MINUTES
PUBLIC MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, January 29, 2021
8:30 a.m.

The Arizona State Retirement System (ASRS) Board of Trustees met telephonically, with some attending in-person, in the 10th Floor Board Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. Clark Partridge, Acting Chair of the ASRS Board, called the meeting to order at 8:30 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present:  Mr. Clark Partridge, Acting Chair
          Mr. Rene Guillen (joined the meeting via teleconference at 8:39 a.m.)
          Ms. Diane Landis
          Mr. Michael Lofton (via teleconference)
          Mr. Tom Manos (via teleconference)
          Mr. Kevin McCarthy (via teleconference)
          Mr. Michael Miller (via teleconference)
          Ms. Ashley Ruiz (via teleconference)

One vacant position.

A quorum was present for the purpose of conducting business.

Ms. Joyce Williams, ASRS Board Administrator, provided all attendees with telephonic meeting guidelines.

Mr. Clark Partridge thanked the staff for all their work to hold the public meetings of the ASRS and welcomed the new trustees, Ms. Diane Landis and Ms. Ashley Ruiz.

2. Approval of the Minutes of the November 13, 2020 Public Meeting of the ASRS Board

Motion: Mr. Kevin McCarthy moved to approve the minutes of the November 13, 2020 Public Meeting of the ASRS Board. Mr. Tom Manos seconded the motion.

By a roll call vote of 7 in favor, 0 opposed, 0 abstentions, 1 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:
Mr. Clark Partridge – approved
Mr. Rene Guillen – excused *(Mr. Guillen joined the meeting at 8:39 a.m.)*
Ms. Diane Landis – approved
Mr. Michael Lofton – approved
Mr. Tom Manos – approved
Mr. Kevin McCarthy – approved
Mr. Michael Miller – approved
Ms. Ashley Ruiz – approved

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

Mr. Samer Ghaddar, Sr. Portfolio Manager of Equities, reviewed the CIO Report, beginning with house views on the current state of global markets. The financial markets experienced a significant correction at the beginning of the pandemic last year but recovered, with the S&P 500 reaching all-time highs. In the last week of January, the International Monetary Fund projected that this year's global economic growth would be around 5.5%. This extremely positive outlook is due to news of Covid-19 vaccinations and the outperformance of emerging markets, most notably China. US recovery is expected to be faster because the recession is shallower than expected. At the start of the pandemic, the US economy was projected to contract up to 8%, but the year finished down only 2.5%, showing extremely positive returns under the circumstances. Although the U.S. economy is expected to return to pre-pandemic levels by December of 2021, the European Union is not likely to return to pre-pandemic levels before the end of 2022.

Mr. Ghaddar reported that the fund's total asset value is $45.7 billion as of January 13, 2021.
- Fiscal year-to-date total fund returns through December 31, 2020 are approximately 13.8%, underperforming the benchmark by 2.3%.
- Total equity returns for the period ending September 30, 2020, of 8.06% underperformed the benchmark by 2.15%.
- For the period ending June 30, 2020, private equity returns are approximately 6.99%, with underperformance of 12.94%.
- Real estate returns for the period ending June 30, 2020, are -0.23%, with excess performance of 1.53%.
- Total credit returns for the period ending September 30, 2020, are 3.16%, underperforming the benchmark by 7.22%.
- Total Portfolio Value-At-Risk as of September 30, 2020, was 26.12%.

Mr. Paul Matson noted that as of the close of business on Wednesday, January 27, 2021, the estimated fiscal year-to-date return was approximately 14.8%. At the end of the last fiscal year, amid the pandemic, the rate of return was 0.8%, illustrating a marked improvement.

*Mr. Rene Guillen joined the meeting via teleconference at 8:39 a.m.*
4. Presentation, Discussion, and Appropriate Action Regarding the Results of the 2020 ADOA and ASRS Engagement Survey

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced the 2020 ADOA and ASRS Employee Engagement Survey results. The ASRS earned high scores on the 2019 Employee Engagement Survey. Despite the challenges presented by the pandemic, the Agency maintained, and in some cases, exceeded, the engagement score of 2019. Mr. Guarino then introduced Ms. Katie Daigneault, Strategic Planner and Survey Administrator, to provide the Board with more details about the 2020 results.

Ms. Daigneault began by describing how lower-than-expected results in the 2018 Employee Engagement Survey helped identify opportunities for improvement in several Agency areas: member services, the member advisory center and member outreach, and technology services. Areas of disengagement were identified, including communication, recognition, professional development and training, feedback, opportunities for advancement, and staffing levels. Within the Agency, business groups and Human Resources began a series of one-on-one meetings and focus groups. The collected data was analyzed and going out to the business teams with their management teams to develop and implement a series of action plans, resulting in considerably improved Survey scores in 2019. The challenge was to maintain those high scores in 2020.

In 2020, the ASRS had an engagement score of 86% with a 91% participation rate, while the statewide score was 73% overall. The engagement score of 86% translates to an engagement ratio score of 12.9:1; the statewide overall engagement score of 73% translates to a ratio of 4.1:1. The 2020 score exceeded the engagement score for 2019 of 84%.

Ms. Daigneault described some of the changes between 2019 and 2020, citing the work-from-home model that affected most ASRS staffers. Additionally, ADOA deployed a new survey platform, Qualtrics, which calculated an engagement percentage instead of the engagement ratio used in prior years. Group size limitations were also changed this year, from 7 to 5, allowing ASRS management to view and analyze employee engagement at many different levels while maintaining the confidentiality of responses.

The core ADOA survey consists of fourteen questions asked of all State of Arizona employees. The ASRS is allowed to add thirteen additional questions, engineered to target ASRS employee perceptions of ASRS leadership, communication, and the PRIDE values.

Mr. Guillen congratulated the ASRS for the 97% staff positive response to the statement, "My job is important to the mission of this agency." Mr. Guillen added that the way staff members outside the executive level connect with the Agency's mission and understand the importance of their roles within it is impressive. Mr. Clark Partridge thanked the management and staff of the ASRS, said of the legacy engagement ratios that he liked the move to using percentages. Mr. Partridge also noted that a high-performing organization has a ratio of 9:1 of Strongly Agree to the combination of Disagree/Strongly Disagree, so for the ASRS to move that ratio to almost 13:1 is remarkable particularly in light of the challenges faced in 2020.
5. Presentation, Discussion, and Appropriate Action Regarding Board Elections of Chair and Vice-chair

**Motion:** Mr. Kevin McCarthy moved to nominate Mr. Clark Partridge as the ASRS Board Chair. Mr. Michael Lofton seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

- Mr. Clark Partridge – approved
- Mr. Rene Guillen – approved
- Ms. Diane Landis – approved
- Mr. Michael Lofton – approved
- Mr. Tom Manos – approved
- Mr. Kevin McCarthy – approved
- Mr. Michael Miller – approved
- Ms. Ashley Ruiz – approved

**Motion:** Mr. Kevin McCarthy moved to nominate Mr. Rene Guillen as the ASRS Board Vice-chair. Mr. Tom Manos seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

- Mr. Clark Partridge – approved
- Mr. Rene Guillen – approved
- Ms. Diane Landis – approved
- Mr. Michael Lofton – approved
- Mr. Tom Manos – approved
- Mr. Kevin McCarthy – approved
- Mr. Michael Miller – approved
- Ms. Ashley Ruiz – approved

6. Presentation, Discussion and Appropriate Action Regarding Legislative Modifications to the Arizona State Governing Committee for Deferred Compensation Plans (Committee) and the ASRS Supplemental Deferred Compensation Plan(s), and Update on Pending non-ASRS Legislative Initiatives

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, presented the proposed legislative recommendation and benefits of consolidating the administration of the deferred compensation plans overseen by the Arizona (AZ) State Governing Committee for Deferred Compensation Plans (Committee) with the administration of the deferred compensation plans overseen by ASRS.

Ms. Thomas reviewed the benefits of consolidating the administration of the Committee plans with the administration of the ASRS plans. This consolidation would eliminate The Committee, simplify administration, clarify participant eligibility, and better ensure low management and administration costs. The legislative recommendation would also automatically enroll all ASRS employers in the deferred compensation plans overseen by ASRS as of July 1, 2022. Mr. Tom Manos asked that
if the employers are automatically enrolled, would the employees still have the choice of participating in their political subdivision's deferred compensation plan as well as the ASRS plans, or would those political subdivision plans also be eliminated. Ms. Thomas answered that there is no intent to change any of the current plans, and any particular employee’s participation would depend on their eligibility for one of the plans they would elect. Mr. Paul Matson added clarification, saying that an employee could participate in either plan or both plans. Mr. Matson explained further that there would likely be a common remitter to ensure that the aggregate of contributions doesn't surpass IRS regulations among the various plans.

**Motion:** Mr. Michael Lofton moved that the Board approve the 2021 Legislative Initiative relating to Supplemental Deferred Compensation plans related to both the Consolidation Initiative requested by the Arizona State Governing Committee for Deferred Compensation Plans and to the enrollment of ASRS member employers. Mr. Kevin McCarthy seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

- Mr. Clark Partridge – approved
- Mr. Rene Guillen – approved
- Ms. Diane Landis – approved
- Mr. Michael Lofton – approved
- Mr. Tom Manos – approved
- Mr. Kevin McCarthy – approved
- Mr. Michael Miller – approved
- Ms. Ashley Ruiz – approved

Mr. Partridge commented that he thought this consolidation would offer better opportunities for employees of political subdivisions in the state.

Ms. Thomas continued her presentation to the Board with an update of non-ASRS legislation. House Bill (HB) 2138, which relates to the Board of Regents seeking to make a change to Arizona Revised Statute (A.R.S.) §15-628 that would allow the universities to offer all employees, not just faculty and administrative officers, the option to choose between the ASRS and the Optional Retirement Plan. A significant concern with this change is that the remaining ASRS unfunded liability cost would be transferred to the smaller, remaining group of employers and employees without paying an Alternate Contribution Rate.

Staff recommends that the Board consider a motion for the Board to state a position relating to HB 2138 regarding university employees being able to not participate in the ASRS with no alternate contribution rate being paid and thereby transferring the unfunded liability onto other employees and employers. Staff also requests that the Board also consider a motion to allow staff to take a position as needed if this legislation moves forward.

Mr. Partridge asked for clarification about the impact to the ASRS and the Fund if HB 2138 passes. If only new employees elected to participate in the optional program, the unfunded liability is estimated to increase by approximately $14.3 million in one year (increasing in subsequent years). As currently written, even current employees who didn't previously have a choice would have a choice, resulting in a more considerable estimated unfunded liability increase of approximately $95 million in one year. Additionally, Mr. Partridge noted that no additional funds would be coming back into the Trust to compensate for their portion of the
unfunded liability. That diminishment would reduce the employment base, which helps provide ongoing stability for ASRS.

Mr. McCarthy asked for clarification about the recommendation. Ms. Thomas clarified that staff recommends the Board explicitly adopts the position to oppose HB 2138 as currently constituted and requested that staff is permitted to adjust this position as needed if there are amendments or changes to the bill's language. The Trustees agreed that the Board should clarify its opposition to this bill regardless of the bill's status and emphasize the detrimental impact that its passage would have on the other employers and employees of ASRS.

Additional discussions ensued in the following areas:

1. Although HB 2138 may not advance through the Legislature, the ASRS Board should consider stating clear opposition to its passage as currently constituted.
2. Although the Board rarely takes a formal position on bills, this bill can have a material adverse impact on the ASRS.
3. The ASRS should seek to be an active participant in promoting the needed language changes in HB 2138. The ASRS is among the primary stakeholders impacted by this legislation and is knowledgeable in providing information about that impact.
4. The Board’s position should be clearly stated, not just on this specific bill but on the impact this legislative change could have, even if it surfaces in another piece of legislation.
5. Regular updates and communication from Ms. Thomas to ensure that the ASRS correctly engages and communicate our position effectively with the Legislature.

**Motion:** Mr. Kevin McCarthy moved that the Board oppose HB 2138 relating to the university employees not participating in the ASRS with no alternate contribution rate being paid, therefore transferring the unfunded liability to other employees and employers, and empowering staff to work with appropriate parties to ensure that the Trust is adequately protected. Mr. Rene Guillen seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

- Mr. Clark Partridge – approved
- Mr. Rene Guillen – approved
- Ms. Diane Landis – approved
- Mr. Michael Lofton – approved
- Mr. Tom Manos – approved
- Mr. Kevin McCarthy – approved
- Mr. Michael Miller – approved
- Ms. Ashley Ruiz – approved

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

Mr. Paul Matson began his comments to the Board by thanking Mr. Jim Hillyard, former Board Chair, for his services to the ASRS from April 2017 to January 2021. Mr. Matson specifically recognized Mr. Hillyard's involvement in various committees and leadership positions during his tenure, and thanked Mr. Hillyard for his services to the ASRS and the State of Arizona. Mr.
Partridge also thanked Mr. Hillyard for his service on behalf of the Board, looking forward to working with him in other capacities in the future.

Mr. Matson welcomed the two new Trustees to the ASRS Board, Ms. Diane Landis and Ms. Ashley Ruiz.

Mr. Matson informed the Trustees that the ASRS would begin to employ Zoom as a visual virtual platform for Board meetings at a future date.

Mr. Matson continued with an update on the Request for Proposal (RFP) currently underway for a custody bank and related services. He described a custody bank's functions and the complex nature of the some of the services provided, as well as the procurement process employed to secure a suitable custody bank.

Mr. Matson informed the Board that he and Ms. Thomas will be virtually participating in a dialogue on upcoming legislation at the Retiree Coalition request on Tuesday, February 2, 2021, also giving a fiscal update on the ASRS.

Mr. Matson concluded his remarks, highlighting the cash flow information for the ASRS contained in the Board materials. For the five months of fiscal 2021 ending on November 30, 2020, aggregate contributions slightly increased from approximately $1.47 billion to $1.51 billion. Aggregate deductions also increased slightly from approximately $1.58 billion to $1.62 billion, illustrating that despite the pandemic, cash flows showed almost no change between fiscal years 2020 and 2021.

Mr. Partridge thanked Mr. Matson for his recent presentation to the Senate Finance Committee, noting that it was an outstanding representation of the workings of the ASRS and that his presentation received favorable comments.

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

   a. Operations, Audit and Legislative Committee (OALC)

      Mr. Clark Partridge informed the Board that many of the topics presented in this morning's Board meeting were discussed in the most recent OALC meeting, specifically the legislative update given by Ms. Thomas. Mr. Partridge announced that the next OALC meeting would be held on April 14, 2021.

   b. Investment Committee (IC)

      Mr. Michael Lofton announced that the next IC meeting is to be held on March 15, 2021.

   c. Board Appeals Committee (AC)

      Mr. Michael Miller announced the next Board AC meeting is scheduled to be held on February 9, 2021.
9. Board Requests for Future Agenda Items

No requests were made.

10. Call to the Public

No members of the public requested to speak.

11. Presentation, Discussion, and Appropriate Action Regarding the Board Governance Evaluations

a) Trustees' 2020 Self-Evaluation
b) Board 2020 Self-Evaluation
c) Key Issues of 2020
d) Focus areas for 2021

The Overall Board Evaluation document taken from the Board Governance Policy Handbook prompts the Trustees to consider the following statements while reviewing their performance:
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, evaluates 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.
18. The Board periodically monitors service to members.
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.
Mr. Partridge opened the discussion with the Board’s self-evaluation of themselves as trustees and the collective Board. They reviewed the critical issues of 2020. Some topics the Board would like to understand more fully include:
   a) The investment portfolio of the ASRS.
   b) Actuarial calculations.
   c) Understanding Trustees’ fiduciary responsibility of investment oversight.

Mr. Partridge concluded the discussion by noting that although there is always room for improvement, the ASRS Board performs well, an opinion borne out by the scores and comments received during the Board’s self-evaluation process. He thanked the Board for their time and talents in service to the State of Arizona and the ASRS Trust.

12. The next regular ASRS Board meeting is scheduled for Friday, March 26, 2021, at 8:30 a.m.

Mr. Clark Partridge noted the next Board meeting is scheduled for Friday, March 26, 2021, at 8:30 a.m.

13. Adjournment of the ASRS Board

Motion: Mr. Kevin McCarthy moved to adjourn the January 29, 2021, ASRS Board meeting at 9:58 a.m. Mr. Rene Guillen seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

   Mr. Clark Partridge – approved
   Mr. Rene Guillen – approved
   Ms. Diane Landis – approved
   Me. Michael Lofton – approved
   Mr. Tom Manos – approved
   Mr. Kevin McCarthy – approved
   Mr. Michael Miller – approved
   Ms. Ashley Ruiz – approved

Respectfully Submitted by:

Joyce Williams
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM