



# Board Governance Policy Handbook

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# A Vision Statement and Core Values

## VISION

To be a top-performing retirement plan, leading the nation in **customer service, investment performance,** and **organizational effectiveness.**

## VALUES

How ASRS employees deliver service with



### PROFESSIONALISM

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

- Friendly, respectful and courteous
- Proactive and responsive
- Good communicator / active listener
- Trusted contributor / teammate
- Personally accountable
- Subject matter expert
- Critical thinker
- Honest, fair, non-judgmental
- Adaptable to change
- Adheres to the Code of Conduct

### RESULTS

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

- Completes projects
- Attains individual accomplishments
- Meets goals and objectives
- Satisfies customers
- Produces quality work products
- 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 morale
- Enhances outcomes and performance
- Improves relationships
- Solves problems
- 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 contributor"*

- Encourages the free flow of ideas and opinions
- Treats all people with dignity and respect
- Works effectively with dissimilar individuals
- Recognizes and promotes new skills in others

### EXCELLENCE

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

- Surpasses expectations
- Engenders a positive public image
- Celebrates /rewards accomplishments and contributions of others
- Embraces change in a manner which inspires others
- Promotes teamwork /collaboration through communication
- Accepts personal responsibility and challenges with enthusiasm

## B Governance: Conceptual Model

Since 2004, the Arizona State Retirement System (ASRS) governance model has consisted of the following five key principles, which together form the framework from which this handbook has been developed.

The joint belief of the ASRS Board and ASRS Executive Director is that this model and accompanying detailed handbook should result in better decision-making and oversight and, therefore, correspondingly better results than would occur with a different governance model. This governance model will be amended if better principles are determined by the Board.

### Key Governance Principles

#### 1 Separation of Decision-Making from Oversight with Independent Reporting

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- **Concept:** Strong separation of decision-making from oversight.
- **Logic:** Separation of decision-making from oversight heightens the ability of the oversight body to critique, opine, and change past decisions since the oversight body did not make the decisions. This separation allows greater independence for the oversight body and lessens the possibility of a conflict between decision-making and oversight. Commingling decision-making with oversight can result in bias, and mitigating this possible bias is important.
- **Application:** Most decisions are delegated to the Executive Director, who may then delegate further within the organization to areas of expertise. Independence in reporting to the Board and Board committees in the areas of investment management, actuarial analysis, financial reporting, information and financial security, and internal audit will exist by having those reports provided by independent parties who do not have decision-making authority and over whom the Executive Director does not have termination authority. Staff may also report on each of these topics through the Executive Director, but staff reporting does not supplant the independent reporting requirement.

#### 2 Board Focus on Impactful Issues

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- **Concept:** Presentations to the Board and Board committees should focus on the most important topics that could significantly impact the agency. The orientation of the Board and Board committees is of a macro / strategic / sustainability nature.
- **Logic:** Allocating Board and Board committees' time to subjects that do not have a significant impact on the long-term success of the agency reduces the amount of time that the Board and Board committees can allocate to mission-critical areas.
- **Application:** The Board Chairperson, Committee Chairpersons, and the Executive Director will jointly be responsible for ensuring topics that could significantly impact the agency will be presented to the Board or the appropriate Board committee. The Board Chairperson, Committee Chairpersons, and the Executive Director will also be jointly responsible for ensuring that the Board and Board committees do not allocate significant time to non-critical topics.

### 3 Pre-Determination and Documentation of Decision-Making Authority and Oversight Responsibilities

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- **Concept:** Decision-making authority, as well as oversight responsibilities, are pre-determined and documented.
- **Logic:** Staff should be aware of their levels of authority, and the Board and Board committees should be aware of both their oversight responsibilities and level of authority. These levels of authority and oversight responsibilities should be known in advance and be well-documented. If the levels of authority and oversight responsibilities are not known in advance, it may result in important decisions not being made, being made in a delayed fashion, being made by non-subject matter experts, and/or not being monitored.
- **Application:** The decision-making authority and oversight responsibilities of the Board, Board committees, and staff are pre-determined and clearly documented in this governance handbook.

### 4 Delegation

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- **Concept:** Decision-making authority will be delegated from the Board to staff to the extent practicable and appropriate, with a resulting reporting structure designed to monitor impactful decisions.
- **Logic:** Delegating decision-making authority to subject matter experts (internal or external) enables decisions to be made much more quickly by individuals and teams with the requisite expertise.
- **Application:** The Executive Director develops staff-level oversight on the staff decision-making process. As such, there are two levels of oversight: staff-level oversight, which is quick, fluid, and agile but lacks complete independence; and Board and Board committee-level oversight on impactful decisions, which retains independence.

### 5 Clarity

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- **Concept:** Each of the above governance principles should be understood by Board members, the Executive Director, Deputy Director & Chief Operations Officer, Chief Investment Officer, Chief Internal Auditor, and additional executive and support staff as appropriate.
- **Logic:** Principles without clarity can cause confusion or sub-optimal decision-making, and even clear principles without documentation can lead to varied understandings, which can diminish the effectiveness of decision-makers and reduce the ability of the governance principles to pass on to future decision-makers.'
- **Application:** At least triennially, the Board and Executive Director will discuss this governance handbook to update as required and ensure mutual understanding.

## C ASRS Board Charters

Consistent with recognizing the fiduciary duties imposed upon each member of the Board, they are referred to in this Governance Handbook as “Trustees.”

The Board recognizes that a sound governance structure is essential to fulfilling its duties and responsibilities. The Board prepared and adopted this Governance Handbook to establish the framework within which the Board intends to set governance and oversight policy.

The purpose of the handbook is twofold. First, it is to provide orientation material for new Trustees (and executive staff) on the roles, responsibilities, structure, procedures, policies, and activities in the governance and oversight of the ASRS. Second, it serves as an ongoing reference manual for current Trustees and ASRS staff.

The Board will review this handbook at least triennially. It will be updated at the Board’s direction. The Executive Director will recommend modifications for the Board’s consideration.

### The Board’s Role

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The ASRS Board was established under state law to govern and administer the ASRS. The Board has only those powers and duties that have been delegated to it by the Legislature. Within this role, the Trustees have a duty as fiduciaries under the law to act solely for the benefit of members and beneficiaries. (A.R.S. § 38-714, Arizona Constitution, Article 29, Section 1)

The Board views itself as primarily an oversight and strategic policy-making body. The Board has delegated the leadership, management, and administrative functions to the ASRS Executive Director and staff, subject to ongoing monitoring and oversight. The Board has also delegated the hiring and termination of investment managers, Real Estate and Private Equity Consultants, and other Asset Class Consultants to the (Director’s) Asset Class Committees. The Board does not engage in regular day-to-day management functions of the ASRS.

### Board Composition (A.R.S. § 38-713)

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The Board is composed of nine Trustees who are appointed by the Governor pursuant to the following statutory requirements:

1. Five Trustees must be members of the ASRS as follows:
  - a. An educator
  - b. An employee of a political subdivision
  - c. A retired member
  - d. An employee of the state
  - e. An at-large member representing any ASRS member group
2. Four Trustees are not members of the ASRS and represent the public.

## Trustee Terms, Resignations, and Vacancies

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1. Each Trustee is appointed for a term of three years. The terms of office are staggered, with three positions beginning and expiring on the third Monday in January of each year.
2. Trustees may continue to serve in their positions after the expiration of their terms of appointment in accordance with the law.
3. Individual Trustees may resign from their position on the Board by providing appropriate notice to the Governor. In such a case, the resignation is not effective until accepted by the Governor. (A.R.S. §§ 38-291, 38-294)
4. Trustee position vacancies that otherwise occur before the expiration of a term will be filled by the Governor. (A.R.S. §§ 38-211, 38-713)
5. A position shall be deemed vacant if a trustee ceases to discharge their duties for a period of three consecutive months. (A.R.S. § 38-291)
6. Insufficient participation or engagement by a Trustee will be addressed by the Board Chairperson, who will speak to the Trustee. If that does not resolve the problem, the Chairperson will contact the Governor's Office for assistance.

## Duties and Responsibilities

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The Board proactively oversees the delivery of ASRS benefits and investment of trust assets. Consistent with fiduciary standards, the ASRS Board will:

1. Oversee and participate in the long-term strategic planning process for the ASRS.
2. Appoint, annually evaluate, and, if necessary, remove the Executive Director in accordance with state law.
3. Delegate the leadership, management, and administrative responsibilities of the ASRS to the Executive Director through the Executive Director Position Description.
4. Delegate the hiring and termination of investment managers, Real Estate and Private Equity Consultants, and other Asset Class Consultants to the Executive Director through the Asset Class Committee structure.
5. Approve the creation or dissolution of standing and special committees of the Board.
6. Approve the selection and termination and oversee the performance of the following external service providers:
  - a. Actuarial service providers
  - b. External financial auditor
  - c. General investment consultant(s)

7. Review and approve macro-level strategic policies, which guide the strategic vision for ASRS investments.
  - a. SP001 Asset Allocation (PLAN)
  - b. SP002 Tactical Positioning and Rebalancing (PLAN)
  - c. SP005 Securities/Asset Recovery Litigation
  - d. SP006 Investment Manager, Partner, and Co-Investment Selection and Oversight
  - e. SP007 Funding Policy
  - f. SP010 Contribution Prepayment Program Policy
8. Establish high-level or significant actuarial funding methods and assumptions, including the asset valuation method, consistent with state law.
9. Conduct an annual actuarial valuation of the ASRS liabilities and submit the results to the Governor and the state legislature as required by state law.
10. Conduct an actuarial experience study at least every four years.
11. Review the Actuarial Cost Allocation method in use at least every four years and make changes as appropriate.
12. Conduct an independent third-party audit of the actuarial valuation of the ASRS benefits at least every four years.
13. Review, approve, and monitor the budget and budget change proposals.
14. Ensure the integrity of the financial control and reporting system.
15. Make recommendations on legislative proposals affecting the ASRS without advocating for or against pension benefit modifications.
16. Develop and approve other governance policies and directives for the administration of the ASRS as may be adopted from time to time.
17. Obtain periodic updates from Board committees regarding oversight activities.
18. Review agency enterprise risk management activities periodically as recommended by the Operations, Audit, and Legislative Committee.
19. Biennially approve the internal audit plan.
20. Review and approve recommendations of the Executive Director to appoint or remove the agency's Chief Internal Auditor.
21. Review the funding policy at least every four years as part of the actuarial experience study.
22. Review the governance handbook at least every three years.
23. Review the asset allocation at least every four years as part of the asset allocation study.

## D Trustee Position Description

### Primary Responsibility

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Each Trustee is individually a fiduciary for the governance and oversight of the ASRS and is obligated to act solely for the exclusive benefit of the ASRS members and beneficiaries. (Arizona Constitution, Article 29, Section 1, and A.R.S. § 38-714)

### Commitments

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Trustees must be willing and able to devote the necessary time to fulfill their duties on the Board. This commitment includes the responsibility to:

1. Oversee the operations of the agency.
2. Act as a member of a nine-member Board of Trustees to provide leadership, oversight, and set the strategic direction for the ASRS.
3. Prepare for and attend scheduled Board and Committee meetings.
4. Be an informed and active member of the Board, fully participating in the decisions and actions of the Board and its committees by making independent assessments and reasonable judgments.
5. Acquire and maintain the knowledge necessary to perform the duties of a Trustee.
6. Follow policies and procedures established by the Board.
7. Be accurate when communicating with other Trustees, members, beneficiaries, interested parties, the public, and ASRS staff, and always be clear on whether the statements being made are the position of the Board or solely the position of the individual Trustee.
8. Act collegially with the other Trustees and staff in the conduct of ASRS business.
9. Bring to the attention of the Board any and all matters of concern that affect the conduct of the business of the Board or the ASRS.
10. Comply with the Board's Code of Ethics.
11. Adhere to state law regarding confidentiality and privacy of member records and benefits.
12. Adhere to Arizona Open Meeting Law. (A.R.S. §§ 38-431 et seq.)
13. Assume responsibility for evaluating the Trustee's own performance, the overall performance of the entire Board, and the performance of the Executive Director.
14. Seek the advice of the ASRS Executive Director, investment consultants, actuarial experts, legal counsel, other experts, and Trustees when necessary to fulfill their fiduciary duties.
15. Delegate leadership, management, and administrative responsibilities to the ASRS Executive Director and, where appropriate, to outside service providers.

## Trustee Fiduciary Responsibilities

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Trustees have a duty to the beneficiaries to ensure that the funds are invested and managed as a prudent investor would, in light of the purposes, terms, distribution requirements, and other circumstances of the trust.

This standard requires the exercise of reasonable care, skill, and caution. It is to be applied to investments, not in isolation but in the context of the trust portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the trust.

In making and implementing investment decisions, the Trustee has a duty to ensure that the investments of the trust are diversified unless, under the circumstances, it is prudent not to do so.

In addition, the Trustee must:

- a. Conform to fundamental fiduciary duties of loyalty and impartiality;
- b. Act with prudence in deciding whether and how to delegate authority; and
- c. Incur only costs that are reasonable in amount and appropriate to the investment responsibilities of the trusteeship.

## Trustee Access to ASRS Resources

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1. A Trustee shall not give instructions or assign tasks to individual ASRS staff but may make individual requests to the Executive Director or other staff as indicated by the Executive Director.
2. A Trustee shall refrain from making negative comments on staff performance other than to the Executive Director.
3. A Trustee should typically access ASRS resources through actions of the full Board or Board committees rather than an individual Trustee directly requesting significant resources from staff.
4. A Trustee may request from the Executive Director or the Executive Director's designee, information or assistance necessary to meet the Trustee's responsibilities.
5. The Executive Director may seek the advice of the Chairperson and Legal Counsel or refer the matter to the full Board before complying with individual Trustee requests that, in the Executive Director's opinion, would require a significant amount of ASRS resources or cause disruption to the regular administration of the ASRS.
6. The Executive Director shall share any vital or useful information resulting from a Trustee request with other Trustees.
7. The Executive Director may refuse requests of individual Trustees that conflict with this policy.

## Executive Director Position Description

### General

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1. The Board will appoint the Executive Director, who shall serve at the pleasure of the Board. (A.R.S. § 38-715)
2. The Executive Director reports to the full Board.

### Delegation of Responsibilities

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1. Subject to the areas reserved to the Board by state law or the ASRS Board Charter, the Executive Director is responsible for managing the regular operations of the ASRS in accordance with Board policies and directives.
2. The Executive Director may make prudent delegation of the Executive Director's responsibilities to other ASRS staff or outside service providers unless specifically prohibited by law or the Board.

### Specific Duties and Responsibilities

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The Executive Director will:

1. Provide leadership to the ASRS in fulfilling its statutory purpose and achieving the vision, values, investment principles, and goals outlined in the strategic plan.
2. Maintain effective and credible relationships with the members and beneficiaries of the ASRS, participating employers, executive officers of state government, the legislature, employee and retiree organizations, the media, and the public at large.
3. Project a positive image as Executive Director of the ASRS.
4. Act as the official spokesperson for the Board and the ASRS.
5. With respect to legislation:
  - a. If draft legislation is proposed affecting the ASRS that the ASRS Board has not already taken a position on, the Executive Director will discuss such draft legislation at his discretion with legal representation and the Board Chairperson or acting Board Chairperson to formulate an agency response.
  - b. If the draft legislation does not pertain to a benefit modification, the Executive Director may provide relevant information and also support or oppose the draft legislation.
  - c. If the draft legislation pertains to a benefit modification, the Executive Director may provide relevant information but will not support or oppose the draft legislation.
  - d. If a single piece of draft legislation covers both a benefit modification item as well as a non-benefit modification item, the Executive Director may support or oppose the legislation, but will communicate that the support or opposition relates to the non-benefit modification item and not the benefit modification item.
6. Act as liaison between the Board and other ASRS staff and service providers.
7. Safeguard the assets of the ASRS by appointing a custodian and developing and implementing proper internal controls.

8. Account for and be responsible for ASRS data, collecting income from all sources, maintaining accounts, and distributing benefits.
9. Monitor the operational and funded status of the benefit plans under the ASRS.
10. Identify strategic issues involving the design or ongoing administration of the defined benefit plan, defined contribution system, health insurance programs, long-term disability program, and optional supplemental retirement plans. Initiate analysis or action as appropriate.
11. Provide necessary staffing, support, and resources to the Board and its committees.
12. Proactively assist and advise the Board and its committees with regard to issues requiring Board policy or action.
13. Appoint or remove the Deputy Director & Chief Operations Officer, Chief Investment Officer, and Divisional Chief staff and other staff.
14. Recommend to the Board the appointment or removal of the Chief Internal Auditor.
15. Perform performance evaluations of those who have a direct reporting relationship to the Executive Director.
16. Be responsible for the recruitment, hiring, and day-to-day management of employees.
17. Ensure the accurate and timely distribution of pension benefits, survivor benefits, and refunds.
18. Review and approve transfers between the ASRS and other retirement plans. (A.R.S. §§ 38-730 and 38-921)
19. Review and approve domestic relations orders. (A.R.S. § 38-773)
20. Review and approve employer applications for ASRS membership. (A.R.S. § 38-729)
21. Adjust the maximum compensation limits (A.R.S. § 38-746), contribution limits (A.R.S. § 38-747), and maximum retirement benefit amounts (A.R.S. § 38-769) when the limits and amounts are adjusted by the United States Secretary of the Treasury pursuant to the Internal Revenue Code.
22. Maintain a process for handling member-related and participating employer appeals of staff decisions and statutory interpretations.
23. Manage or oversee appeal settlements.
24. Assist the Board in reviewing and adopting actuarial assumptions, funding methods, and actuarial valuation methods for the ASRS.
25. Initiate the annual actuarial valuations, periodic actuarial experience studies, and independent actuarial audits as required by state law or Board policy and work with the actuary in determining and/or recommending appropriate assumptions.
26. Oversee and assist the Chief Investment Officer in developing macro-level strategic policies.

27. Review and approve standard operating procedures for the Investment Management Division.
28. Execute and manage investments in accordance with Board directives.
29. Assist the Board in the solicitation and selection of the following service providers:
  - a. Consulting actuaries and actuarial auditors
  - b. External financial auditor
  - c. General investment consultants
30. Approve the selection and termination of third-party administration providers for medical insurance, dental insurance, and long-term disability benefits.
31. Approve contract extensions.
32. Approve the selection and termination of the supplemental retirement plan administrators and investment options.
33. Review and approve, with the consensus of the Chief Investment Officer, recommendations from ASRS Asset Class Committees to hire and terminate investment managers/partners.
34. Review and approve, with the consensus of the Chief Investment Officer, recommendations from ASRS Asset Class Committees to hire and terminate asset class consultants.
35. Unless otherwise noted, oversee the performance of all other service providers to the ASRS.
36. Develop and recommend to the Board an appropriated operating budget. Manage and monitor expenditures within the budget and provide reports to the Operations, Audit, and Legislative Committee or Board as necessary or directed.
37. Manage and monitor continuously appropriated expenditures as prescribed in A.R.S. § 38-721.
38. Oversee the preparation of the ASRS Annual Comprehensive Financial Report.
39. Develop and deliver all financial, actuarial, and other reports to the Governor and state legislature as required by state law after approval by the Board.
40. Perform other duties delegated by the Board.
41. Administer the Defined Contribution plans and report to the Investment Committee annually.
42. Review, analyze, implement, and present the ASRS Funding Policy to the Board every three years or whenever a significant event impacts the policy or whenever the Executive Director recommends modification.
43. Present a proposed Strategic Plan to the Board at least every five years.
44. Develop a Contribution Prepayment Program policy and other documentation required to implement a Contribution Prepayment Program.
45. Implement, administer, and manage a Contribution Prepayment Program, including the funds so deposited.

46. Review and present the Contribution Prepayment Program Policy and program to the Board with any recommended modifications whenever a significant event impacts the Policy and/or Program; or whenever the Executive Director or a Board member recommends a modification or presentation.
47. Present to the Board each fiscal year the status of the program, including the participation level, prepayment amounts, and other material information with respect to the participation and management of the Contribution Prepayment Program.

## **F** Election of Board Officers

### **Board Officers**

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The Board will elect the following Board officers:

1. Board Chairperson
2. Vice-chairperson

### **Election Procedure**

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1. Any Trustee may serve as a Board officer.
2. Any Trustee may make a nomination(s) for Board officer positions, including him/herself.
3. Nominations will be made at the regular meetings of the Board in approximately May of each year.
4. Board officers will be elected by majority vote at a regular meeting of the Board prior to the start of a fiscal year.

### **Term**

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Board officers will serve for the fiscal year following their election. A Board officer typically may not serve more than three consecutive terms in one of the Board officer positions, but may serve an unlimited number of non-consecutive terms.

### **Resignations and Vacancies**

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1. A Board officer may resign from their position by providing written notice to the Board and also informing the Executive Director by copying him/her on the notice.
2. Board officer vacancies that otherwise occur before the expiration of a term will be filled by the Board for the balance of the term in a manner agreed upon by the Board.

### **Removal**

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The Board may remove an officer before the end of the officer's term at any time by majority vote. The vacant officer position should be filled at either the same meeting of the Board or the next meeting of the Board.



## Board Chairperson Position Description

### Responsibilities and Commitments

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The Chairperson holds a position of leadership for the Board and the ASRS and must be willing and able to devote the time necessary to fulfill these special responsibilities as the leader of the Board. This commitment includes the responsibility to:

1. Convene and conduct Board meetings in a collegial, fair, and efficient manner, following Board policies, procedures, and applicable state law.
2. Review and approve the agenda for regular and special Board meetings and include any issues requested by the Trustees or the ASRS Executive Director in accordance with Section G. *Board and Committee Meeting Protocol* of this Handbook.
3. Ensure proper and timely flow of adequate information to the Board.
4. Solicit input from Trustees regarding matters before the Board.
5. Ensure adequate time is provided for effective study and discussion of the business being considered by the Board.
6. Schedule Executive Session meetings as necessary and in compliance with state law.
7. Make Committee assignments, including Chairperson and Vice-chairperson positions to Committees, taking into account the desires and skills of the Trustees.
8. Execute such documents and other legal instruments on behalf of the ASRS as required by state law or authorized by the Board.
9. Discuss performance and behavior issues with Trustees who are having a negative impact on the ASRS.
10. Perform all other duties specifically identified by the Board.

### Duties of Vice-chairperson

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The Vice-Chairperson will act as interim Chairperson in the absence of the Chairperson.

The Chairperson or, in his/her absence, the Vice-chairperson, may request that another attending Trustee act as interim Chairperson for a meeting.

# H Board and Committee Meeting Protocol

## Rules of Order and Quorum

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1. The Board and its Committees shall operate under the Arizona Open Meeting Law and the general guidance of Robert's Rules of Order.
2. A quorum must be present for the Board or its Committees to conduct business. A majority of the Board or Committee will constitute a quorum.
3. Board or Committee members may not attend meetings through delegates or authorize voting by proxy.

## Scheduling of Regular, Special, and Emergency Meetings

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1. The Board will adopt an annual schedule identifying the time and location of regular meetings. The Board may schedule some meetings outside of the City of Phoenix metropolitan area. The Board or Board Chairperson may modify this schedule at his/her discretion.
2. The Board Chairperson or Vice-Chairperson may call for special or emergency meetings of the Board.
3. The Executive Director, at his discretion or as requested by the Board Chairperson, may post any Board Committee meeting as a dual Board and Committee meeting in order to permit interested Board members, not on the particular Committee, to attend and participate in discussions. The Committee meeting will be conducted under the Committee's charter, and the non-Committee Trustees will not make or vote on Committee motions.

## Meeting Notices

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1. At least a twenty-four-hour notice of all Board and Committee meetings, including Executive Sessions, will be provided to the public in accordance with Arizona Open Meeting Law. (A.R.S. § 38-431.02)
2. If permitted per Arizona Open Meeting Law, in the case of an emergency meeting requiring immediate action to avoid some serious consequence, shorter notice may be provided.
3. The Board Chairperson or Committee Chairperson shall normally provide the Trustees with seven calendar days' notice of all Board and Committee meetings.

## Trustee Attendance by Electronic Media

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A Trustee may participate in any meeting of the Board by telephone or video conference in a manner consistent with Arizona Open Meeting Law and applicable Arizona Attorney General Opinions. (A.R.S. § 38-431)

## Meeting Agendas

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1. The Board Chairperson, in consultation with the Executive Director, will prepare an agenda for each Board meeting containing the specific matters to be discussed, considered, or decided at the meeting.
2. The Board may discuss, consider, or make decisions only on matters on the agenda.
3. Items can be placed on a Board meeting agenda by:
  - a. The Board Chairperson
  - b. A Trustee
  - c. A Board Committee
  - d. The Executive Director

The Board Chairperson will add requested items to the Board meeting agenda within three months of the request. A longer period may be agreed upon by the Chairperson and the requestor.

4. The agenda for an Executive Session must contain a general description of the matter to be considered or decided at the meeting. (A.R.S. § 38-431.02)

## Meeting Materials

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1. The Executive Director will make every reasonable effort to distribute related Board meeting materials to the Trustees at least five business days before each meeting.
2. The Executive Director, Deputy Director & Chief Operations Officer, and Chief Investment Officer, respectively, shall prepare and distribute to Trustees an executive summary of the significant issues to be discussed.
3. The Executive Director shall provide to the Board Chairperson or Committee Chairperson, staff, or Committee recommendations, if applicable, and a proposed motion(s) for the Board or Committee to consider.

## Public Access and Testimony at Board Meetings

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1. All meetings of the Board or Committees are public, and all persons who wish to attend may do so in accordance with Arizona Open Meeting Law. (A.R.S. §§ 38-431 et. Seq.)
2. Every agenda for regular Board or Committee meetings will provide the public with an opportunity to be heard. The Board Chairperson or Committee Chairperson may prescribe the time and manner of such public comment.
3. With regard to matters raised by a member of the public, for which proper public notice has not been provided, no action may be taken at that meeting. The Board or Committee may request the Executive Director to investigate the issue further and report back to the Board or Committee at a later meeting.
4. The Executive Director, in consultation with the Chairperson, will convene meetings in facilities and locations that provide the public with reasonable access, which may include telephonic or virtual access.

5. An individual who intends to speak at a meeting may be required by the Board to sign a register to permit compliance with minute-taking required under state law.

## Executive Sessions

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1. The Board and its Committees may conduct business in Executive Session (A.R.S. § 38-431) as permitted by state law. Executive Sessions shall be presided over by the Chairperson of the Board or Committee.
2. Executive Sessions shall be closed to the public and subject to the following conditions:
  - a. The Executive Session must be held during a regular, special, or emergency meeting of the Board or Committee.
  - b. The Executive Session must address only those subject matters permitted under Arizona Open Meeting Law (A.R.S. § 38-431.03, § 38-797.03):
    - Discussion or consideration of employment, assignment, appointment, promotion, demotion, dismissal, salaries, disciplining, or resignation of a public officer, appointee, or employee of any public body.
    - Discussion or consideration of records exempt by law from public inspection, including the receipt and discussion of information or testimony that is specifically required to be maintained as confidential by state or federal law.
    - Discussion or consultation for legal advice with the attorney or attorneys of the public body.
    - Discussion or consultation with the attorneys of the public body in order to consider its position and instruct its attorneys regarding the public body's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation, or in settlement discussions conducted in order to avoid or resolve litigation.
    - Discussions or consultations with designated representatives of the public body in order to consider its position and instruct its representatives regarding negotiations with employee organizations regarding the salaries, salary schedules, or compensation paid in the form of fringe benefits of employees of the public body.
    - Discussion, consultation, or consideration for international and interstate negotiations or for negotiations by a city or town, or its designated representatives, with members of a tribal council, or its designated representatives, of an Indian reservation located within or adjacent to the city or town.
    - Discussions or consultations with designated representatives of the public body in order to consider its position and instruct its representatives regarding negotiations for the purchase, sale, or lease of real property.
    - Discussions or consultations with designated representatives of the public body in order to discuss security plans, procedures, assessments, measures, or systems relating to, or having an impact on, the security or safety of buildings, facilities, operations, critical infrastructure information, and information technology maintained by the public body. Records, documentation, notes, or other materials made by, or provided to, the representatives pursuant to this paragraph are confidential and exempt from public disclosure under this chapter and title 39, chapter 1.
    - Per A.R.S. § 38-797.03, discussions resulting from a member appeal of an Administrative Law Judge determination regarding their long-term disability rights, benefits, or obligations if such person requests a review of the determination in an Executive Session.

- c. The Executive Session must satisfy all of the state's notice requirements under the Arizona Open Meeting Law.
3. The Board will take no action while in Executive Session. Any such action must be taken during that portion of a meeting that is open to the public.
4. Trustees are prohibited under state law from publicly disclosing the discussions held in Executive Session. The Chairperson shall remind the Board or Committee of this prohibition at the beginning of each Executive Session.

## Meeting Minutes and Board Records

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1. The Executive Director will ensure that minutes of all meetings of the Board and Committees are taken, and public meeting minutes will be made available to the public as required by state law.
2. The Executive Director will direct staff to prepare a written copy of the Board minutes taken at prior meetings of the Board and present it to the Board for approval at a subsequent meeting.
3. The Executive Director will maintain records of the Board's activities and actions in accordance with state law and such other documents necessary to establish a due diligence record of the Board's activities.

## Board Committees and Charters

### General

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The Board may establish standing or special Committees subject to the following conditions and limitations:

1. Board Committees are responsible for overseeing various aspects of the ASRS administration and only have the authority to make recommendations to the Board.
2. Board Committees may not act or speak for the Board, with the exception of the Board Appeals Committee.

### Standing Committees

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1. Standing Committees are permanent Committees established by the Board.
2. The standing Committees of the Board are as follows:
  - a. Operations, Audit, and Legislative Committee (OALC)
  - b. Investment Committee (IC)
  - c. Board Appeals Committee (AC)

### Special Committees

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1. Special Committees may be established from time to time by the Board Chairperson to address limited purposes and for limited times.
2. Special Committees cease to exist automatically upon the completion of their stated purpose as determined by the Committee Chairperson.

### Committee Members

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1. The Board Chairperson shall appoint members of each Committee for one-year terms or until the Chairperson modifies the appointments.
2. The Board Chairperson shall appoint a Chairperson and Vice-chairperson for each Committee. These Committee officer position appointments will be for one-year terms or until the Chairperson modifies the appointments.
3. The Board Chairperson may remove or replace members of a Committee and Committee officers before the end of the terms if the Chairperson determines such action is in the best interest of the ASRS.
4. The Board Chairperson may make the appointments in writing or verbally, but will also proactively disseminate the appointments verbally at a future Board meeting.

### Committee Operating Rules

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1. The Committee Chairperson shall call Committee meetings.

2. Committee meetings shall be subject to all of the public notification and meeting requirements established for the full Board in Section G of this Handbook.
3. Committee meetings are open to all Trustees, but only Committee members may participate in the dialogue or vote. However, if the meeting is posted as a dual meeting of the Committee and Board, all participating Trustees may participate in the dialogue, but only Committee members may vote.
4. The Committees shall report to the Board, summarizing activities and recommendations on matters that have been referred to them.
5. The Executive Director shall provide staffing, consulting, or other resources and support to Board Committees as may be necessary and within budget to meet the responsibilities assigned by the Board.

## Committee Size

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Committees will typically have three or four members; however, at the discretion of the Board Chairperson, special circumstances may arise where the Board Chairperson determines that two members or more than four members is prudent. More than four members may be prudent when more than four Trustees have a strong interest, specific skills, or knowledge relevant to a Committee.

When the Board Chairperson appoints more than four Trustees to a Committee, the following will apply in order to ensure compliance with Arizona Open Meeting Law:

1. A maximum of four Trustees will be allowed to attend the Committee meeting to ensure that a quorum of the Board is not present.
2. The Committee members, other than the Chairperson and Vice-chairperson, will rotate off attending the Committee meetings in order to ensure that a quorum of the Board is not present. The Committee Chairperson will determine the rotation of the remaining Trustees to ensure compliance with Arizona Open Meeting Law.
3. The rotating (non-attending) Trustees will receive the same Committee materials at the same time as the attending Trustees.
4. The rotating (non-attending) Trustees may watch or listen to the Committee meetings but may not attend, speak, or vote at the Committee meeting.
5. If a non-rotating Trustee is not able to attend, then a rotating Trustee may attend in place of the non-rotating Trustee, as determined by the IC Chairperson or delegated to the Executive Director.

## Operations, Audit, and Legislative Committee Charter

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### General

The Operations, Audit, and Legislative Committee is a standing Committee of the Board responsible for overseeing the general operations and administration of the ASRS, including agency strategic planning, legislative matters, and administrative rules, recommending Board action when required.

### Responsibilities

#### 1. Oversight

The Operations, Audit, and Legislative Committee will meet regularly to oversee ASRS performance in meeting strategic goals and objectives, managing administrative risks, and reviewing legislative proposals and rules. Areas of responsibility are as follows:

- a. Member services, including all outreach, education, appointment, and walk-in counseling, member correspondence, and call center services and programs.
  - b. Employer services, including all outreach, education, and call center services and programs.
  - c. Technology services, including development, maintenance, performance, and compliance with state or industry standards.
  - d. General accounting and financial reporting, including investment accounting, employee payroll, accounts receivable and payable, pension payroll, and contribution reporting.
  - e. Collection and maintenance of member/employer accounts, including contributions, salaries, service, and demographic data.
  - f. Benefits administration, including calculations and disbursements for all benefit types.
  - g. Strategic, agency-wide staffing items.
  - h. Agency privacy and information security.
  - i. Enterprise risk management.
  - j. Legislative affairs and rules administration.
  - k. Administration of the ASRS retiree medical and dental insurance programs.
  - l. Administration of the ASRS long-term disability program.
  - m. Review appropriated budget request proposals; ongoing administration of the ASRS appropriated budget and continuously appropriated budget.
  - n. General contract management and procurement.
  - o. Strategic planning and strategic initiatives affecting operations, legislation, or administration.
2. The Operations, Audit, and Legislative Committee will operate as the Audit Committee for the Agency.

Areas of responsibility are as follows:

- a. Review, accept, and oversee changes to the biennial Audit Plan and determine if the changes require Board review.
- b. Review and follow up on audits.

3. Actions Requiring Independent Board Review

The Operations, Audit, and Legislative Committee will use its discretion in reporting or making recommendations to the Board except in cases when Board action is required by governance policy. Specifically, the Operations, Audit, and Legislative Committee will forward its recommendations to the Board on the following matters:

- a. Selection or removal of the ASRS external or internal auditor.
- b. Review of the agency's risk management activities (as recommended by the Operations, Audit, and Legislative Committee).
- c. Biennial approval of the internal audit plan.
- d. Appropriated budget request proposals and spending plans.
- e. Legislative recommendations.
- f. Rule administration.

## Internal Audit Charter

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### Purpose

The purpose of the Internal Audit Division is to strengthen the ASRS's ability to create, protect, and sustain value by providing the Board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The Internal Audit Division enhances the ASRS's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

ASRS's Internal Audit Division is most effective when:

- Internal auditing is performed by competent professionals in conformance with The Institute of Internal Auditors' (IIA) Global Internal Audit Standards™, which are set in the public interest.
- The Internal Audit Division is independently positioned with direct accountability to the Board.
- Internal auditors are free from undue influence and committed to making objective assessments.

### Commitment to Adhering to the Global Internal Audit Standards

The Internal Audit Division will adhere to the mandatory elements of The IIA's International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements (the "Standards"). The Chief Internal Auditor will report annually to the Board and senior management regarding the Internal Audit Division's conformance with the Standards, which will be assessed through a quality assurance and improvement program. Additionally, the Internal Audit Division will comply with the following:

- Generally accepted government auditing standards.
- All other applicable professional standards.

### Authority

The Internal Audit Division was established by the Board of the ASRS. The Internal Audit Division's authority is created by its direct reporting relationship to the Board. Such authority allows for unrestricted access to the Board. Further, the Board authorizes the Internal Audit Division to:

- Have full and unrestricted access to all programs, functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the division's objectives.
- Obtain assistance from the necessary personnel of the ASRS and other specialized services from within or outside the ASRS to complete internal audit services.

#### Independence, Organizational Position, and Reporting Relationships

The Chief Internal Auditor will be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without the actions of management preventing scope restrictions, thereby establishing the independence of the Internal Audit Division. The Chief Internal Auditor will report functionally to the Board and administratively (for example, day-to-day operations) to the Executive Director. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Board when necessary, and supports the internal auditors' ability to maintain objectivity.

The chief internal auditor will confirm the organizational independence of the Internal Audit Division to the Board at least annually. The Chief Internal Auditor will disclose to the Board any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the Internal Audit Division's effectiveness and ability to fulfill its mandate.

#### Changes to the Authority and Charter

Circumstances may justify a follow-up discussion between the chief internal auditor, Board, and senior management on the internal audit Authority or other aspects of the internal audit charter. Such circumstances may include, but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant reorganization within the organization.
- Significant changes in the Chief Internal Auditor, Board, and/or senior management.
- Significant changes to the ASRS's strategies, objectives, risk profile, or the environment in which the agency operates.
- New laws, statutes, or regulations that may affect internal audit services' nature and/or scope.

#### Board/Operation, Audit, and Legislative Committee Oversight

To establish, maintain, and ensure that the ASRS's Internal Audit Division has sufficient authority to fulfill its duties, the Board/Operations, Audit, and Legislative Committee will:

- Discuss the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) with the chief internal auditor and senior management.

- Ensure the Chief Internal Auditor has unrestricted access to and communicates and interacts directly with the Board, including in private meetings without senior management present.
- Discuss other topics that should be included in the internal audit charter with the Chief Internal Auditor and senior management.
- Participate in discussions with the Chief Internal Auditor and senior management about the "essential conditions" described in Standards, which establish the foundation for an effective internal audit function.
- Approve the Internal Audit Division's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter periodically with the Chief Internal Auditor to consider changes affecting the division, such as appointing a new Chief Internal Auditor or changes in the type, severity, and interdependencies of risks to the division.
- Review and provide input to the Executive Director on the Chief Internal Auditor's performance and, subject to required Arizona Department of Administration guidelines, determine the Chief Internal Auditor's remuneration.
- Receive communications from the Chief Internal Auditor about the Internal Audit Division, including its performance relative to its plan.
- Inquire of senior management and the Chief Internal Auditor to determine whether scope or resource limitations are inappropriate.

## Chief Internal Auditor Roles and Responsibilities

### Ethics and Professionalism

The Chief Internal Auditor will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior inconsistent with the agency's ethical expectations, as described in applicable policies and procedures.

### Objectivity

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for the ASRS or its affiliates.
- Initiating or approving transactions external to the Internal Audit Division.
- Directing the activities of any ASRS employee that is not employed by the Internal Audit Division, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the Chief Internal Auditor, the Board, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

#### Managing the Internal Audit Division

The Chief Internal Auditor has the responsibility to:

- Develop a risk-based internal audit plan that considers the input of the Board and senior management, at least biennially. Discuss the plan with the Board and senior management and submit the plan to the Board for review and approval.
- Review and adjust the internal audit plan, as necessary, in response to changes in the ASRS's business, risks, operations, programs, systems, and controls.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Standards and laws and/or regulations.
- Follow up on engagement findings, confirm the implementation of recommendations or action plans, and communicate the results of internal audit services to the Board and senior management for each engagement as appropriate.
- Ensure the Internal Audit Division collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact the ASRS and communicate as appropriate to the Board and senior management.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the Internal Audit Division.

- Ensure adherence to the ASRS's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Standards. Any such conflicts will be resolved or documented and communicated to the Board and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the Chief Internal Auditor cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and, if necessary, escalated to the Board.

### Communication with the Board and Senior Management

The Chief Internal Auditor will report periodically to the Board and senior management regarding:

- Significant revisions to the internal audit plan and budget.
- Results from the quality assurance and improvement program, which include the Internal Audit Division's conformance with Standards and action plans to address the Internal Audit Division's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Board that could interfere with achieving the ASRS's strategic objectives.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the Internal Audit Division determines may be unacceptable or acceptance of risk beyond the ASRS's risk appetite.

### Quality Assurance and Improvement Program

The Chief Internal Auditor will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the Internal Audit Division's conformance with the Standards, as well as performance measurement to assess the Internal Audit Division's progress toward the achievement of its objectives and promotion of continuous improvement. The program will also assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the Internal Audit Division's deficiencies and opportunities for improvement.

Annually, the Chief Internal Auditor will communicate with the Board and senior management about the Internal Audit Division's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team outside the ASRS; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

### Scope and Types of Internal Audit Services

The scope of internal audit services covers the entire breadth of the organization, including all of ASRS's activities, assets, and personnel. The scope of internal audit activities also encompasses, but is not limited to, objective examinations of evidence to provide independent assurance and advisory services to the Board and management on the adequacy and effectiveness of governance, risk management, and control processes for the ASRS.

The nature and scope of advisory services may be agreed upon with the party requesting them, provided the Internal Audit Division does not assume management responsibility. During advisory engagements, opportunities for improving the efficiency of governance, risk management, and control processes may be identified. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of the ASRS's strategic objectives are appropriately identified and managed.
- The actions of the ASRS's officers, directors, management, employees, and contractors or other relevant parties comply with the ASRS's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively, efficiently, ethically, and equitably.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the ASRS.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

## Investment Committee Charter

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### General

The Investment Committee is a standing committee of the Board responsible for assisting the Board in overseeing the ASRS investment program.

### Duties and Responsibilities

1. Recommend to the Board the ASRS investment goals and objectives.
2. Recommend to the Board the ASRS strategic asset allocation policy and benchmarks, which are expected to achieve the investment goals and objectives.
3. Recommend to the Board ASRS Strategic Policies and review the ASRS Investment Policy Statement (IPS) annually.
4. Review and recommend to the Board changes in investment-related sections of the ASRS Board Governance Policy Handbook.
5. By proxy, the General Investment Consultant may attend and will review the Asset Class Committee(s)' activities and asset class presentations.
6. By proxy, the General Investment Consultant will receive and review Asset Class Committee(s) minutes.
7. Review recommendations regarding changes to asset class performance benchmarks. Subsequent approval by the Board is required.
8. Review the Tactical Fund Positioning/Portfolio Rebalancing actions.
9. Recommend to the Board the selection and termination of the ASRS general investment consultant(s) and oversee their performance.
10. Receive and discuss ASRS investment risk and compliance reports.
11. Review annually the administration of the third-party administrator for the defined contribution plans, and annually report any issues to the Board.
12. Review and comment, if necessary, on compliance reporting related to investment management.
13. Review the asset allocation at least every four years as part of the asset allocation study and recommend changes to the Board.

## Board Appeals Committee Charter

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### General

Arizona Revised Statutes § 38-714(E)(1) permits the ASRS Board to delegate to a Committee to act on its behalf for the purposes of determining the rights, benefits, or obligations of any party in an appealable agency action aggrieved by a final decision of the ASRS. The Board Appeals Committee is a standing committee of the Board responsible for hearing and making determinations on appealable agency actions.

### Responsibilities

The Board Appeals Committee has the following responsibilities:

1. To ensure appeals are heard by the Committee within the proper timeframe of the notice of appeal.
2. To hear and make rulings on appealable agency actions from ASRS members who believe agency decisions have caused them legal harm or loss. (A member may be an employee, retiree, inactive member, employer, or others who have a vested interest in decisions in which they are affected.)
3. To accept, reject, modify, or take no action on the recommendation of the Administrative Law Judge.
4. To ensure staff effectuates the decision of the Committee.

## J Director's Asset Class Committee(s)

### Purpose

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Director's Asset Class Committees are designed to:

1. Provide authority and responsibility to the Executive Director, Chief Investment Officer, and Investment Management Division (IMD) staff regarding the implementation of the ASRS Strategic Asset Allocation Policy (SAAP), associated selection of investment managers, and approval of investments.
2. Provide authority for the hiring of staff-extension consultants.
3. Improve the efficiency and effectiveness of the ASRS investment decision-making process.
4. Provide consistency and uniformity in investment decision-making frameworks.

Director's Asset Class Committee(s) are not deemed to constitute a sub-committee of the Investment Committee or full Board.

### Duties and Responsibilities

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The Executive Director is delegated responsibility for the appointment and management of the Asset Class Committee(s).

The Asset Class Committee(s) will meet periodically to review investment recommendations from the Investment Management Division portfolio managers. All such reviews, including the hiring and termination of investment managers and the acquisition of investments, will be conducted in accordance with the requirements of SP006.

Director's Asset Class Committee(s) may hire a Real Estate Consultant, a Private Equity Consultant, and other staff-extension consultants to aid the committees in the identification, diligence, and monitoring of investments.

### Organizational Structure/Composition/Voting Protocol

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Each committee will include as its voting members the Executive Director, the Chief Investment Officer, the Deputy Chief Investment Officers, the Investment Operations Manager, and the Senior Portfolio Managers. All the Director's Asset Class Committees' decisions require the concurrence of both the Executive Director and the Chief Investment Officer. Other members of the Investment Management Division and the staff-extension consultants may be requested to attend the meetings as non-voting members.

To ensure the timely flow of information, the Chief Investment Officer or the General Investment Consultant will communicate to the Investment Committee information regarding the activities of the Asset Class Committee(s).

### Staff-extension Investment Consultants

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Staff-extension investment consultants are considered an extension of the Chief Investment Officer and Investment Management Division staff. Responsibility to assign investment tasks to the staff-extension investment consultants is delegated to the Chief Investment Officer.

Staff-extension investment consultants will be utilized by the Chief Investment Officer and Investment Management Division staff to assist in the investment manager searches, diligence, and other activities pertaining to the selection and monitoring of investment managers.

Selection of a particular staff-extension investment consultant will be based on those available from the approved pool of consultants and their specific strengths and ability to add value to the ASRS.

# K Trustee Orientation and Education Program

## General

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The Board finds it is critical for the sound governance of the ASRS for Trustees to be fully informed with regard to the nature, purpose, structure, operational systems, and processes of the ASRS. The Board further finds that it is important that Trustees are provided with education and training in areas that will facilitate the performance of their governance and oversight responsibilities as trustees and fiduciaries for the ASRS.

## New Trustee Orientation Program

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1. The Executive Director will develop and present with the Board Chairperson, if available, to new Trustees an in-depth New Trustee Orientation session designed to inform new Trustees of the key functions of the ASRS and their responsibilities.
2. Newly appointed Trustees are expected, as part of their fiduciary responsibilities for the ASRS, to participate in the New Trustee Orientation Session within approximately two months of their appointment or confirmation.
3. The Board believes the following orientation and education topics will increase Trustee understanding:
  - a. History and background of the ASRS.
  - b. Introduction to the executive management team and other staff, as determined by the Executive Director.
  - c. The governance role of the Board and the management role of the executive staff of the ASRS.
  - d. The state laws establishing the ASRS and the application of other state and federal laws.
  - e. A briefing on the fiduciary duties and liabilities of Trustees and other fiduciaries of the ASRS.
  - f. A briefing on conflicts of interest, ethics laws and policies, and the state-mandated courses on conflicts of interest laws.
  - g. A review of the Board Governance Policy Handbook and other information and documentation deemed relevant by the Executive Director or Board Chairperson.
  - h. A review of general retirement pension, health benefits design, Long-Term Disability, and other specific benefits provided by the ASRS.
  - i. A review of general actuarial funding terminology and principles, and the most recent actuarial reports.
  - j. A review of general institutional investment principles and the various investment policies in place.
  - k. A review of the reporting and disclosure requirements of the ASRS to state entities.

- l. A review of the legal (state and federal) and political environment in which the ASRS operates.
- m. A review of the current ASRS strategic plan and new issues, trends, and developments affecting the ASRS.
- n. The structure and model for the management and operation of the ASRS.
- o. The legal and legislative environment.
- p. A description and tour of ASRS offices, as may be practicable.

## Trustee Education Policy

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1. Each Trustee is responsible for evaluating their educational needs and obtaining knowledge of specific subject matters. The Executive Director will assist them in obtaining information on conferences or seminars to meet their education needs.
2. Trustees are encouraged to attend ongoing educational sessions to stay current on fiduciary responsibilities and are encouraged to attend conferences and seminars relating to:
  - a. Investment issues and trends;
  - b. Pension, health, long-term disability, and benefits design;
  - c. Fiduciary management of employee benefit trusts;
  - d. Other subjects related to the oversight of the ASRS;
  - e. Training required by the State of Arizona.
3. The Executive Director will periodically provide the Board with information on available conferences and seminars.
4. The Executive Director shall arrange for an annual fiduciary education session for the Board.

## Reimbursement of Education Expenses

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Payment and/or Reimbursement of travel-related expenses for Trustee orientation and education will be in accordance with the State of Arizona Accounting Manual.

# Strategic Planning Policy

## General

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Strategic planning is essential to ensuring the effective management of the ASRS. Since 1998, the ASRS has built its operation around a strategic model based on three organizing principles:

1. Establishing clarity of purpose with its agency's Vision, Mission, Values, Goals, and Objectives.
2. Performance measurement.
3. Continuous improvement.

## Strategic Planning Policy

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The Board and Executive 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 addressed.
2. Strategic planning discussions remain focused on strategic issues.
3. Strategies are developed to address the short, medium, and long-term priorities.
4. The Board is updated on 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 sound governance practices are in place.

## Strategic Plan Reporting

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1. Once the Board has identified its goals and objectives, the Executive Director or his proxy will report the status to the Board at least annually. Any recommended modifications to goals or objectives will be made to the Board for authorization.
2. Trustees or the Executive Director may request that priorities be added or deleted as needed.

# M Board Code of Ethics

## General

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The Board has established the following Code of Ethics for the individual Trustees to comply with applicable state law and their duties of loyalty as fiduciaries for the ASRS.

The Board recognizes that compliance with these requirements is often complex and confusing. Trustees are strongly encouraged to seek the advice of the ASRS legal counsel whenever there is uncertainty regarding the required level of compliance from the Trustee.

## State Law

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Trustees will adhere, without limitation, to the following state laws as such apply to the conduct of their affairs and to carrying out their duties as trustees and fiduciaries for the ASRS:

### 1. Conflict of Interest Laws (A.R.S. § 38-503)

Under the conflict of interest laws, Trustees who have a conflict of interest must disclose the interest and refrain from participating in the matter.

A.R.S. § 38-503, provides in pertinent part:

- a. Any public officer or employee of a public agency who has, or whose relative has, a substantial interest in any contract, sale, purchase or service to such public agency shall make known that interest in the official records of such public agency and shall refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale or purchase.
- b. Any public officer or employee who has, or whose relative has, a substantial interest in any decision of a public agency shall make known such interest in the official records of such public agency and shall refrain from participating in any manner as an officer or employee in such decision.

The conflict of interest laws require a Trustee to examine proprietary and pecuniary interests of the Trustee and certain relatives of the Trustee. “Relative” is defined expansively and includes “the spouse, child, child’s child, parent, grandparent, brother or sister of the whole or half blood and their spouses and the parent, brother, sister or child of a spouse.” (A.R.S. § 38-502)

A Trustee must recognize that even though the Trustee may not have a substantial interest in a decision or a contract, if one of the Trustee’s relatives described in A.R.S. § 38-502 has a substantial interest in a decision or a contract, the Trustee must disclose the interest and refrain from participating in the matter. Trustees have an affirmative obligation to become aware of the interests of relatives in matters that may involve the Trustee.

When a Trustee assesses whether the Trustee has a conflict of interest, the Trustee first must evaluate whether the Trustee or any of the Trustee’s relatives has a “substantial interest” in the matter under consideration. An interest is “substantial” if it is not defined by statute as “remote” and if it is “any pecuniary or proprietary interest, either direct or indirect,” of the Trustee or the Trustee’s relatives. (A.R.S. § 38-502) The term “interest” is a pecuniary or proprietary interest, by which a person will gain or lose something, as contrasted with a general sympathy, feeling, or bias.

The Legislature has determined that certain interests do not influence a person's decisions or actions impermissibly. The Legislature has defined these interests as "remote interests" and has listed them in A.R.S. § 38-502. Unless the pecuniary or proprietary interest at issue falls within one of the situations statutorily specified by the Legislature to be remote, the interest is substantial and creates a conflict of interest.

To determine whether a "substantial interest" exists, the Trustee should ask these questions:

- a. Will the decision affect, either positively or negatively, an interest of the Trustee or the Trustee's relatives?
- b. Is the interest a pecuniary or proprietary interest?
- c. Is the interest other than one statutorily designated as a remote interest?

If the answer to any of these questions is "yes," then a substantial interest exists which requires disclosure and nonparticipation by the Trustee.

Any disclosure of a conflict resulting in a Trustee recusing him/herself from a Board or Committee decision will be recorded in the minutes of that meeting.

## **2. Gifts and Gratuities**

A Trustee will not ask for or accept anything (emolument, gratuity, or reward, or any promise thereof) that is not authorized by law for performing the Trustee's duties.

A Trustee will not use or attempt to use the Trustee's position to secure valuable things or benefits for the Trustee, unless the benefits are part of the Trustee's normal compensation.

A Trustee may not receive or agree to receive directly or indirectly compensation other than as provided by law for any service rendered or to be rendered by the Trustee personally in any matter pending before the ASRS.

Trustees are responsible for maintaining the integrity of both the ASRS and the State of Arizona. As a result, no Trustee of the ASRS is permitted to:

- a. Use his or her official position or attendance at a conference, seminar, or training for personal gain.
- b. Solicit gifts.
- c. Accept gratuities.
- d. Accept gifts or favors that may appear to be designed to influence the Trustee's official conduct.
- e. Permit him/herself to be placed under any kind of personal obligation that could lead a person to expect official favors.

The prohibitions in this policy are in effect any time Trustees can be viewed as being on official business for the ASRS or State of Arizona.

## **3. Contracts for supplies and services (A.R.S. § 38-503)**

A Trustee may supply equipment, material, supplies, or services to the ASRS only pursuant to an award or contract let after public competitive bidding. (A.R.S. § 38-503) The requirement of public competitive bidding is in addition to the disclosure and non-participation requirements of the Conflict of Interest Laws.

#### 4. Disclosure of interests (A.R.S. § 38-509)

- a. When a Trustee determines that the Trustee has a substantial interest in a matter, the Trustee must disclose the interest and withdraw from all participation in the decision or contract.
- b. The Trustees must “maintain for public inspection in a special file all documents necessary to memorialize all disclosures of substantial interest made known pursuant to this article.” (A.R.S. §§ 38-501 to -511)
- c. A Trustee who has a conflict of interest in any ASRS decision or in the award of a contract must provide written disclosure of that interest in the ASRS’ special conflict of interest file. (A.R.S. § 38-503). A Trustee may either file a signed written disclosure statement fully disclosing the interest or file a copy of the official minutes of the ASRS, which fully discloses the interest. (A.R.S. §§ 38-502, -509)
- d. Having disclosed the conflict of interest and withdrawn from participation in the matter, the Trustee must not communicate about the matter with anyone involved in the decision-making process. (A.R.S. § 38-503)

### Code of Ethics

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1. New Trustees are required to attend any state-provided Public Service Orientation Ethics Course.
2. Trustees shall maintain the highest ethical conduct at all times consistent with their fiduciary duty to act only for the exclusive benefit of the ASRS members and beneficiaries under state law.
3. The Trustees shall conduct themselves with integrity and exercise care, prudence, and diligence in handling the affairs of the ASRS.
4. The Trustees must disclose conflicts of interest and the appearance of conflicts of interest as defined under state law with respect to their fiduciary responsibility. Where a conflict of interest does exist, the Trustee must refrain from voting or otherwise participating in any manner with regard to the subject matter of the conflict.
5. The Trustees shall not:
  - a. Deal with assets of the ASRS for their own interest.
  - b. Accept gifts or gratuities prohibited by state law.
  - c. Act in any transaction involving the ASRS on behalf of any party whose interests are adverse to the interests of the ASRS or its members and beneficiaries.
  - d. Receive any monetary or other valuable consideration for their personal account from any party conducting business with the ASRS.

### Loyalty Oath

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Trustees are required to sign a State of Arizona Loyalty Oath upon their appointment to the ASRS Board. (See Appendix E.)

## Political Activities

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Though staff are free to make contributions to a political campaign of a Trustee or to any charitable organization associated with or supported by a Trustee, Trustees shall refrain from soliciting campaign or charitable contributions from staff, including but not limited to the purchase of, selling, distributing, or receiving payment for tickets for any political fundraiser, political meeting, or other political event.

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## Board Performance Evaluations

### General

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The Board will conduct an annual performance evaluation of its effectiveness and that of its committees as the governing fiduciary body for the ASRS. This will serve as a means of helping ensure that the Board continues to effectively meet its responsibilities and duties.

#### 1. Board Evaluation Policy

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1. The Board Chairperson, working with the Executive Director, will coordinate and conduct the Board performance evaluation process.
2. The evaluation will focus on the operations and decision-making processes of the Board as well as the outcome of ASRS actions.
3. The Board Chairperson will provide to each Trustee the performance evaluation forms approved by the Board. The Trustees are to conduct their evaluation in the first quarter of each calendar year, preceding the Executive Director's evaluation.
4. The Board will seek input from the Executive Director with respect to the staffs' perception regarding the Board's and Board Committees' performance.
5. The Board may seek input from the Assistant Attorney General regarding an annual evaluation of the Board's compliance with statutory and governance responsibilities.

### Board Performance Evaluation Process and Forms

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A way for the Board to maintain excellence in governance is to develop a policy of reviewing its own performance on an annual basis. A two-step evaluation process has been adopted: (A) Trustee Self-Evaluation and (B) Overall Board Evaluation.

#### Part A: Trustee Self-Evaluation

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The purpose of having each individual Trustee evaluate him/herself is to encourage introspection and heighten awareness of the important areas of fiduciary responsibility. Trusteeship carries with it both a personal and collective duty to the members and beneficiaries. The "Trustee Self-evaluation" is an abbreviated outline and periodic reminder of what constitutes "good trusteeship."

It is recommended that this self-evaluation be performed annually by each individual Trustee before the overall board evaluation is performed. Each year, the Board can choose how to handle the results of the evaluations.

The Trustee Self-evaluation is for the personal use of each Trustee to facilitate the full and frank examination of each Trustee's own performance. The form need not be completed or submitted, but rather each Trustee is asked to review the questions as they contemplate their self-evaluation. The objective is for this annual exercise to be helpful to the ASRS and not to embarrass any individual.

## Part B: Overall Board Evaluation

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By discussing and developing an overall board evaluation, the Board demonstrates its intention to establish a process for Trustees to evaluate Board performance with candor, objectivity, and a broad perspective. Such an evaluation process presents special challenges, and it may be difficult for Trustees to speak frankly about the performance of the Board as a whole, especially in situations where there is room for improvement. Notwithstanding this difficulty, the benefits of an annual evaluation will enhance the Board's effectiveness in carrying out the mission of the ASRS.

The "Overall Board Evaluation" form contains elements of "best practices" of public retirement systems and is for the personal use of each Trustee to facilitate full and frank discussions among the Trustees. The completed form is to be submitted to the Board Chairperson, who will compile the results for further discussion.



## Executive Director Evaluation Process

### General

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The Board has delegated the responsibility of administering the ASRS to the Executive Director and, therefore, understands that an annual evaluation of the Executive Director's performance is important. The Board may conduct more frequent performance evaluations of the Executive Director as it deems necessary.

### Objectives

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The evaluation of the performance of the Executive Director is intended to:

1. Assist the Board in establishing and communicating clear, meaningful goals and performance targets for the Executive Director.
2. Enable the Board to hold the Executive Director accountable for performance.
3. Allow the Executive Director to receive objective and timely feedback to help the Executive Director perform at expected levels.

### Evaluation Procedure and Criteria

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1. The evaluation of the Executive Director's performance will take place by June 30<sup>th</sup> of each calendar year and occur after the Board's performance evaluation is completed, and will cover the preceding calendar year.
2. The subject matter addressed in the performance evaluation will include:
  - a. Leadership
  - b. Management/Administration/Budgeting
  - c. Communication
  - d. Policy matters
  - e. Staff development
  - f. Progress toward achieving performance business objectives previously established by the Board for the year
3. By the second quarter of each calendar year, the Board, working with the Executive Director, may adopt additional performance goals and evaluation criteria to be used in evaluating the performance of the Executive Director for the upcoming calendar year.
4. Other matters identified by the Board
5. The Executive Director will prepare a written summary report of accomplishments and performance for the Board to use in their discussions of his/her performance.

The ASRS Human Resource Department will conduct a reverse evaluation of the Executive Director, the results of which will be presented to the Board. Participation in the reverse evaluation is voluntary and anonymous and will include the following staff:

- a. Deputy Director & Chief Operations Officer – Operations
  - b. Chief Investment Officer
  - c. Chief of Administrative Services
  - d. Manager of Human Resources
  - e. Manager of Management Support Services
  - f. Chief Internal Auditor
6. The Board will reach a consensus and provide verbal or written feedback to the Executive Director on his/her performance and identify areas for improvement, if necessary.
  7. The Board or Board Chairperson will meet with the Executive Director to present and discuss the Board's evaluation of the Executive Director's performance.

## Appendix A – Trustee Self-Evaluation

It is not necessary to turn this document in; it is to assist board Trustees in contemplating their evaluation.

Review the following statements in relation to your involvement as a Trustee of the ASRS. Rank answers using the following scale:

5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 – never

	5	4	3	2	1
1. I attend the Board and Committee meetings I am expected to attend.					
2. I contribute to the discussion in a meaningful and helpful way.					
3. I fully understand my fiduciary duties and act for the benefit of all members, not merely for a particular constituency.					
4. I make an effort to be educated on the aspects of the ASRS that I do not understand.					
5. I comply with state laws and Board policies regarding conflicts of interest.					
6. I read the materials distributed before the Board meeting so I can constructively participate and make timely decisions.					
7. I work with the other Trustees and the staff in a collegial way.					
8. I understand that work requests to staff and outside consultants need to be agreed to by the Board or the Executive Director, and I act accordingly.					
9. I work with the Executive Director in a way that creates an atmosphere of trust and cooperation.					
10. I understand the Executive Director works for the entire Board and not for individual Trustees, and I act accordingly.					
11. I communicate Board governance problems to the Board Chairperson.					
12. As a Trustee of the Board, I have re-read Section L “Board Code of Ethics” and Appendix F “Loyalty Oath” of the Board Governance Policy Handbook, and I reaffirm my understanding of these items.					



## Appendix B – Overall Board Evaluation

Name (optional) \_\_\_\_\_ Date: \_\_\_\_\_

This document should be completed and submitted to the Board Chairperson.  
Rate the following statements in relation to the overall operation of the Board. Rank answers using the following scale:

5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 – never

	5	4	3	2	1
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 Executive 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 evaluate 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.					

	5	4	3	2	1
18. The Board periodically monitors service to members.					
	5	4	3	2	1
19. The Board comprehends and respects the difference between its policy-making role and the Executive Director's management role.					
20. Board goals, expectations, and concerns are promptly, candidly, and effectively communicated to the Executive Director.					
21. The Board anticipates issues and does not often find itself reacting to "crisis" situations.					

Identify the three greatest achievements of the Agency with Board support during the past year.:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

What critical issues need to be addressed by the Board in the future?

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What suggestions do you have for improvement of the conduct of Board and Committee meetings and for Board operation and communication?

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## Appendix C – ASRS Executive Director Evaluation

ASRS – Executive Director Performance Evaluation

Name: Paul Matson,

Title: Executive Director

This form is to help you evaluate the performance of the Executive Director of the ASRS. In each of the following rating categories, bullet points have been provided to assist you with your evaluation. Please rate the Executive Director using the following scale and place the number on the "Rating" line in each category.

### Leadership (Rating out of 5)

- |          |                   |   |
|----------|-------------------|---|
| <b>5</b> | Outstanding       | <ul style="list-style-type: none"><li>▪ Establishes and maintains effective and credible relationships affecting the ASRS.</li><li>▪ Projects a positive image as the Executive Director of the ASRS.</li></ul>                   |
| <b>4</b> | Above Average     | <ul style="list-style-type: none"><li>▪ Recognizes the needs and desires of others; treats others with regard, courtesy, and respect.</li><li>▪ Maintains a "big picture" outlook and is aware of industry issues.</li></ul>      |
| <b>3</b> | Satisfactory      | <ul style="list-style-type: none"><li>▪ Forecasts trends, responds to change, and invites innovation.</li></ul>   |
| <b>2</b> | Needs Improvement | <ul style="list-style-type: none"><li>▪ Solicits and acts upon ideas of others when needed.</li><li>▪ Stresses the importance of high-quality customer service.</li><li>▪ Maintains a well-functioning management team.</li></ul> |
| <b>1</b> | Unacceptable      | <ul style="list-style-type: none"><li>▪ Participates in relevant and worthwhile professional organizations.</li></ul>   |

General Comments or Examples: (You need not address each point separately.)

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**Management/Administration/Budgeting (Rating out of 5)**

- |                            |  |
|----------------------------|--|
| <b>5</b> Outstanding       | <ul style="list-style-type: none"><li>▪ Manages all ASRS business functions and activities in accordance with all relevant laws, Board policies, and goals</li></ul> |
| <b>4</b> Above Average     | <ul style="list-style-type: none"><li>▪ Develops reasonable budgets, communicates them to the Board, and operates within budgetary limits</li></ul>                  |
| <b>3</b> Satisfactory      | <ul style="list-style-type: none"><li>▪ Ensures the efficient and effective functioning of the ASRS through delegation</li></ul>                                     |
| <b>2</b> Needs Improvement | <ul style="list-style-type: none"><li>▪ Follows up on Board directives to ensure proper implementation</li></ul>   |
| <b>1</b> Unacceptable      |  |

General Comments or Examples: (You need not address each point separately.)

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**Communication (Rating out of 5)**

- |                            |   |
|----------------------------|---|
| <b>5</b> Outstanding       | <ul style="list-style-type: none"><li>▪ Keeps the Board and staff informed and communicates effectively with them</li></ul>   |
| <b>4</b> Above Average     | <ul style="list-style-type: none"><li>▪ Organizes ideas and information logically</li></ul>   |
| <b>3</b> Satisfactory      | <ul style="list-style-type: none"><li>▪ Speaks clearly and concisely, using understandable terminology</li></ul>  |
| <b>2</b> Needs Improvement | <ul style="list-style-type: none"><li>▪ Effectively and politely communicates with the members</li><li>▪ Professionally communicates with entities affecting the ASRS</li></ul> |
| <b>1</b> Unacceptable      |   |

General Comments or Examples: (You need not address each point separately.)

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**Policy Matters (Rating out of 5)**

- |                            |   |
|----------------------------|---|
| <b>5</b> Outstanding       | <ul style="list-style-type: none"><li>▪ Periodically reviews policies and makes recommendations for changes to the Board</li></ul>                              |
| <b>4</b> Above Average     | <ul style="list-style-type: none"><li>▪ Accurately interprets Board policies and concerns and develops a consistent direction for the staff to follow</li></ul> |
| <b>3</b> Satisfactory      | <ul style="list-style-type: none"><li>▪ Initiates changes in day-to-day operations to conform to established Board policies</li></ul>                           |
| <b>2</b> Needs Improvement | <ul style="list-style-type: none"><li>▪ Acts creatively to evaluate and recommend new initiatives or policies</li></ul>   |
| <b>1</b> Unacceptable      |   |

General Comments or Examples: (You need not address each point separately.)

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**Staff Development (Rating out of 5)**

- |                            |  |
|----------------------------|--|
| <b>5</b> Outstanding       | <ul style="list-style-type: none"><li>▪ Creates an atmosphere that fosters teamwork, creativity, and participation</li></ul>   |
| <b>4</b> Above Average     | <ul style="list-style-type: none"><li>▪ Communicates clear standards of performance for the executive staff</li></ul>  |
| <b>3</b> Satisfactory      | <ul style="list-style-type: none"><li>▪ Keeps informed and follows state personnel policies and procedures</li></ul>   |
| <b>2</b> Needs Improvement | <ul style="list-style-type: none"><li>▪ Encourages professional development of staff</li><li>▪ Addresses succession planning for key positions within the ASRS</li></ul> |
| <b>1</b> Unacceptable      |  |

General Comments or Examples: (You need not address each point separately.)

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**Progress Toward Achieving Business Objectives (Rating out of 5)**

[Previously and mutually identified goals and objectives listed here.]

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

**General Comments or Examples**

[You need not address each point separately]

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**Significant Overall Accomplishments**

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**Areas Needing Improvement**

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**Overall Rating (Rating out of 5)**

## Appendix D – General Investment Consultant(s)

The primary role of the ASRS general consultant(s) is to provide independent ASRS fund(s) investment reporting and performance measurement, financial market commentary, and macro strategic/tactical investment advice. The general consultant attends Board and Investment Committee meetings as available/applicable and participates in Asset Class Committee meetings. Though not a designated Asset Class Committee consultant, the general consultant will ensure asset class compliance with the ASRS asset allocation policy, be informed of Asset Class Committee investment decisions, and, as applicable, provide broad perspectives on opportunistic and public markets-related topics.

For procurement purposes, the general investment consultant(s) will be evaluated and interviewed by the Investment Committee, Executive Director, and Chief Investment Officer. The Investment Committee will then make a recommendation to the Board for approval. The general investment consultant will be hired and terminated by the Board, report to the Investment Committee and Board, and, through the direction of the Investment Committee Chairperson, Executive Director, or Chief Investment Officer, be engaged at the request of the Board, Investment Committee, Executive Director, or Chief Investment Officer. In the event a backup general investment consultant is needed, a selection will be made by the Investment Committee from the approved pool of project consultants and recommended to the Board for approval.

## Appendix E – Trustee Fiduciary Liability and Coverage

The liability of the Board of Trustees and its individual members in the conduct of their duties and responsibilities are established under state law as follows:

1. The Board as a whole and its individual members are not liable for any act or failure to act that is made in good faith within the scope of their responsibilities under state law. (A.R.S. § 38-791)
2. An individual member of the Board is immune from civil liability and is not subject to suit directly or by way of contribution for any act or omission resulting in any damage or injury if the Trustee was acting in good faith and within the scope of the Trustee's official capacity unless the damage or injury was caused by the willful and wanton or grossly negligent conduct of the Trustee. "Official capacity" means any decision or action taken by a member of the Board to further the purpose for which the Board is established. (A.R.S. §§ 38-717 and 41-621)
3. The State and the ASRS are immune from liability for losses arising out of a judgment against the Trustees for willful and wanton conduct resulting in punitive or exemplary damages. (A.R.S. § 41-621) Liability for such damages would be the responsibility of the Trustees personally.
4. The Arizona Department of Administration is required by statute to provide coverage to the Board and individual Trustees under the state's risk management program (A.R.S. §§ 41-621 to -625) "against all liability for acts or omissions of any nature by members of the board while acting in an authorized governmental or proprietary capacity and within the course and scope of their employment or authority." (A.R.S. § 38-717)

Under the state's risk management program, the Board and the Trustees receive the same coverage that the state itself receives. (A.R.S. § 41-621)

Under the state's risk management program, the Board and the Trustees have coverage for "liability for acts or omissions of any nature while acting in authorized governmental or proprietary capacities and in the course and scope of employment or authorization except as provided by this chapter." (A.R.S. § 41-621)

Under the state's risk management program, the Board and the Trustees also have coverage for "[o]ther exposure to loss where insurance may be required to protect this state and its departments, agencies, boards, and commissions and all officers, agents, and employees acting in the course and scope of employment or authorization except as prescribed by this chapter." (A.R.S. § 41-621)

According to A.R.S. § 41-621, acts or omissions of a Trustee would be “within the course and scope of employment or authorization” if they:

- a. Occur while performing duties or functions that the Trustee is authorized to perform.
- b. Occur “substantially within” the authorized time and space limits of a Trustee’s authorization.
- c. Are done (or not done) at least in part to serve the Arizona State Retirement System.

Under the state’s risk management program, the Attorney General’s Office will defend the Board and the Trustees. The Attorney General may retain outside counsel to defend the Board and the Trustees. (A.R.S. § 41-621)

Under the state’s risk management program, all attorneys’ fees, court costs, and litigation expenses will be paid from the permanent liability loss revolving fund of the Department of Administration. (A.R.S. § 41-622) A settlement or judgment, except for punitive damages, also will be paid from this fund. (*Id.* and A.R.S. § 41-621)

If a Trustee is sued based on conduct outside the course and scope of a Trustee’s authorization, the state is not obligated to provide coverage for that conduct. (A.R.S. § 41-621) If the conduct is clearly outside the course and scope, the state will deny coverage. (A.R.S. § 41-621) If there is a question whether the Trustees’ acts were within their official capacity, the state may reserve the right to refuse to pay any judgment and will then hire outside counsel to represent the Trustees.

Losses arising from contractual breaches are not covered under the state’s risk management program.

## Appendix F – State of Arizona Loyalty Oath

A.R.S. §38-231. Officers and employees required to take loyalty oath; form; classification; definition

In order to ensure the statewide application of this section on a uniform basis, each board, commission, agency and independent office of this state, and of any of its political subdivisions, and of any county, city, town, municipal corporation, school district and public educational institution, shall completely reproduce this section so that the form of written oath or affirmation required in this section contains all of the provisions of this section for use by all officers and employees of all boards, commissions, agencies and independent offices.

Any officer or employee who fails to take and subscribe to the oath or affirmation provided by this section within the time limits prescribed by this section is not entitled to any compensation until the officer or employee does so take and subscribe to the form of oath or affirmation prescribed by this section.

Any officer or employee having taken the form of oath or affirmation prescribed by this section, and knowingly at the time of subscribing to the oath or affirmation, or at any time thereafter during the officer's or employee's term of office or employment, does commit or aid in the commission of any act to overthrow by force, violence or terrorism as defined in section 13-2301 the government of this state or of any of its political subdivisions, or advocates the overthrow by force, violence or terrorism as defined in section 13-2301 of the government of this state or of any of its political subdivisions, is guilty of a class 4 felony and, on conviction under this section, the officer or employee is deemed discharged from the office or employment and is not entitled to any additional compensation or any other emoluments or benefits which may have been incident or appurtenant to the office or employment.

Any of the persons referred to in article XVIII, section 10, Constitution of Arizona, as amended, relating to the employment of aliens, are exempted from any compliance with this section.

In addition to any other form of oath or affirmation specifically provided by law for an officer or employee, before any officer or employee enters upon the duties of the office or employment, the officer or employee shall take and subscribe the following oath or affirmation:

State of Arizona, County of \_\_\_\_\_  
\_\_\_\_\_, I,  
\_\_\_\_\_ (type or print name)  
do solemnly swear (or affirm) that I will support the Constitution of the United States and the Constitution and laws of the State of Arizona, that I will bear true faith and allegiance to the same and defend them against all enemies, foreign and domestic, and that I will faithfully and impartially discharge the duties of the office of THE ARIZONA DEPARTMENT OF ADMINISTRATION according to the best of my ability, so help me God (or so I do affirm).

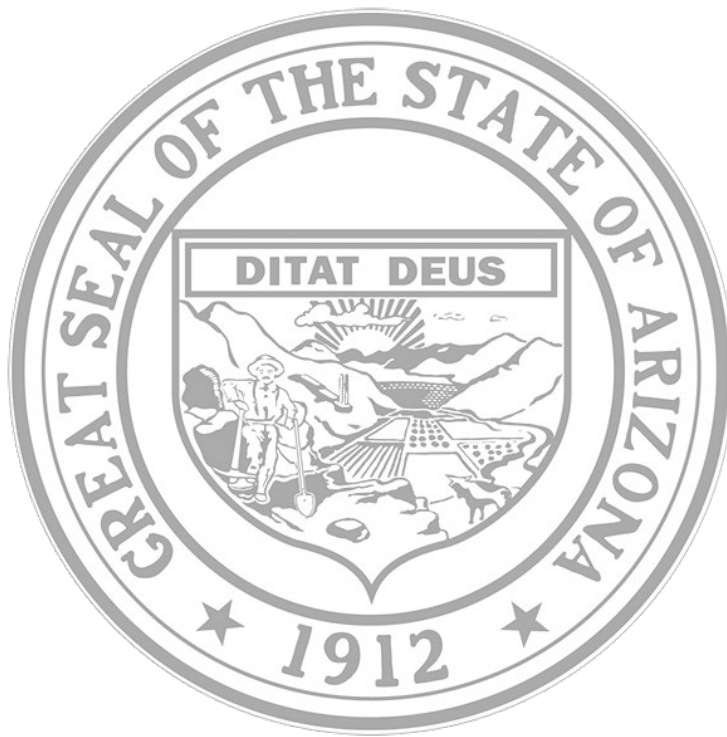
\_\_\_\_\_(Signature of officer or employee)

\_\_\_\_\_(Date)

For the purposes of this section, "officer or employee" means any person elected, appointed or employed, either on a part-time or full-time basis, by this state or any of its political subdivisions or any county, city, town, municipal corporation, school district, public educational institution or any board, commission or agency of any county, city, town, municipal corporation, school district or public educational institution:



Your investment.  
Your future.  
Secure for your lifetime



An agency of the State of Arizona