



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, September 27, 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. Jim Hillyard, Chair of the ASRS Board, called the meeting to order at 8:32 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. Jim Hillyard, Chair  
Mr. Clark Partridge, Vice-chair (Via teleconference)  
Mr. Rene Guillen  
Mr. Tom Manos (Via teleconference)  
Mr. Kevin McCarthy  
Mr. Michael Miller

Excused: Mr. Michael Lofton

Two vacant positions.

A quorum was present for the purpose of conducting business.

### **2. Approval of the Minutes of the July 26, 2019 Public Meeting of the ASRS Board**

**Motion:** Mr. Kevin McCarthy moved to approve the minutes of the July 26, 2019 Public Meeting of the ASRS Board. Mr. Michael Miller seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved. The Trustee votes were as follows:

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

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

Mr. Karl Polen, Chief Investment Officer, reported that total fund year-to-date returns are approximately 1½%, a little more than 50 bps better than our relevant index performance. All asset classes are performing at or above their index performance.

Reporting on the goals set by the Board, the portfolio is meeting all of the investment objectives set by the Board including ranking with other public pension funds, asset class returns and cash availability. Mr. Polen moved forward to review the year-end report. The fiscal year ended with the following results:

The results for periods ended June 30, 2019:

- Total fund returns of 6.6%, 9.9%, 6.6% and 10.4% beat their benchmarks by 1.3%, 2.1%, 2% and 1.3% for the one-, three-, five- and ten-year periods respectively.
- For the ten-year period, the dollar value added from this excess performance is nearly \$4.8 billion.
- This performance placed ASRS in the top quartile for all time periods reported and in the top 4% for the ten-year period.
- Tactical positioning has added significant value to the portfolio over longer periods but was neutral in the most recent year, with positive contribution from the underweight equities posture but negative contribution from the short duration posture anticipating rate increases that did not occur.
- Equity returns beat their benchmarks in aggregate by 1.2%.
  - Private equity outperformed its benchmarks by 10.8% for the one-year period and 4.9% for the five-year period.
  - In public equity, internally managed portfolios and futures implementation added to excess performance.
  - Factor portfolios underperformed due to high performance in growth and mega-cap names, which are underweighted in the factor portfolios.
- Real estate portfolios outperformed for all time periods reported with strongest performance in the separate account portfolio which is the focus for future investment.
- The credit portfolio has added over \$1 billion in value over the last five years.

### **4. Presentation, Discussion, and Appropriate Action Regarding Direct Investment in Financial Services Companies**

Mr. Polen began this presentation with a brief explanation of this segment which crosses asset classes. ASRS has made direct investments with asset managers in the real estate portfolio, specialty lenders in the private equity portfolio, and now with a litigation finance company in the credit portfolio.

Mr. Polen gave three main reasons this approach is being pursued.

1. The financial services industry area is dynamic and growing after the 2008 financial crisis, with regulation of commercial banks creating opportunities in the market;
2. Advantageous fee structures help make this an attractive alternative, and
3. The creation of strategic alignment, particularly in the real estate portfolio, with high quality operating companies that bring specialized expertise and access to unique opportunities.

Mr. Polen went on to describe the operating companies in more detail, noting that they have produced particularly good results, and answered questions from the trustees.

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

Mr. John Krimmel, Partner, NEPC, presented NEPC's annual review of total fund performance and independent assessment of the ASRS investment program. He began with a review of the ASRS Investment Objectives. The one-year total fund return was 6.6% and the benchmark was 5.2%, the portfolio outperforming by 1.4%. The three-year fund return was 9.9%, the benchmark was 7.8%, with the portfolio outperforming by 2.1%. For the ten-year period ending June 30, 2019 since inception, the Total Fund returned 10.4% and 9.7%, respectively, substantially above our actuarial required rate of return. Total fund net return has a peer ranking near the top 20% for the one-year, and at or near the top decile for all reporting periods, relative to peers, public defined benefit plans of \$1billion or greater. Reviewing compliance with the Strategic Asset Allocation Policy (SAAP), current allocations are all within the ranges established by the Policy. Finally, Mr. Krimmel closed with five general observations:

- Staff continues to be proactive with driving change in internally managed equity portfolios
- The Plan has experienced strong outperformance versus the SAAP in the short run and over longer periods
- The active manager Public Equity program has contributed negatively to performance over the past five years
- Private markets contributing to positive longer-term results
- Current positioning is consistent with IMD House Views and strategic implementation plans

## **6. Presentation Regarding Government Finance Officers Association (GFOA) Financial Reporting Awards:**

- a. Comprehensive Annual Financial Report (CAFR) for Fiscal Year (FY) 2018**
- b. Popular Annual Financial Report (PAFR) for FY 2018**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, announced that for the thirtieth year in a row, the ASRS has received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its June 30, 2018, CAFR. Mr. Guarino pointed out that this top award is also a sign of responsible corporate governance. It also means that our CAFR consistently adheres to the highest accounting standards and that we are reliable stewards of our financial data.

Mr. Guarino reported that the ASRS also received the GFOA Award for Outstanding Achievement for the 2018 PAFR.

Mr. Guarino presented the two awards to Ms. Erin Higbee, Chief Financial Officer, and recognized the Financial Services Division and Investment Management Division contributors to this award-winning effort.

## **7. Presentation, Discussion and Appropriate Action Regarding the Calendar Year 2020 Board Meeting Calendar**

Mr. Paul Matson presented the proposed 2020 Board meeting calendar to the Trustees, noting the similarity to the Board meeting calendar of 2019, with meetings beginning in January, occurring on the last Friday of every other month except November. The Board suggested no modifications. Mr. Miller asked about the absence of Appeals Committee meetings, to which Ms. Joyce Williams, Board Administrator, replied that those dates have not yet been proposed, and would be forthcoming. Mr. Miller suggested that they follow the same schedule as 2019.

**Motion:** Mr. Rene Guillen moved to approve the Board meeting schedule for calendar year 2020 as presented, with Board meetings to occur the last Friday of every other month beginning in January, with the exception of the month of November. Mr. Michael Miller seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved. The Trustee votes were as follows:

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

## **8. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events**

Mr. Matson had no further comments but introduced Mr. Dave King, Chief Information Officer, who gave the Board a quick summary of a statewide internet issue experienced on the afternoon of September 25, 2019.

The state experienced an internet outage on one of their level 3 lines on the CenturyLink carrier which affected many parts of Phoenix. Primarily, users lost connectivity outside their buildings in many parts of the greater metropolitan area. Within the building, communications were uninterrupted, but communications outside our building was down, intermittently, for a few hours.

The intermittent breaks in service began at around 12:40 pm, and resulted in calls increasingly being dropped. A message was placed on the ASRS website and the Call Center was shut down early, at approximately 4 pm. Normal business was restored the following morning.

Mr. King informed the Trustees about a redundancy TSD has created that provides a backup in the event that the internet is totally out of service, but it was not used that afternoon. Additionally, the ASRS is working with the Department of Education, who shares the network within this building, formalizing their ability to use the ASRS' backup system if the need arises.

## **9. Presentation and Discussion Regarding Informational Updates from Prior and Upcoming Committee Meetings**

### **a. Operations, Audit and Legislative Committee (OALC)**

Mr. Clark Partridge announced the next OALC meeting will be held on October 9, 2019.

### **b. Investment Committee (IC)**

In Mr. Michael Lofton's absence, Mr. Jim Hillyard announced the next regularly scheduled IC meeting is to be held on December 16, 2019.

### **c. Appeals Committee (AC)**

Mr. Kevin McCarthy announced the next AC meeting is scheduled to be held on December 10, 2019.

## **10. Board Requests for Future Agenda Items**

No requests were made.

## **11. Call to the Public**

No members of the public requested to speak.

## **12. The next regular ASRS Board meeting is scheduled for Friday, November 15 at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.**

Mr. Jim Hillyard noted the next Board meeting is scheduled for Friday, November 15, 2019 at 8:30 a.m.

## **13. Adjournment of the ASRS Board**

**Motion:** Mr. Kevin McCarthy moved to adjourn the September 27, 2019 public meeting of the Board at 9:32 a.m. Mr. Michael Miller seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved. The Trustee votes were as follows:

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

Respectfully Submitted by:

Joyce Williams  
Board Administrator  
ARIZONA STATE RETIREMENT SYSTEM