



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
4400 EAST BROADWAY BOULEVARD • SUITE 200 • TUCSON, AZ 85711-3554 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778

Paul Matson
Director

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

**Friday, September 28, 2018
9:00 a.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, Chair of the IC, called the meeting to order at 9:05 a.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, Chair
Mr. Jim Hillyard, Vice-chair

Excused: Mr. Michael Lofton

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

2. Approval of the Minutes of the May 22, 2018 Public Meeting of the ASRS IC

Mr. Clark Partridge moved to approve the minutes of the May 22, 2018 public IC meeting. Mr. Jim Hillyard seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Jim Hillyard – approved
Mr. Michael Lofton – excused

3. Approval of the June 22, 2018 Summary of Discussion by Non-Quorum ASRS IC Members, ASRS Staff, Presenters and Public

Mr. Partridge has a clarification to the Summary of Discussion that he will review with the Investment Committee Administrator.

4. Presentation, Discussion, and Appropriate Action Regarding Portfolio Positioning, House Views and General Discussion

Mr. Polen, Mr. Alaimo and Mr. Glass presented the portfolio positioning and house views. The following points were noted:

- Positioning is unchanged from recent prior reports with underweights in interest rates and equities. Overweight in “other” is the Bridgewater position which is in the process of reconsideration as a potential alpha overlay for equities.
- Equities in U.S. are at record values due to capital flows and lower confidence in international markets. International markets are more favorably priced but face strong currency headwinds.
- Interest rate sensitive continues to produce low returns in a rising rate environment which is expected to continue into the coming year. Cash returns have improved to over two percent and are an attractive alternative to longer tenure treasuries due to small premiums for term.
- The environment for private credit remains favorable as the market for credit and providers of credit adjust to the post-GFC regulatory regime.
- Real estate markets are exposed to risk of increasing cap rates in a rising rate environment and ASRS is highly selective in acquiring real estate.

5. Call to the Public *(formerly Agenda Item #12)*

Members of the Unite Here union spoke to the committee expressing their concern about working conditions and the progress of labor negotiations at the Doubletree Hotel in Chicago. They noted that this hotel is owned by the Related Companies which is an asset manager for ASRS. They requested that ASRS urge Related to promptly resolve the labor dispute giving due consideration to the concerns of the workers. ASRS took these comments under advisement and did not respond to them during the meeting.

6. Presentation, Discussion, and Appropriate Action Regarding Year End Review on Investment Performance *(formerly Agenda Item #5)*

Mr. Polen, Mr. Glass and Mr. Alaimo presented information on investment performance for the year ended June 30, 2018. Mr. Polen deferred discussion of total fund performance noting that Mr. Martin would be presenting that topic as part of the NEPC oversight report. The following items were noted in the report:

- Public equity performance underperformed the benchmark by 46 basis points (bp). As noted in prior meetings, the equity portfolio is being reconfigured to eliminate active management and increase the use of factor styles. This reconfiguration was completed during the period under review.
- Internally managed portfolios earned about 10bp of excess performance while factor portfolios have underperformed due to trends in very large technology stocks which are below market weight in the portfolio.
- Private equity outperformed the Russell 2000 benchmark by over 4% in the most recent year.
- Real estate outperformed its benchmark by 1% for the year. Separate accounts, which are the focus for future investment, outperformed by 2.5% for the year.
- Core fixed income outperformed the Bloomberg Aggregate by 12bp, while the much smaller high yield portfolio underperformed by 72bp. Private debt returns outperformed their benchmark by 3.3% while the opportunistic debt return of 6.1% fell short of its 8% absolute return target.

7. Presentation, Discussion, and Appropriate Action Regarding Strategic Asset Allocation Implementation (SAA) *(formerly Agenda Item #6)*

Ms. White updated the committee on progress in implementing the new SAA. The following items were noted:

- A check list was presented showing the status of numerous implementation steps. It is anticipated that implementation will be completed in time to meet normal reporting deadlines for the new quarter of the fiscal year.
- A timeline for implementation of the new back office systems was presented.
- Updates on new return calculation methodologies and quality control procedures were presented.

8. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight *(formerly Agenda Item #7)*

Mr. Martin presented the independent monitoring report from NEPC. His report included the following notable items:

- The twenty year return of 6.5% fell short of the then applicable actuarial target of 8%.
- More recent results of 9.4%, 7.8%, 8.9% and 7.4% for the one, three, five and ten year periods, respectively, all exceeded their benchmark by amounts ranging from 70 to 100 basis points.
- The attribution analysis shows positive contribution from both selection and allocation effects.
- Compared to other large pension funds, ASRS ranks in the top decile for all of the one, three, five and ten-year periods.
- No compliance issues were noted in portfolio construction or investment process.

9. Presentation, Discussion, and Appropriate Action Regarding Risk Management *(formerly Agenda Item #8)*

The MSCI risk monitoring system assesses the two standard deviation risk of the ASRS portfolio at 12.8% which is slightly lower than the risk of the SAA portfolio due to underweights in equities.

10. Presentation, Discussion, and Appropriate Action Regarding Compliance *(formerly Agenda Item #9)*

Ms. White presented the compliance report noting no compliance exceptions for the quarter.

11. Presentation, Discussion, and Appropriate Action Regarding the 2019 Investment Committee Meeting Calendar *(formerly Agenda Item #10)*

Mr. Partridge reviewed the proposed 2019 IC meeting schedule. He informed the IC that he would not be available on the proposed meeting date of Monday, March 18, 2019 and suggested the alternate date of Monday, March 25, 2019.

Motion: Mr. Partridge moved to approve the proposed 2019 Board IC Meeting Schedule as revised. Meetings are set to occur on the following dates:

- Monday, March 25, 2019 at 1:30 p.m.
- Monday, June 17, 2019 at 1:30 p.m.
- Monday, September 16, 2019 at 1:30 p.m.
- Monday, December 16, 2019 at 1:30 p.m.

Mr. Hillyard seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Jim Hillyard – approved
Mr. Michael Lofton – excused

12. Request for Future Agenda Items *(formerly Agenda Item #11)*

There were no requests for future agenda items.

13. The next ASRS Investment Committee Meeting is scheduled for Friday, December 14, 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, December 14, 2018 at 9:00 a.m.

14. Adjournment of the ASRS IC Meeting

Motion: Mr. Jim Hillyard moved to adjourn the meeting at 11:04 a.m. Mr. Clark Partridge seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Jim Hillyard – approved
Mr. Michael Lofton – excused

Respectfully submitted by:

Joyce Williams/Karl Polen
Investment Committee Administrator/Chief Investment Officer
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