

Board Governance Policy Handbook

ARIZONA STATE RETIREMENT SYSTEM



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ARIZONA STATE RETIREMENT SYSTEM (ASRS) Board Governance Policy Handbook

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A. VISION STATEMENT AND CORE VALUES

DELIVERING SERVICE WITH...

PRIDE

OUR VISION

For the benefit of our members...
the Arizona State Retirement System will be a leading state benefit plan administrator in the areas of:

- Core Member Services
- Investment Performance
- Funded Status
- Operational Effectiveness

This will be accomplished while keeping program benefits and associated costs relatively aligned and maintaining actuarial and fiscal integrity.

OUR VALUES

Professionalism.

A highly capable workforce will promote a professional and respectful environment and *lead* the organization.

Results.

A results-oriented approach to operations will *energize* the organization.

Improvement.

A climate of continuous quality improvement and enhanced efficiencies will *drive* the organization.

Diversity.

Engagement of diversity by the appreciation, recognition and support for all people will propel the organization to ever greater achievement.

Excellence.

A commitment to service excellence will *permeate* the organization.



ARIZONA STATE
RETIREMENT SYSTEM

B. ASRS BOARD CHARTER

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

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

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

This Handbook will be reviewed by the Board at least annually, or more often if necessary. It will be updated at the Board’s direction.

The Board’s Role

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

The Board views itself as being primarily a policy-making and governance body. The Board has delegated the administrative functions to the ASRS Director and staff subject to ongoing monitoring and oversight. The Board has also delegated the hiring and termination of investment managers to the (Director’s) Asset Class Committees. The Board does not engage in regular day-to-day management functions of the ASRS.

Board Composition (A.R.S. § 38-713)

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

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

Trustee Terms, Resignations, and Vacancies (A.R.S. § 38-713)

1. Each Trustee is appointed for a term of three years. The terms of office are staggered with three positions beginning and expiring on the third Monday in January of each year.
2. Trustees continue to serve in their positions after the expiration of their terms of appointment in accordance with law.

3. Individual Trustees may resign from their position on the Board by providing appropriate notice to the Governor. In such case, the resignation is not effective until accepted by the Governor. (A.R.S. § 38-291)
4. Trustee position vacancies that otherwise occur before the expiration of a term will be filled by the Governor. (A.R.S. §§ 38-211, 38-713)
5. A position shall be deemed vacant if a trustee ceases to discharge their duties for a period of three consecutive months. (A.R.S. § 38-291)

Duties and Responsibilities (A.R.S. § 38-714)

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

1. Oversee and participate in the long-term strategic planning process for the ASRS.
2. Appoint, annually evaluate, and, if necessary, remove the Director in accordance with state law.
3. Delegate the administrative responsibilities of the ASRS to the Director through the Director Position Description, and delegate the hiring and termination of investment managers to the Director through the asset class committee structure. (A.R.S. § 38-715)
4. Approve the creation or dissolution of standing and special committees of the Board.
5. Approve the selection, and termination, and oversee the performance of the following external service providers:
 - a. Consulting actuaries and actuarial auditors
 - b. External financial auditor
 - c. General investment consultants
 - d. Third-party administration providers for health and long-term disability
6. Review and approve macro-level strategic investment policies which guide the strategic vision for ASRS investments.
7. Establish actuarial funding methods and assumptions, benefit option factors, and an asset valuation method consistent with state law. (A.R.S. § 38-711)
8. Conduct an annual actuarial valuation of the ASRS liabilities and submit the results to the Governor and the state legislature as required by state law. (A.R.S. § 38-714)
9. Conduct an actuarial experience investigation study every five years.
10. Conduct an independent third-party audit of the actuarial funding of the ASRS benefits every five years.
11. Review, approve, and monitor the budget and budget change proposals.
12. Ensure the integrity of the financial control and reporting system.
13. Make recommendations on legislative proposals affecting the ASRS, without advocating for or against pension benefits modifications. (A.R.S. § 38-714)
14. Hear appeals in accordance with policy established by the Board.
15. Develop and approve other governance policies, directives, and rules for the administration of the ASRS as may be adopted from time to time.
16. Obtain periodic updates from Board Committees regarding oversight activities.
17. Review and approve the agency biennial risk assessment and internal audit plan.

18. Review and approve recommendations of the director to appoint or remove the agency's internal auditor.
19. Review annually the administration of the third-party administrator for the Supplemental Retirement Savings Plan (SRSP) as presented by the Investment Committee.
20. Review annually the administration of the third-party administrator for the Supplemental Salary Deferral Plan (SSDP) as presented by the Investment Committee.

C. TRUSTEE POSITION DESCRIPTION

Primary Responsibility

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

Commitments

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

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

Trustee Access to ASRS Resources

1. A Trustee shall not give instructions or assign tasks to individual ASRS staff.
2. A Trustee shall refrain from making any comments on staff performance other than to the Director or acting Director.
3. A Trustee should make every effort to access ASRS resources through action of the full Board.
4. A Trustee may request from the Director, or the Director's designee, information or assistance necessary to meet the Trustee's responsibilities.
5. The Director may seek the advice of the Chair and Legal Counsel or refer the matter to the full Board before complying with individual Trustee requests that, in the Director's opinion, would

require a significant amount of ASRS resources or cause disruption to the regular administration of the ASRS.

6. The Director shall share any vital or useful information resulting from a Trustee request with other Trustees.
7. The Director may refuse requests of individual Trustees that are in conflict with this policy.

D. DIRECTOR POSITION DESCRIPTION

General

1. The Board will appoint the Director for a term of one year beginning each July 1 and ending the following June 30. Upon expiration of the director's term, the Board may re-appoint the director for another term. The Board may remove the Director at any time for cause. (A.R.S. § 38-715)
2. The Director reports to the full Board.

Delegation of Responsibilities

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

Specific Duties and Responsibilities

The Director will:

1. Provide leadership to the ASRS in fulfilling its statutory purpose and achieving the vision, values, investment principles, and goals outlined in the strategic plan.
2. Maintain effective and credible relationships with the members and beneficiaries of the ASRS, participating employers, executive officers of state government, the legislature, employee and retiree organizations, the media, and the public at large.
3. Project a positive image as Director of the ASRS.
4. Act as official spokesperson for the Board and the ASRS.

With respect to legislation, if draft legislation is proposed affecting the ASRS that the ASRS Board has not already taken a position on, the Director will discuss such draft legislation at his discretion with legal representation, and the Board Chair or acting Board Chair, to formulate an agency response.

If the draft legislation does not pertain to a benefit modification, the Director may provide relevant information and also support or oppose the draft legislation.

If the draft legislation pertains to a benefit modification, the Director may provide relevant information but will not support or oppose the raft legislation.

If a single piece of draft legislation covers both a benefit modification item as well as a non-benefit modification item, the Director may support or oppose the legislation, but will communicate that the support or opposition relates to the non-benefit modification item and not the benefit modification item.

5. Act as liaison between the Board and other ASRS staff and service providers.
6. Safeguard the assets of the ASRS by appointing a custodian and developing and implementing proper internal controls.
7. Account for and be responsible for ASRS data, the collection of income from all sources, maintenance of accounts, and distribution of benefits.
8. Monitor the operational and funded status of the benefit plans under the ASRS.

9. Identify strategic issues involving the design or ongoing administration of the defined benefit plan, defined contribution system, health insurance program, long term disability program, the supplemental retirement savings plan, and the supplemental salary deferral plan. Initiate analysis or action as appropriate.
10. Provide necessary staffing, support and resources to the Board and its committees.
11. Proactively assist and advise the Board and its committees with regard to issues requiring Board policy or action.
12. Appoint or remove the Deputy Director, Chief Investment Officer, and Assistant Director(s) positions or other staff as required.
13. Recommend the appointment or removal of the internal auditor.
14. Perform annual performance evaluations of those who have a direct reporting relationship to the Director.
15. Select and manage all other ASRS staff consistent with applicable state personnel laws.
16. Ensure the accurate and timely distribution of pension benefits, survivor benefits, and refunds.
17. Review and approve transfers between the ASRS and other retirement plans. (A.R.S. §§ 38-730 and 38-921)
18. Review and approve domestic relations orders. (A.R.S. § 38-773)
19. Review and approve employer applications for ASRS membership. (A.R.S. § 38-729)
20. Adjust the maximum compensation limits (A.R.S. § 38-746), contribution limits (A.R.S. § 38-747) and maximum retirement benefit amounts (A.R.S. § 38-769) when the limits and amounts are adjusted by the United States Secretary of the Treasury pursuant to the Internal Revenue Code.
21. Maintain a process for handling member and participating employer appeals of staff decisions and statutory interpretations.
22. Assist the Board in reviewing and adopting actuarial assumptions, funding methods, benefit option factors and actuarial valuation methods for the ASRS.
23. Initiate the annual actuarial valuations, periodic actuarial experience studies and independent actuarial audits as required by state law or Board policy and work with the actuary in determining and/or recommending appropriate assumptions.
24. Oversee and assist the Chief Investment Officer in developing macro-level strategic investment policies.
25. Review and approve standard operating procedures for the Investment Management Division.
26. Execute and manage investments in accordance with Board directives.
27. Assist the Board in soliciting and selecting of the following service providers:
 - a. Consulting actuaries and actuarial auditors
 - b. External financial auditor
 - c. General investment consultants
 - d. Third-party administration providers for health and long-term disability benefits
28. Approve all contract extensions, including the following external service providers:
 - a. Consulting actuaries and actuarial auditors
 - b. External financial auditor
 - c. General investment consultants and Asset Class consults

- d. Investment managers
 - e. Third-party administration providers for health and long-term disability benefits
29. Approve the selection, extension and termination of the supplemental retirement savings plan (SRSP) and the supplemental savings deferral plan (SSDP) investment options, and third-party administrators.
 30. Review and approve, with the consensus of the CIO, recommendations from ASRS Asset Class committees, to hire and terminate investment managers/partners.
 31. Review and approve recommendations from ASRS Asset Class committees to hire and terminate Asset Class consultants. The Investment Committee must consent to the Director's recommendation before a primary consultant for an Asset Class committee is hired or terminated.
 32. Except as otherwise noted, select and oversee all other service providers to the ASRS.
 33. Develop and recommend to the Board, an appropriated operating budget. Manage and monitor expenditures within the budget and provide reports to the Operations Committee or Board as necessary or directed.
 34. Manage and monitor continuously appropriated expenditures as prescribed in A.R.S. §38-721.
 35. Oversee the preparation of the ASRS Comprehensive Annual Financial Report.
 36. Develop and deliver all operational and actuarial reports to the Governor and state legislature as required by state law after approval by the Board.
 37. Perform other duties delegated by the Board.
 38. Administer the Supplemental Retirement Savings Plan (SRSP) and report to the Investment Committee annually.
 39. Administer the Supplemental Salary Deferral Plan (SSDP) and report to the Investment Committee annually.

E. ELECTION OF BOARD OFFICERS

Board Officers

The Board will elect the following Board officers:

1. Board Chair
2. Vice-chair

Election Procedure

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

Term

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

Resignations and Vacancies

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

Removal

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

F. BOARD CHAIR POSITION DESCRIPTION

Responsibilities and Commitments

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

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

Duties of Vice-chair

The Vice-chair will act as temporary Chair in the absence of the Chair.

G. BOARD AND COMMITTEE MEETING PROTOCOL

Rules of Order and Quorum

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

Scheduling of Regular, Special, and Emergency Meetings

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

Meeting Notices

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

Trustee Attendance by Electronic Media

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

Meeting Agendas

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

- c. The Board Chair
- d. The Director

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

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

Meeting Materials

- 1. The Director will make every reasonable effort to distribute related Board meeting materials to the Trustees at least five calendar days before each meeting.
- 2. The Director shall prepare a summary of the issues to be discussed, a staff or committee recommendation, if applicable, and a proposed motion or motions for the Board to consider.

Public Access and Testimony at Board Meetings

- 1. All meetings of the Board or committees are public and all persons who wish to attend may do so in accordance with Arizona Open Meeting Law. (A.R.S. §§ 38-431 et. Seq.)
- 2. Every agenda for regular Board or committee meetings will provide the public an opportunity to be heard. The Board Chair or Committee Chair may prescribe the time and manner of such public comment.
- 3. With regard to matters raised by a member of the public for which proper public notice has not been provided, no action may be taken at that meeting. The Board or committee may request the Director to investigate the issue further and report back to the Board or committee at a later meeting.
- 4. The Director, in consultation with the Chair, will convene meetings in facilities and locations that provide the public with reasonable access.
- 5. An individual who intends to speak at a meeting may be required by the Board to sign a register to permit compliance with minute taking required under state law.

Executive Sessions

- 1. The Board and its committees may conduct business in executive session as permitted by state law. (A.R.S. § 38-431) Executive sessions shall be presided over by the Chair of the Board or committee
- 2. Executive sessions shall be closed to the public and subject to the following conditions:
 - a. The executive session must be held during a regular, special, or emergency meeting of the Board or committee.
 - b. The executive session must address only those subject matters permitted under Arizona Open Meeting Law (A.R.S. § 38-431, § 38-797.03):
 - Discussion or consideration of employment, assignment, appointment, promotion, demotion, dismissal, salaries, disciplining or resignation of a public officer, appointee or employee of any public body.
 - Discussion or consideration of records exempt by law from public inspection, including the receipt and discussion of information or testimony that is specifically required to be maintained as confidential by state or federal law.
 - Discussion or consultation for legal advice with the attorney or attorneys of the public body.

- Discussion or consultation with the attorneys of the public body in order to consider its position and instruct its attorneys regarding the public body's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation.
 - Discussions or consultations with designated representatives of the public body in order to consider its position and instruct its representatives regarding negotiations with employee organizations regarding the salaries, salary schedules or compensation paid in the form of fringe benefits of employees of the public body.
 - Discussion, consultation or consideration for international and interstate negotiations or for negotiations by a city or town, or its designated representatives, with members of a tribal council, or its designated representatives, of an Indian reservation located within or adjacent to the city or town.
 - Discussions or consultations with designated representatives of the public body in order to consider its position and instruct its representatives regarding negotiations for the purchase, sale or lease of real property.
 - Per § 38-797.03, discussions resulting from an member appeal of an administrative law judge determination regarding their Long Term Disability rights, benefits or obligations if such person requests a review of the determination in an executive session.
- c. The executive session must satisfy all of the state's notice requirements under Arizona Opening Meeting Law.
3. The Board will take no action with regard to a matter considered in executive session. Any such action must be taken during that portion of a meeting that is open to the public.
 4. Trustees are prohibited under state law from publicly disclosing the discussions held in executive session. The Chair shall remind the Board or committee of this prohibition at the beginning of each executive session.

Meeting Minutes and Board Records

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

H. BOARD COMMITTEES and CHARTERS

General

The Board may establish standing or special committees to conduct the business of the full Board subject to the following conditions and limitations:

1. Board committees are responsible for overseeing various aspects of the ASRS administration and only have the authority to make recommendations to the Board.
2. Board committees may not act or speak for the Board.

Standing Committees

1. Standing committees are permanent committees established by the Board.
2. The standing committees of the Board are as follows:
 - a. Operations Committee (OC)
 - b. External Affairs Committee (EAC)
 - c. Investment Committee (IC)

Special Committees

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

Committee Members

1. The Board Chair shall appoint members of each committee for one-year terms.
2. The Board Chair shall appoint a chair and vice-chair for each committee. These committee officer position appointments will be for one-year terms.
3. The Board Chair may remove or replace members of a committee and committee officers before the end of the terms if the Chair determines such action is in the best interest of the ASRS.

Committee Operating Rules

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

Standing Committee Charters

Operations Committee Charter

General

The Operations Committee (OC) is a standing committee of the Board responsible for overseeing the general operations and administration of the ASRS, and for recommending Board action when required.

Composition

The Operations Committee is composed of a minimum of four members of the ASRS Board appointed by the Board Chair.

Responsibilities

1. Oversight

The OC will meet regularly to evaluate ASRS performance in meeting strategic goals and objectives and managing administrative risks. Areas of responsibility are as follows:

- a. Member services, including all outreach education, walk-in counseling, member correspondence, and call center services and programs.
- b. Technology services, including development, maintenance, security, performance, and compliance with state or industry standards.
- c. General accounting and financial reporting, including compliance with industry standards, investment accounting, payroll, accounts receivable and payable, pension payroll, contribution reporting, and the annual financial report.
- d. Collection and maintenance of member/employer accounts, including contributions, salaries and service, demographic data, and security.
- e. Benefit administration, including calculations and disbursements for all benefit types.
- f. Review and follow-up on internal and external audit plans, conclusions and recommendations; other risk management commitments; compliance with industry audit standards. (See also Internal Audit Charter on page 20.)
- g. Strategic, agency-wide staffing issues.
- h. Administration and plan design of the ASRS health insurance program.
- i. Administration and plan design of the ASRS long term disability program.
- j. Plan design of the ASRS 401 (a) defined benefit plan.
- k. Governance policies and practices.
- l. Review appropriated budget request proposals; ongoing administration of the ASRS appropriated budget and continuously appropriated budget.
- m. General contract management and procurement.
- n. Strategic initiatives approved by the Board affecting operations or administration.

2. Actions requiring independent Board review

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

- a. Selection or removal of a vendor or vendors to administer the ASRS health insurance programs

- b. Selection or removal of a vendor to administer the ASRS long-term disability program.
- c. Selection or removal of the ASRS external or internal auditor.
- d. Approval and modification (if necessary) to the internal audit plan or other risk management activities.
- e. Appropriated budget request proposals.

External Affairs Committee Charter

General

The External Affairs Committee is a standing committee of the Board responsible for assisting the Board with legislative matters, the development of administrative rules, and reviewing the Agency communications program.

Composition

The Committee is composed of a minimum of four members of the ASRS Board appointed by the Board Chair.

Responsibilities

The External Affairs Committee will have the following responsibilities:

1. Legislation:
 - a. Work with the Director to identify legislative proposals to facilitate the efficient administration of ASRS operations and report Committee recommendations to the Board.
 - b. Review new legislation proposed by other sources and report Committee findings and recommendations to the Board for action.
 - c. Review and monitor Board and ASRS activity regarding state legislative matters to help ensure compliance with the Legislative Review Policy and state law prohibitions on Board advocacy for or against legislation for benefit modifications. (A.R.S. § 38-714)
 - d. Oversee communicating the actuarial contribution requirements and administrative costs to the legislature and other relevant parties.
2. Administrative Rulemaking:
 - a. Review practices and procedures for inclusion in administrative rules for the ASRS as required and consistent with state law.
 - b. Recommend to the Board the addition, deletion, or modification of administrative rules and substantive Board policies.
3. Annual Communications Program:
 - a. Review the agency's annual communications program to ensure that members, employers, legislature, Governor's Office, and other constituents and interested parties are appropriately notified and/or informed about ASRS' activities, meetings, and information.
4. The Committee is also responsible for other issues or topics that reasonably pertain to external affairs.

Investment Committee Charter

General

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

Composition

The Investment Committee is composed of a minimum of four members of the ASRS Board appointed by the Board Chair.

Duties and Responsibilities

The Investment Committee will, when appropriate:

1. Oversee the investment management structure for the ASRS.
2. Recommend to the Board the investment goals for the ASRS investment program.
3. Recommend to the Board a strategic asset allocation to achieve the ASRS investment program objectives.
4. Review and oversee the reporting of the ASRS investment program to the Board.
5. Recommend to the Board the selection, and termination of the ASRS general investment consultant(s) and oversee their performance.
6. Recommend to the Board the ASRS strategic investment policies.
7. Monitor the ASRS asset allocation, investment portfolio structure, and strategic investment policies.
8. Review annually the administration of the third-party administrator for the Supplemental Retirement Savings Plan (SRSP) and annually report to the Board.
9. Review annually the administration of the third-party administrator for the supplemental salary deferral plan (SSDP) and annually report to the board.
10. Review annually the ASRS Investment Policy Statement (IPS).

Internal Audit Charter

Introduction

The Internal Audit Division (IAD) is a vital part of the ASRS, providing independent, objective assurance and consulting services designed to add value and improve the organization's operations. The IAD is responsible for helping the ASRS leadership accomplish its objectives by performing independent assessments of the systems of risk management, internal controls and operating efficiency, guided by professional standards and in bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Organizational Status

The organizational status and support accorded to the IAD by the ASRS Board of Trustees (Board), the Operations Committee (OC), and senior management are major determinants of the scope and value of the internal audit function to the agency.

The Chief of Internal Audit reports functionally to the Board through the OC and administratively to the Director of the ASRS. The Director in consultation with the OC evaluates the performance of the Chief of Internal Audit. The OC in consultation with the Director will recommend to the Board the appointment and removal of the Chief of Internal Audit.

Internal Audit personnel are independent of the ASRS activities they audit and will have no authority or responsibility for any of the procedures or activities of the ASRS. The Chief Auditor and internal audit staff are not authorized to perform operational duties for the organization. Additionally they are not authorized to initiate or approve accounting transactions external to the IAD. Internal audit staff is not authorized to direct the activities of any organization employee not employed by the internal audit division. This independence promotes essential impartial and unbiased judgments, and assures appropriate consideration and effective action on audit findings and recommendations.

The Chief Auditor shall have free unrestricted access to the Chair of the OC and the Chair and members of the Board, subject to applicable state and federal laws.

To accomplish audit objectives, Internal Audit staff are authorized to have full, free, and unrestricted access to any of the ASRS records, property, personnel, employer members, contractors, vendors, members and retirees relevant to any subject under review. Where the need is indicated, special arrangements will be made for the examination of confidential information. Internal auditors will exercise due diligence in the safeguarding and use of these resources. The Chief Auditor shall ensure that internal audit staff are instructed in the handling and safeguarding of confidential information.

Internal Audit Standards

Internal Audit activities comply with the following:

- ASRS objectives and policies;
- International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors, Inc.;
- Generally accepted government auditing standards; and
- All other applicable professional standards.

Scope Of Activities

The scope of internal audit work includes (1) the examination and evaluation of the adequacy and effectiveness of the agency's internal control systems, and (2) the quality of performance in carrying out assigned responsibilities.

The scope of the above work includes:

- Developing a biennial audit plan using risk analysis, and obtaining approval from the Board.
- Ensuring that risks within and outside the organization are appropriately identified and managed.
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report information.
- Evaluating compliance with current policies, plans, procedures, laws, and regulations.
- Appraising the safeguarding, and economical and efficient use of the organizations resources.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives, goals, and are in synchrony with industry best practices and whether the operations or programs are being carried out as planned.
- Evaluating in system design related to internal controls.
- Performing special reviews and investigations as requested by the Director, the Board, and the OC.
- Investigating reported occurrences of fraud, embezzlement, theft, waste, etc., and recommending controls to prevent or detect such occurrences.
- Performing investigations to ensure that employers appropriately enroll employees, accurately report member earnings, follow appropriate statutes related to retirees returning to work and appropriately report other employee data.
- When audited, ensuring that contractors, including third-party administrators are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures and best practices.

Reporting

The results of internal audits are reported to the OC, the Director, appropriate managers, and oversight bodies. On a quarterly basis, or more frequently at the request of the OC Chair, the Chief of Internal Audit will meet with the OC to discuss the status of the audit plan and other significant issues involving the IAD.

The IAD will establish and maintain a system for tracking corrective action for significant audit findings reported by internal and external auditors.

Management will provide the corrective action accomplished to the IAD on a timely basis for tracking, consolidation and reporting purposes.

An external peer review of the IAD will be performed every five years and the results reported to the OC.

Authority

The IAD was established by the Board of the ASRS. The Charter is incorporated into the ASRS Board Governance Handbook and is approved by and all future amendments are approved by the Board through a majority vote. This Charter shall be reviewed at least annually and updated as required by the OC.

I. ASSET CLASS COMMITTEES

Purpose

Asset class committees are designed to:

1. Ensure decision-making and oversight are not commingled, yet allow complete and direct information flow and application of Trustee expertise.
2. Better align and clarify the roles of Trustees, Director, CIO, IMD staff, and consultants.
3. Improve the efficiency and effectiveness of the ASRS investment decision-making process.
4. Provide consistency and uniformity in investment decision-making frameworks.

Asset class committees are not deemed to constitute a sub-committee of the Investment Committee (IC) or full Board.

Duties and Responsibilities

The Director has been delegated responsibility for the day-to-day management of the asset class committees.

Trustees will be represented on each asset class committee to provide oversight and expertise.

Investment Management Division staff will be assigned to asset class committees as appropriate to provide subject matter expertise.

Consultants will serve on asset class committees to provide additional subject matter expertise and an independent perspective.

Trustees retain the right to request that an investment decision be placed on an IC agenda or subsequently a Board agenda for further discussion.

Organizational Structure/Composition

The ASRS has two asset class committees:

1. Public Markets Committee (PUBMC) – This committee will manage ASRS investments in public markets and investments with public market-like characteristics. This includes traditional public U.S. and international equity and fixed income markets, bank loans, opportunistic public investments, global tactical asset allocation (GTAA), commodities, currencies, non-traditional assets and absolute rate of return strategies.
2. Private Markets Committee (PRIVMC) – This committee will manage ASRS investments in private markets and investments with private market-like characteristics. This includes private equity, real estate*, private fixed income and opportunistic private investments.

*Includes public real estate/REIT investments.

If a determination needs to be made regarding the appropriate asset class committee, the Director and/or CIO will confer with the IC Chair. As appropriate, discussion may transcend asset class committees and/or their constituent members.

Each asset class committee will contain the following members:

- a. The Director and/or CIO (or their designee) who will chair the committee
- b. ASRS staff(s) responsible for portfolio management
- c. Non-voting Trustees as appointed by the IC Chair
- d. Designated consultant(s)

To ensure the timely flow of information, the CIO will communicate to the IC, information regarding activities of the Asset Class Committees.

Voting Protocols

The Director/CIO and ASRS asset class portfolio manager(s) are voting members.

Trustees are non-voting members to preserve the separation of oversight and decision-making responsibilities. If a Trustee determines an Asset Class Committee agenda item should be discussed at the IC, the item will be placed on a subsequent IC agenda.

Consultants are non-voting members to ensure the presence of an independent perspective.

Decisions require the consensus of the Director and CIO.

Asset Class Committee Consultants

Rather than a lead consultant for either the PUBMC or the PRIVMC, different consultants may be utilized for each committee meeting since neither committee will be limited to a single asset class but will span multiple asset classes and investment strategies. Selection of a particular consultant for each investment or investment strategy will be based on the consultants available from the approved pool of consultants and their particular strengths and ability to add value to the ASRS.

Asset Class Committee consultants will be evaluated, interviewed, hired, assigned, terminated and report to their respective asset class committees.

When hiring or terminating Asset Class consultants, the Director or CIO will notify the IC and the Board Chair of their intention and solicit comments from both prior to effectuating the proposed course of action. Should any change in the Asset Class Committee consultants occur, the Director or CIO will subsequently inform the Board.

The IC Chair will approve the use of the ASRS general consultant for any asset class committee manager searches.

J. TRUSTEE ORIENTATION AND EDUCATION PROGRAM

General

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

New Trustee Orientation Program

1. The Director will develop and present with the Board Chair to the new Trustees an in-depth New Trustee Orientation session designed to fully inform new Trustees of the key functions of the ASRS and their responsibilities.
2. Newly appointed Trustees are expected as part of their fiduciary responsibilities for the ASRS to participate in the New Trustee Orientation Session within approximately two months of their appointment.
3. The Board believes the following orientation and education topics will increase Trustee understanding:
 - a. History and background of the ASRS.
 - b. Introduction to the executive management team and other staff as determined by the Director.
 - c. The governance role of the Board and the management role of the executive staff of the ASRS.
 - d. The state laws establishing the ASRS and the application of other state and federal laws.
 - e. A briefing on the fiduciary duties and liabilities of Trustees and other fiduciaries of the ASRS.
 - f. A briefing on conflicts of interest and ethics laws and policies and the state mandated courses on conflicts of interest laws.
 - g. A review of the Board Governance Handbook and other information and documentation deemed relevant by the Director or Board Chair.
 - h. A review of general retirement pension, health benefits design, LTD, and other specific benefits provided by the ASRS.
 - i. A review of general actuarial funding terminology and principles and the most recent actuarial reports.
 - j. A review of general institutional investment principles and the various investment policies in place.
 - k. A review of the reporting and disclosure requirements of the ASRS to state entities.
 - l. A review of the legal (state and federal) and political environment in which the ASRS operates.
 - m. A review of the current strategic plan for the ASRS and new issues, trends and developments affecting the ASRS.
 - n. The structure and model for the management and operation of the ASRS.
 - o. The legal and legislative environment.
 - p. A description and tour of ASRS offices as may be practicable.

Trustee Education Policy

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

Reimbursement of Education Expenses

Reimbursement of travel-related expenses for Trustee orientation and education will be in accordance with the state Travel Policy.

K. STRATEGIC PLANNING POLICY

General

A strategic planning and implementation process is necessary for the sound governance, oversight and management of the ASRS.

The objectives of the Board through this policy are to:

1. Ensure the ASRS actively and systematically plans for the future needs of the ASRS.
2. Facilitate discussion and agreement among and between the Board and the Executive Staff on the direction for the ASRS.
3. Facilitate the communication of the ASRS strategic plan throughout the organization.

Strategic Planning Roles and Responsibilities

1. The Board will be responsible for:
 - a. Regular examination, adherence, and updates to agency governance documentation.
 - b. Adopting the vision, values, investment principles, and strategic goals of the ASRS.
 - c. Identifying and prioritizing strategic initiatives.
 - d. Measuring the success and progress of the Strategic Plan.
2. The Board and Director, working together, will be responsible for approving the Strategic Plan and ensuring adequate resources are in place to support it.
3. The Director will be responsible for:
 - a. Developing the vision, values, investment principles, and strategic goals of the ASRS.
 - b. Implementing the Plan by assigning staff, tasks and resources.
 - c. Communicating the Plan to all staff.
 - d. Identifying and prioritizing strategic initiatives.
 - e. Managing and reviewing performance against Strategic Plan goals and objectives.

L. BOARD CODE OF ETHICS

General

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

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

State Law

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

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

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

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

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

B. Any public officer or employee who has, or whose relative has, a substantial interest in any decision of a public agency shall make known such interest in the official records of such public agency and shall refrain from participating in any manner as an officer or employee in such decision.

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

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

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

The Legislature has determined that certain interests do not influence a person's decisions or actions impermissibly. The Legislature has defined these interests as "remote interests" and has

listed them in A.R.S. § 38-502. Unless the pecuniary or proprietary interest at issue falls within one of the situations statutorily specified by the Legislature to be remote, the interest is substantial and creates a conflict of interest.

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

- 1) Will the decision affect, either positively or negatively, an interest of the Trustee or the Trustee’s relatives?
- 2) Is the interest a pecuniary or proprietary interest?
- 3) Is the interest other than one statutorily designated as a remote interest?

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

2. Gifts and Gratuities (A.R.S. §§ 38-444, 38-504 and 38-505)

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

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

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

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

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

4. Disclosure of interests (A.R.S. § 38-509, IMD SOP034)

When a Trustee determines that the Trustee has a substantial interest in a matter, the Trustee must disclose the interest and withdraw from all participation in the decision or contract.

The Trustees must “maintain for public inspection in a special file all documents necessary to memorialize all disclosures of substantial interest made known pursuant to this article.” (A.R.S. §§ 38-501 to -511)

A Trustee who has a conflict of interest in any ASRS decision or in the award of a contract *must* provide written disclosure of that interest in the ASRS’ special conflict of interest file. (A.R.S. § 38-503). A Trustee may either file a signed written disclosure statement fully disclosing the interest or file a copy of the official minutes of the ASRS which fully discloses the interest. (A.R.S. §§ 38-502, -509)

Having disclosed the conflict of interest and withdrawn from participation in the matter, the Trustee must not communicate about the matter with anyone involved in the decision-making process. (A.R.S. § 38-503)

Code of Ethics

1. The Trustees shall maintain the highest ethical conduct at all times consistent with their fiduciary duty to act only for the exclusive benefit of the ASRS members and beneficiaries under state law.

2. The Trustees shall conduct themselves with integrity and exercise care, prudence and diligence in handling the affairs of the ASRS.
3. The Trustees must disclose conflicts of interest and appearance of conflicts of interest as defined under state law with respect to their fiduciary responsibility. Where a conflict of interest does exist, the Trustee must refrain from voting or otherwise participating in any manner with regard to the subject matter of the conflict.
4. The Trustees shall not:
 - a. Deal with assets of the ASRS for their own interest.
 - b. Accept gifts or gratuities prohibited by state law or the Board's Gift and Gratuities Policy.
 - c. Act in any transaction involving the ASRS on behalf of any party whose interests are adverse to the interests of the ASRS or the members and beneficiaries.
 - d. Receive any monetary or other valuable consideration for their personal account from any party conducting business with the ASRS.

M. BOARD PERFORMANCE EVALUATION

General

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

Board Evaluation Policy

1. The Board Chair, working with the Director, will be responsible for coordinating and conducting the Board performance evaluation process.
2. The evaluation will focus on the operations and decision-making processes of the Board.
3. The Board Chair will provide to each Trustee the Board Performance Evaluation Form approved by the Board. The Trustees are to conduct their self-evaluation in the first quarter of each calendar year, preceding the Director's evaluation.
4. The Board will seek input from the Director with respect to the staff's perception regarding the Board's and Board Committees performance.
5. The Board may seek input from the Assistant Attorney General regarding an annual evaluation of the Board's compliance with statutory and governance responsibilities.

Board Performance Evaluation Process and Forms

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

Part A: Trustee Self-Evaluation

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

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

The Trustee Self-evaluation form is for the personal use of each Trustee to facilitate the full and frank examination of each Trustee's own performance. The completed form does not need to be submitted to the full Board. The objective is for this annual exercise to be helpful to the ASRS and not embarrassing to any individual.

Part B: Overall Board Evaluation

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

The "Overall Board Evaluation" form contains elements of "best practices" of public retirement systems and is for the personal use of each Trustee to facilitate the full and frank discussion among the Trustees. The completed form does not need to be submitted to the full Board.

N. DIRECTOR EVALUATION PROCESS

General

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

Objectives

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

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

Evaluation Procedure and Criteria

1. In the first quarter of each calendar year, the Board, working with the Director, will adopt a set of performance goals and evaluation criteria to be used in evaluating the performance of the Director for the upcoming calendar year.
2. The evaluation of the performance of the Director will take place in the first quarter of each calendar year after the Board's self evaluation is completed and will cover the preceding calendar year.
3. The subject matter addressed in the performance evaluation will include:
 - a. Leadership
 - b. Management/Administration/Budgeting
 - c. Communication
 - d. Policy matters
 - e. Staff development
 - f. Progress toward achieving performance business objectives previously established by the Board for the year
 - g. Other matters identified by the Board
4. The Director will prepare a written summary report of accomplishments and performance for the Board to use in their discussions of his/her performance.
5. The Board will reach consensus and provide a report of the Director's performance, and identify areas for improvement, if necessary.
6. The Board will meet with the Director to present and discuss the Board's evaluation of the Director's performance.

APPENDIX A. TRUSTEE EVALUATION

NAME (OPTIONAL) _____ DATE: _____

PART A – ASRS TRUSTEE SELF-EVALUATION

Rate the following statements in relation to your involvement as a Trustee of the ASRS. Rank answers using the following scale: **5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 - never**

	5	4	3	2	1
1. I attend the Board and Committee meetings I am expected to attend.					
2. I contribute to the discussion in a meaningful and helpful way.					
3. I fully understand my fiduciary duties and act for the benefit of all members, not merely for a particular constituency.					
4. I make an effort to be educated on the aspects of the ASRS that I do not understand.					
5. I comply with state laws and Board policies regarding conflicts of interest.					
6. I read the materials distributed before the Board meeting so I can constructively participate and make timely decisions.					
7. I work with the other Trustees and the staff in a collegial way.					
8. I understand that work requests to staff and outside consultants need to be agreed to by the Board or the Director and I act accordingly.					
9. I work with the Director in a way that creates an atmosphere of trust and cooperation.					
10. I understand the Director works for the entire Board and not for individual trustees and I act accordingly.					
11. I communicate Board governance problems to the Board Chair.					

I am most concerned about the following issues:

PART B – OVERALL BOARD EVALUATION

Rate the following statements in relation to the overall operation of the Board. Rank answers using the following scale: **5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 - never**

	5	4	3	2	1
1. The Board maintains an effective oversight role with regard to benefits and investments 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.					

	5	4	3	2	1
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.					

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

1. _____
2. _____
3. _____

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

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

APPENDIX B. DIRECTOR EVALUATION

ASRS - DIRECTOR PERFORMANCE EVALUATION

Name: Paul Matson

Title: Director

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

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Leadership: Rating _____

- Establishes and maintains effective and credible relationships affecting the ASRS.
- Projects a positive image as the Director of the ASRS.
- Recognizes the needs and desires of others; treats others with regard, courtesy and respect.
- Maintains a "big picture" outlook and is aware of industry issues.
- Forecasts trends, responds to change and invites innovation.
- Solicits and acts upon ideas of others when needed.
- Stresses the importance of high quality customer service.
- Maintains a well-functioning management team.
- Participates in relevant and worthwhile professional organizations.

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

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Management/Administration/Budgeting: Rating _____

- Manages all ASRS business functions and activities in accordance with all relevant laws, Board policies and goals
- Develops reasonable budgets, communicates them to the Board, and operates within budgetary limits
- Ensures the efficient and effective functioning of the ASRS through delegation
- Follows up on Board directives to ensure proper implementation

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

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Communication: Rating _____

- Keeps the Board and staff informed and communicates effectively with them
- Organizes ideas and information logically
- Speaks clearly and concisely, using understandable terminology
- Effectively and politely communicates with the members
- Professionally communicates with entities affecting the ASRS

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

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Policy Matters: **Rating** _____

- Periodically reviews policies and makes recommendations for changes to the Board
- Accurately interprets Board policies and concerns, and develops a consistent direction for the staff to follow
- Initiates changes in day-to-day operations to conform to established Board policies
- Acts creatively to evaluate and recommend new initiatives or policies

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

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Staff Development: **Rating** _____

- Creates an atmosphere that fosters teamwork, creativity and participation
- Communicates clear standards of performance for the executive staff
- Keeps informed and follows state personnel policies and procedures
- Encourages professional development of staff
- Addresses succession planning for key positions within the ASRS

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

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Progress Toward Achieving Business Objectives: Rating _____

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

1. _____
2. _____
3. _____
4. _____
5. _____

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

Significant Overall Accomplishments:

Areas Needing Improvement:

OVERALL RATING: _____

APPENDIX C. GENERAL INVESTMENT CONSULTANTS

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

The general consultant will be evaluated, and interviewed by the IC, Director and CIO; the IC will make the selection and recommendation to the Board for approval. The general consultant will be hired and terminated by the Board, report to the IC and Board and, through the direction of the IC Chair, Director or CIO, be engaged at the request of the Board, IC, Director or CIO. In the event a backup general consultant is needed, a selection will be made by the IC from the approved pool of project consultants and recommended to the Board for approval.

APPENDIX D. TRUSTEE FIDUCIARY LIABILITY AND COVERAGE

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

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

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

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

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

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

- a. Occur while performing duties or functions that the Trustees are authorized to perform.

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

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

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

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

Losses arising from contractual breaches are not covered under the state’s risk management program. (A.R.S. § 41-621)