



City of Cincinnati Retirement System Governance Committee

City Council Chambers and via Zoom
April 4, 2024 – 12:00 PM

AGENDA

Members

Mark Menkhaus, Jr. (Chair)
Tom Gamel (Vice Chair)
John Juech
Bill Moller
Kathy Rahtz
Seth Walsh
Aliya Riddle

CRS Staff

Jon Salstrom

Law

Linda Smith

Call to Order

Public Comment

Approval of Minutes

📅 January 11, 2024

Old Business

New Business

- 📅 Review 2024 Funston Performance Audit Report & Recommendations
 - Governance Manual

Adjournment

Next Meeting: July 11, 2024, City Council Chambers and via Zoom

**City of Cincinnati Retirement System
Governance Committee Meeting Minutes
January 11, 2024 / 1:00 P.M.
City Hall – Council Chambers and remote**

Board Members

Mark Menkhaus, Jr., Chair
Tom Gamel, Vice Chair
John Juech
Bill Moller
Kathy Rahtz
Seth Walsh
Aliya Riddle

Administration

Jon Salstrom

Law

Ann Schooley
Linda Smith

Call to Order

The meeting was called to order at approximately 1:02 p.m. by Chair Menkhaus and a roll call vote of attendance was taken. Trustees Menkhaus, Gamel, Moller, Rahtz, and Riddle were present. Trustees Juech and Walsh were absent.

Public Comment

No public comment.

Approval of Minutes

Approval of the minutes of the October 5, 2023, meeting was moved by Trustee Gamel and seconded by Trustee Moller. The minutes were approved by unanimous roll call vote.

Old Business

Review 2023 CRS Board and Governance Objectives

Director Salstrom summarized the goals and objectives of the board and committees and gave an update on the status of each. He highlighted the new member to City Council, Anna Albi, and that he and Chair Moller have scheduled time with her to give a high-level overview of CRS. Director Salstrom mentioned that the Financial Disclosure Policy and forms have not been presented to the board as he is waiting for feedback and guidance from Funston. Chair Menkhaus noted that the Attendance Policy was not listed at the beginning of 2023 but was created and should be added to the list of objectives.

New Business

Discuss Draft of 2024 CRS Board and Governance Objectives

Director Salstrom summarized the 2024 Governance Committee objectives, which includes the completed items from 2023. He highlighted the objectives that need to be completed in 2024 and welcomed feedback on any objectives the committee may want to add. Chair Menkhaus suggested adding a review of the term limits that are set for the trustees. Trustee Moller suggested adding charters, CSA, administrative code, and the municipal code to the “consolidate governance manual, board rules and policies” objective.

Trustee Moller motioned to adopt the 2024 governance objectives with the suggested changes previously stated and seconded by Trustee Rahtz. The motion was approved by unanimous roll call vote.

Trustee Rahtz motioned to eliminate term limits for trustees and seconded by Trustee Gamel. The motion was approved by unanimous roll call vote.

Adjournment

A motion to adjourn was made by Trustee Gamel and seconded by Trustee Moller. The Governance Committee approved the motion by unanimous roll call vote. The meeting was adjourned at 1:47 p.m.

Meeting video link: <https://archive.org/details/crs-governance-1-11-24>

Next Meeting: Thursday, April 4, 2024, at 12:00 p.m. - City Council Chambers and via Zoom

Funston Performance Audit - Summary of Recommendations

	Board	Board, Adm.	Priority
<u>1. Legal and Regulatory</u>			
1.1 Improve definition and clarity of roles and authorities of:			
• The Board of trustees	X		X
• Board chair	X		X
• Individual trustees	X		X
• City Council and Mayor		X	
• City Manager and City Finance Director		X	
• CRS Director		X	
1.2 The City should expand Board of Trustees personnel authorities to align with the Board's responsibilities, for example, naming the CRS Director as a direct report to the Board, with authority to hire/fire, evaluate, and set compensation.		X	
1.3 The City Solicitor should provide the Board of Trustees with independent external legal counsel or establish a policy and process that allows CRS to retain independent external counsel and/or hire internal CRS counsel to address potential conflicts of interest associated with the City Solicitor's representation of other clients on the same matters.		X	X
1.4 Confirm the Board's authority, as the named fiduciary, to contract with actuaries, investment consultants, investment managers, custodial banks, benefit providers, and legal counsel, all of which require unique pension and investment expertise.		X	X
1.5 The City Manager should allow CRS trustees who are not City employees to vote on CRS procurement decisions; the Board, as fiduciaries, should have final authority on those decisions.		X	X
1.6 If the CRS Board is not given authority to hire/fire/evaluate/compensate the Director, work with the City Manager to develop a Memorandum of Understanding that addresses the City Manager's role as a potential fiduciary and formalizes procedures where the Board and City Manager, Finance Director or other officers have overlapping responsibilities (e.g., setting goals for and evaluating the Executive Director); CRS may need to consider options for engagement of independent fiduciary legal counsel to assist with this initiative.		X	X

GREEN - SHORTER TERM COMPLETION

RED - LONGER TERM COMPLETION

Board - CRS Board has authority to complete

Board, Adm. - CRS Board and City Administration have shared authority to complete

Priority - CRS Board priority to complete as soon as possible

Note: Some Recommendations may require CSA update.

2. Governance Framework

	<u>Board</u>	<u>Board, Adm.</u>	<u>Priority</u>
2.1 Aggregate and organize the Board policies from all sources into a Board Governance Manual with online access and links to underlying document provisions; include the mission statement, goals, trustee responsibilities, committee charters and the Code of Ethics.		X	X
2.2 Develop new policies or formalize current policies and practices for:			
• Trustee personal financial disclosures	X		
• Board self-evaluation / Board education policy	X		
• Funding		X	
• Separate investment policy statement for the 115 trust fund that is tailored to its liabilities	X		
• Strategic planning, in coordination with the City		X	
• Collection of claims in securities class actions	X		
• Succession planning, in cooperation with relevant City appointing authorities		X	
• Business continuity and resumption		X	
• Independent governance and benchmarking reviews		X	
• External communications by Board members	X		
• Due diligence and reporting for referral of service provider candidates by trustees, along with limits on candidate contacts with trustees during an RFP process	X		
2.3 Reduce the size of each committee to three or five members to better utilize trustee time.	X		
2.4 Adopt a consent agenda for approval of routine business and reports.	X		
2.5 Conduct periodic board retreats for more in-depth discussion on key topics, conducting board self-evaluations and executive director evaluations, and trustee education.	X		
2.6 Following implementation of the recommendations in this report, conduct a biennial self-evaluation process, potentially with external assistance; this process should help to inform educational priorities.	X		
2.7 Define ongoing training requirements for Board members, including onboarding plan for new trustees and required fiduciary training; link training to board self-assessment findings and the calendar of Board agenda action items.	X		X
2.8 Formalize a CRS stakeholder communications plan that identifies key stakeholders, communications responsibilities, and messages and objectives.		X	
2.9 Issue new system email accounts to be used by trustees for all CRS-related business.	X		X
2.10 Discuss with the Director and the investment consultant how reporting could be improved and executive summaries better utilized to enhance trustee understanding and insight.		X	X
2.11 Appoint a Board Audit Committee with oversight of internal and external audits to commission an independent financial audit and obtain internal audit services from the City Internal Audit Department and/or an independent firm; include oversight of enterprise performance and risk in the committee charter responsibilities.		X	X

3. Investment Program and Operations

	<u>Board</u>	<u>Board, Adm.</u>	<u>Priority</u>
3.1 Develop a separate Statement of Investment Beliefs (SIB) to guide development and implementation of the strategic asset allocation.	X		
3.2 Develop a liquidity policy as part of the Investment Policy Statement (IPS) to ensure that the cash needs of the organization are effectively and efficiently met.	X		X
3.3 Develop a separate IIPS for the 115 Trust (Health Care Trust) that reflects the unique liability structure of the 115 Trust.	X		X
3.4 Extend the time horizon for the strategic asset allocation to 3-5 years and only make changes to the target asset allocation as part of a comprehensive Asset Liability Study.	X		
3.5 Include a more comprehensive rebalancing policy in the IPS that describes how rebalancing is linked to the Board's investment philosophy and what the process should be.	X		
3.6 Discuss with Marquette Associates how reporting might be improved through development of an introductory executive summary, with an exception reporting approach, to the quarterly reporting package focused on actual performance compared to the IPS.	X		X

4. Pension Operations

4.1 Clarify the Board's responsibilities and role (or lack thereof) in pension and benefits administration.		X	X
4.2 Consider if pension staffing resources and capabilities should be improved through Implementation of a member contact center telecommunications system.		X	X
4.3 Develop a long-term plan with service, performance, and cost objectives, to ensure that member self-service, website redesign, and other improvements, are all developed and implemented in a coordinated manner and achieve desired results.	X		
4.4 Charter a pension administration cost and performance benchmarking report.	X		
4.5 Consult with its actuary and determine if an adjustment to the investment assumed rate of return should be recommended.			X
4.6 Develop and adopt a formal actuarial and funding policy describing responsibilities and frequency of actuarial and asset/liability study processes and addressing investment, demographic and benefit risks.	X		X

5. Administrative Operations

5.1 Develop succession planning and implement a cross training program for staff to minimize key person risk and enhance staff development.		X	
5.2 Work with the City Administration and the Law Department to delegate authority to the CRS Board to engage external counsel to obtain more timely legal support or unique expertise when appropriate. See also Recommendation 1.3.		X	X
5.3 Develop a long-term IT plan that identifies future needs.		X	
5.4 Work with the City Enterprise Technology Solutions (ETS) Department to ensure security is adequate and tested.		X	X
5.5 Update the documented disaster recovery plan.		X	X

6. Compliance

	<u>Board</u>	<u>Board, Adm.</u>	<u>Priority</u>
6.1 Assign leadership, training, and monitoring responsibilities for compliance to ensure compliance with conflict of interest and ethics policies.		X	X
6.2 Develop a repository of risk-ranked compliance requirements.		X	
6.3 Establish tracking mechanisms to identify and escalate non-compliance.		X	

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Note: Some Recommendations may require CSA update.

Cincinnati Retirement System (CRS)

Governance Policies Review



December 1, 2023

CRS Governance Policies Review

Introduction

Review of current Cincinnati Retirement System (CRS) governance policies and charters is part of the Funston Advisory Services (FAS) CRS fiduciary audit. In order to conduct the governance policies evaluation, FAS reviewed the following documents from the CRS public website:

- Chapter 203 of the Cincinnati Municipal Code
- Collaborative Settlement Agreement (5-7-2015)
- Collaborative Settlement Agreement Consent Decree (10-5-2015)
- Collaborative Settlement Agreement Agreed Order (on Board reforms 4-14-2016)
- CRS Governance Manual
- CRS Board Rules
- Article XV of the Cincinnati Administrative Code
- CRS Board Policies
- CRS Committee Charters.

FAS compared the CRS policies to those of its peers, using the proprietary FAS National Public Pension Policy Repository (N3PR), with policies from over 80 public pension funds. Policies and practices were also compared to peers in the FAS InGov database, which contains survey results from public pension funds. In addition, FAS referenced its knowledge of peer policies from experience working with dozens of public pension funds and other institutional investors on governance matters.

We assessed each CRS governance policy and formed an independent opinion as to whether it was a lagging, prevailing or leading practice. A lagging practice has fallen behind peers. A prevailing practice is common among peers. A leading practice is a practical improvement over prevailing practice. We also considered whether the practice was adequate for the purpose. The results of that analysis are contained in a separate FAS InGov report that compares CRS policies and practices with its peers.

Preliminary Conclusions

FAS overall determination was that CRS governance policies are comprehensive and, with a few exceptions, appear to be both appropriate and consistent with prevailing practice amongst peer funds. Nevertheless, even when consistent with peer practices, there can be opportunities to improve policies and practices. FAS recommendations are developed with that perspective in mind.

While peer policies and practices provide an important reference point for compliance with the fiduciary duty of prudence, prudent policies must also fit a plan's unique characteristics and circumstances. The adage "one size fits one" is foundational when it comes to evaluating governance policies. Policies must be "fit for purpose" in the context of each plan's structure and circumstances.

Accordingly, the CRS staff and Board have a central role to play in determining what policy recommendations are "best" for CRS. While FAS has tried to take the System's circumstances into consideration, the CRS Board and staff are the final decision makers to determine what policies are the best fit. To help with that process, we have attached a Model Board Governance Manual Outline that provides an organized and comprehensive list of potential CRS governance policies that are common at

CRS Governance Policies Review

peer funds. CRS is invited to use that Worksheet in deliberations on structuring its Governance Policy Manual.

An example governance policy manual from another public pension fund is also attached to provide additional context for CRS. However, it is only an example and should be viewed through the “one size fits one” lens.

Policy Guideposts

When deliberating on structure and content of an updated CRS Governance Policy Manual, we offer the following guideposts for content and level of detail. Consideration could be given to whether:

- The policy is important for implementation or interpretation of fiduciary duties, ordinances or other legal requirements
- The additional policy guidance is needed on how to effectively conduct the activity
- A formal policy would assist in achieving compliance or documentation of compliance
- The policy would promote consistency in application of CRS standards or facilitate personnel transitions
- There is a need to establish metrics for performance oversight
- The policy reflects actual practices and capabilities
- Content is detailed enough to provide clarity but not so detailed that it creates compliance risks
- The topic is material to achieving goals of the plan
- The policy has been vetted with expert staff or advisers.

Preliminary Recommendations

1. Expand and reorganize the current Governance Manual.

CRS has a very complicated set of governing statutes, municipal ordinances, rules, court orders, charters and policies. The current Board Governance Manual collects some of those provisions and includes footnotes that identify the underlying documents in which referenced provisions are contained. FAS sees this compilation of CRS governance provisions as a valuable approach. However, we recommend that it be given a table of contents, expanded to reference all material CRS Board governance authorities (using concise summaries with links to appropriate sections of underlying documents) and be reorganized into sections that highlight the different governance roles reserved to the Board.

We believe that an updated and reorganized Board Governance Manual would facilitate orientation of new Board members and provide both the Board and staff with a single reference document for governance matters. It might also help CRS identify areas where there is a need to resolve ambiguity about responsibilities and authority of the various system decision-making entities.

The attached Governance Policies Outline Worksheet provides an example of how the CRS Board Governance Manual might be organized. In many instances, rather incorporating long legal text, the Manual might use plain language summaries with links to the source document. That should make the Manual easier to read and understand, while providing access to the full legal text.

The following sections offer preliminary recommendations for the revised Manual's policy topics content. Combination of several topics in the same policy or document might be appropriate in some instances. In addition, CRS might have to weigh practical considerations with best practice benefits in determining whether a policy topic should be addressed.

2. Incorporate existing CRS policies from various sources.

As noted in the InGov report, CRS currently has a number of prevailing and leading governance policies which are already included in Board materials and its various governing documents. These policies and practices should continue to be referenced in, or added to, the updated Board Governance Manual (with links to source documents). They might include:

- CRS mission statement
- Summary and references to governing legal documents
- Fiduciary duties
- Board composition, terms, qualifications
- Trustee elections and appointments
- Meeting attendance requirements
- Board officer elections and duties
- Board ethics code, standards of conduct and discipline process

CRS Governance Policies Review

- Procedural standards for the conduct of Board/committee meetings
- Board agenda calendar
- Board responsibilities and powers
- Process for Trustee information requests from staff
- Role of the Board in CRS Director selection, responsibilities and evaluation
- Member benefits and disability appeal processes
- Budget approval and oversight process
- Process for selection of custodian, medical director, actuary, investment managers and other Board advisors
- Actuarial standards and processes
- CRS reporting obligations
- Independent legal counsel representation and selection/Agreement with Law Department on handling Code of Professional Responsibility conflicts of and responsiveness to client
- Committees and mandates
- Committee officer selection
- Use of title holding companies for system physical assets
- Determination of format for reports to the Board

3. Develop new policy provisions.

Where CRS Board governance policies lag peers or where development of additional practices and policies is merited, new or revised policies should be developed and referenced (with links to source documents) in the Board Governance Manual. Again, CRS should weigh practical considerations and relevance (in the context of CRS operations) with best practice benefits in determining whether a particular policy topic should be addressed. FAS looks forward to receiving CRS input and assisting with this process.

Areas which appear to merit consideration by CRS include:

- Role of the Board in advising appointing authorities on key employee succession planning
- Process governing contacts with staff outside of meetings to limit undue influence or misuse of staff resources and allow prioritization of work demands
- Confidentiality policy; misuse of inside/proprietary CRS information
- Trustee financial transaction reporting and oversight of potential conflicts or misuse of confidential information

CRS Governance Policies Review

- Trustee position description; use of the Trustee portal
- Committee chair charter
- Blackout period prohibiting contacts during REP selection process (if not covered by City procurement standards)
- Strategic planning process, including roles of the Board, staff and advisors
- Internal audit function and new audit committee charter
- Independent governance review policy
- Funding policies for 115 Trust and Retirement Plan
- Stakeholder communications plan development processes
- Board self-assessment process
- Trustee onboarding and continuing education program standards, linked with Board self-assessments and Board meeting calendar
- Securities litigation claims recovery process and reporting by investment managers

CRS Governance Policies Review

Model Board Governance Manual Outline

Board Function	Governance Manual Policy and Governance Topics
Table of Contents	
Purpose, Vital Functions & Fiduciary Duty	Summary of Assigned Program Responsibilities
	Statement of Purpose, Mission
	Key Governing Laws, Powers (with links to source documents)
	Fiduciary Duties
Fundamentals	Board Composition, Qualifications
	Terms, Vacancies, Removal from Office
	Oath of Office
	Compensation
	Board Portal
	Indemnification & Insurance
	Application of Public Records Law
Conduct Business of the Board	Meetings
	Frequency, Location
	Special/Emergency Meetings
	Member & Public Notice of Meetings
	Board Member Charter/Duties, Attendance
	Agenda Development
	Executive/Closed Sessions
	Calendar of Key Meeting Agenda Topics
	Quorum & Voting Standards
	Rules of Order
	Public Participation
	Requests for Information from Staff
	Minutes
	Policy on website posting of materials, streaming of meetings
	Board Officers
	Selection, Terms & Vacancies
	Chair, Vice Chair & Secretary Charters/Duties
	Committees
	Standing & Ad Hoc
	Membership, Selection & Terms
	Committee Charters, Powers & Reporting
	Committee Officers Selection, Terms & Vacancies
	Committee Officer Charters/Duties
	Evaluations
	Conduct Board Self-Evaluations

CRS Governance Policies Review

Board Function	Governance Manual Policy and Governance Topics
	Evaluate Board Direct Reports (Director)
	Evaluate Board Service Providers
Set/Approve Board Policies & Delegations	Board Ethics Policies
	Standards of Conduct
	Conflicts of Interest/Recusal
	Confidentiality
	Personal Investments, Insider Trading, Frontrunning
	Pay to Play Restrictions
	Financial Disclosures
	Trustee Referral of Potential Investments & Service Providers
	Travel & Expense Reimbursement
	Board Member Discipline
	Board Policies
	Trustee Election Procedures
	Board Service Providers Selection & Evaluation
	Investment Beliefs
	Trustee Education & Onboarding
	Board Self-Evaluation
	Actuarial Standards
	Strategic Planning
	Stakeholder Relations & Communication
	Actuarial, COLA Recommendations
	Benefits Administration Standards
	Whistleblower Process
	Placement Agent Use
	Securities Litigation
	Proxy Voting Policy (if applicable)
	Delegations
	Powers Reserved for Exercise by the Board
	Director Charter/Delegations
	Internal Audit Charter
Oversee or Monitor	Operational Policies/Compliance Reviews
	Investment, Benchmarks & Performance Evaluation
	Procurement Process
	Budgeting and Costs
	Framework & Protocol for Board Reports and Exception Reporting
	Stakeholder Relations
	Rule & Policy Reviews
	Administration & Operations

CRS Governance Policies Review

Board Function	Governance Manual Policy and Governance Topics
	Benefits Administration
Obtain Reassurance	Audit Committee Charter/Duties
	Approve Audit Plan
	Independent Governance Reviews
	Fiduciary Counsel



Board Governance Policy Handbook

APPROVED: January 16, 2004:

REVISED

December 17, 2004
February 18, 2005
December 6, 2005
December 15, 2006
April 18, 2008
May 14, 2009
July 31, 2009

April 16, 2010
April 15, 2011
July 15, 2011
October 19, 2012
October 25, 2013
January 24, 2014
February 26, 2016

September 30, 2016
May 26, 2017
June 29, 2018
July 26, 2019
September 25, 2020
July 30, 2021
September 30, 2022
September 27, 2023

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A Vision Statement and Core Values

VISION

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

VALUES

How ASRS employees deliver service with



PROFESSIONALISM

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

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

RESULTS

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

- Completes projects
- Attains individual accomplishments
- Meets goals and objectives
- Satisfies customers
- Produces quality work products
- Manages risks successfully

IMPROVEMENT

"We appreciate individuals, teams or divisions who drive the agency forward with new, innovative ideas and solutions"

- Promotes new ideas
- Enhances morale
- Enhances outcomes and performance
- Improves relationships
- Solves problems
- Increases efficiency, effectiveness or reduces costs

DIVERSITY

"We recognize that utilizing different talents, strengths and points of view, strengthens the agency and helps propel outcomes greater than the sum of individual contributor"

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

EXCELLENCE

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

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

B Governance: Conceptual Model

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

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

Key Governance Principles

1 Separation of Decision-Making from Oversight with Independent Reporting

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

2 Board Focus on Impactful Issues

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

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

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

4 Delegation

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

5 Clarity

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

C ASRS Board Charters

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

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

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

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

The Board’s Role

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

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

Board Composition (A.R.S. § 38-713)

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

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

Duties and Responsibilities

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 leadership, management, and administrative responsibilities of the ASRS to the Director through the Director Position Description.
4. Delegate the hiring and termination of investment managers, Real Estate and Private Equity Consultants, and other Asset Class Consultants to the Director through the Asset Class Committee structure.
5. Approve the creation or dissolution of standing and special committees of the Board.
6. Approve the selection and termination, and oversee the performance of the following external service providers:
 - a. Actuarial service providers
 - b. External financial auditor
 - c. General investment consultant(s)

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

D Trustee Position Description

Primary Responsibility

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

Trustee Fiduciary Responsibilities

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

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

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

In addition, the Trustee must:

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

Trustee Access to ASRS Resources

1. A Trustee shall not give instructions or assign tasks to individual ASRS staff but may make individual requests to the Director or other staff as indicated by the Director.
2. A Trustee shall refrain from making negative comments on staff performance other than to the Director.
3. A Trustee should typically access ASRS resources through actions of the full Board or Board Committees rather than an individual Trustee directly requesting significant resources from staff.
4. A Trustee may request from the 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 conflict with this policy.

Director Position Description

General

1. The Board will appoint the Director, who shall serve at the pleasure of the Board. (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 the official spokesperson for the Board and the ASRS.
5. With respect to legislation:
 - a. If draft legislation is proposed affecting the ASRS that the ASRS Board has not already taken a position on, the 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.
 - b. 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.
 - c. If the draft legislation pertains to a benefit modification, the Director may provide relevant information but will not support or oppose the draft legislation.
 - d. If a single piece of draft legislation covers both a benefit modification item as well as a non-benefit modification item, the Director may support or oppose the legislation but will communicate that the support or opposition relates to the non-benefit modification item and not the benefit modification item.
6. Act as liaison between the Board and other ASRS staff and service providers.
7. Safeguard the assets of the ASRS by appointing a custodian and developing and implementing proper internal controls.

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

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

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

F Election of Board Officers

Board Officers

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

Term

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

Resignations and Vacancies

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

Removal

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



Board 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 the business being considered by the Board.
6. Schedule Executive Session meetings as necessary and in compliance with state law.
7. Make Committee assignments, including Chair and Vice-chair positions to Committees, taking into account the desires and skills of the Trustees.
8. Execute such documents and other legal instruments on behalf of the ASRS as required by state law or authorized by the Board.
9. Discuss performance and behavior issues with Trustees who are having a negative impact on the ASRS.
10. Perform all other duties specifically identified by the Board.

Duties of Vice-chair

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

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

H Board and Committee Meeting Protocol

Rules of Order and Quorum

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

Scheduling of Regular, Special, and Emergency Meetings

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 his/her discretion.
2. The Board Chair or Vice-chair 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 per Arizona Open Meeting Law, in the case of an emergency meeting requiring immediate action to avoid some serious consequence, shorter notice may be provided.
3. The Board 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. The Board Chair
 - b. A Trustee
 - c. A Board Committee
 - 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 business days before each meeting.
2. The Director shall prepare and distribute to Trustees an executive summary of the significant issues to be discussed.
3. The Director shall provide to the Board Chair or Committee Chair, staff or Committee recommendations, if applicable, and a proposed motion(s) for the Board or Committee to consider.

Public Access and Testimony at Board Meetings

1. All meetings of the Board or Committees are public, and all persons who wish to attend may do so in accordance with Arizona Open Meeting Law. (A.R.S. §§ 38-431 et. Seq.)
2. Every agenda for regular Board or Committee meetings will provide the public with an opportunity to be heard. The Board 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, which may include telephonic or virtual access.

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

Executive Sessions

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

- c. The Executive Session must satisfy all of the state's notice requirements under the Arizona Open Meeting Law.
3. The Board will take no action while in Executive Session. Any such action must be taken during that portion of a meeting that is open to the public.
4. Trustees are prohibited under state law from publicly disclosing the discussions held in Executive Session. The 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 public meeting minutes will be made available to the public as required by state law.
2. The Director will direct staff to prepare a written copy of the Board minutes taken at prior meetings of the Board and present it to the Board for approval at a subsequent meeting.
3. The Director will maintain records of the Board's activities and actions in accordance with state law and such other documents necessary to establish a due diligence record of the Board's activities.

Board Committees and Charters

General

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

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

Standing Committees

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

Special Committees

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 or until the Chair modifies the appointments.
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 or until the Chair modifies the appointments.
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.
4. The Board Chair may make the appointments in writing or verbally but will also proactively disseminate the appointments verbally at a future Board meeting.

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, but 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 dialogue, but only Committee members may vote.
4. The Committees shall report to the Board, summarizing activities and recommendations on matters that have been referred to them.
5. The Director shall provide staffing, consulting, or other resources and support to Board Committees as may be necessary and within budget to meet the responsibilities assigned by the Board.

Committee Size

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

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

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

Operations, Audit, and Legislative Committee Charter

General

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

Responsibilities

1. Oversight

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

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

Areas of responsibility are as follows:

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

3. Actions Requiring Independent Board Review

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

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

Internal Audit Charter

Authority

The Internal Audit Division was established by the Board of the ASRS. The Charter is incorporated into the ASRS Board Governance Policy 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 triennially and updated as required by the Operations, Audit, and Legislative Committee.

Purpose

The Internal Audit Charter outlines the role, responsibilities, and operating activities of the Internal Audit division to:

1. Provide independent risk-based assurance to the Board that the ASRS' assets are safeguarded, operating effectively, and compliance is maintained with prescribed laws and the agency's policies and procedures.
2. Provide assessments and advice for improving the agency's governance or management without assuming management responsibility.
3. Provide services in investigating and reporting fraud, embezzlement, theft, waste, and abuse of agency resources, monitoring remediation efforts, and recommending internal controls to prevent or detect future occurrences.

Organizational Structure

Chief Internal Auditor

- The Chief Internal Auditor reports functionally to the Board through the Operations, Audit, and Legislative Committee and administratively to the Director of the ASRS.
- The appointment or removal of the Chief Internal Auditor will be made by the Director as a recommendation to the Board.
- In consultation with the Operations, Audit, and Legislative Committee or its Chair, the Director evaluates the performance and, subject to required Arizona Department of Administration guidelines, determines the remuneration of the Chief Internal Auditor.

Internal Audit Division

The independence of the Internal Audit Division promotes essential impartial and unbiased judgments and assures appropriate consideration and effective action on audit findings and recommendations.

- The Chief Internal Auditor shall have free unrestricted access to the Chair of the Operations, Audit, and Legislative Committee and the Chair and members of the Board, subject to applicable state and federal laws.
- Internal Audit Division staff are authorized to have full, free, and unrestricted access to any 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 and the Internal auditors will exercise due diligence in the safeguarding and use of these resources.
- The Chief Internal Auditor shall ensure that internal audit staff is instructed in the handling and safeguarding of confidential information.

In contrast:

- The Chief Internal Auditor and Internal Audit Division staff 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 Internal Auditor and Internal Audit Division staff are not authorized to perform operational duties for the organization.
- The Chief Internal Auditor and Internal Audit Division staff are not authorized to initiate or approve accounting transactions external to the Internal Audit Division.
- The Chief Internal Auditor and Internal Audit Division staff are not authorized to direct the activities of any organization employee not employed by the Internal Audit Division.

Compliance with Internal Audit Standards

The internal audit charter is consistent with the Mission of Internal Audit and the mandatory elements of the Institute of Internal Auditors' (IIA) *International Professional Practices Framework* (IPPF). Conformance with the principles set forth in mandatory guidance is required and essential for the professional practice of internal auditing. The mandatory elements of the *International Professional Practices Framework* are:

- Core Principles for the Professional Practice of Internal Auditing
- Definition of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing (Standards)

Internal Audit activities comply with the following:

- ASRS objectives and policies;
- Generally accepted government auditing standards; and
- All other applicable professional standards.

Scope of Activities

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 economic and efficient use of the agency's resources;

- Reviewing operations or programs to ascertain whether results are consistent with established objectives, goals, strategies, and risks 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 Operations, Audit, and Legislative Committee;
- Investigating reported fraud occurrences by following the agency's "Fraud, Criminal Acts, Internal Investigation and Whistleblower Policy;"
- Investigating reported occurrences of fraud, embezzlement, theft, waste, etc., and recommending controls to prevent or detect such occurrences;
- Ensuring quality and continuous improvement are fostered in the agency's control process;
- Performing reviews or investigations of employers as requested by the Director, the Board, and the Operations, Audit Legislative Committee;
- Auditing contractors, including third-party administrators, to ensure they are meeting the objectives of the contracts while in conformance with applicable laws, regulations, policies, procedures, and best practices; and
- Recommending opportunities for improving member service, management of risks, internal control, governance, and the organization's effectiveness.

Reporting

- The results of internal audits are reported to the Operations, Audit, and Legislative Committee, the Director, appropriate managers, and oversight bodies.
- On a quarterly basis, or more frequently at the request of the Operations, Audit, and Legislative Committee Chair, the Chief Internal Auditor will meet with the Operations, Audit, and Legislative Committee to discuss the status of the audit plan and other significant issues involving the Internal Audit Division.
- The Internal Audit Division 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 Internal Audit Division on a timely basis for tracking, consolidation, and reporting purposes.
- An external peer review of the Internal Audit Division will be performed every five years, and the results reported to the Operations, Audit, and Legislative Committee.

Investment Committee Charter

General

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

Duties and Responsibilities

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

Board Appeals Committee Charter

General

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

Responsibilities

The Board Appeals Committee has the following responsibilities:

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

J Director's Asset Class Committee(s)

Purpose

Director's Asset Class Committees are designed to:

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

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

Duties and Responsibilities

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

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

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

Organizational Structure/Composition/Voting Protocol

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

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

Staff-extension Investment Consultants

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

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

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

K Trustee Orientation and Education Program

General

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

New Trustee Orientation Program

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

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

Trustee Education Policy

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

Reimbursement of Education Expenses

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

Strategic Planning Policy

General

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

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

Strategic Planning Policy

The Board and Director will work collaboratively to ensure that:

1. Strategic priorities facing the ASRS over the short, medium, and long-term are identified, discussed, prioritized, and addressed.
2. Strategic planning discussions remain focused on strategic issues.
3. Strategies are developed to address the short, medium, and long-term priorities.
4. The Board is updated on the agency's progress addressing strategic priorities.
5. Adequate resources are in place to support the successful execution of the Strategic Plan.
6. The agency's governance policy is periodically examined and updated to ensure sound governance practices are in place.

Strategic Plan Reporting

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

M Board Code of Ethics

General

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

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

State Law

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Gifts and Gratuities

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

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

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

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

- a. Use his or her official position or attendance at a conference, seminar or training for personal gain.

- b. Solicit gifts.
- c. Accept gratuities.
- d. Accept gifts or favors that may appear to be designed to influence the Trustee's official conduct.
- e. Permit him/herself to be placed under any kind of personal obligation that could lead a person to expect official favors.

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

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

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

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

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

Code of Ethics

- 1. New Trustees are required to attend any state-provided Public Service Orientation Ethics Course.
- 2. Trustees shall maintain the highest ethical conduct at all times consistent with their fiduciary duty to act only for the exclusive benefit of the ASRS members and beneficiaries under state law.
- 3. The Trustees shall conduct themselves with integrity and exercise care, prudence, and diligence in handling the affairs of the ASRS.
- 4. The Trustees must disclose conflicts of interest and the appearance of conflicts of interest as defined under state law with respect to their fiduciary responsibility. Where a conflict of interest does exist, the Trustee must refrain from voting or otherwise participating in any manner with regard to the subject matter of the conflict.

5. The Trustees shall not:
 - a. Deal with assets of the ASRS for their own interest.
 - b. Accept gifts or gratuities prohibited by state law.
 - c. Act in any transaction involving the ASRS on behalf of any party whose interests are adverse to the interests of the ASRS or its members and beneficiaries.
 - d. Receive any monetary or other valuable consideration for their personal account from any party conducting business with the ASRS.

Loyalty Oath

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

Political Activities

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

N

Board Performance Evaluations

General

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

1. Board Evaluation Policy

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

Board Performance Evaluation Process and Forms

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

Part A: Trustee Self-Evaluation

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

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

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

Part B: Overall Board Evaluation

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

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



Director Evaluation Process

General

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

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

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

Appendix A – Trustee Self-Evaluation

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

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

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

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

Appendix B – Overall Board Evaluation

Name _____ Date: _____
 (optional) _____

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

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

	5	4	3	2	1
1. The Board maintains an effective oversight role with regard to benefits and investment issues.					
2. The Board knows and understands the ASRS Strategic Plan and reflects this understanding when addressing key issues throughout the year.					
3. The Board engages in long-range strategic thinking and planning.					
4. The Board has achieved the business objectives it set out to accomplish this past year.					
5. The Board stays abreast of issues and trends affecting the ASRS, using this information to assess and guide the ASRS over the long term.					
6. The Board conducts a comprehensive evaluation of the Director annually.					
7. The Board ensures that new Trustees receive a prompt, thorough orientation.					
8. Board meetings are conducted in a manner that ensures open communication, meaningful participation, and sound resolution of issues.					
9. The Board meeting agendas are well-balanced, allowing time for the most critical issues.					
10. The Board and Committee meetings are handled efficiently.					
11. The Committees are effective, focusing on pertinent topics and allocating reasonable time.					
12. The Board is well-educated on both benefit and investment issues.					
13. The Board recognizes its policy-making role and reconsiders and revises policies as necessary.					
14. The Board is consistently prepared for meetings.					
15. The Board as a whole and Trustees as individuals evaluate their performance on an annual basis.					
16. The Board reviews and adopts a reasonable operating budget that is followed and monitored throughout the year.					
17. The Board periodically monitors investment performance and measures it against relevant benchmarks.					

	5	4	3	2	1
18. The Board periodically monitors service to members.					

	5	4	3	2	1
19. The Board comprehends and respects the difference between its policy-making role and the 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 C – ASRS 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.

Leadership (Rating out of 5)

- | | | |
|----------|-------------------|--|
| 5 | Outstanding | <ul style="list-style-type: none">▪ Establishes and maintains effective and credible relationships affecting the ASRS.▪ Projects a positive image as the Director of the ASRS. |
| 4 | Above Average | <ul style="list-style-type: none">▪ 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. |
| 3 | Satisfactory | <ul style="list-style-type: none">▪ Forecasts trends, responds to change and invites innovation.▪ Solicits and acts upon ideas of others when needed. |
| 2 | Needs Improvement | <ul style="list-style-type: none">▪ Stresses the importance of high-quality customer service.▪ Maintains a well-functioning management team. |
| 1 | Unacceptable | <ul style="list-style-type: none">▪ Participates in relevant and worthwhile professional organizations. |

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

Management/Administration/Budgeting (Rating out of 5)

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

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

Communication (Rating out of 5)

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

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

Policy Matters (Rating out of 5)

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

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

Staff Development (Rating out of 5)

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

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

Progress Toward Achieving Business Objectives (Rating out of 5)

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

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

General Comments or Examples

[You need not address each point separately]

Significant Overall Accomplishments

Areas Needing Improvement

Overall Rating (Rating out of 5)

Appendix D – General Investment Consultant(s)

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

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

Appendix E – Trustee Fiduciary Liability and Coverage

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

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

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

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

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

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

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

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

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

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

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

Appendix F – State of Arizona Loyalty Oath

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

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

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

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

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

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

State of Arizona, County of

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

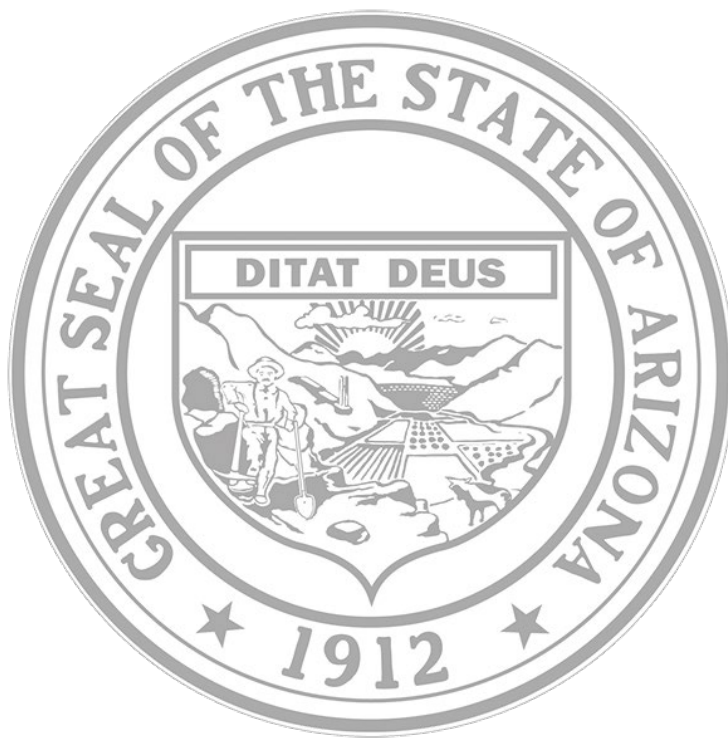
_____(Signature of officer or employee)

_____(Date)

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



Your investment.
Your future.
Secure for your lifetime



An agency of the State of Arizona