



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, March 29, 2019
8:30 a.m.

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:30 a.m.

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

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Jim Hillyard (Joined the meeting at 8:34 a.m.)
Mr. Rene Guillen
Mr. Michael Lofton (Via teleconference)
Mr. Kevin McCarthy
Mr. Michael Miller
Mr. Clark Partridge

Two vacant positions.

A quorum was present for the purpose of conducting business.

Mr. Paul Matson, Director, took a moment to welcome Ms. Diana Day, the new Assistant Attorney General, and reviewed Ms. Day's roles and responsibilities with the ASRS.

2. Approval of the Minutes of the January 25, 2019 Public Meeting and Executive Session of the ASRS Board

Motion: Mr. Clark Partridge moved to approve the minutes of the January 25, 2019 Public Meeting and Executive Session of the ASRS Board. Mr. Jim Hillyard seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 0 excused, and 2 vacancies, the motion was approved. The Trustee votes were as follows:

Mr. Tom Manos – approved
Mr. Jim Hillyard – approved
Mr. Rene Guillen – approved
Mr. Michael Lofton – approved
Mr. Kevin McCarthy – approved
Mr. Michael Miller – approved
Mr. Clark Partridge – approved

The record should reflect the response of Mr. Michael Lofton, who was attending via teleconference, was momentarily delayed and he has confirmed that his vote was in favor of the motion and is reflected in the above results.

3. Presentation, Discussion, and Appropriate Action Regarding the ASRS 2019 Legislative Initiatives

Ms. Jessica Thomas, Government Relations Officer, provided an update regarding the ASRS 2019 legislative agenda. The ASRS has been pursuing five agency bills.

HB2007: ASRS; Political Subdivision Plans; Adjustments – This bill addresses service purchase arrangements when a new employer joins the ASRS as well as allows employers to make current year payroll adjustments for instances where contributions were not previously withheld. This bill was signed by the Governor on March 22, 2019 and will become effective 90 days after sine die.

SB1016: ASRS; Ineligible Contributions; Unfunded Liability – This bill addresses ineligible contributions and seeks to allow the ASRS to charge the employer who submits ineligible contributions an unfunded liability cost that is accrued when the ASRS is required to pay out a higher benefit. This bill moved to the consent agenda and is waiting for a floor vote.

SB1017: ASRS; Paying Interest; Authorization – This bill prohibits the ASRS from paying interest on any amount paid to a member, an alternate payee, or an employer unless specifically authorized by statute. This bill passed in the House on March 21, 2019 and is ready for the Governor's signature.

SB1018: ASRS; Compensation; Definition – This bill creates a new definition for members whose membership began on or after January 1, 2020; awaits hearing by the Rules Committee.

SB1079: ASRS; Long-Term Disability Program – This bill will allow the ASRS to conduct investigations to prevent LTD fraud; this bill moved to the consent agenda and is waiting for a floor vote.

Ms. Thomas provided an update on two bills that affect the ASRS but were not initiated by the ASRS.

SB1010 Waiting Period; Repeal – This bill repeals the current statute requiring any state employee initially hired on or after July 20, 2011 to wait until the 27th week of employment to become a member of the ASRS. This bill awaits hearing by the Rules Committee.

SB1213 ASRS; Return to Work – This bill addresses the refunding of contributions that were assessed at an alternate contribution rate on behalf of a retired member returning to work. This bill awaits hearing by the Rules Committee

Ms. Thomas fielded questions from the Board and discussion ensued.

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

Mr. Karl Polen, Chief Investment Officer, reported that the fiscal year-to-date performance was approximately +3% on a fund market value of approximately \$40 billion and excess performance, compared to the strategic asset allocation, is now at approximately +2%. Mr. Polen went on to update the Board on the progress of the implementation plan, and described the levers being used to manage each asset class in the ASRS portfolio. Mr. Polen also introduced use of the cone chart and how it illustrates performance versus expectations. Cone charts will be generated for Total Fund Performance as well as for each asset class.

Mr. Polen moved on to review the performance summary from State Street for the period ending December 31, 2018, as well as NEPC's comparison of ASRS returns and those of other public funds as of December 31, 2018. ASRS is again in the top decile in all time periods.

For the period ending December 31, 2018, the one-year return was -0.63%, underperforming the current actuarial assumption of 7.5% by -8.13%, and outperforming the Strategic Asset Allocation (SAA) benchmark by 1.92%.

5. Notification of Upcoming Board Elections to Occur at the May 31, 2019 Board Meeting

Mr. Tom Manos announced the upcoming Board elections to occur at the May 31, 2019 Board Meeting.

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

Mr. Matson first talked to the Board about a supplemental retirement plan overseen by the ASRS, the Supplemental Salary Deferral Plan, a defined contribution plan available at low administrative cost to ASRS members. Staff is in the process of proactively contacting employers and disseminating information about the plan. Mr. Matson pointed out that the ASRS is educating and disseminating this information so our member employers can have the tools they need to make an informed decision about retirement savings options they may wish to offer to their employees.

Next, Mr. Matson described the process being undertaken by the Investment Management and Internal Audit Divisions, formulating a holistic compliance policy that best describes the philosophical underpinnings of compliance as it relates to investing.

Finally, Mr. Matson asked the Board to join him in acknowledging the retirement of Mr. Kent Smith, Chief Information Officer, on April 19, 2019, and thanked him for 25 years of commendable service to the ASRS.

7. Presentation and Discussion Regarding Informational Updates from Prior and Upcoming Committee Meetings

a. Operations, Audit and Legislative Committee (OALC)

Mr. Jim Hillyard announced the next OALC meeting will be held on April 10, 2019.

b. Investment Committee (IC)

Mr. Clark Partridge announced the next regularly scheduled IC meeting is to be held on June 17, 2019.

c. Appeals Committee (AC)

Mr. Kevin McCarthy announced the next AC meeting is scheduled to be held on April 9, 2019.

8. Board Requests for Future Agenda Items

No requests were made.

9. Call to the Public

No one from the public requested to speak.

10. The next regular ASRS Board meeting is scheduled for Friday, May 31 at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

Mr. Manos noted the next Board meeting is scheduled for Friday, May 31, 2019 at 8:30 a.m. *The Board discussed and agreed upon taking a recess from 9:02 a.m. to 9:11 a.m. to transition to the 14th floor conference room for the final agenda topic and Executive Session.*

11. Presentation, Discussion, and Appropriate Action Regarding the 2018 Review of the Director of the ASRS

The Board convened to Executive Session at 9:11 a.m.

The Board reconvened to Open Session at 9:53 a.m. Mr. Kevin McCarthy moved to accept the Director's amended Employment Agreement of March 29, 2019. Mr. Jim Hillyard seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 0 excused, and 2 vacancies, the motion was approved. The Trustee votes were as follows:

Mr. Kevin McCarthy – approved
Mr. Tom Manos – approved
Mr. Clark Partridge – approved
Mr. Jim Hillyard – approved
Mr. Michael Lofton – approved
Mr. Michael Miller – approved
Mr. Rene Guillen – approved

12. Adjournment of the ASRS Board

Motion: Mr. Kevin McCarthy moved to adjourn the March 29, 2019 public meeting of the Board at 11:34 a.m. Mr. Rene Guillen seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 0 excused, and 2 vacancies, the motion was approved. The Trustee votes were as follows:

Mr. Tom Manos – approved
Mr. Jim Hillyard – approved
Mr. Rene Guillen – approved
Mr. Michael Lofton – approved
Mr. Kevin McCarthy – approved
Mr. Michael Miller – approved
Mr. Clark Partridge – approved

Respectfully Submitted by:

Joyce Williams
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM