ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

AGENDA

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

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

April 25, 2014
8:30 a.m.

Pursuant to A.R.S. § 38-431.02 (F), notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Board and to the general public that the ASRS Board will hold a meeting open to the public on Friday, April 25, 2014, beginning at 8:30 a.m., in the 10th Floor Board Room of the ASRS offices at 3300 N. Central Avenue, Phoenix, Arizona 85012. Trustees of the Board may attend either in person or by telephone conference call.

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

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

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks ..... Mr. Tom Manos
   Board Chair

2. Approval of the Minutes of the March 28, 2014 Public Meeting and Executive Session of the ASRS Board (estimated time 1 minute to 8:31 a.m.) ..... Mr. Tom Manos

Regarding the following agenda item, notice is hereby given to Trustees of the ASRS Board and the general public that the ASRS Board may vote to go into executive session pursuant to A.R.S. § 38-797.03(B) and Mr. Ryan Fetter's request; and according to A.R.S. § 38-431.03(A)(3) for discussion or consultation for legal advice with the attorney(s) of the public body, which will not be open to the public.

3. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Mr. Ryan Fetter's Appeal of Long Term Disability Benefits (estimated time 20 minutes to 8:51 a.m.) ..... Ms. Jothi Beljan
   Assistant Attorney General
   ..... Mr. Chris Munns
   Attorney General, Solicitor General Section

4. Presentation, Discussion, and Appropriate Action Regarding the Sensitivity of Pension and Health Supplement Contribution Rates and Funded Status to Various Investment Returns (estimated time 45 minutes to 9:36 a.m.) ..... Mr. Paul Matson
Director
..... Mr. Charlie Chittenden
Actuary, Buck Consultants

5. Presentation, Discussion, and Appropriate Action Regarding the 2014 Legislative Session (estimated time 20 minutes to 9:56 a.m.) ..... Mr. Patrick Klein
Assistant Director, External Affairs
..... Mr. Nick Ponder
Government Relations Officer

6. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events (estimated time 5 minutes to 10:01 a.m.) ..... Mr. Paul Matson
..... Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
    a. 2013 Compliance Report
    b. 2013 Investments Report
    c. 2013 Operations Report
    d. 2013 & 2014 Budget and Staffing Reports
    e. 2013 Cash Flow Statement
    f. 2014 Appeals Report
    g. 2014 Employers Reporting

7. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings (estimated time 15 minutes to 10:16 a.m.)
    a. Operations and Audit Committee (OAC) ..... Mr. Jeff Tyne, Chair
    ..... Mr. Anthony Guarino
    The next OAC Meeting will be held on April 30, 2014

    b. External Affairs Committee (EAC) ..... Mr. Kevin McCarthy, Chair
    ..... Mr. Patrick Klein
    The next EAC Meeting will be held on May 9, 2014

    c. Investment Committee (IC) ..... Mr. Tom Connelly, Chair
    ..... Mr. Gary Dokes
    The next IC Meeting will be held on June 23, 2014

8. Board Requests for Agenda Items (estimated time 1 minute to 10:17 a.m.) .... Mr. Tom Manos

9. Call to the Public ..... Mr. Tom Manos

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

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

10. The next public ASRS Board meeting is scheduled for Friday, May 23, 2014, at 8:30 a.m., at 3300 N. Central Avenue, in the 10th Floor Board room, Phoenix, Arizona.

11. Adjournment of the ASRS Board.

A copy of the agenda background material provided to Board Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona and 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website (https://www.azasrs.gov/web/BoardCommittees.do) approximately 48 hours prior to the meeting.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter or alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson, or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated April 18, 2014

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox	Date	Paul Matson	Date
Board Administrator		Director	

ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES
PUBLIC MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, March 28, 2014
8:30 A.M., MST

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:31 A.M., Arizona Time.

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

1. Call to Order; Roll Call; Opening Remarks

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

Absent: Mr. Marc Boatwright

A quorum was present for the purpose of conducting business.

2. Presentation Regarding PRIDE Award for Professionalism

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Award for Professionalism: Debbie Motta, Don Crockett, Nicie Montanez, and Beth Roth. They were nominated by staff who feel they exemplify the following PRIDE qualities of professionalism:

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

Mr. Guarino presented the PRIDE Award for Professionalism to the award winner, Debbie Motta.

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3. Approval of the Minutes of the February 28, 2014 Public Meetings and Executive Session of the ASRS Board

Motion: Professor Dennis Hoffman moved to approve the minutes of the February 28, 2014 Public Meetings and Executive Session of the ASRS Board. Mr. Jeff Tyne seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

4. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Ms. Mable Graham's Appeal of Repayment of a Pension Overpayment

Ms. Diana Day, Assistant Attorney General, Solicitor General Section, was present for agenda items #4 and #5, to provide legal advice to the Board, if requested. Ms. Jothi Beljan, Assistant Attorney General, provided an explanation of Ms. Mable Graham's appeal, stating that Ms. Graham filed a retirement application and later amended it by selecting a different retirement option as well as a partial lump sum. Ms. Graham is appealing the repayment of the overpayment that resulted from the change to her retirement application. Ms. Graham did not appear for her hearing before the Administrative Law Judge (ALJ). When Appellants have failed to appear in the past for an administrative hearing related to an ASRS appeal, ALJs have taken no action or issued an Order noting the non-appearance of the Appellant. In this matter, the ALJ issued a Recommended Decision that the appeal be denied.

Ms. Graham was not present. A representative of Ms. Graham was not present.

Motion: Mr. Kevin McCarthy moved to accept the ruling of the Administrative Law Judge to deny Ms. Mable Graham's request to not repay her pension overpayment. Professor Dennis Hoffman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

5. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Ms. Sara Woyak's Appeal of Long Term Disability Benefits

Ms. Beljan presented Ms. Sara Woyak's appeal of the denial of Long Term Disability (LTD) benefits. Independent medical examinations were conducted by the ASRS LTD provider and Ms. Woyak's employer, in addition to three independent medical file reviews. The examinations and file reviews concluded that she was able to perform the duties of her job and she is therefore ineligible for LTD benefits.

Ms. Woyak was not present. A representative of Ms. Woyak was not present.

Motion: Mr. Mike Smarik moved to accept the ruling of the Administrative Law Judge to uphold the Director's determination that Ms. Sara Woyak was no longer disabled and therefore not eligible for ASRS Long Term Disability benefits effective March 1, 2013. Mr. Kevin McCarthy seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

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6. Presentation, Discussion, and Appropriate Action Regarding the 2014 Legislative Session

Mr. Patrick Klein, Assistant Director, External Affairs, introduced Mr. Nicholas Ponder, Government Relations Officer. Mr. Klein and Mr. Ponder presented the Bill Tracker, which summarizes ASRS 2014 legislative initiatives as well as other bills affecting the ASRS.

Mr. Ponder did not discuss the following bills, however, noted they were dead:

- HB 2017 (ASRS; §38-955 Defined Contribution Plan): The bill would have made technical changes to the Plan.
- HB 2018 (ASRS; In-service distributions): The bill would have made changes to ensure employees have at true break in service, of at least 30 days, between the time they retire and the time they return to work for any ASRS employer.
- SB 1085 (ASRS; LTD program): The bill would possibly have changed the income replacement ratio for those on LTD from 66 2/3% to 60% after 24 months of disability.
- HB 2060 (PSPRS oversight; rulemaking; procurement): The bill would have indicated the ASRS would not be required to go through the procurement process to obtain investment related goods or service and investment related legal services.
- HB 2069 (ASRS, Political Subdivision Entities): Employees of Political Subdivision Entities hired on or after a certain date would have been excluded from ASRS membership by this bill.
- SB 1240 (Striker): The bill would have required that an employer that is a school district or charter school cannot contract or lease a retired member within 365 days of that member's retirement date.
- HCR 2001 (Public retirement systems): The bill would have attempted to place on the ballot an amendment to the state constitution, which currently indicates benefits cannot be impaired or diminished, to say impaired or diminished does not mean contribution rates cannot be increased and pension benefits cannot be decreased.
- HB 2203 (ASRS; PSPRS; Board membership): The bill would have changed the construct of the current ASRS and PSPRS Boards of Trustees.
- HB 2063 (Retirement savings; employees): The bill would have established a trust program providing one or more payroll deposit retirement savings arrangements available to any person or entity engaged in business or other enterprise in Arizona, excluding public entities, that has five or more employees (along with other criteria).
- SB 1104 (State employees; backfilling; reward incentives): The bill would have authorized the Department of Administration to adopt rules to provide incentive rewards to state employees for backfilling vacant positions.

Mr. Ponder discussed the status of the following bills:

- HB 2050 (ASRS membership; Section 218 requirements): This bill would eliminate the requirement that members must be covered by an employer's Social Security Section 218 Agreement and would not allow those already contributing to Social Security to opt out. The bill passed out of the Senate Finance Committee.
- SB 1082 (ASRS; Employee background checks): The bill would allow the ASRS to perform background checks on current and prospective employees. The bill passed out of the House Government Committee.
- SB 1083 (ASRS; Applicable Interest Rate; definition): The bill makes technical conforming changes. The bill passed out of the House Insurance Retirement Committee and is on the consent calendar.
- SB 1084 (ASRS; LTD Compensation): The bill clarifies how the ASRS calculates compensation for LTD benefits. The bill passed out of the House Insurance Retirement Committee and is on the consent calendar.

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The following bill affects the ASRS but was not initiated by the ASRS:

- HB 2058 (Public Pension; Limit on Compensation): This bill implements a cap of $150,000 on earnings eligible for contributions affecting employees hired on or after the effective date. The ASRS is neutral because this is a benefit change. The bill passed out of the Senate Finance Committee.

Discussion ensued on the possible impact of HB 2058 on contribution rates. It was pointed out that contribution rates would marginally increase should the bill go into effect. Dr. Richard Jacob requested further analysis on pre- and post-retirement salary changes. Mr. Matson indicated staff would present empirical data in response to Dr. Jacob's inquiry at a future Board meeting.

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

Mr. Matson presented the Director's Report and asked Mr. Guarino to provide a detailed presentation of the Operations Report. Mr. Guarino said the monthly report contains data for approximately 200,000 contacts/transactions per year, in addition to approximately one million pension payments per year. The report encompasses member contacts, benefit transactions, and LTD activity. Mr. Guarino said most interactions aside from pension payments occur over the phone. He highlighted a number of accomplishments and issues in various areas of member services.

Mr. Guarino noted there are fewer member calls than in the past couple of years due to a number of factors including more services offered on the ASRS website, less worry about the economy, and a good strategy to manage staffing levels along with members' needs. Mr. Guarino said 97 percent of members visiting the MAC for One-on-One appointments are satisfied or very satisfied. He noted MAC email response timeliness is being updated from measuring in days to measuring in hours. The Operations Report will also be improved and updated, perhaps beginning next year, to incorporate data related to web services and employer satisfaction.

Mr. Guarino announced the agency will roll out a newly designed public website over the weekend.

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

a. Operations and Audit Committee (OAC)

Mr. Jeff Tyne, Chair, said the next OAC meeting will be held on April 30, 2014. Topics to be discussed are internal information technology security and health insurance contract proposals. He congratulated the agency on the hard work done to present the new public website.

b. External Affairs Committee (EAC)

Mr. Kevin McCarthy said the next EAC meeting will be held on April 11, 2014; legislation will be discussed.

c. Investment Committee (IC)

Mr. Tom Connelly, Chair, said the next IC meeting will be held on April 21, 2014. ASRS Investment Program Updates, consultant review, equities asset class presentation, and consequences of the Federal Reserve actions over the past five years will be discussed.

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9. Board Requests for Agenda Items

No requests were made. Mr. Manos asked Trustees to contact him or Ms. Beljan regarding specific topics they would like Ms. Beljan to address in her upcoming fiduciary education presentation to the Board.

10. Call to the Public

No members of the public requested to speak.

11. Presentation, Discussion, and Appropriate Action with Respect to the 2013 Review of the Director of the ASRS

Motion: Dr. Richard Jacob moved to go into executive session to discuss the Director's review. Professor Dennis Hoffman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

The Board recessed from the public meeting at 9:30 A.M. for the purpose of going into executive session in the 14th floor Conference Room. The Board reconvened to the public meeting at 10:14 A.M.

12. The next ASRS Board meeting is scheduled for Friday, April 25, 2014, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

13. Adjournment of the ASRS Board

Mr. Tom Manos adjourned the March 28, 2014 Board meeting at 10:15 A.M.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox Date	Paul Matson Date
Board Administrator	Director

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Confidential executive session minutes were provided to the Trustees and were not included in this packet.

IN THE OFFICE OF ADMINISTRATIVE HEARINGS

Ryan Fetter, Appellant, v. Arizona State Retirement System, Appellee.	**No. 14F-003-ARB** **ADMINISTRATIVE LAW JUDGE DECISION**

HEARING: March 12, 2014

APPEARANCES: Appellant did not appear. Respondent was represented by Assistant Attorney General Jothi Beljan.

ADMINISTRATIVE LAW JUDGE: Tammy L. Eigenheer

FINDINGS OF FACT

1. The Arizona State Retirement System Board duly issued a Notice of Hearing setting the above-captioned matter for hearing at 8:00 a.m. on March 12, 2014, at the Office of Administrative Hearings in Phoenix, Arizona.

2. On March 6, 2014, Appellant contacted the Office of Administrative Hearings and advised that he would be filing a request to appear telephonically or to continue the hearing; however, Appellant did not make any filings prior to the date of the hearing.

3. No representative for Appellant appeared by 8:20 a.m. and consequently, the matter was not convened and no evidence was taken.

CONCLUSIONS OF LAW

1. The burden of proof at an administrative hearing falls to the party asserting a claim, right or entitlement and the standard of proof on all issues in this matter is by a preponderance of the evidence. *See* A.A.C. R2-19-119.

2. Because Appellant failed to appear and prosecute the appeal, the appeal is unsupported by evidence. Consequently, Appellant's appeal should be dismissed.

ORDER

IT IS ORDERED that Appellant's appeal is dismissed.

In the event of certification of the Administrative Law Judge Decision by the Director of the Office of Administrative Hearings, the effective date of the Order is the date of that certification.

Done this day, March 21, 2014.

/s/ Tammy L. Eigenheer
Administrative Law Judge

Transmitted electronically to:

Paul Matson, Director
Arizona State Retirement System

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Paul Matson
Director

MEMORANDUM

TO: Mr. Tom Manos, Chair, Arizona State Retirement System (ASRS) Board

FROM: Mr. Paul Matson, Director

DATE: April 18, 2014

RE: **Agenda Item #4**: Presentation, Discussion, and Appropriate Action Regarding the Sensitivity of Pension and Health Supplement Contribution Rates and Funded Status to Various Investment Returns

Purpose

Pursuant to a Board request, to review and discuss the sensitivity of (aggregate employee and employer) contribution rates and funding statuses of the combined Pension Plan and Health Supplement Plan to various investment rates-of-return and membership growth scenarios.

Recommendation

Information item only; no action required.

Background

A sensitivity analysis was conducted to analyze the long-term sensitivity of contribution rates and funding status to changes in investment rates-of-return and membership growth.

The analysis was based on census data from the June 30, 2013 ASRS actuarial valuation. The investment return assumption for fiscal year 2014 was 10%, and the estimated year-to-date investment return for the same period was approximately 12%, as of April 11, 2014.

The analysis models the effects on the next 30 years of contribution rates and funded status of returns on U.S. and Non-U.S. equities in fiscal year 2015 of -10% / +10%, - 20% / +20%, -30% / +30%, and 0% return on all other asset classes. These returns correspond to returns on total assets of -6.3% / +6.3%, -12.6% / +12.6%, and -18.0% / +18.0% respectively.

The total fund returns beyond 2015 were held constant at 8%. For the scenarios with negative returns in 2015, the effects of a partial investment recovery, namely a total fund return of 16% in fiscal year 2016, were also modeled. All scenarios include projections of a constant active workforce and an active workforce with 2.5% annual growth.

ARIZONA STATE RETIREMENT SYSTEM

Sensitivity of Pension and Health Supplement Contribution Rates and Funded Status to Various Investment Returns

buckconsultants

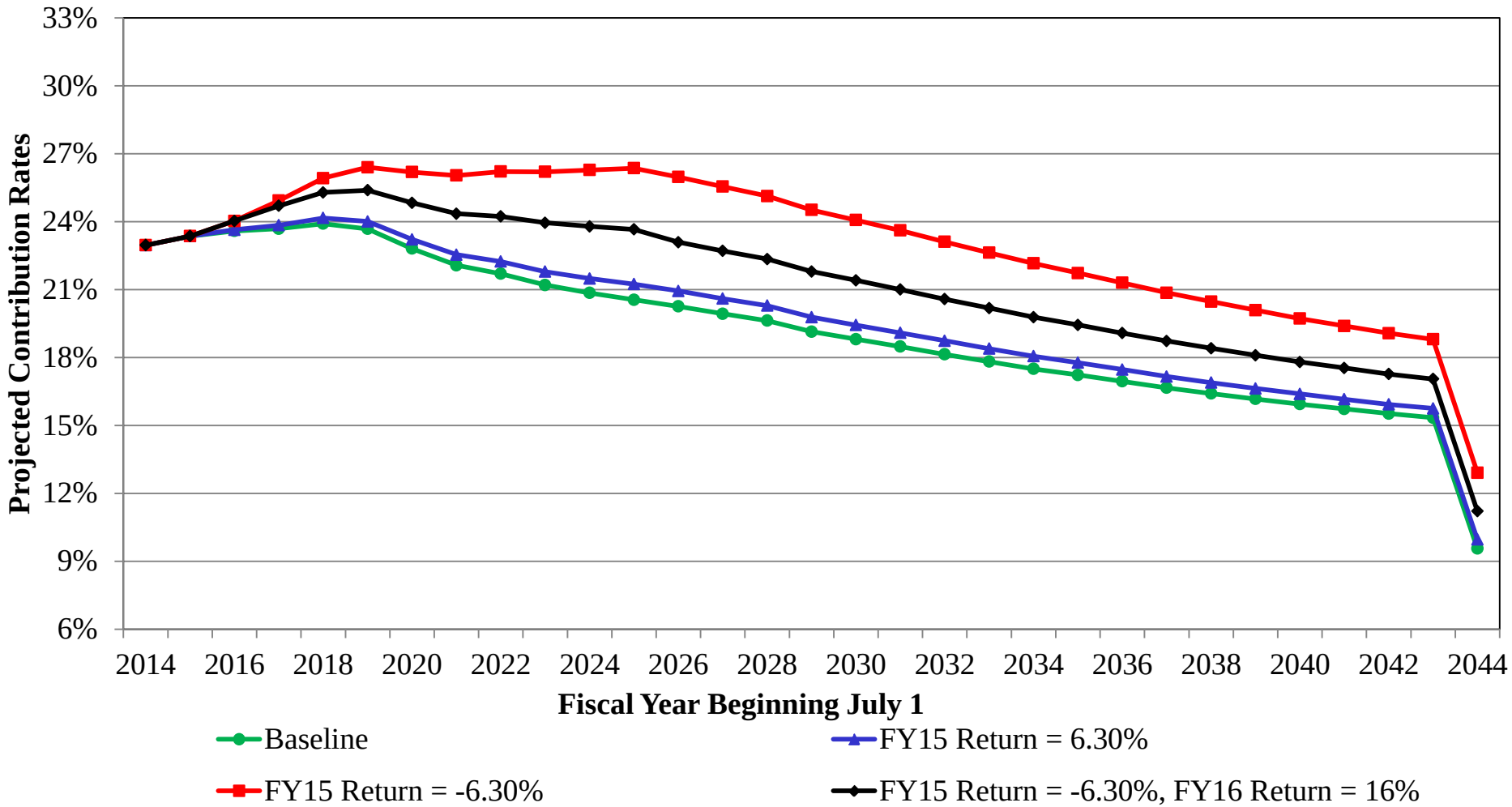
What Effect Would Deviations in Investment Returns Have on Contribution Rates and Funded Status?

- Model investment returns of -10%/+10%, -20%/+20%, and -30%/+30% on US and non-US equities in fiscal 2015 and 0% on all other investments
- These returns are equivalent to returns on total Plan assets of approximately -6.3%/+6.3%, -12.6%/+12.6%, and -18.9%/+18.9%, respectively
- Investigate effects of a possible recovery from losses
- Include both constant and increasing workforce size scenarios
- Illustrate the effects of smoothing the gains and losses
- Baseline scenario shown on all graphs represents 10% return in FY14 and 8% each year thereafter

0% Active Population Growth

PROJECTED CONTRIBUTION RATES
Baseline, -6.30%, -6.30% w/Rebound, +6.30%

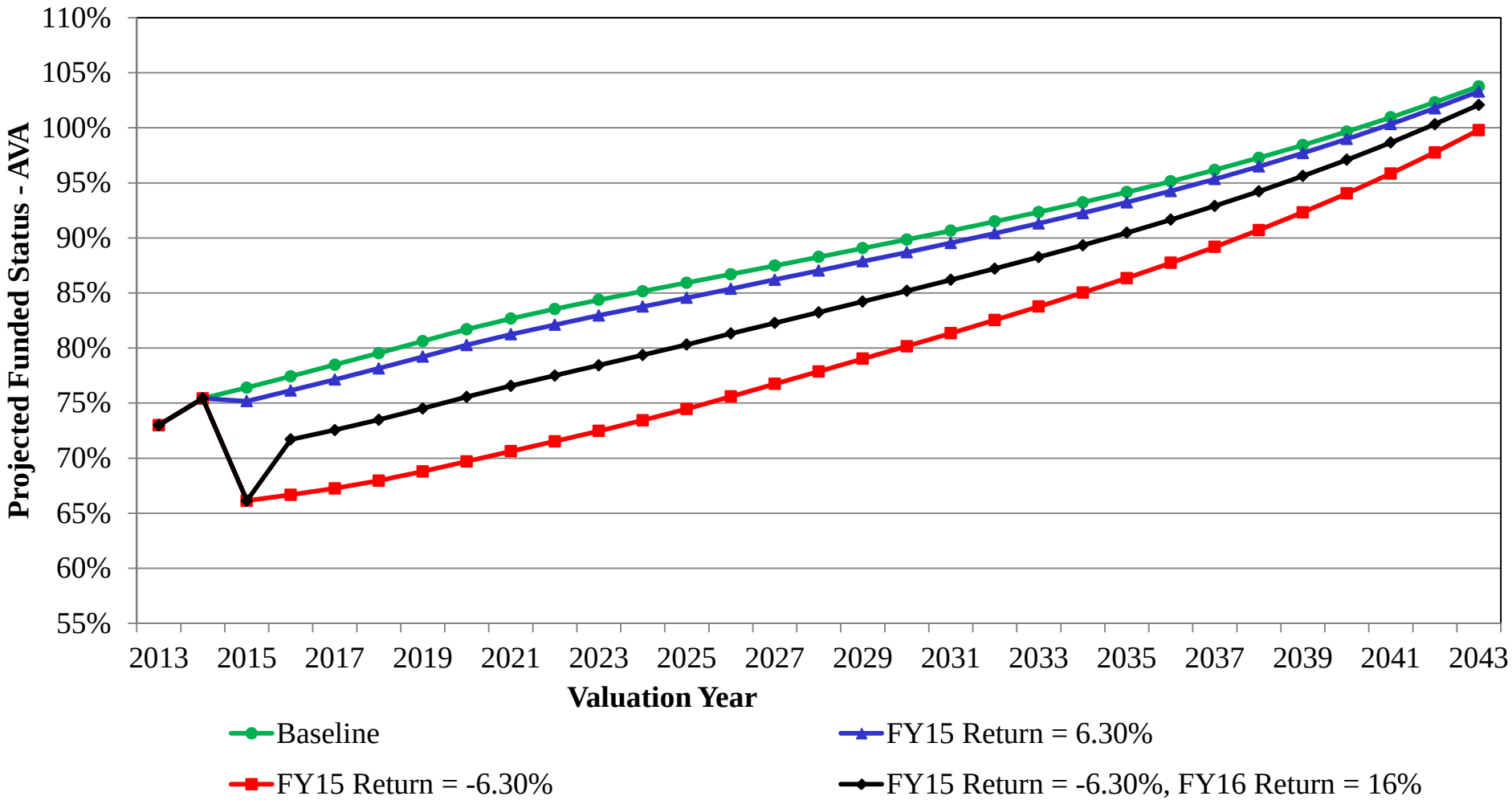
Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



buckconsultants

PROJECTED MARKET VALUE FUNDED STATUS
Baseline, -6.30%, -6.30% w/Rebound, +6.30%

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.

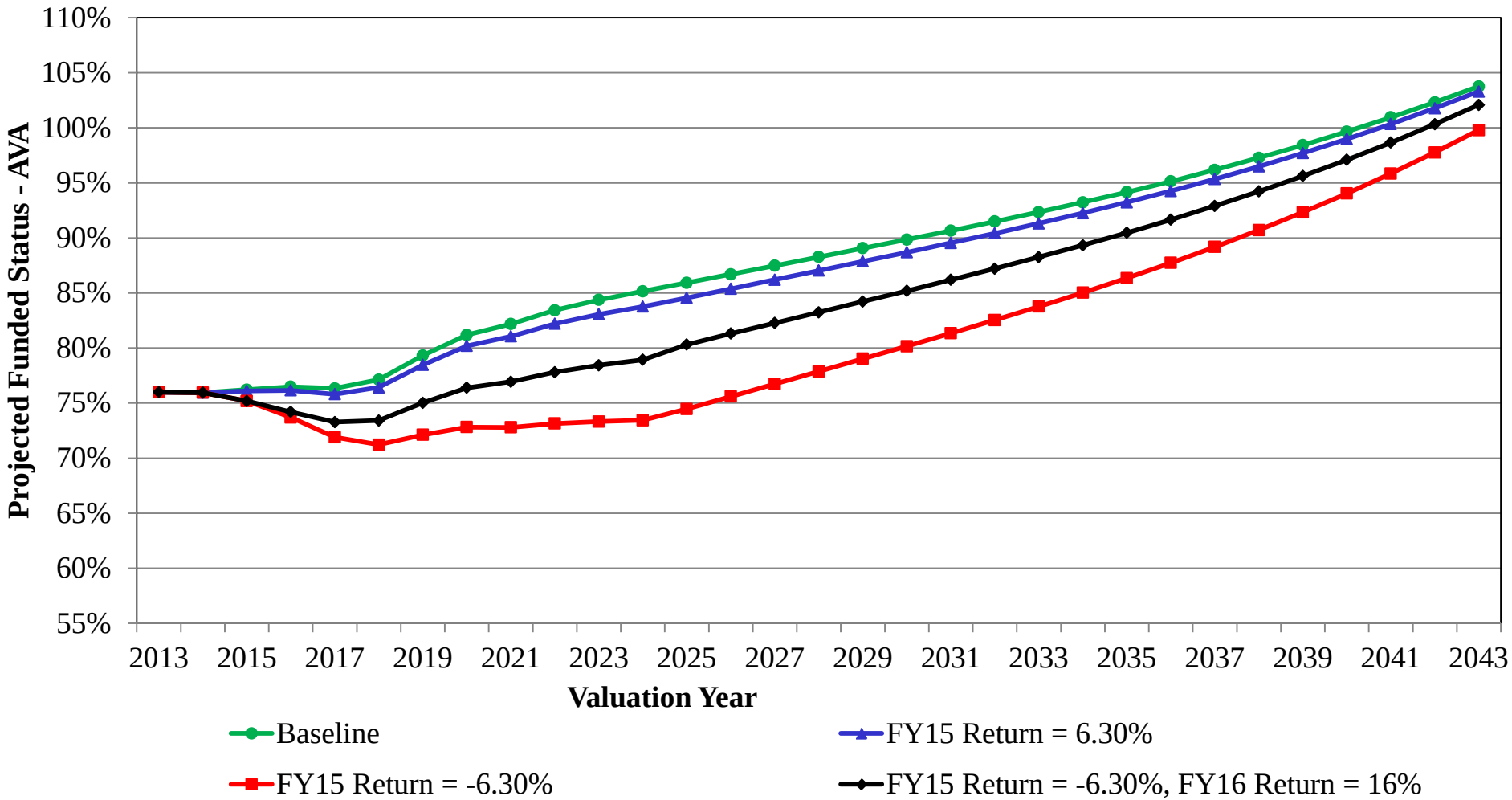


buckconsultants

PROJECTED ACTUARIAL VALUE FUNDED STATUS

Baseline, -6.30%, -6.30% w/Rebound, +6.30%

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



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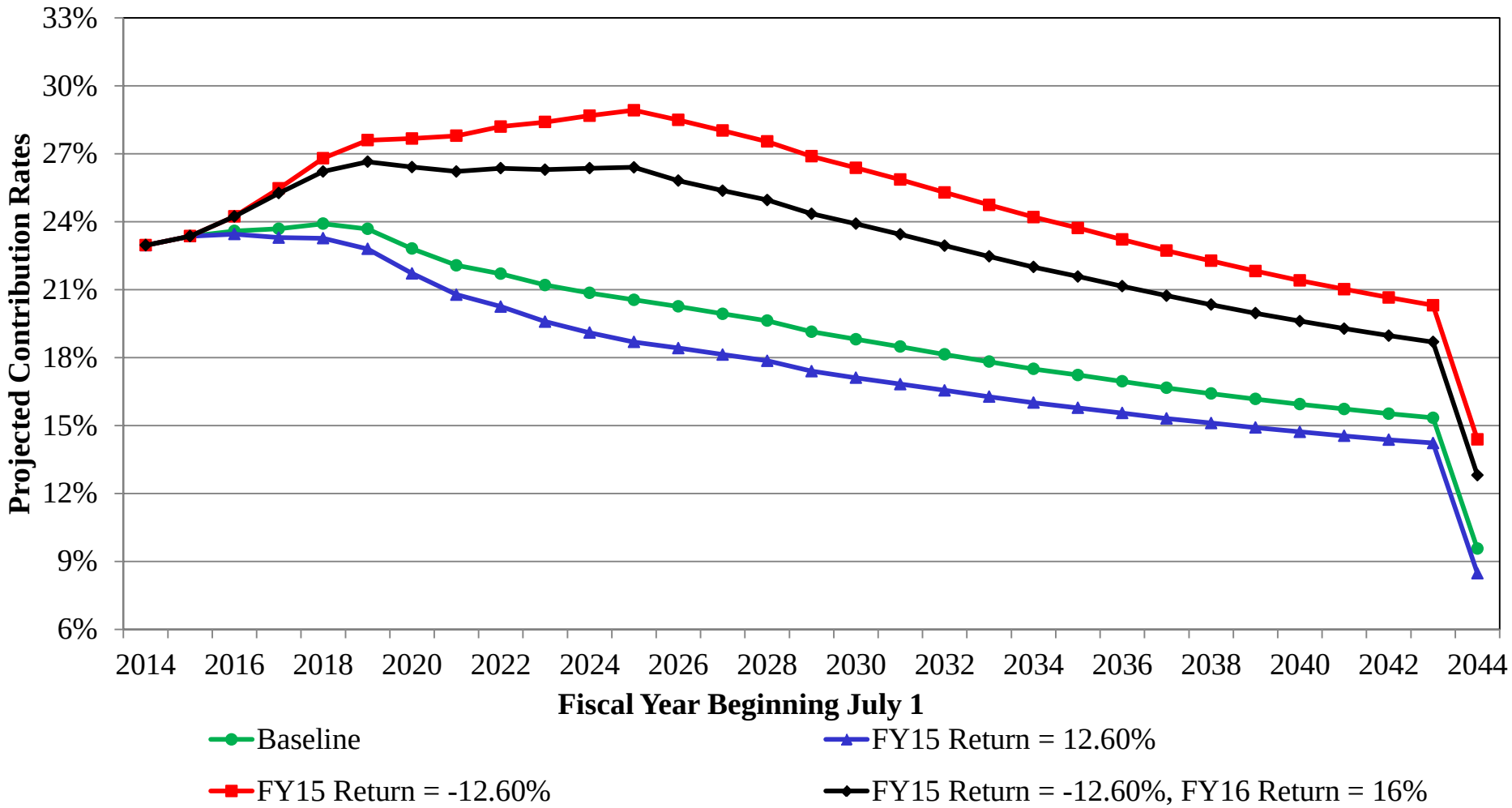
PROJECTED CONTRIBUTION RATES
Baseline, -12.60%, -12.60% w/Rebound, +12.60%

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



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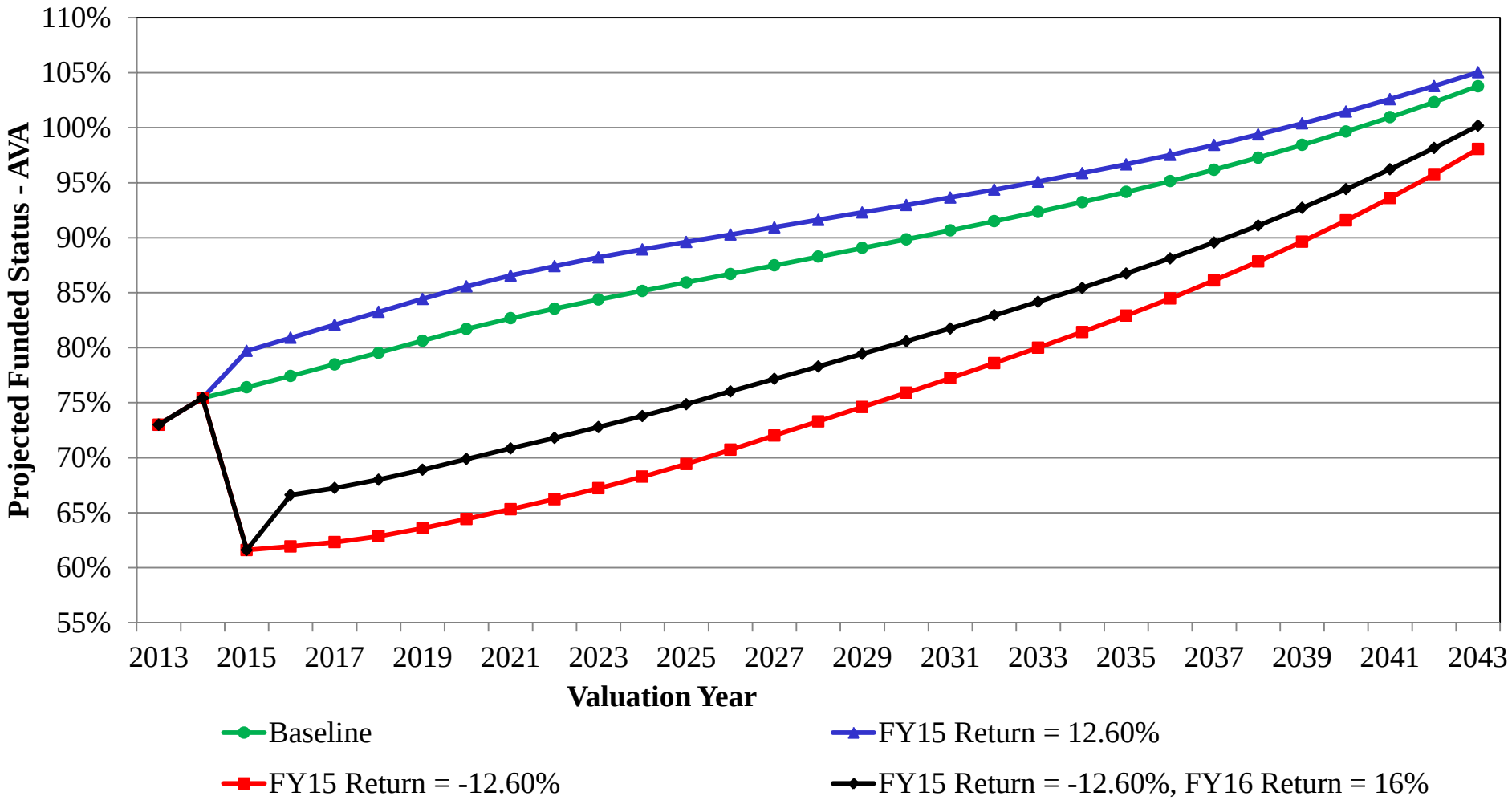
PROJECTED MARKET VALUE FUNDED STATUS
Baseline, -12.60%, -12.60% w/Rebound, +12.60%

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



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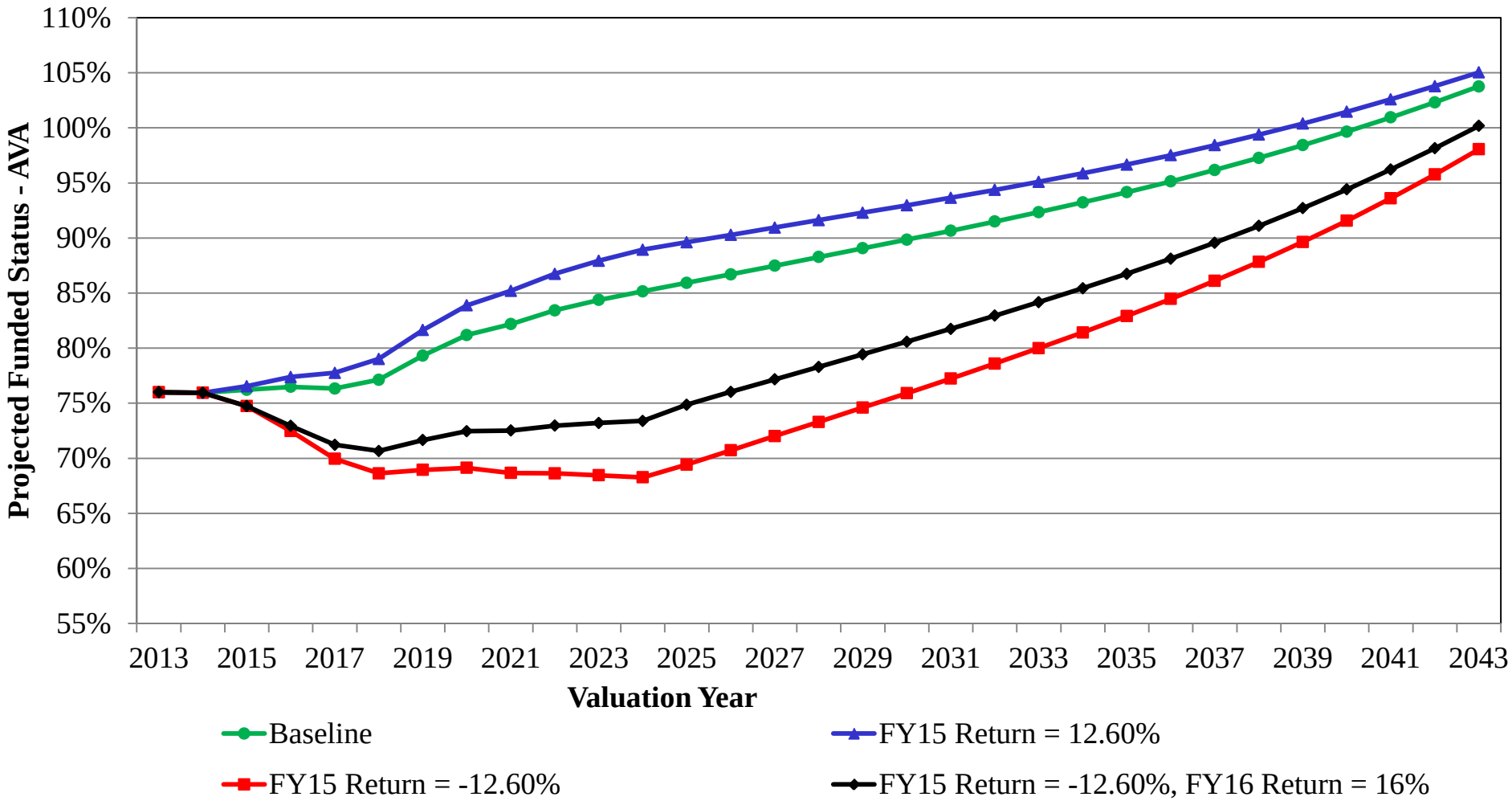
PROJECTED ACTUARIAL VALUE FUNDED STATUS
Baseline, -12.60%, -12.60% w/Rebound, +12.60%

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



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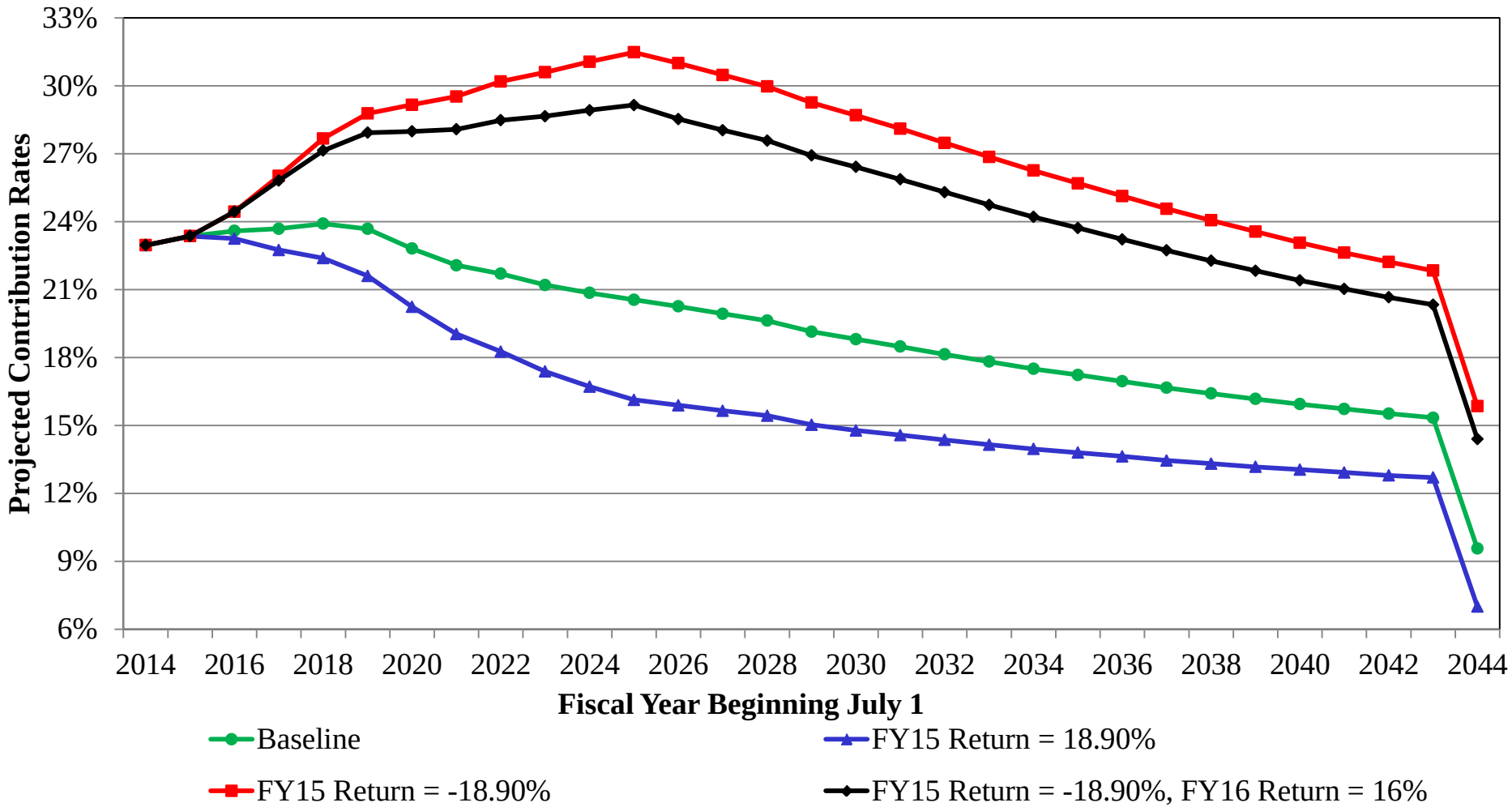
PROJECTED CONTRIBUTION RATES
Baseline, -18.90%, -18.90% w/Rebound, +18.90%

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



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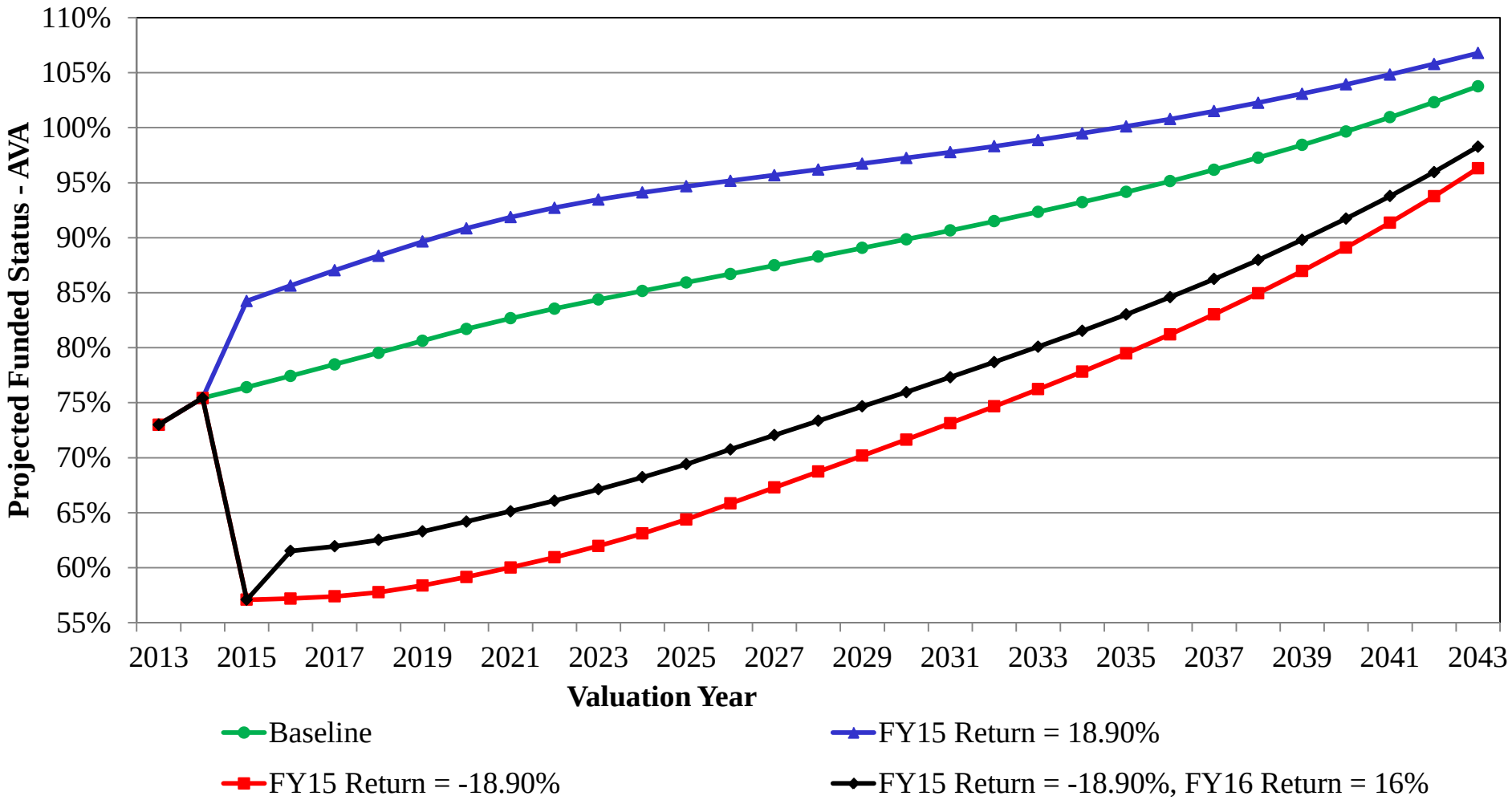
PROJECTED MARKET VALUE FUNDED STATUS
Baseline, -18.90%, -18.90% w/Rebound, +18.90%

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



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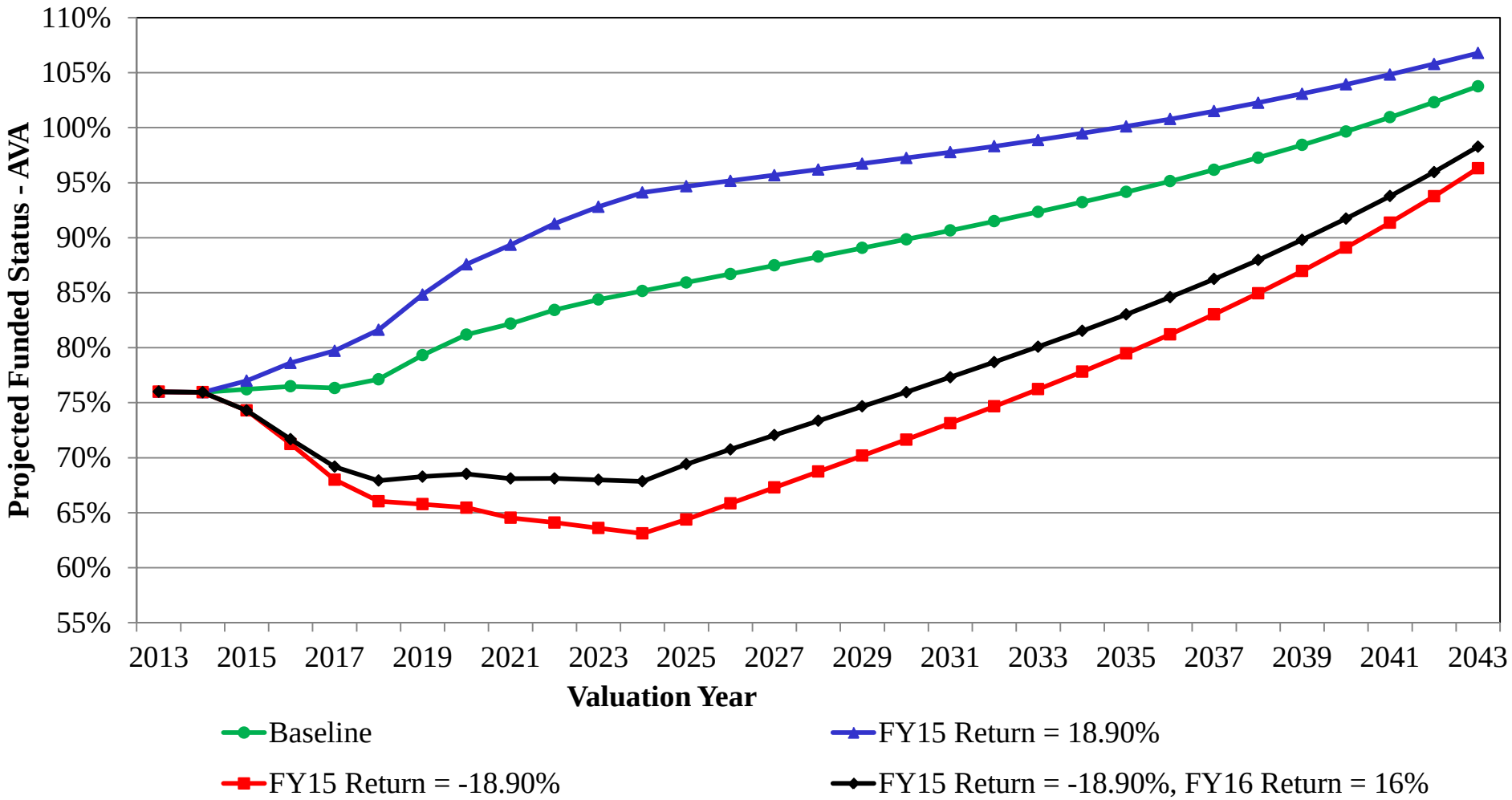
PROJECTED ACTUARIAL VALUE FUNDED STATUS
Baseline, -18.90%, -18.90% w/Rebound, +18.90%

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



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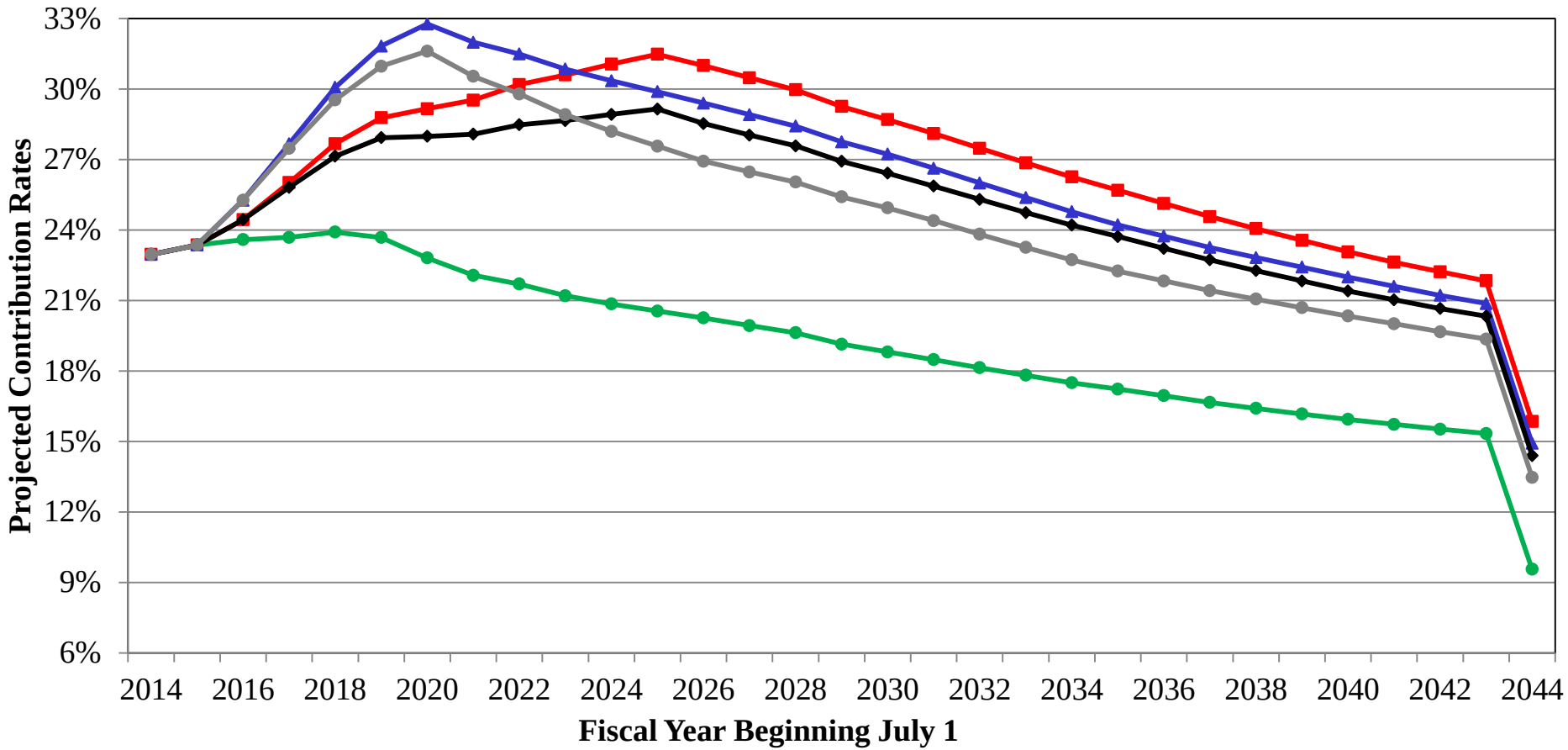
PROJECTED CONTRIBUTION RATES

Baseline, -18.90%, -18.90% w/Rebound
With 10 Year (Current) and 5 Year Smoothing of FY15 Loss

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.

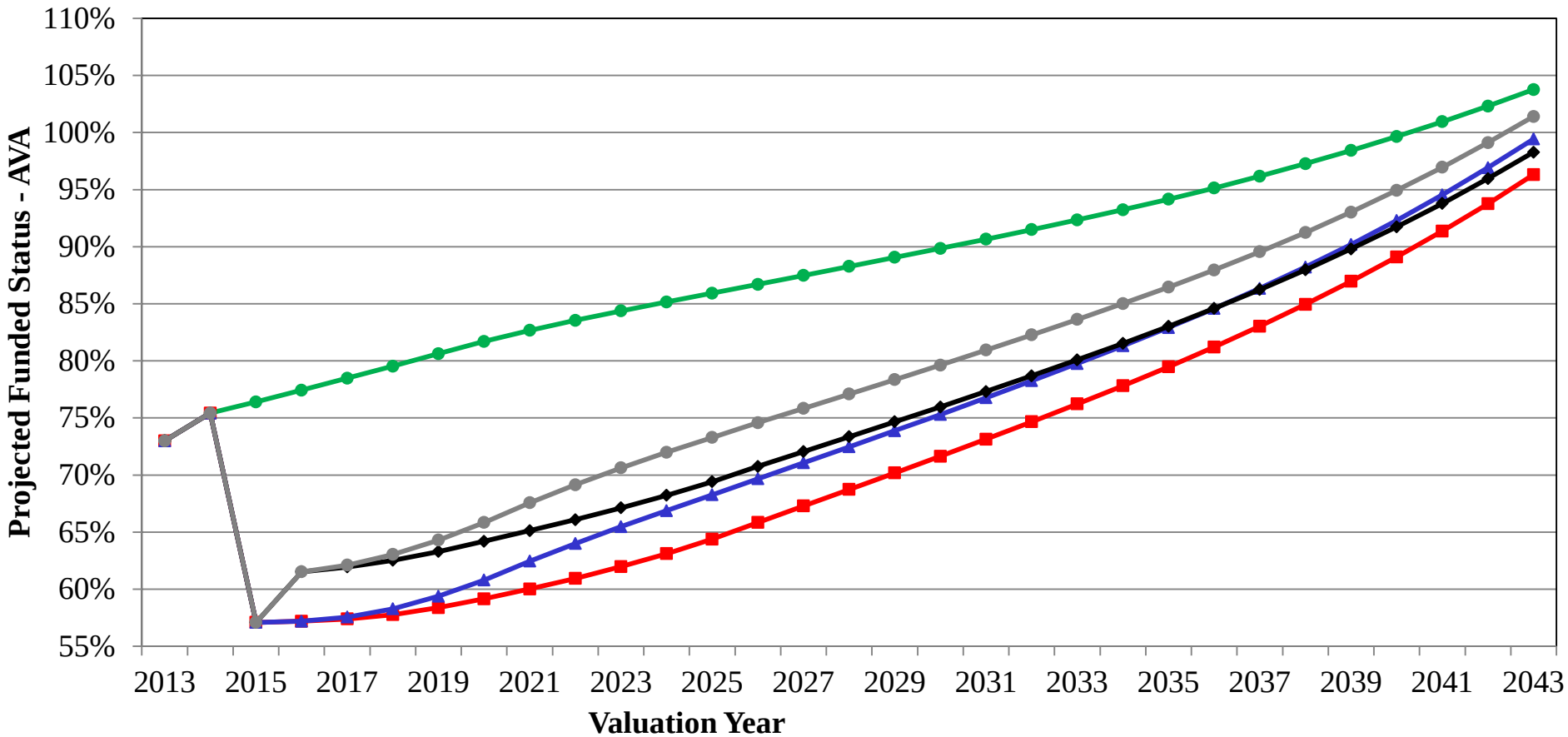


buckconsultants

PROJECTED MARKET VALUE FUNDED STATUS

Baseline, -18.90%, -18.90% w/Rebound
With 10 Year (Current) and 5 Year Smoothing of FY15 Loss

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



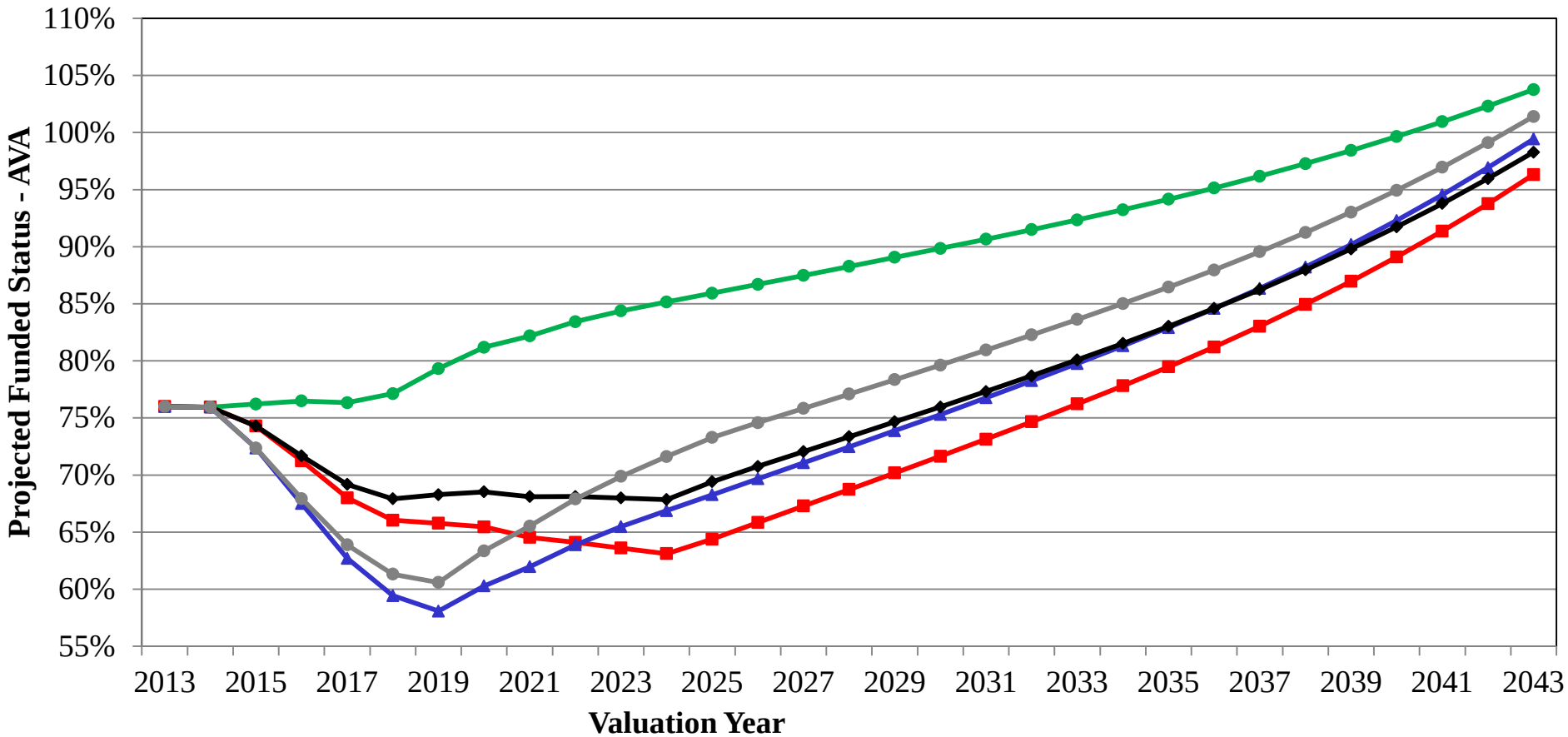
- Baseline
- FY15 Return = -18.90% (10 Yr Current)
- FY15 Return = -18.90% (5 Yr)
- FY15 Return = -18.90% (10 Yr Current), FY16 Return = 16%
- FY15 Return = -18.90% (5 Yr), FY16 Return = 16%

buckconsultants

PROJECTED ACTARIAL VALUE FUNDED STATUS

Baseline, -18.90%, -18.90% w/Rebound
With 10 Year (Current) and 5 Year Smoothing of FY15 Loss

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



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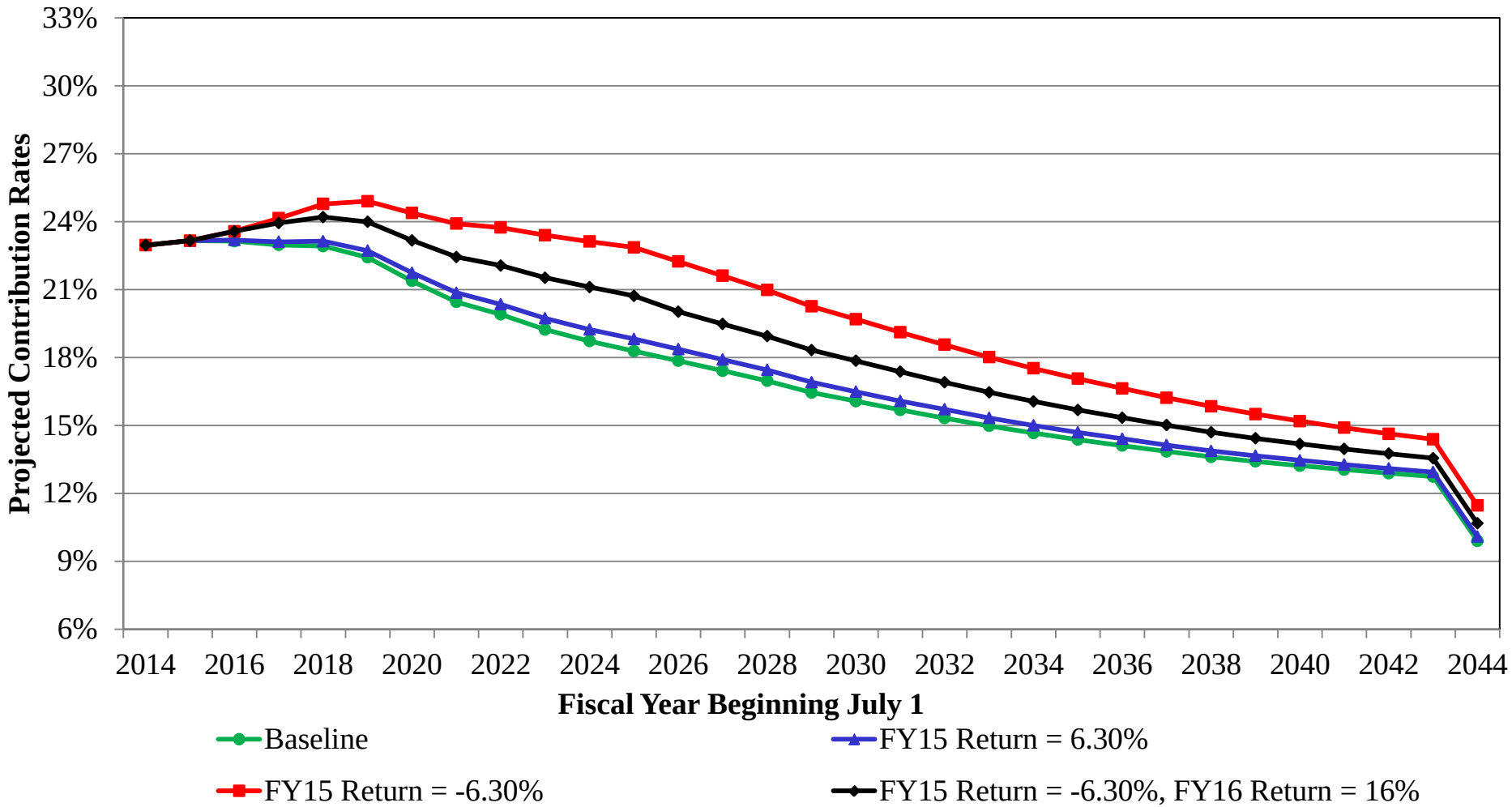
buckconsultants

2.5% Active Population Growth

PROJECTED CONTRIBUTION RATES
Baseline, -6.30%, -6.30% w/Rebound, +6.30%

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



buckconsultants

PROJECTED MARKET VALUE FUNDED STATUS
Baseline, -6.30%, -6.30% w/Rebound, +6.30%

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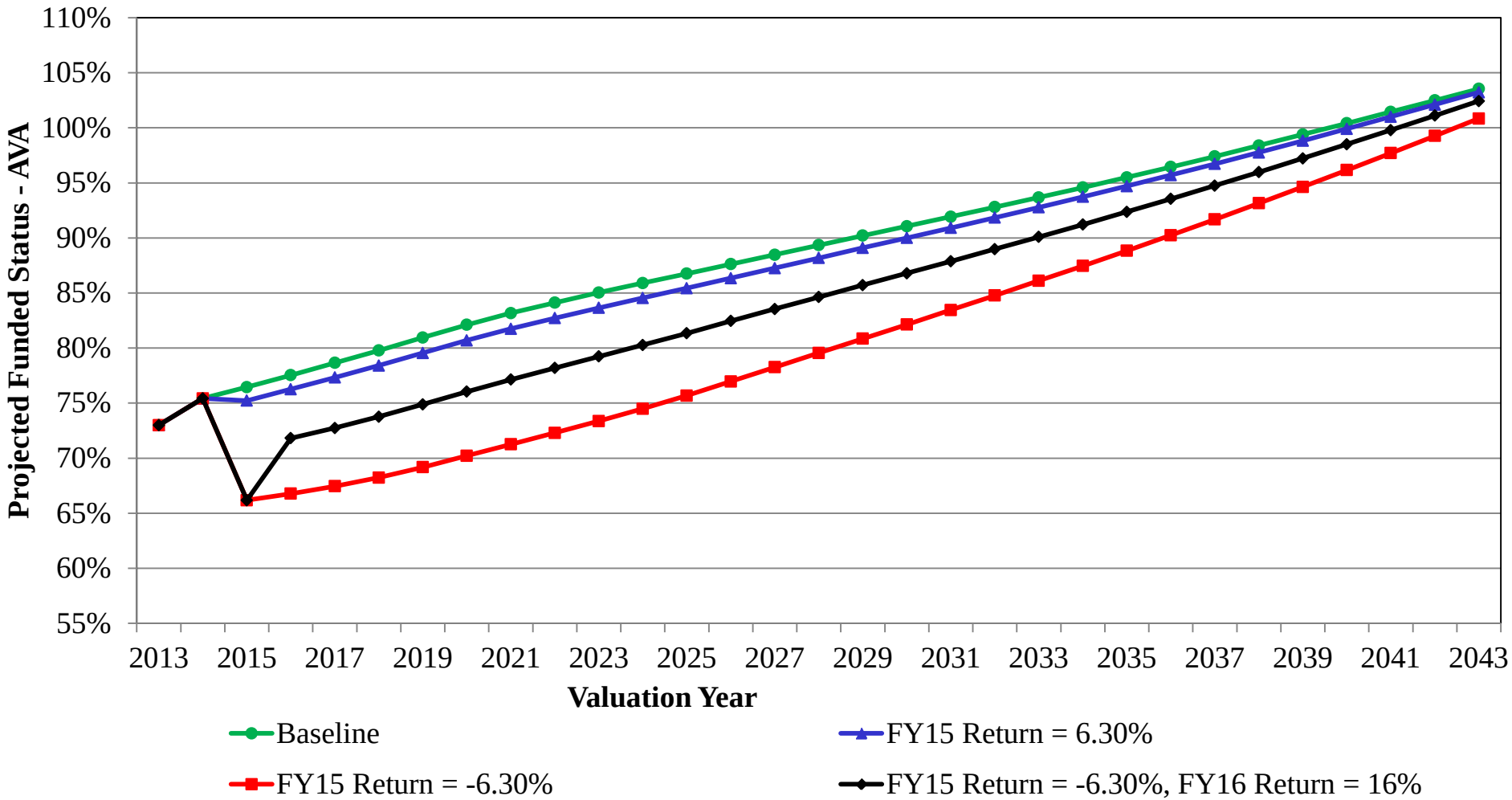

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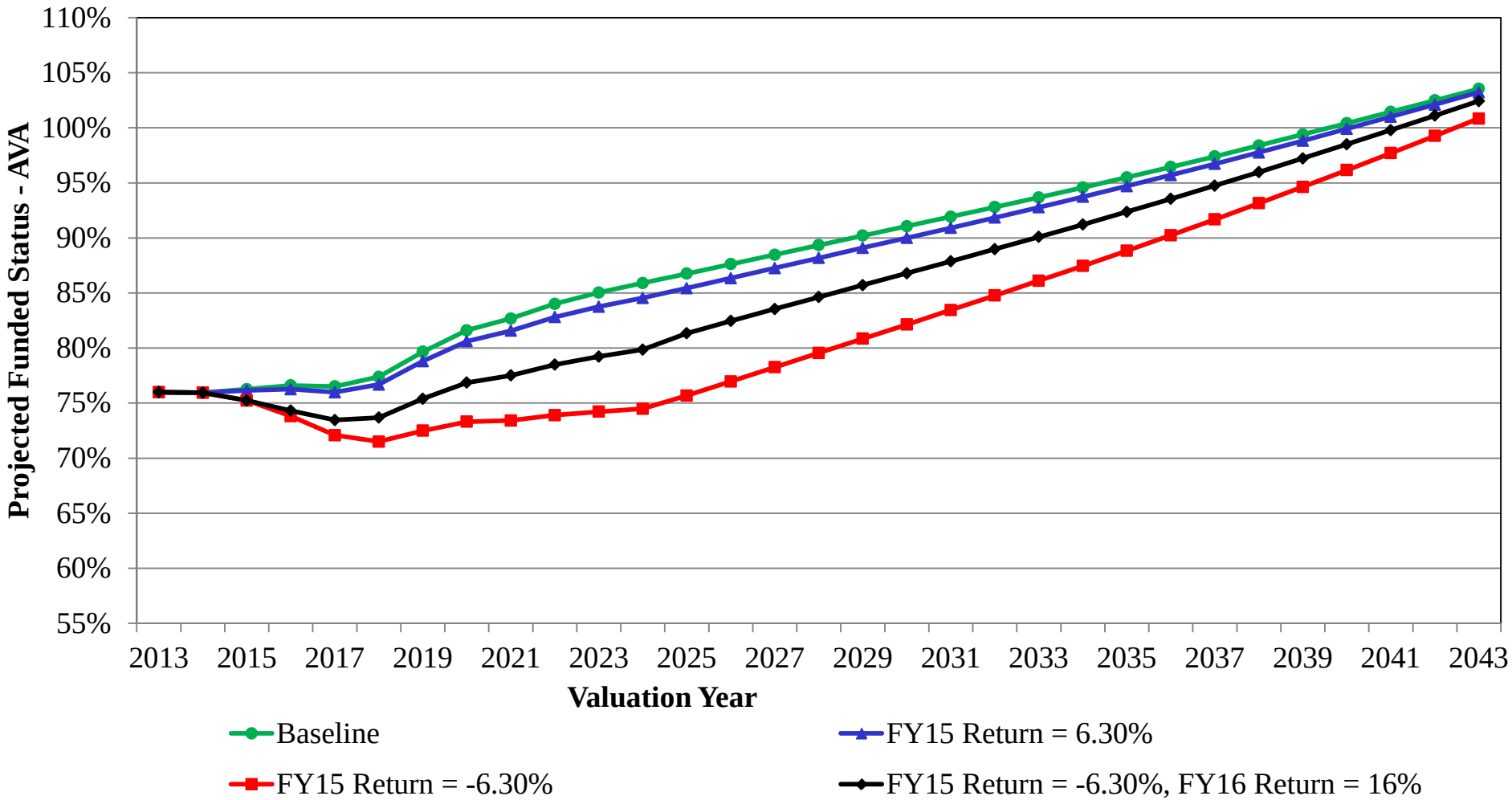

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PROJECTED CONTRIBUTION RATES
Baseline, -12.60%, -12.60% w/Rebound, +12.60%

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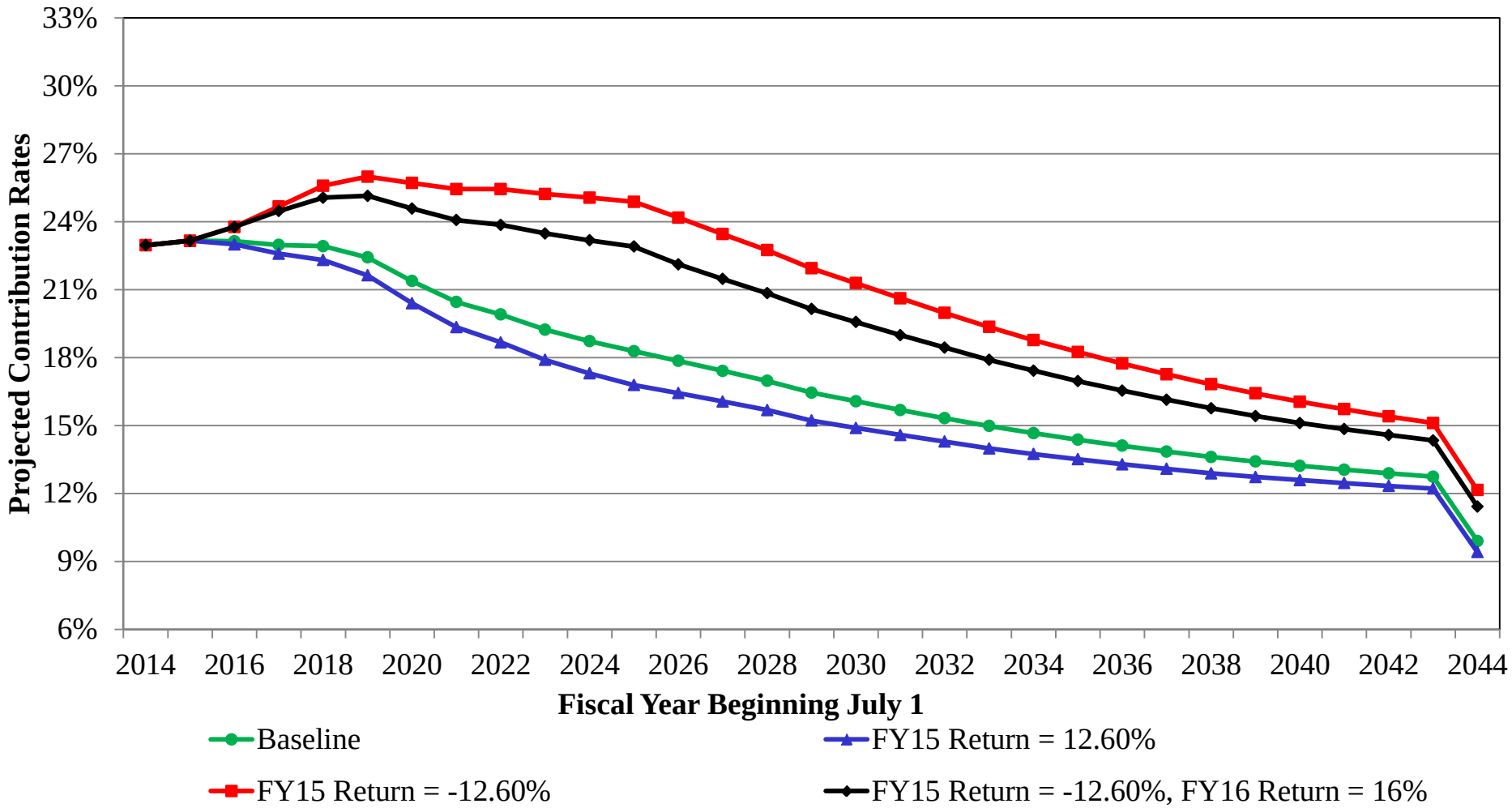

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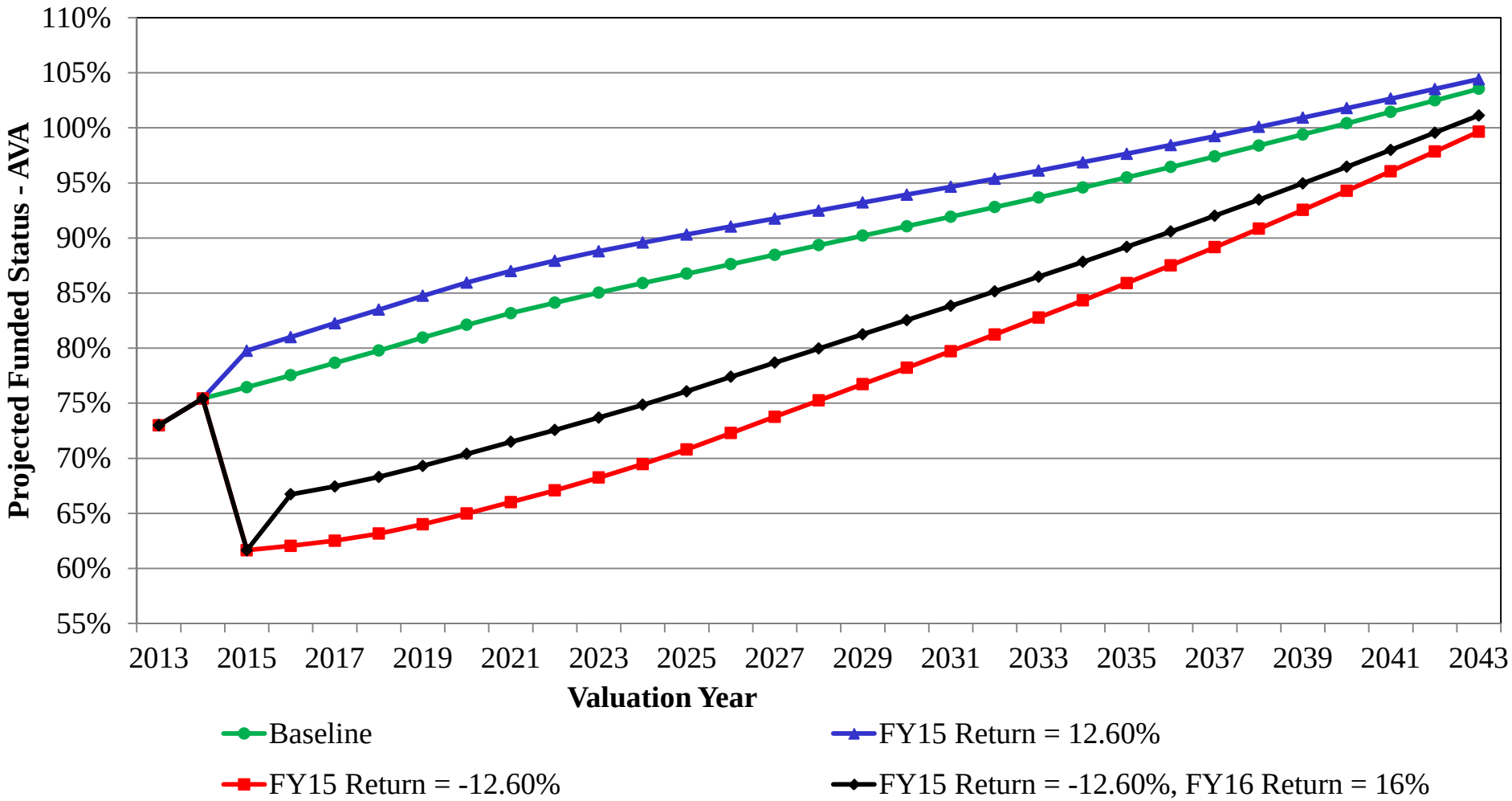

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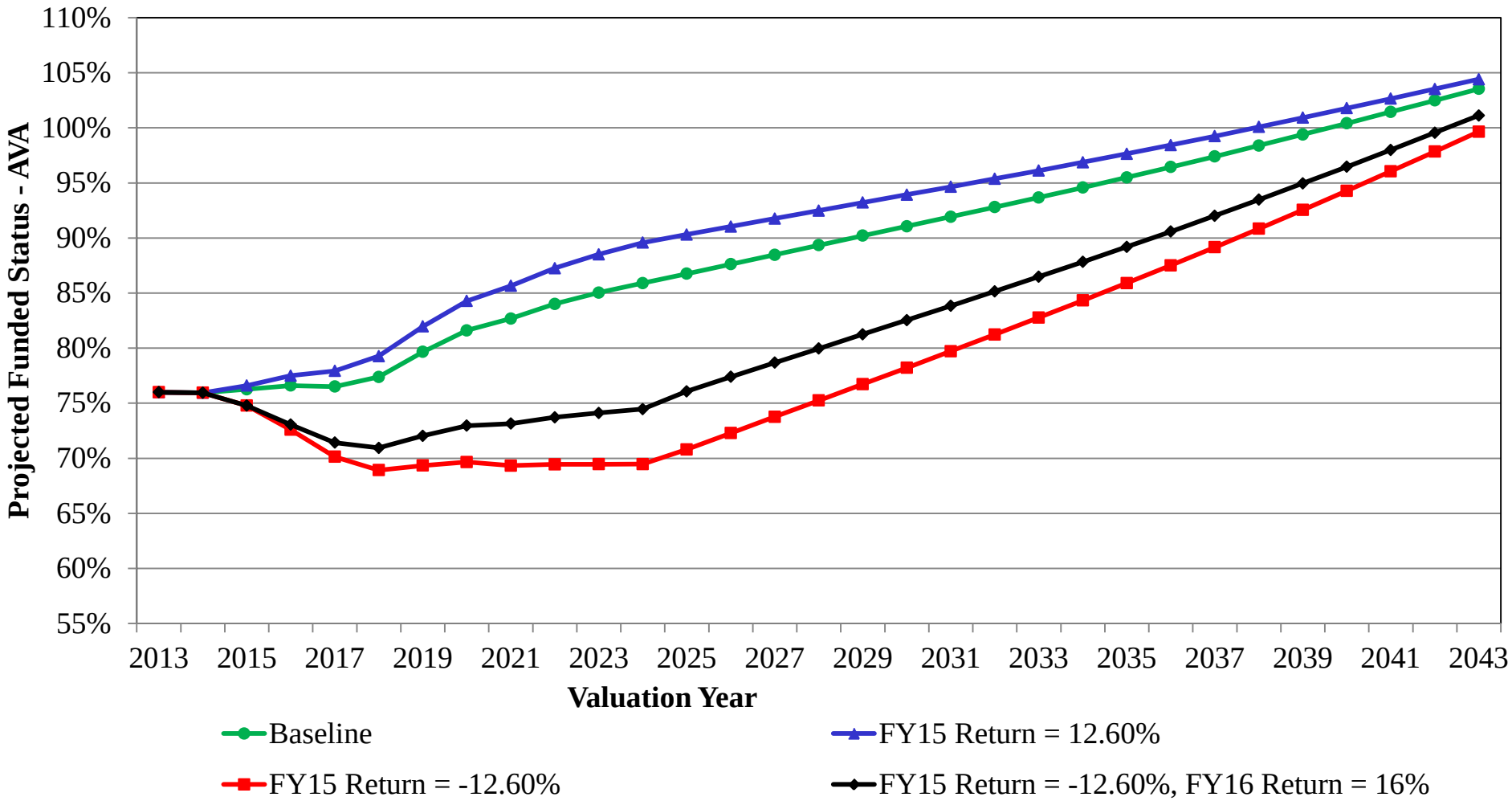

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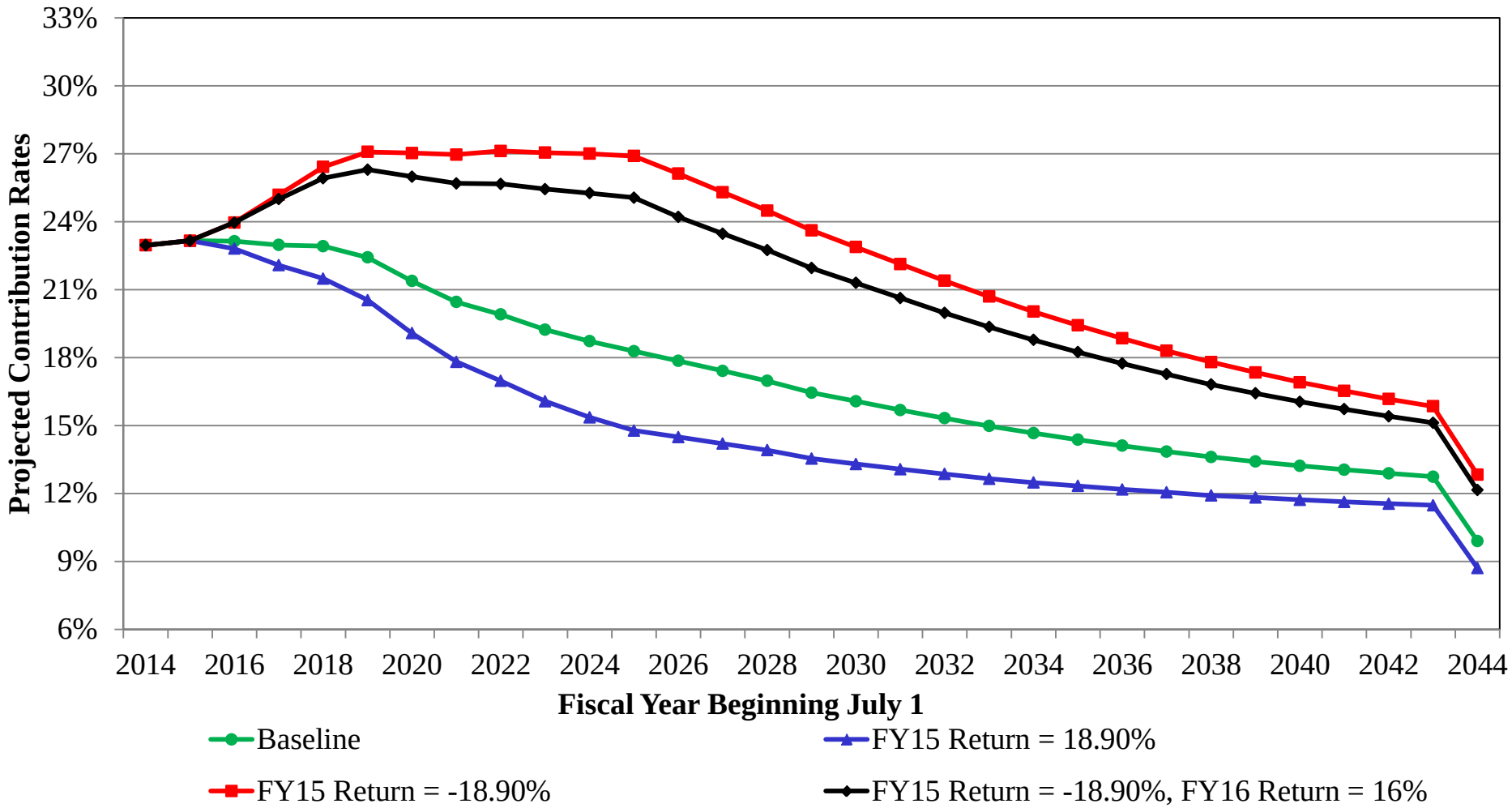

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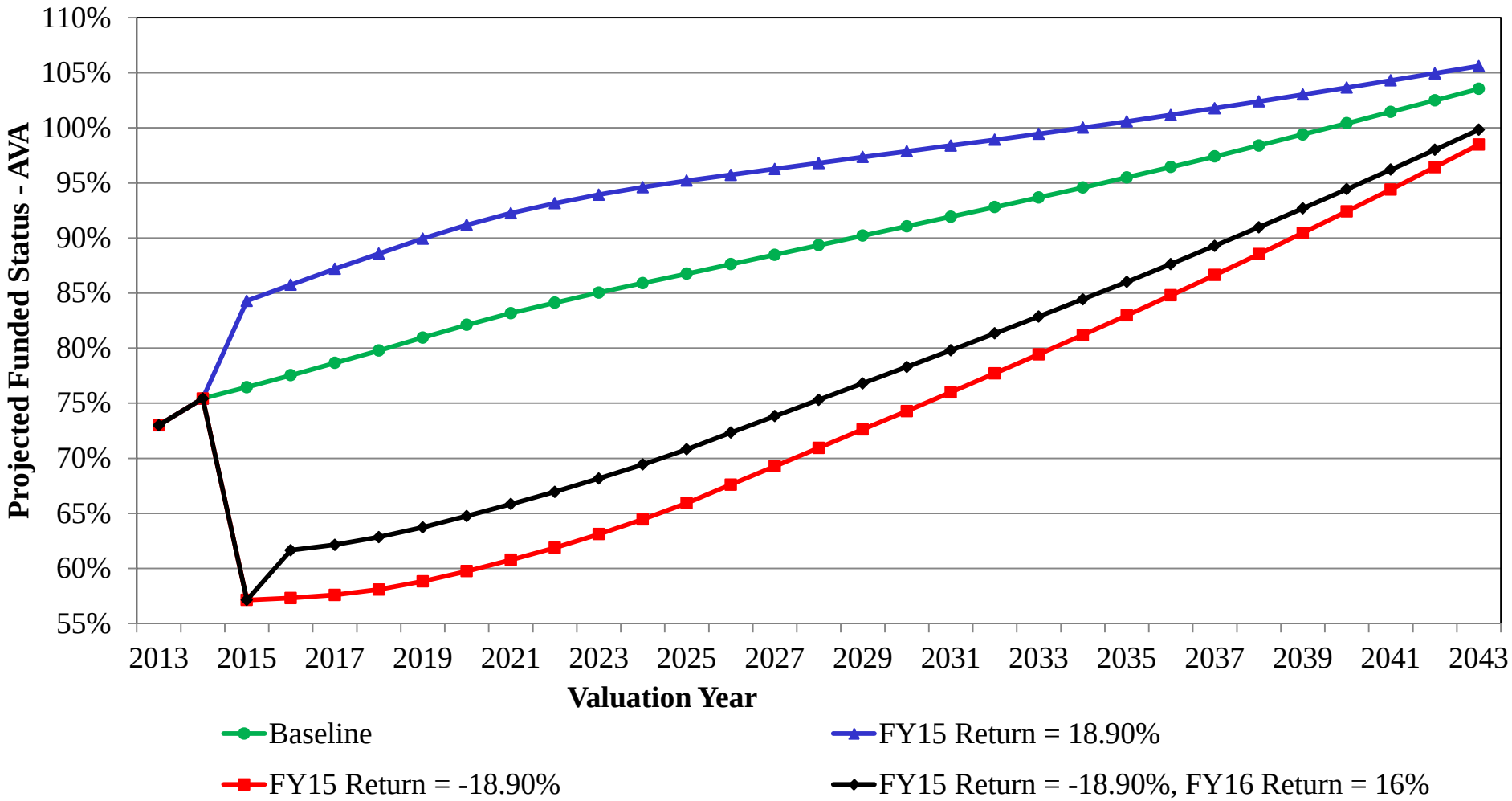

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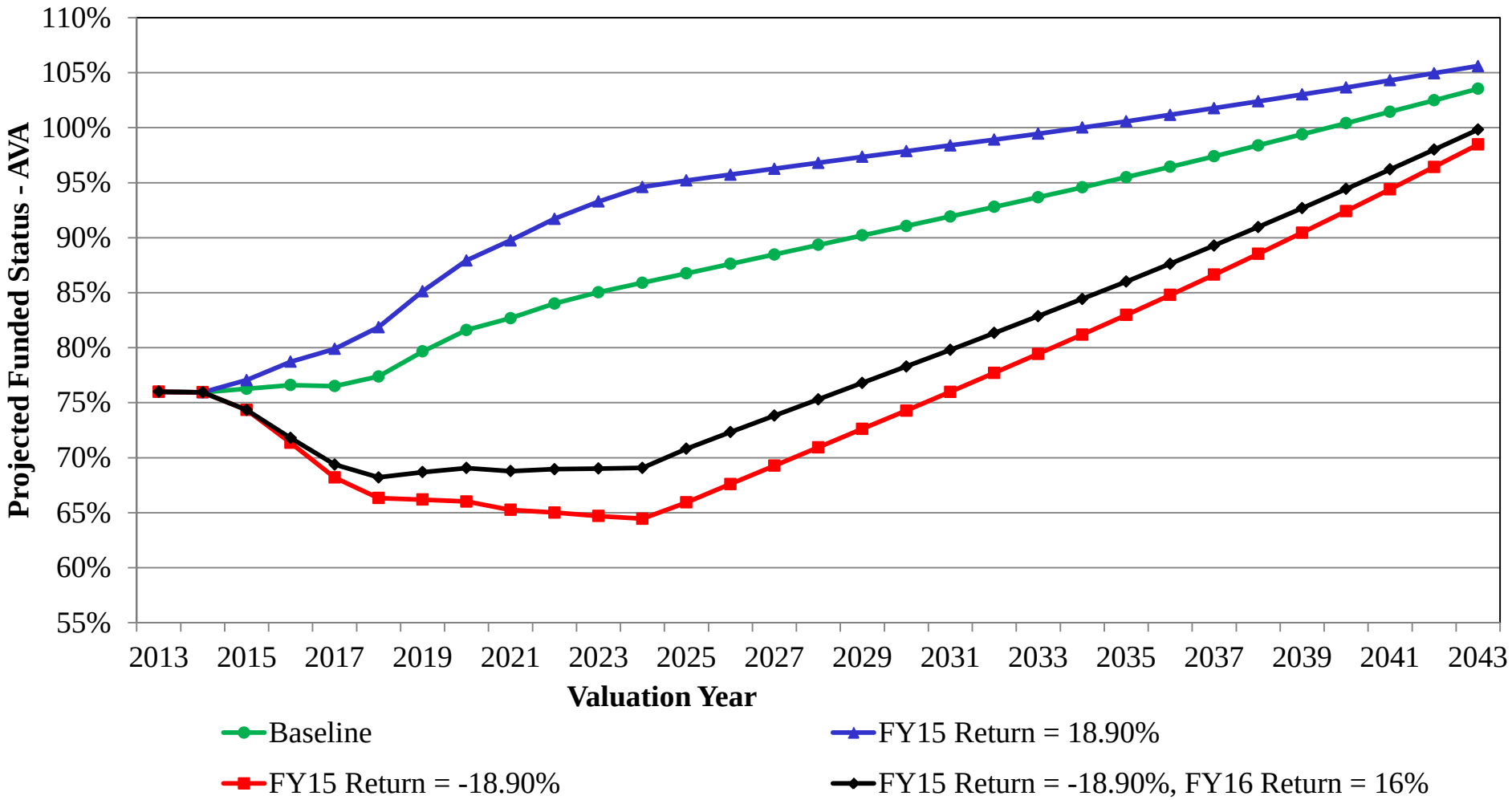

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PROJECTED CONTRIBUTION RATES

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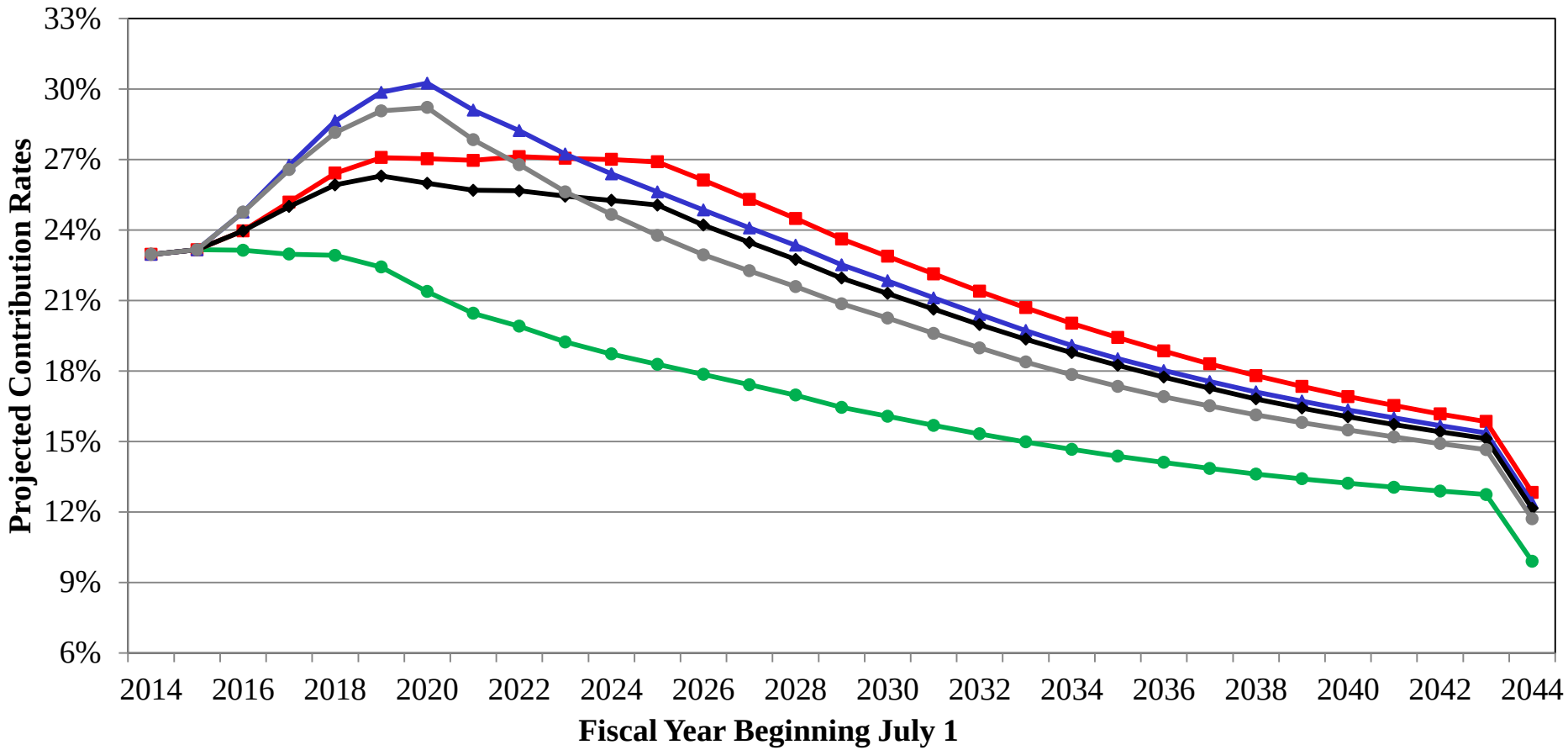

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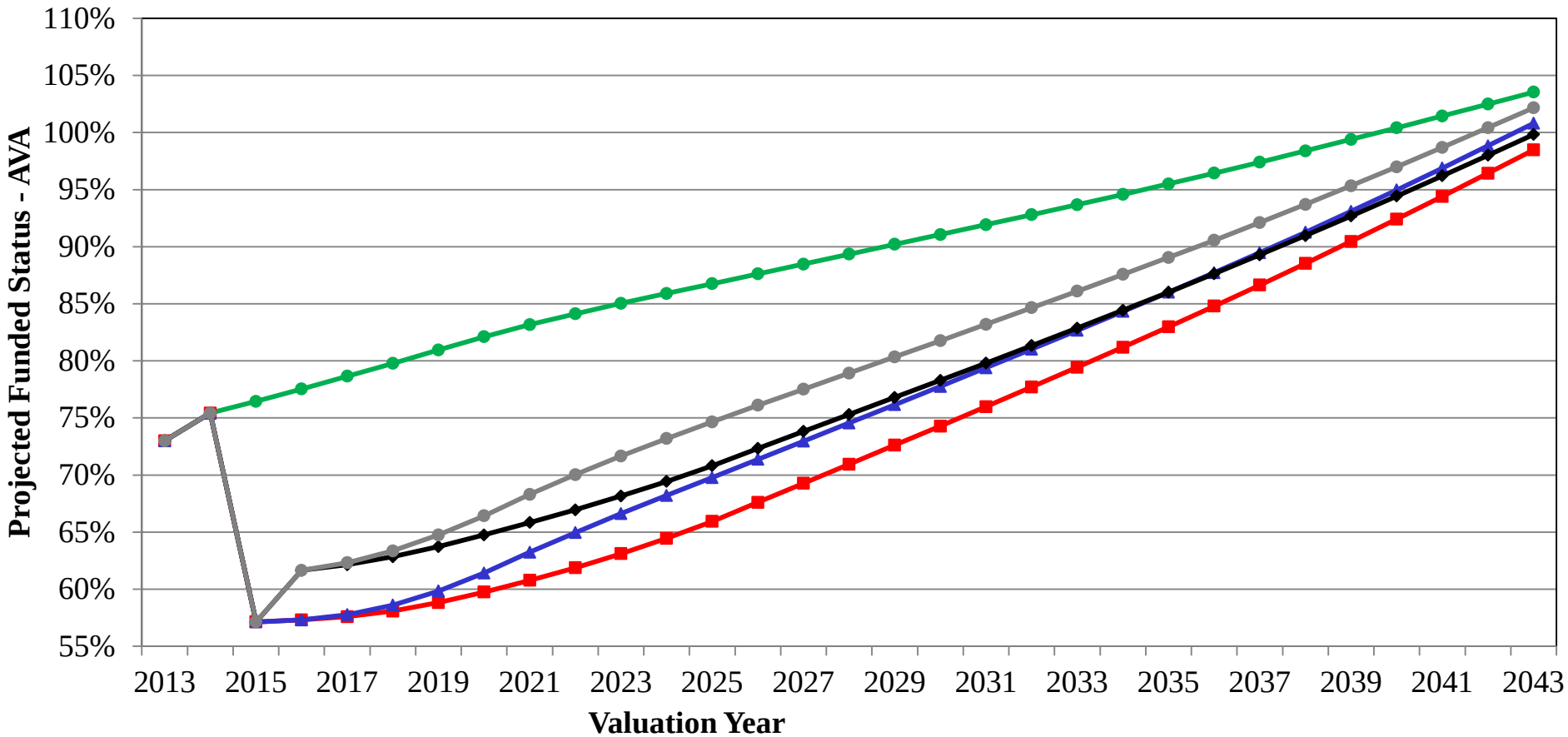

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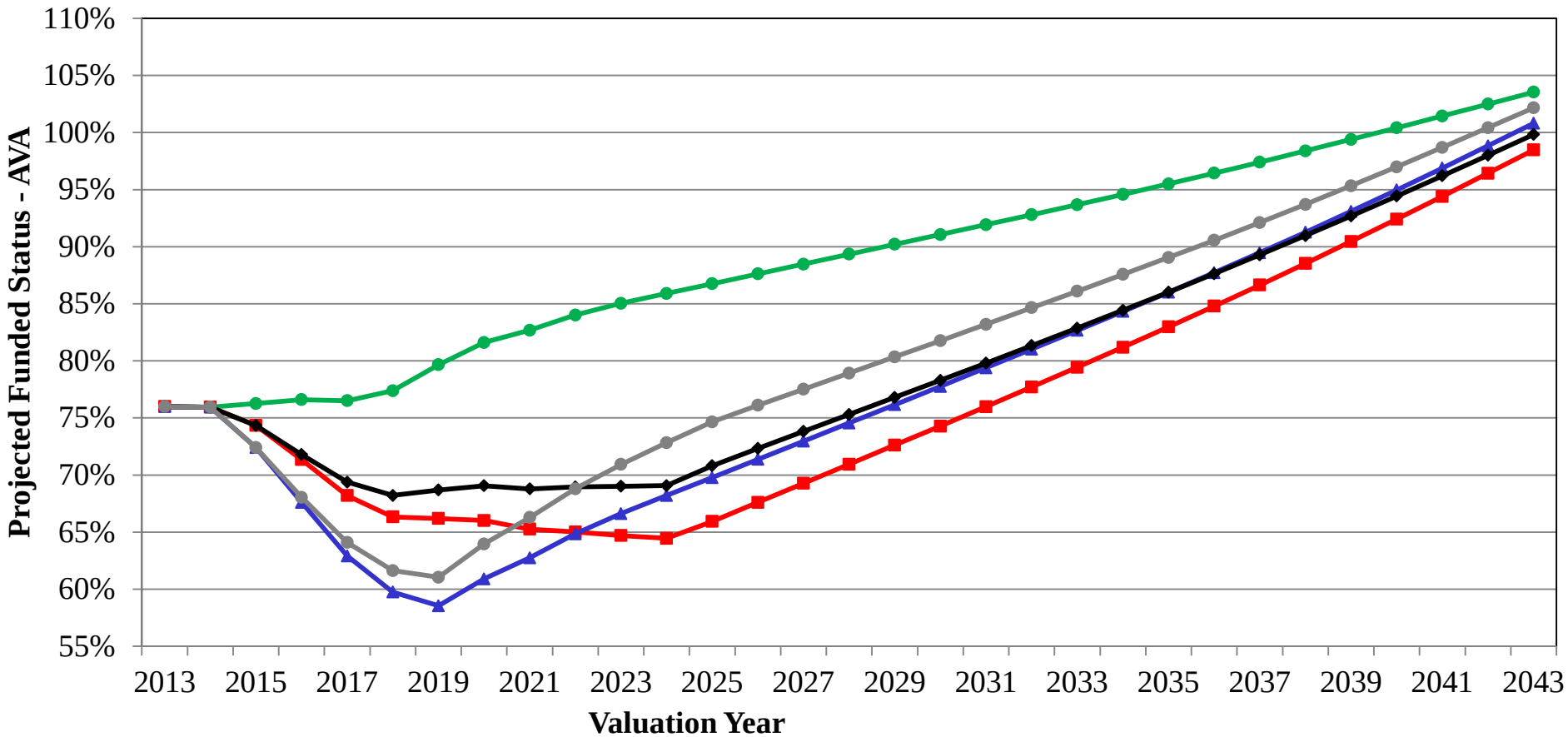

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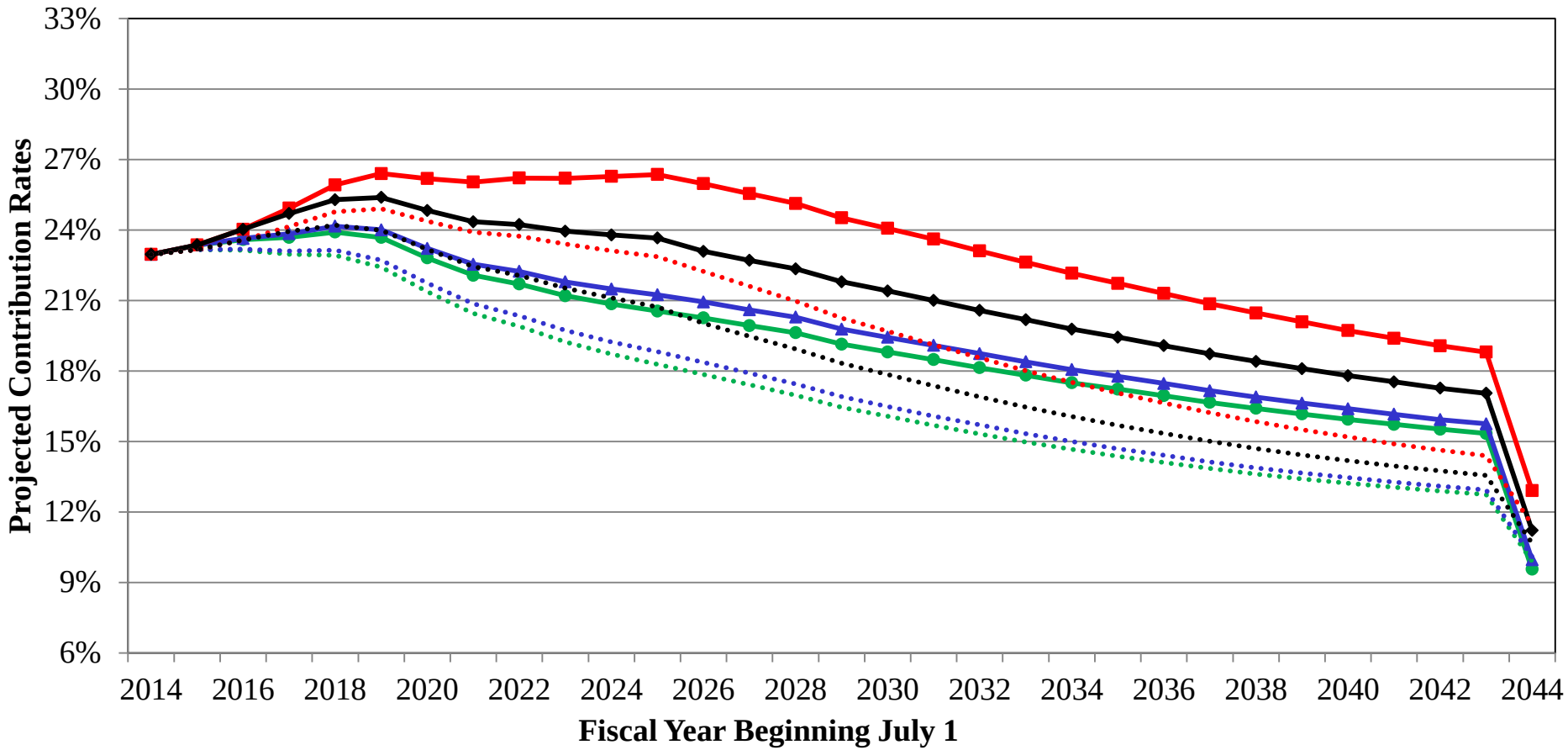
COMMENTS

- Population growth results in contribution rates declining and having less volatility due to investment gains or losses
- Population growth has very little effect on funded status
- Asset smoothing keeps contribution rates and funded status from moving suddenly and constrains contribution rates to a narrower range

Appendix

PROJECTED CONTRIBUTION RATES
Baseline, -6.30%, -6.30% w/Rebound, +6.30%

Assumes investment returns on Market Value of Assets of 10.0% in FY14 and 8.0% thereafter (except where noted). Excludes potential future PBIs.



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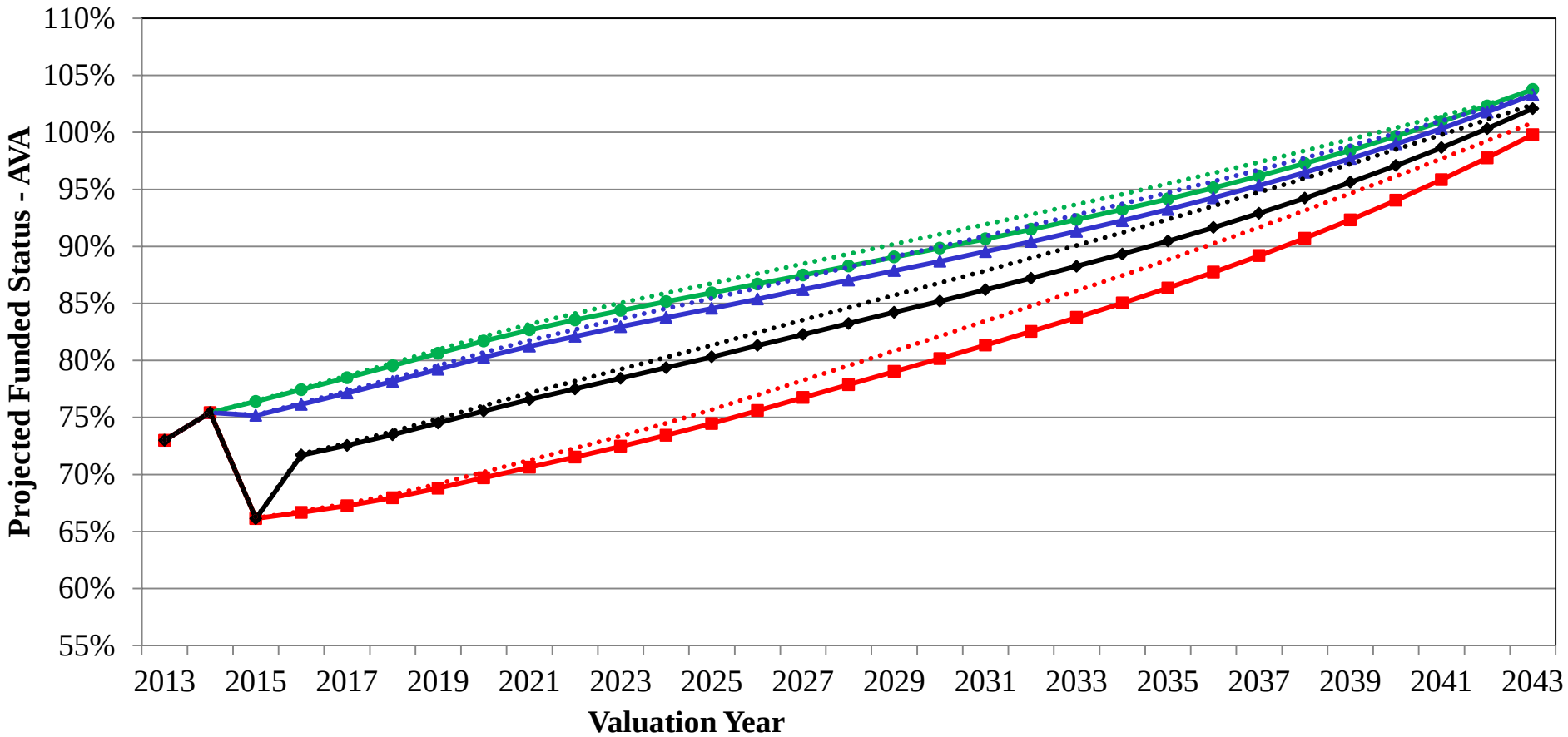

- Baseline; 0% Growth
- FY15 = 6.30%; 0% Growth
- FY15 = -6.30%; 0% Growth
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- Baseline; 2.5% Growth
- FY15 = 6.30%; 2.5% Growth
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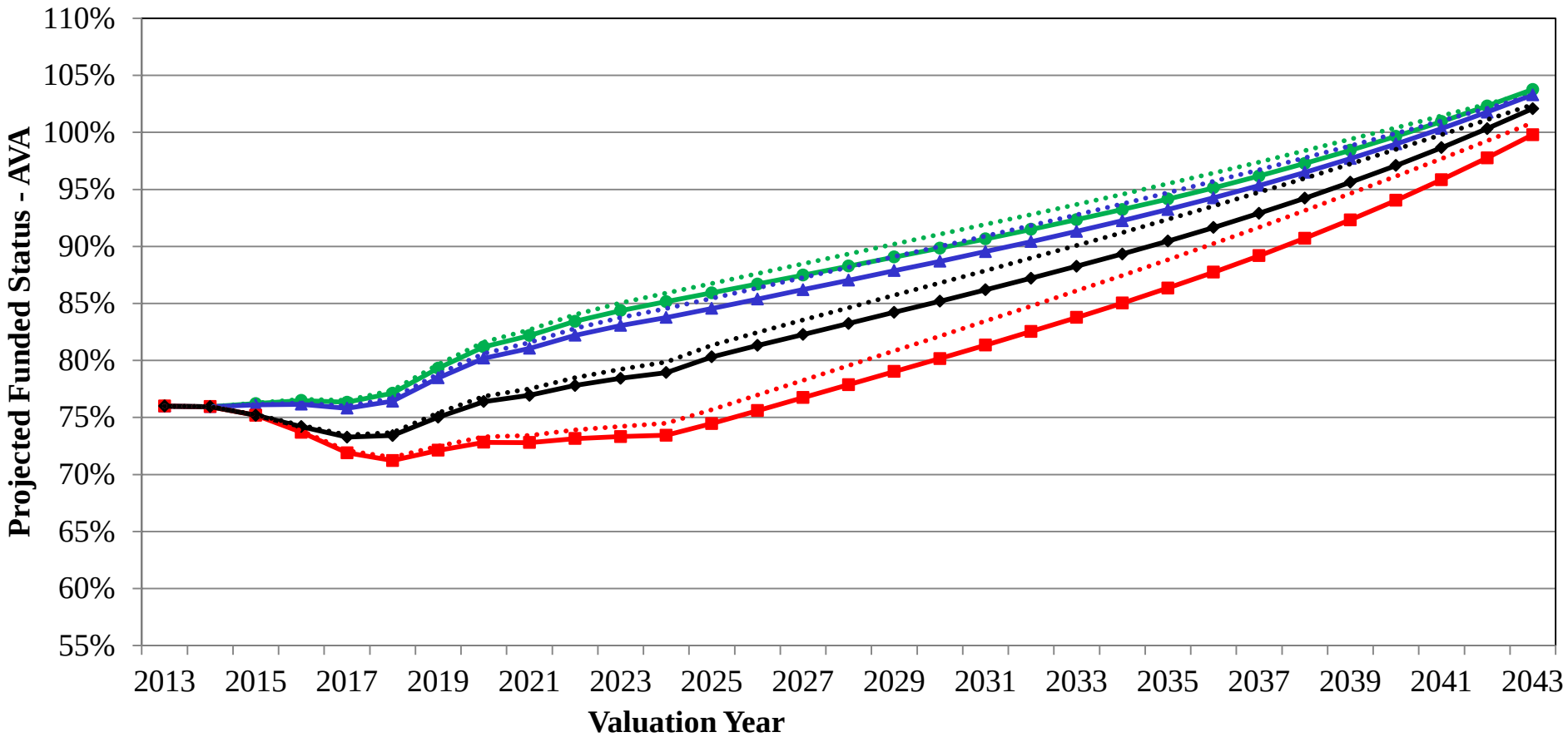

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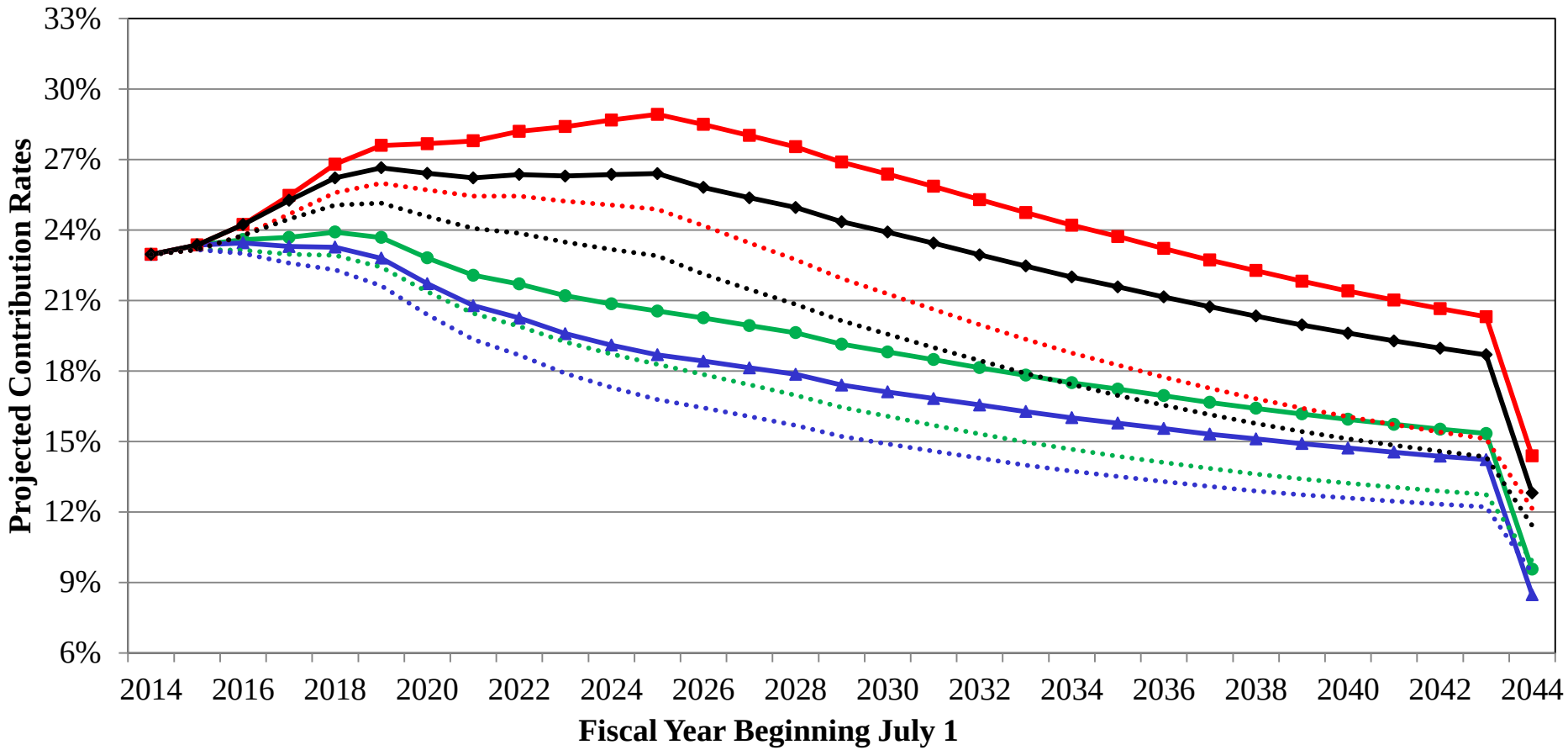

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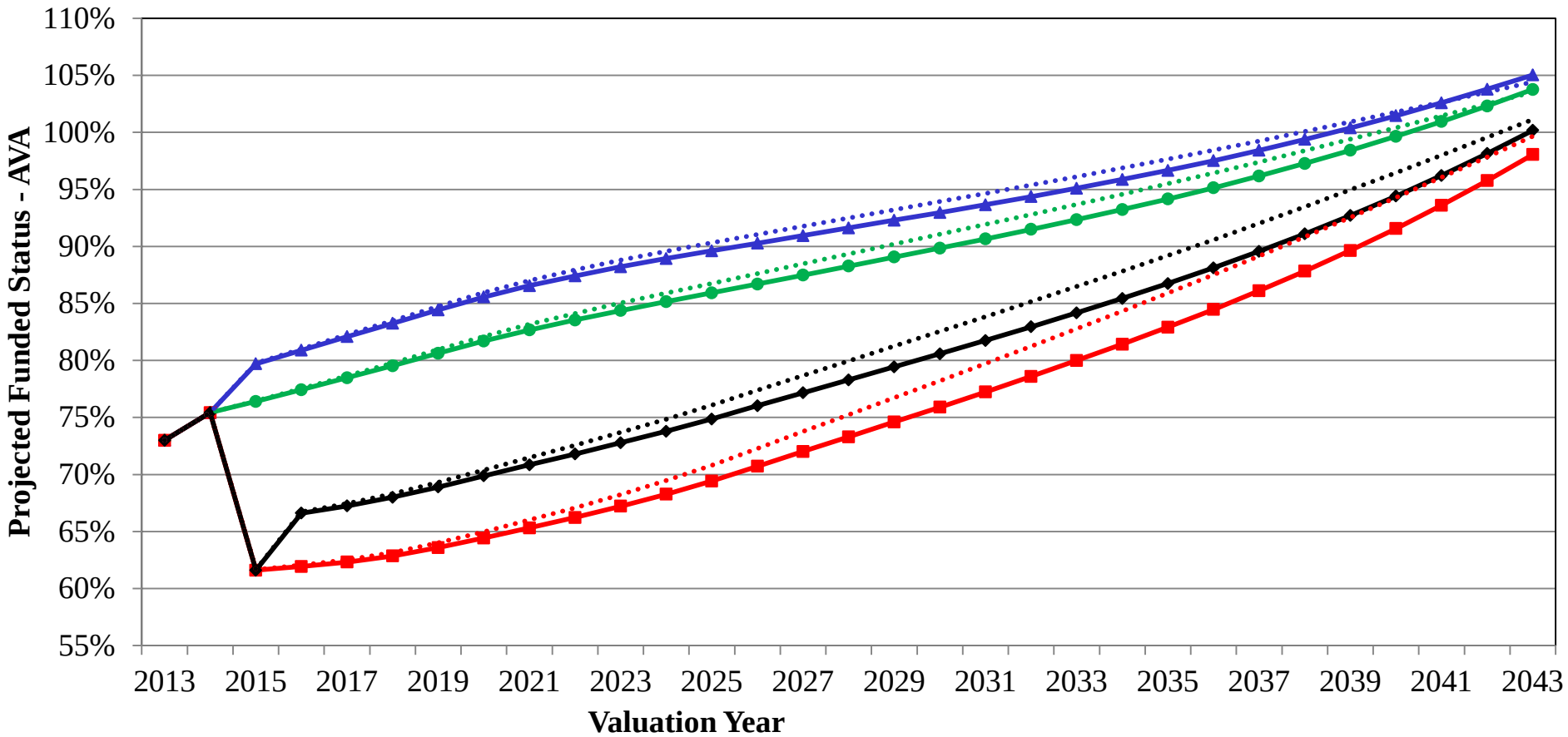

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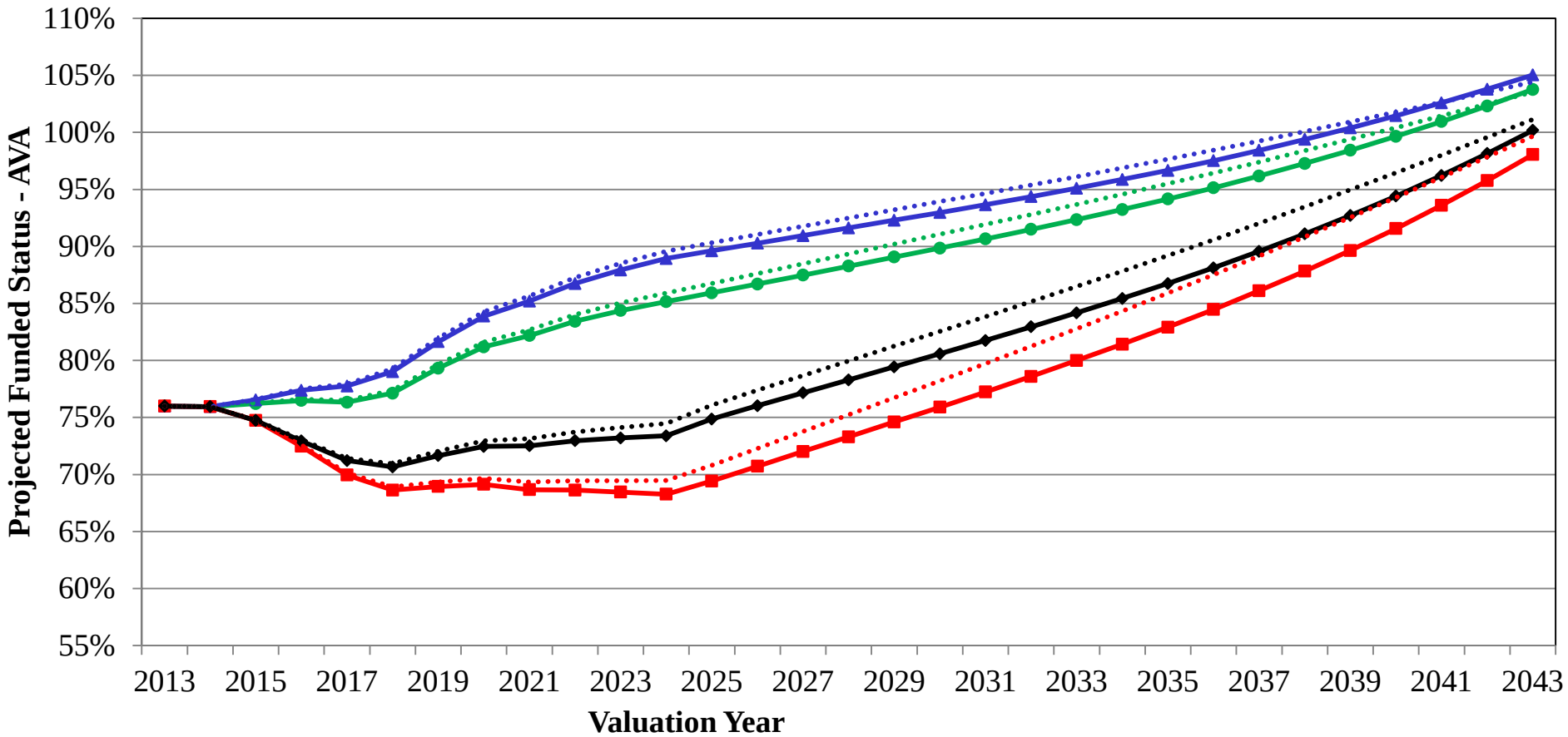

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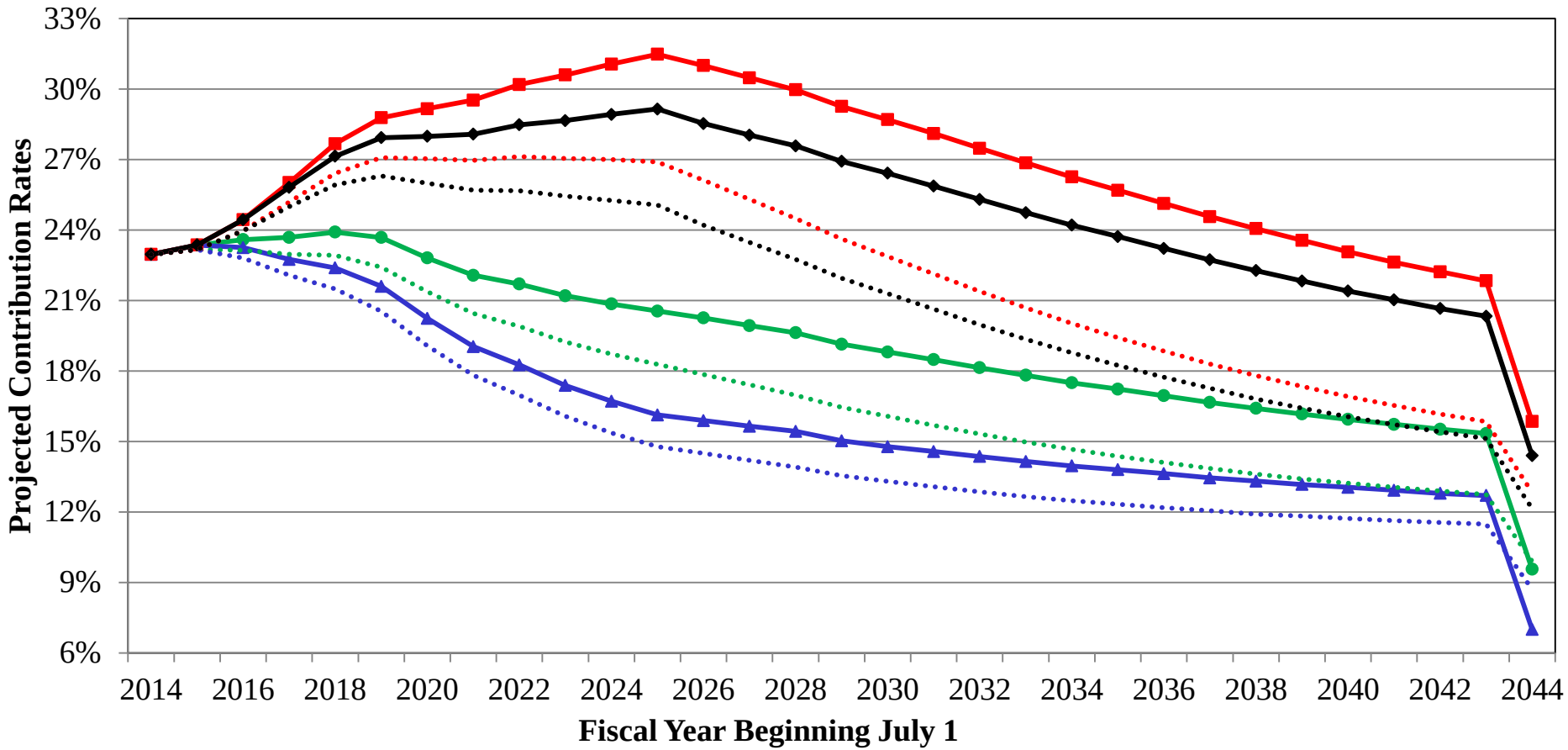

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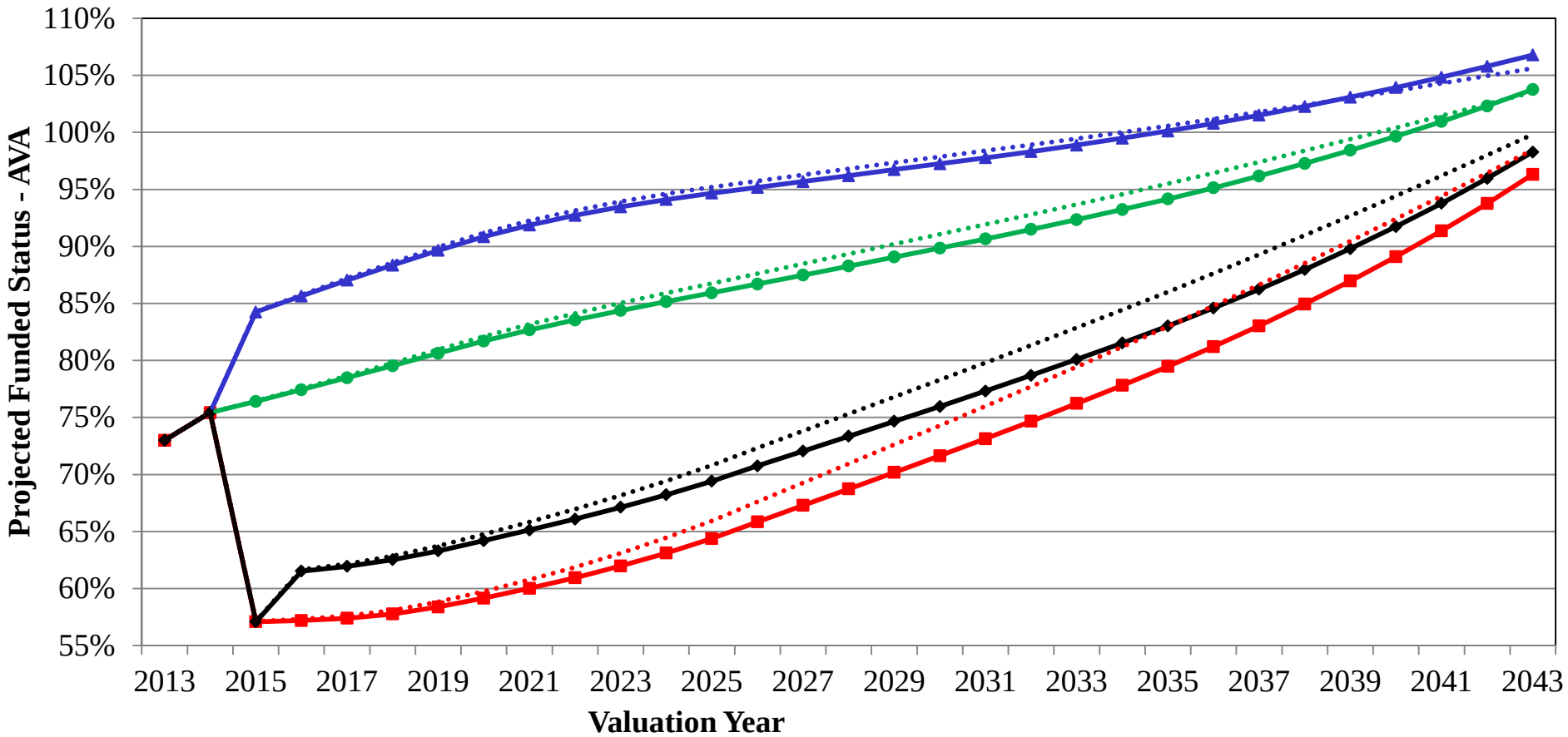

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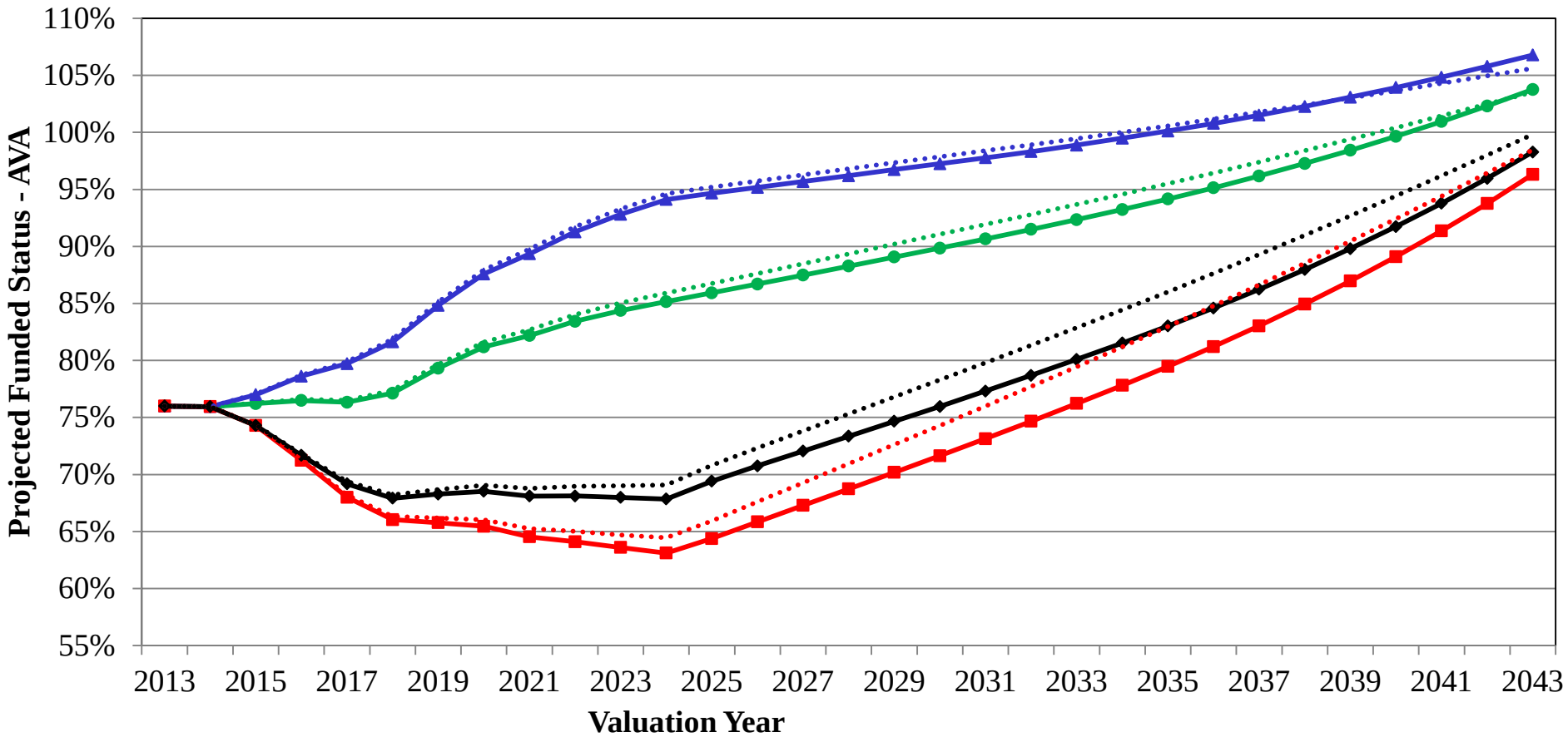

PROJECTED CONTRIBUTION RATES

Baseline, -18.90%, -18.90% w/5 Year Smoothing of FY15 Loss, -18.90% w/Rebound and 5 Year Smoothing of FY15 Loss

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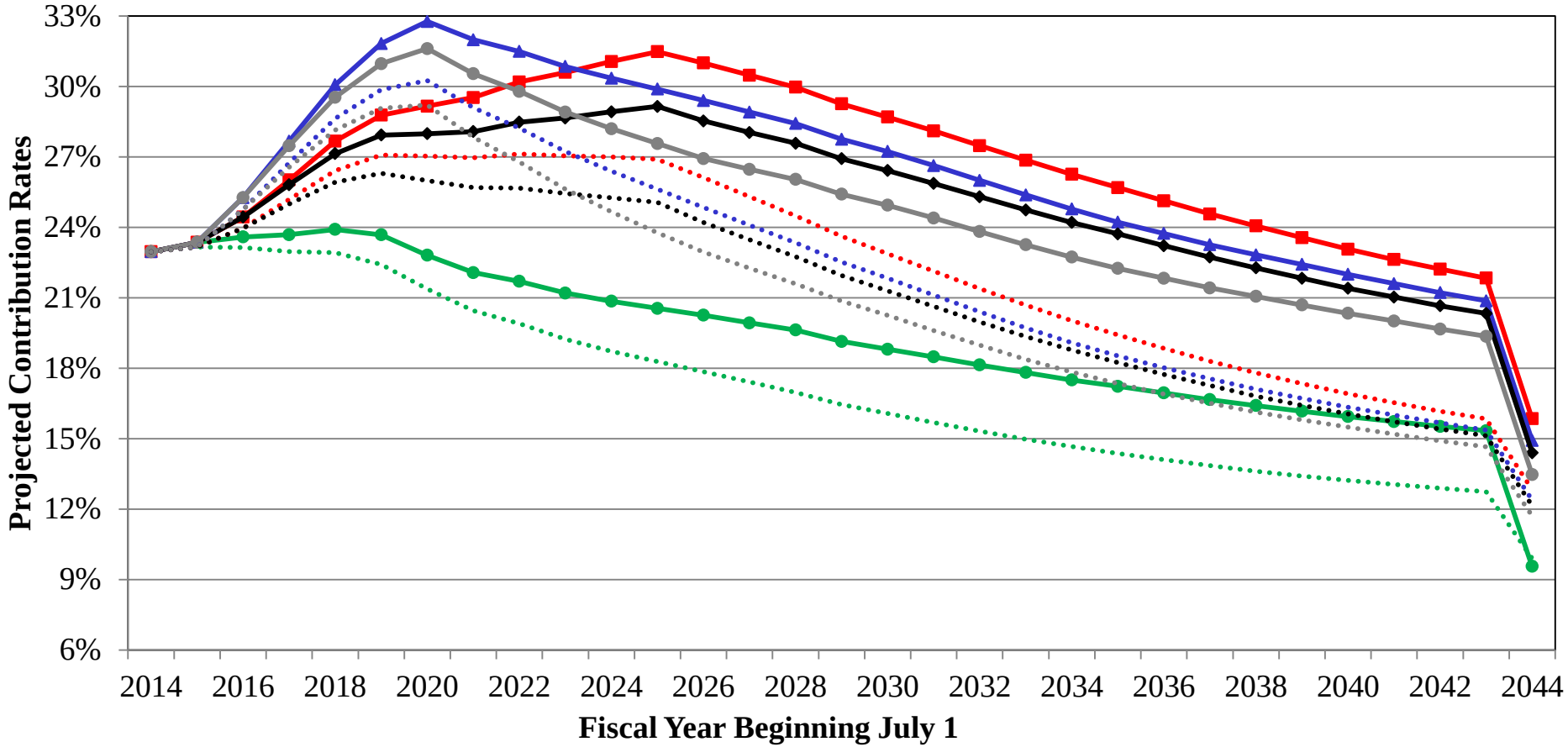

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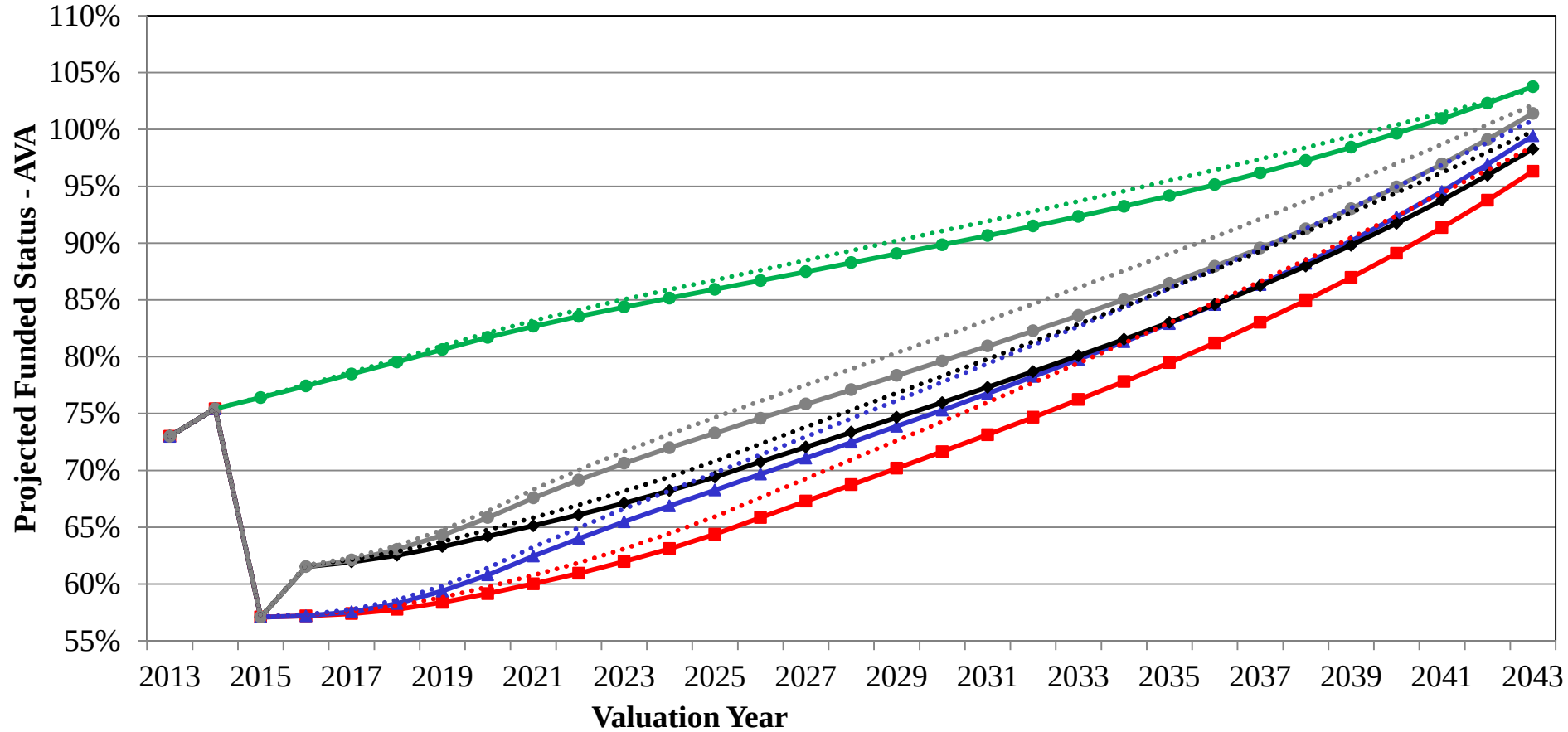

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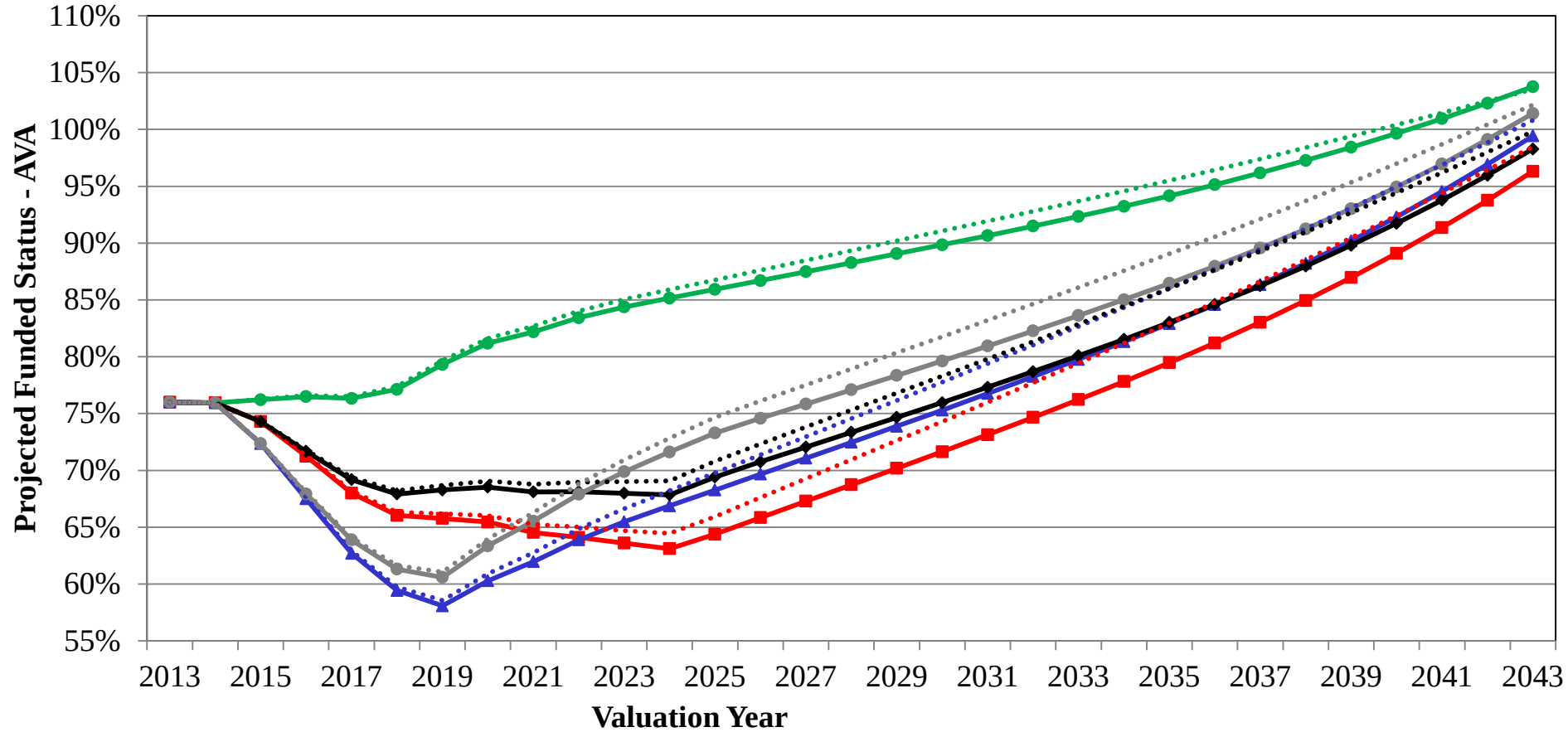

DISCLOSURES

- These projections are being developed for the Board of Trustees and Staff of ASRS
- These projections were developed based on generally accepted actuarial principles and techniques in accordance with all applicable Actuarial Standards of Practice (ASOPs)
- These projections are based on data, assumptions, methods, and plan provisions summarized in the Actuarial Report on the Valuation of the Plan as of June 30, 2013. Buck's work product contained herein was prepared exclusively for the Board of Trustees and Staff of ASRS. It is a complex, technical analysis that assumes a high level of knowledge concerning the Fund's operations.
- No third party recipient of Buck's work product should rely upon Buck's work product absent involvement of Buck or without our approval.

DISCLOSURES

- Future actuarial measurements may differ significantly from the current and projected measurements presented in this report due to such factors as: plan experience different from that anticipated by the economic and demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law. Due to the limited scope of this report, an analysis of the potential range of such future measurements has not been performed.
- These projections have been developed on the basis of alternative aggregate return scenarios and possible smoothing methods prescribed by ASRS to assist the Board of Trustees in evaluating the impact of the returns scenarios and the impact of the various smoothing methods. Other scenarios would produce materially different results.

DISCLOSURES

- The consultants who worked on this assignment are pension actuaries with significant experience in public funds like ASRS. Buck's advice is not intended to be a substitute for qualified legal or accounting counsel.
- Charlie Chittenden is a Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. Charlie is a Fellow of the Society of Actuaries and an Enrolled Actuary. He is available to answer any questions on the material contained in this presentation, or to provide explanations or further details as may be appropriate.

ARIZONA STATE RETIREMENT SYSTEM

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TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW. AZASRS.GOV

Paul Matson
Director

MEMORANDUM

TO: Mr. Tom Manos, Chair, Arizona State Retirement System (ASRS) Board

FROM: Mr. Patrick Klein, Assistant Director, External Affairs Division
Mr. Nick Ponder, Government Relations Officer

DATE: April 18, 2014

RE: **Agenda Item #5**: Presentation, Discussion and Appropriate Action Regarding the 2014 Legislative Session

Purpose
To discuss the ASRS 2014 legislative initiatives as well as discuss legislative proposals by other organizations or persons that affect the ASRS.

Recommendation
Information item only; no action required.

Background
The ASRS staff has been working with the Legislature to move the ASRS 2014 legislative initiatives forward.

An updated hard copy of the ASRS Bill Tracker will be provided at the meeting. The link to the most up-to-date bill tracker can be found at any time at https://www.azasrs.gov/web/Legislation.do under “Legislative Update.”

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Paul Matson
Director

MEMORANDUM

TO: Mr. Tom Manos, Chair, Arizona State Retirement System (ASRS) Board

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

DATE: April 18, 2014

RE: Internal Audit Review of Internal Investment Validation for the month ending March 31, 2014

The Internal Audit Division reviewed 1,955 trade transactions in the month of March on all the activity in the E2, E3, E4, E6, E7, E8 and F2 accounts. Our review included:

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

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

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Paul Matson
Director

MEMORANDUM

TO: Mr. Tom Manos, Chair, Arizona State Retirement System (ASRS) Board

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

DATE: April 18, 2014

RE: Tri-annual Review of Compliance Issues Regarding Total Fund Investments as of February 28, 2014

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

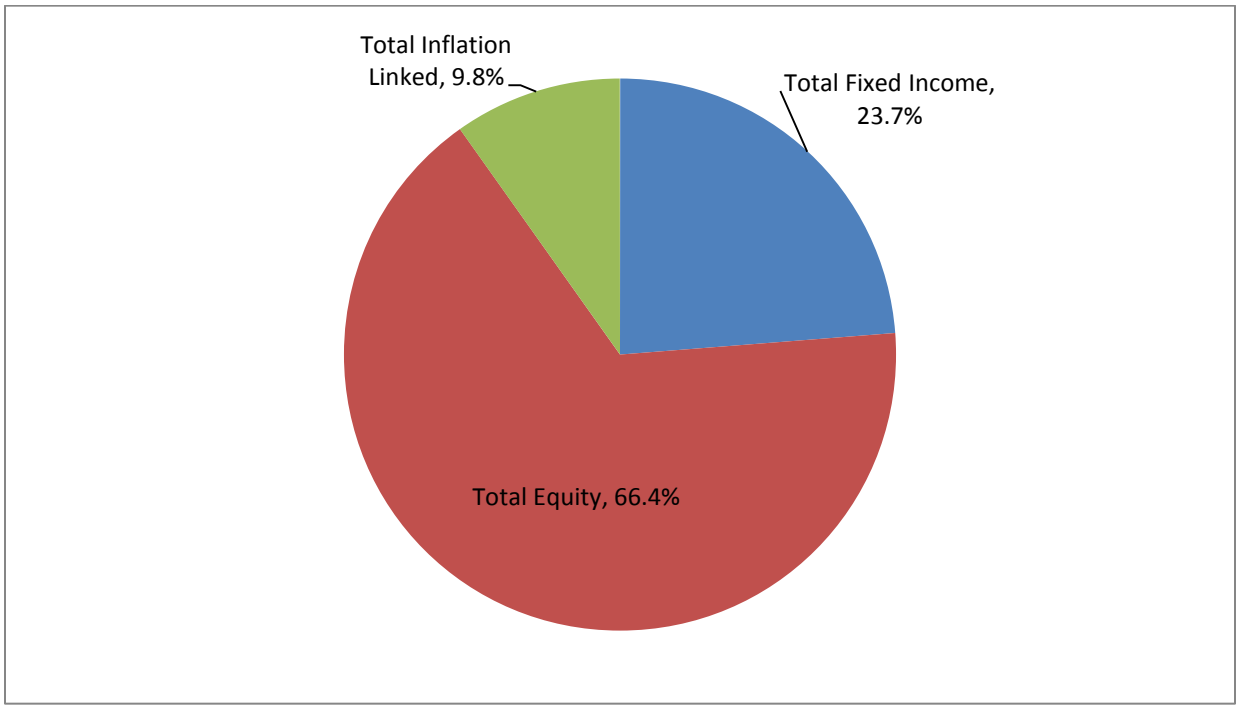
These topics include, but are not limited to, the following;

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

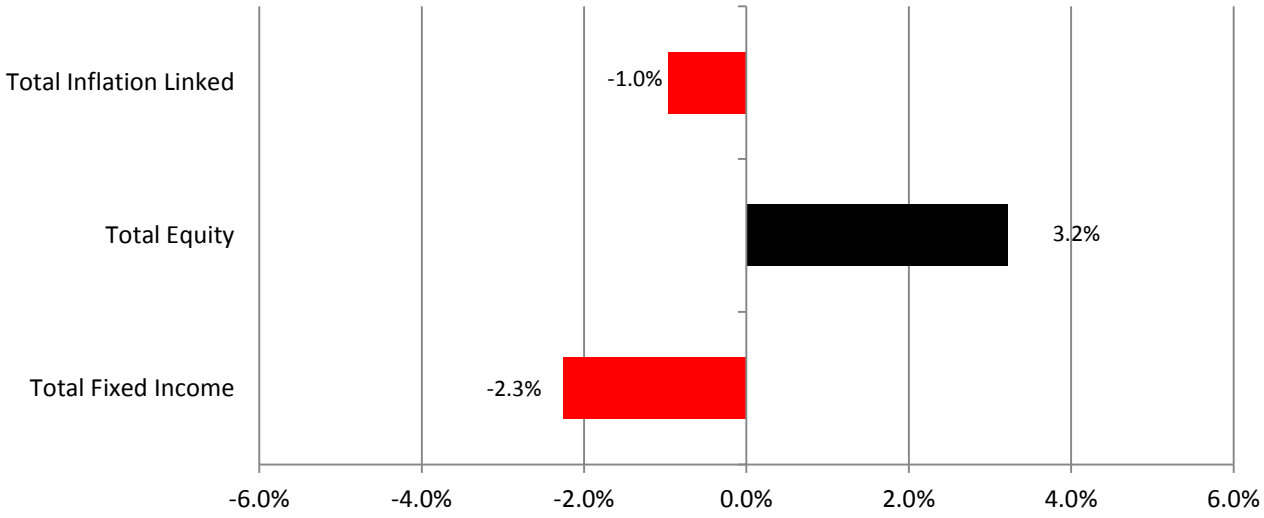
For the four-month period ending February 28, 2014, we found no exception to these topics.

TOTAL FUND POSITIONING – 3/31/14

ACTUAL PORTFOLIO



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



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

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

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

Pension (Plan, System, HBS Assets) — ASRS Market Value Report — As of: Monday, March 31, 2014

Account Manager	Account Manager Style	Fixed Income		Equity		Inflation Linked		Total	Pct of Fund
		Active	Enh/Passive	Active	Enh/Passive	Active	Enh/Passive		
State Street B&T: Boston	Master Cash & Pension Acct.		668,231,933					668,231,933	2.00%
	Cash Total							**$668,231,933**	2.00%
PIMCO: Newport Beach	Active (Core)	301,089,052						301,089,052	0.90%
GTAA Managers (2)	Active GTAA	1,155,569,518						1,155,569,518	3.47%
Blackrock: San Francisco	Passive (Intermediate Gov Credit)		23,569,869					23,569,869	0.07%
ASRS: Phoenix	Enhanced Passive F2		1,940,911,283					1,940,911,283	5.82%
	Core Fixed Income Total							**$3,421,139,723**	10.26%
								Core Fixed Income Policy	**13.00%**
Columbia: Minneapolis	Active	731,783,304						731,783,304	2.20%
Shenkman: Connecticut	Active	172,116,768						172,116,768	0.52%
JP Morgan: Indianapolis	Active	324,226,603						324,226,603	0.97%
	High Yield Fixed Income Total							**$1,228,126,675**	3.68%
								High Yield Fixed Income Policy	**5.00%**
	US Fixed Income Total							**$4,649,266,398**	13.95%
								US Fixed Income Policy Range: 8% - 28%	**18.00%**
PIMCO (local): Newport Beach	Active	336,660,915						336,660,915	1.01%
Ashmore (blended): London	Active	540,667,626						540,667,626	1.62%
	EM Debt Total							**$877,328,541**	2.63%
								EM Debt Policy	**4.00%**
	Opportunistic Debt							**$832,880,904**	2.50%
								Opportunistic Debt Policy Range: 0% - 10%	**0.00%**
	Private Debt Total							**$886,494,747**	2.66%
								Private Debt Policy	**3.00%**
	Fixed Income Total							**$7,914,202,522**	23.74%
								Total Fixed Income Policy Range: 15% - 35%	**25.00%**
Intech: FL	Active (Growth)			514,705,913				514,705,913	1.54%
LSV: Chicago	Active (Value)			784,902,399				784,902,399	2.35%
GTAA Managers (2)	Active GTAA			1,087,871,238				1,087,871,238	3.26%
ASRS: Phoenix	Passive E2				4,763,885,237			4,763,885,237	14.29%
ASRS: Phoenix	Enhanced Passive E7				760,827,680			760,827,680	2.28%
ASRS: Phoenix	Enhanced Passive E8				496,000,067			496,000,067	1.49%
ASRS: Phoenix	Risk Factor Portfolio				487,044,775			487,044,775	1.46%
	Large Cap Equity Total							**$8,896,836,937**	26.69%
								Large Cap Policy	**23.00%**
Wellington: Boston	Active (Core)			431,484,848				431,484,848	1.29%
CRM: New York	Active (Value)			98,061,234				98,061,234	0.29%
ASRS: Phoenix	Passive E3 (Growth)				514,429,035			514,429,035	1.54%
ASRS: Phoenix	Passive E4 (Value)				518,994,907			518,994,907	1.56%
	Mid Cap Equity Total							**$1,562,970,026**	4.69%
								Mid Cap Policy	**5.00%**
TimesSquare: New York	Active SMID (Growth)			511,565,053				511,565,053	1.53%
DFA: Santa Monica	Active (Value)			451,558,755				451,558,755	1.35%
Champlain:Vermont	Active (Core)			114,835,849				114,835,849	0.34%
ASRS: Phoenix	Passive E6				496,209,001			496,209,001	1.49%
	Small Cap Equity Total							**$1,574,168,658**	4.72%
								Small Cap Policy	**5.00%**
	U.S. Equity Total							**$12,033,975,620**	36.10%
								US Equity Policy Range: 26% - 38%	**33.00%**
Brandes: San Diego	Active (Value)			529,903,150				529,903,150	1.59%
Aberdeen: Edinburgh	Active (Value)			498,708,468				498,708,468	1.50%
Hansberger: Ft. Lauderdale	Active (Growth)			337,330,198				337,330,198	1.01%
Walter Scott: Edinburgh	Active (Growth)			231,371,422				231,371,422	0.69%
GTAA Managers (2)	Active GTAA			981,483,893				981,483,893	2.94%
Blackrock: San Francisco	Passive (EAFE)				2,328,667,262			2,328,667,262	6.99%
	Large Cap Developed Non-US Equity Total							**$4,907,488,594**	14.72%
								Large Cap Developed Policy	**14.00%**
AQR: Greenwich	Active (EAFE SC)			177,876,683				177,876,683	0.53%
DFA: Santa Monica	Active (EAFE SC)			225,541,108				225,541,108	0.68%
Franklin Templeton: San Mateo	Active (EAFE SC)			419,961,362				419,961,362	1.26%
Blackrock: San Francisco	Passive (EAFE SC)				463,059,640			463,059,640	1.39%
	Small Cap Developed Non-US Equity Total							**$1,286,446,446**	3.86%
								Small Cap Developed Policy	**3.00%**
William Blair: Chicago	Active (EM)			436,362,182				436,362,182	1.31%
Eaton Vance: Boston	Active (EM)			483,504,382				483,504,382	1.45%
LSV: Chicago	Active (EM)			286,004,531				286,004,531	0.86%
Blackrock: San Francisco	Passive (EM)				648,915,959			648,915,959	1.95%
	Emerging Markets Equity Total							**$1,854,787,054**	5.56%
								Emerging Markets Policy	**6.00%**
	Non-US Equity Total							**$8,048,722,094**	24.15%
								Non-US Equity Policy Range: 16% - 28%	**23.00%**
	Private Equity Total							**$1,871,081,318**	5.61%
								Private Equity Policy Range: 5% - 9%	**7.00%**
	Opportunistic Equity							**$190,723,503**	0.57%
								Opportunistic Equity Policy Range: 0% - 3%	**0.00%**
	Equity Total							**$22,144,502,536**	66.43%
								Total Equity Policy Range: 53% - 73%	**63.00%**
Gresham: New York						845,513,408		845,513,408	2.54%
GTAA Managers (2)	Active GTAA					323,447,378		323,447,378	0.97%
	Commodities Total							**$1,168,960,786**	3.51%
								Commodities Policy Range: 1% - 7%	**4.00%**
GTAA Manager (1)	Active GTAA					44,113,440		44,113,440	0.13%
	Real Estate Total							**$2,012,879,240**	6.04%
								Real Estate Policy Range: 6% - 10%	**8.00%**
	Infrastructure Total							**$0**	0.00%
								Infrastructure Policy Range: 0% - 3%	**0.00%**
	Farmland & Timber Total					92,404,140		**$92,404,140**	0.28%
								Farmland & Timber Policy Range: 0% - 3%	**0.00%**
	Opportunistic Inflation Linked Total							**$0**	0.00%
								Opportunistic I/L Policy Range: 0% - 3%	**0.00%**
	Inflation Linked Total							**$3,274,244,166**	9.82%
								Inflation Linked Policy Range: 7%-15%	**12.00%**
	TOTAL Amounts	$4,448,608,533	$3,465,593,989	$10,664,869,344	$11,479,633,192	$3,366,648,306	$0	**$33,332,949,224**	**Total Fund**
	TOTAL Percent	13.35%	10.40%	31.99%	34.44%	10.10%	0.00%		

Asset Class	Actual Portfolio	SAA Policy: Target (Range)	Rebalancing Assumed Port	Rebalancing Adj Policy	Assumed - Adjusted % diff	Assumed - Adjusted $ diff	Policy Band check Actual - Adj	Passive Min	Passive Actual
Cash	2.00%								
Core	10.26%	13%						50%	60%
High Yield	3.68%	5%							
US Fixed Income	13.95%	18% (8-28%)	15.50%	18.55% (9-29%)	-3.05%	-$1,015,157,992	OK		
EM Debt	2.63%	4%		4.00%					
Opportunistic Debt	2.50%	0% (0-10%)	2.50%	0% (0-10%)	2.50%	$832,880,904	OK		
Private Debt	2.66%	3%		3.00%					
Total Fixed Income	**23.74%**	**25% (15-35%)**	**23.29%**	**25.55% (16-36%)**	**-2.26%**	**-$751,760,246**	**OK**		
Large Cap	26.69%	23%							
Mid Cap	4.69%	5%							
Small Cap	4.72%	5%							
US Equity	**36.10%**	**33% (26-38%)**	**37.47%**	**35.23% (28-40%)**	**2.24%**	**$747,659,381**	**OK**	**50%**	**64%**
Developed Large Cap	14.72%	14%							
Developed Small Cap	3.86%	3%							
Emerging Markets	5.56%	6%							
Non-US Equity	**24.15%**	**23% (16-28%)**	**23.90%**	**23.49% (16-28%)**	**0.41%**	**$135,342,071**	**OK**	**30%**	**43%**
Private Equity	5.61%	7% (5-9%)	5.61%	5.61% (4-8%)	0.00%	$0	OK		
Opportunistic Equity	0.57%	0% (0-3%)	0.57%	0% (0-3%)	0.57%	$190,723,503	OK		
Total Equity	**66.43%**	**63% (53-70%)**	**67.55%**	**64.33% (54-71%)**	**3.22%**	**$1,073,724,956**	**OK**		
Commodities	3.51%	4% (1-7%)	2.97%	4.08% (1-7%)	-1.11%	-$370,255,410	OK		
Real Estate	6.04%	8% (6-10%)	5.91%	6.04% (4-8%)	-0.13%	-$44,113,440	OK		
Infrastructure	0.00%	0% (0-3%)	0.00%	0% (0-3%)	0.00%	$0	OK		
Farmland & Timber	0.28%	0% (0-3%)	0.28%	0% (0-3%)	0.28%	$92,404,140	OK		
Opportunistic I/L	0.00%	0% (0-3%)	0.00%	0% (0-3%)	0.00%	$0	OK		
Total Inflation Linked	**9.82%**	**12% (8-16%)**	**9.15%**	**10.12% (6-14%)**	**-0.97%**	**-$321,964,710**	**OK**		
Total	**100.00%**	**100%**	**100.00%**	**100.00%**	**0.00%**	**$0**		**30%**	**40%**
								Internally Managed Portfolios:	
Total GTAA								**$9,491,257,212**	**28%**
Bridgewater	$3,006,649,615	9.0%							
Windham	$585,835,853	1.8%							
Total	**$3,592,485,467**	**10.8%**							
Policy	**10% ±5%**	**OK**							

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

ARIZONA STATE RETIREMENT SYSTEM
Investment Management Division

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

Period Ending Mar 31, 2014
FINAL

				Net Returns (%)								Excess Returns (basis points)							
								Annualized								Annualized			
	Style	Inception	Amount ($mil.)	Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	ITD	Month	3 Months	YTD	1 Year	3 Years	5 Years	10 years	ITD
US EQUITY LARGE CAP																			
E2 MODEL	INDEXED	04/01/1997	4,764	0.83	1.79	1.79	21.69	14.61	21.12	7.46	7.49	-1	-2	-2	-17	-4	-3	5	7
S&P 500 INDEX				0.84	1.81	1.81	21.86	14.66	21.16	7.42	---								
INTECH LARGE CAP	QUANTITATIVE	01/01/2003	515	-2.21	0.11	0.11	22.19	13.96	19.93	7.79	9.76	-148	-128	-128	-93	-143	-118	-5	62
S&P/CITIGROUP 500 GROWTH				-0.73	1.39	1.39	23.12	15.39	21.11	7.84	---								
LSV ASSET MANAGEMENT	QUANTITATIVE	01/01/2003	785	3.34	3.20	3.20	29.07	16.60	25.24	9.43	11.72	76	94	94	853	264	393	248	261
LSV CUSTOM INDEX				2.58	2.26	2.26	20.54	13.96	21.32	6.95	---								
E7	INDEXED	08/01/2012	761	2.66	2.32	2.32	17.37	---	---	---	18.77	-5	-4	-4	25	---	---	---	16
MSCI USA High Dividend Yield Index				2.71	2.36	2.36	17.12	---	---	---	---								
E8	INDEXED	08/01/2012	496	0.83	2.05	2.05	13.29	---	---	---	16.59	0	-2	-2	55	---	---	---	75
MSCI USA Minimum Volatility Index				0.83	2.07	2.07	12.74	---	---	---	---								
TOTAL US EQUITY LARGE CAP			$ 7,320																
US EQUITY MID CAP																			
WELLINGTON MANAGEMENT COMPANY LLP	FUNDAMENTAL	07/01/2002	431	-1.83	3.53	3.53	27.06	13.73	21.98	11.77	11.77	-220	49	49	582	36	-288	163	106
S&P400MIDCAPINDEX				0.37	3.04	3.04	21.24	13.37	24.86	10.14	---								
E3 MODEL	INDEXED	12/01/2000	514	-0.50	2.16	2.16	21.13	13.05	25.38	10.96	8.85	-4	2	2	21	28	34	55	59
S&P/CITIGROUP 400 GROWTH				-0.46	2.14	2.14	20.92	12.77	25.05	10.41	---								
CRM MID CAP VALUE	FUNDAMENTAL	01/01/2004	98	-0.04	1.26	1.26	22.76	11.58	19.42	9.70	10.15	-129	-273	-273	119	-245	-529	-13	0
E4 MODEL	INDEXED	07/01/2002	519	1.20	3.96	3.96	21.58	13.94	24.59	10.09	10.86	-5	-3	-3	0	-9	-12	26	22
S&P/CITIGROUP 400 VALUE				1.25	3.99	3.99	21.58	14.03	24.71	9.83	---								
TOTAL US EQUITY MID CAP			$ 1,563																
US EQUITY SMALL CAP																			
DIMENSIONAL FUND ADVISORS EQFD	QUANTITATIVE	09/01/1998	452	1.60	1.81	1.81	27.66	14.87	28.95	10.25	12.80	33	-33	-33	-34	-129	321	59	121
DFA BLENDED BENCHMARK				1.28	2.13	2.13	28.00	16.16	25.75	9.66	---								
TIMESSQUARE CAPITAL MANAGEMENT	FUNDAMENTAL	04/01/2005	511	-1.80	-1.36	-1.36	23.11	16.64	26.28	---	13.05	32	-240	-240	-356	270	46	---	276
RUSSELL 2500 GROWTH				-2.12	1.04	1.04	26.66	13.93	25.82	---	---								
CHAMPLAIN INVESTMENT PARTNERS LLC	FUNDAMENTAL	01/01/2008	115	0.72	-1.86	-1.86	18.48	12.65	22.15	---	10.20	3	-299	-299	-934	-330	-406	---	-1
E6	INDEXED	02/01/2007	496	0.60	1.01	1.01	27.62	15.78	25.96	---	8.88	-10	-12	-12	-19	-17	-26	---	38
S&P 600 SMALL CAP				0.70	1.13	1.13	27.81	15.95	26.21	---	---								
TOTAL US EQUITY SMALL CAP			$ 1,574																
TOTAL US EQUITY			$ 10,457																
INTERNATIONAL DEVELOPED LARGE CAP																			
BRANDES INVESTMENT PARTNERS INT EQ	FUNDAMENTAL	10/01/1998	530	0.87	2.60	2.60	25.32	7.99	14.97	6.83	9.81	150	194	194	738	31	-261	-120	303
BRANDES CUSTOM INDEX				-0.64	0.66	0.66	17.94	7.68	17.58	8.03	---								
ABERDEEN ASSET MANAGEMENT	FUNDAMENTAL	03/01/2011	498	2.04	3.08	3.08	9.29	6.98	---	---	6.66	268	242	242	-865	-70	---	---	-3
BGI EAFE INDEX	INDEXED	07/01/2009	2,343	-0.59	0.73	0.73	17.82	7.51	---	---	11.79	5	7	7	-12	-16	---	---	-14
WALTER SCOTT & PARTNERS	FUNDAMENTAL	04/01/2011	231	-0.03	-2.40	-2.40	5.37	5.47	---	---	5.47	61	-306	-306	-1,257	-221	---	---	-221
MSCI EAFE NET				-0.64	0.66	0.66	17.94	7.68	---	---	---								

STATE STREET.

ARIZONA STATE RETIREMENT SYSTEM
Investment Management Division

ASRS Pension and HBS Assets
Public Securities Markets
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FINAL

				Net Returns (%)								Excess Returns (basis points)							
								Annualized								Annualized			
	Style	Inception	Amount ($mil.)	Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	ITD	Month	3 Months	YTD	1 Year	3 Years	5 Years	10 years	ITD
HANSBERGER GLOBAL INVESTORS LC	FUNDAMENTAL	08/01/2005	337	-0.52	-2.41	-2.41	13.12	3.84	15.95	---	5.87	11	-307	-307	-482	-384	-163	---	-145
HANSBERGER CUSTOM INDEX				-0.64	0.66	0.66	17.94	7.68	17.58	---	---								
TOTAL INTERNATIONAL DEVELOPED LARGE CAP			$ 3,940																
INTERNATIONAL DEVELOPED SMALL CAP																			
AQR CAPITAL		06/01/2013	178	-0.94	2.85	2.85	---	---	---	---	22.69	-41	-50	-50	---	---	---	---	74
BLACKROCK EAFE SMALL CAP	INDEXED	06/01/2010	467	-0.53	3.28	3.28	23.13	9.36	---	---	16.01	0	-7	-7	-43	-38	---	---	-28
DIMENSIONAL FUND ADVISORS INTL SC	QUANTITATIVE	09/01/2005	226	0.40	5.83	5.83	27.88	8.57	19.13	---	7.24	92	247	247	432	-117	-295	---	24
FRANKLIN TEMPLETON INVESTMENTS	FUNDAMENTAL	04/01/2011	420	-0.01	1.04	1.04	26.44	13.50	---	---	13.50	51	-231	-231	288	377	---	---	377
MSCI EAFE SMALL CAP NET				-0.53	3.36	3.36	23.56	9.74	---	---	---								
TOTAL INTERNATIONAL DEVELOPED SMALL CAP			$ 1,290																
INTERNATIONAL EMERGING MARKETS																			
BLACKROCK EMERGING MARKETS	INDEXED	10/01/2010	655	3.05	-0.62	-0.62	-1.44	-3.11	---	---	-0.11	-2	-19	-19	-30	-55	---	---	-51
EATON VANCE EMERGING MARKET EQUITY	QUANTITATIVE	12/01/2010	488	2.93	0.91	0.91	2.20	-0.56	---	---	1.57	-14	134	134	334	200	---	---	121
LSV EMERGING MARKET EQUITY	QUANTITATIVE	12/01/2010	289	4.29	-0.47	-0.47	-1.87	-2.07	---	---	1.26	122	-4	-4	-73	49	---	---	90
WILLIAM BLAIR & COMPANY	FUNDAMENTAL	11/01/2010	441	1.67	0.80	0.80	1.77	2.00	---	---	2.00	-140	123	123	291	456	---	---	243
MSCI EMF NET				3.07	-0.43	-0.43	-1.14	-2.56	---	---	---								
TOTAL INTERNATIONAL EMERGING MARKETS			$ 1,873																
TOTAL INTERNATIONAL EQUITY			$ 7,103																
RISK FACTOR PORTFOLIO																			
RISK FACTOR PORTFOLIO	OVERLAY	06/01/2013	487	-0.16	1.54	1.54	---	---	---	---	16.42								
TOTAL RISK FACTOR PORTFOLIO			$ 487																
TOTAL EQUITY W/ RISK FACTOR OVERLAY			$ 18,049																
CORE FIXED INCOME																			
F2 MODEL	INDEXED	10/01/2000	1,941	-0.18	1.74	1.74	0.29	4.06	5.20	4.67	5.66	-1	-11	-11	39	31	40	21	16
PACIFIC INV MGMT CO (PIMCO)	CORE	02/01/2010	301	-0.18	1.77	1.77	-1.71	3.54	---	---	4.29	-1	-8	-8	-161	-21	---	---	30
Barclays Aggregate				-0.17	1.84	1.84	-0.10	3.75	---	---	---								
BGI GOVT/CRDTBD INDEX	INDEXED	11/01/2008	24	-0.28	1.06	1.06	0.02	3.25	4.27	---	5.12	1	6	6	14	11	9	---	9
Barclays Gov/Credit Int				-0.30	1.00	1.00	-0.13	3.13	4.18	---	---								
TOTAL CORE FIXED INCOME			$ 2,266																
HIGH YIELD FIXED INCOME																			
COLUMBIA MANAGEMENT INV. ADVISORS, LLC	FUNDAMENTAL	10/01/2009	732	0.16	2.87	2.87	6.89	8.83	---	---	10.96	-8	-11	-11	-65	-17	---	---	-73
JP MORGAN HIGH YIELD		07/01/2013	324	0.13	2.73	2.73	---	---	---	---	8.93	-11	-25	-25	---	---	---	---	-18

STATE STREET.

ARIZONA STATE RETIREMENT SYSTEM
Investment Management Division

ASRS Pension and HBS Assets
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				Net Returns (%)								Excess Returns (basis points)							
								Annualized								Annualized			
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SHENKMAN CAPITAL MANAGEMENT	FUNDAMENTAL	10/01/2009	172	0.43	2.87	2.87	6.84	7.22	---	---	9.61	20	-11	-11	-69	-177	---	---	-208
Barclays Corp High Yield				0.24	2.98	2.98	7.54	9.00	---	---	---								
TOTAL HIGH YIELD FIXED INCOME			$ 1,228																
EMERGING MARKETS DEBT																			
ASHMORE EMERGING MKT DBT BLEND	FUNDAMENTAL	01/01/2013	544	1.88	1.48	1.48	-5.05	---	---	---	-3.68	4	-103	-103	-176	---	---	---	-64
EMERGING MARKETS BLENDED INDEX				1.83	2.50	2.50	-3.29	---	---	---	---								
PIMCO EMERGING MARKET DEBT LC	FUNDAMENTAL	01/01/2013	337	2.80	2.37	2.37	-8.61	---	---	---	-6.95	-1	47	47	-147	---	---	---	-110
JPM GBI-EM Global Diversified Index				2.81	1.90	1.90	-7.14	---	---	---	---								
TOTAL EMERGING MARKETS DEBT			$ 880																
TOTAL PUBLIC FIXED INCOME			$ 4,374																
GTAA																			
BRIDGEWATER ASSOCIATES GLBL TAA	FUNDAMENTAL	01/01/2004	3,046	0.12	2.24	2.24	15.75	11.97	18.99	9.11	9.20	-5	45	45	219	227	363	256	256
GTAA CUSTOM BENCHMARK				0.17	1.78	1.78	13.56	9.70	15.36	6.55	---								
WINDHAM	QUANTITATIVE	10/01/2011	586	0.58	1.68	1.68	8.96	---	---	---	12.58	38	-66	-66	-390	---	---	---	-368
WINDHAM CUSTOM INDEX				0.20	2.34	2.34	12.86	---	---	---	---								
TOTAL GTAA			$ 3,632																
GLOBAL INFLATION LINKED																			
GRESHAM	FUNDAMENTAL	09/01/2010	845	0.36	5.11	5.11	-1.31	-5.52	---	---	3.45	-5	-188	-188	78	185	---	---	259
DJ-UBS Commodity Index TR				0.41	6.99	6.99	-2.10	-7.37	---	---	---								
TOTAL GLOBAL INFLATION LINKED			$ 845																
TOTAL PUBLIC MARKET			$ 27,581																

ARIZONA STATE RETIREMENT SYSTEM
Investment Management Division

ASRS Long Term Disability Assets
Investment Managers Performance Summary

Period Ending Mar 31, 2014
FINAL

			Net Returns (%)								Excess Returns (basis points)							
							Annualized								Annualized			
	Inception	Amount ($mil.)	Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	ITD	Month	3 Months	YTD	1 Year	3 Years	5 Years	10 years	ITD
BLACKROCK - US DEBT FUND B	01/01/2011	30.9	-0.20	1.89	1.89	-0.19	3.76	---	---	3.60	-3	5	5	-9	1	---	---	1
Barclays Aggregate			-0.17	1.84	1.84	-0.10	3.75	4.80	4.46	---								
BLACKROCK - US HIGH YIELD FUND B	01/01/2011	17.9	0.10	2.95	2.95	7.01	8.55	---	---	9.17	-13	-4	-4	-53	-45	---	---	-39
Barclays Corp High Yield			0.24	2.98	2.98	7.54	9.00	18.25	8.68	---								
BLACKROCK-LTD-EM BD INDX FD B	01/01/2013	9.8	2.80	1.82	1.82	-7.89	---	---	---	-6.76	-1	-8	-8	-76	---	---	---	-90
JPM GBI-EM Global Diversified Index			2.81	1.90	1.90	-7.14	1.13	9.78	9.32	---								
BLACKROCK - RUSSELL 1000 FUND B	01/01/2011	99.2	0.63	2.03	2.03	22.37	14.76	---	---	15.71	-1	-2	-2	-4	1	---	---	2
RUSSELL 1000			0.64	2.05	2.05	22.41	14.75	21.73	7.80	---								
BLACKROCK - RUSSELL 2000 FUND B	01/01/2011	19.2	-0.67	1.14	1.14	25.07	13.33	---	---	14.97	2	2	2	17	15	---	---	17
Russell 2000 TR			-0.68	1.12	1.12	24.90	13.18	24.31	8.53	---								
BLACKROCK - EAFE INDEX FUND B	01/01/2011	38.0	-0.61	0.68	0.68	17.59	7.30	---	---	7.83	2	1	1	-35	-38	---	---	-37
MSCI EAFE NET			-0.64	0.66	0.66	17.94	7.68	16.53	---	---								
BLACKROCK EAFE SMALL CAP FUND B	01/01/2011	9.4	-0.50	3.31	3.31	23.15	9.39	---	---	9.65	2	-5	-5	-41	-34	---	---	-32
MSCI EAFE SMALL CAP NET			-0.53	3.36	3.36	23.56	9.74	22.08	---	---								
BLACKROCK MSCI EMERGING MARKETS FUND B	01/01/2011	15.4	3.05	-0.64	-0.64	-1.52	-3.12	---	---	-2.28	-1	-21	-21	-38	-56	---	---	-54
MSCI EMF NET			3.07	-0.43	-0.43	-1.14	-2.56	---	---	---								
BGI-LTD- R ESTATE FD	01/01/2005	20.9	0.85	10.22	10.22	4.14	9.93	28.75	---	6.49	-8	23	23	-47	-117	-107	---	-49
WILSHIRE RESI			0.93	9.98	9.98	4.60	11.10	29.82	8.42	---								
BLACKROCK DJ UBS COMM FUND B	01/01/2011	8.9	0.42	6.90	6.90	-2.37	-7.75	---	---	-5.91	1	-9	-9	-28	-39	---	---	-34
DJ-UBS Commodity Index TR			0.41	6.99	6.99	-2.10	-7.37	4.24	0.43	---								
LONG TERM DISABILITY - CASH	07/01/1995	2.6	0.00	0.00	0.00	0.00	0.03	0.13	1.76	2.83	0	-1	-1	-7	-5	1	9	-5
91 DAY TREASURY BILL			0.00	0.01	0.01	0.07	0.08	0.12	1.67	---								
TOTAL LTD		$ 272.2																

STATE STREET.

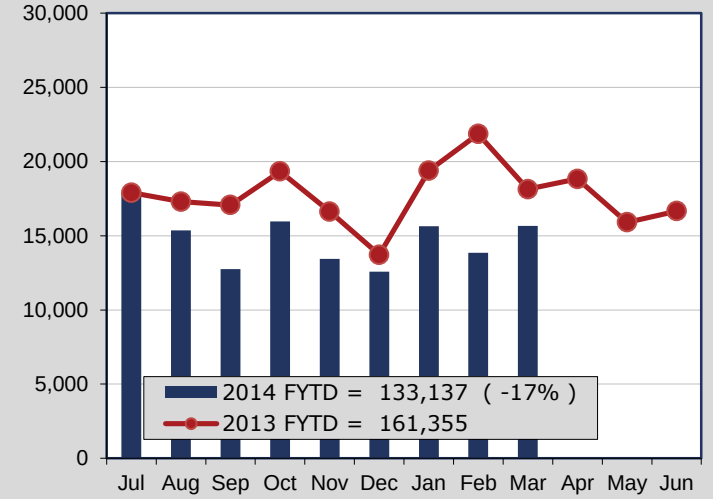
Long Term Disability (LTD)

Monday, March 31, 2014

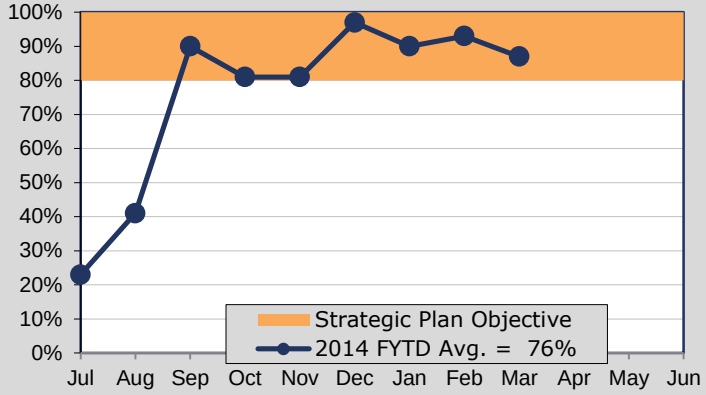
Account Manager	Account Manager Style	Fixed Income	Equity	Inflation Linked	Total	Pct of Fund	Target (Range)
StateStreet B&T: Boston	Cash	$2,187,616			$2,187,616	0.81%	
BlackRock: San Francisco	Fixed Core (Passive)	$30,900,589			$30,900,589	11.45%	13%
BlackRock: San Francisco	Fixed High Yield (Passive)	$17,878,267			$17,878,267	6.62%	8%
BlackRock: San Francisco	Emerging Market Debt (Passive)	$9,746,874			$9,746,874	3.61%	4%
						21.69%	**25% (15-35%)**
BlackRock: San Francisco	Russell 1000 (Passive)		$98,300,581		$98,300,581	36.42%	34%
BlackRock: San Francisco	Russell 2000 (Passive)		$18,866,495		$18,866,495	6.99%	6%
						43.42%	**40% (33-45%)**
BlackRock: San Francisco	EAFE (Passive)		$37,809,294		$37,809,294	14.01%	14%
BlackRock: San Francisco	EAFE SC (Passive)		$9,330,169		$9,330,169	3.46%	3%
BlackRock: San Francisco	Emerging Markets (Passive)		$15,230,191		$15,230,191	5.64%	6%
						23.11%	**23% (16-28%)**
BlackRock: San Francisco	Dow Jones UBS Commodities (Passive)			$8,899,495	$8,899,495	3.30%	4% (1-7%)
BlackRock: San Francisco	US Real Estate (Passive)			$20,724,888	$20,724,888	7.68%	8% (6-10%)
						10.98%	**12% (8-16%)**
	TOTAL Amounts	$60,713,346	$179,536,730	$29,624,384	**$269,874,460**		
	TOTAL Percent	22.50%	66.53%	10.98%			
Actual Portfolio		**22.50%**	**66.53%**	**10.98%**			
Policy		**25% (15-35%)**	**63% (53-70%)**	**12% (8-16%)**			

Member Advisory Center: Phone

Volume
comparison of calls by month and year



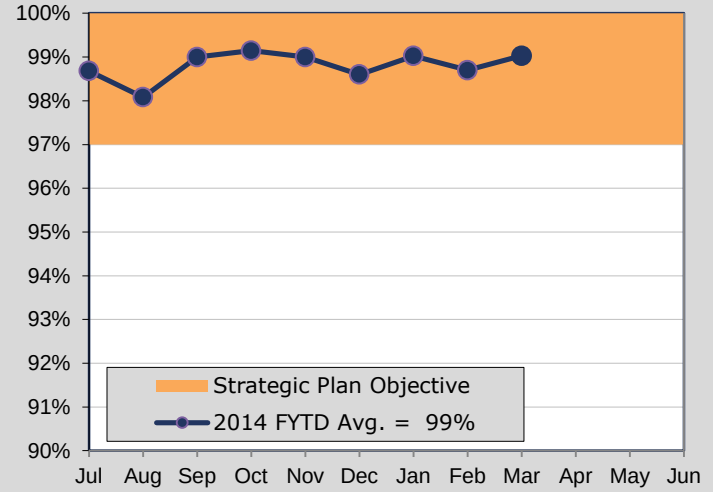
Timeliness
percent answered in 20 seconds or less



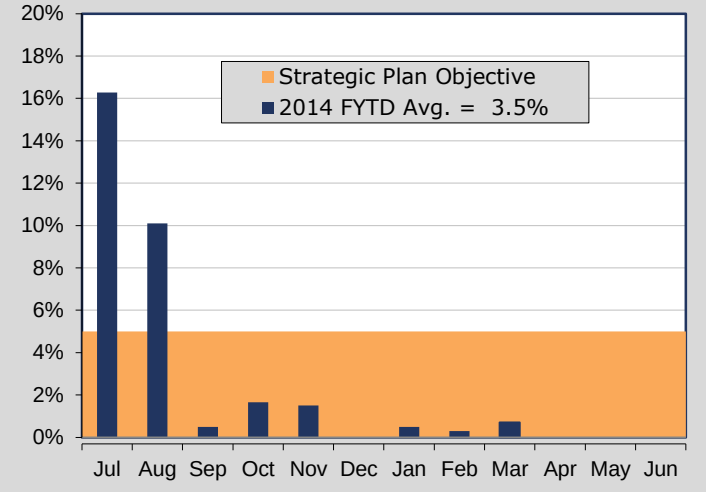
Timeliness (average wait time in seconds)

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

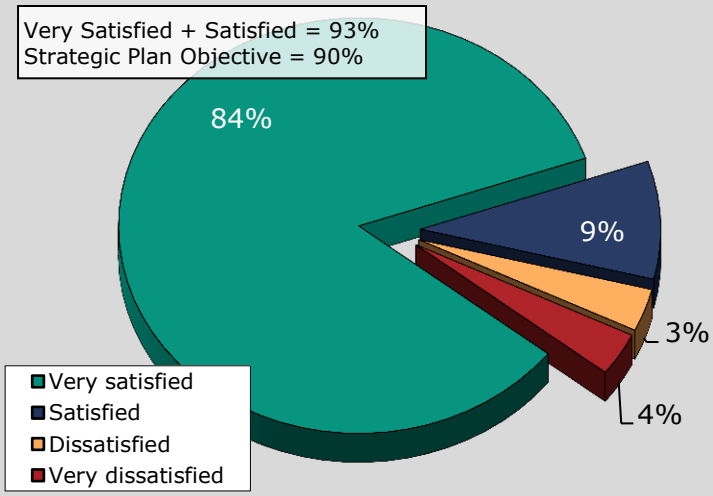
Resolution Rate
percent answered on first contact



Abandonment Rate
percent of calls abandoned

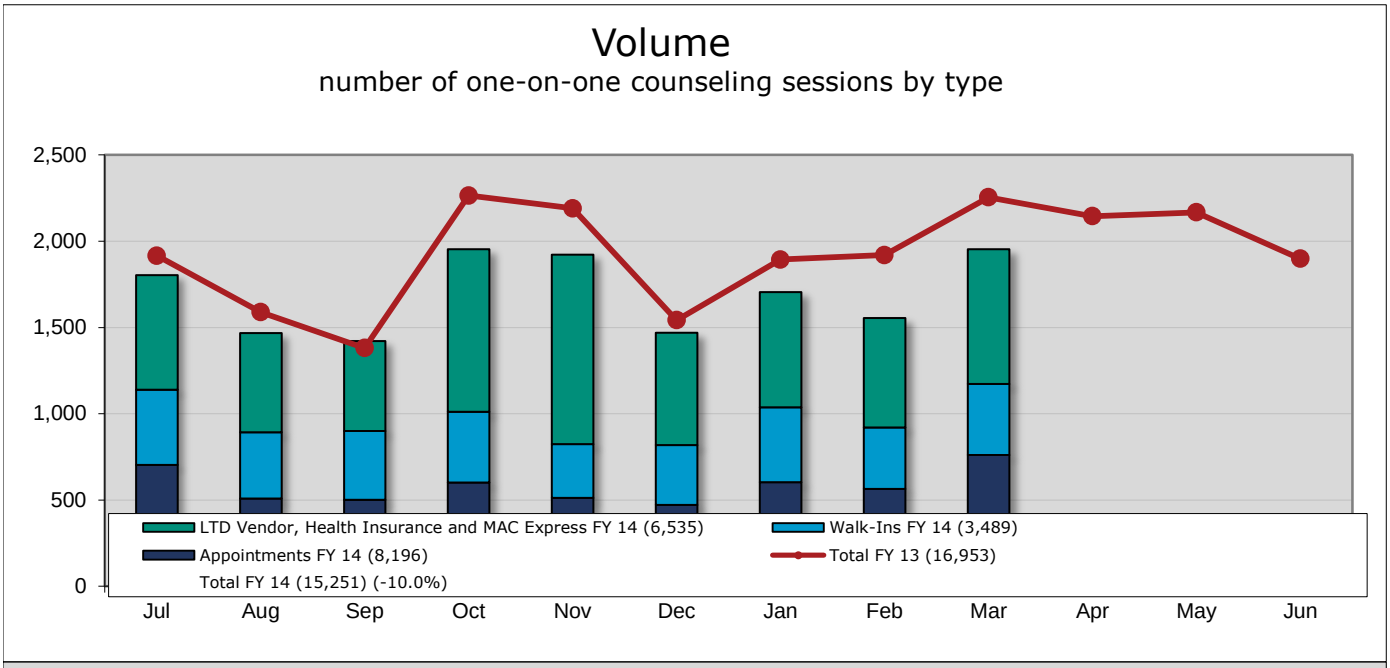


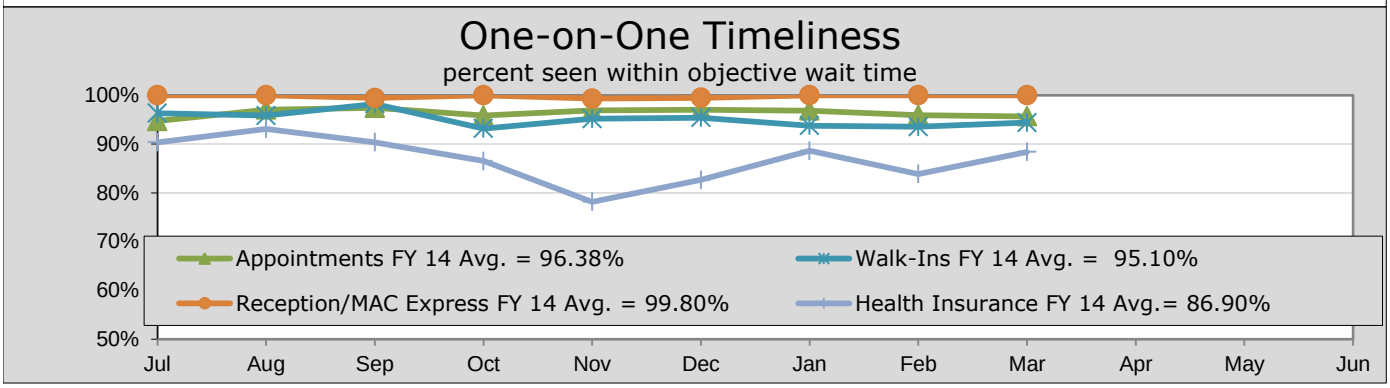
Member Satisfaction
4th Quarter 2013



Quality
of agent response to member inquiries

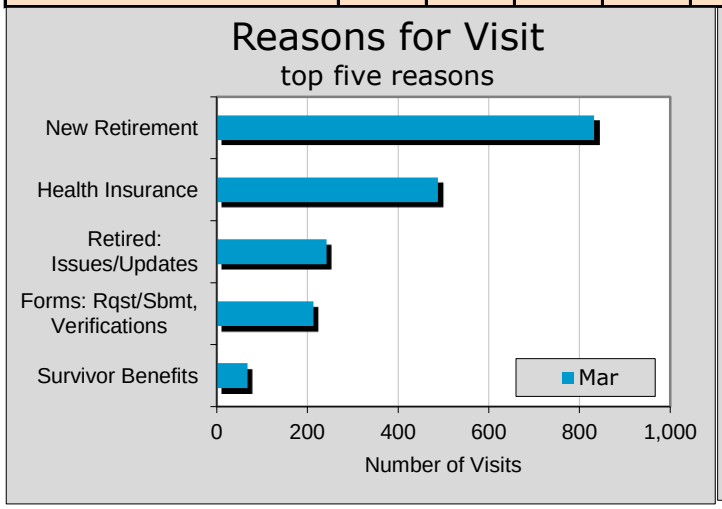
Member Advisory Center: One-on-One

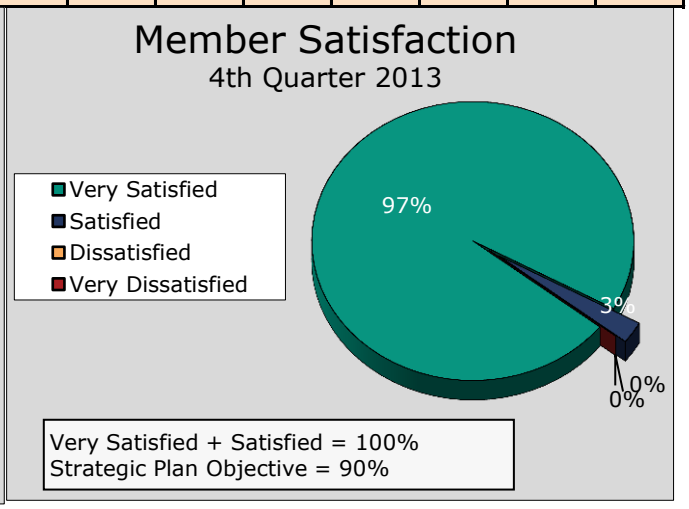




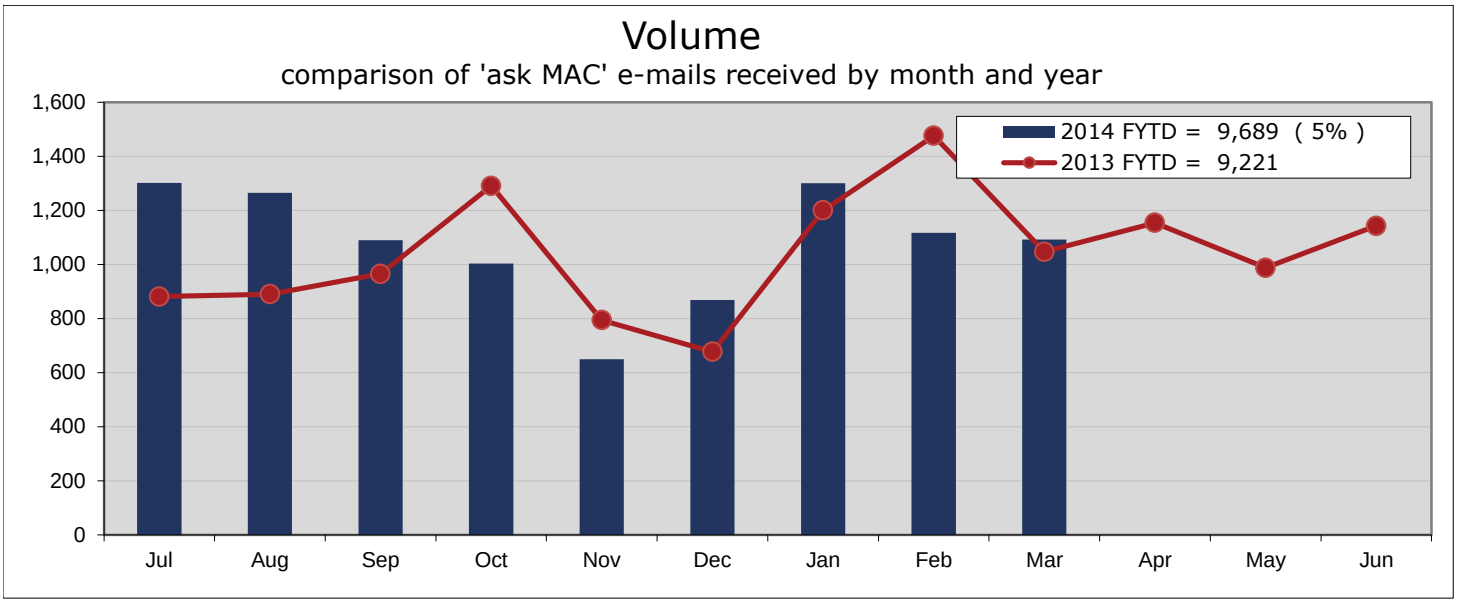
Timeliness (average wait time in minutes)

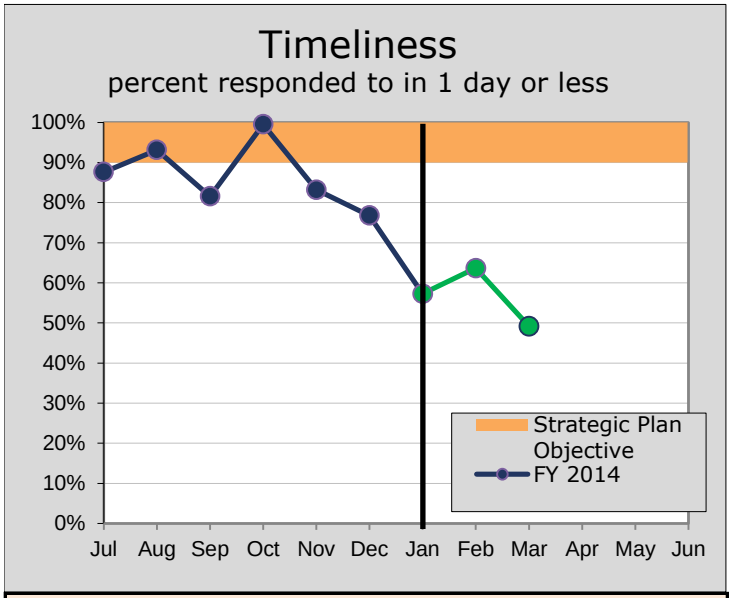
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Appointments	2	1	1	1	1	1	1	1	1			
Walk-Ins	7	8	6	8	7	8	9	10	8			
Reception/Express	0	0	0	1	1	1	0	0	0			
Health Insurance	6	5	5	7	9	7	6	7	7			
LTD Vendor	n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a			

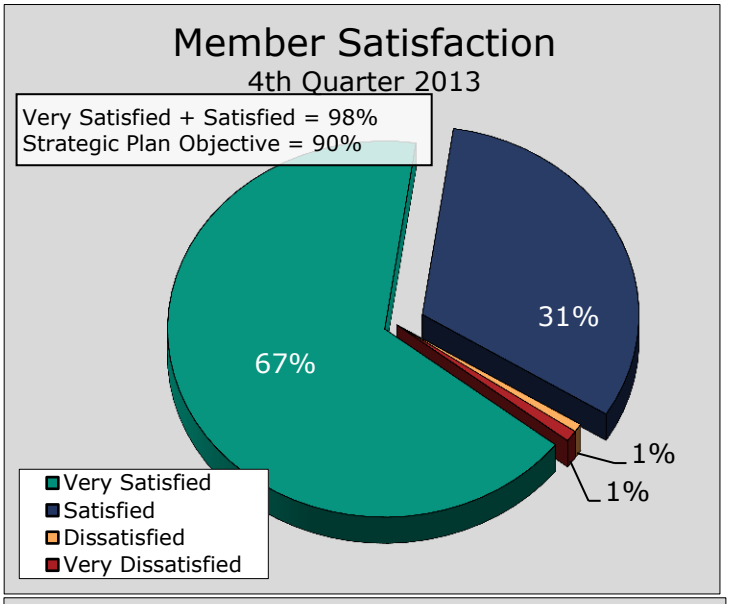




Member Advisory Center: E-Mail



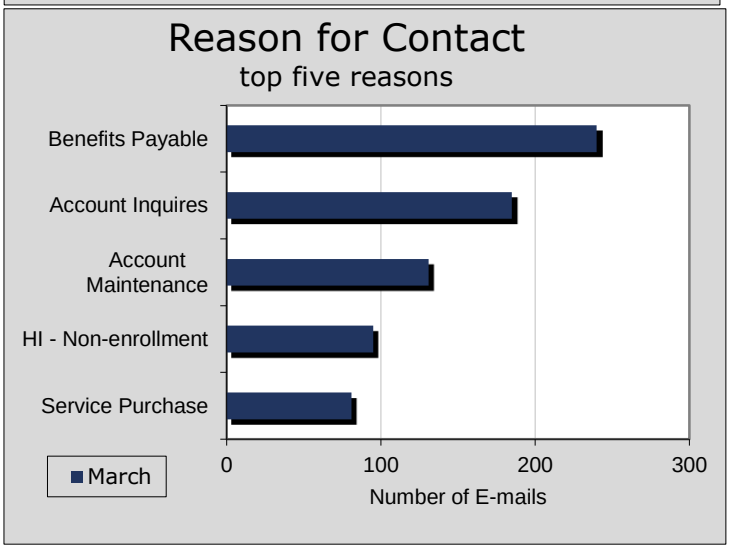




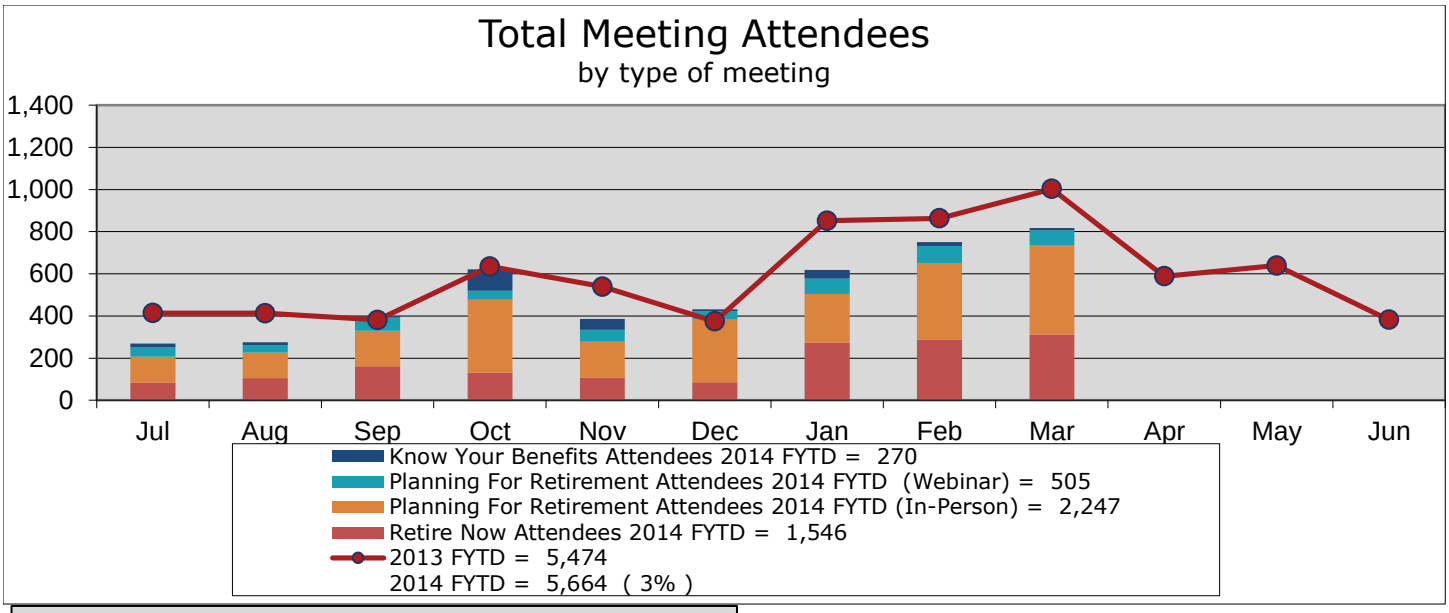
Timeliness (average response in business days)											
2	1	1	1	1	1						
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

Timeliness (average response in hours)											
						24.0	21.8	25.4			
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

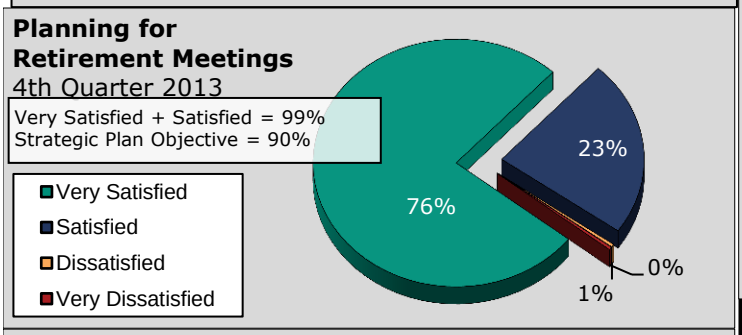
* Timeliness measure has been changed from measuring the number of business days to respond to the number of hours to respond. This change was effective starting in January 2014 and noted by the verticle line in the chart above.

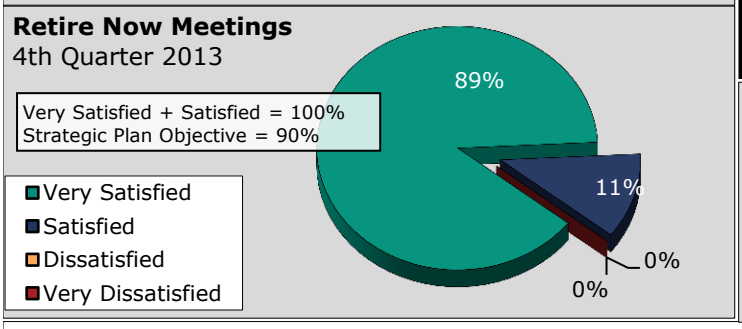


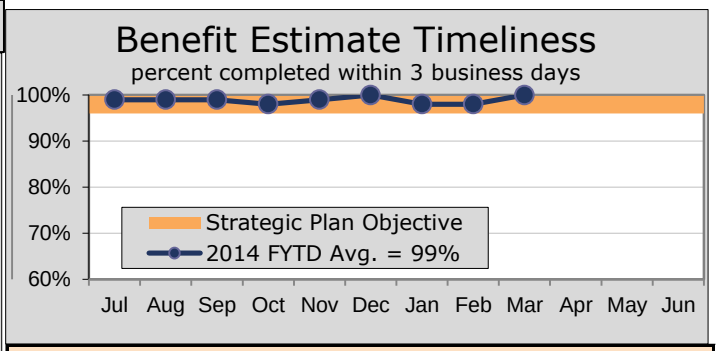
Outreach Education and Benefit Estimates



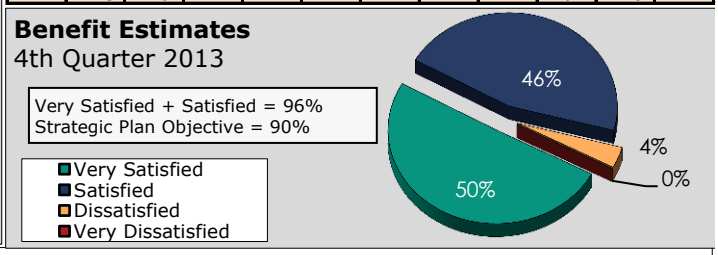
Member Satisfaction

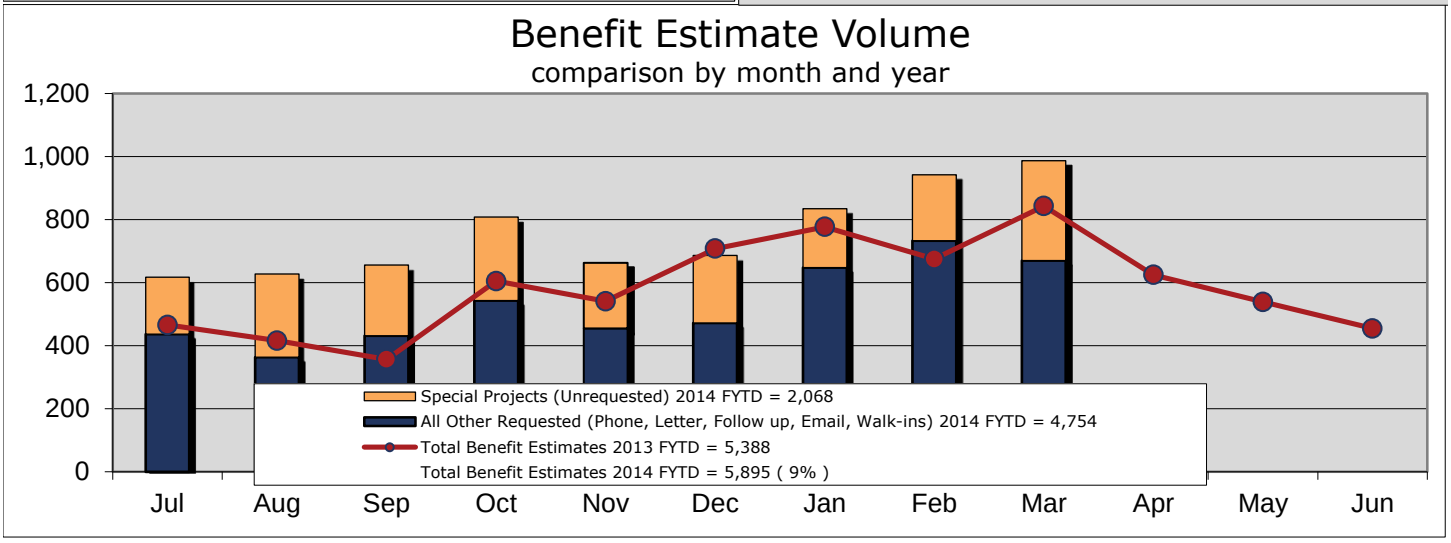




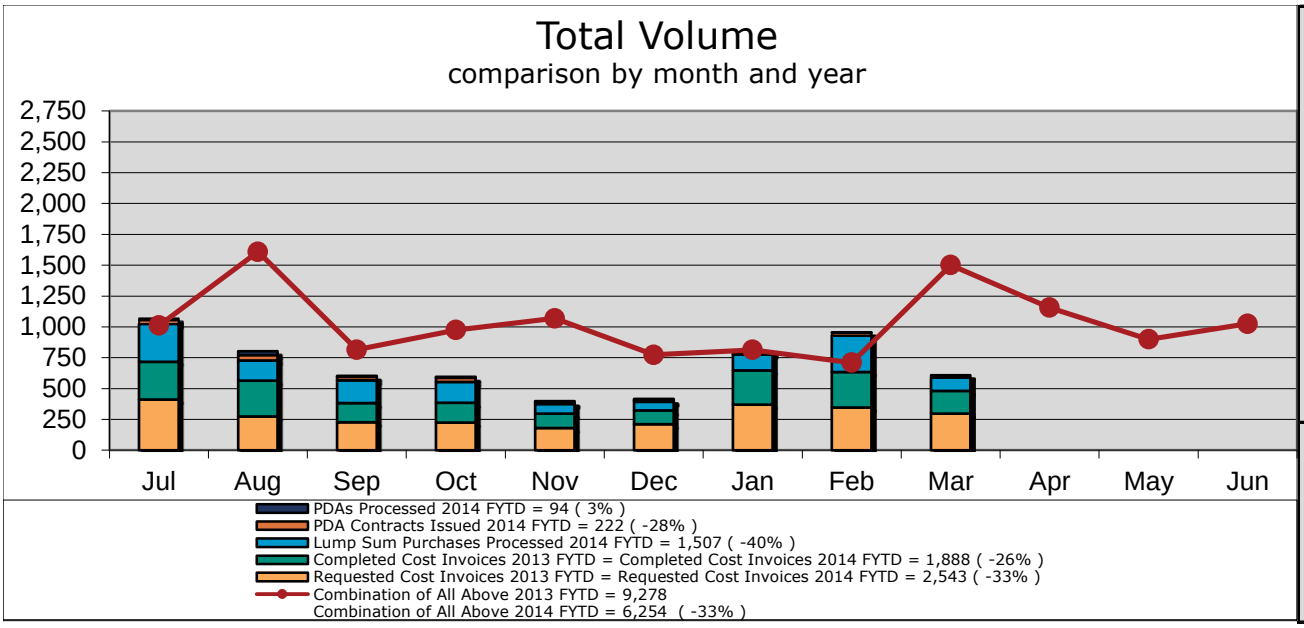


Benefit Estimate Timeliness (average TAT in days)											
1	1	1	1	1	1	1	1	1			
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun





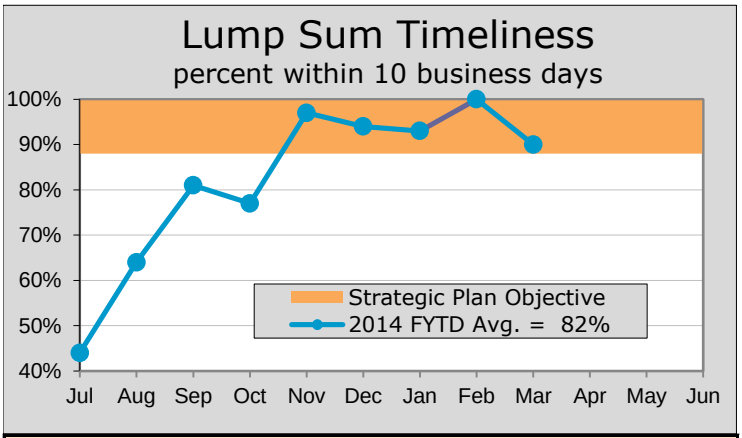
Service Purchase



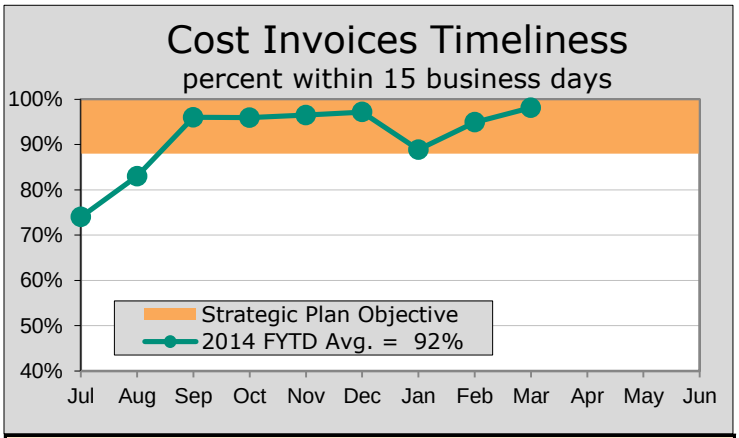
Requests Pending
as of March 31, 2014

Cost Invoices Pending
469

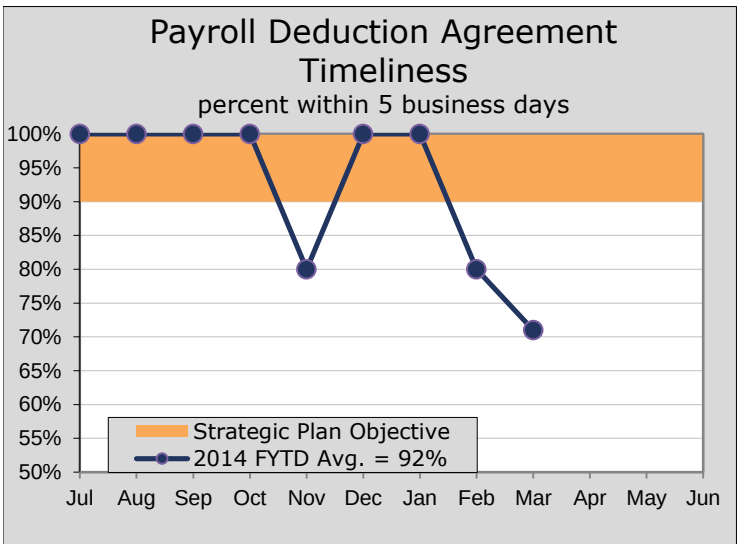
Payments Pending
8



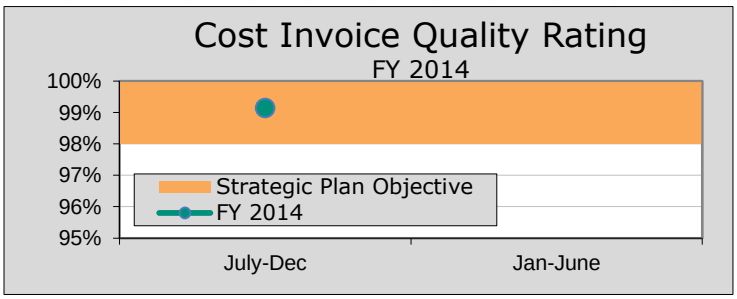
Timeliness (average turnaround time in business days)											
8	5	4	2	2	3	2	1	2			
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

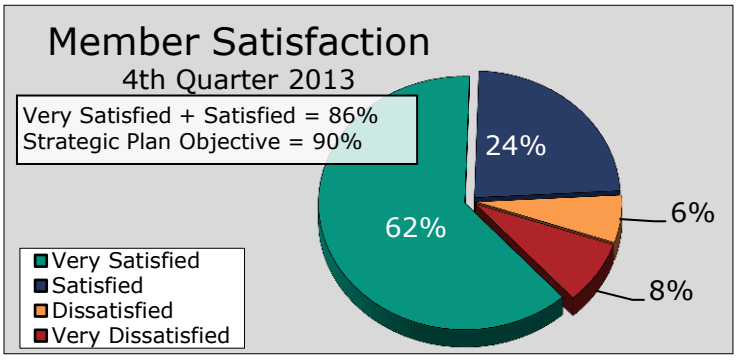


Timeliness (average turnaround time in business days)											
10	9	4	4	3	4	6	3	3			
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

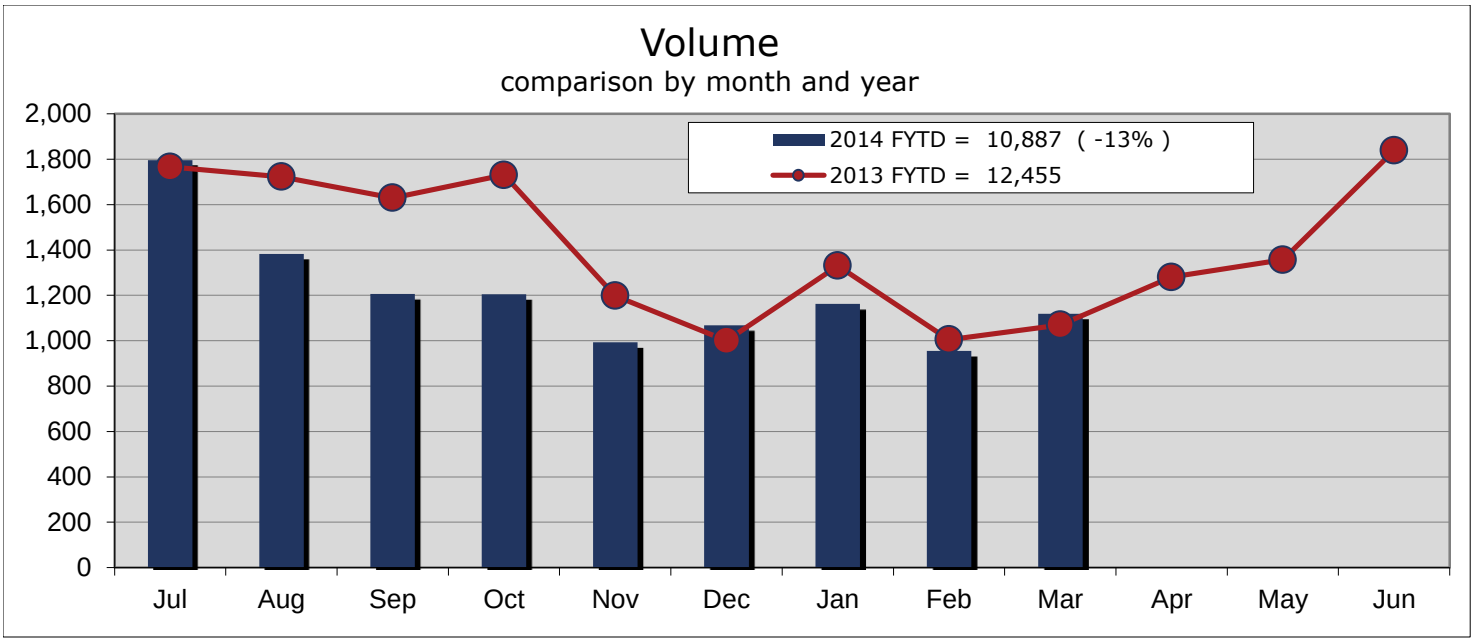


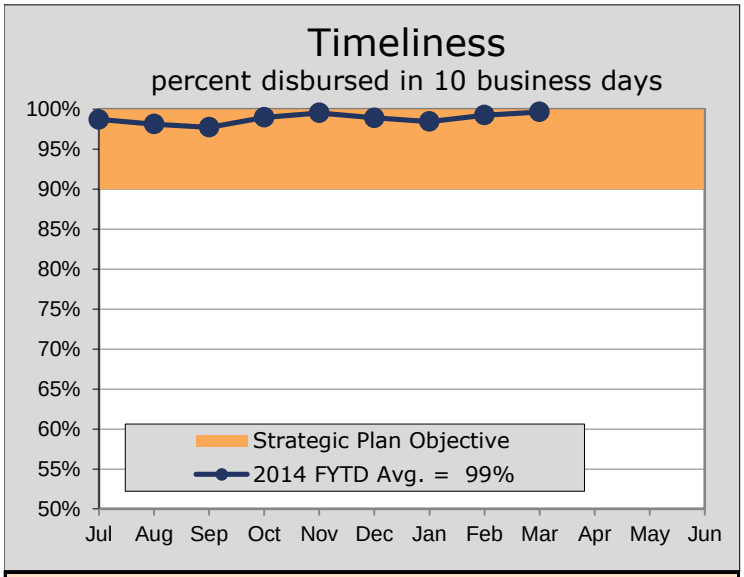
Timeliness (average turnaround time in business days)											
1	1	2	1	1	1	1	2	3			
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

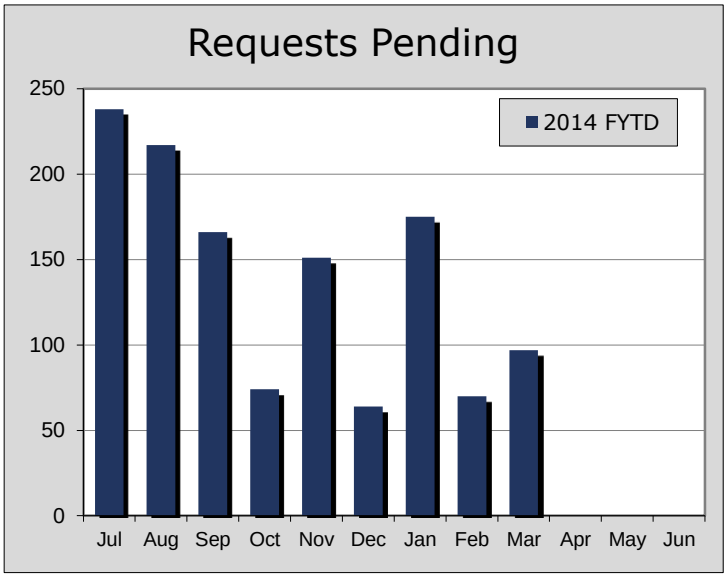




Refunds

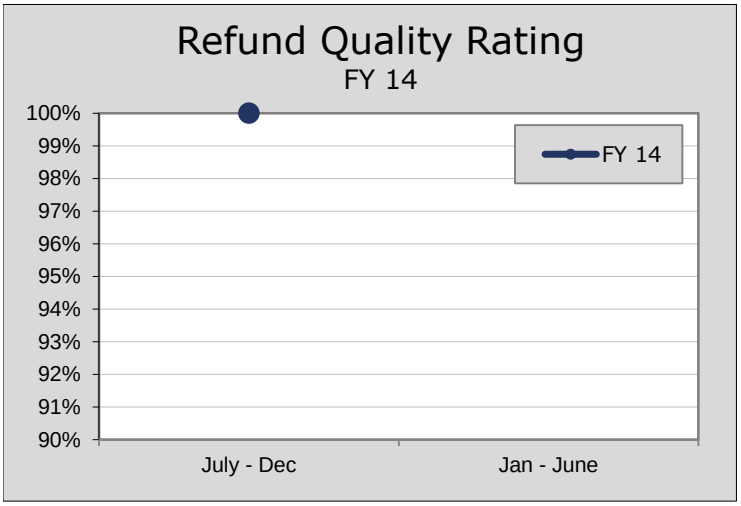


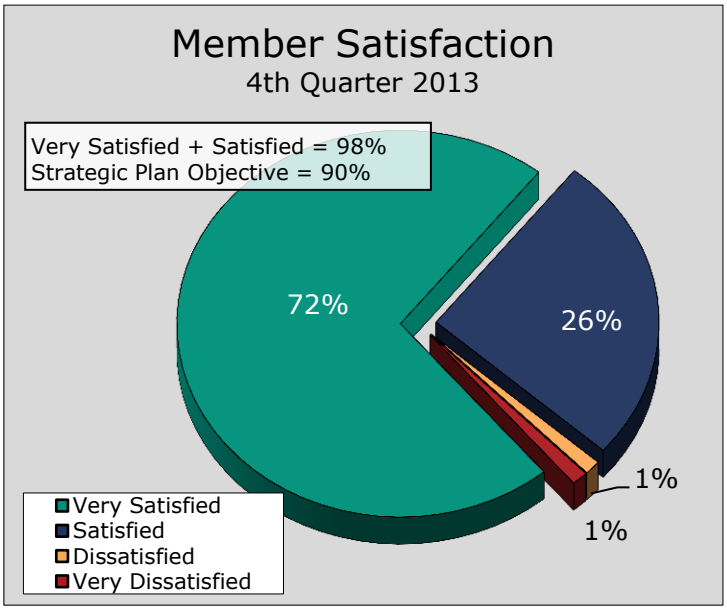




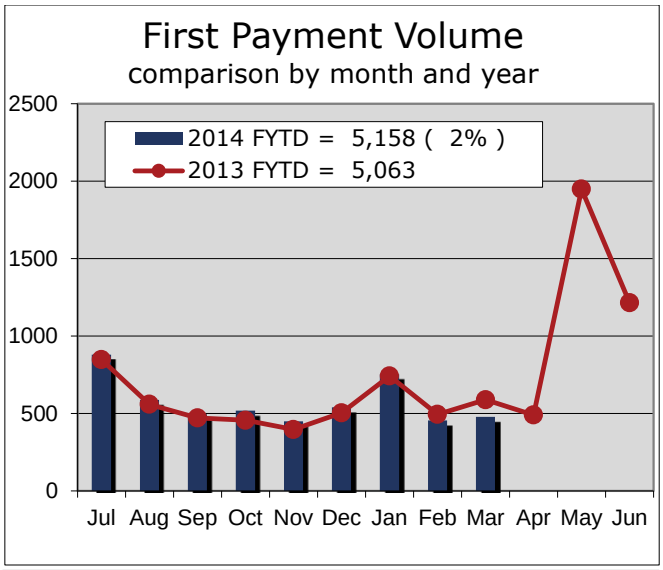
Timeliness (average turnaround time in business days)

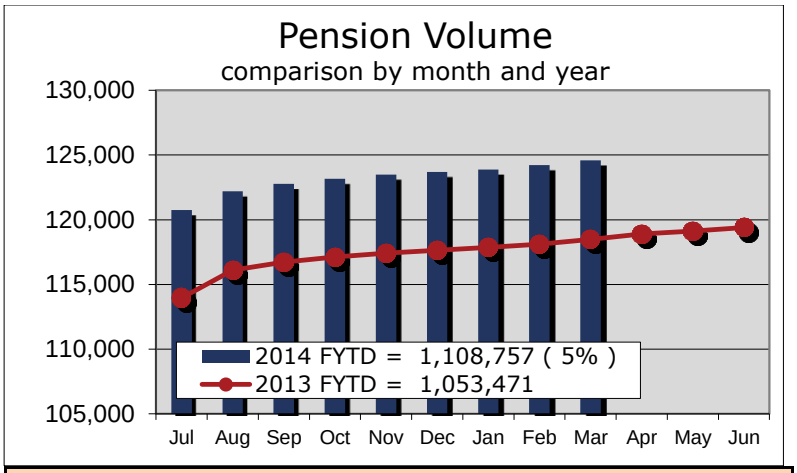
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
3	3	2	2	1	2	3	2	2			



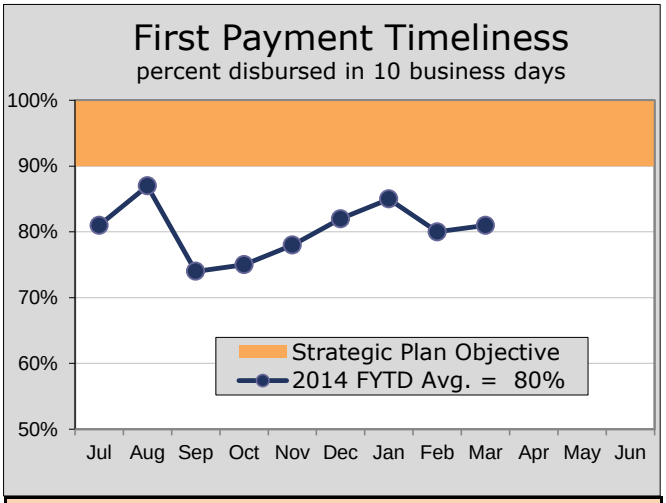


New Retiree and Pension Payroll

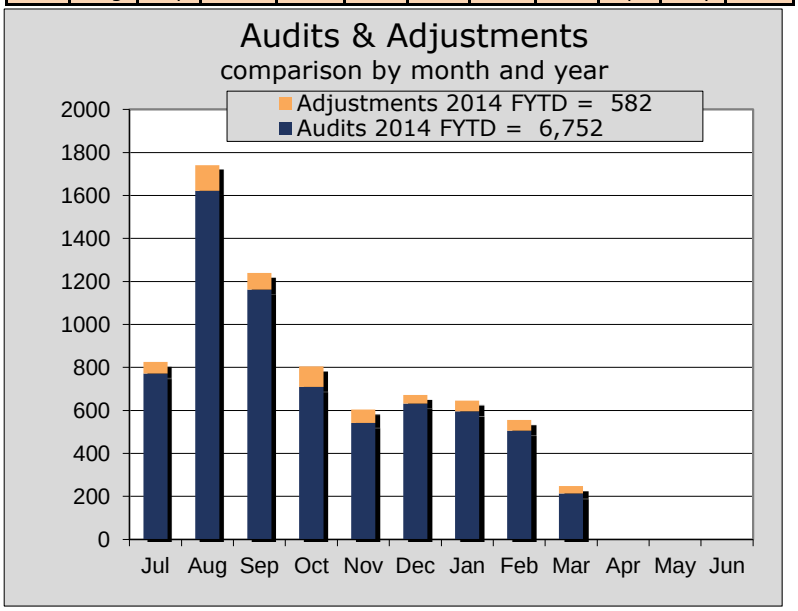


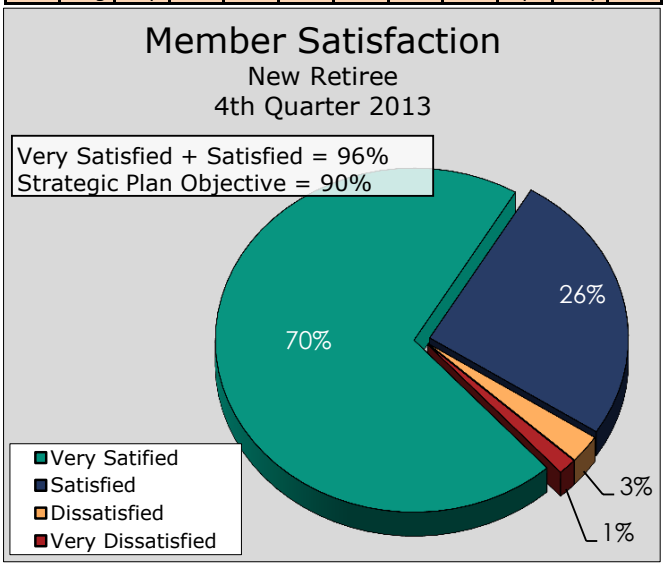


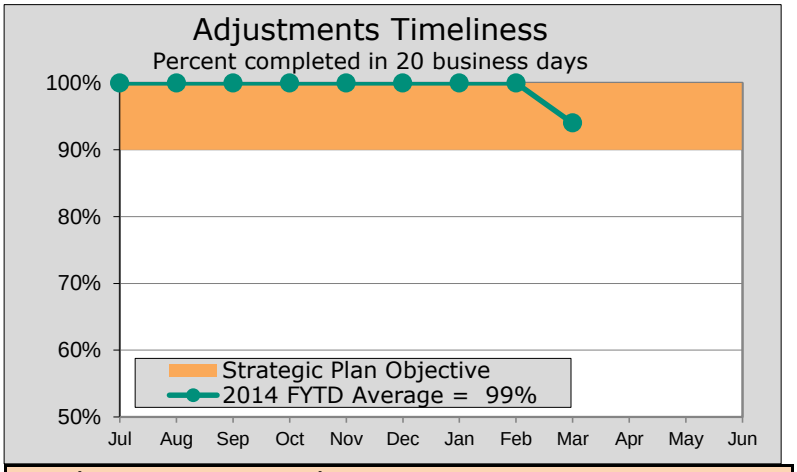
Pension Payment (percent disbured by 1st of the months)											
100%	100%	100%	100%	99.9%	100%	100%	100%	100%			
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



First Payment Timeliness (average turnaround time in days)											
7	5	9	9	9	7	6	8	7			
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

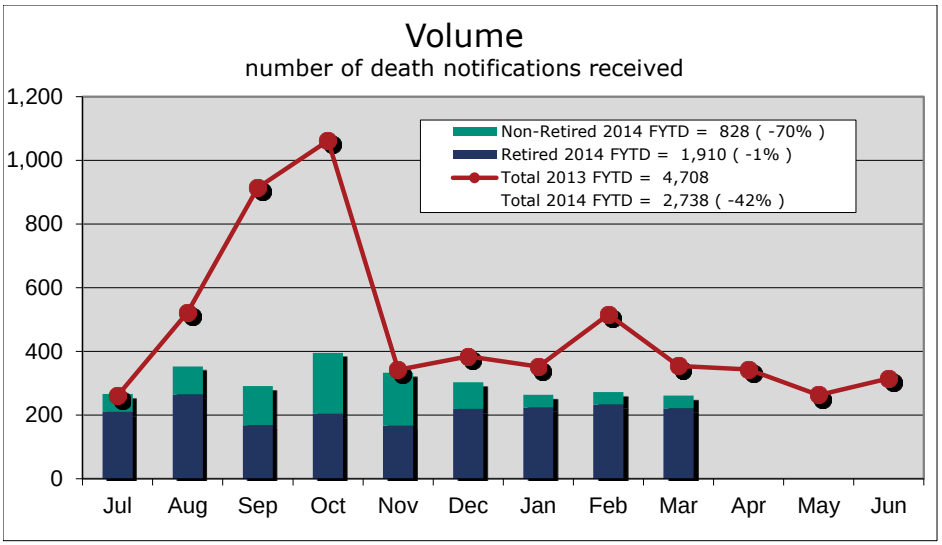


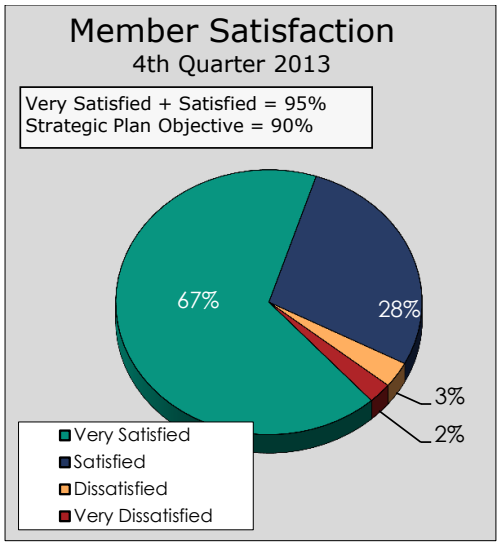


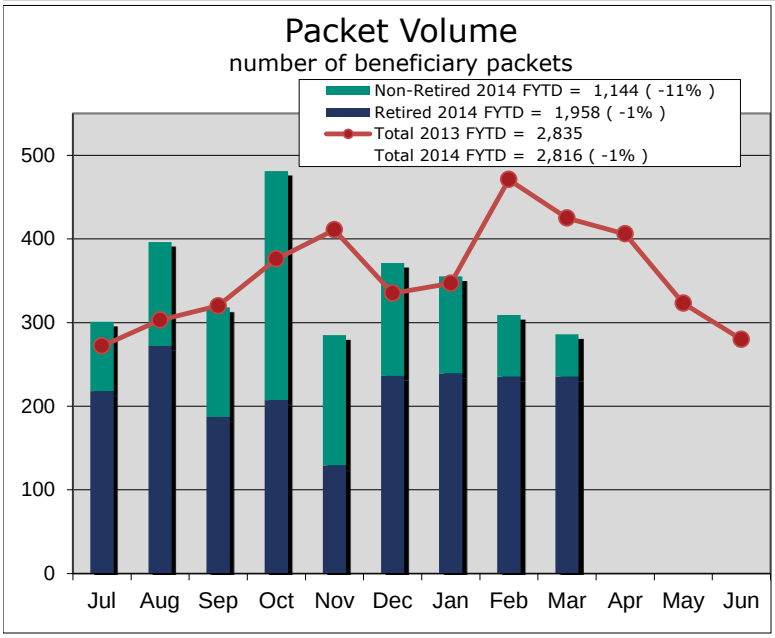


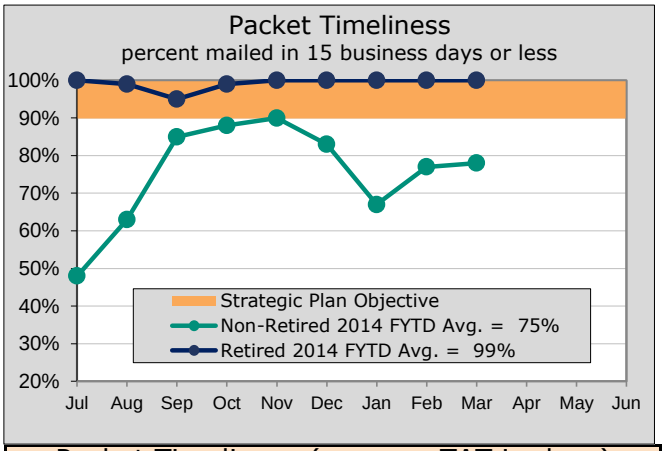
Adjustments Timeliness (average turnaround time in days)											
2	2	2	1	3	3	1	2	3			
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

Survivor Benefits



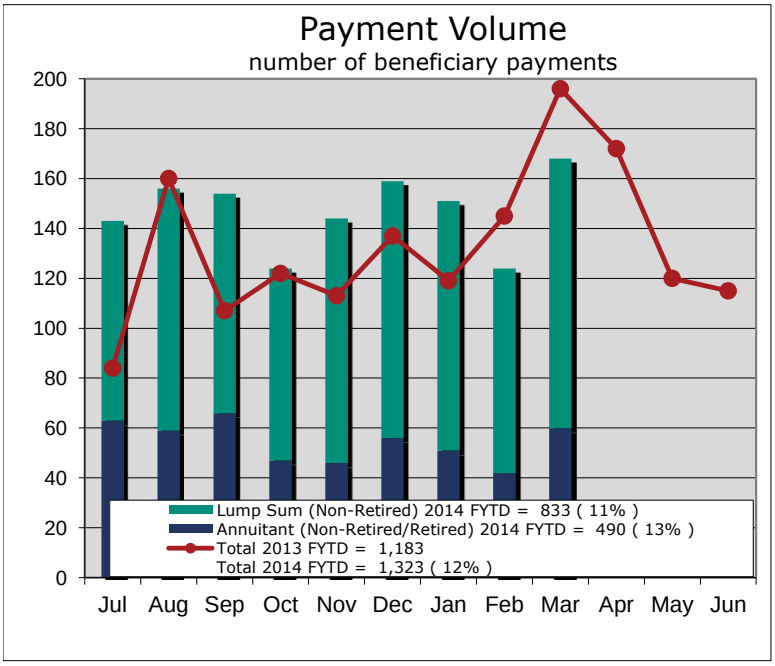


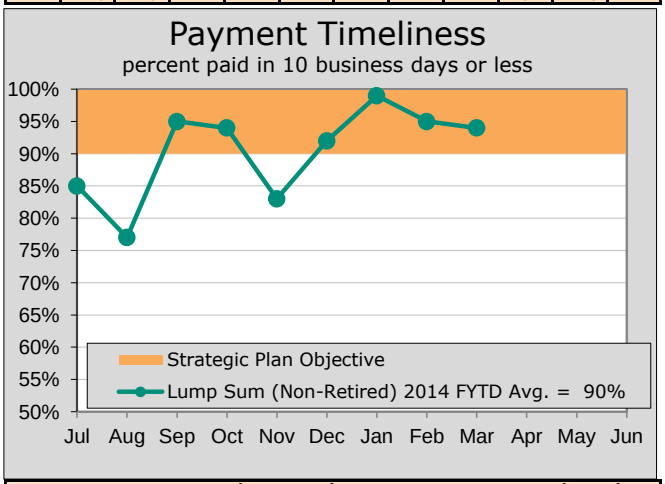




Packet Timeliness (average TAT in days)

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

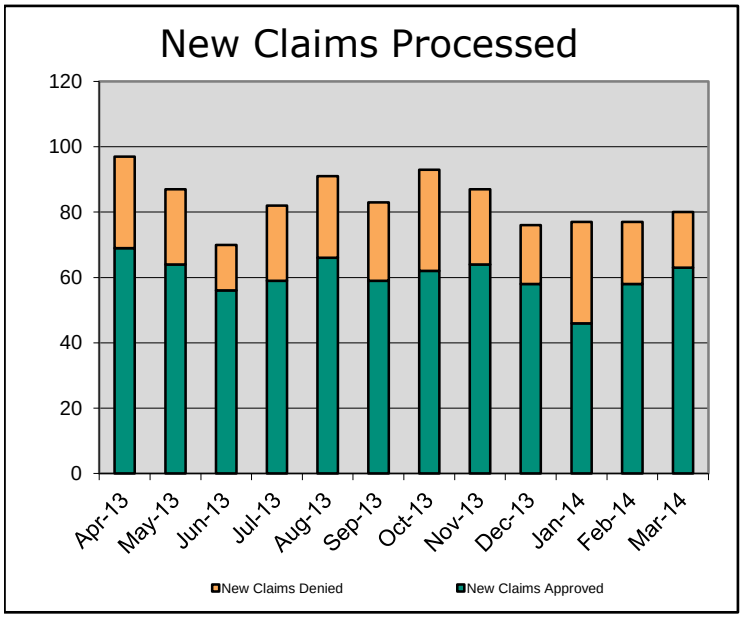


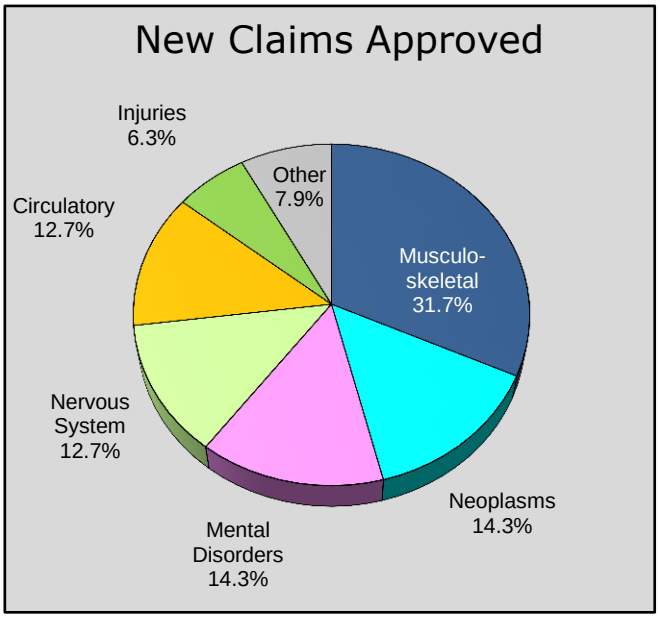


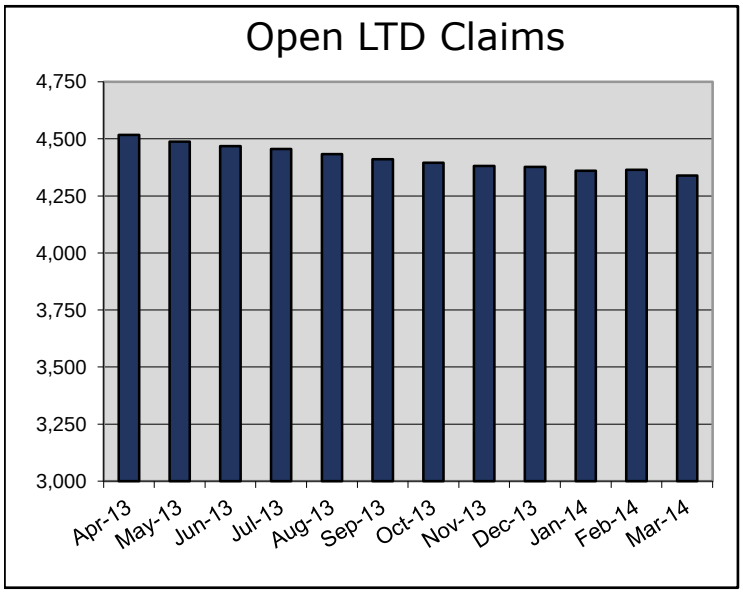
Payment Timeliness (average TAT in days)

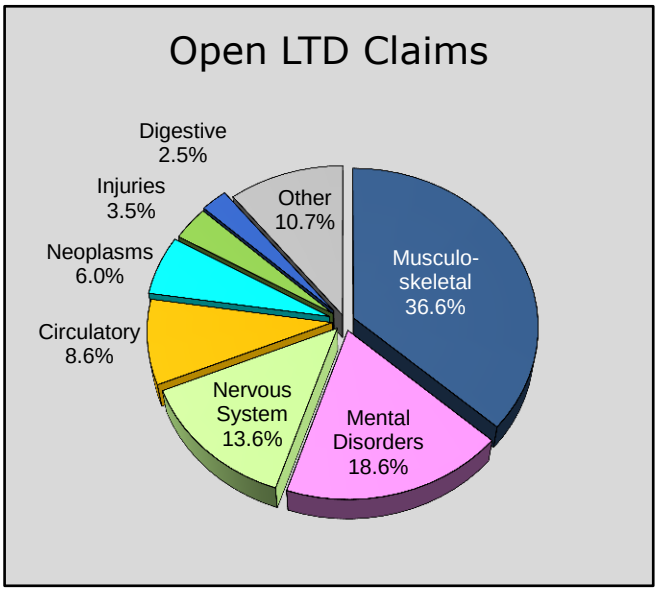
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Lump Sum (Non-Retired)	7	6	5	5	7	5	2	2	3			
Annuity (Retired and Non-Retired)	5	6	4	4	4	2	2	1	2			

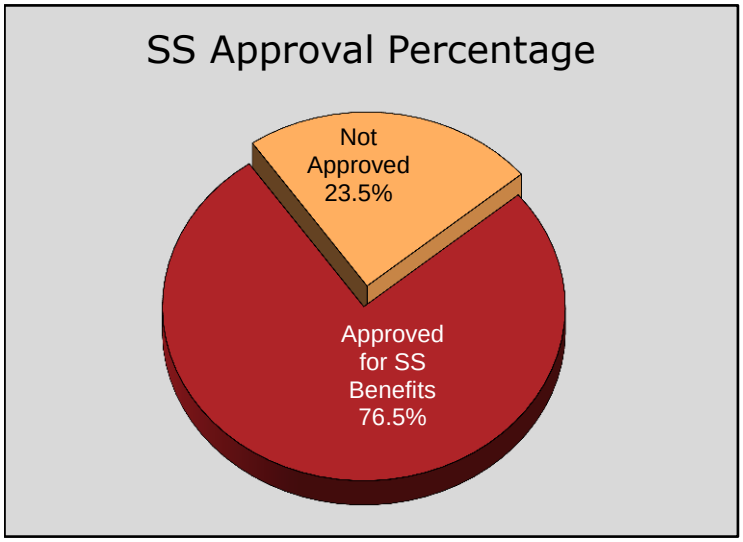
ASRS Disability Plans - Monthly Highlights
March 2014

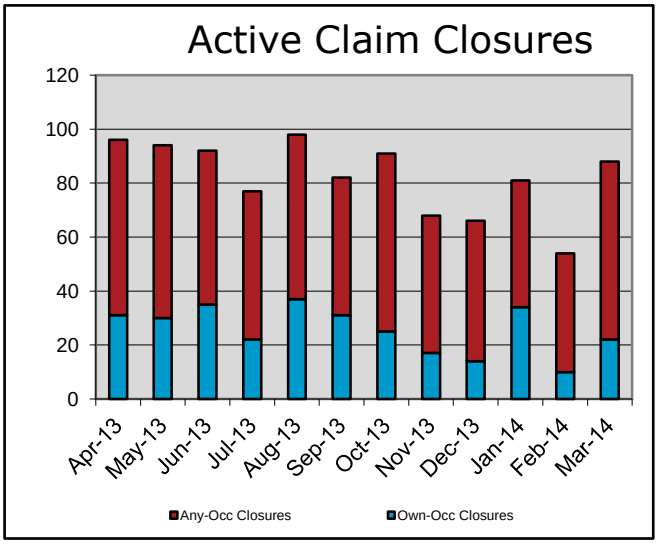












Arizona State Retirement System
FY 2014 Appropriated Budget
(as of March 31, 2014)

	APPROPRIATIONS FISCAL YEAR 2014	EXPENDED YTD	% EXPENDED
OPERATING BUDGET			
Personal Services	$ 13,024,000	$ 9,006,900	69.16%
Employee Related Expenses	$ 4,987,500	$ 3,491,400	70.00%
Professional & Outside Services	$ 775,000	$ 1,321,800	170.55%
Travel	$ 98,600	$ 51,600	52.33%
Other Operating Expenses	$ 2,655,500	$ 1,162,400	43.77%
Equipment	$ 389,500	$ 71,200	18.28%
Operating Subtotal	$ 21,930,100	$ 15,105,300	68.88%
OTHER APPROPRIATIONS			
Long Term Disability Administration	$ 2,800,000	$ 1,693,600	60.49%
Oracle Forms and Reports Modernization	$ 1,390,000	$ 892,300	64.19%
HB 2001 - Statewide IT and Automation Projects	$ 151,000	$ -	0.00%
SB 1170 - Survivor Benefits Modifications	$ 200,000	$ 200,000	100.00%
HB 2562 - 401(a) and LTD for Ineligibles	$ 502,400	$ 8,900	1.77%
TOTAL FY 2014 Appropriated Funds	$ 26,973,500	$ 17,900,100	66.36%

	APPROPRIATIONS PRIOR YEAR	EXPENDED TO DATE	% EXPENDED
PRIOR YEAR LEGISLATIVE APPROPRIATIONS (NON-LAPSING)			
FY 2013 - HB 2745 - Distribution Modifications	$ 47,000	$ 21,600	45.96%
FY 2013 - SB 1119 - Spousal Consent Modifications	$ 200,000	$ 59,600	29.80%
FY 2012 - SB 1609 - ACR Plan Design Changes	$ 250,000	$ 250,000	100.00%
FY 2012 - SB 1614 - ASRS Contribution Rate	$ 600,000	$ 414,200	69.03%
FY 2011 - HB 2389 - ASRS Plan Design Changes	$ 1,341,700	$ 1,071,800	79.88%

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

Budget Summary for Fiscal Year 2014
As of March 31, 2014

Operating Budget
The operating budget information on the previous page is based on funding approved by the Board and the Legislature for the fiscal year July 1, 2013 through June 30, 2014. These ASRS operating expenses are distinguished from other areas of ASRS spending authority, such as expenditures for investment management and benefits payments. Salaries and employee benefits, supplies, equipment and ongoing operational costs associated with information and financial systems for the ASRS Board and ASRS employees are funded from the operating budget. Expenditures to date include nineteen pay periods (73.1% of the annual payrolls) of fiscal year 2014.

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

- **Long Term Disability Administration Fund**
  The amount appropriated for the administration costs of the LTD program. Expended year-to-date amounts reflect payments for services through 2/28/2014.
- **Oracle Forms and Reports Modernization**
  The amount appropriated (non-lapsing) for the first year of a five year software modernization project.

Non-Lapsing Appropriations for Legislative Initiatives
The amount appropriated by the Legislature for the implementation of:

- FY 2014 - HB 2001 - Statewide IT and Automation Projects
- FY 2014 - HB 2562 - 401(a) and LTD for Ineligibles
- FY 2014 - SB 1170 - Survivor Benefits Modifications
- FY 2013 - HB 2745 - Distribution Modifications
- FY 2013 - SB 1119 - Spousal Consent Modifications
- FY 2012 - SB 1609 - Alternate Contribution Rate Plan Design Changes
- FY 2012 - SB 1614 - ASRS Contribution Rate
- FY 2011 - HB 2389 - ASRS Plan Design Changes
- FY 2011 - ASRS Operating Budget and LTD Admin
  - HB 2024, Section 93 modified the FY 2011 ASRS appropriations to be non-lapsing appropriations. The ASRS has the ability to utilize the unspent portion of these appropriations in ensuing fiscal years.

<u>Explanation of Columns</u>

1) The Appropriated column represents funds that have been approved by the Legislature and the ASRS Board for FY 2014, and includes prior year legislative appropriations.

2) The Expended column represents the expenditures to date.

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

ASRS FISCAL YEAR 2014, CONTINUOUSLY APPROPRIATED REPORT

(with summarized Appropriated Expenses)

DESCRIPTION	EXPENDED YTD as of 3/31/14	ESTIMATED ANNUAL EXPENSES (Projections updated quarterly)	EST. ANNUAL EXPENSES AS % OF AUM	EST. ANNUAL EXPENSES PER MEMBER
Custodial Banking, Security Lending and Master Cash STIF Fees	1,087,000	2,625,000		
Public Markets				
External Investment Management Fees	34,029,000	73,247,000		
Transactional and Other Fees	1,561,000	2,341,500		
Private Markets				
Private Equity Management Fees	28,849,000	40,040,000		
Private Equity Performance Incentive and Other Fees	11,237,000	22,474,000		
Real Estate Management Fees	14,355,000	23,513,000		
Real Estate Performance Incentive and Other Fees	7,139,000	14,278,000		
Opportunistic Management Fees	10,321,000	13,855,000		
Opportunistic Performance Incentive and Other Fees	15,100,000	30,200,000		
Investment Management Expenses	**$ 123,678,000**	**$ 222,573,500**	**0.670%**	**$ 410.43**
Investment Consulting Services	1,585,000	2,687,000		
Investment Related Legal Services	370,000	962,000		
Investment Electronic Information Services	1,213,000	1,478,000		
Investment Related Consulting and Information Services	**$ 3,168,000**	**$ 5,127,000**	**0.015%**	**$ 9.45**
Financial Consulting Services	**35,000**	**65,000**	**0.000%**	**$ 0.12**
Rent	**951,000**	**1,400,000**	**0.004%**	**$ 2.58**
Actuarial Consulting Fees	**$ 745,000**	**$ 1,100,000**	**0.003%**	**$ 2.03**
Retiree Payroll (Disbursement Administration)	**$ 1,475,000**	**$ 2,447,000**	**0.007%**	**$ 4.51**
Total Continuously Appropriated Expenses	**$ 130,052,000**	**$ 232,712,500**	**0.700%**	**$ 429.12**
Total Current Year Appropriated Expenses	**$ 17,900,100**	**$ 26,973,500**	**0.081%**	**$ 49.74**
Total Expenses (Continuously Appropriated and Appropriated)	**$ 147,952,100**	**$ 259,686,000**	**0.781%**	**$ 478.86**

ASRS Estimated Total Market Value of Assets Under Management (AUM) as of December 31, 2013 $ 33,240,200,000

ASRS Total Membership as of June 30, 2013 542,300

Continuously Appropriated Expenses for FY 2014
Estimated Expenditures

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

These specific expenditures are described below:

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

   Investment management fees
   - Public Markets
     - External investment management fees (public) year-to-date expenditure amounts reflect all of the fees due for the first quarter of FY 2014 and ninety percent of the fees due for the second quarter of FY 2014.
     - Transactional and other fees include foreign taxes and commissions on derivatives and other incidental costs. These fees were added to this report beginning in February 2014 and the expended YTD column is reflected through the same period.

   - Private Markets
     - Private Equity, Real Estate and Opportunistic Management fees year-to-date expenditure amounts reflect the fees due for the first three quarters of FY 2014.
     - Performance incentive and other fees include management performance incentives, carried interest and the ASRS proportional share of the transactional and operational cost of the underlying partnerships/investment structures. These fees were added to this report beginning in February 2014, and the expended YTD column is reflected through the same period.

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

2. **Rent**
   - Costs associated with rent as tenants for occupancy in the 3300 Tower in Phoenix and in the satellite office in Tucson. Payments have been made for rent through February 28, 2014.

3. **Actuarial consulting fees**
   - Costs associated with actuarial services related to plan design, administration and valuations.

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

The report includes projected expenditures for the current fiscal year. Actual expenditures are reported monthly and estimated annual expenses will be reviewed and adjusted quarterly. The estimated annual expenses reflected were last updated as of the close of the quarter ending December 31, 2013.

ASRS 2014 Out of State Travel Expenditures

Date	Purpose	Location	Attendee	Cost
January 8 - 9, 2014	BlackRock Conference (Speaker)	San Francisco, CA	Dave Underwood	$101.78
January 25 - 29, 2014	IMN Securities Lending Conference	Austin, TX	John Doran	$1,042.55
February 6 - 7, 2014	Due Diligence with Forest City	San Francisco, CA	Karl Polen	$118.10
February 11 -14, 2014	Nomura Senior Quant Offsite Conference	London, UK	Dave Underwood	$1,992.79
			Total:	**$3,255.22**

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

ASRS Cost Savings Initiatives
Estimated as of June 30, 2013, in Millions of Dollars

Action	Calendar Year Proposed	Calendar Year Adopted	Reduction in Total Contribution Rate*	Annual Reduction in Total Contribution Amount	Present Value of Savings on Closed Group Basis		Present Value of Savings on Open Group (No Growth**) Basis	
Cost Savings Initiatives Contained in Current Valuation & Reflected in Lower Current Contribution Rate[1]					Past	Future	Past	Future
Change basis for service purchases from normal cost to actuarial present value (APV)	2003	2004	0.60%	$52.51	$667.40	$366.18	$667.40	$1,141.52
Correction of Permanent Benefit Increase (PBI) reserve	2003	2004	0.04%	$3.50	$44.30	$24.41	$44.30	$24.41
Decrease interest credited on withdrawn contributions from 8% to 4%	2004	2004	0.27%	$23.63	$349.95	$164.79	$349.95	$513.70
Decrease interest credited on withdrawn contributions from 4% to 2%	2012	2012	0.44%	$38.51	$40.58	$268.55	$40.58	$837.17
Redesign non-retired survivor benefits***	2013	2013	0.02%	$1.75	$1.84	$12.20	$1.84	$38.04
sub-total, past and future			**1.37%**	**$119.90**	**$1,104.07**	**$836.13**	**$1,104.07**	**$2,554.84**
sub-total, savings in current valuation			**1.37%**	**$119.90**	**$1,940.20**		**$3,658.91**	
Cost Savings Initiatives Contained in Future Experience[2]					Past	Future	Past	Future
Long Term Disability (LTD) program design changes	2003	2004	0.02%	$1.75	$26.52	$12.20	$26.52	$38.04
Reimbursements for early retirement incentives	2003	2004	0.18%	$15.75	$233.08	$109.83	$233.08	$342.39
Increase interest rate on payroll deduction agreements (PDAs) from 0% to 8%	2004	2004	0.16%	$14.00	$207.62	$97.63	$207.62	$304.35
Pop-up restrictions	2005	2006	0.41%	$37.51	$415.67	$261.58	$415.67	$815.43
Rescinding modified Deferred Retirement Option Plan (mDROP)	2005	2006	0.50%	$43.72	$499.68	$304.89	$499.68	$950.43
LTD changes to offsets and pre-existing condition period	2005	2007	0.15%	$13.13	$128.03	$91.56	$128.03	$285.43
Recapture of unclaimed monies	2007	2008	0.01%	$0.56	$5.59	$3.91	$5.59	$12.17
Eliminate 80% cap on retirement benefits	2008	2009	0.04%	$3.50	$18.13	$24.41	$18.13	$76.09
Require 20/20 Rule for dual employment situations	2009	2009	0.04%	$3.25	$16.77	$22.66	$16.77	$70.65
Eliminate enhanced refunds****	2005	2010	0.16%	$14.07	$31.19	$98.12	$31.19	$305.87
Replace Rule of 80 with Rule of 85****	2006	2010	0.30%	$26.38	$58.47	$183.96	$58.47	$573.48
Replace 36-month average salary with 60-month average****	2006	2010	0.25%	$21.99	$48.73	$153.35	$48.73	$478.04
Apply Alternative Contribution Rate (ACR) to return-to-work****	2011	2011	0.25%	$21.99	$48.73	$153.35	$48.73	$478.04
Compute service purchases with 6% discount rate	2012	2012	0.08%	$7.08	$7.46	$49.37	$7.46	$153.91
Eliminate service purchases through partial lump sums	2012	2012	0.07%	$5.74	$6.05	$40.03	$6.05	$124.78
Eliminate Permanent Benefit Increases for future members	2013	2013	0.11%	$9.63	$10.15	$67.16	$10.15	$209.35
Non-ASRS Initiatives					Past	Future	Past	Future
Replace Rule of 85 with 55&30 or 60&25****	2011	2011	0.00%	$0.60	$1.30	$4.18	$1.30	$13.04
Change pre-retirement death benefit to sum of employee and employer balances (ASRS Initiative)	2011	2011	0.04%	$3.22	$7.13	$22.45	$7.13	$70.00
Adopt 6-month delay in contributions from state members*****	2011	2011	-0.13%	$0.00		$0.00		$0.00
Prospective cost-shift of 6-month delay (not included in totals)*****	2011	2011	N/A	($11.63)	($25.48)	($81.08)	($25.48)	($252.74)
sub-total, past and future			2.64%	$243.87	$1,770.30	$1,700.64	$1,770.30	$5,301.49
sub-total, savings emerging in experience			**2.64%**	**$243.87**	**$3,470.94**		**$7,071.79**	
GRAND TOTAL			**4.01%**	**$363.77**	**$5,411.14**		**$10,730.70**	

*These changes to the total contribution rate are multiplied by current payroll to give annual savings amounts in the next column. The annual savings amounts are then converted to the present values shown in the last two columns. These values include both accumulated past savings and estimated future savings. The savings from basing service purchases on actuarial present value is a reduction in future service liabilities. For the reduction in the interest crediting rate and the changes to LTD offsets and pre-existing condition period, the savings arise from reductions in future service and past service liabilities. Other Actuarial Valuation Basis savings are reductions to past service liabilities, i.e., capitalizations of the annual savings amounts over 30 years. Recapture of unclaimed monies will occur every year, but the numbers above are converted to a level annual savings amount

** No growth scenario means that the projection maintains the size and age distribution characteristics of the current active population.

*** Redesign includes removal of $5,000 requirement to elect an annuity and elimination of the present value calculation

**** Savings will increase each year, from zero to the open-group amount, as new hires become subject to the new provisions.

*****6-month delay will eliminate contributions for members with less than 6 months of service at the valuation date, but will transfer costs to other members and employers.
Cost will increase each year, from zero to the open-group amount as new hires are subject to the new rules
Costs above give the combined effect of each bill -- if a bill changes three plan provisions, the cost of each reflects the adoption of the other two provisions.

Some of these changes will not be reflected in their entirety in the current valuation report, but will be captured in future reports as actuarial gains. For example, the Plan valuation contains no assumption on Payroll Deduction Agreements (PDAs), so the absence of interest charges in the past has been reflected as an actuarial loss. The change to 8% interest charges will end the losses and eventually reduce the total contribution rate by 0.16%.

Explanation of Cost Reduction Initiatives

[1]ASRS changed the basis for service purchases from the average normal cost rate to the actuarial present value rate. In this way, members who buy service pay the entire cost of their service purchases, and the purchases have no effect on contribution rates.
[1]ASRS reduced the rate of interest credited on members' account balances from 8% to 4% as of July 1, 2005.
[1]The 2001 addition to the Permanent Benefit Increase reserve was overstated in that year. ASRS corrected the reserve and thereby reduced the reserve committed to future Permanent Benefit Increase awards.

[2]Members can enter into Payroll Deduction Agreements to purchase service over time through payroll deduction. ASRS revised the method of calculating payments under these agreements to include 8% annual interest.
[2]ASRS members have been able to change the form of benefit they elect (e.g., joint & survivor to straight life) after they have begun to receive payments, and to do so as many times as they want whenever they want. By legislative action, this ability will be limited to a one-time election to change to a single life pensior
[2]Some ASRS employers have offered their employees incentives to retire early. These incentives can increase ASRS liabilities. By legislative action, future incentives will be funded by the employers who offer them.
[2]By legislative action, the modified Deferred Retirement Option Plan, which would have allowed members to earn as much as six years of service for three years of work, was rescindec
[2]The legislature closed certain loopholes in the Long Term Disability program that allowed members to receive benefits for a longer period than intendec
[2]Legislation increased the offsets for Social Security income to 85% and extended the pre-existing condition period to six months
[2]2008 Legislation exempts ASRS from unclaimed property procedures and allows ASRS to recapture assets abandoned after participant's age 73.5
[2]2009 Legislation eliminated the 80% cap on benefits that had been in place since 2001.
[2]2009 Legislation requires a member to meet membership (20/20 Rule) in ASRS before contributing to a second employer, subject to a grandfathering clause
[2]Upon withdrawal, members receive 25-100% of employer contributions depending on years of service. 2010 Legislation eliminates the return of employer contributions for members hired on or after July 1, 2011. Since 2010 changes are for prospective members only, we show open-group present values
[2]Normal retirement can be achieved when a member's age + years of service equals 80 (points). 2010 Legislation requires members hired on or after July 1, 2011 to reach 85 points for normal retiremen
[2]Retirement benefits are calculated based on an average of the member's highest 36 months of salary in the 10 years prior to retirement. 2010 Legislation substitutes a 60 month average for members hired on or after July 1, 2011.

These rows represent legislative initiatives from non-ASRS sources.
2011 legislation replaced rule of 85 for members hired after 6/30/2011 with age 55 and 30 years of service or age 60 with 25 years of service.
2011 legislation changed the split of member/employer contributions from 50%/50% to 53%/47%, effective 7/1/2011
2011 legislation instituted a 6-month delay in contributions from or on behalf of members with less than 6 months of service, effective 7/1/2011.

Arizona State Retirement System
Staffing Report
(March 31, 2014)

ASRS by Division	246 Full Time Equivalents (FTEs)	New Hires	New Exits	Vacancies	Vacancy Rate
Administrative Services Division (ASD)	15×	0	0	1.75	11.67%
Director's Office (DIR)	11	0	0	1.0	9.01%
External Affairs (EAD)	10	0	0	1.0	10.00%
Financial Services (FSD)	62	1.0	0	3.5	5.65%
Technology Services (TSD)	48	0	1.0	9.0	18.75%
Internal Audit (IAD)	5	0	0	0	0.00%
Investment Management (IMD)	11	0	0	1.0	9.09%
Member Services (MSD)	84	0	4.0	10.25	12.20%
	246†	**0.0**	**5.0**	**27.50**	**11.18%**

Turnover	March 2014 New Hires	March 2014 Exits	Total Exits (Last 12 Months)	Annualized Turnover %
	1.0	5.0	38	16.98%

†Note: FY 14 HB2562 added one FTE. This position has not yet been assigned to an ASRS division and is not currently included in the agency FTE count. When included, the agency will total 247 FTEs.
×Note: The Chief Procurement Officer position located in ASD was relocated to the Arizona Department of Administration. The employee in the position has transferred, however the position will remain vacant through FY 14 and officially transfer July 1, 2014.

Pending Activity

FSD – Accountant I: Currently recruiting
EAD – Employer Liaison: Currently recruiting
MSD – Benefits Technician: Currently recruiting
MSD – Call Coach: Recruitment complete, start date 04/07/2014
MSD – Retirement Advisor Senior - MAC: Recruitment for six positions complete, start date 04/14/2014
MSD – Retirement Advisor Supervisor: Currently recruiting
TSD – Build/Release Manager: Currently recruiting
TSD – Quality Assurance Engineer: Recruitment complete for two positions, start dates 04/14/2014 and 04/21/2014
TSD – Software Engineer (3): Currently recruiting for three positions
TSD – Technical Lead: Currently recruiting

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations:	**Green = Normal risk**	**Yellow = Greater than normal risk**	**Red = Negative impact**
MSD	MAC (Call Center)	●○○	
MSD	One-on-one Counseling (Appointments/Walk-ins)	●○○	
MSD	E-mail and Written Correspondence	●○○	
MSD	Outreach Education	●○○	
MSD	Tucson: Appointments/Walk-ins/Outreach	●○○	
MSD	Benefit Estimates	●○○	
FSD	Monthly Pension Payroll Processing	●○○	
FSD	New Retiree Processing	●○○	
MSD	New Retiree Processing	●○○	
FSD	Survivor Benefit Processing	●○○	
MSD	Survivor Benefit Processing	●○○	
MSD	Refund Processing	●○○	

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations:	**Green = Normal risk**	**Yellow = Greater than normal risk**	**Red = Negative impact**
MSD/FSD	Service Purchase Processing	● ○ ○	
FSD	Records Management (data processing/imaging)	● ○ ○	
IA	Internal Audit	● ○ ○	
EA	Employer Relations	● ○ ○	
EA	Rule Writing	○ ● ○	Limited rule writing functions have been carried out by ASRS staff and through the procurement of outside professional services. Executive management has prioritized recently several rulemakings that will impact the ability of limited and external resources to accomplish objectives in a timely manner.
EA	Legislative Relations	● ○ ○	
EA	Communications/Media Relations	● ○ ○	
EA	Web Services	● ○ ○	
EA	Health Insurance/LTD Benefits Administration and Communication	● ○ ○	
MSD	LTD Member Contacts, Benefit Processing	● ○ ○	

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations:	**Green = Normal risk**	**Yellow = Greater than normal risk**	**Red = Negative impact**
FSD	Health Insurance Member Contacts, Benefit Processing Transfer Processing	●○○	
MSD	Health Insurance	●○○	
FSD	Transfer Processing	●○○	
FSD	General Accounting	●○○	
FSD	Contribution Collections and Posting	●○○	
TSD	Network Support	○●○	The addition of the security professional has helped in our security activities while demonstrating the need for more resources to continue to mature the security program. In addition, our current daily tasks continue to consume our Tier I and Tier II resources making it difficult to manage user requests and complete the system upgrades.
TSD	Business Applications Development and Support	○●○	System Design is currently recruiting for a Build/Release Engineer. The planned workload requires a complement of 44 total resources (31 FTEs and 13 external resources). Our current complement of resources is 43 (23 FTEs and 20 external resources).
IMD	Investment Management	●○○	
DIR	Board/Executive Staff Support	●○○	
DIR	Strategic Planning/Analysis	○●○	Enhancements to the agency's enterprise wide risk management program implemented as a result of an internal audit, coupled with an increasing need throughout the agency for analysis, project

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

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations:	**Green = Normal risk**	**Yellow = Greater than normal risk**	**Red = Negative impact**
			management, and survey development/administration, are impacting the current resources' ability to develop, monitor, and report on strategic priorities, goals, and objectives.
ASD	Human Resources	●○○	
ASD	Training and Development	●○○	
ASD	Contracts and Procurement	●○○	
ASD	Facilities Management	●○○	
ASD	Budget Administration	●○○	

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

	Retirement Plan Fund	Retirement System Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Current Period March	Fiscal 2014 YTD March	Fiscal 2013 YTD March
ADDITIONS							
Contributions:							
Member contributions	$ 78,023,971	$ 2,119	$ -	$ 1,658,303	$ 79,684,393	$ 731,099,923	$ 694,704,583
Employer contributions	73,937,468	2,119	4,143,074	1,658,326	79,740,986	731,194,242	698,264,070
Alternative contributions (ACR)	1,982,584	-	44,957	40,461	2,068,001	17,638,242	15,539,457
ERRP reimbursement*	-	-	-	-	-	-	-
Transfers from other plans	9,220	-	-	-	9,220	714,473	947,358
Purchased service	1,776,912	-	-	-	1,776,912	23,893,224	30,392,705
TOTAL CONTRIBUTIONS	155,730,155	4,238	4,188,030	3,357,090	163,279,513	1,504,540,103	1,439,848,173
DEDUCTIONS							
Investment management fees and monitoring services	-	-	-	-	-	49,204,364	45,084,018
Retirement and disability benefits	206,940,163	3,440,156	8,575,832	5,245,964	224,202,115	2,018,107,445	1,925,263,019
Survivor benefits	3,615,314	-	-	-	3,615,314	29,644,410	29,262,323
Refunds to withdrawing members, including interest	17,445,183	12,136	-	-	17,457,319	179,296,995	157,522,703
Administrative expenses	2,762,237	-	-	416,412	3,178,649	26,598,277	26,838,098
Transfers to other plans	10,958	-	-	-	10,958	777,657	459,068
Other	351	-	-	-	351	38,567	(60,784)
TOTAL DEDUCTIONS	230,774,207	3,452,292	8,575,832	5,662,377	248,464,706	2,303,667,715	2,184,368,444
INCREASE (DECREASE)	(75,044,052)	(3,448,053)	(4,387,801)	(2,305,286)	(85,185,193)	(799,127,613)	(744,520,271)
From securities lending activities:							
Security loan program	152,145	-	-	-	152,145	1,442,862	541,274
Security loan interest expense / (Rebate)	(9,677)	-	-	-	(9,677)	(32,255)	(1,106,173)
Net income from securities lending activities	161,822	-	-	-	161,822	1,475,117	1,647,447
Capital Calls / (Distributions)							
Real Estate	23,682,824	297,007	1,057,777	-	25,037,608	124,328,733	59,516,466
Private Equity	18,683,965	-	831,321	-	19,515,286	24,237,074	186,090,547
Opportunistic Investments**	54,272,518	570,536	2,334,189	-	57,177,243	590,959,643	379,045,394
TOTAL Capital Calls	96,639,307	867,543	4,223,287	-	101,730,136	739,525,450	624,652,407
NET INCREASE (DECREASE)	$ (171,521,537)	$ (4,315,596)	$ (8,611,088)	$ (2,305,286)	$ (186,753,507)	$ (1,537,177,945)	$ (1,367,525,231)

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

** Private Debt is included in Opportunistic Investments.

Date Received	Appeals	Issues/Questions Regarding	Status/Comments
1/23/2012	Arizona State University	Appellant is disputing an ASRS employer termination incentive program invoice.	ASU appealed to the Court of Appeals 02/12/2014. Court of Appeals case number is CA-CV 14-0083.
6/21/2012	Bonnie Pendergast	Appellant is seeking to purchase 9.89 service years.	OAH decision affirming ASRS staff decision; affirmed by ASRS Board 09/21/2012; MCSC appeal Case No. LC2012-000596 ASRS Board decision on 02/12/2013. Overturned. ASRS filed appeal to the Court of Appeals on 03/12/2013. Briefing completed 08/21/2013. Oral argument completed on 02/4/14.
4/22/2013	Luz Academy of Tucson & Adalberto M. Guerrero Middle School	Appellant is disputing an ASRS audit that designated four individuals as ineligible for ASRS membership.	OAH decision partially affirming ASRS staff decision; accepted by ASRS Board on 09/27/2013. Luz Academy appealed to Superior Court. MCSC Case No. LC2013-000572-001DT.
11/24/2013	Sara Woyak	Appellant is appealing the determination that she is no longer eligible for Long Term Disability benefits.	OAH decision affirming ASRS staff decision. **ASRS Board accepted on 03/28/2014.**
12/17/2013	Mable Graham	Appellant is disputing repayment of a pension overpayment.	OAH decision affirming ASRS staff decision. **ASRS Board accepted on 03/28/2014.**
1/15/2014	Ryan Fetter	Appellant is disputing denial for disability benefits.	Appellant failed to appear for OAH hearing on 03/12/2014. **ASRS Board 04/25/2014.**
2/4/2014	Alice Schireman	Appellant is disputing that there are no ASRS survivor benefits remaining on ASRS member, Alvin Schireman's account.	**OAH hearing held on 04/10/2014.**
2/10/2014	Arthur Gross	Disputing the ASRS use of forfeited salary information for the purposes of calculating his pension benefit.	**OAH hearing held on 04/07/2014.**
02/25/2014	Adam Morris	Disputing his membership eligibility for fiscal years 2001, 2004 and 2005 and is requesting an invoice for contributions not withheld during that time.	OAH Hearing scheduled for 04/21/2014.

ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MEMORANDUM

TO: Mr. Tom Manos, Chair, Arizona State Retirement System (ASRS) Board

FROM: Mr. Paul Matson, Director

DATE: April 14, 2014

RE: Delinquent Employers

As of April 14, 2014, the following employers have failed to remit contributions by a date certain. These employers have received a letter advising them that the ASRS will initiate collection procedures unless they contact us within five days:

Westwind Academy	$ 15,300
Town of Hayden	$ 17,000*
Harquahala Valley Irrigation District	$ 6,900*
Destiny School	$ 25,000*
Starshine Academy	$ 24,000*
Caurus Academy	$ 14,700
Total	$102,900*

* Estimated amount