MINUTES
PUBLIC MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD

HELD
Friday, March 25, 2022
8:30 a.m.

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

Mr. René Guillen, Chair of the ASRS Board, called the meeting to order at 8:31 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. René Guillen, Chair
Ms. Diane Landis
Mr. Michael Lofton
Mr. Kevin McCarthy
Mr. Jim Mueller (via Teleconference)
Ms. Ashley Ruiz (via Teleconference)
Ms. Sarah Webber (via Teleconference)

Excused: Mr. Michael Miller

One vacant position.

A quorum was present for the purpose of conducting business.

Ms. Cassie Goodwin, ASRS Board Administrator, provided all attendees with telephonic meeting guidelines.

2. Approval of the Minutes of the January 21, 2022 Public Meeting and Executive Session of the ASRS Board

Motion: Ms. Diane Landis moved to approve the minutes of the January 21, 2022 Public Meeting and Executive Session of the ASRS Board. Ms. Sarah Webber 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. René Guillen – approved
Mr. Michael Miller – excused
Ms. Diane Landis - approved
Mr. Michael Lofton – approved
3. Presentation, Discussion, and Appropriate Action Regarding the ASRS Long-Term Disability Program Solicitation and Request for Proposal (RFP)

Ms. Athena Elliston, Deputy Chief Procurement Officer, provided background to the Board regarding the process, participants and decision of the Operations, Audit, and Legislative Committee (OALC) and Evaluation Committee’s recommendation on the ASRS Long-Term Disability Program Administrative Contract.

Ms. Elliston advised the contract cannot be awarded until after the Board of Trustees has approved the recommendation of the OALC and the Evaluation Committee. If approved at this meeting, the procurement team will inform the winning company directly after the meeting. Following the communication, the procurement file and award will be made available to the public within three days as the items will no longer be confidential. The confidential items include the evaluation committee’s recommendation and all information contained within the summary evaluation committee report that has been provided to the Board as a confidential document as Agenda Item 3b.

Ms. Elliston reviewed non-confidential details of the review committee, and the review schedule and shared where all evaluation details could be found within the confidential meeting materials. Ms. Elliston concluded with a request that the Board accepts the recommendation as outlined in the Evaluation Committee’s summary. Ms. Elliston offered to answer any questions the Board may have in the executive session, if necessary.

Mr. Guillen thanked Ms. Elliston and asked if there are any questions from the Trustees.

Ms. Sarah Webber confirmed the OALC met and reviewed the staff's recommendation and agreed to forward this to the Board. The Committee has no concerns with this decision.

Mr. Guillen, seeing no other requests to seek information from Ms. Elliston on this matter, asked for a motion to accept the Operations, Audit, and Legislative Committee and Evaluation Committee's recommendation on the ASRS Long-Term Disability Program Administration Contract.

**Motion:** Mr. Jim Mueller moved to approve the recommendation of the OALC and Evaluation Committee and accept the recommendation on the ASRS Long-Term Disability Program Administration Contract. Mr. Kevin McCarthy 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. René Guillen – approved
- Mr. Michael Miller – excused
- Ms. Diane Landis - approved
- Mr. Michael Lofton – approved
- Mr. Kevin McCarthy – approved
- Mr. Jim Mueller – approved
- Ms. Ashley Ruiz – approved
- Ms. Sarah Webber – approved
4. Presentation, Discussion, and Appropriate Action Regarding the ASRS 2022 Legislative Initiatives and Legislative Update

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, provided an update regarding the ASRS 2022 Legislative Agenda. Ms. Thomas reported that both of the initiatives on the ASRS 2022 Legislative Agenda have been passed in the House Government and Elections Committee and are now going to the House Rules Committee, which will be their final stop before any final floor vote passes.

Mr. Guillen asked Ms. Thomas to provide an update on the prefunding amendment to SB1082.

Ms. Thomas explained there was a senate amendment that added language regarding schools being allowed to enter into the lease-purchase agreements in order to generate funding that would be used to participate in the prefunding program and then a subsequent proposed amendment that would have removed the original amendment language.

Another amendment, as requested by ASRS and which added clarifying language to how much an employer can prepay and when the employer would have to start using that prepaid money was added and went through the House Government Committee. There is a potential additional requirement put in by the Senate regarding the tools used to report on their financial governance report. Both of those bills will be going through the House Rules hopefully next week.

Mr. Guillen thanked her for the update.

Ms. Thomas reported the ASRS has been monitoring the following bills which may impact the ASRS:

- Senate Bill 1145 related to the Optional Retirement Plan for Universities
- Senate Bill 1161 related to Pharmaceutical Distribution
- House Bill 2070 related to Public Meeting Space
- House Bill 2371 related to Cash and Money Orders
- House Bill 2412 related to Public Meeting Digital Recordings
- House Bill 2473 related to Firearms Contracts
- House Bill 2488 related to Forced Labor Contracts
- House Bill 2587 related to Public Records Point of Contact
- House Bill 2637 related to Divestment

Ms. Thomas indicated she will continue to monitor these bills and will report back to the Board of any issues and impact on the ASRS.

Mr. Guillen thanked Ms. Thomas for her work.

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

Mr. Matson introduced Mr. Michael Viteri, Chief Investment Officer.

Mr. Viteri addressed the Board, introducing the members of his staff and NEPC who will be presenting information on this Agenda Item.

Mr. Chris Levell, NEPC, stated the markets have changed as another quarter is coming to an end with a correction in the markets, noting much higher fears of inflation, war in Ukraine, and the Fed’s first
rate hike in some time. All of these events, Mr. Levell said, change the things NEPC looks at now compared to the report ending December 31, 2021.

Mr. Levell spent some time discussing the effects of inflation including the potential of up to seven rate hikes by the Fed this year, recession potential, supply change, demand, and others.

Mr. Guillen asked if there were any questions or comments.

Mr. Mueller asked what effect the current inflation numbers have on the outlook from this point.

In response to Mr. Mueller’s question, Mr. Levell provided the following:

- Since the Fed’s hike inflation has continued to be high but the expectation is that this is the start of a cool down.
- Interest rates have risen since the beginning of the year. On the last day of 2021 the 10-year Treasury was yielding approximately 1.5%; now it’s trading at approximately 2.5%; a one percent increase in interest rates.
- The bond market is a concern. When the equity markets sell off and interest rates are going up, that’s generally bad for the bond market.
- With housing, supply chain, and even concerns over food supply chains, all contribute to inflation being a factor for longer.
- NEPC thinks the longer-term inflation view is still heavily influenced by the inflationary impact of technology and also the aging of the US and other western countries, which tends to be deflationary.
- Those are long-term trends that we should reassess as we look over the whole 10-year cycle.

Mr. Mueller asked if the inflation figures are going to require the ASRS to re-visit the allocation models in terms of where the ASRS is investing in order to try to keep up with the inflation.

Mr. Levell stated that Mr. Matson will be discussing later in the meeting the ASRS is on cycle this year to do an asset-liability study, which is the right way to incorporate inflation concerns.

Mr. Guillen thanked Mr. Levell for his comments.

Mr. Viteri moved into the staff house views and introduced Mr. Samer Ghaddar, Deputy CIO, to present the Public Equity & Private Equity views to the Trustees.

Mr. Ghaddar participated via teleconference at the meeting and provided a report to the Board regarding Public Equity and Private Equity. He summarized Public Equity, Performance and Valuations and Private Equity, including market conditions and implications to the ASRS to include the following highlights:

- As of December 31, 2021, $21.9 billion was invested in the Public Equity asset class, representing 41.6% allocation within the Total Fund
- As of February 7, 2022, the ASRS is at equal weight to its benchmark index: MSCI ACWI IMI
- As of March 15, 2022, $5.68 billion was invested in the Private Equity asset class representing an 11.5% allocation within the Total Fund

Hearing no questions from the Trustees, Mr. Guillen thanked Mr. Ghaddar for his report.

Mr. Viteri introduced Mr. Al Alaimo, Deputy CIO, to present the Private Credit & Interest Rate Sensitive views to the Trustees.
Mr. Alaimo began with a brief summary of the Credit asset class by stating the ASRS has approximately $11-11.2 billion invested in the Credit asset class representing 22% allocation which is slightly over the 20.0% Strategic Asset Allocation target but within the allocation range. This asset class has historically seen a 9-10% rate of return with low volatility. Private Debt is approximately 70-75% of the ASRS’ allocation, which primarily consists of funding below investment rate loans and offers the most attractive opportunity in the fixed income markets with double-digit expected returns available for investors willing to accept illiquidity. Mr. Alaimo moved on to Distressed Debt and Other Credit with brief commentary before concluding his presentation with house views of the Interest Rate Sensitive asset class.

Mr. Alaimo explained that the Interest Rate Sensitive asset class is the U.S. investment-grade bond market. It is primarily AAA grade U.S. Treasury and AAA-rated Mortgage-backed securities and investment-grade corporate bonds. Its return is driven by the direction of interest rates. The ASRS is currently underweight in this asset class at 7% with a Strategic Asset Allocation target of 10%. Mr. Alaimo summarized the rationale of this asset class noting that ASRS maintains an investment in this asset class to use as a source of liquidity to meet the total fund’s needs and to serve as a counterbalance to potential sell-offs in risky assets such as equities. Mr. Alaimo provided some examples of times the ASRS has had to use this.

Mr. Guillen thanked Mr. Alaimo for his comments and, hearing no questions from the other Trustees, Mr. Viteri introduced Mr. Micheal Copeland, Private Markets Portfolio Manager, to present on Real Estate.

Mr. Copeland focused his comments on real estate and the ASRS demand-driven investment philosophy. Mr. Copeland also spoke on the ASRS approach to investing in separate accounts where ASRS is the only limited partner investor, with general partners who have integrated investment platforms for developing as well as buying existing assets.

Mr. Copeland indicated that 50% of the ASRS portfolio is for housing. This is due to a chronic shortage in individual housing supply in the U.S. of almost four million which continues to grow. The ASRS is investing in housing across multi-family; apartments, senior housing, as well as build-to-rent.

Mr. Copeland continued, stating the ASRS is also focused on industrial assets. He noted the situation in Ukraine and COVID has exacerbated retail supply chains and created new trends for supply chain issues, on-shoring, and manufacturing capabilities that are leading to potential demand for industrial assets. Mr. Copeland noted the office market is a little questionable as tenants are downsizing or just signing short-term extensions until they figure out what they’re going to do with work from home or hybrid situations in their workforce.

Mr. Guillen asked Mr. Copeland if ASRS sees, from a real estate and general market perspective, that when there is a conflict, such as war, does it have a direct impact?

Mr. Copeland responded, broadly speaking, that it does not have an outsized impact. Even before Ukraine, supply chain issues were prevalent. One of the reasons for this is retailers had a philosophy of “just in time” inventory to minimize keeping inventory on hand. Now with global backup in the ports, retailers are shifting to “just in case” so they are wanting more space to backup supplies on U.S. soil for consumers.

Hearing no other questions or comments, Mr. Guillen thanked Mr. Copeland.

Mr. Viteri introduced Mr. Allan Martin, NEPC (General Advisor to ASRS).
Mr. Martin expanded on Mr. Levell’s presentation, indicating a lot has happened since this report was generated at year-end. He opened by stating, that the ASRS results are extremely strong. Mr. Martin reviewed compliance with the seven ASRS Board goals, noting full or partial compliance in all cases. He continued with his review of the expected 20-year return, the total fund performance net of fees, ASRS performance compared to other pension plans in its peer group and asset class performance versus the benchmark. During his review, Mr. Martin noted the ASRS has achieved very strong return results while not relying solely on one or two asset classes to drive it. The Board has adopted a long-term asset allocation that is reflected in the Strategic Asset Allocation Policy. Mr. Martin noted all are within range and close to policy. In closing, Mr. Martin indicated the ASRS has adopted a governance process, which delegates to staff the ability to hire, and fire managers, which lets them be more “nimble” than many other public funds. This has been very successful in terms of the ASRS results. The positioning of the ASRS portfolio is consistent with the Investment Management Division House Views and strategic implementation plans.

Mr. Guillen asked for questions, and, hearing none, Mr. Viteri introduced Mr. Robert Butler.

Mr. Robert Butler, Investment Risk and Compliance Officer, presented the Investment Management Division (IMD) Risk & Compliance Report of the total portfolio holdings as of December 31, 2021. He spoke to the ASRS Risk Philosophy and offered to answer any questions regarding this before moving on to the risk reports; there were none.

Mr. Butler reviewed the current volatility contribution of the major asset classes, the historical volatility contribution of the major asset classes, hypothetical stress test scenarios, and the public market exposure risk report.

Mr. Butler moved on to the compliance reporting stating the ASRS utilizes Bloomberg’s Trade Order Management System (OMS) for executing and processing trades to manage the portfolio internally. The OMS platform has built-in pre-trade compliance rules capabilities to ensure trades will not surpass the established portfolio guidelines. Mr. Butler stated that during this reporting period, the ASRS had no exceptions in the pre-trade reporting. Mr. Butler further explained the additional layers of compliance for countries currently designated as State Sponsors of Terrorism, indicating Bloomberg’s system is designed to flag these countries and restrict trading within their system.

Mr. Butler provided a brief recap of the investment compliance report results as follows:
- BNY Mellon, ASRS Custody Bank – passed all investment parameters and requirements
- RCLCO, ASRS real estate consultants – completed 21 compliance reviews for 2020, found a few immaterial inconsistencies to management fee and NAV calculations which were resolved satisfactorily
- Meketa Investment Group (examines the ASRS private investments outside of real estate) – completed 3 compliance reviews for 2020 with another 36 funds to review - no materials issues

Mr. Butler asked if there were any questions of the Trustees. There were none.

Mr. Guillen thanked Mr. Butler for his reports and summaries.

Mr. Viteri provided the ASRS total performance summary report as of February 28, 2022. The current total fund market value is $50.6 billion. Mr. Viteri added, that the 1-, 3-, 5-, and 10-year numbers are above the 7% actuarial assumption rate, which is reflective of good performance. Mr. Viteri concluded and turned over the presentation to Mr. Matson to discuss the current asset liability study overview.

Mr. Matson opened the discussion by advising the purpose of this topic is to update the Trustees on the asset-liability study. Staff is currently working with NEPC on the study. The next step will be to present it to the Investment Committee and then to the Board. Mr. Matson explained this is a
Governance item that requires Board approval and is reviewed every three to five years. The purpose of the study is to look at the structure of the portfolio in the current environment, take a long-term, not a short-term, perspective on investments and determine whether or not the overall structure should change.

Mr. Matson recapped the ASRS’ current allocation at the highest level, which is 50% equities, 20% real estate, 20% private credit, and 10% interest rate sensitive. This will be reviewed with NEPC to determine if any changes to the allocations should be considered. He further stated the study will be reviewed on a strategic level; with long-term allocations within broad ranges. It will not impact the tactical decision-making staff makes.

(Mr. McCarthy stepped out of the meeting at 9:52 a.m.)

Ms. Landis asked what Mr. Matson considers long-term.

In response to Ms. Landis’ question, Mr. Matson provided the following: for a rate of return perspective, 10 to 20 years; in actuarial terms - 20-30 years; when using capital market expectations - roughly 10-year expectations.

Mr. Lofton asked if there will be any Investment Committee meetings before the May Board meeting.

Mr. Matson advised the goal will be to have a minimum of one, possibly two Ad Hoc Investment Committee meetings to focus on this asset-liability study and then a final presentation to the Investment Committee.

Mr. Guillen mentioned a question during his Senate confirmation regarding who “watches” over the Board to make sure there are fail-safes that the ASRS implements to make sure the strategic asset allocation makes sense, the benchmarks are being met, and understanding the risk management aspects of the portfolio. Mr. Guillen wanted to share this information so the ASRS can ensure they include this information in presentations with the Legislature and stakeholders and know these questions are being asked.

(Mr. McCarthy returned to the meeting at 9:56 a.m.)
(Mr. Lofton left the meeting at 9:57 a.m.)

Mr. Guillen requested a ten-minute break before beginning the next agenda item.

The public session recessed at 9:58 a.m.

The Board reconvened the Public session at 10:12 a.m.

After a roll call for a quorum of the Board, it is noted that Mr. Michael Lofton is present and Ms. Ashley Ruiz is absent.

Mr. Guillen requested we proceed with the meeting and check back to see if Ms. Ruiz has rejoined the meeting.

6. Presentation Discussion and Appropriate Action Regarding the 2021 Update on the 3-Year Strategic Communications Plan.

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced Ms. Pamela Foust, Strategic Communications Manager.
Ms. Foust advised this presentation is a review of the 2021 deliverables of the 2021-23 Strategic Communications Plan. In November 2019 the 3-Year Strategic Communications Plan was presented to the Board. The Plan’s implementation was pushed back for one year while the ASRS Communications team pivoted to manage the unique communications needs presented in 2020. The Strategic Communications Plan began its official implementation in January 2021. Her report shared the objectives, deliverables, and next steps for Strategic Communications.

Mr. Guillen commented on the appeal of using a persona-specific approach and praised Ms. Foust’s team for forward-thinking. He thanked them for providing information on retirement readiness to members.

Ms. Landis also thanked Ms. Foust for their work on this project. Ms. Landis received positive feedback from a member on a birthday message received from ASRS.

Ms. Webber received the Horizon communication and emails. She very much appreciated them and finds them helpful to explain information ASRS is engaged in and focused on members.

Mr. Guillen suggested the new Member Guide be added to the Resource Library in Diligent for the Trustees to access.

Ms. Foust concluded by stating the Strategic Communications Team is looking ahead and will be migrating to a new website with a modern look and feel, giving greater interactivity and reorganizing the website to align with the persona-based approach. They will continue to focus on supporting Employers in educating their staff about the ASRS and better promoting ASRS membership for recruiting and retention.

Mr. McCarthy said this is crucial information for members and is powerful with great value and benefits to their career by explaining why the ASRS is so important to their retirement.

7. Presentation Discussion and Appropriate Action Regarding the Director’s View of the Operational, Investment, and Fiscal Status of the ASRS

Mr. Matson opened, stating this topic was presented in 2018 and intended to be presented about every two years but due to the COVID shutdown and then new Trustees transitioning in, it was delayed. The purpose of this presentation is to provide the Director’s perception of how he feels the agency is doing in both absolute and relative terms, and where effort should be focused. Mr. Matson explained that the ASRS pension can be seen as four lines of business – Pension, Health Insurance, Long-Term Disability, and Defined Contribution Plans. Mr. Matson then provided detailed information about each of those groups.

Mr. Matson added there are six categories in the strategic plan but he has broken the categories into nine categories for this presentation as follows: governance, operational risk management, financial, investment management, actuarial, information security, operational cost effectiveness, customer service, and operational sustainability. Each category will contain an absolute performance level and a relative performance level. Mr. Matson proceeded to review the nine categories outlined and their perceived performance levels, and also discussed the data that opinions that lead to the rankings.

Mr. Matson continued his review of the nine categories outlined and their performance levels, noting that any category highlighted in yellow, such as the Operational Risk Management, is an area of enhanced focus by the Executive Management Team.
8. **Presentation Discussion and Appropriate Action Regarding Notice of Upcoming Board Elections**

Mr. Guillen announced the upcoming election at the next Board meeting and asked Mr. Matson if he could provide some information. Mr. Matson explained the election of Chair and Vice-Chair, per Board Governance Policy, is done each fiscal year. Elections will be held at the May 27th meeting, and the elected Trustees will begin their term on July 1, 2022.

9. **Presentation Discussion and Appropriate Action Regarding the Director’s Report as well as Current Events**

Mr. Matson had nothing to add as his comments were covered during Agenda Item #7.

10. **Call to the Public**

No one from the public requested to address the Board.

11. **The next regular public ASRS Board meeting is scheduled for Friday, May 27, 2022, at 8:30 a.m.**

Mr. Guillen announced the next public ASRS Board meeting is scheduled to begin at 8:30 a.m. on Friday, May 27, 2022.

12. **Board Requests for Future Agenda Items**

No requests were made.

13. **Presentation Discussion and Appropriate Action Regarding the 2021 Review and Employment Agreement of the Director of the ASRS**

**Motion:** Mr. Kevin McCarthy moved to go into executive session to discuss the 2021 review and employment agreement of the Director of the ASRS. Ms. Diane Landis seconded the motion.

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

- Mr. René Guillen – approved
- Mr. Michael Miller – excused
- Ms. Diane Landis - approved
- Mr. Michael Lofton – approved
- Mr. Kevin McCarthy – approved
- Mr. Jim Mueller – approved
- Ms. Ashley Ruiz – excused
- Ms. Sarah Webber – approved

The Board convened to Executive Session at 11:27 a.m.
The Board reconvened to Public Session at 11:56 a.m.

Ms. Goodwin called the roll; there was quorum present with Mr. Miller and Ms. Ruiz excused.

**Motion:** Mr. Michael Lofton moved to accept the Amended Employment Agreement of the ASRS Director Paul Matson dated March 25, 2022. The Amended Employment Agreement extends ASRS Director Paul Matson’s employment through June 30, 2023. Mr. Kevin McCarthy seconded the motion.

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

- Mr. René Guillen – approved
- Mr. Michael Miller – excused
- Ms. Diane Landis - approved
- Mr. Michael Lofton – approved
- Mr. Kevin McCarthy – approved
- Mr. Jim Mueller – approved
- Ms. Ashley Ruiz – excused
- Ms. Sarah Webber – approved

**14. Adjournment of the ASRS Board**

Mr. René Guillen adjourned the March 25, 2022, ASRS Board meeting at 11:57 a.m.

Respectfully Submitted by:

Cassie Goodwin
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM