



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

AGENDA

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

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

March 28, 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, March 28, 2014, beginning at 8:30 a.m., in the 10th Floor Board Room of the ASRS offices at 3300 N. Central Avenue, Phoenix, Arizona 85012. Trustees of the Board may attend either in person or by telephone conference call.

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

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

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening RemarksMr. Tom Manos
Board Chair
2. Presentation Regarding PRIDE Award for Professionalism (estimated time 5 minutes to 8:35 a.m.)
.....Mr. Paul Matson
Director
.....Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
3. Approval of the Minutes of the February 28, 2014 Public Meetings and Executive Session of the ASRS Board (estimated time 1 minute to 8:36 a.m.).....Mr. Tom Manos

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

4. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Ms. Mable Graham's Appeal of Repayment of a Pension Overpayment (estimated time 20 minutes to 8:56 a.m.)Ms. Jothi Beljan
Assistant Attorney General
.....Mr. Chris Munns
Attorney General, Solicitor General Section

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 Ms. Sara Woyak'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.

5. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Ms. Sara Woyak's Appeal of Long Term Disability Benefits (estimated time 20 minutes to 9:16 a.m.)Ms. Jothi Beljan
.....Mr. Chris Munns

6. Presentation, Discussion, and Appropriate Action Regarding the 2014 Legislative Session (estimated time 20 minutes to 9:36 a.m.)Mr. Patrick Klein
Assistant Director, External Affairs
.....Mr. Nick Ponder
Government Relations Officer

7. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events (estimated time 5 minutes to 9:42 a.m.)Mr. Paul Matson
.....Mr. Anthony Guarino
 - a. 2014 Compliance Report
 - b. 2014 Investments Report
 - c. 2014 Operations Report
 - d. 2014 Budget and Staffing Reports
 - e. 2014 Cash Flow Statement
 - f. 2014 Appeals Report
 - g. 2014 Employers Reporting

8. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings (estimated time 15 minutes to 9:57 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 April 11, 2014
 - c. Investment Committee (IC) Mr. Tom Connelly, Chair
.....Mr. Gary Dokes
The next IC Meeting will be held on April 21, 2014

9. Board Requests for Agenda Items (estimated time 1 minute to 9:58 a.m.).....Mr. Tom Manos

10. Call to the PublicMr. 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.

11. The next public ASRS Board meeting is scheduled for Friday, April 25, 2014, at 8:30 a.m., at 3300 N. Central Avenue, in the 10th Floor Board room, Phoenix, Arizona.

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(1), notice is hereby given to Trustees of the ASRS Board and the general public that the ASRS Board may vote to go into executive session, which will not be open to the public, for the purpose of the Director's annual review. The executive session and the balance of the meeting will take place in the 14th floor conference room.

12. Presentation, Discussion, and Appropriate Action with Respect to the 2013 Review of the Director of the ASRSMr. Tom Manos

13. 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 March 17, 2014

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Administrator

Date

Paul Matson
Director

Date



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: March 21, 2014
RE: **Agenda Item #2:** Presentation Regarding PRIDE Award for Professionalism

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

Debbie Motta, Don Crockett, Nicie Montanez, and Beth Roth were nominated by staff who feel they exemplify the professional qualities listed below:

PROFESSIONALISM

We promote, strive for and expect individuals, teams, and divisions to possess these qualities and skills in order to lead the organization:

- 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 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.

Chosen from the nominees as winner of the 2014 ASRS PRIDE Professionalism award is Debbie Motta. We invite the Board to join the ASRS staff in recognizing Debbie as the 2014 PRIDE Professionalism award recipient.

Nominees for the 2014 PRIDE Professionalism Award

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

PROFESSIONALISM

We promote, strive for and expect individuals, teams, and divisions to possess these qualities and skills in order to lead the organization:

- 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 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.

Debbie Motta

I am nominating Debbie Motta for the Professionalism PRIDE Award because she is the consummate professional. Debbie is always pleasant, friendly, courteous and responsive, as demonstrated in her verbal communications with almost everyone she encounters. Debbie knows everyone at the ASRS on a first-name basis, as she is in a very visible role being head of payroll processing and the trainer for all new associates at NEO for payroll related topics. Debbie is deemed a subject matter expert with respect to the agency's accounts payable functions and currently represents the agency as a SME for the BREAZ AZAdvantage project. Debbie also served as a SME on the Director's first P3 project on the health care self-insurance analysis. Debbie is a trusted contributor and effectively leads the accounts payable team to success by consistently meeting their strategic goals. Regarding the attribute of personal accountability, I have witnessed on several occasions Debbie staying late 3 to 4 hours in order to approve the pension payroll and to pull data, so as not to inconvenience someone else the next day (benefits accounting and TSD). Many people would have just left work at that point, and made it someone else's problem. Debbie is pro-active and responsive in her duties and interactions with internal customers, as Debbie is frequently reminding and intervening for supervisors that have forgotten to approve and submit timesheets for their people - without Debbie's diligence, several people would have not received their paycheck as expected, but no one sees that side of the process. Debbie conducts herself in a discrete manner with respect to payroll related matters and probing questions that may come her way. I am frequently impressed with her attention to detail and ability to think through complex processes, such as pension payroll and troubleshoot process flow and internal control problems. Debbie will always be honest with you, even if she knows you are not going to like her answer! In summary, I

believe Debbie demonstrates the attributes of Professionalism as outlined in our PRIDE initiatives.

Don Crockett

I am nominating Don Crockett for the 2014 Pride Professionalism Award. With diligence and expertise, he is devoted to provide the best service for all the members and get the job done in a timely fashion. He has a warm personality, as well as respect and courtesy. He is a trusted teamworker and never feels bored when helping others. He may not be a shining superstar in the ASRS, but we need such an employee who works hard and influences others positively.

Nicie Montanez

Nicie handles adversity and disputes well, she does a great job of explaining the why's behind her reasoning and using facts to back up her statements. She is most definitely a subject matter expert and is looked to for guidance by almost all members of the Benefits Accounting Team.

Beth Roth

Beth displays a positive demeanor (friendly, responsive, courteous) even when confronted by adversity. She possesses good communication and active listening skills. Beth always greets the members in a friendly, polite manner; she even calls them by name and I know that makes them feel good. She always goes above and beyond to make the members comfortable and welcome. Even when there is a not so happy member, she will keep her same soft-spoken voice to help the member.



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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, February 28, 2014
10:00 a.m., MST

The Arizona State Retirement System (ASRS) Board met in the 14th Floor Conference Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 11:04 a.m., Arizona time.

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

1. Call to Order; Roll Call; Opening Remarks

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

Absent: Mr. Marc Boatwright
Mr. Brian McNeil

A quorum was present for the purpose of conducting business.

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

- a) Trustees' 2013 Self-Evaluation
- b) Board 2013 Self-Evaluation
- c) Critical Issues of 2014

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

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

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

Mr. Tom Manos, Chair, addressed five items from the Overall Board Evaluation document. The Trustees discussed at length items #8, #9, #11, #12, and #13, offering input regarding effective meetings, oversight, possessing an effective knowledge base, and policy-making. Trustees provided positive feedback regarding 2013 Board interactions.

Trustees also discussed the following investment-related concerns: weighing the potential risk of being overweight in equities to achieve the desired 8 percent rate of return and whether the 8 percent rate of return is reasonable.

Adjournment of the ASRS Board

Mr. Manos adjourned the Board meeting at 11:32 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox, Board Administrator Date

Tom Manos, Chair Date



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*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, February 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 8:33 A.M., Arizona Time.

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

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Mike Smarik, Vice-chair
Mr. Marc Boatwright (via teleconference)
Mr. Tom Connelly
Professor Dennis Hoffman (arrived at 8:37 A.M.)
Dr. Richard Jacob
Mr. Kevin McCarthy
Mr. Brian McNeil
Mr. Jeff Tyne

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the January 24, 2014 Public Meeting of the ASRS Board

Motion: Mr. Kevin McCarthy moved to approve the minutes of the January 24, 2014 Public Meeting of the ASRS Board. Mr. Mike Smarik seconded the motion.

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

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

Professor Dennis Hoffman arrived.

Mr. Gary Dokes, Chief Investment Officer, addressed the Board regarding the ASRS Investment Program Updates for the period ending January 31, 2014, highlighting specific areas of interest and concern. Mr. Dokes presented the Investment Management Division's (IMD) Investment House Views and provided an update on recent IMD activities.

4. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program

Mr. Allan Martin, Consultant, NEPC, addressed the Board regarding NEPC's independent reporting, monitoring, and oversight of the ASRS Investment Program including Total Fund performance through December 2013.

The Total Fund Performance for the period ending December 31, 2013 is:

| | Quarter | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception (6/30/75) |
|--------------------|---------|--------|---------|---------|----------|---------------------------|
| Total Fund | 5.5% | 17.9% | 10.5% | 13.5% | 7.1% | 10.0% |
| Interim SAA Policy | 5.5% | 16.9% | 10.2% | 13.2% | 6.9% | 9.8% |
| Excess Return | 0.0% | 1.0% | 0.3% | 0.3% | 0.2% | 0.2% |

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

5. 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. Marc Boatwright departed the meeting at 9:39 A.M.

Mr. Ponder noted:

- HB 2017 (ASRS; §38-955 Defined Contribution Plan): The bill makes technical changes to the Plan and has been referred to the Senate Finance Committee.
- HB 2018 (ASRS; In-service distributions): The bill makes 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. The bill is on hold until the IRS provides final guidance on normal retirement age definitions.
- 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 is expected to move forward.
- SB 1082 (ASRS; Employee background checks): The bill would allow the ASRS to perform background checks on current and prospective employees. It has been referred to the House.

The following Senate bills passed out of the Senate, and have since been passed out of the House Insurance Retirement Committee and will go on the consent calendar:

- SB 1083 (ASRS; Applicable Interest Rate; definition): The bill makes technical conforming changes.
- SB 1084 (ASRS; LTD Compensation): The bill clarifies how the ASRS calculates compensation for LTD benefits.

Mr. Ponder noted SB 1085 (ASRS; LTD program) appears to be dead. It would possibly have changed the income replacement ratio for those on LTD from 66 2/3% to 60% after 24 months of disability.

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

- HB 2039 (Charter schools; higher education sponsors): This bill expands the list of charter schools eligible to participate in the ASRS and designated as political subdivisions to include charter schools sponsored by universities, community college districts and groups of community college districts, retroactive to July 1, 2013. The bill passed through the House to the Senate Finance Committee.
- HB 2049 (Retirement plans; compensation; definition): The bill would have changed the definition of what qualifies for compensation for purposes of calculating pension. The bill is dead.
- HB 2056 (Retirement; return to work): The bill would not allow a member who is receiving an ASRS pension to be employed by an ASRS employer. The bill is dead.
- HB 2058 (Public pensions; limit on compensation): The bill implements a cap of \$150,000 on earnings which can be used to determine contributions to an employee's pension, prospectively. HB 2212 was added as an amendment (more details were provided on HB 2212 later in the discussion). The ASRS is neutral on this bill, which was referred to the Senate Finance Committee.
- HB 2060 (PSPRS oversight; rulemaking; procurement): The PSPRS Board is no longer exempt from the Administrative Procedures Act or the Arizona Procurement Code. An amendment was added to this bill to include the ASRS, indicating the ASRS would not be required to go through the procurement process to obtain investment related goods or service and investment related legal services. The House Committee of the Whole (COW) approved it; it subsequently failed the House on third read. Rep. Kavanaugh voted against it should he decide to bring it back; the bill has not yet been brought back.
- HB 2069 (ASRS, Political Subdivision Entities): Employees of Political Subdivision Entities hired on or after a certain date are excluded from ASRS membership. The amendment provided in the COW indicates an employee who is currently a member of ASRS and becomes employed with a political subdivision entity will maintain their membership in the ASRS. The bill will be third read next week, but may be held until there are enough votes.
- HB 2090 (Defined contribution retirement plans; option): The bill would have allowed employees who are not active, inactive, disabled. Or retired members of the Plan or System to execute a DB Plan opt-out within 30 days of employment and join a DC Plan instead. The bill is dead.
- HB 2122 (ASRS; election; EORP defined contribution): The bill requires a state elected official who was elected or appointed before December 31, 2103, and who is a member of the ASRS to remain in the ASRS without the necessity of a written election.
- HB 2212 (ASRS; Employer termination incentive program): The bill requires elected officials who were previously members of ASRS to rejoin ASRS, and not have the option to participate in the EORP DC Plan.
- HB 2292 (Technical correction; defined contribution plan): The bill would have made minor technical changes relating to the ASRS and public officers and employees. The bill is dead.
- HB 2552 (Retirement, return to work, restrictions): The bill would prohibit any employee from returning to work with an ASRS employer as a leased or contracted employee unless they wait 365 days from their date of termination of employment. The bill is dead.
- SB 1240 (Striker): The bill states 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. The bill passed through the Senate Education Committee; bill has not been voted on by the whole Senate.

- 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. The bill appears to be dead.
- SCR 1004 (Technical correction; state lands; price): The bill proposes a minor technical correction regarding state trust lands. It is an apparent striker and is on hold, not to be voted on in this session.
- HB 2203 (ASRS; PSPRS; Board membership): The bill would have changed the construct of the current ASRS and PSPRS Boards of Trustees. The ASRS has been removed from this bill and is now neutral regarding the bill. The bill is on the House COW calendar for next week.

Mr. Brian McNeil departed the meeting at 9:55 A.M.

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS General Investment Consultant Request For Proposal Number ASRS14-00003622

Motion: Mr. Tom Connelly moved to go into executive session to discuss or consider records exempt by law from public inspection relating to agenda item #6 and to receive legal advice regarding the *Kenneth Fields vs. Elected Officials' Retirement Plan* Decision agenda item #7. Professor Dennis Hoffman seconded the motion.

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

The Board recessed from the public meeting at 9:56 A.M. for the purpose of going into executive session.

7. Presentation and Discussion Regarding Update on Retirement System Litigation including *Kenneth Fields vs. Elected Officials' Retirement Plan* and *Bonnie Pendergast vs. Arizona State Retirement System* Decisions (if Decisions are available at time of meeting)

The Board went into executive session, as noted above in agenda item #6. The *Bonnie Pendergast vs. Arizona State Retirement System* Decision was not yet available.

Mr. Kevin McCarthy temporarily departed the meeting when the executive session ended. The Board returned to the public meeting at 10:51 A.M.

Motion: Mr. Tom Connelly moved to accept the recommendation of the evaluation committee for the General Investment Consultant Request For Proposal number ASRS14-00003622. Professor Dennis Hoffman seconded the motion.

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

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

Mr. Matson noted the Director's Report was included in the Board materials. He had no comments on the report and there was no discussion.

9. 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.

b. Investment Committee (IC)

Mr. Tom Connelly, Chair, said the next IC meeting will be held on April 21, 2014. Asset class presentations, ASRS Investment Program Updates, and the State Street Risk Report will be discussed.

Mr. Kevin McCarthy returned to the meeting.

c. External Affairs Committee (EAC)

Mr. Kevin McCarthy said the next EAC meeting will be held on March 14, 2014; legislation will be discussed.

10. Board Requests for Agenda Items

No requests were made.

11. Call to the Public

No members of the public requested to speak.

12. The next ASRS Board meeting is scheduled for Friday, February 28, 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 February 28, 2014 Board meeting at 10:55 A.M.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Administrator

Date

Paul Matson
Director

Date

Confidential
meeting
materials
were in this
agenda item

Appeal materials
were provided to the
Board and were not
included in this
packet.



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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: March 21, 2014

RE: **Agenda Item #6:** 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: March 21, 2014

RE: Internal Audit Review of Internal Investment Validation for the month ending February 28, 2014

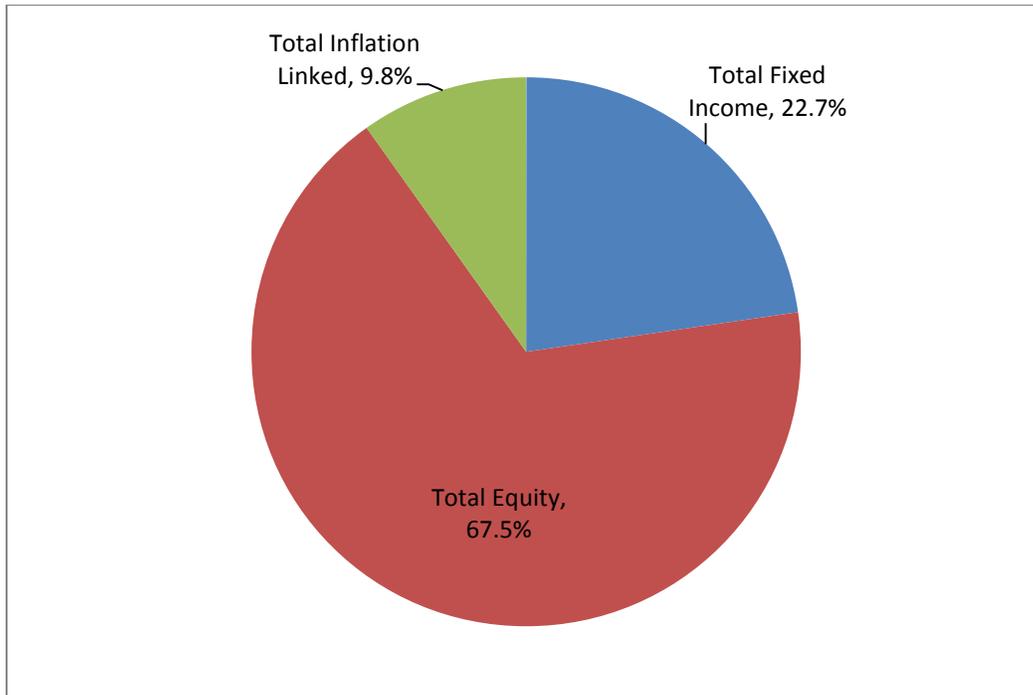
The Internal Audit Division reviewed 1,605 trade transactions in the month of February on all the activity in the E2, E3, E4, E6, E7, E8 and F2 accounts. Our review included:

- 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.

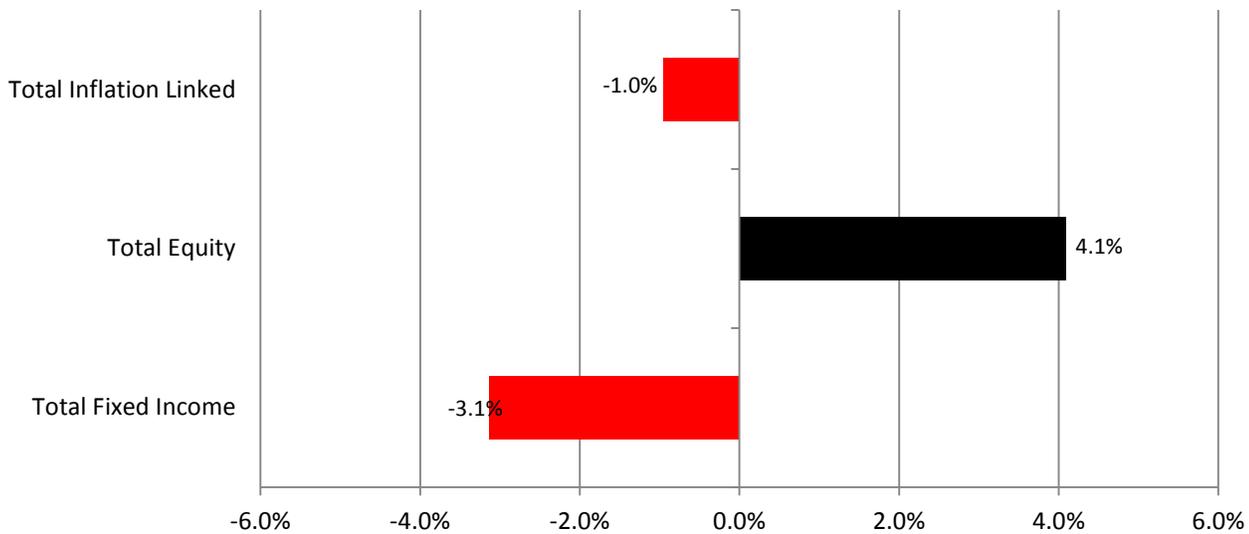
No infractions were noted during our review. Based on this review, we believe the procedures for executing and reporting internal investment transactions have been followed for this time reportable period.

TOTAL FUND POSITIONING – 02/28/2014

ACTUAL PORTFOLIO



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



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

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

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

Pension (Plan, System, HBS Assets)

ASRS Market Value Report

As of: Friday, February 28, 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 | | 189,010,202 | | | | | 189,010,202 | 0.57% |
| | Cash Total | | | | | | | \$189,010,202 | 0.57% |
| PIMCO: Newport Beach | Active (Core) | 301,714,077 | | | | | | 301,714,077 | 0.91% |
| GTAA Managers (2) | Active GTAA | 1,094,998,006 | | | | | | 1,094,998,006 | 3.31% |
| Blackrock: San Francisco | Passive (Intermediate GovCredit) | | 23,655,314 | | | | | 23,655,314 | 0.07% |
| ASRS: Phoenix | Enhanced Passive F2 | | 1,944,442,040 | | | | | 1,944,442,040 | 5.88% |
| | Core Fixed Income Total | | | | | | | \$3,364,809,436 | 10.17% |
| | Core Fixed Income Policy | | | | | | | | 13.00% |
| Columbia: Minneapolis | Active | 730,613,360 | | | | | | 730,613,360 | 2.21% |
| Shenkmen: Connecticut | Active | 171,384,665 | | | | | | 171,384,665 | 0.52% |
| JP Morgan: Indianapolis | Active | 323,803,486 | | | | | | 323,803,486 | 0.98% |
| | High Yield Fixed Income Total | | | | | | | \$1,225,801,512 | 3.71% |
| | High Yield Fixed Income Policy | | | | | | | | 5.00% |
| | US Fixed Income Total | | | | | | | \$4,590,610,948 | 13.88% |
| | US Fixed Income Policy Range: 8% - 28% | | | | | | | | 18.00% |
| PIMCO (local): Newport Beach | Active | 327,330,840 | | | | | | 327,330,840 | 0.99% |
| Ashmore (blended): London | Active | 530,495,989 | | | | | | 530,495,989 | 1.60% |
| | EM Debt Total | | | | | | | \$857,826,829 | 2.59% |
| | EM Debt Policy | | | | | | | | 4.00% |
| | Opportunistic Debt | | | | | | | \$995,170,532 | 3.01% |
| | Opportunistic Debt Policy Range: 0% - 10% | | | | | | | | 0.00% |
| | Private Debt Total | | | | | | | \$871,708,160 | 2.64% |
| | Private Debt Policy | | | | | | | | 3.00% |
| | Fixed Income Total | | | | | | | \$7,504,326,672 | 22.69% |
| | Total Fixed Income Policy Range: 15% - 35% | | | | | | | | 25.00% |
| Intech: FL | Active (Growth) | | | 526,350,469 | | | | 526,350,469 | 1.59% |
| LSV: Chicago | Active (Value) | | | 759,536,865 | | | | 759,536,865 | 2.30% |
| GTAA Managers (2) | Active GTAA | | | 1,107,770,164 | | | | 1,107,770,164 | 3.35% |
| ASRS: Phoenix | Passive E2 | | | | 4,806,599,125 | | | 4,806,599,125 | 14.53% |
| ASRS: Phoenix | Enhanced Passive E7 | | | | 810,312,939 | | | 810,312,939 | 2.45% |
| ASRS: Phoenix | Enhanced Passive E8 | | | | 491,916,884 | | | 491,916,884 | 1.49% |
| ASRS: Phoenix | Risk Factor Portfolio | | | | 487,831,665 | | | 487,831,665 | 1.47% |
| | Large Cap Equity Total | | | | | | | \$8,991,674,196 | 27.19% |
| | Large Cap Policy | | | | | | | | 23.00% |
| Wellington: Boston | Active (Core) | | | 439,512,686 | | | | 439,512,686 | 1.33% |
| CRM: New York | Active (Value) | | | 98,100,161 | | | | 98,100,161 | 0.30% |
| ASRS: Phoenix | Passive E3 (Growth) | | | | 546,960,188 | | | 546,960,188 | 1.65% |
| ASRS: Phoenix | Passive E4 (Value) | | | | 544,921,369 | | | 544,921,369 | 1.65% |
| | Mid Cap Equity Total | | | | | | | \$1,629,484,424 | 4.93% |
| | Mid Cap Policy | | | | | | | | 5.00% |
| TimesSquare: New York | Active SMID (Growth) | | | 520,818,296 | | | | 520,818,296 | 1.57% |
| DFA: Santa Monica | Active (Value) | | | 444,444,940 | | | | 444,444,940 | 1.34% |
| Champlain: Vermont | Active (Core) | | | 113,866,745 | | | | 113,866,745 | 0.34% |
| ASRS: Phoenix | Passive E6 | | | | 537,077,134 | | | 537,077,134 | 1.62% |
| | Small Cap Equity Total | | | | | | | \$1,616,207,114 | 4.89% |
| | Small Cap Policy | | | | | | | | 5.00% |
| | U.S. Equity Total | | | | | | | \$12,237,375,734 | 37.00% |
| | US Equity Policy Range: 28% - 38% | | | | | | | | 33.00% |
| Brandes: San Diego | Active (Value) | | | 525,347,143 | | | | 525,347,143 | 1.59% |
| Aberdeen: Edinburgh | Active (Value) | | | 488,478,107 | | | | 488,478,107 | 1.48% |
| Hansberger: Ft. Lauderdale | Active (Growth) | | | 339,102,148 | | | | 339,102,148 | 1.03% |
| Walter Scott: Edinburgh | Active (Growth) | | | 231,435,793 | | | | 231,435,793 | 0.70% |
| GTAA Managers (2) | Active GTAA | | | 1,014,907,375 | | | | 1,014,907,375 | 3.07% |
| Blackrock: San Francisco | Passive (EAFE) | | | | 2,341,399,142 | | | 2,341,399,142 | 7.08% |
| | Large Cap Developed Non-US Equity Total | | | | | | | \$4,940,693,869 | 14.94% |
| | Large Cap Developed Policy | | | | | | | | 14.00% |
| AQR: Greenwich | Active (EAFE SC) | | | 179,541,114 | | | | 179,541,114 | 0.54% |
| DFA: Santa Monica | Active (EAFE SC) | | | 224,672,730 | | | | 224,672,730 | 0.68% |
| Franklin Templeton: San Mateo | Active (EAFE SC) | | | 420,010,273 | | | | 420,010,273 | 1.27% |
| Blackrock: San Francisco | Passive (EAFE SC) | | | | 464,558,551 | | | 464,558,551 | 1.40% |
| | Small Cap Developed Non-US Equity Total | | | | | | | \$1,288,790,310 | 3.90% |
| | Small Cap Developed Policy | | | | | | | | 3.00% |
| William Blair: Chicago | Active (EM) | | | 432,879,111 | | | | 432,879,111 | 1.31% |
| Eaton Vance: Boston | Active (EM) | | | 471,885,355 | | | | 471,885,355 | 1.43% |
| LSV: Chicago | Active (EM) | | | 276,937,104 | | | | 276,937,104 | 0.84% |
| Blackrock: San Francisco | Passive (EM) | | | | 633,960,573 | | | 633,960,573 | 1.92% |
| | Emerging Markets Equity Total | | | | | | | \$1,815,662,143 | 5.49% |
| | Emerging Markets Policy | | | | | | | | 6.00% |
| | Non-US Equity Total | | | | | | | \$8,045,146,321 | 24.32% |
| | Non-US Equity Policy Range: 16% - 28% | | | | | | | | 23.00% |
| | Private Equity Total | | | | | | | \$1,847,689,775 | 5.59% |
| | Private Equity Policy Range: 5% - 9% | | | | | | | | 7.00% |
| | Opportunistic Equity | | | | | | | \$182,884,667 | 0.55% |
| | Opportunistic Equity Policy Range: 0% - 3% | | | | | | | | 0.00% |
| | Equity Total | | | | | | | \$22,313,406,498 | 67.46% |
| | Total Equity Policy Range: 53% - 73% | | | | | | | | 63.00% |
| Gresham: New York | Active GTAA | | | | | 842,447,926 | | 842,447,926 | 2.55% |
| GTAA Managers (2) | Active GTAA | | | | | 340,101,634 | | 340,101,634 | 1.03% |
| | Commodities Total | | | | | | | \$1,182,549,561 | 3.58% |
| | Commodities Policy Range: 1% - 7% | | | | | | | | 4.00% |
| GTAA Manager (1) | Active GTAA | | | | | 44,149,975 | | 44,149,975 | 0.13% |
| | Real Estate Total | | | | | | | \$1,981,542,603 | 5.99% |
| | Real Estate Policy Range: 6% - 10% | | | | | | | | 8.00% |
| | Infrastructure Total | | | | | | | \$0 | 0.00% |
| | Infrastructure Policy Range: 0% - 3% | | | | | | | | 0.00% |
| | Farm Land & Timber Total | | | | | 92,404,140 | | \$92,404,140 | 0.28% |
| | Farm Land & Timber Policy Range: 0% - 3% | | | | | | | | 0.00% |
| | Opportunistic Inflation Linked Total | | | | | | | \$0 | 0.00% |
| | Inflation Linked Total | | | | | | | \$3,256,486,304 | 9.85% |
| | Inflation Linked Policy Range: 7%-15% | | | | | | | | 12.00% |
| | TOTAL Amounts | \$4,352,048,584 | \$3,152,278,088 | \$10,646,212,823 | \$11,686,893,675 | \$3,348,900,443 | \$0 | \$33,073,929,474 | Total Fund |
| | TOTAL Percent | 13.16% | 9.53% | 32.19% | 35.28% | 10.13% | 0.00% | | |

| Asset Class | Actual Portfolio | SAA Policy: Target (Range) | Rebalancing | | Assumed - Adjusted | | Policy Band check Actual - Adj | Passive Min | Passive Actual |
|-------------------------------|------------------------|----------------------------|----------------|------------------------|--------------------|-------------------------|--------------------------------|---------------------------------------|----------------|
| | | | Assumed Port | Adj Policy | % diff | \$ diff | | | |
| Cash | 0.64% | | | | | | | | |
| Core | 10.13% | 13% | | | | | | 50% | 60% |
| High Yield | 3.69% | 5% | | | | | | | |
| US Fixed Income | 13.82% | 18% (8-28%) | 14.20% | 18.57% (9-29%) | -4.37% | -\$1,451,350,502 | OK | | |
| EM Debt | 2.58% | 4% | | 4.00% | | | | | |
| Opportunistic Debt | 3.03% | 0% (0-10%) | 3.03% | 0% (0-10%) | 3.03% | \$1,006,460,787 | OK | | |
| Private Debt | 2.57% | 3% | | 3.00% | | | | | |
| Total Fixed Income | 22.64% | 25% (15-35%) | 22.38% | 25.57% (16-36%) | -3.19% | -\$1,059,719,616 | OK | | |
| Large Cap | 27.37% | 23% | | | | | | | |
| Mid Cap | 4.93% | 5% | | | | | | | |
| Small Cap | 5.00% | 5% | | | | | | | |
| US Equity | 37.31% | 33% (26-38%) | 38.64% | 35.31% (28-40%) | 3.33% | \$1,105,363,077 | OK | 50% | 64% |
| Developed Large Cap | 14.86% | 14% | | | | | | | |
| Developed Small Cap | 3.85% | 3% | | | | | | | |
| Emerging Markets | 5.42% | 6% | | | | | | | |
| Non-US Equity | 24.14% | 23% (16-28%) | 23.80% | 23.51% (17-29%) | 0.29% | \$95,269,709 | OK | 30% | 44% |
| Private Equity | 5.57% | 7% (5-9%) | 5.57% | 5.57% (4-8%) | 0.00% | \$0 | OK | | |
| Opportunistic Equity | 0.55% | 0% (0-3%) | 0.55% | 0% (0-3%) | 0.55% | \$182,884,667 | OK | | |
| Total Equity | 67.57% | 63% (53-70%) | 68.55% | 64.38% (54-71%) | 4.17% | \$1,383,517,454 | OK | | |
| Commodities | 3.55% | 4% (1-7%) | 2.96% | 4.08% (1-7%) | -1.12% | -\$372,092,109 | OK | | |
| Real Estate | 5.97% | 8% (6-10%) | 5.83% | 5.97% (4-8%) | -0.13% | -\$44,109,869 | 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 | 9.80% | 12% (8-16%) | 9.07% | 10.05% (6-14%) | -0.98% | -\$323,797,838 | OK | | |
| Total | 100.00% | 100% | 100.00% | 100.00% | 0.00% | \$0 | | 30% | 41% |
| Total GTAA | | | | | | | | Internally Managed Portfolios: | |
| Bridgewater | \$3,013,137,013 | 9.1% | | | | | | \$9,662,230,859 | 29% |
| Windham | \$581,924,388 | 1.8% | | | | | | | |
| Total | \$3,595,061,401 | 10.8% | | | | | | | |
| Policy | 10% ±5% | OK | | | | | | | |

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

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

Period Ending Feb 28, 2014
FINAL



| | Style | Inception | Amount (\$mil.) | Net Returns (%) | | | | | | | | | Excess Returns (basis points) | | | | | | | |
|--|---|------------|------------------|-----------------|----------|-------|--------|------------|---------|----------|-------|------|-------------------------------|----------|--------|--------|------------|---------|----------|-----|
| | | | | Month | 3 Months | YTD | 1 Year | Annualized | | | | ITD | Month | 3 Months | YTD | 1 Year | Annualized | | | |
| | | | | | | | | 3 Years | 5 Years | 10 Years | ITD | | | | | | 3 Years | 5 Years | 10 years | ITD |
| US EQUITY LARGE CAP | | | | | | | | | | | | | | | | | | | | |
| E2 MODEL | INDEXED | 04/01/1997 | 4,807 | 4.57 | 3.50 | 0.95 | 25.21 | 14.32 | 22.96 | 7.21 | 7.48 | 0 | -1 | -1 | -16 | -3 | -5 | 5 | 8 | |
| | <i>S&P 500 INDEX</i> | | | 4.57 | 3.51 | 0.96 | 25.37 | 14.35 | 23.00 | 7.16 | --- | | | | | | | | | |
| INTECH LARGE CAP | QUANTITATIVE | 01/01/2003 | 526 | 5.35 | 5.76 | 2.38 | 31.11 | 15.44 | 21.94 | 8.01 | 10.06 | 10 | 86 | 24 | 241 | -35 | -118 | 35 | 77 | |
| | <i>S&P/CITIGROUP 500 GROWTH</i> | | | 5.24 | 4.90 | 2.14 | 28.70 | 15.79 | 23.13 | 7.66 | --- | | | | | | | | | |
| LSV ASSET MANAGEMENT | QUANTITATIVE | 01/01/2003 | 760 | 4.12 | 2.52 | -0.13 | 30.91 | 15.98 | 27.14 | 9.14 | 11.49 | 28 | 50 | 18 | 903 | 306 | 415 | 254 | 255 | |
| | <i>LSV CUSTOM INDEX</i> | | | 3.84 | 2.02 | -0.31 | 21.88 | 12.91 | 22.99 | 6.60 | --- | | | | | | | | | |
| E7 | INDEXED | 08/01/2012 | 810 | 3.97 | 1.19 | -0.34 | 19.38 | --- | --- | --- | 17.90 | 0 | 3 | 1 | 29 | --- | --- | --- | 20 | |
| | <i>MSCI USA High Dividend Yield Index</i> | | | 3.97 | 1.16 | -0.35 | 19.09 | --- | --- | --- | --- | | | | | | | | | |
| E8 | INDEXED | 08/01/2012 | 492 | 4.35 | 2.50 | 1.21 | 18.08 | --- | --- | --- | 16.94 | -1 | 0 | -2 | 54 | --- | --- | --- | 79 | |
| | <i>MSCI USA Minimum Volatility Index</i> | | | 4.36 | 2.51 | 1.23 | 17.54 | --- | --- | --- | --- | | | | | | | | | |
| TOTAL US EQUITY LARGE CAP | | | | | | | | | | | | | | | | | | | | |
| | | | \$ 7,395 | | | | | | | | | | | | | | | | | |
| US EQUITY MID CAP | | | | | | | | | | | | | | | | | | | | |
| WELLINGTON MANAGEMENT COMPANY LLP | FUNDAMENTAL | 07/01/2002 | 440 | 5.62 | 8.99 | 5.46 | 35.95 | 15.03 | 24.18 | 11.94 | 12.04 | 73 | 317 | 280 | 938 | 89 | -277 | 179 | 128 | |
| | <i>S&P 400 MIDCAP INDEX</i> | | | 4.88 | 5.83 | 2.66 | 26.58 | 14.14 | 26.95 | 10.15 | --- | | | | | | | | | |
| E3 MODEL | INDEXED | 12/01/2000 | 547 | 5.33 | 6.16 | 2.68 | 27.11 | 14.44 | 27.77 | 11.09 | 8.95 | 2 | 17 | 7 | 24 | 35 | 27 | 55 | 60 | |
| | <i>S&P/CITIGROUP 400 GROWTH</i> | | | 5.31 | 5.99 | 2.61 | 26.87 | 14.09 | 27.50 | 10.53 | --- | | | | | | | | | |
| CRM MID CAP VALUE | FUNDAMENTAL | 01/01/2004 | 98 | 4.75 | 6.23 | 1.30 | 26.58 | 11.90 | 20.90 | 9.80 | 10.24 | 31 | 56 | -141 | 33 | -236 | -552 | 9 | 13 | |
| E4 MODEL | INDEXED | 07/01/2002 | 545 | 4.45 | 5.61 | 2.73 | 26.28 | 14.18 | 26.25 | 9.97 | 10.83 | 2 | -6 | 2 | 3 | -7 | -16 | 26 | 22 | |
| | <i>S&P/CITIGROUP 400 VALUE</i> | | | 4.43 | 5.67 | 2.71 | 26.25 | 14.25 | 26.42 | 9.71 | --- | | | | | | | | | |
| TOTAL US EQUITY MID CAP | | | | | | | | | | | | | | | | | | | | |
| | | | \$ 1,630 | | | | | | | | | | | | | | | | | |
| US EQUITY SMALL CAP | | | | | | | | | | | | | | | | | | | | |
| DIMENSIONAL FUND ADVISORS EQFD | QUANTITATIVE | 09/01/1998 | 444 | 5.14 | 2.69 | 0.20 | 32.09 | 14.93 | 31.18 | 10.16 | 12.76 | 51 | 25 | -64 | 46 | -154 | 373 | 49 | 119 | |
| | <i>DFA BLENDED BENCHMARK</i> | | | 4.62 | 2.45 | 0.85 | 31.63 | 16.47 | 27.45 | 9.67 | --- | | | | | | | | | |
| TIMESQUARE CAPITAL MANAGEMENT | FUNDAMENTAL | 04/01/2005 | 521 | 4.62 | 4.33 | 0.44 | 30.16 | 18.41 | 28.36 | --- | 13.41 | -60 | -167 | -279 | -487 | 253 | -33 | --- | 275 | |
| | <i>RUSSELL 2500 GROWTH</i> | | | 5.22 | 6.00 | 3.23 | 35.03 | 15.87 | 28.68 | --- | --- | | | | | | | | | |
| CHAMPLAIN INVESTMENT PARTNERS LLC | FUNDAMENTAL | 01/01/2008 | 114 | 1.30 | -1.35 | -2.57 | 23.26 | 13.63 | 23.54 | --- | 10.22 | -316 | -324 | -299 | -904 | -320 | -451 | --- | -2 | |
| E6 | INDEXED | 02/01/2007 | 537 | 4.43 | 1.94 | 0.41 | 32.22 | 16.64 | 27.84 | --- | 8.90 | -2 | 6 | -2 | -8 | -19 | -21 | --- | 40 | |
| | <i>S&P 600 SMALL CAP</i> | | | 4.46 | 1.88 | 0.43 | 32.30 | 16.83 | 28.04 | --- | --- | | | | | | | | | |
| TOTAL US EQUITY SMALL CAP | | | | | | | | | | | | | | | | | | | | |
| | | | \$ 1,616 | | | | | | | | | | | | | | | | | |
| TOTAL US EQUITY | | | | | | | | | | | | | | | | | | | | |
| | | | \$ 10,640 | | | | | | | | | | | | | | | | | |
| INTERNATIONAL DEVELOPED LARGE CAP | | | | | | | | | | | | | | | | | | | | |
| BRANDES INVESTMENT PARTNERS INT EQ | FUNDAMENTAL | 10/01/1998 | 525 | 4.99 | 2.15 | 1.72 | 27.21 | 6.43 | 15.97 | 6.89 | 9.81 | -57 | -69 | 41 | 748 | -68 | -360 | -127 | 295 | |
| | <i>BRANDES CUSTOM INDEX</i> | | | 5.56 | 2.84 | 1.31 | 19.74 | 7.11 | 19.57 | 8.16 | --- | | | | | | | | | |
| ABERDEEN ASSET MANAGEMENT | FUNDAMENTAL | 03/01/2011 | 488 | 6.55 | 1.14 | 1.02 | 8.49 | 6.14 | --- | --- | 6.14 | 99 | -170 | -29 | -1,124 | -98 | --- | --- | -98 | |
| BGI EAFE INDEX | INDEXED | 07/01/2009 | 2,357 | 5.59 | 2.85 | 1.33 | 19.52 | 6.93 | --- | --- | --- | 3 | 1 | 2 | -21 | -18 | --- | --- | -15 | |
| WALTER SCOTT & PARTNERS | FUNDAMENTAL | 04/01/2011 | 231 | 3.75 | -1.68 | -2.37 | 6.88 | --- | --- | --- | 5.65 | -181 | -452 | -368 | -1,286 | --- | --- | --- | -250 | |
| | <i>MSCI EAFE NET</i> | | | 5.56 | 2.84 | 1.31 | 19.74 | --- | --- | --- | --- | | | | | | | | | |



| | | | | Net Returns (%) | | | | | | | | Excess Returns (basis points) | | | | | | | |
|--|--------------|------------|------------------|-----------------|----------|-------|--------|------------|---------|----------|-------|-------------------------------|----------|------|--------|------------|---------|----------|------|
| | Style | Inception | Amount (\$mil.) | Month | 3 Months | YTD | 1 Year | Annualized | | | | Month | 3 Months | YTD | 1 Year | Annualized | | | |
| | | | | | | | | 3 Years | 5 Years | 10 Years | ITD | | | | | 3 Years | 5 Years | 10 years | ITD |
| HANSBERGER GLOBAL INVESTORS LC | FUNDAMENTAL | 08/01/2005 | 339 | 3.91 | -0.14 | -1.90 | 14.55 | 3.67 | 18.47 | --- | 5.99 | -165 | -298 | -320 | -518 | -344 | -110 | --- | -148 |
| <i>HANSBERGER CUSTOM INDEX</i> | | | | 5.56 | 2.84 | 1.31 | 19.74 | 7.11 | 19.57 | --- | --- | | | | | | | | |
| TOTAL INTERNATIONAL DEVELOPED LARGE CAP | | | \$ 3,941 | | | | | | | | | | | | | | | | |
| INTERNATIONAL DEVELOPED SMALL CAP | | | | | | | | | | | | | | | | | | | |
| AQR CAPITAL | | 06/01/2013 | 180 | 5.16 | 6.31 | 3.83 | --- | --- | --- | --- | 23.85 | -37 | -4 | -7 | --- | --- | --- | --- | 125 |
| BLACKROCK EAFE SMALL CAP | INDEXED | 06/01/2010 | 470 | 5.52 | 6.26 | 3.83 | 26.30 | 9.52 | --- | --- | 16.56 | 0 | -9 | -7 | -33 | -39 | --- | --- | -28 |
| DIMENSIONAL FUND ADVISORS INTL SC | QUANTITATIVE | 09/01/2005 | 225 | 6.29 | 8.31 | 5.41 | 29.87 | 8.65 | 20.06 | --- | 7.26 | 77 | 196 | 151 | 324 | -126 | -371 | --- | 13 |
| FRANKLIN TEMPLETON INVESTMENTS | FUNDAMENTAL | 04/01/2011 | 420 | 5.91 | 2.84 | 1.06 | 26.92 | --- | --- | --- | 13.93 | 39 | -351 | -285 | 29 | --- | --- | --- | 370 |
| <i>MSCI EAFE SMALL CAP NET</i> | | | | 5.52 | 6.35 | 3.90 | 26.63 | --- | --- | --- | --- | | | | | | | | |
| TOTAL INTERNATIONAL DEVELOPED SMALL CAP | | | \$ 1,294 | | | | | | | | | | | | | | | | |
| INTERNATIONAL EMERGING MARKETS | | | | | | | | | | | | | | | | | | | |
| BLACKROCK EMERGING MARKETS | INDEXED | 10/01/2010 | 636 | 3.25 | -4.82 | -3.57 | -6.24 | -2.24 | --- | --- | -0.99 | -6 | -3 | -17 | -52 | -56 | --- | --- | -52 |
| EATON VANCE EMERGING MARKET EQUITY | QUANTITATIVE | 12/01/2010 | 474 | 3.49 | -1.99 | -1.97 | -1.40 | 0.02 | --- | --- | 0.71 | 17 | 280 | 143 | 432 | 170 | --- | --- | 127 |
| LSV EMERGING MARKET EQUITY | QUANTITATIVE | 12/01/2010 | 277 | 2.65 | -5.38 | -4.56 | -7.33 | -1.53 | --- | --- | -0.01 | -66 | -60 | -117 | -162 | 15 | --- | --- | 55 |
| WILLIAM BLAIR & COMPANY | FUNDAMENTAL | 11/01/2010 | 434 | 6.48 | -1.20 | -0.85 | -0.48 | 3.43 | --- | --- | 1.54 | 317 | 358 | 255 | 523 | 511 | --- | --- | 288 |
| <i>MSCI EMF NET</i> | | | | 3.31 | -4.78 | -3.40 | -5.71 | -1.68 | --- | --- | --- | | | | | | | | |
| TOTAL INTERNATIONAL EMERGING MARKETS | | | \$ 1,821 | | | | | | | | | | | | | | | | |
| TOTAL INTERNATIONAL EQUITY | | | \$ 7,056 | | | | | | | | | | | | | | | | |
| RISK FACTOR PORTFOLIO | | | | | | | | | | | | | | | | | | | |
| RISK FACTOR PORTFOLIO | OVERLAY | 06/01/2013 | 488 | 4.85 | 4.13 | 1.71 | --- | --- | --- | --- | 16.61 | | | | | | | | |
| TOTAL RISK FACTOR PORTFOLIO | | | \$ 488 | | | | | | | | | | | | | | | | |
| TOTAL EQUITY W/ RISK FACTOR OVERLAY | | | \$ 18,185 | | | | | | | | | | | | | | | | |
| CORE FIXED INCOME | | | | | | | | | | | | | | | | | | | |
| F2 MODEL | INDEXED | 10/01/2000 | 1,944 | 0.48 | 1.43 | 1.92 | 0.60 | 4.14 | 5.56 | 4.77 | 5.71 | -5 | -1 | -10 | 44 | 31 | 43 | 21 | 16 |
| PACIFIC INV MGMT CO (PIMCO) | CORE | 02/01/2010 | 302 | 0.72 | 1.08 | 1.95 | -1.28 | 3.71 | --- | --- | 4.43 | 19 | -36 | -7 | -144 | -12 | --- | --- | 31 |
| <i>Barclays Aggregate</i> | | | | 0.53 | 1.44 | 2.02 | 0.15 | 3.83 | --- | --- | --- | | | | | | | | |
| BGI GOVT/CRDTBD INDEX | INDEXED | 11/01/2008 | 24 | 0.41 | 0.72 | 1.35 | 0.44 | 3.34 | 4.53 | --- | 5.26 | 3 | 5 | 4 | 12 | 11 | 9 | --- | 9 |
| <i>Barclays Gov/Credit Int</i> | | | | 0.38 | 0.67 | 1.31 | 0.31 | 3.23 | 4.44 | --- | --- | | | | | | | | |
| TOTAL CORE FIXED INCOME | | | \$ 2,270 | | | | | | | | | | | | | | | | |
| HIGH YIELD FIXED INCOME | | | | | | | | | | | | | | | | | | | |
| COLUMBIA MANAGEMENT INV. ADVISORS, LLC | FUNDAMENTAL | 10/01/2009 | 731 | 2.16 | 3.22 | 2.70 | 7.83 | 8.93 | --- | --- | 11.15 | 14 | -8 | -4 | -55 | -11 | --- | --- | -73 |
| JP MORGAN HIGH YIELD | | 07/01/2013 | 324 | 2.15 | 3.09 | 2.60 | --- | --- | --- | --- | 8.79 | 13 | -20 | -14 | --- | --- | --- | --- | -6 |

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

Period Ending Feb 28, 2014
FINAL



| | | | | Net Returns (%) | | | | | | | | Excess Returns (basis points) | | | | | | | | | | |
|--|-------|-----------|-----------------|-----------------|------------|------------------|--------|------------|---------|----------|-------|-------------------------------|----------|-------|--------|------------|---------|----------|------|-----|-----|------|
| | Style | Inception | Amount (\$mil.) | Month | 3 Months | YTD | 1 Year | Annualized | | | | Month | 3 Months | YTD | 1 Year | Annualized | | | | | | |
| | | | | | | | | 3 Years | 5 Years | 10 Years | ITD | | | | | 3 Years | 5 Years | 10 years | ITD | | | |
| SHENKMAN CAPITAL MANAGEMENT | | | | FUNDAMENTAL | 10/01/2009 | 171 | 1.99 | 3.17 | 2.42 | 7.30 | 7.18 | --- | --- | 9.70 | -3 | -13 | -31 | -107 | -185 | --- | --- | -217 |
| <i>Barclays Corp High Yield</i> | | | | | | | 2.02 | 3.29 | 2.74 | 8.38 | 9.03 | --- | --- | --- | | | | | | | | |
| TOTAL HIGH YIELD FIXED INCOME | | | | | | \$ 1,226 | | | | | | | | | | | | | | | | |
| EMERGING MARKETS DEBT | | | | | | | | | | | | | | | | | | | | | | |
| ASHMORE EMERGING MKT DBT BLEND | | | | FUNDAMENTAL | 01/01/2013 | 534 | 2.34 | -0.69 | -0.39 | -7.01 | --- | --- | --- | -5.47 | -80 | -123 | -105 | -157 | --- | --- | --- | -71 |
| <i>EMERGING MARKETS BLENDED INDEX</i> | | | | | | | 3.14 | 0.54 | 0.66 | -5.44 | --- | --- | --- | --- | | | | | | | | |
| PIMCO EMERGING MARKET DEBT LC | | | | FUNDAMENTAL | 01/01/2013 | 327 | 4.18 | -1.15 | -0.42 | -11.55 | --- | --- | --- | -9.62 | 25 | 28 | 46 | -141 | --- | --- | --- | -114 |
| <i>JPM GBI-EM Global Diversified Index</i> | | | | | | | 3.92 | -1.43 | -0.89 | -10.14 | --- | --- | --- | --- | | | | | | | | |
| TOTAL EMERGING MARKETS DEBT | | | | | | \$ 861 | | | | | | | | | | | | | | | | |
| TOTAL PUBLIC FIXED INCOME | | | | | | \$ 4,357 | | | | | | | | | | | | | | | | |
| GTAA | | | | | | | | | | | | | | | | | | | | | | |
| BRIDGEWATER ASSOCIATES GLBL TAA | | | | FUNDAMENTAL | 01/01/2004 | 3,043 | 4.53 | 3.29 | 2.11 | 17.84 | 12.11 | 20.27 | 9.11 | 9.26 | 78 | 30 | 50 | 234 | 259 | 353 | 264 | 259 |
| <i>GTAA CUSTOM BENCHMARK</i> | | | | | | | 3.76 | 2.99 | 1.61 | 15.50 | 9.52 | 16.74 | 6.47 | --- | | | | | | | | |
| WINDHAM | | | | QUANTITATIVE | 10/01/2011 | 582 | 4.76 | 2.49 | 1.09 | 10.44 | --- | --- | --- | 12.78 | 90 | -99 | -104 | -443 | --- | --- | --- | -401 |
| <i>WINDHAM CUSTOM INDEX</i> | | | | | | | 3.86 | 3.48 | 2.14 | 14.87 | --- | --- | --- | --- | | | | | | | | |
| TOTAL GTAA | | | | | | \$ 3,625 | | | | | | | | | | | | | | | | |
| GLOBAL INFLATION LINKED | | | | | | | | | | | | | | | | | | | | | | |
| GRESHAM | | | | FUNDAMENTAL | 09/01/2010 | 842 | 5.50 | 5.80 | 4.74 | -1.41 | -4.93 | --- | --- | 3.43 | -73 | -207 | -181 | 43 | 193 | --- | --- | 266 |
| <i>DJ-UBS Commodity Index TR</i> | | | | | | | 6.24 | 7.87 | 6.55 | -1.84 | -6.86 | --- | --- | --- | | | | | | | | |
| TOTAL GLOBAL INFLATION LINKED | | | | | | \$ 842 | | | | | | | | | | | | | | | | |
| TOTAL PUBLIC MARKET | | | | | | \$ 27,198 | | | | | | | | | | | | | | | | |

Long Term Disability (LTD)

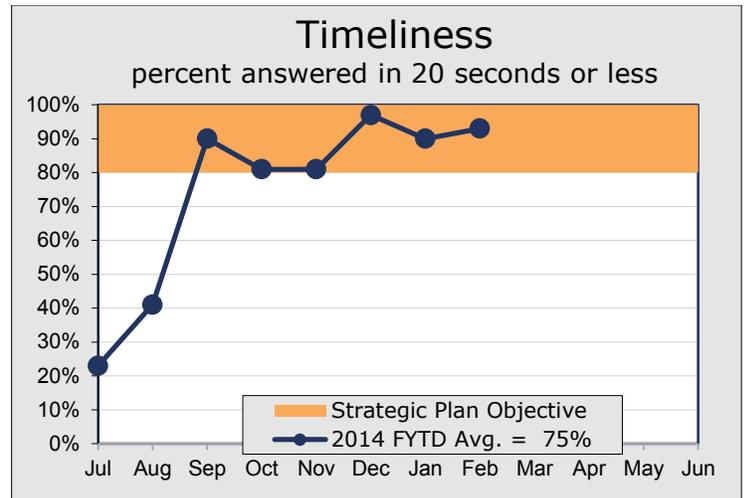
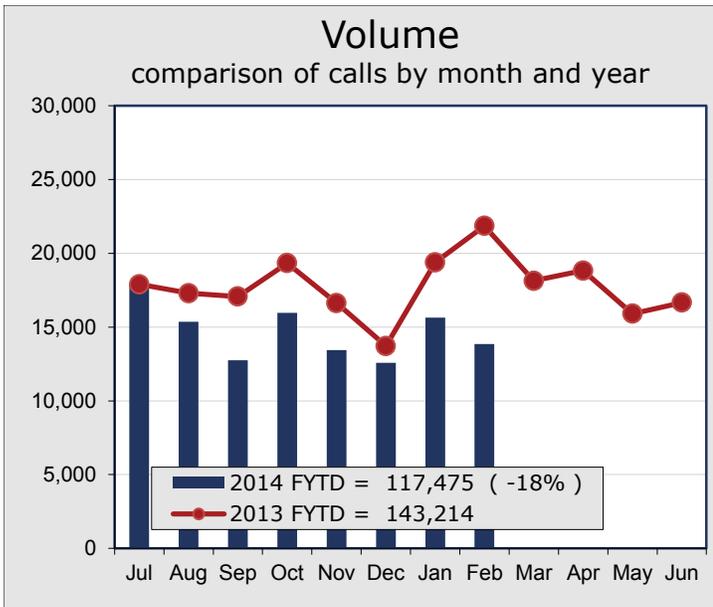
Friday, February 28, 2014

| <u>Account Manager</u> | <u>Account Manager Style</u> | <u>Fixed Income</u> | <u>Equity</u> | <u>Inflation Linked</u> | <u>Total</u> | <u>Pct of Fund</u> | <u>Target (Range)</u> |
|--------------------------|-------------------------------------|---------------------|---------------------|-------------------------|----------------------|--------------------|-----------------------|
| StateStreet B&T: Boston | Cash | \$2,646,241 | | | \$2,646,241 | 0.97% | |
| BlackRock: San Francisco | Fixed Core (Passive) | \$30,961,647 | | | \$30,961,647 | 11.34% | 13% |
| BlackRock: San Francisco | Fixed High Yield (Passive) | \$17,879,367 | | | \$17,879,367 | 6.55% | 8% |
| BlackRock: San Francisco | Emerging Market Debt (Passive) | \$9,564,393 | | | \$9,564,393 | 3.50% | 4% |
| | | | | | | 21.40% | 25% (15-35%) |
| BlackRock: San Francisco | Russell 1000 (Passive) | | \$98,534,037 | | \$98,534,037 | 36.10% | 34% |
| BlackRock: San Francisco | Russell 2000 (Passive) | | \$21,112,667 | | \$21,112,667 | 7.74% | 6% |
| | | | | | | 43.84% | 40% (33-45%) |
| BlackRock: San Francisco | EAFE (Passive) | | \$38,275,534 | | \$38,275,534 | 14.02% | 14% |
| BlackRock: San Francisco | EAFE SC (Passive) | | \$9,458,017 | | \$9,458,017 | 3.47% | 3% |
| BlackRock: San Francisco | Emerging Markets (Passive) | | \$14,926,346 | | \$14,926,346 | 5.47% | 6% |
| | | | | | | 22.96% | 23% (16-28%) |
| BlackRock: San Francisco | Dow Jones UBS Commodities (Passive) | | | \$8,847,451 | \$8,847,451 | 3.24% | 4% (1-7%) |
| BlackRock: San Francisco | US Real Estate (Passive) | | | \$20,706,102 | \$20,706,102 | 7.59% | 8% (6-10%) |
| | | | | | | 10.83% | 12% (8-16%) |
| | TOTAL Amounts | \$61,051,647 | \$182,306,601 | \$29,553,554 | \$272,911,802 | | |
| | TOTAL Percent | 22.37% | 66.80% | 10.83% | | | |
| | Actual Portfolio | 22.37% | 66.80% | 10.83% | | | |
| | Policy | 25% (15-35%) | 63% (53-70%) | 12% (8-16%) | | | |



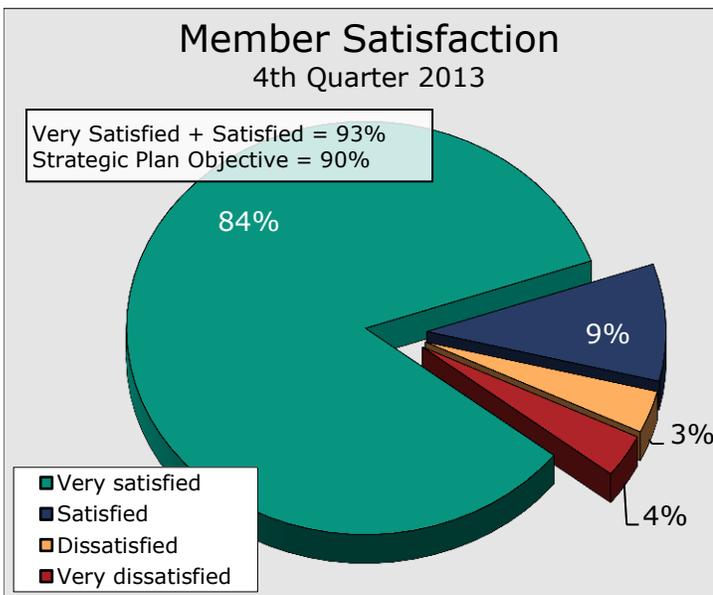
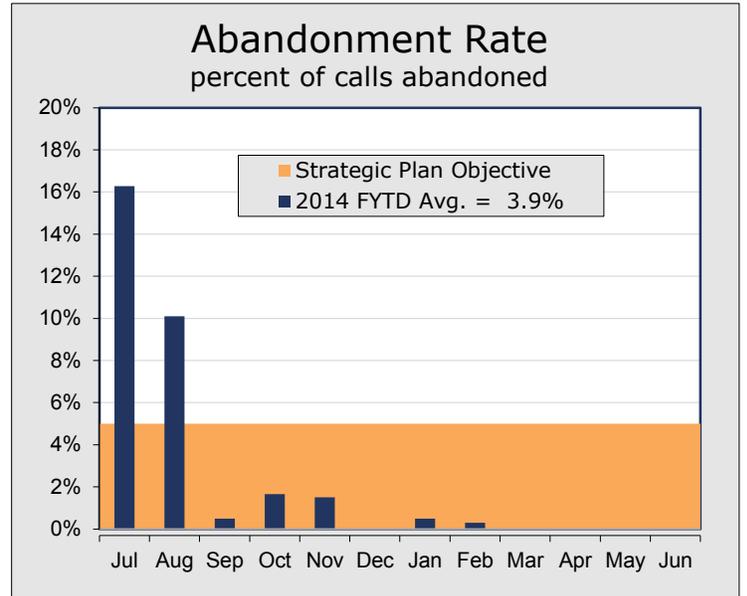
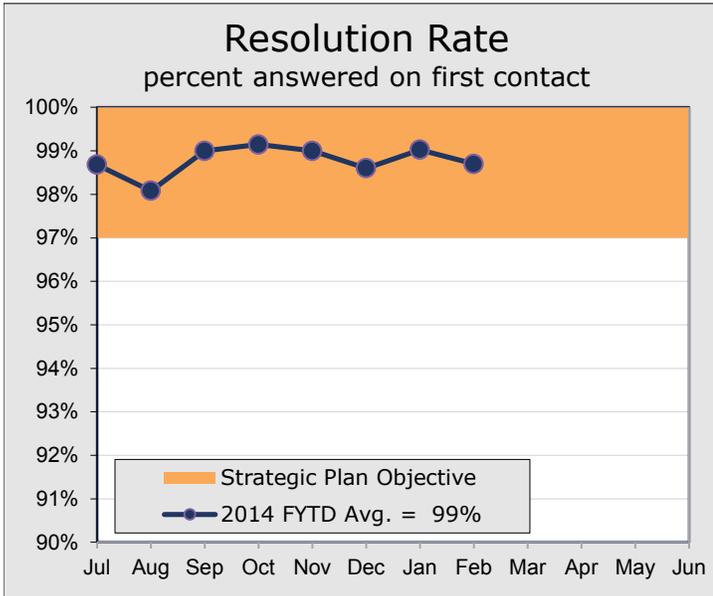
| | | | Net Returns (%) | | | | | | | | Excess Returns (basis points) | | | | | | | |
|--|------------|-----------------|-----------------|----------|-------|--------|------------|---------|----------|-------|-------------------------------|----------|-----|--------|------------|---------|----------|-----|
| | Inception | Amount (\$mil.) | Month | 3 Months | YTD | 1 Year | Annualized | | | | Month | 3 Months | YTD | 1 Year | Annualized | | | |
| | | | | | | | 3 Years | 5 Years | 10 Years | ITD | | | | | 3 Years | 5 Years | 10 Years | ITD |
| BLACKROCK - US DEBT FUND B | 01/01/2011 | 31.0 | 0.58 | 1.48 | 2.10 | 0.03 | 3.85 | --- | --- | 3.77 | 5 | 4 | 8 | -12 | 2 | --- | --- | 2 |
| <i>Barclays Aggregate</i> | | | 0.53 | 1.44 | 2.02 | 0.15 | 3.83 | 5.13 | 4.56 | --- | | | | | | | | |
| BLACKROCK - US HIGH YIELD FUND B | 01/01/2011 | 17.9 | 2.22 | 3.36 | 2.84 | 7.80 | 8.60 | --- | --- | 9.40 | 20 | 7 | 10 | -58 | -43 | --- | --- | -36 |
| <i>Barclays Corp High Yield</i> | | | 2.02 | 3.29 | 2.74 | 8.38 | 9.03 | 18.94 | 8.73 | --- | | | | | | | | |
| BLACKROCK-LTD-EM BD INDX FD B | 01/01/2013 | 9.6 | 3.87 | -1.70 | -0.96 | -11.03 | --- | --- | --- | -9.41 | -6 | -27 | -7 | -89 | --- | --- | --- | -93 |
| <i>JPM GBI-EM Global Diversified Index</i> | | | 3.92 | -1.43 | -0.89 | -10.14 | 1.18 | 10.40 | 9.22 | --- | | | | | | | | |
| BLACKROCK - RUSSELL 1000 FUND B | 01/01/2011 | 98.5 | 4.75 | 4.13 | 1.39 | 26.30 | 14.62 | --- | --- | 15.93 | 0 | -1 | -1 | -3 | 1 | --- | --- | 2 |
| <i>RUSSELL 1000</i> | | | 4.75 | 4.14 | 1.40 | 26.34 | 14.60 | 23.63 | 7.58 | --- | | | | | | | | |
| BLACKROCK - RUSSELL 2000 FUND B | 01/01/2011 | 21.1 | 4.72 | 3.84 | 1.82 | 31.69 | 14.57 | --- | --- | 15.64 | 1 | 3 | 1 | 13 | 16 | --- | --- | 17 |
| <i>RUSSELL 2000</i> | | | 4.71 | 3.82 | 1.81 | 31.56 | 14.41 | 26.63 | 8.71 | --- | | | | | | | | |
| BLACKROCK - EAFE INDEX FUND B | 01/01/2011 | 38.3 | 5.56 | 2.81 | 1.30 | 19.27 | 6.71 | --- | --- | 8.26 | 0 | -3 | -1 | -46 | -40 | --- | --- | -39 |
| <i>MSCI EAFE NET</i> | | | 5.56 | 2.84 | 1.31 | 19.74 | 7.11 | 18.13 | --- | --- | | | | | | | | |
| BLACKROCK EAFE SMALL CAP FUND B | 01/01/2011 | 9.5 | 5.52 | 6.25 | 3.83 | 26.26 | 9.54 | --- | --- | 10.09 | -1 | -10 | -7 | -37 | -37 | --- | --- | -34 |
| <i>MSCI EAFE SMALL CAP NET</i> | | | 5.52 | 6.35 | 3.90 | 26.63 | 9.91 | 23.77 | --- | --- | | | | | | | | |
| BLACKROCK MSCI EMERGING MARKETS FUND B | 01/01/2011 | 14.9 | 3.24 | -4.84 | -3.58 | -6.30 | -2.25 | --- | --- | -3.27 | -7 | -6 | -19 | -59 | -57 | --- | --- | -54 |
| <i>MSCI EMF NET</i> | | | 3.31 | -4.78 | -3.40 | -5.71 | -1.68 | --- | --- | --- | | | | | | | | |
| BGI-LTD- R ESTATE FD | 01/01/2005 | 20.7 | 5.13 | 9.88 | 9.29 | 5.98 | 9.10 | 29.38 | --- | 6.45 | 9 | 27 | 32 | -59 | -113 | -103 | --- | -49 |
| <i>WILSHIRE RESI</i> | | | 5.04 | 9.61 | 8.97 | 6.57 | 10.23 | 30.41 | 8.94 | --- | | | | | | | | |
| BLACKROCK DJ UBS COMM FUND B | 01/01/2011 | 8.8 | 6.24 | 7.78 | 6.45 | -2.23 | -7.23 | --- | --- | -6.19 | 1 | -10 | -10 | -39 | -37 | --- | --- | -35 |
| <i>DJ-UBS Commodity Index TR</i> | | | 6.24 | 7.87 | 6.55 | -1.84 | -6.86 | 4.90 | 0.69 | --- | | | | | | | | |
| LONG TERM DISABILITY - CASH | 07/01/1995 | 2.6 | 0.00 | 0.00 | 0.00 | 0.00 | 0.04 | 0.13 | 1.77 | 2.85 | 0 | -2 | -1 | -8 | -5 | 0 | 9 | -5 |
| <i>91 DAY TREASURY BILL</i> | | | 0.00 | 0.02 | 0.01 | 0.08 | 0.09 | 0.12 | 1.68 | --- | | | | | | | | |
| TOTAL LTD | | \$ 272.9 | | | | | | | | | | | | | | | | |

Member Advisory Center: Phone



Timeliness (average wait time in seconds)

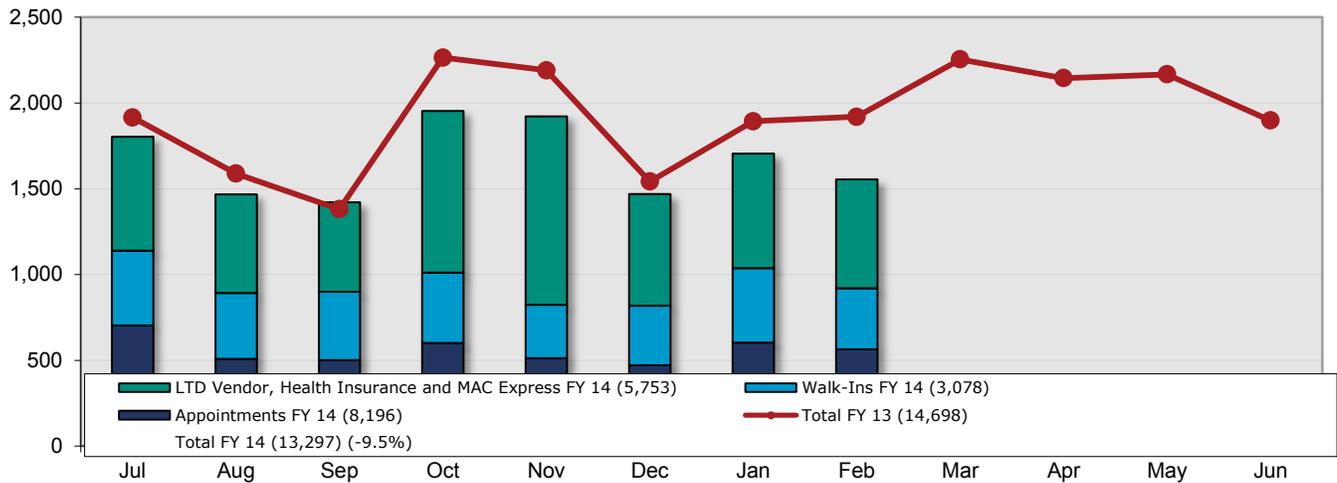
| Month | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
|--------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Avg. Wait Time (seconds) | 261 | 152 | 10 | 24 | 23 | 58 | 55 | 7 | | | | |



Member Advisory Center: One-on-One

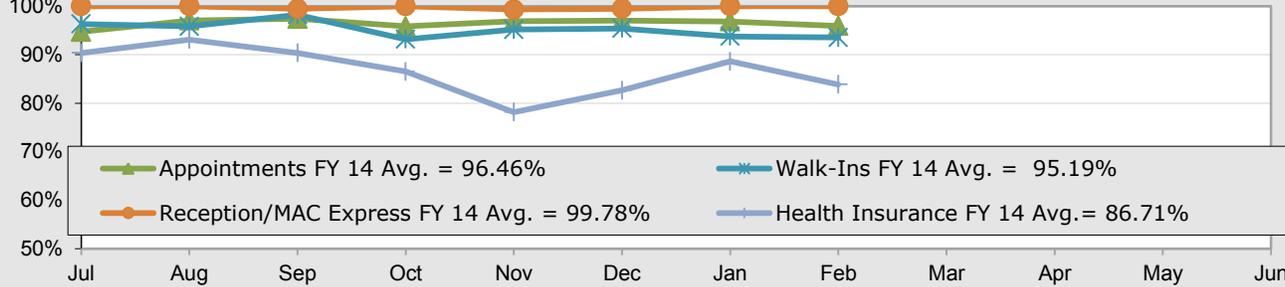
Volume

number of one-on-one counseling sessions by type



One-on-One Timeliness

percent seen within objective wait time

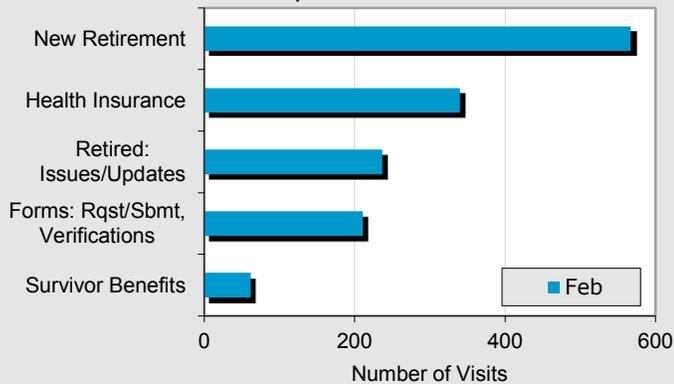


Timeliness (average wait time in minutes)

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

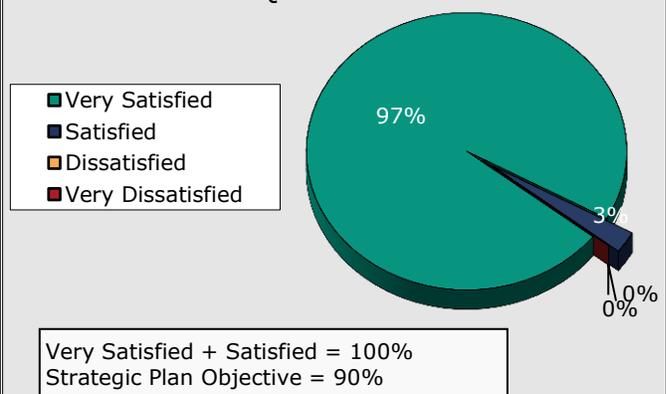
Reasons for Visit

top five reasons

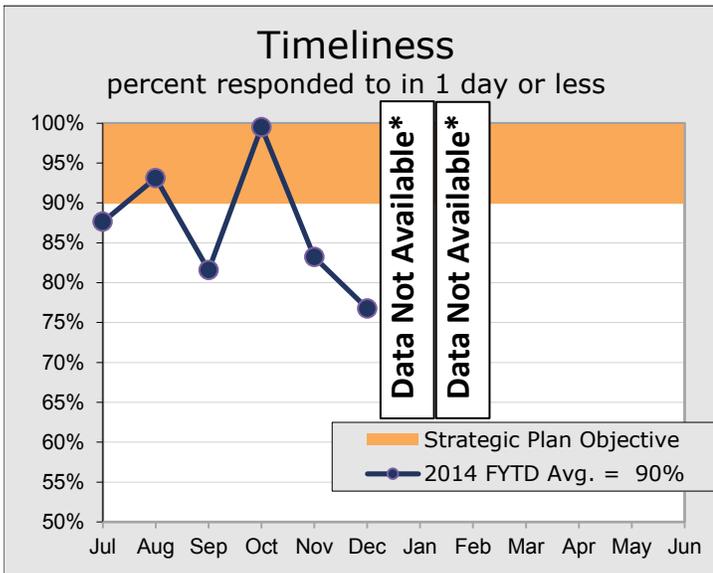
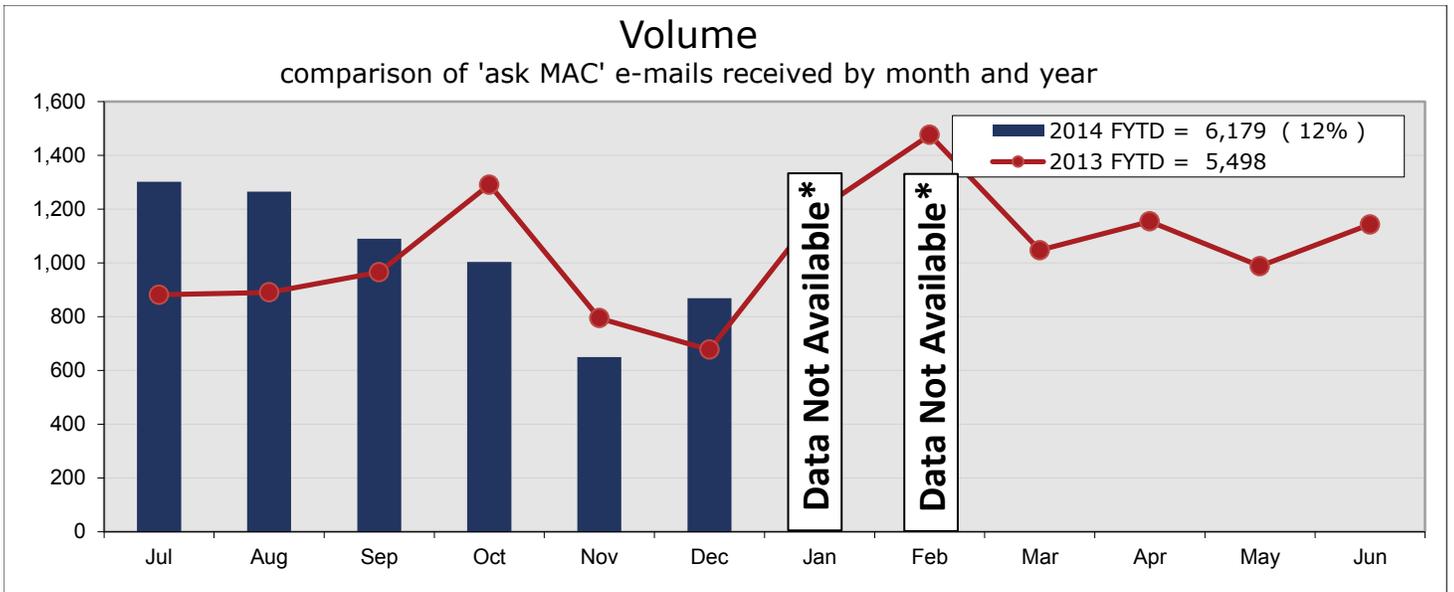


Member Satisfaction

4th Quarter 2013

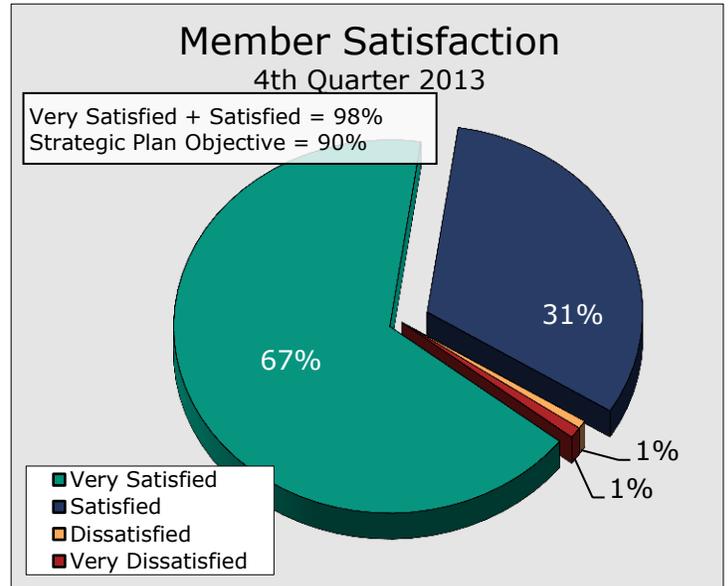
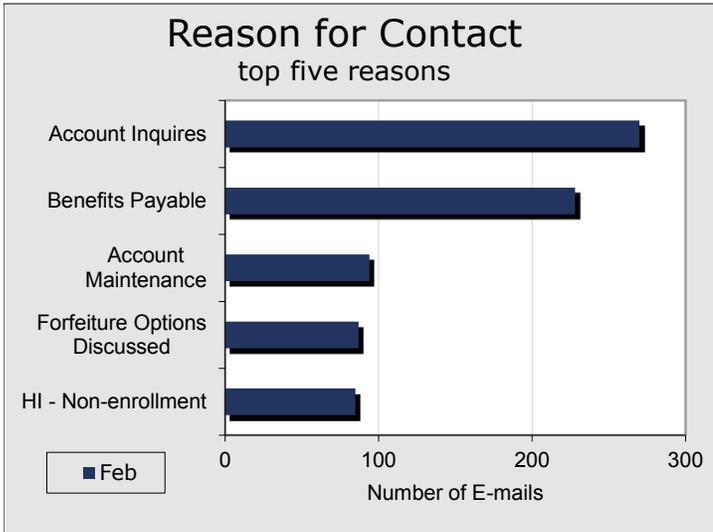


Member Advisory Center: E-Mail



Timeliness (average response in business days)

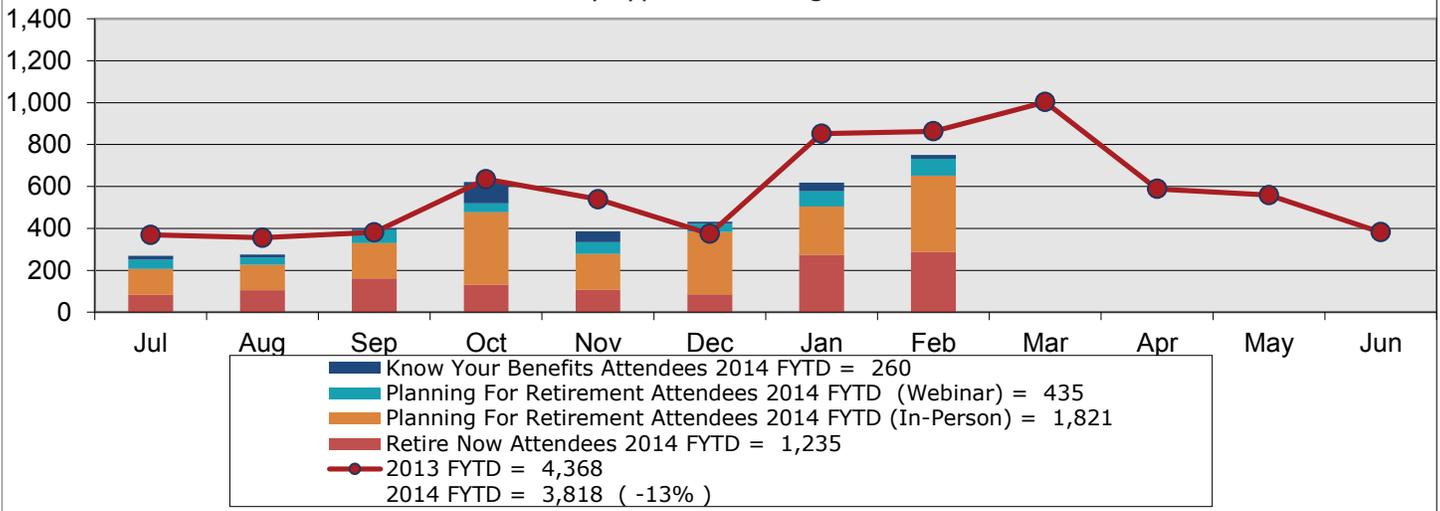
| Month | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
|---------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Average | 2 | 1 | 1 | 1 | 1 | 1 | | | | | | |



* Reports are being re-written to measure timeliness in the number of hours to respond from number of days to respond.

Outreach Education and Benefit Estimates

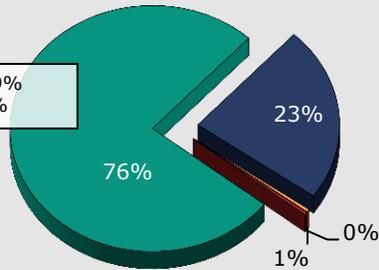
Total Meeting Attendees by type of meeting



Member Satisfaction

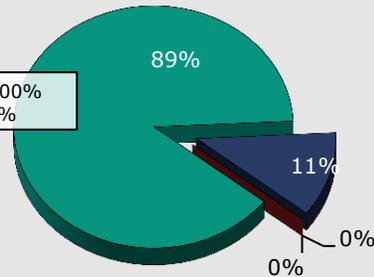
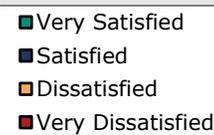
Planning for Retirement Meetings 4th Quarter 2013

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



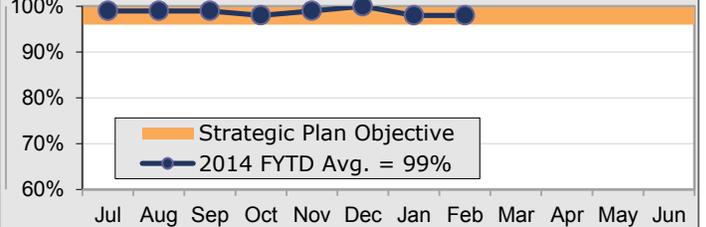
Retire Now Meetings 4th Quarter 2013

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



Benefit Estimate Timeliness

percent completed within 3 business days

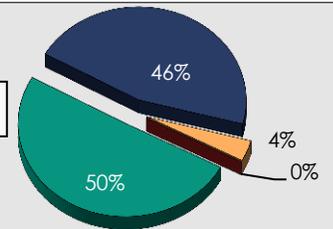
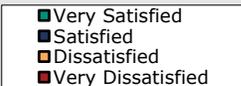


Benefit Estimate Timeliness (average TAT in days)

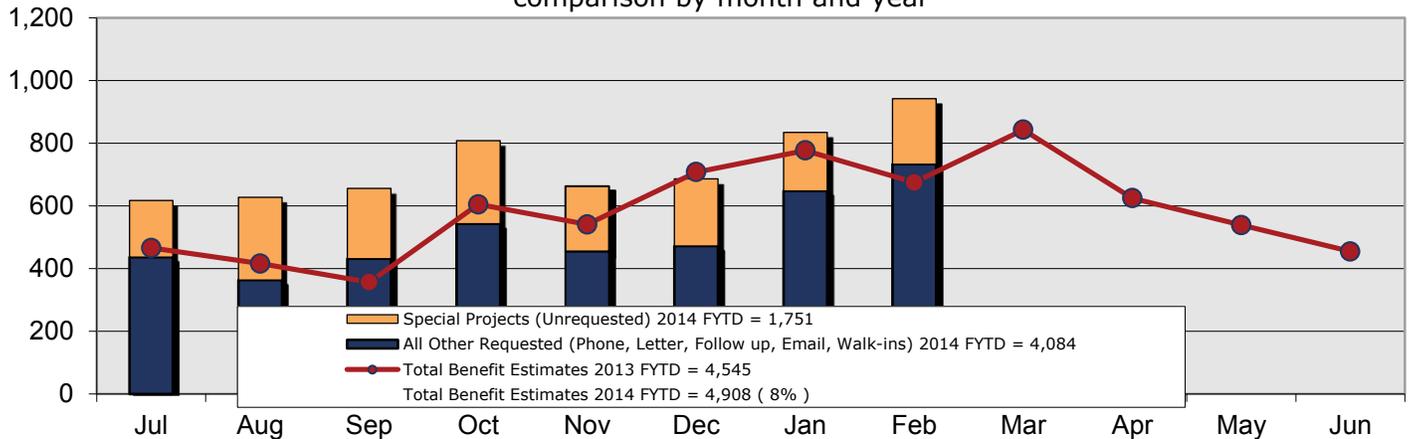
| Month | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | |
|-------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Month | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
| Value | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

Benefit Estimates 4th Quarter 2013

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

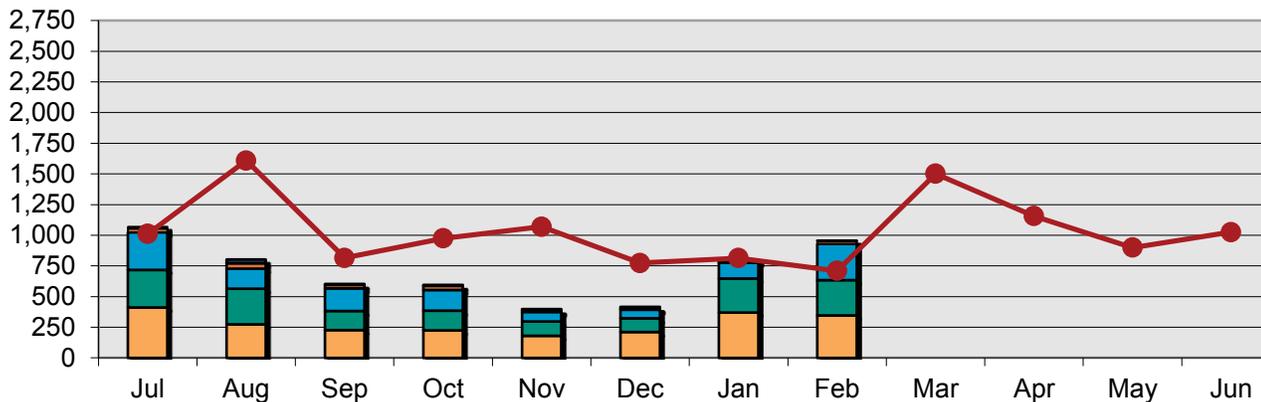


Benefit Estimate Volume comparison by month and year



Service Purchase

Total Volume
comparison by month and year



PDA's Processed 2014 FYTD = 87 (5%)
 PDA Contracts Issued 2014 FYTD = 207 (-28%)
 Lump Sum Purchases Processed 2014 FYTD = 1,399 (-33%)
 Completed Cost Invoices 2013 FYTD = Completed Cost Invoices 2014 FYTD = 1,704 (-20%)
 Requested Cost Invoices 2013 FYTD = Requested Cost Invoices 2014 FYTD = 2,246 (-30%)
 Combination of All Above 2013 FYTD = 7,777
 Combination of All Above 2014 FYTD = 5,643 (-27%)

Requests Pending
as of
February 28,
2014

Cost Invoices Pending

457

Payments Pending

22

Lump Sum Timeliness
percent within 10 business days



Cost Invoices Timeliness
percent within 15 business days



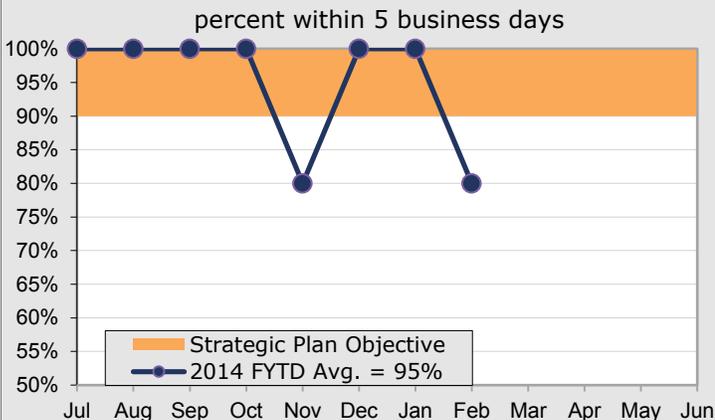
Timeliness (average turnaround time in business days)

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

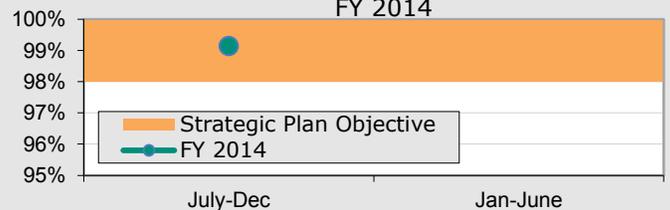
Timeliness (average turnaround time in business days)

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

Payroll Deduction Agreement Timeliness
percent within 5 business days



Cost Invoice Quality Rating
FY 2014

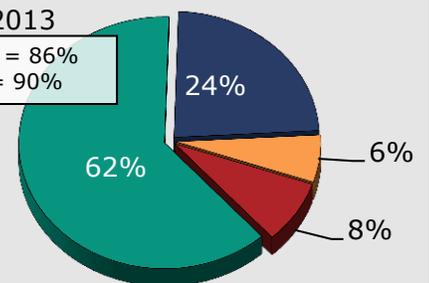


Member Satisfaction

4th Quarter 2013

Very Satisfied + Satisfied = 86%
Strategic Plan Objective = 90%

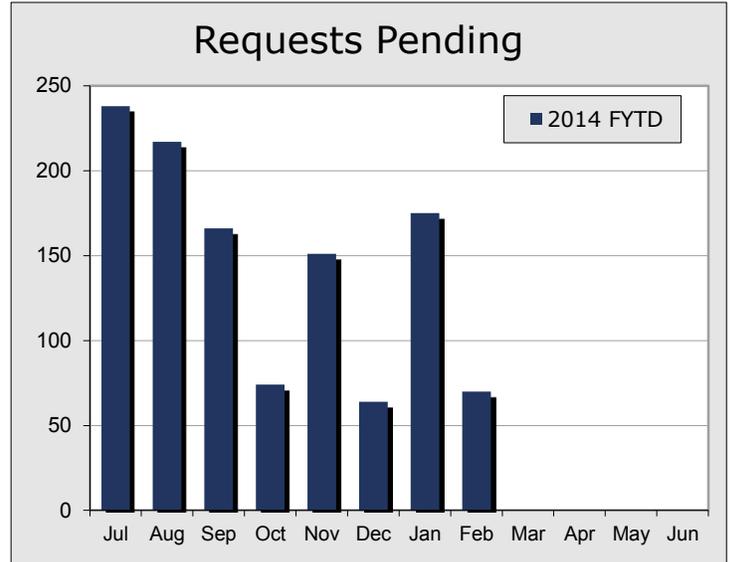
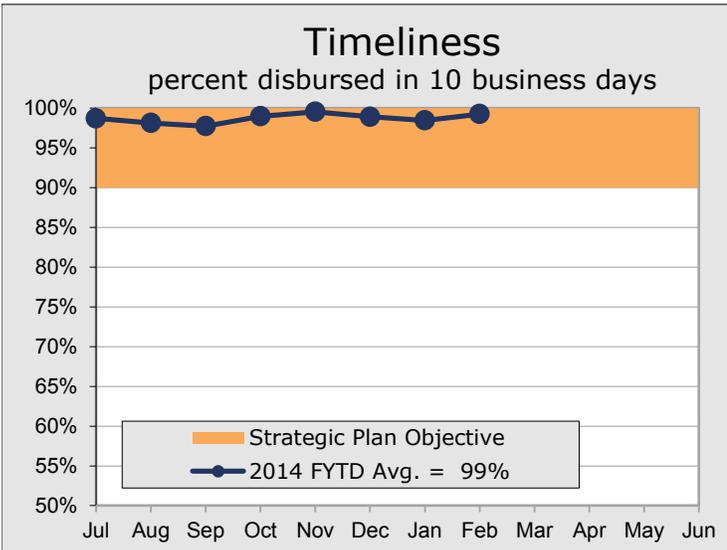
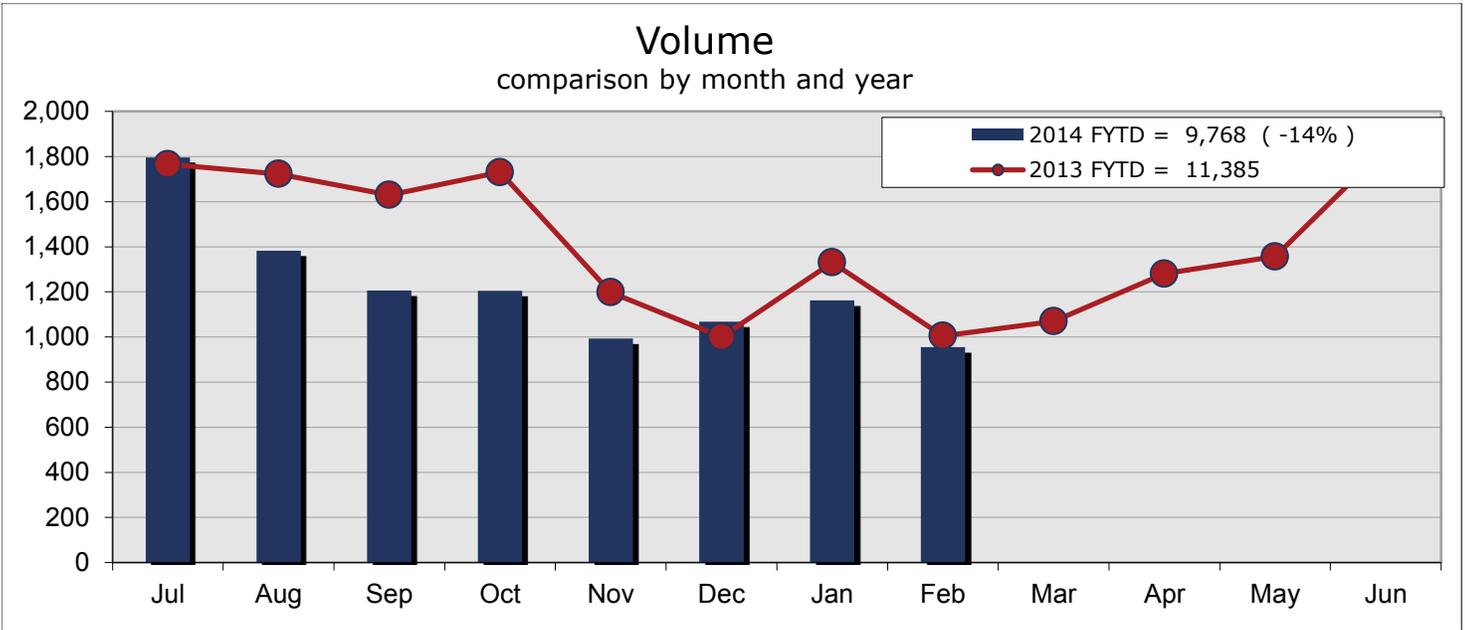
Very Satisfied
 Satisfied
 Dissatisfied
 Very Dissatisfied



Timeliness (average turnaround time in business days)

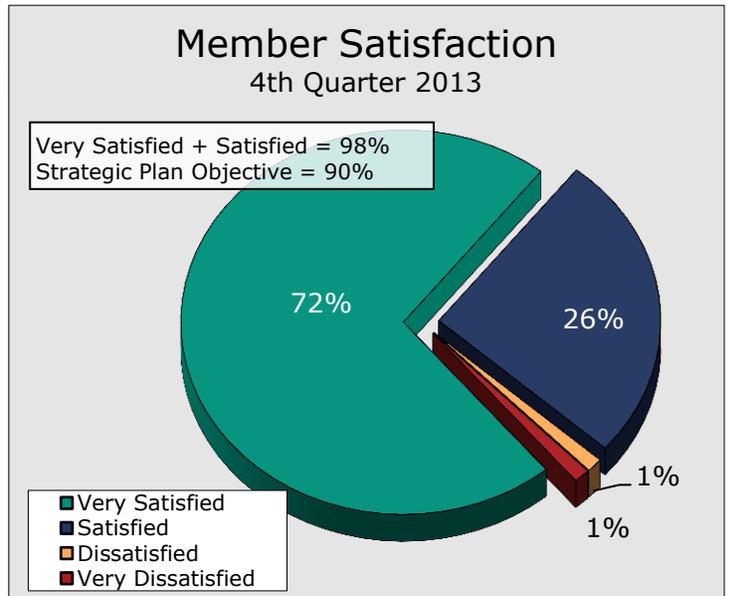
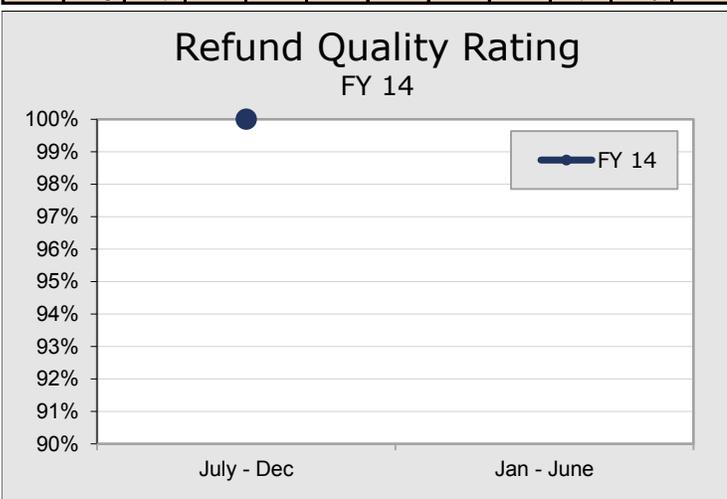
| | | | | | | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1 | 1 | 2 | 1 | 1 | 1 | 1 | 2 | | | | |
| Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |

Refunds



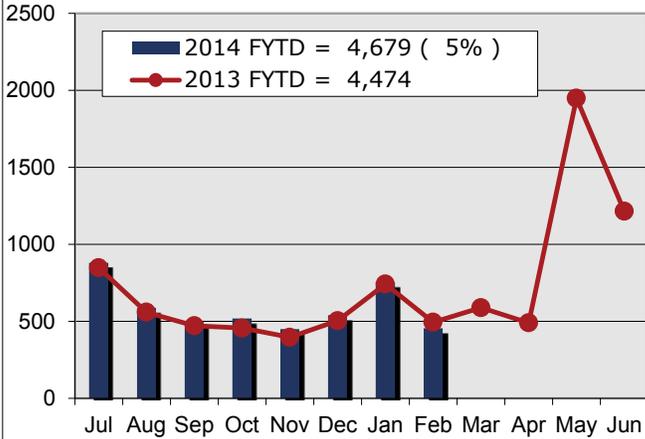
Timeliness (average turnaround time in business days)

| Month | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
|-----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Avg. Turnaround | 3 | 3 | 2 | 2 | 1 | 2 | 3 | 2 | | | | |

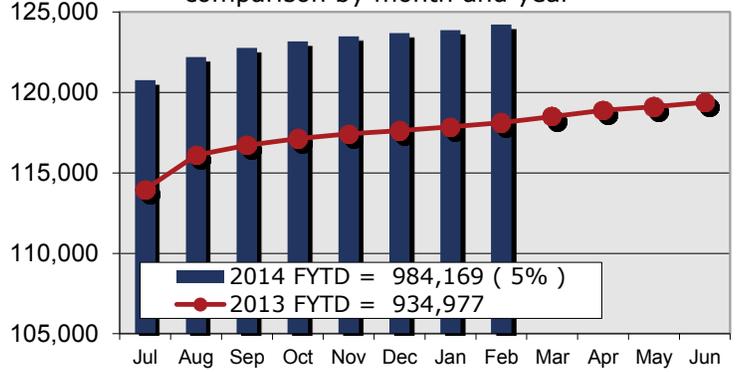


New Retiree and Pension Payroll

First Payment Volume comparison by month and year



Pension Volume comparison by month and year



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

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

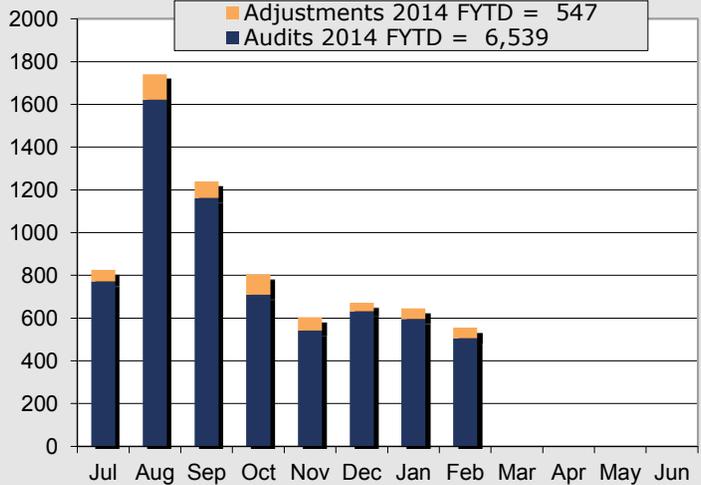
First Payment Timeliness percent disbursed in 10 business days



First Payment Timeliness (average turnaround time in days)

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

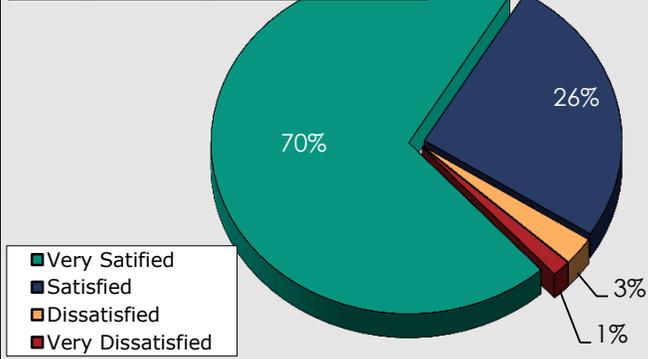
Audits & Adjustments comparison by month and year



Member Satisfaction

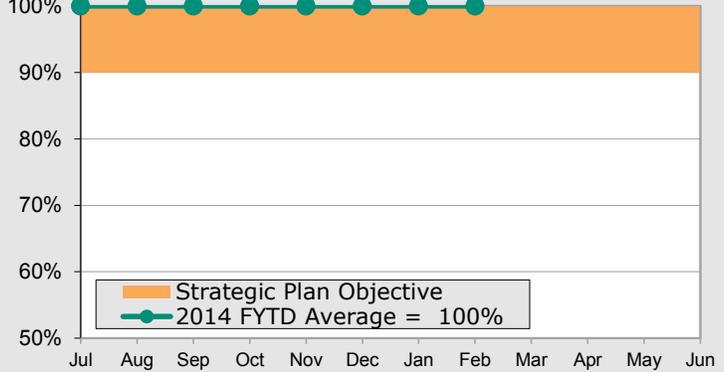
New Retiree
4th Quarter 2013

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



Adjustments Timeliness

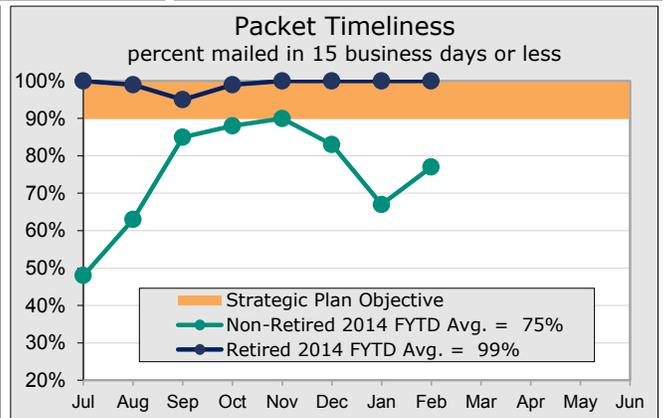
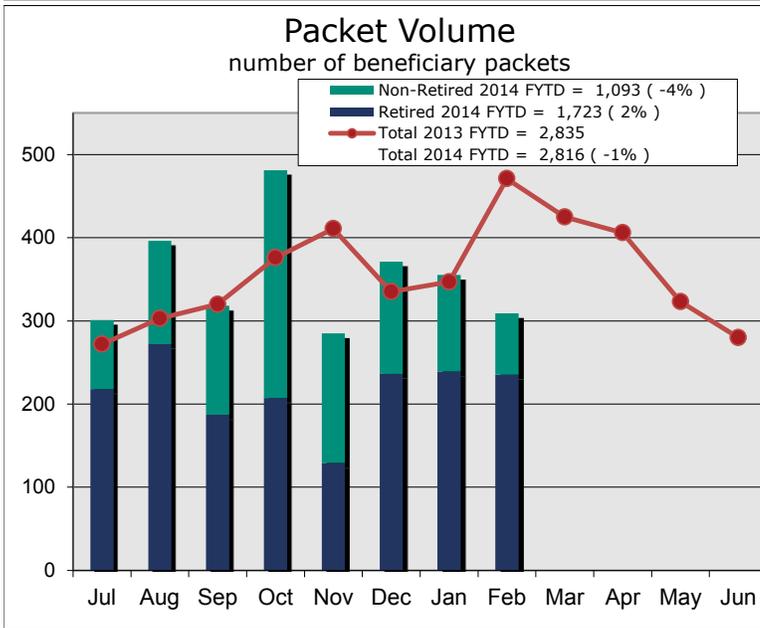
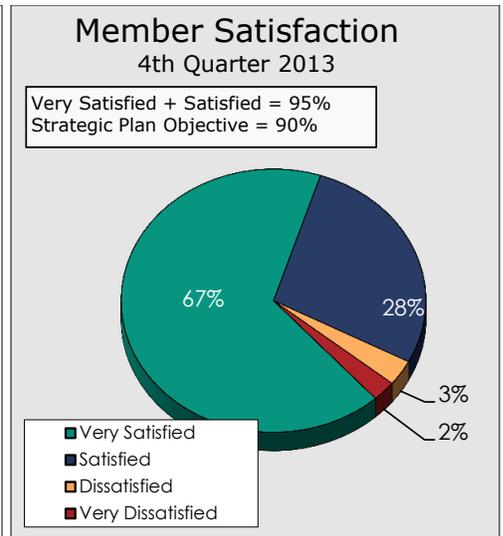
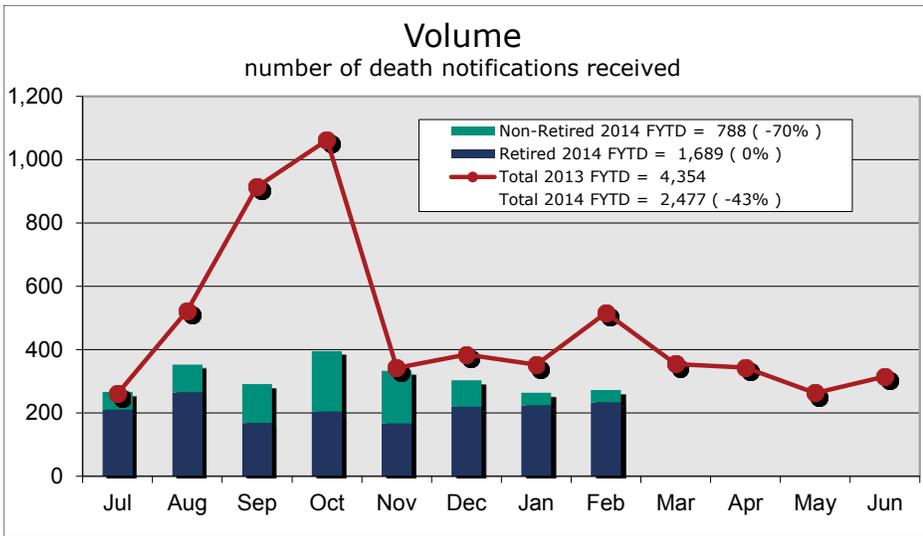
Percent completed in 20 business days



Adjustments Timeliness (average turnaround time in days)

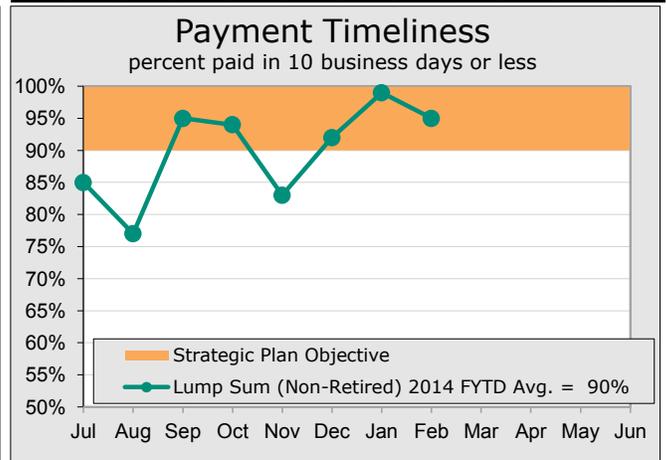
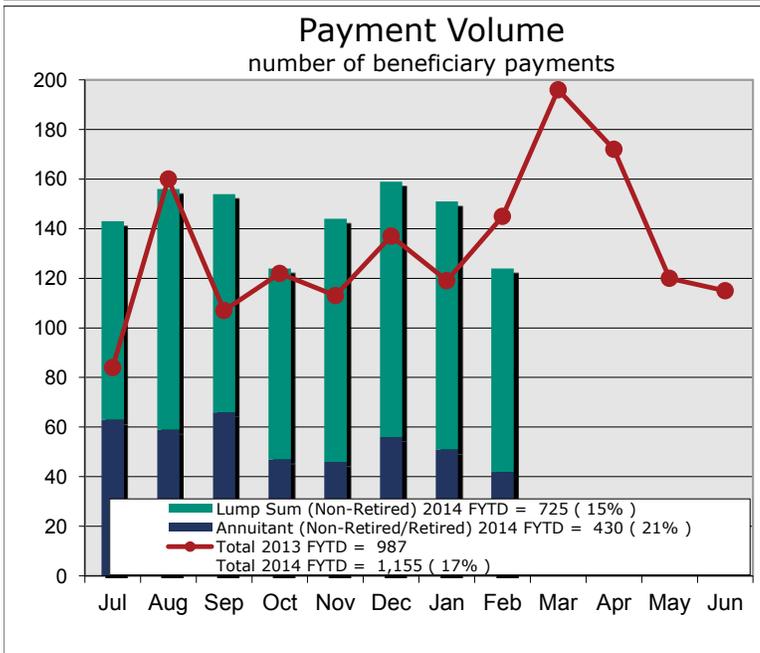
| | | | | | | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 2 | 2 | 2 | 1 | 3 | 3 | 1 | 2 | | | | |
| Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |

Survivor Benefits



Packet Timeliness (average TAT in days)

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



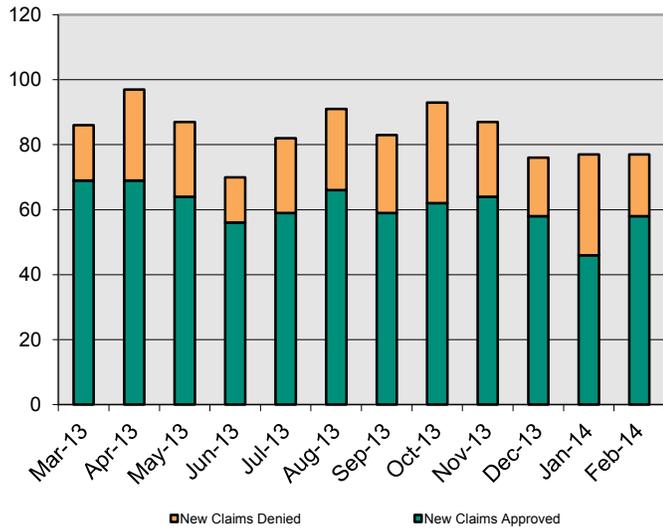
Payment Timeliness (average TAT in days)

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

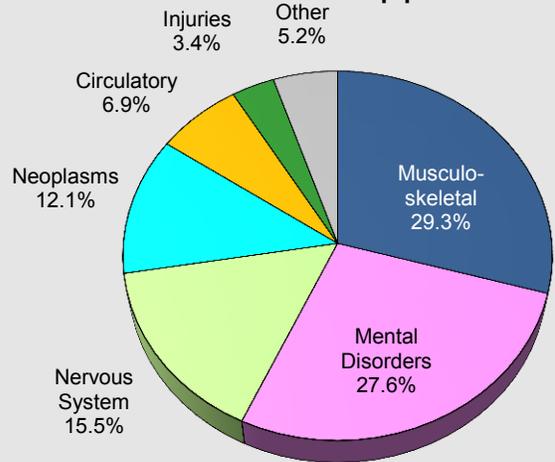
ASRS Disability Plans - Monthly Highlights

February 2014

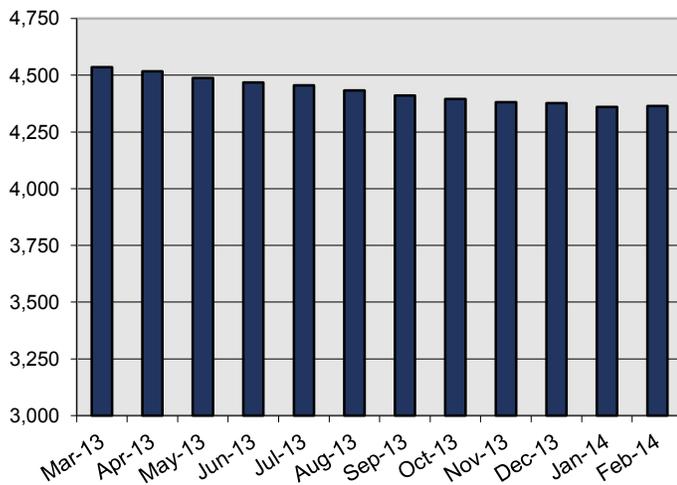
New Claims Processed



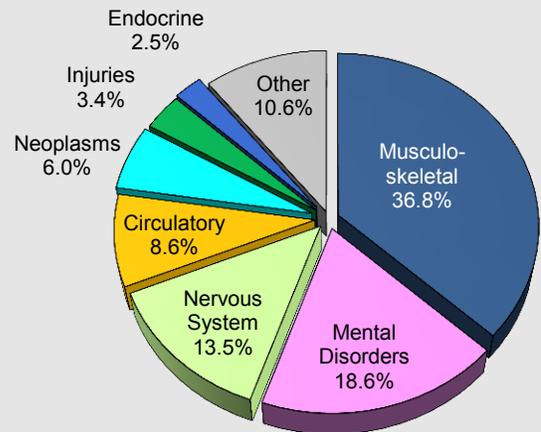
New Claims Approved



Open LTD Claims



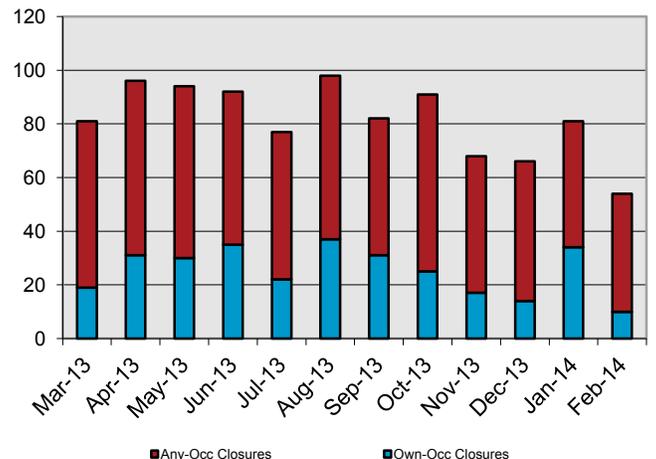
Open LTD Claims



SS Approval Percentage



Active Claim Closures



Arizona State Retirement System
FY 2014 Appropriated Budget
(as of February 28, 2014)

| | APPROPRIATIONS FISCAL YEAR 2014 | EXPENDED YTD | % EXPENDED |
|--|------------------------------------|----------------------|---------------|
| OPERATING BUDGET | | | |
| Personal Services | \$ 13,024,000 | \$ 8,099,200 | 62.19% |
| Employee Related Expenses | \$ 4,987,500 | \$ 3,125,300 | 62.66% |
| Professional & Outside Services | \$ 775,000 | \$ 1,176,900 | 151.86% |
| Travel | \$ 98,600 | \$ 47,000 | 47.67% |
| Other Operating Expenses | \$ 2,655,500 | \$ 943,300 | 35.52% |
| Equipment | \$ 389,500 | \$ 71,000 | 18.23% |
| Operating Subtotal | \$ 21,930,100 | \$ 13,462,700 | 61.39% |
| OTHER APPROPRIATIONS | | | |
| Long Term Disability Administration | \$ 2,800,000 | \$ 1,277,200 | 45.61% |
| Oracle Forms and Reports Modernization | \$ 1,390,000 | \$ 805,900 | 57.98% |
| 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 | \$ 15,754,700 | 58.41% |

| | 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 | \$ 226,900 | 90.76% |
| FY 2012 - SB 1614 - ASRS Contribution Rate | \$ 600,000 | \$ 364,700 | 60.78% |
| FY 2011 - HB 2389 - ASRS Plan Design Changes | \$ 1,341,700 | \$ 1,041,100 | 77.60% |

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

Budget Summary for Fiscal Year 2014 As of February 28, 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 seventeen pay periods (65.4% 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 12/31/2013.
- **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.

Explanation of Columns

- 1) The Appropriated column represents funds that have been approved by the Legislature and the ASRS Board for FY 2014, and includes prior year legislative appropriations.
- 2) The Expended column represents the expenditures to date.
- 3) The % Expended column identifies the portion of each line item that has been expended year-to-date. This column is intended to be a guide to the rate of spending during the fiscal year.

ASRS FISCAL YEAR 2014, CONTINUOUSLY APPROPRIATED REPORT

(with summarized Appropriated Expenses)

| DESCRIPTION | EXPENDED YTD as of 2/28/14 | ESTIMATED ANNUAL EXPENSES <small>(Projections updated quarterly)</small> | EST. ANNUAL EXPENSES AS % OF AUM | EST. ANNUAL EXPENSES PER MEMBER |
|---|-------------------------------|--|-------------------------------------|------------------------------------|
| Custodial Banking, Security Lending and Master Cash STIF Fees | 1,024,000 | 2,625,000 | | |
| <i>Public Markets</i> | | | | |
| External Investment Management Fees | 34,029,000 | 73,247,000 | | |
| Transactional and Other Fees | 1,561,000 | 2,341,500 | | |
| <i>Private Markets</i> | | | | |
| Private Equity Management Fees | 19,475,000 | 40,040,000 | | |
| Private Equity Performance Incentive and Other Fees | 11,237,000 | 22,474,000 | | |
| Real Estate Management Fees | 9,416,000 | 23,513,000 | | |
| Real Estate Performance Incentive and Other Fees | 7,139,000 | 14,278,000 | | |
| Opportunistic Management Fees | 6,923,000 | 13,855,000 | | |
| Opportunistic Performance Incentive and Other Fees | 15,100,000 | 30,200,000 | | |
| Investment Management Expenses | \$ 105,904,000 | \$ 222,573,500 | 0.670% | \$ 410.43 |
| Investment Consulting Services | 1,344,000 | 2,687,000 | | |
| <i>General Investment Consultant Services, Manager Searches, Asset Allocation Studies and Proxy</i> | | | | |
| <i>Voting Services</i> | 360,000 | 667,000 | | |
| <i>Real Estate, Private Equity and Opportunistic Consulting Services</i> | 984,000 | 2,020,000 | | |
| Investment Related Legal Services | 363,000 | 962,000 | | |
| Investment Electronic Information Services | 1,180,000 | 1,478,000 | | |
| Investment Related Consulting and Information Services | \$ 2,887,000 | \$ 5,127,000 | 0.015% | \$ 9.45 |
| Financial Consulting Services | 35,000 | 65,000 | 0.000% | \$ 0.12 |
| Rent | 705,000 | 1,400,000 | 0.004% | \$ 2.58 |
| Actuarial Consulting Fees | \$ 588,000 | \$ 1,100,000 | 0.003% | \$ 2.03 |
| Retiree Payroll (Disbursement Administration) | \$ 1,113,000 | \$ 2,447,000 | 0.007% | \$ 4.51 |
| Total Continuously Appropriated Expenses | \$ 111,232,000 | \$ 232,712,500 | 0.700% | \$ 429.12 |
| Total Current Year Appropriated Expenses | \$ 15,754,700 | \$ 26,973,500 | 0.081% | \$ 49.74 |
| Total Expenses (Continuously Appropriated and Appropriated) | \$ 126,986,700 | \$ 259,686,000 | 0.781% | \$ 478.86 |

ASRS Estimated Total Market Value of Assets Under Management (AUM) as of December 31, 2013
ASRS Total Membership as of June 30, 2013

\$ 33,240,200,000
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.
- Private Markets
 - Private Equity, Real Estate and Opportunistic Management fees year-to-date expenditure amounts reflect the fees due for the first two 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.

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 December 31, 2013.

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 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 | |
|---|------------------------|-----------------------|---------------------------------------|---|--|-------------------|--|-------------------|
| | | | | | Past | Future | Past | Future |
| Cost Savings Initiatives Contained in Current Valuation & Reflected in Lower Current Contribution Rate¹ | | | | | | | | |
| 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 Experience² | | | | | | | | |
| 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 | | | | | | | | |
| 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 | \$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

¹ASRS 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.

¹ASRS reduced the rate of interest credited on members' account balances from 8% to 4% as of July 1, 2005.

¹The 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.

²Members 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.

²ASRS 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 pensioner

²Some 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.

²By 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 rescinded

²The legislature closed certain loopholes in the Long Term Disability program that allowed members to receive benefits for a longer period than intended

²Legislation increased the offsets for Social Security income to 85% and extended the pre-existing condition period to six months

²2008 Legislation exempts ASRS from unclaimed property procedures and allows ASRS to recapture assets abandoned after participant's age 73.5

²2009 Legislation eliminated the 80% cap on benefits that had been in place since 2001.

²2009 Legislation requires a member to meet membership (20/20 Rule) in ASRS before contributing to a second employer, subject to a grandfathering clause

²Upon 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

²Normal 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 retirement

²Retirement 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
(February 28, 2014)**

| ASRS by Division | 246 Full Time Equivalents (FTEs) | New Hires | New Exits | Vacancies | Vacancy Rate |
|--|----------------------------------|------------|------------|--------------|--------------|
| Administrative Services Division (ASD) | 15 ^x | 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 | 0 | 1.0 | 4.5 | 7.26% |
| Technology Services (TSD) | 48 | 0 | 1.0 | 8.0 | 16.67% |
| Internal Audit (IAD) | 5 | 0 | 0 | 0 | 0.00% |
| Investment Management (IMD) | 11 | 0 | 0 | 1.0 | 9.09% |
| Member Services (MSD) | 84 | 0 | 1.0 | 5.75 | 6.85% |
| | 246[†] | 0.0 | 3.0 | 23.00 | 9.35% |

| Turnover | February 2014 New Hires | February 2014 Exits | Total Exits (Last 12 Months) | Annualized Turnover % |
|----------|-------------------------|---------------------|------------------------------|-----------------------|
| | 0.0 | 3.0 | 36 | 16.25% |

[†]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.

^xNote: 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

- EAD – Communications Specialist: Recruitment complete, start date 03/15/2014
- FSD – Records Management Tech: Currently recruiting
- MSD – Benefits Technician: Recruitment complete, start date 03/31/2014
- MSD – Retirement Advisor Senior - MAC: Currently recruiting for four positions
- MSD – Call Coach: Currently recruiting
- TSD – Quality Assurance Engineer: Currently recruiting
- TSD – Technical Lead: Currently recruiting
- TSD – Software Engineer (3): Currently recruiting for three positions
- TSD – Build/Release Manager: 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 | ●○○○ | |
| MSD/FSD | Service Purchase 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 | 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. |
| EA | Legislative Relations | ●○○○ | |
| EA | Communications/Media Relations | ○○●○ | With additional involvement in social media and the development of a new web platform, current staffing level of two requires shifting priorities that result in deferral of work on agency and management-desired initiatives and other planned projects and materials. |
| EA | Web Services | ●○○○ | |
| EA | Health Insurance/LTD Benefits Administration and Communication | ●○○○ | |
| MSD | LTD Member Contacts, Benefit Processing | ●○○○ | |
| FSD | Health Insurance Member Contacts, Benefit Processing Transfer Processing | ●○○○ | |
| MSD | Health Insurance | ●○○○ | |

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 | Transfer Processing |  | |
| FSD | General Accounting |  | |
| FSD | Contribution Collections and Posting |  | |
| TSD | Network Support |  | NIS is now fully staffed with allocated positions. 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 |  | The planned workload requires a complement of 44 total resources (31 FTEs and 13 external resources). In February 2014, one full-time employee left and one external resource was added. 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 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 |  | |

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 | | | |
| 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 FEBRUARY 28, 2014

| | Retirement Plan Fund | Retirement System Fund | Health Benefit Supplement Fund | Long-Term Disability Fund | Current Period February | Fiscal 2014 YTD February | Fiscal 2013 YTD February |
|--|----------------------------|------------------------------|--------------------------------------|---------------------------------|----------------------------|-----------------------------------|-----------------------------------|
| ADDITIONS | | | | | | | |
| Contributions: | | | | | | | |
| Member contributions | \$ 79,060,010 | \$ 2,737 | \$ - | \$ 1,679,844 | \$ 80,742,591 | \$ 651,457,881 | \$ 611,800,688 |
| Employer contributions | 74,878,163 | 2,737 | 4,198,214 | 1,679,831 | 80,758,945 | 651,409,973 | 615,509,767 |
| Alternative contributions (ACR) | 2,013,644 | - | 45,661 | 41,095 | 2,100,399 | 15,570,240 | 13,361,924 |
| ERRP reimbursement* | - | - | - | - | - | - | - |
| Transfers from other plans | 49,285 | - | - | - | 49,285 | 705,253 | 940,649 |
| Purchased service | 2,250,458 | - | - | - | 2,250,458 | 22,115,300 | 26,278,263 |
| TOTAL CONTRIBUTIONS | 158,251,559 | 5,474 | 4,243,875 | 3,400,770 | 165,901,678 | 1,341,258,647 | 1,267,891,291 |
| DEDUCTIONS | | | | | | | |
| Investment management fees and monitoring services | 5,101,788 | - | - | - | 5,101,788 | 49,370,572 | 43,602,467 |
| Retirement and disability benefits | 205,676,892 | 3,282,076 | 9,022,283 | 5,296,264 | 223,277,515 | 1,794,423,101 | 1,713,031,107 |
| Survivor benefits | 3,650,144 | 20,419 | - | - | 3,670,563 | 26,011,559 | 25,014,956 |
| Refunds to withdrawing members, including interest | 15,332,970 | - | - | - | 15,332,970 | 161,855,238 | 143,104,508 |
| Administrative expenses | 2,169,243 | - | - | - | 2,169,243 | 23,368,624 | 23,080,159 |
| Transfers to other plans | 413,074 | - | - | - | 413,074 | 766,698 | 434,507 |
| Other | 13,840 | - | - | - | 13,840 | 38,216 | (61,388) |
| TOTAL DEDUCTIONS | 232,357,950 | 3,302,495 | 9,022,283 | 5,296,264 | 249,978,992 | 2,055,834,008 | 1,948,206,316 |
| INCREASE (DECREASE) | (74,106,391) | (3,297,020) | (4,778,408) | (1,895,494) | (84,077,314) | (714,575,362) | (680,315,025) |
| From securities lending activities: | | | | | | | |
| Security loan program | 52,107 | - | - | - | 52,107 | 1,290,717 | 294,222 |
| Security loan interest expense / (Rebate) | (19,970) | - | - | - | (19,970) | (22,578) | (1,015,941) |
| Net income from securities lending activities | 72,077 | - | - | - | 72,077 | 1,313,295 | 1,310,163 |
| Capital Calls / (Distributions) | | | | | | | |
| Real Estate | 92,434,404 | 1,084,959 | 4,095,194 | - | 97,614,557 | 99,291,125 | 42,998,997 |
| Private Equity | (26,328,777) | - | (1,178,711) | - | (27,507,488) | 4,721,788 | 169,655,349 |
| Opportunistic Investments** | 69,936,303 | 745,135 | 3,062,682 | - | 73,744,120 | 533,782,400 | 311,157,530 |
| TOTAL Capital Calls | 136,041,929 | 1,830,095 | 5,979,165 | - | 143,851,189 | 637,795,314 | 523,811,876 |
| NET INCREASE (DECREASE) | \$ (210,076,243) | \$ (5,127,115) | \$ (10,757,573) | \$ (1,895,494) | \$ (227,856,425) | \$ (1,351,057,380) | \$ (1,202,816,739) |

* 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 MCSC. 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 03/28/2014. |
| 12/17/2013 | Mable Graham | Appellant is disputing repayment of a pension overpayment. | OAH decision affirming ASRS staff decision. ASRS Board 03/28/2014 Agenda. |
| 1/15/2014 | Ryan Fetter | Appellant is disputing denial for disability benefits. | Appellant failed to appear for OAH hearing on 03/12/2014. Appeal Cancelled. |
| 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 set for 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 set for 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 set 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: March 17, 2014
RE: Delinquent Employers

As of March 17, 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 | \$ 16,500 |
| Town of Hayden | \$ 17,000* |
| City High School | \$ 33,400* |
| Destiny School | \$ 25,000* |
| Starshine Academy | \$ 25,000* |
| Caurus Academy | \$ 21,500 |
| Esperanza Community Collegial Academy | \$ 5,000* |
| Arizona School for Integrated Academy | \$ 4,000* |
| Total | <u>\$147,400*</u> |

* Estimated amount

Agenda Item #12
Executive Session
materials were
provided to the
Trustees and were
not included in this
packet.