemaking, the statute’s silence does not exempt the System from the APA’s rulemaking procedure.

¶24 The rulemaking procedure of the APA “appl[ies] to all agencies and all proceedings not expressly exempted.” A.R.S. § 41-1002(A) (2013); *see Carondelet*, 182 Ariz. at 228, 895 P.2d at 140 (rejecting argument that from legislative silence one can infer “the legislature never envisioned the need for an explanatory rule”). Neither A.R.S. § 38-749 nor the APA, *see* A.R.S. § 41-1005 (Supp. 2014), exempt the System from rulemaking; therefore, rulemaking is required before the Policy can be given effect. *See* A.R.S. § 41-1030(A) (2013).

¶25 The System contends *Carondelet* does not support the proposition that rulemaking is required when the Legislature is silent on the question. The System attempts to distinguish *Carondelet* by arguing that the policy at issue in that case implemented a session law which incorporated by reference a prior statute which expressly called for rulemaking. 182 Ariz. at 228, 895 P.2d at 140. The *Carondelet* court, however, merely used this fact to “bolster[]” its conclusion after it had resolved the issue under A.R.S. § 41-1002(A). *Id.*

¶26 Invoking the principle of *expressio unius est exclusio alterius* – a canon of statutory construction that when statutes set forth a requirement in one provision but not in another, a court should assume the absence of the provision was intentional – the System further argues the Legislature intended to exempt it from rulemaking because it expressly required the System to engage in rulemaking in other statutes, A.R.S. §§ 38-735, 755, 764 (2015). *See generally Ezell v. Quon*, 224 Ariz. 532,

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541, ¶ 41, 233 P.3d 645, 654 (App. 2010) (discussing this canon of construction).

¶27 When the Legislature’s intent is clear, however, interpretative canons of construction are inapplicable. Section 41-1002 provides that in the absence of an express exemption, agencies must comply with the APA, and we cannot ignore this unambiguous language in favor of a secondary principle of statutory interpretation. *See Forsythe v. Paschal*, 34 Ariz. 380, 383, 271 P. 865, 866 (1928) (*expressio unius* should not be applied to contradict “general context” of statute and “public policy of the state”); *Microchip Tech. Inc. v. State*, 230 Ariz. 303, 306-07, ¶ 12, 283 P.3d 34, 37-38 (App. 2012) (because text of statute was clear, resort to principle of *expressio unius* was unnecessary (citing *Sw. Iron & Steel Indus., Inc. v. State*, 123 Ariz. 78, 79-80, 597 P.2d 981, 982-83 (1979) (“The doctrine of ‘*expressio unius*’ is not to be applied where its application contradicts the general meaning of the statute or state public policy.”))).

III. Compliance with the APA Would Not Require the System to Breach its Fiduciary Duties

¶28 The System also argues that allowing “employer input on unfunded liability calculations” through rulemaking procedure, *see* A.R.S. § 41-1023 (2013), would require it to breach its fiduciary duty to the trust and its beneficiaries under the Arizona Constitution. *See* Ariz. Const. art. XXIX, § 1(A) (“Public retirement systems shall be funded with contributions and investment earnings using actuarial methods and assumptions that are consistent with generally accepted actuarial standards.”). In support of this argument, the System cites two California cases, which, for purposes of this appeal, do little more than establish that a state retirement system’s fiduciary and contractual duties to its beneficiaries sometimes trump legislative and municipal priorities. *City of Sacramento v. Pub. Emps. Ret. Sys.*, 280 Cal. Rptr. 847, 860-61 (Cal. App. 1991) (retirement system’s interpretation of federal labor statutes which tended to increase city’s contributions to system did not violate California constitutional provision that system minimize employer contributions because, in part, to do so would require system to favor employers over beneficiaries to whom it owes a fiduciary duty); *Valdes v. Cory*, 189 Cal. Rptr. 212, 221-24 (Cal. App. 1983) (legislation suspending employer contributions to state retirement system violated beneficiaries’ vested contractual rights to retirement benefits). Here, however, we are not faced with a situation in which a legislative enactment conflicts with the System’s fiduciary duties to the trust and its beneficiaries; the question is simply whether the System must comply with the APA’s rulemaking

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procedure—a question which is neutral to the interests of the trust and its beneficiaries.

¶29 Moreover, merely following rulemaking procedure would not cause the System to breach its fiduciary duties. *Cf. Carondelet*, 182 Ariz. at 229, 895 P.2d at 141 (rejecting argument that forcing agency to comply with APA would “tie [its] hands” and not allow it to fulfill its statutory mandate). The APA requires an agency to provide meaningful opportunity for public comment on and discussion of proposed rules. A.R.S. § 41-1023(B), (C). The APA does not, however, require an agency to blindly heed any and every suggestion it receives. Rather, the APA merely requires an agency to “consider” public comments before making a rule, A.R.S. § 41-1024(C) (2013), and the agency remains free to “use its own experience, technical competence, specialized knowledge and judgment in the making of a rule.” *Id.* at (D).

IV. The System is an Agency Subject to the APA

¶30 The System next argues it is exempt from the APA because it is not a “regulatory state agenc[y]” – in the sense of regulating the general public or any particular industry – and instead it is a state agency that serves a fiduciary function.⁶ As defined by the APA, however, “[a]gency” means any board, commission, department, officer or other administrative unit of this state” A.R.S. § 41-1001(1). The APA’s definition of “agency” makes no exception for agencies that perform fiduciary as opposed to more traditional regulatory functions. Indeed, consistent with the System’s status as an agency subject to the APA, the Legislature specifically granted the System authority to “[a]dopt, amend or repeal rules for the administration of the plan” and “this article” – a reference to

⁶Relying on *Canyon Ambulatory Surgery Ctr. v. SCF Ariz.*, the System argues the APA “governs only those agencies that perform governmental functions,” 225 Ariz. 414, 419, ¶ 19, 239 P.3d 733, 738 (App. 2010), and, thus, the APA does not apply to the System insofar as it serves a fiduciary function. The statement from *Canyon Ambulatory* the System quotes, however, was a recitation of the ground on which the superior court resolved that case. *Id.* This court declined to affirm on the issue of whether the State Compensation Fund “is a state agency subject to the APA” and instead decided the case on the basis that the policy at issue there was not a rule. *Id.* at 419–20, ¶¶ 19, 21, 239 P.3d at 738–39.

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the statutory article that includes A.R.S. § 38-749. A.R.S. § 38-714(E)(4) (2015).

¶31 The System further argues that forcing it to comply with the APA under the circumstances here would be “absurd” because the APA was not intended to protect the rights of “one division of state government,” the University, from the actions of another, the System. The foregoing definition of “agency,” however, makes no exception for agencies whose decisions affect the rights of divisions and political subdivisions of the state. *See* A.R.S. § 41-1001(1). Accordingly, we have held that rules promulgated without following the rulemaking procedure of the APA are unenforceable against political subdivisions of the state. *See, e.g., Cochise Cnty. v. Ariz. Health Care Cost Containment Sys.*, 170 Ariz. 443, 445, 825 P.2d 968, 970 (App. 1991). Furthermore, the System’s decision to adopt the Policy affects all System members and all System employers—which, as a factual matter, may include state political subdivisions and their subordinate “entities” in addition to divisions of the state. A.R.S. § 38-711(13).

V. The System’s Failure to Comply with the APA Renders the Policy Invalid

¶32 “A rule is invalid unless it is made and approved in substantial compliance with [the APA], unless otherwise provided by law.” A.R.S. § 41-1030(A); *accord Sw. Ambulance*, 183 Ariz. at 262, 902 P.2d at 1366; *Cochise Cnty.*, 170 Ariz. at 445, 825 P.2d at 970. As discussed, the Policy is a rule, and the System adopted it without “substantial compliance” with the rulemaking procedure of the APA. Accordingly, the Policy is invalid, and the System was not entitled to charge the University for the 17 retirements. *See, e.g., Carondelet*, 182 Ariz. at 229–30, 895 P.2d at 141–42 (agency ordered to compensate hospitals that received reduced reimbursement under policy adopted outside of APA).

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CONCLUSION

¶33 For the foregoing reasons, we reverse the superior court’s decision affirming the ruling of the System’s board and remand to the superior court to enter an order directing the System to refund \$1,149,103 to the University, with interest thereon if and as authorized by law – an issue the superior court should address on remand. Contingent upon its compliance with Arizona Rule of Civil Appellate Procedure 21, we award the University its taxable costs on appeal pursuant to A.R.S. § 12-341 (2003).



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



ARIZONA STATE RETIREMENT SYSTEM

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

Paul Matson
Director

MEMORANDUM

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

FROM: Mr. Jeff Tyne, Chair, Operations and Audit Committee
Mr. Patrick M. Klein, Assistant Director, External Affairs Division (EAD)
Mr. Russ Levine, Manager of Budget and Procurement

DATE: May 22, 2015

RE: **Agenda Item #11:** Presentation, Discussion and Appropriate Action Regarding the ASRS Retiree Dental Benefits Program Request for Proposals (RFP)

Purpose

To review and accept the recommendation of the Request for Proposal (RFP) Evaluation Committee for an ASRS retiree dental benefits program effective January 1, 2016.

Recommendation

Accept the Evaluation Committee's recommendation.

Background

The ASRS Retiree Dental Benefits Program RFP was issued on February 23, 2015, to 208 vendors that had properly registered with the State Procurement Office for the commodity code that triggers notification of a specific RFP being released. The issuing of the RFP was also advertised in the Arizona Republic. The ASRS will conclude a five-year contract with Assurant Employee Benefits at the end of 2015. Arizona statutes require the ASRS to solicit its program every five years. A new contract will be effective January 1, 2016.

Four dental providers submitted proposals by the due date of March 31, 2015. The four dental providers are: Assurant Employee Benefits (the ASRS current dental provider); Delta Dental of Arizona, Metropolitan Life Insurance Company and United Concordia. All four vendors were found to have submitted proposals deemed to be responsible. Four of the dental providers submitted offers for providing indemnity dental plans and only one provider submitted an offer for providing a prepaid dental plan.

An Evaluation Committee, comprised of members from the ASRS all-retiree Health Insurance Advisory Committee, met throughout April to review the analysis prepared by ASRS staff (separate report provided). The evaluation criteria, as set forth in the solicitation requirements included: Cost; Quality or Value of the Benefit Plan; Experience, Expertise, and Resources; and, Method of Approach/Implementation Plan.

Best and Final Offers from each provider were provided on May 4, 2015.

A detailed summary of the Evaluation Committee's analysis and recommendation may be found on the attached confidential exhibit.



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

Paul Matson
Director

MEMORANDUM

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

FROM: Mr. Paul Matson, Director

DATE: May 22, 2015

RE: **Agenda Item #17:** Presentation, Discussion and Appropriate Action Regarding the Arthur J. Gallagher & Company Investment Management Audit

Purpose

Arthur J. Gallagher & Company will provide an update regarding their preliminary findings for the investment management portion of the sunset audit.

Recommendation

Information item only; no action required.

Background

Arizona Revised Statute §41-2951 has established a sunset review process to ensure state agencies, boards and commissions are meeting statutory responsibilities, operating efficiently and effectively, and should continue operations. Most sunset reviews are conducted once every 10 years. The last sunset review report for the Arizona State Retirement System (ASRS) was issued in September 2005.

In October 2013 the Joint Legislative Audit Committee assigned the sunset review of the ASRS to the Office of the Auditor General (OAG). The review is currently underway and will result in a publically released report which is due to the Legislature by October 1, 2015.

If no legislative action is taken the ASRS will sunset on July 1, 2016.

Arthur J. Gallagher & Company was hired by the OAG to conduct an audit of the investment management functions of both the ASRS and the Public Safety Personnel Retirement System (PSPRS). PSPRS is undergoing a concurrent sunset review by the OAG.

The ASRS is committed to cooperating fully and positively with Arthur J. Gallagher & Company and the OAG.

Arthur J. Gallagher & Company offered to provide the Board an update in Executive Session. The previous update to the Board occurred in February 2015. OAG staff will attend as observers.

Meeting Attendees

Arthur J. Gallagher & Company (via teleconference):

Mark Melnychuck, Project Lead Coordinator
Joseph Karpinski, Lead Analyst – Alternatives
Craig Morton, Lead Analyst – Fees
Mangala Murphy, Lead Analyst - Performance
Julie Wenzlick, Project Coordination

Office of the Auditor General (via teleconference)

Dale Chapman, Performance Audit Director
Dot Reinhard, Performance Audit Manager
Laura Long, Performance Auditor
Jay Zsorey, Financial Audit Director