



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES OF THE PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

HELD ON

Monday, December 1, 2014

2:30 p.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met at 3300 N. Central Avenue, 14th Floor, Phoenix, AZ 85012. Mr. Tom Connelly, Chair, called the meeting to order at 2:30 p.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Connelly, Chair
Prof. Dennis Hoffman, Vice-chair (via teleconference)

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the October 20, 2014 Investment Committee Meeting

Motion: Mr. Tom Connelly moved to approve the minutes of the October 20, 2014 Public Meeting. Prof. Dennis Hoffman seconded the motion.

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

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

Mr. Gary Dokes, ASRS Chief Investment Officer (CIO), provided an overview of the Total Fund Portfolio Positioning, Tactical Positioning in addition to the underweights and overweights of each asset class. He briefly reviewed the House Views and the topics discussed and decisions made at Asset Class Committees.

Mr. Connelly questioned why the authority to make final decisions with the Securities Lending Program is given to the Director versus IMD staff. Mr. Paul Matson, ASRS Director, responded by explaining both the CIO and Director must concur on Public Market and Private Market decisions as well as other areas such the Securities Lending structure as determined by the Director. The Director is responsible for the investment division and is part of the decision-making process. This is also consistent with the ASRS governance paradigm and Governance Handbook whereby the Board and IC oversee the decisions made, and therefore the Director does not have a conflict by being engaged in decision-making when another body such as the Board and IC are engaged in oversight. In addition, the investment experience of the current ASRS Director should specifically not be excluded from investment decision-making.

Mr. Kien Trinh, State Street Investment Analytics, presented the State Street Risk Report. He discussed the monthly reallocation summary, month-end risk profile and total plan over view exposure. He noted excess risk over the policy benchmark as being unchanged with no major trends to report.

4. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight of the ASRS Investment Program – Includes Total Fund and Investment Performance Report Q3-14

Mr. Allan Martin, New England Pension Consultants (NEPC) Partner, presented information on the investment performance and monitoring/oversight of ASRS investment program.

Performance result: (as of September 30, 2014)

- 8.7% (20-year annualized net return) vs. 8% (actuarial assumer interest rate.)

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception
Total Fund	-1.3%	10.8%	14.2%	11.1%	7.4%	9.9%
Interim SAA Policy*	-1.9%	9.6%	13.7%	10.5%	7.0%	9.7%
Excess Return	0.6%	1.2%	0.5%	0.6%	0.4%	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)/14% Barclays Capital Aggregate/5% Barclays Capital High Yield/4% JP Morgan GBI-EM Global Diversified/3% S&P/LSTA Levered Loan Index + 250 basis points (lagged one quarter)/6% NCREIF ODCE (lagged one quarter)/4% Dow Jones/UBS Commodities Index.*

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

Mr. Martin further presented the Total Fund Risk Statistics vs. the Peer Universe as well as NEPC’s independent oversight and compliance of the Total Fund.

5. Presentation, Discussion, Update and Appropriate Action with Respect to the Asset Allocation Study

Mr. Matson provided the Committee with an update of the Asset Allocation Study and advised the Committee of the framework currently in place for the study. Mr. Martin and Mr. Chris Levell, NEPC Consultants, presented the Committee with analyses of different asset mixes (strawmen) which utilized various time period capital market assumptions developed by both NEPC and IMD staff. Discussion ensued regarding the merits of each strawman and the nature of the markets as it related to asset class inputs and their possible strategic/tactical portfolio allocations.

6. Presentation, Discussion, and Appropriate Action Regarding the IC Meeting 2015 Schedule

Mr. Dokes presented the proposed 2015 IC meeting schedule. He noted the meeting dates occur on a bi-monthly basis and are aligned with the Board meeting schedule. Mr. Connelly supported the proposed schedule and asked if anyone was in objection with the suggested schedule. The Committee accepted the schedule by unanimous consent.

7. Presentation, Discussion, and Appropriate Action Regarding ASRS Inflation-Linked Asset Class

Mr. Karl Polen, Head of Private Markets Investments and Mr. Eric Glass, Private Markets Portfolio Manager provided an in-depth presentation regarding the ASRS inflation-linked asset class. Mr. Polen and Mr. Glass gave comprehensive presentations on the performance and strategies on real estate, agriculture, infrastructure, and commodities.

8. Requests for Future Agenda Items

Mr. Connelly suggested NEPC provide the IC at some future date with a better understanding of the Fund performance metrics used in NEPC's Total Fund Risk Statistics vs. Peer Universe pages of their ASRS Investment Objectives/Performance Report.

9. Call to the Public

Mr. Jim Baker provided the Committee with general information and comments relating to the Oaktree Capital organization.

10. Adjournment

The meeting adjourned at 5:40 p.m.

Respectfully submitted,

ARIZONA STATE RETIREMENT SYSTEM

Gloria Trujillo Date
Investment Committee Administrator

Gary Dokes Date
Chief Investment Officer