



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

**MINUTES
PUBLIC MEETING
ARIZONA STATE RETIREMENT SYSTEM
INVESTMENT COMMITTEE**

**Tuesday, April 17, 2018
12:00 p.m.**

The Arizona State Retirement System (ASRS) Investment Committee (IC) met in the 14th Floor Conference Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. Clark Partridge, Acting-Chair of the IC, called the meeting to order at 12:00 p.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway Boulevard, Suite 200, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Clark Partridge
Mr. Michael Lofton

One vacant position

A quorum of the IC was present for the purpose of conducting business.

2. Approval of the Minutes of the December 15, 2017 Public Meeting of the ASRS IC

Mr. Michael Lofton moved to approve the minutes of the December 15, 2017 Public Meeting of the ASRS IC. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused and 1 vacancy, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding Market Commentary, House Views and General Discussion

Mr. Polen provided a general overview of the topic noting that house views and portfolio had not changed materially in the last several months with a slight underweight to equities and larger underweight to core bonds offset by an overweight in credit. Mr. Glass noted that equities remain priced above historic norms and have seen a significant increase in volatility since January. Mr. Alaimo commented on fixed income markets noting the strong likelihood of continued rate increases in coming months making it an unattractive environment for the rate sensitive sector. He indicated that ASRS continues to favor variable rate private debt in this environment.

4. Presentation, Discussion, and Appropriate Action Regarding Quarterly Report on Investment Performance

Mr. Polen commented on overall fund performance for periods ending March 31, 2018, noting that the estimated one-year performance of 11.5% outperformed benchmarks by 90bp. Mr. Polen noted that private debt and real estate have been positive contributors by outperforming their benchmarks and that underweights to core bonds and commodities also materially contributed to performance. Mr. Polen noted that the 10-year performance of 7.2% exceeded the benchmark by 70bp generating a little over \$3 billion of additional value for the fund. Mr. Alaimo described fixed income performance noting positive performance in the internally managed F2 portfolio which outperformed its benchmark by 18bp in the most recent year and by 24bp over the last five years. Mr. Alaimo reviewed the private debt portfolio which has now grown to over \$4 billion and which has earned an inception IRR of 10.8% which is 380bp higher than its benchmark. Mr. Glass discussed the performance of the equity portfolio and updated the committee on progress in implementing changes to the portfolio reconfiguring it to a combination of enhanced passive and risk factor implementation noting that this transition will be complete before the end of this calendar quarter. Mr. Glass described improvements in the management of the internally managed E portfolios which have enhanced to 10bp outperformance in the most recent one-year period. He then reviewed the private equity portfolio noting that while the most recent one-year return of 15.68% underperformed its public markets benchmark that this portfolio outperformed a comparable vintage private equity benchmark by 169bp. Finally, Mr. Glass reviewed the real estate portfolio noting that much progress has been made in transitioning the portfolio to the current separate account implementation with this strategy now accounting for over 50% of the portfolio. Mr. Glass noted that the most recent one-year performance for real estate of 11.02% exceeds the ODCE benchmark by 401bp with substantially all this outperformance coming from the newer strategies which have outperformed their benchmark on an inception basis by over 400bp. It was emphasized that the March 31 performance numbers are preliminary based on approximately 95% data availability and that final numbers will be published in 4 to 6 weeks.

5. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight

Mr. Alan Martin reported on the NEPC monitoring and oversight of the ASRS investment program. He reviewed compliance with the four major board established investment goals noting that investment returns have consistently exceeded across all time periods. He did note, however, that the 20 year return of 6.9% fell short of the actuarial assumed return of 7.5%. He then reviewed performance attribution indicating concurrence with staff analysis of the sources of return noting in particular positive performance in private debt and real estate but underperformance in public equities. Mr. Martin then commented on compliance monitoring noting the portfolio is in compliance with Strategic Asset Allocation (SAA) requirements and that asset class committee meetings have been conducted in accordance with policy.

6. Presentation, Discussion, and Appropriate Action Regarding Risk Management

Mr. Polen reviewed the risk report noting that current portfolio risk of 13.42% is slightly below SAA risk as a result of slight equity underweight. Mr. Polen noted that the recent increase in portfolio risk is the result of recent increases in market volatility, especially equity volatility.

7. Presentation, Discussion, and Appropriate Action Regarding Updates to the State Street Custody System and Performance Accounting

Ms. Kerry White presented an update to the committee on ongoing and planned changes to the State Street custody system. It was noted that with growth in assets and increased internal management that ASRS has outgrown the current core service. ASRS is in the process of implementing the enhanced "EAOS" service model which will implement middle office services which will provide

overnight accounting so that the custody system will provide a tradable investment book of record by open of business each day. Ms. White also described changes in process for performance accounting transitioning to a single performance book of record housed at State Street replacing dual books of record at State Street and NEPC which has presented ongoing challenges with differences and reconciliation. The various changes with State Street were estimated to generate efficiencies for ASRS of at least one FTE between the accounting and investment groups.

8. Presentation, Discussion, and Appropriate Action Regarding IMD Activities and Asset Class Committee Reports

The committee did not discuss the reports on IMD activities or asset class committee meetings noting that committee members had reviewed the materials and did not have any questions.

9. Presentation, Discussion, and Appropriate Action Regarding Compliance

Ms. White presented an update on compliance activities noting that trade and statutory compliance checks had no exceptions for the January through March calendar quarter. She then described ongoing compliance monitoring of private markets activities noting that all compliance reviews for the 2016 calendar year are now with no unresolved exceptions. Compliance reviews for the 2017 calendar year will commence shortly as ASRS has begun receiving annual reports for that period. Ms. White concluded with a review and the annually required presentation on tax compliance and described the compliance process for required reports to SEC, FINRA, DOL, CBOT, various state and local governments, international governments and the IRS. She noted that ASRS consults with multi-jurisdictional tax counsel annually to confirm appropriate compliance steps are in place in light of any changes in law.

10. Request for Future Agenda Items

There were no requests for future agenda items.

11. Call to the Public

No members of the public requested to speak.

12. The next ASRS Investment Committee Meeting is scheduled for Friday, June 22, 2018 at 9:00 a.m. at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix , Arizona

Mr. Partridge noted the next IC meeting is scheduled for Friday, June 22, 2018 at 9:00 a.m.

13. Presentation and Discussion of Pending Investment Transaction

Motion: Mr. Michael Lofton moved to go into Executive Session for the purpose of considering specific investment manager data that is confidential proprietary commercial information. Mr. Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused and 1 vacancy, the motion was approved.

The Committee convened to Executive Session at 1:13 p.m.

The Committee reconvened to Public Session at 1:40 p.m.

14. Adjournment of the ASRS IC Meeting

Mr. Partridge stated that in accordance with Arizona's Open Meeting Law requirements, IC Trustees and others are restricted by Arizona law from disclosing any executive session information to anyone not present at the meeting.

Motion: Mr. Michael Lofton moved to adjourn the meeting at 1:41 p.m. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused and 1 vacancy, the motion was approved.

Respectfully submitted by:

Joyce Williams/Karl Polen
Investment Committee Administrator/Chief Investment Officer
ARIZONA STATE RETIREMENT SYSTEM