

How ASRS employees deliver service with

PRIDE

PROFESSIONALISM

"We promote, strive for and expect individuals, teams, and divisions to possess professional qualities and skills to lead the organization"

- Friendly, respectful and courteous
- Proactive and responsive
- Good communicator / active listener
- Trusted contributor / teammate
- Personally accountable
- Subject matter expert
- Critical thinker
- Honest, fair, non-judgmental
- Adaptable to change
- Adheres to the Code of Conduct

RESULTS

"We treasure the achievements of individuals, teams, divisions and the agency that energize the organization"

- Completes projects
- Attains individual accomplishments
- Meets goals and objectives
- Satisfies customers
- Produces quality work products
- Manages risks successfully

IMPROVEMENT

"We appreciate individuals, teams or divisions who drive the agency forward with new, innovative ideas and solutions"

- Promotes new ideas
- Enhances morale
- Enhances outcomes and performance
- Improves relationships
- Solves problems
- Increases efficiency, effectiveness or reduces costs

DIVERSITY

"We recognize that utilizing different talents, strengths and points of view, strengthens the agency and helps propel outcomes greater than the sum of individual contributor"

- Encourages the free flow of ideas and opinions
- Treats all people with dignity and respect
- Works effectively with dissimilar individuals
- Recognizes and promotes new skills in others

EXCELLENCE

"We celebrate individuals, teams and divisions who exceed expectations and deliver service with a PRIDE that permeates the organization"

- Surpasses expectations
- Engenders a positive public image
- Celebrates /rewards accomplishments and contributions of others
- Embraces change in a manner which inspires others
- Promotes teamwork /collaboration through communication
- Accepts personal responsibility and challenges with enthusiasm

AGENDA

**NOTICE OF COMBINED PUBLIC MEETING AND POSSIBLE EXECUTIVE SESSION OF
THE ARIZONA STATE RETIREMENT SYSTEM BOARD**

July 31, 2020
8:30 a.m.

Pursuant to A.R.S. § 38-431.02(F), notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Board and to the general public that the ASRS Board will hold a **telephonic** meeting open to the public on Friday, July 31, 2020, beginning at 8:30 a.m. In light of the Arizona Department of Health Services' recommendation to cancel or postpone mass gatherings of 10 or more people, and to help prevent community spread of COVID-19, the meeting will be audience free. **Trustees of the Board and the public may attend by telephone conference call at 877-820-7831, using Participant Passcode: 857127#.**

The Chair may take public comment during any agenda item.

Pursuant to A.R.S. § 38-431.03(A)(3), the ASRS Board of Trustees may vote to go into executive session, which will not be open to the public, for the purpose of obtaining legal advice on any item on the Agenda.

The following agenda topics are proposed action items: 2, 3

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks.....Mr. Jim Hillyard
Chair

2. Approval of the Minutes of the May 29, 2020 Public Meeting of the ASRS Board (*estimated time: 1 minute*).....Mr. Jim Hillyard

Proposed Action Item: The Board may decide whether to amend and approve the minutes, approve the minutes as written, or not approve the minutes at this time.

3. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics, including:

- a. The ASRS Appropriated and Continuously Appropriated Budget and Spending Plans for Fiscal Year (FY) 2021.
- b. The ASRS Appropriated and Continuously Appropriated Budget Request and Spending Plans for FY 2022.

(*estimated time: 20 minutes*) Mr. Clark Partridge
Chair, Operations, Audit, & Legislative Committee

..... Mr. Paul Matson
Director
..... Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
..... Ms. Martha Rozen
Chief of Administrative Services
..... Mr. Christopher Gustafson
Budget and Procurement Manager
..... Ms. M. Harrison
Budget Manager, Administrative Services Division
..... Ms. Kerry White
Assistant Chief Investment Officer

Proposed Action Item: The Board may consider staff's recommendation; provide an alternate motion, or make no motion.

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS Investment Program Update
 - a. ASRS Fund Positioning
 - b. IMD Investment House Views
 - c. IMD Projects, and Asset Class Committee (ACC) Activities
(estimated time: 20 minutes) Mr. Paul Matson
..... Mr. Karl Polen
Chief Investment Officer

5. Update on the Operational, Investment, and Program Statuses of the ASRS as a result of the Current Pandemic Situation (estimated time: 30 minutes)..... Mr. Paul Matson

6. Presentation, Discussion, and Appropriate Action Regarding Appointment of Board Committee Officers and Membership (estimated time: 10 minutes)..... Mr. Jim Hillyard

7. Presentation, and Discussion Regarding Fiduciary Education (estimated time: 30 minutes).....
..... Ms. Cassie Adams
Assistant Attorney General

8. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events
 - a. 2020 Operations Report
 - b. 2020 Budget and Staffing Reports
 - c. 2020 Cash Flow Statements
 - d. 2020 Appeals Report
 - e. 2020 Employers Reporting
(estimated time: 5 minutes) Mr. Paul Matson
..... Mr. Anthony Guarino



9. Presentation and Discussion Regarding Informational Updates from Prior and Upcoming Committee Meetings (*estimated time: 15 minutes*)
 - a. Operations, Audit and Legislative Committee (OALC)Mr. Clark Partridge, Chair
..... Mr. Anthony Guarino
The next OALC Meeting will be held on October 14, 2020.
 - b. Investment Committee (IC) Mr. Michael Lofton, Chair
..... Mr. Karl Polen
The next IC Meeting is scheduled for September 21, 2020.
 - c. Appeals Committee (AC).....Mr. Michael Miller, Chair
..... Mr. Anthony Guarino
The next AC Meeting is scheduled for October 13, 2020.
10. Board Requests for Future Agenda Items (*estimated time: 1 minute*)..... Mr. Jim Hillyard
11. Call to the Public..... Mr. Jim Hillyard

Those wishing to address the ASRS Board will be requested to do so telephonically. Trustees of the Board are prohibited by A.R.S. § 38-431.01(H) from discussing or taking legal action on matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the Board may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

12. The next regular public ASRS Board meeting is scheduled for Friday, September 25, 2020, at 8:30 a.m.

13. Adjournment of the ASRS Board.

A copy of the agenda background material provided to Board Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona and 4400 East Broadway Boulevard, Suite 200, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website (<https://www.azasrs.gov/content/board-and-committee-meetings>) approximately 48 hours prior to the meeting.

Persons with disabilities may request alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson, or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated July 24, 2020

ARIZONA STATE RETIREMENT SYSTEM

Signed Copy on File
Joyce Williams
Board Administrator

Signed Copy on File
Paul Matson
Director



Agenda Item #2



ARIZONA STATE RETIREMENT SYSTEM

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AZASRS.GOV

*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, May 29, 2020
8:30 a.m.

The Arizona State Retirement System (ASRS) Board of Trustees met telephonically.

Mr. Jim Hillyard, Chair of the ASRS Board, called the meeting to order at 8:34 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jim Hillyard, Chair
Mr. Clark Partridge, Vice-chair
Mr. Michael Lofton
Mr. Kevin McCarthy
Mr. Michael Miller

Excused: Mr. Rene Guillen
Mr. Tom Manos

Two vacant positions.

A quorum was present for the purpose of conducting business.

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

2. Approval of the Minutes of the March 27, 2020 Public Meeting and Executive Session of the ASRS Board

Motion: Mr. Kevin McCarthy moved to approve the minutes of the March 27, 2020 Public Meeting and Executive Session of the ASRS Board. Mr. Clark Partridge seconded the motion.

By a roll call vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 0 vacancies, the motion was approved. The Trustee votes were as follows:

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

3. Approval of the Minutes of the April 20, 2020 Ad hoc Public Meeting and Executive Session of the ASRS Board

Motion: Mr. Michael Miller requested the correction of a typographical error in the Executive Session Minutes of the April 20, Ad hoc ASRS Board meeting. The error was in the fourth bullet point on page 1. With that change, Mr. Miller moved to approve the minutes of the April 20, 2020 Ad hoc Public Meeting and Executive Session of the ASRS Board. Mr. Michael Lofton seconded the motion.

By a roll call vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 0 vacancies, the motion was approved. The Trustee votes were as follows:

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

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS 2020 Legislative Initiatives and Legislative Update

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, provided an update regarding the ASRS 2020 legislative agenda. Ms. Thomas reported that the Legislature has adjourned sine die as of May 26, 2020, and none of the four ASRS initiatives completed the legislative process. One bill of interest to the ASRS, the prefunding program being pursued by the State Treasurer's office, which allows employers to place funds in a trust account with the Treasurer's office in order to make future payments to the state retirement systems, passed and is awaiting the Governor's signature. Also of interest to the ASRS was a bill about defining banking services, which was signed by the governor and has an effective date of August 25, 2020.

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

Mr. Karl Polen, Chief Investment Officer, reported that total fund year-to-date returns through March 25, 2020 are approximately -2%, and assets are at approximately \$40 billion.

The final results for periods ended March 31, 2020 are summarized as follows:

- Total fund returns of -1.1% underperformed the benchmark by 200 bp.
- Compared to the public fund universe, the ASRS ranked in the top decile for all time periods reported.
- The one-year equity portfolio returns of -9.1% were 3.2% lower than the benchmark. This is largely as result of private equity returns which, although a respectable 11.9% for the year, trailed a public benchmark of nearly 27%. Private equity results are reported on a quarter lagged basis, meaning the results presented are for the period ended December 31, 2019.
- Similarly, credit portfolios are compared on a quarter lagged basis to a public benchmark, which was surging through periods ended December 31, 2019. One-year credit returns of 9.3% lagged the benchmark by 2%.
- The real estate portfolio earned 5.2% for the one-year period outperforming its benchmark by .7%
- The interest rate sensitive portfolio earned 9.1% for the one-year period outperforming its benchmark by .2%.

Mr. Polen also gave an in depth review of current equity market dynamics with analysis of trends in earnings and valuation metrics.

6. Presentation, Discussion, and Appropriate Action Regarding the Operational, Investment, and Program Statuses of the ASRS as a result of the Current Pandemic Situation

Mr. Paul Matson, Director, gave an update to the Board of the operational, investment, and program statuses of the ASRS.

- Operational status: The ASRS, as an essential service, recognized early on that the office could operate remotely in a substantially functional manner. Communications with members has been effective, and for the most part, members are supportive of the agency's safety and protective measures and actions.
- Mr. Matson reviewed a timeline of the ASRS' response to COVID and discussed building management and call center topics.
- Average pre-pandemic daily building occupancy for 3300 N. Central Ave was approximately 700 people. Average post-pandemic occupancy has been approximately 70. Most ASRS staff are teleworking 100%, with approximately 15% in the office on an average day.
 - CBRE has responded exceptionally well to health and safety issues by enhancing the filtering capacity of the HVAC system, utilizing enhanced cleaning materials in the offices, completing floor cleanings, pre-ordering products, and overall communications.
- Investment status: In order to protect portfolio returns in light of anticipated stock market and capital market volatility, the IMD has continued to manage three main goals, in order:
 - Portfolio Liquidity: Ensuring ample liquidity is maintained
 - Opportunities: Enabling portfolio managers are able to take advantage of opportunistic investments that arise, and
 - Rebalancing: Managing deviations away from the Strategic Asset Allocation, while rebalancing towards the Strategic Asset Allocation when prudent. The goal is to rebalancing in a way to minimize downside risk and maximize upside potential is ongoing.
- The fiscal year to date rate of return from June 30, 2019 until today is approximately 2%, with portfolio value hovering right around \$39.5b. Mr. Matson reviewed four key things that will impact future returns: the potential of a rebound, current valuations, current levels of interest rates, and gross domestic product growth prospects. Markets have been very volatile, but 7.5% may still be a reasonable long-term rate of return figure.
- Assuming a zero percent rate of return for the current fiscal year, the actuarial rate of return for the period ending June 30, 2020 is estimated to be approximately 7.3% which is below the statutorily required 8.0% required for an increase to the Permanent Benefit Increase (PBI) pool. As such, the PBI fund is not expected to be increased this fiscal year.
- Communications status: Mr. Matson summarized three levels of ASRS communications during this pandemic.
 - Staff: Staff received periodic updates, initially in the form of a weekly email, which transitioned to a bi-weekly online 'Dialogue with the Director'. There has been positive feedback from staff about the frequency and content of communications within the ASRS.
 - Membership: Communication with the members has focused on one core message: Of the many things that members have to worry about right now, members do not need to worry about their payments or services from the ASRS. Service levels and

- cash flows have not and will not be interrupted. There has been positive feedback from the members in response to this message.
- Employers: Employers receive a copy of the information we disseminate to members. While appreciative, employers seemed to be less in need of messaging from the ASRS.
 - Mr. Matson spoke with the Arizona Retirement Security Coalition on May 26, and was able to correct misconceptions about the ASRS and ASRS pensions.
 - Mr. Matson highlighted four main points regarding the return to a physical work environment for the ASRS.
 - Staff return will be gradual.
 - Staff return will be done in phases.
 - Management will allow and encourage individual self-assessment when considering returning to physical office space.
 - Staff return will be highly flexible. The work of the ASRS can be completed perpetually, if required, by a mostly remote workforce. The ASRS has many comparative advantages throughout the organization, and we will continue to use those advantages to enhance returns, provide services, and to keep our staff, our retirees, and our community safe.
 - Legislation. Although the Legislature has adjourned sine die, it is expected that there will be a special session in the latter part of the summer. Mr. Matson has directed Ms. Thomas to focus on one bill regarding the self-insurance of the ASRS health insurance programs, which is part of an effort to reduce health insurance premiums for our retirees.

Mr. Hillyard commended Mr. Matson and Mr. Polen for sharing their outlooks regarding the effects of the pandemic, and commended the ASRS on its response to the pandemic and ability to continue to serve members and employers while also working to minimize the spread of the virus.

7. Presentation, Discussion, and Appropriate Action Regarding Board Elections of Chair and Vice Chair

Motion: Mr. Kevin McCarthy moved to nominate Mr. Jim Hillyard as the ASRS Board Chair. Mr. Clark Partridge seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 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 – excused
Mr. Michael Lofton – approved
Mr. Tom Manos – excused
Mr. Kevin McCarthy – approved
Mr. Michael Miller – approved

Motion: Mr. Michael Miller moved to nominate Mr. Clark Partridge as the ASRS Board Vice-chair. Mr. Kevin McCarthy seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 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 – excused
Mr. Michael Lofton – approved

Mr. Tom Manos – excused
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 for the Trustees.

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 is to be held on July 8, 2020.

b. Investment Committee (IC)

Mr. Michael Lofton indicated that he would like to state for the record how impressed he has been with the decision-making skills of ASRS leadership and the Investment Management Division, which resulted in minimizing investment losses during the volatility created by the COVID-19 pandemic.

Mr. Lofton announced the next IC meeting is to be held on June 15, 2020.

c. Appeals Committee (AC)

Mr. Mike Miller noted the cancellation of the previously scheduled June 9, 2020 AC meeting and announced the next AC meeting is to be held on August 11, 2020.

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. Adjournment of the ASRS Board

Motion: Mr. Clark Partridge moved to adjourn the ASRS Board meeting. Mr. Kevin McCarthy seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 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 – excused
Mr. Michael Lofton – approved

Mr. Tom Manos – excused
Mr. Kevin McCarthy – approved
Mr. Michael Miller – approved

Mr. Jim Hillyard adjourned the May 29, 2020 public meeting of the Board at 9:55 a.m.

Respectfully Submitted by:

Joyce Williams
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM

DRAFT

Agenda Item #3

MEMORANDUM

TO: Mr. Jim Hillyard, Chair, Arizona State Retirement System (ASRS) Board

FROM: ASRS Operations, Audit and Legislative Committee (OALC)
Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Martha Rozen, Chief of Administrative Services
Mr. Chris Gustafson, Budget and Procurement Program Manager
Ms. Kerry White, Assistant Chief Investment Officer
Ms. M Harrison, Budget Manager

DATE: July 16, 2020

RE: **Agenda Item #3:** Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including:

- a. The ASRS Appropriated, Continuously Appropriated and Investment Spending Plans for Fiscal Year (FY) 2021.
- b. The ASRS Appropriated, Continuously Appropriated and Investment Budget Request and Spending Plans for FY 2022.

Purpose

To review the ASRS appropriated and continuously appropriated budgets and the ASRS administrative and investment spending plans for fiscal years (FY) 2021 and 2022.

Recommendation

Action item: In order to ensure compliance with open meeting law, staff will provide its recommendation during the presentation.

Background

Attached to this memorandum are materials previously presented to the OALC by ASRS staff.

MEMORANDUM

TO: Mr. Clark Partridge, Chair, Arizona State Retirement System (ASRS) Operations, Audit and Legislative Committee (OALC)

FROM: Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Martha N. Rozen, Chief of Administrative Services
Mr. Chris Gustafson, Procurement and Budget Program Manager
Ms. M. Harrison, Budget Manager
Ms. Kerry White, Assistant Chief Investment Officer

DATE: June 26, 2020

RE: **Agenda Item #5:** Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including:

- a. The ASRS Appropriated and Continuously Appropriated Spending Plans for Fiscal Year (FY) 2021.
- b. The ASRS Appropriated and Continuously Appropriated Budget Request and Spending Plans for FY 2022.

Purpose

To review the ASRS appropriated and continuously appropriated budgets and the ASRS administrative and investment spending plans for fiscal years (FY) 2021 and 2022.

Recommendation

For agenda item 5.b, staff recommends that the OALC accept and forward to the ASRS Board of Trustees the following:

- 1) An appropriated budget request for FY 2022 in the amount of \$24,969,000, with an understanding there may ultimately be changes to the total appropriated budget amount due to legislative and executive recommendations.
- 2) The proposed administrative spending plan of \$30,596,300 and continuously appropriated investment spending plan of \$103,925,900 for FY 2022 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid.

ASRS Budget Process

The ASRS vision includes being a leader in the area of operational effectiveness, and our values describe the culture we believe is necessary to achieve that vision. Through a formalized budget process, and in partnership with the executive and legislative branches, the ASRS historically has been able to develop and implement fiscally responsible spending plans that are flexible and support key agency strategic objectives and priorities as well as reflect a commitment to achieving efficiencies through maximizing resources and constraining costs.

Both the vision and the values serve as guideposts to the ASRS Strategic Plan, which establishes priorities, goals, and key performance indicators (KPIs) in support of overall purpose and mission. In accordance with Strategic Priority #4 – Optimize Operational Effectiveness, during the last three fiscal years the ASRS looked for targeted reductions to achieve budget and staffing goals.

As a result of strategic planning, the agency will exceed a Key Performance Indicator (KPI) by June 30, 2020 to reduce its base administrative expenses by 3%, while staying within its risk tolerance for overall spending. Overall spending includes special projects and one-time expenditures such as external consulting services for specialized Requests For Proposals; external consulting services associated with strengthening our Data Security posture and systems, the Oracle Modernization Technology project and other technology development projects and upgrades.

Appropriation Category	Base Administrative Budget Actual and Projected Spend Dollars in Thousands			Total Administrative Budget Projected Spend Dollars in Thousands		
	FY 2017	FY 2020	% Change	FY 2019	FY 2020	% Change
PS/ERE	\$ 17,938.5	\$ 17,898.7	-0.2%	\$ 19,209.2	\$ 19,076.0	-0.7%
P & O Services	6,078.4	4,185.8	-31.1%	5,356.7	5,481.2	2.3%
Travel	56.7	40.0	-29.5%	52.5	40.0	-23.8%
OOE	4,226.7	4,751.0	12.4%	4,723.3	4,838.6	2.4%
Equipment	221.6	312.0	40.8%	164.7	312.0	89.4%
Total	\$ 28,521.9	\$ 27,187.5	-4.68%	\$ 29,506.4	\$ 29,747.8	0.82%

KPI - Percent reduction in base administrative expenses from July 1, 2017 to June 30, 2020 (excluding special line item expenditures)

Standard and Risk Tolerance = -3.0%

KPI - Total annual administrative expense variance (including special line item expenditures for service/security enhancements and anticipated cost reductions)

Standard = -1.5% Risk Tolerance = +3.0%

The ASRS is focused on continuing to manage budgets and implement strategies designed to improve operational effectiveness and/or make the ASRS more cost effective (Goal #7) – with an objective of remaining relatively flat in base administrative expenditures over the next several fiscal years.

Information technology provides the framework for the ASRS business model. As the landscape continues to change and gain sophistication, IT organization, skills, processes, and tools, particularly as they relate to security levels and risk mitigation, need to continue to progress to effectively support and align business and service requirements.

The ASRS FY 2021 and FY 2022 administrative spending plans support system and technology modernizations and re-engineering of processes, with the goal of avoiding future costs associated with more costly transactions and processes.

FY 2021 Spending Plans

FY 2021 Administrative Spending Plan

In FY 2021, the ASRS will continue to invest in information technology applications development and enhancements. The following projects are currently in progress and have been reviewed previously by the OALC and the ASRS Board of Trustees:

- Technology Services Improvements project – to achieve operational efficiency as well as to position the agency for a successful migration to the cloud by implementing continuous integration continuous deployment (CI/CD) or DevOps methodology, setting up the required infrastructure and environment.
- Automation Upgrades or Oracle Forms and Reports Modernization project – to achieve a standards-based set of technologies by re-engineering business process to increase productivity, reduce costs, mitigate risks, and improve member service. FY 2021 represents the final year of this project.
- Manual Disbursements and Large projects – to provide enhancements to processes and systems related to pension payroll and disbursements to improve security, service, and performance.
In FY 2021, a dedicated project team will complete the Manual Disbursements project, which will create a systematic preventative review workflow for the manual change process of payment amounts and payment methods to mitigate the risk of fraudulent information. Then, work will commence on projects such as automating complex forfeitures and auditing LTD service.
- Information Protection and Security (IPS) project – to increase the security of Personally Identifiable Information (PII) and create a more robust data logging system and stronger monitoring tools for internal applications. This will reduce access and exposure to PII during the course of performing business functions, as well as improve the ASRS's privacy and security posture.
- Payroll Calculation project - to update and re-engineer the pension payroll calculation coding to achieve efficiency in producing timely and accurate payments.

See Attachments A and B for a summary and associated detail of the ASRS administrative spending plan for FY 2021.

FY 2021 Investment Spending Plan

The ASRS FY 2021 investment spending plan includes expenditures for the following in order to meet investment objectives:

Internal investment management

- ASRS Investment Management Division (IMD) staff base salaries and employer-paid expenses (benefits and payroll taxes), travel, education and training, rent, and other operational costs.

External investment management

- Public Markets
 - Investment management fees. The majority of quarterly investment management fees are calculated based on the market value of the investments, using the assumption of a 7.5% annual rate of return less estimated net cash flows of 2.5%. Accordingly, the fees are directly correlated with both investment performance as well as net cash flows.
 - Transactional and other fees include foreign taxes and commissions on derivatives and other incidental costs.
- Private Markets - Private and Opportunistic Equity, Real Estate, Farmland, Infrastructure, and Private and Opportunistic Debt
 - Investment management fees. These fees are calculated based on the percentage of committed capital to the program. These fees are correlated to capital commitments in the program and are calculated on a cash basis.
 - Performance incentive and other fees include performance incentives and carried interest, which are only paid if earned - upon successful performance of the manager after other return criteria are met – or incurred, and other contractually agreed-upon fees and expenses. Due to the nature of the investments and contingent variables, estimated annual performance incentive and other fees are not projected and are only reported, on a cash basis, when

identified and paid.

Consulting fees

- Investment-related consulting and legal fees, electronic information services and subscriptions, custodial banking administrative fees, and external auditing service fees.

See Attachment C for a summary and associated detail of the ASRS investment spending plan.

FY 2022 Appropriated Budget Request and Spending Plans

FY 2022 Administrative Spending Plan and Budget Request

In FY 2022, the ASRS will continue to work on the technology projects already identified: Information Protection and Security, Payroll Calculation, and other pension and disbursements enhancements.

However, in FY 2022 the ASRS must also complete a required migration to the cloud, upgrade an essential system, and implement a critical technology solution to further safeguard data. The costs associated with these responsibilities necessitates a budget request for an increase in base operating appropriations totaling \$775,000 above the FY 2021 appropriations.

Cloud Migration

In 2019, the Arizona Department of Administration (ADOA) Strategic Enterprise Technology Office (ASET) implemented a Cloud First policy. This initiative requires the use of cloud technologies for infrastructure, platforms, and software. In FY 2022, the ASRS will migrate its infrastructure for data, systems, servers, and processes from its current physical data center to a cloud environment.

- One-Time Cloud Migration - transitioning to the cloud will require **\$225,000** for external consulting resources to successfully manage and complete the migration.

In addition to deployment costs, the database services, network connectivity, storage, backup and other utility management costs will be an ongoing expense to the ASRS.

	Request Details	
	FY 2022 Budget Request	FY 2023 (anticipated costs)
One-Time Cloud Migration	\$ 225,000	\$ -
Ongoing Cloud Costs	\$ 300,000	\$ 730,000
FileNet Upgrade	\$ 150,000	\$ -
Data Subsetting	\$ 100,000	\$ 25,000
Increase Request	\$ 775,000	\$ 755,000
FY 2021 Base Operating Appropriations	\$ 22,394,000	
FY 2022 Base Operating Appropriations Request	\$ 23,169,000	
Long Term Disability Appropriations	\$ 1,800,000	
Total FY 2022 Request	\$ 24,969,000	

- Ongoing Cloud Costs - cloud services will require **\$300,000** in FY 2022. This amount represents costs associated with an incremental presence in the cloud and a partial year of service as operations are migrated. Once fully transitioned to the cloud in FY 2023, the estimated costs will be \$730,000 annually.

Technology Solutions

- FileNet Upgrade - FileNet is a document management system used to manage records and to streamline and automate business processes by enabling the creation of workflows. The current version of the platform is no longer supported. The ASRS will require **\$150,000** for external resources to successfully configure and implement an upgrade necessary to eliminate any disruption in service.
- Data Subsetting - a software product compatible with core applications to allow teams to utilize only the relevant section of the ASRS's database rather the full system will enable the ASRS to work on improvements without affecting the entire database or creating business disruption; it will also further enhance data security. The initial purchase requires **\$100,000** but subsequent year licensing renewals will be approximately \$25,000.

Because the cost of the FY 2022 increase request is comparable to the estimated ongoing costs of cloud services, the ASRS will request, in its formal budget submission to the Office of the Governor, that the **\$775,000** be considered as a permanent increase in appropriated dollars. Beginning in FY 2023, the ASRS will evaluate the actual experienced costs under the Cloud First policy and determine whether a future request for a decrease in base operating appropriations would be judicious.

See Attachment D for a summary of the ASRS FY 2022 appropriated budget request, Attachment E for the FY 2022 administrative spending plan and Attachment F for the FY 2022 Budget Request Detail.

FY 2022 Investment Spending Plan

The ASRS FY 2022 investment spending plan includes the following:

- Continuously appropriated funding for the ASRS investment management program. Expenditures include investment management, consulting, legal, custodial banking, and external financial services fees; data subscriptions and analytics services; and FTE salaries and benefits, as well as travel, education, and other operational costs.

See Attachment C for a summary and associated detail of the ASRS investment spending plan.

Attachments

Agenda Item 5.a

- A: FY 2021 ASRS Administrative Spending Plan
- B: Administrative Projects Detail
- C: ASRS Investment Spending Plan

Agenda Item 5.b

- D: FY 2022 Appropriated Budget Request
- E: FY 2022 ASRS Administrative Spending Plan
- F: FY 2022 Budget Request Detail
- C: ASRS Investment Spending Plan

**FY 2021
ASRS Administrative Spending Plan**

	Base Administrative Budget				Administrative Projects Budget					Administrative Budget Total
	Base Operating Appropriations	Long Term Disability Appropriations	Pension Payroll, Rent, and Actuarial Fees Continuous Appropriations*	Base Administrative Budget Subtotal	Technology Services Improvements Projected Unspent of Base Appropriations	Automation Upgrades and Oracle Modernization Special Line Item Appropriations	Projected Manual Disbursements & Large Projects Continuous Appropriations	Projected IPS PIJ Continuous Appropriations	Projected Payroll Calculation PIJ Continuous Appropriations	
Personal Services (PS) and Employee Related Expenses (ERE)										
Salaries and wages, employer costs for benefits, taxes, and ADOA Charges	17,510,500	-	1,253,200	18,763,700	19,000	588,200	154,200	83,000	72,000	19,680,100
Variable Compensation Strategies Plan payments to employees	278,000	-	-	278,000	-	-	-	-	-	278,000
Investment Incentive Compensation Plan payments to investment management employees	313,200	-	-	313,200	-	-	-	-	-	313,200
Total PS and ERE	18,101,700	-	1,253,200	19,354,900	19,000	588,200	154,200	83,000	72,000	20,271,300
Professional and Outside Services (P&O)										
LTD Program administrative costs for claim processing	-	1,500,000	-	1,500,000	-	-	-	-	-	1,500,000
Pension payroll disbursement processing	-	-	45,500	45,500	-	-	-	-	-	45,500
IT development support and business applications	597,200	-	551,800	1,149,000	-	625,000	102,200	233,300	144,400	2,253,900
Actuarial and benefit consulting services	-	-	450,500	450,500	-	-	-	-	-	450,500
IT security professional services and consulting	-	-	188,000	188,000	-	-	-	-	-	188,000
Legal fees for external counsel, attorney general charges/staff, administrative hearing costs	525,100	-	-	525,100	-	-	-	-	-	525,100
Other outside services	16,000	-	35,000	51,000	-	-	-	-	-	51,000
Total P&O	1,138,300	1,500,000	1,270,800	3,909,100	-	625,000	102,200	233,300	144,400	5,014,000
Travel										
In-state travel for member and employer outreach	30,000	-	-	30,000	-	-	-	-	-	30,000
Out-of-state travel to pension industry and educational conferences	49,000	-	-	49,000	-	-	-	-	-	49,000
Total Travel	79,000	-	-	79,000	-	-	-	-	-	79,000
Other Operating Expenditures (OOE)										
Office rent	-	-	1,589,000	1,589,000	-	-	-	-	-	1,589,000
Software licenses and support	1,712,600	-	-	1,712,600	-	-	-	-	-	1,712,600
Telecommunications	360,000	-	-	360,000	-	-	-	-	-	360,000
ADOA Risk Management insurance premiums	149,300	-	133,000	282,300	-	-	-	-	-	282,300
Newsletter printing and mailing	141,600	-	-	141,600	-	-	-	-	-	141,600
Professional dues, subscriptions, and publications	159,900	-	172,000	331,900	-	-	-	-	-	331,900
Postage and delivery	86,000	-	78,000	164,000	-	-	-	-	-	164,000
Education, training and conferences; employee tuition assistance	67,000	-	-	67,000	-	-	-	-	-	67,000
Equipment repair and maintenance	63,300	-	-	63,300	-	-	-	-	-	63,300
Other operating supplies and expenditures	88,000	-	-	88,000	-	-	-	-	-	88,000
Total OOE	2,827,700	-	1,972,000	4,799,700	-	-	-	-	-	4,799,700
Equipment										
Agency furniture purchases/replacement	20,000	-	-	20,000	-	-	-	-	-	20,000
Network, server, PC and related devices replacement and additions	208,300	-	-	208,300	-	-	-	80,000	-	288,300
Total Equipment	228,300	-	-	228,300	-	-	-	80,000	-	308,300
TOTAL	\$ 22,375,000	\$ 1,500,000	\$ 4,496,000	\$ 28,371,000	\$ 19,000	\$ 1,213,200	\$ 256,400	\$ 396,300	\$ 216,400	\$ 30,472,300
APPROPRIATED/BUDGETED AMOUNTS	22,394,000	1,800,000	4,496,000	28,690,000	Projected Unspent	1,213,200	256,400	396,300	216,400	30,772,300
FY 2021 PROJECTED SPEND	22,375,000	1,500,000	4,496,000	28,371,000	19,000	1,213,200	256,400	396,300	216,400	30,472,300
FY 2021 PROJECTED UNSPENT/REVERSION	19,000	300,000	-	319,000	(19,000)	-	-	-	-	300,000

*Arizona Revised Statute § 38-721(C) lists specific expenditures that are continuously appropriated in the amount deemed necessary by the Board, including rent, actuarial consulting fees, and costs associated with administering retiree pension benefits and disbursements

Administrative Projects Detail

FY 2014 to FY 2021											
Automation Upgrades and Oracle Modernization Project Special Line Item Appropriations (Non-Lapsing) (PIJ RT13001: Oracle Forms and Reports Modernization)											
Objective: Evolve legacy technologies to newer open standards-based technologies and re-engineer business processes to increase productivity, reduce costs, mitigate risks, protect and secure information, improve member satisfaction and improve service turnaround time to members.	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Project Totals
APPROPRIATED LINE ITEM BUDGET	1,390,000	4,484,500	2,270,000	2,070,000	-	-	-	-	-	-	10,214,500
ACTUAL AND ESTIMATED SPEND	1,117,400	1,736,200	909,100	1,041,100	1,364,200	1,470,200	1,208,100	1,213,200	-	-	10,059,500

FY 2020 to FY 2021								
Technology Services Improvements Project Base Operating Appropriations (Projected Unspent)								
Objective: To achieve operational efficiency as well as to position the agency for a successful migration to the cloud by implementing continuous integration continuous deployment (CICD) or DevOps methodology, setting up the required infrastructure and environment, and migrating some ASRS data center components to the ADOA Shared Hosted Data Center.				FY 2020	FY 2021	FY 2022	FY 2023	Project Totals
FUNDING PROJECTION				221,500	19,000	-	-	240,500
ESTIMATED SPEND				221,500	19,000	-	-	240,500

FY 2020 to FY 2024								
Manual Disbursements and Large Projects Continuous Appropriations								
Objective: Address technology projects related to pension payroll, disbursements, and security. Projects will be identified by ASRS Management as need arises.				FY 2020	FY 2021	FY 2022	FY 2023	Project Totals
FUNDING PROJECTION				370,100	256,400	390,900	-	1,017,400
ESTIMATED SPEND				370,100	256,400	390,900	-	1,017,400

FY 2020 to FY 2023								
Information Protection and Security Project Continuous Appropriations (PIJ RT19002: Information Protection and Security)								
Objective: Increase the security of Personally Identifiable Information (PII) and create a more robust data logging system for internal applications.				FY 2020	FY 2021	FY 2022	FY 2023	Project Totals
PIJ FUNDING PROJECTION				484,200	765,600	758,600	758,600	2,767,000
ESTIMATED SPEND				104,100	396,300	636,200	1,630,400	2,767,000

FY 2021 to FY 2024						
Payroll Calculation Project Continuous Appropriations (PIJ in process)						
Objective: Update and re-engineer the pension payroll calculation coding to achieve efficiency in producing timely and accurate payments.			FY 2021	FY 2022	FY 2023	Project Totals
PIJ FUNDING PROJECTION			216,400	650,800	435,100	1,302,300
ESTIMATED SPEND			216,400	650,800	435,100	1,302,300

ASRS Investment Spending Plan

	FY 2021 PROJECTION	FY 2022 PROJECTION
Investment Management Expenses*		
Internal Investment Management		
Salaries and benefits	\$ 1,600,700	\$ 1,560,400
Investment Incentive Compensation Plan (ICP) ¹	\$ 313,200	\$ 340,600
Travel, education and training, rent, and other operational expenses	\$ 120,200	\$ 112,200
Public Markets		
External investment management fees	\$ 3,660,700	\$ 3,389,500
Transactional and other fees	\$ 3,500,000	\$ 3,500,000
Private Markets²		
Private Equity management fees	\$ 43,700,000	\$ 46,100,000
Real Estate management fees	\$ 13,900,000	\$ 14,000,000
Private Credit management fees	\$ 16,555,800	\$ 14,315,800
Custodial Banking, Security Lending and Master Cash STIF Fees	\$ 4,530,500	\$ 4,530,500
Investment Management Expenses Subtotal	\$ 87,881,100	\$ 87,849,000
Investment Related Consulting, Legal and Information Services Expenses*		
Investment Consulting Services	\$ 8,156,700	\$ 8,164,800
Investment Related Legal Services	\$ 4,410,000	\$ 4,410,000
Investment Electronic Information Services	\$ 3,227,500	\$ 3,382,100
External Financial Consulting Services	\$ 120,000	\$ 120,000
Services Expenses Subtotal	\$ 15,914,200	\$ 16,076,900
Total Continuously Appropriated Investment Expenses	\$ 103,795,300	\$ 103,925,900

¹ The ICP is paid with base operating budget appropriated dollars.

² Due to the nature of the investments and contingent variables, estimated annual performance incentive and other certain fees and expenses that are contractually agreed upon are not projected and are only reported, on a cash basis, when identified and paid. The ASRS has paid approximately \$71,435,700 in performance incentive and other fees in FY 2020.

*Arizona Revised Statute § 38-721(C) specific expenditures are continuously appropriated in the amount necessary to meet the Board's investment objectives , including investment management and related consulting fees

FY 2022 Appropriated Budget Request

	FY 2020 Appropriations	FY 2021 Appropriations	Request FY 2022 Appropriations
Appropriated FTEs	240.9	240.9	240.9
Personal Services & Employee Related Expenditures	\$ 18,346,900	\$ 18,346,900	\$ 18,346,900
Professional and Outside Services	\$ 1,255,400	\$ 1,255,400	\$ 1,630,400
Travel - In State	\$ 30,000	\$ 30,000	\$ 30,000
Travel - Out of State	\$ 49,000	\$ 49,000	\$ 49,000
Other Operating Expenditures	\$ 2,323,200	\$ 2,323,200	\$ 2,723,200
Equipment	\$ 389,500	\$ 389,500	\$ 389,500
Base Operating Budget Subtotal	\$ 22,394,000	\$ 22,394,000	\$ 23,169,000
Long Term Disability Program Administration (LTD)	\$ 1,800,000	\$ 1,800,000	\$ 1,800,000
Total Appropriated Operating Budget	\$ 24,194,000	\$ 24,194,000	\$ 24,969,000
Total Appropriated Budget	\$ 24,194,000	\$ 24,194,000	\$ 24,969,000

<u>Changes to Appropriations</u>
FY 2022 - Statewide Adjustments* (increase in retirement, IT pro rata, and health insurance employer costs)
FY 2022 - Cloud Migration Implementation and Maintenance Request
Subtotals

FY 2021	
Change relative to FY 2020 Total Appropriated Budget	
\$ -	0.0%
\$ -	0.0%
\$ -	0.0%

FY 2022	
Change relative to FY 2021 Total Appropriated Budget	
\$ -	0.0%
\$ 775,000	3.2%
\$ 775,000	3.2%

*-Statewide adjustments have not been released as of the publication of these documents.

FY 2022
ASRS Administrative Spending Plan

	Base Administrative Budget			Base Administrative Budget Subtotal	Administrative Projects Budget			Administrative Budget Total
	Base Operating Appropriations	Long Term Disability Appropriations	Pension Payroll, Rent, and Actuarial Fees Continuous Appropriations*		Projected Large Projects Continuous Appropriations	Projected IPS PIJ Continuous Appropriations	Projected Payroll Calculation PIJ Continuous Appropriations	
Personal Services (PS) and Employee Related Expenses (ERE)								
Salaries and wages, employer costs for benefits, taxes, and ADOA Charges	17,790,300	-	951,800	18,742,100	237,400	165,900	217,500	19,362,900
Variable Compensation Strategies Plan payments to employees	282,200	-	-	282,200	-	-	-	282,200
Investment Incentive Compensation Plan payments to investment management employees	340,600	-	-	340,600	-	-	-	340,600
Total PS and ERE	18,413,100	-	951,800	19,364,900	237,400	165,900	217,500	19,985,700
Professional and Outside Services (P&O)								
LTD Program administrative costs for claim processing	-	1,600,000	-	1,600,000	-	-	-	1,600,000
Pension payroll disbursement processing	-	-	45,500	45,500	-	-	-	45,500
IT development support and business applications	704,600	-	471,600	1,176,200	153,500	470,300	433,300	2,233,300
Actuarial and benefit consulting services	-	-	450,500	450,500	-	-	-	450,500
IT security professional services and consulting	-	-	188,000	188,000	-	-	-	188,000
Legal fees for external counsel, attorney general charges/staff, administrative hearing costs	265,000	-	-	265,000	-	-	-	265,000
Other outside services	16,000	-	35,000	51,000	-	-	-	51,000
Total P&O	985,600	1,600,000	1,190,600	3,776,200	153,500	470,300	433,300	4,833,300
Travel								
In-state travel for member and employer outreach	30,000	-	-	30,000	-	-	-	30,000
Out-of-state travel to pension industry and educational conferences	49,000	-	-	49,000	-	-	-	49,000
Total Travel	79,000	-	-	79,000	-	-	-	79,000
Other Operating Expenditures (OOE)								
Office rent	-	-	1,624,000	1,624,000	-	-	-	1,624,000
Software licenses and support	2,062,700	-	-	2,062,700	-	-	-	2,062,700
Telecommunications	468,000	-	-	468,000	-	-	-	468,000
ADOA Risk Management insurance premiums	149,300	-	133,000	282,300	-	-	-	282,300
Newsletter printing and mailing	141,600	-	-	141,600	-	-	-	141,600
Professional dues, subscriptions, and publications	259,900	-	172,000	431,900	-	-	-	431,900
Postage and delivery	86,000	-	78,000	164,000	-	-	-	164,000
Education, training and conferences; employee tuition assistance	67,000	-	-	67,000	-	-	-	67,000
Equipment repair and maintenance	63,300	-	-	63,300	-	-	-	63,300
Other operating supplies and expenditures	93,500	-	-	93,500	-	-	-	93,500
Total OOE	3,391,300	-	2,007,000	5,398,300	-	-	-	5,398,300
Equipment								
Agency furniture purchases/replacement	50,000	-	-	50,000	-	-	-	50,000
Network, server, PC and related devices replacement and additions	250,000	-	-	250,000	-	-	-	250,000
Total Equipment	300,000	-	-	300,000	-	-	-	300,000
TOTAL	\$ 23,169,000	\$ 1,600,000	\$ 4,149,400	\$ 28,918,400	\$ 390,900	\$ 636,200	\$ 650,800	\$ 30,596,300
APPROPRIATED/BUDGETED AMOUNTS	23,169,000	1,800,000	4,149,400	29,118,400	390,900	636,200	650,800	30,796,300
FY 2021 PROJECTED SPEND	23,169,000	1,600,000	4,149,400	28,918,400	390,900	636,200	650,800	30,596,300
FY 2021 PROJECTED UNSPENT/REVERSION	-	200,000	-	200,000	-	-	-	200,000

FY 2022

Appropriated Budget Request Detail

	Base Operating Appropriations	+	FY 22 One-Time Costs Cloud Migration	+	FY 22 Cloud Migration Ongoing Costs	+	FY22 FileNet Upgrade	+	FY 22 Data Subsetting	=	Base Operating with Request
<u>Personal Services (PS) and Employee Related Expenses (ERE)</u>											
Salaries and wages, employer costs for benefits, taxes, and ADOA Charges	17,790,300										17,790,300
Variable Compensation Strategies Plan payments to employees	282,200										282,200
Investment Incentive Compensation Plan payments to investment management employees	340,600										340,600
Total PS and ERE	18,413,100		-		-		-		-		18,413,100
<u>Professional and Outside Services (P&O)</u>											
LTD Program administrative costs for claim processing	-										-
Pension payroll disbursement processing	-										-
IT development support and business applications	329,600		225,000				150,000				704,600
Actuarial and benefit consulting services	-										-
IT security professional services and consulting	-										-
Legal fees for external counsel, attorney general charges/staff, administrative hearing costs	265,000										265,000
Other outside services	16,000										16,000
Total P&O	610,600		225,000		-		150,000		-		985,600
<u>Travel</u>											
In-state travel for member and employer outreach	30,000										30,000
Out-of-state travel to pension industry and educational conferences	49,000										49,000
Total Travel	79,000		-		-		-		-		79,000
<u>Other Operating Expenditures (OOE)</u>											
Office rent	-										-
Software licenses and support	1,762,700			300,000							2,062,700
Telecommunications	468,000										468,000
ADOA Risk Management insurance premiums	149,300										149,300
Newsletter printing and mailing	141,600										141,600
Professional dues, subscriptions, and publications	159,900							100,000			259,900
Postage and delivery	86,000										86,000
Education, training and conferences; employee tuition assistance	67,000										67,000
Equipment repair and maintenance	63,300										63,300
Other operating supplies and expenditures	93,500										93,500
Total OOE	2,991,300		-		300,000		-		100,000		3,391,300
<u>Equipment</u>											
Agency furniture purchases/replacement	50,000										50,000
Network, server, PC and related devices replacement and additions	250,000										250,000
Total Equipment	300,000		-		-		-		-		300,000
TOTAL	\$ 22,394,000		\$ 225,000		\$ 300,000		\$ 150,000		\$ 100,000		\$ 23,169,000

Agenda Item #4

CIO Board Report

Arizona State Retirement System

July 31, 2020

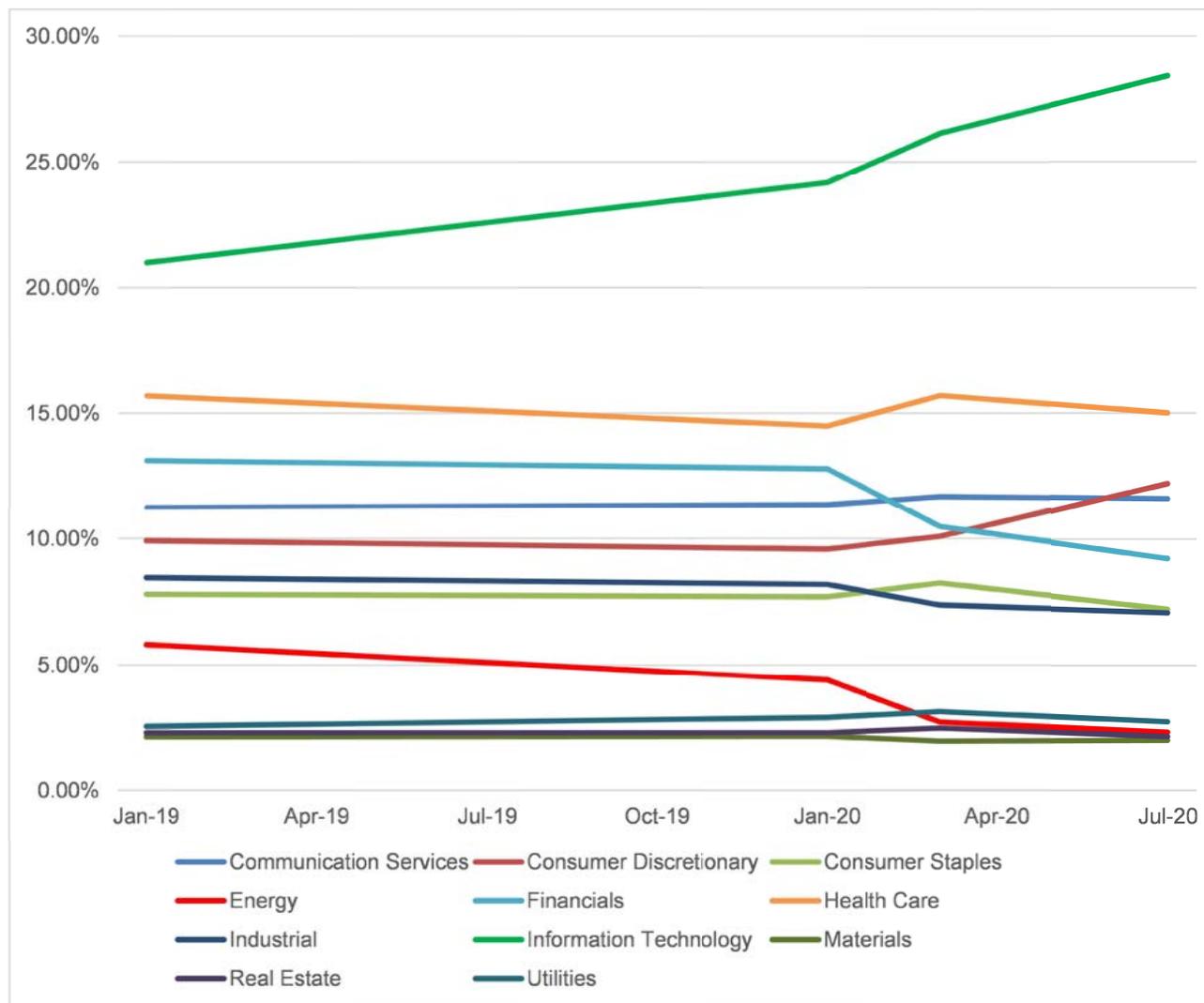
Fiscal Year to Date

Total Fund Positioning on 7/20/2020

Total Fund Positioning

	NAV w/ Notional (\$ mm)	NAV Exposure (%)	Target (%)	Active Weight (%)	Active Weight (\$ mm)
Cash	470.1	1.1	0.0	1.1	470.1
Bonds	3807.8	9.2	10.4	-1.2	-483.6
Credit	8500.1	20.6	20.0	0.6	247.4
Equity	21684.6	52.6	52.3	0.3	103.8
Real Estate	6800.4	16.5	17.3	-0.8	-338.1
Other	0.4	0.0	0.0	0.0	0.4
Total Fund	41263.4	100.0	100.0	0.0	0.0

S&P 500 Sector Weights



Implementation Plan Process

- As part of the Strategic Asset Allocation Plan annual implementation plans are created which focus IMD efforts based on current market context and most recent research.
- Each asset class will have an implementation plan approved by the asset class committee.
- Implementation plans will be reviewed and updated annually or more frequently at the request of the asset class committee.
- The CIO and Investment Consultant will report annually to the investment committee on the implementation plans and their expected returns.

Implementation Plan Contents

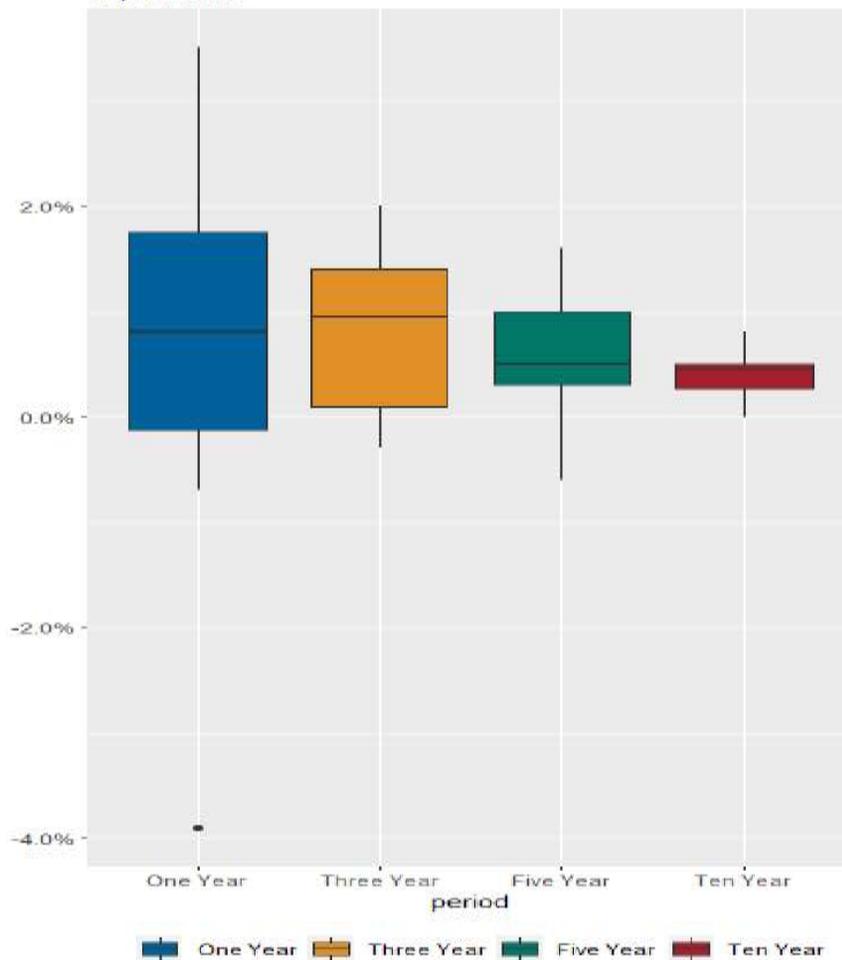
- Each implementation plan will include:
 - The near term strategy for the assets including goals ensuring portfolios are well diversified and expected performance from the strategies relative to the benchmark.
 - A review of the prior year plan and whether the outperformance goals were achieved.
 - Any sub-allocations or benchmarks for internal performance measurement (but not modifying the overall SAA benchmarks).
 - Means of compliance with the SAA including liquidity and leverage constraints.
 - Structures for implementing the plan including separate accounts, commingled funds, ETFs, etc.

Implementation Plan Levers

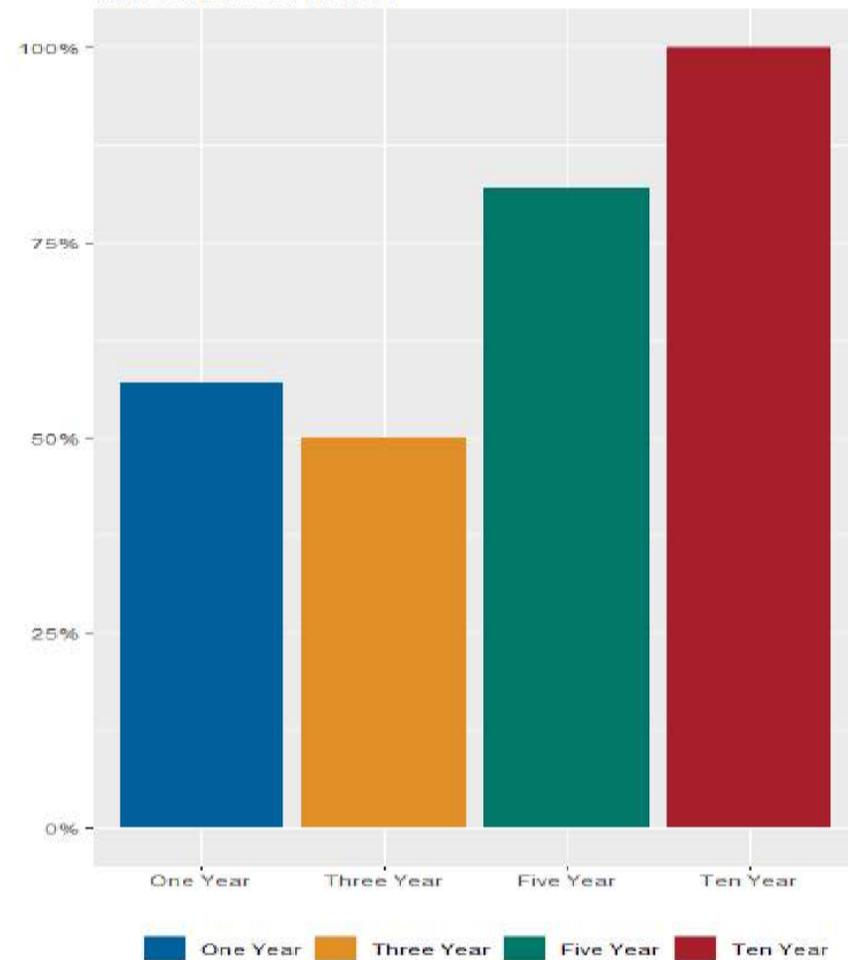
Asset Class	Equities	Credit	Interest Rate Sensitive	Real Estate	Total Fund
Levers	<ul style="list-style-type: none"> • Public Equity Allocation • Internal Enhanced Passive Portfolios • External Passive Portfolios • Sec Lending • Private Equity 	<ul style="list-style-type: none"> • Private Debt • Distressed Debt • High Yield • Separate Account 	<ul style="list-style-type: none"> • US Treasuries & Agencies • Agency Mortgage-Backed Securities • Corporate Bonds • Commercial Mortgage-Backed Securities • Asset Backed Securities 	<ul style="list-style-type: none"> • Property Type • Life Cycle • Operating Companies • Debt • Preferred Equity • Real Assets • Funds 	
Expected Excess Return	92 bps	150 bps	10 bps	150 bps	100 bps
Tracking Error	210 bps	350 bps	12.5 bps	270 bps	200 bps
Target Weight	50%	20%	10%	20%	100%

Peer Returns

Required Excess Return for Top Quartile



Probability of Top Quartile Rankings with 1% Excess Return



Quarterly Performance

External Reports

State Street Performance Summary for the period ended 6/30/2020

ARIZONA STATE RETIREMENT SYSTEM
 Investment Management Division
 Jun-30-2020
 Net Returns
 Final

ASRS Performance Summary

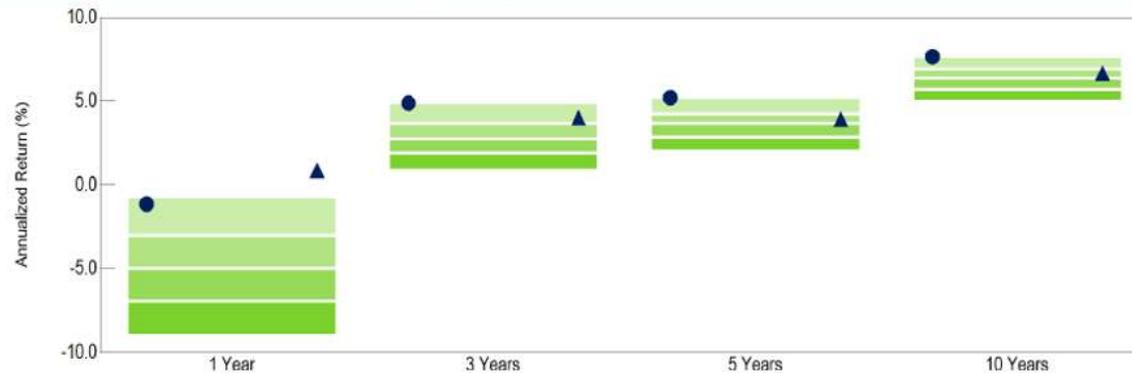


	Benchmark	Market Value (\$mil.)	1 Mth	3 Mth	FYTD	1 Year	3 Year	5 Year	ITD	Inception Date
TOTAL PLAN	INTERIM SAA POLICY	40,493	1.43	5.05	0.76	0.76	5.53	6.12	9.45	07-01-1975
Excess			3.80	1.65	0.69	0.69	1.22	1.63	0.43	
TOTAL EQUITY W/PE and Opp	LEGACY Total Equity BM	20,906	2.41	12.08	-1.61	-1.61	4.98	6.15	7.94	07-01-2013
Excess			2.58	1.98	-0.31	-0.31	0.23	0.17	-0.09	
US EQUITY	COMBINED DOMESTIC EQUITY INDEX	9,642	2.10	22.10	3.64	3.64	8.21	9.04	11.04	07-01-1975
Excess			-0.27	-0.17	-3.10	-3.10	-1.97	-1.32	-0.23	
INTERNATIONAL EQUITY	INTERNATIONAL EQUITY INDEX	7,494	4.20	16.84	-4.76	-4.76	0.91	2.15	5.59	04-01-1987
Excess			-0.15	-0.12	-0.02	-0.02	-0.01	-0.20	0.24	
PRIVATE EQUITY	MSCI ACWI IMI w/USA GROSS (NET) LAGGED	3,770	-0.21	-13.35	-7.17	-7.17	6.72	8.48	6.39	09-01-2007
Excess			14.15	9.02	5.28	5.28	6.71	5.84	1.36	
INTEREST RATE SENSITIVE	BBG BARC Agg (Dly)	3,773	0.58	2.97	9.02	9.02	5.43	4.60	7.89	07-01-1975
Excess			-0.05	0.08	0.29	0.29	0.11	0.29		
CREDIT	LEGACY Total Credit BM	8,506	0.44	-2.34	4.41	4.41	7.30	7.50	7.03	07-01-2013
Excess			12.63	10.13	11.27	11.27	5.80	4.09		
PRIVATE DEBT	S&P LEVERAGED LOAN INDEX LAGGED + 250BPS	6,150	0.48	-0.96	6.17	6.17	8.54	9.48	11.10	10-01-2012
Excess			12.67	11.54	13.06	13.06	6.85	5.82	6.02	
DISTRESSED DEBT	S&P LEVERAGED LOAN INDEX LAGGED + 250BPS	1,451	0.56	-6.76	-0.64	-0.64			3.90	07-01-2018
Excess			12.75	5.75	6.25	6.25			4.77	
OTHER CREDIT	S&P LEVERAGED LOAN INDEX LAGGED + 250BPS	904	-0.10	-4.19	0.31	0.31			6.91	07-01-2018
Excess			12.09	8.31	7.20	7.20			7.78	
REAL ESTATE	Custom ASRS ODCE (Net)	6,763	0.02	-3.53	-0.42	-0.42	4.86	8.23	5.99	12-01-2005
Excess			-0.43	-4.80	-4.81	-4.81	-1.43	0.49	-0.43	
CASH	CASH CUSTOM INDEX	545	0.04	0.21	2.37	2.37	4.00	2.78	3.97	04-01-1990
Excess			0.03	0.18	0.74	0.74	0.07	-0.67	0.66	
OTHER	ICE BofA US 3-Month Treasury Bill	0	23.44	24.24	1,715.25	1,715.25	168.12	78.21	54.25	07-01-2013
Excess			23.43	24.21	1,713.62	1,713.62	166.35	77.02	53.39	

ASRS Returns Compared to Public Fund Universe for the period ended 3/31/2020

UNIVERSE COMPARISON

InvMetrics Public DB > \$1B Net Return Comparison
 Ending March 31, 2020



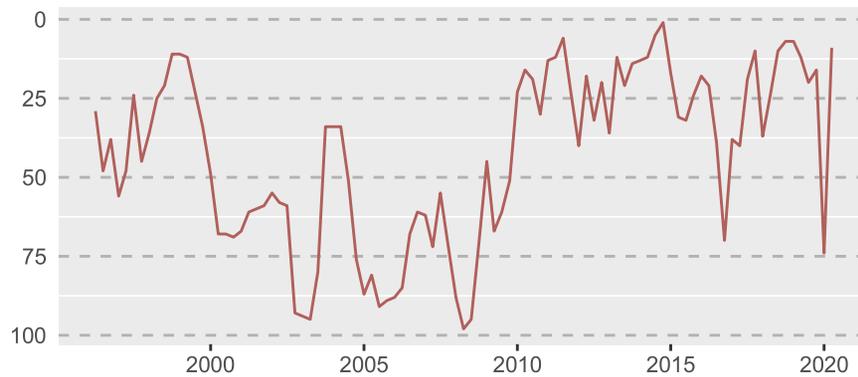
	1 Year	3 Years	5 Years	10 Years
5th Percentile	-0.7	4.9	5.2	7.7
25th Percentile	-3.0	3.7	4.2	6.9
Median	-5.0	2.8	3.7	6.4
75th Percentile	-6.9	1.9	2.9	5.7
95th Percentile	-9.0	0.9	2.0	5.0
# of Portfolios	62	62	59	55

	1 Year	3 Years	5 Years	10 Years
● Total Fund	-1.1	4.9	5.2	7.7
Total Fund Percentile Rank	9	5	6	6
Total Fund Ordinal Rank	6	3	4	3
Number of Funds In Universe	62	62	59	55
▲ Interim SAA Policy	0.9	4	3.9	6.7

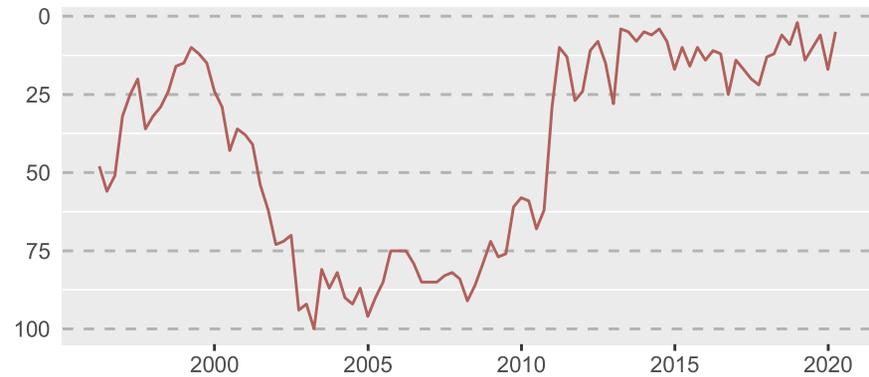


Total Fund Rolling Percentile Rankings for the period ended 3/31/2020

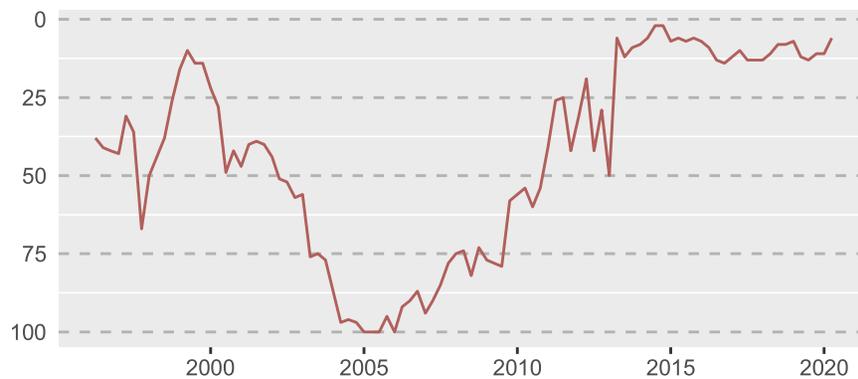
Total Fund One Year Rolling Percentile Rankings



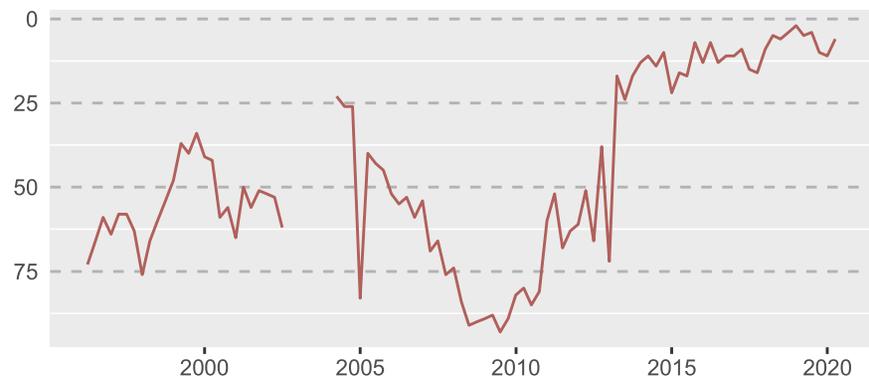
Total Fund Three Year Rolling Percentile Rankings



Total Fund Five Year Rolling Percentile Rankings



Total Fund Ten Year Rolling Percentile Rankings



ASRS Goals Met for the period ended March 31, 2020

ASRS INVESTMENT OBJECTIVES

Goal #4: Design, implement, and maintain an investment management program that maximizes rates of return for acceptable levels of risk.

- a) Develop, approve and implement an Asset Allocation program that is expected to achieve a 20-year rolling average annual return at or above the actuarial assumed return
Goal met: Yes
- b) Achieve a total fund net return in the top quartile of the peer universe
Goal met: Yes
- c) Achieve a 1 year total fund net return greater than the Strategic Asset Allocation Benchmark
Goal met: No
- d) Achieve a 3-year total fund net return greater than the Strategic Asset Allocation Benchmark
Goal met: Yes
- e) Achieve 1 year asset class net returns greater than the respective Asset Allocation Benchmarks
Goal met: Partial
- f) Achieve 3 year asset class net returns greater than the respective Asset Allocation Benchmarks
Goal met: Partial
- g) Sufficient cash will be maintained to meet all payment requirements
Goal met: Yes



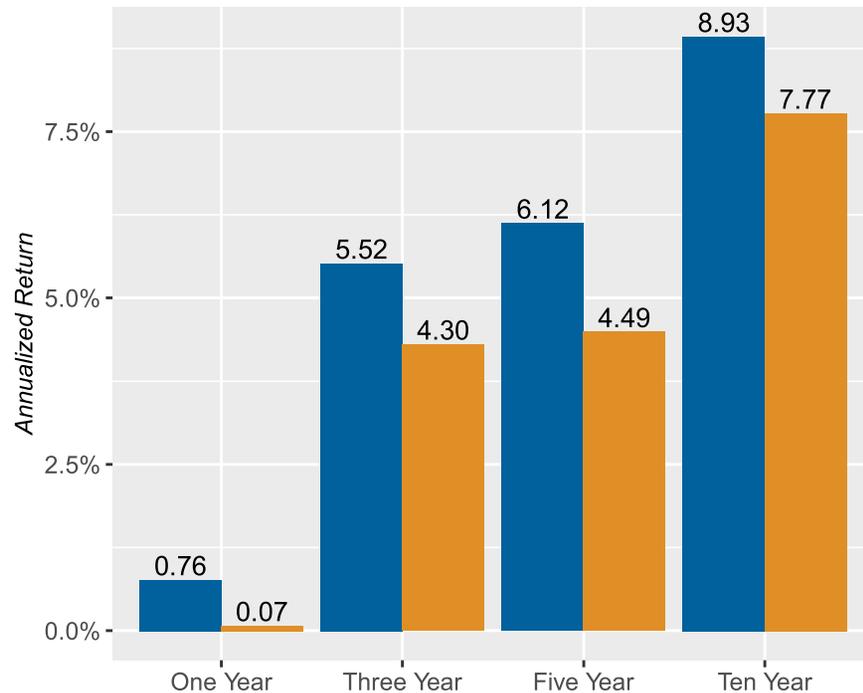
Source: ASRS Strategic Plan, August 2018

Total Fund

Trailing Returns & Dollar Value Add for the period ended 6/30/2020

Total Fund and Strategic Asset Allocation Benchmark

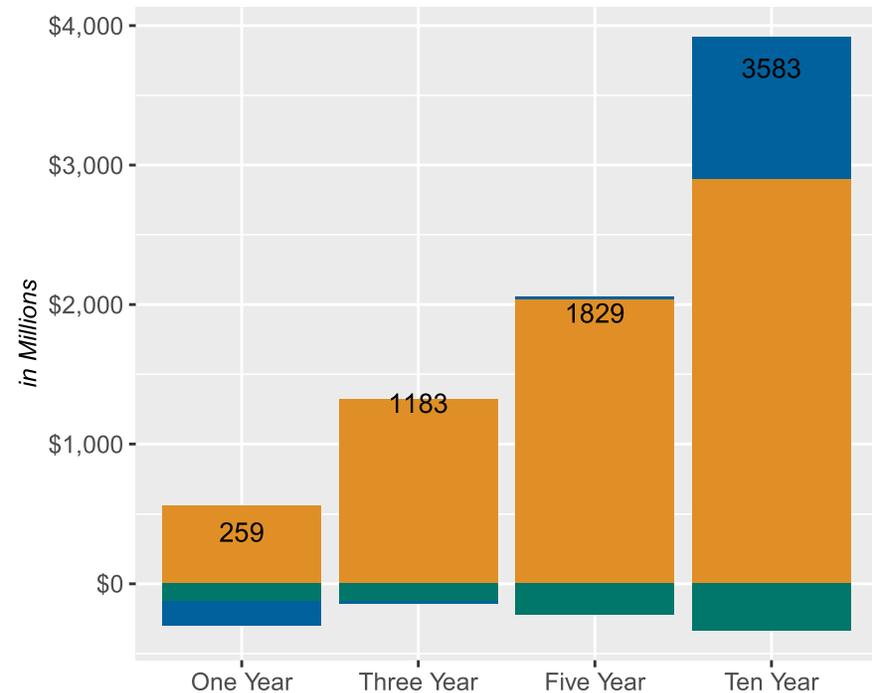
Trailing Period Returns



■ Total Fund ■ Strategic Asset Allocation Benchmark

Total Fund Dollar Value Add

Relative to Strategic Asset Allocation Benchmark

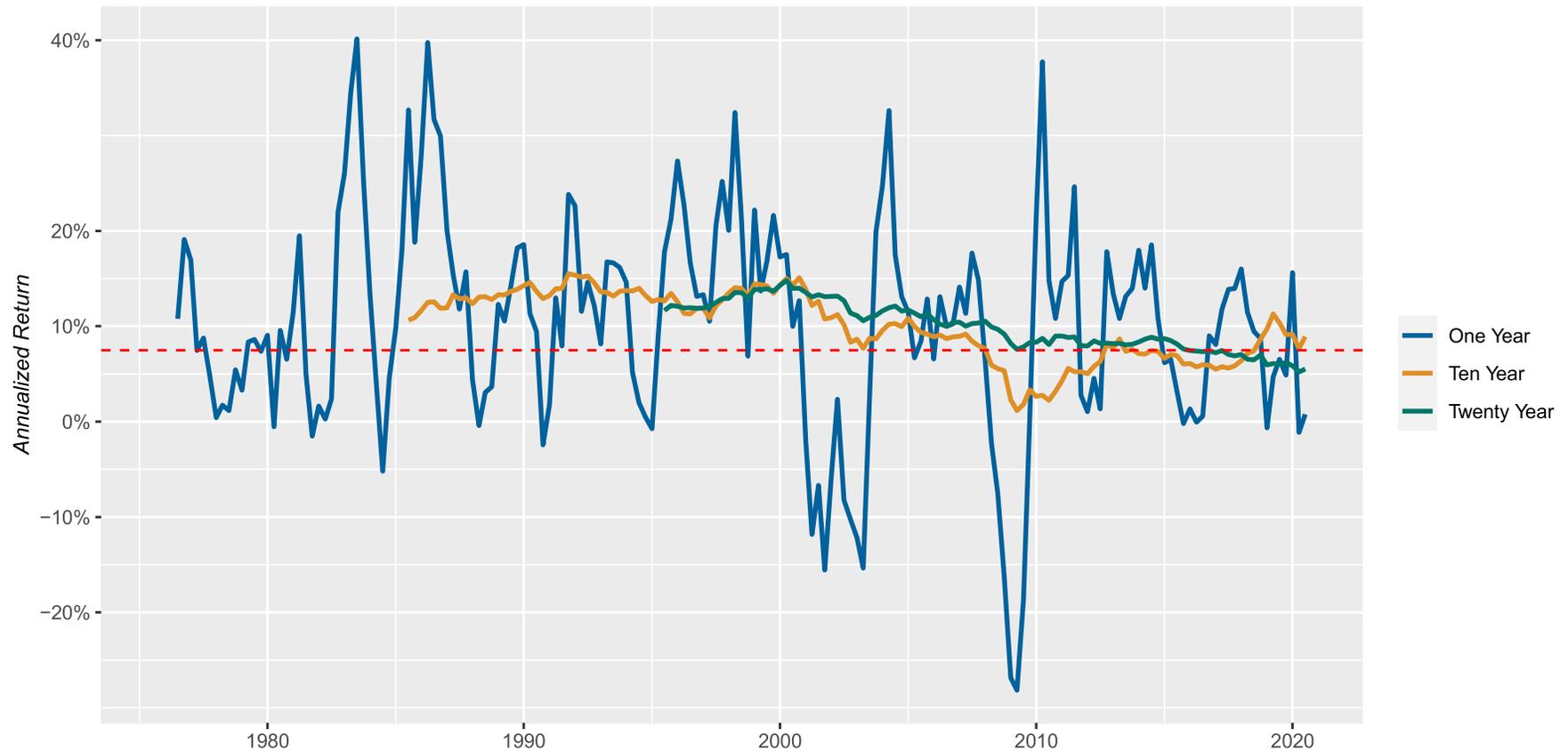


■ Allocation ■ Excess Return ■ Residual

Total Fund Returns for the period ended 6/30/2020

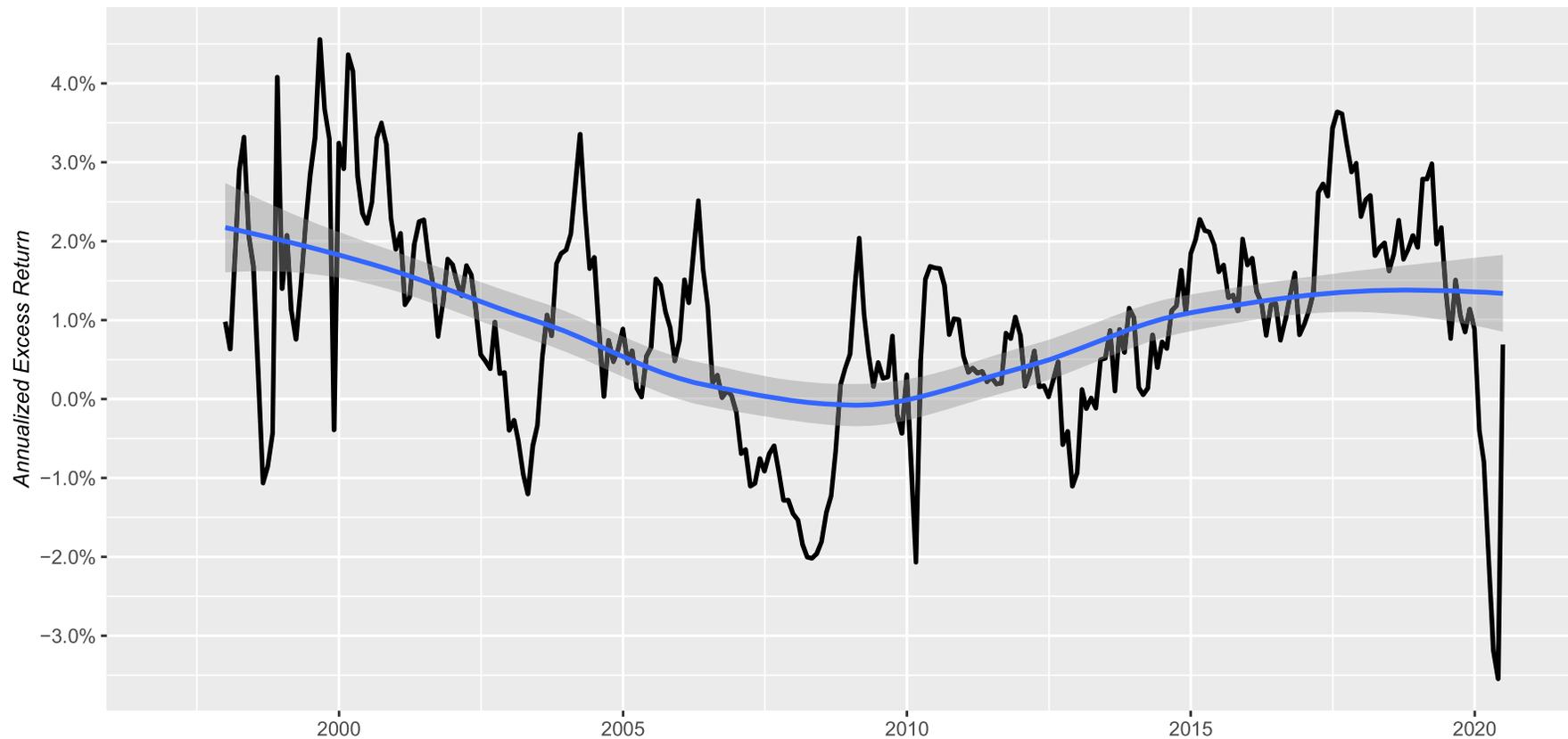
Total Fund Rolling Returns

Trailing Period Returns



Total Fund Rolling 1 Year Excess Return for the period ended 6/30/2020

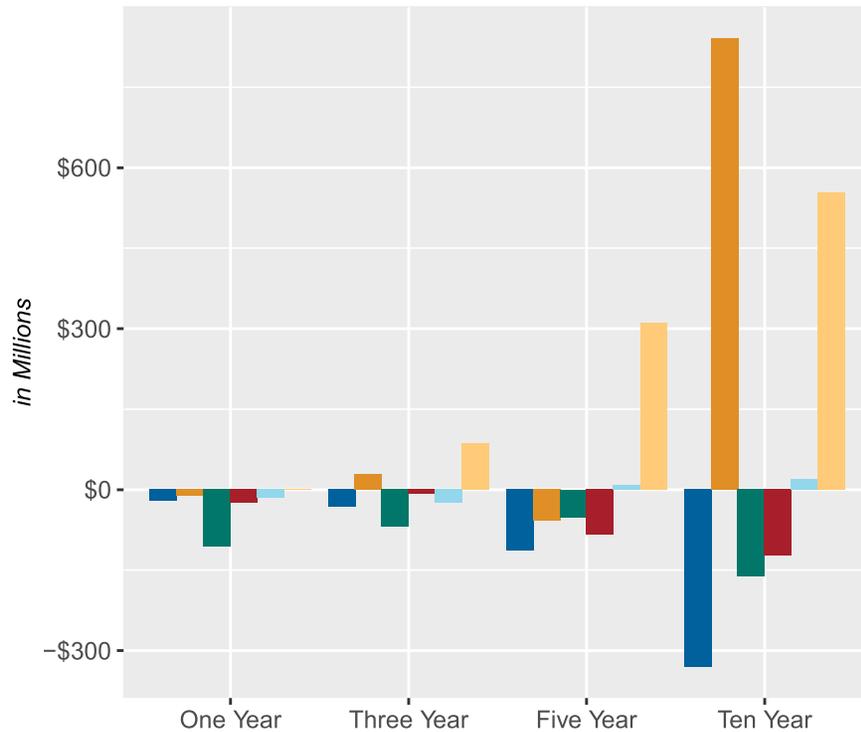
Total Fund Rolling 1 Year Excess



Allocation Effect for the period ended 6/30/2020

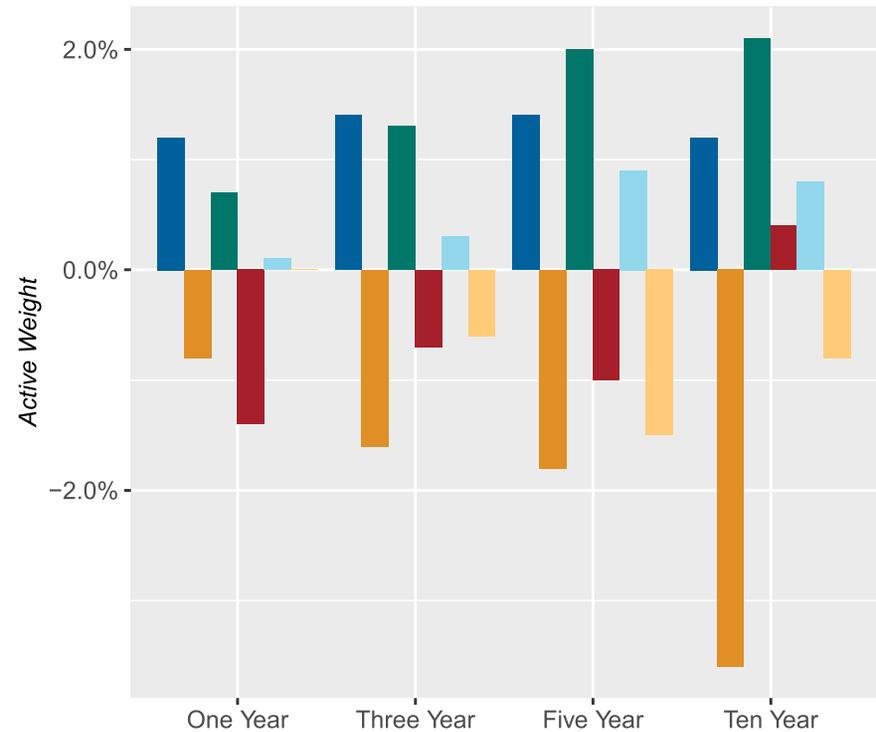
Allocation Effect by Asset Class

Relative to Strategic Asset Allocation Benchmark



Asset Class Average Active Weights

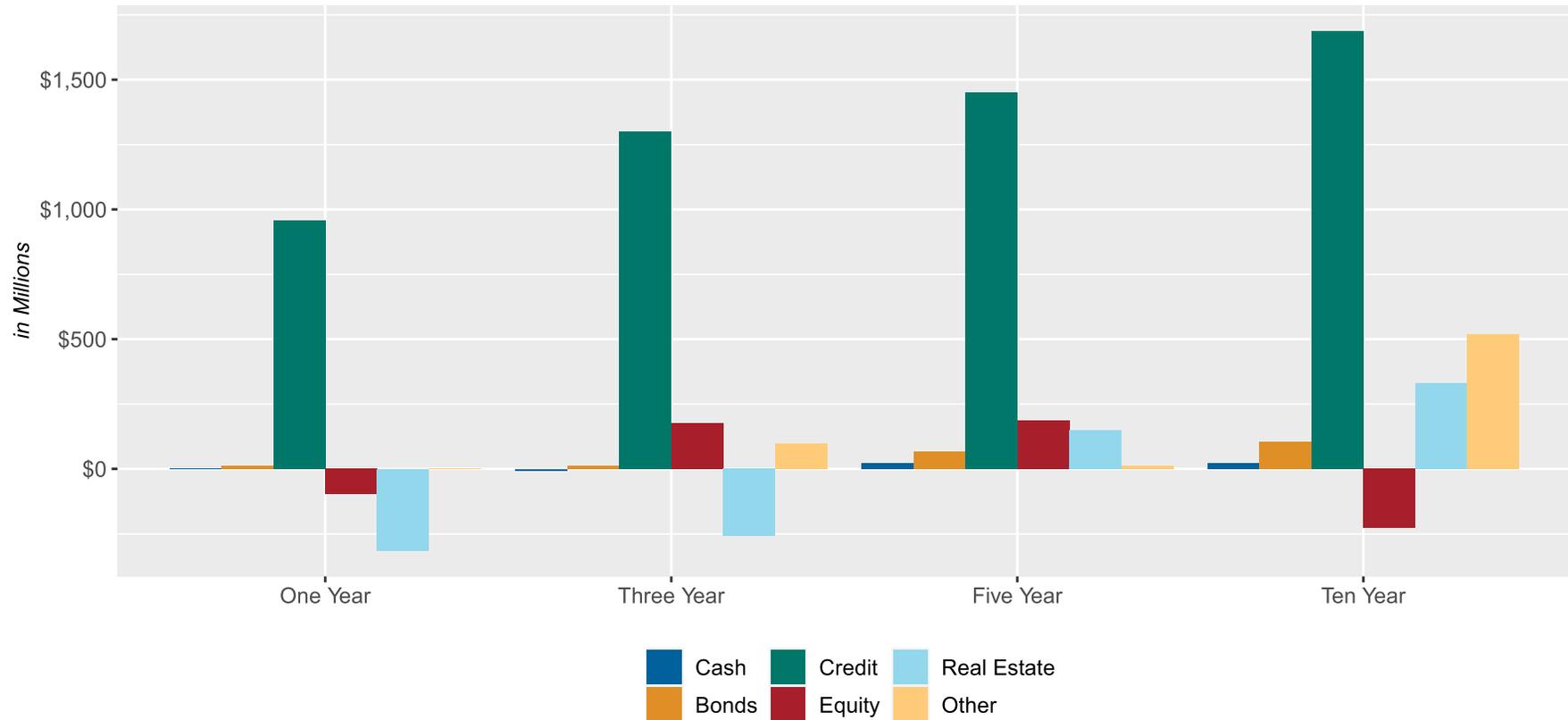
Relative to Strategic Asset Allocation Policy



Excess Return by Asset Class for the period ended 6/30/2020

Excess Return by Asset Class

Relative to Strategic Asset Allocation Benchmark



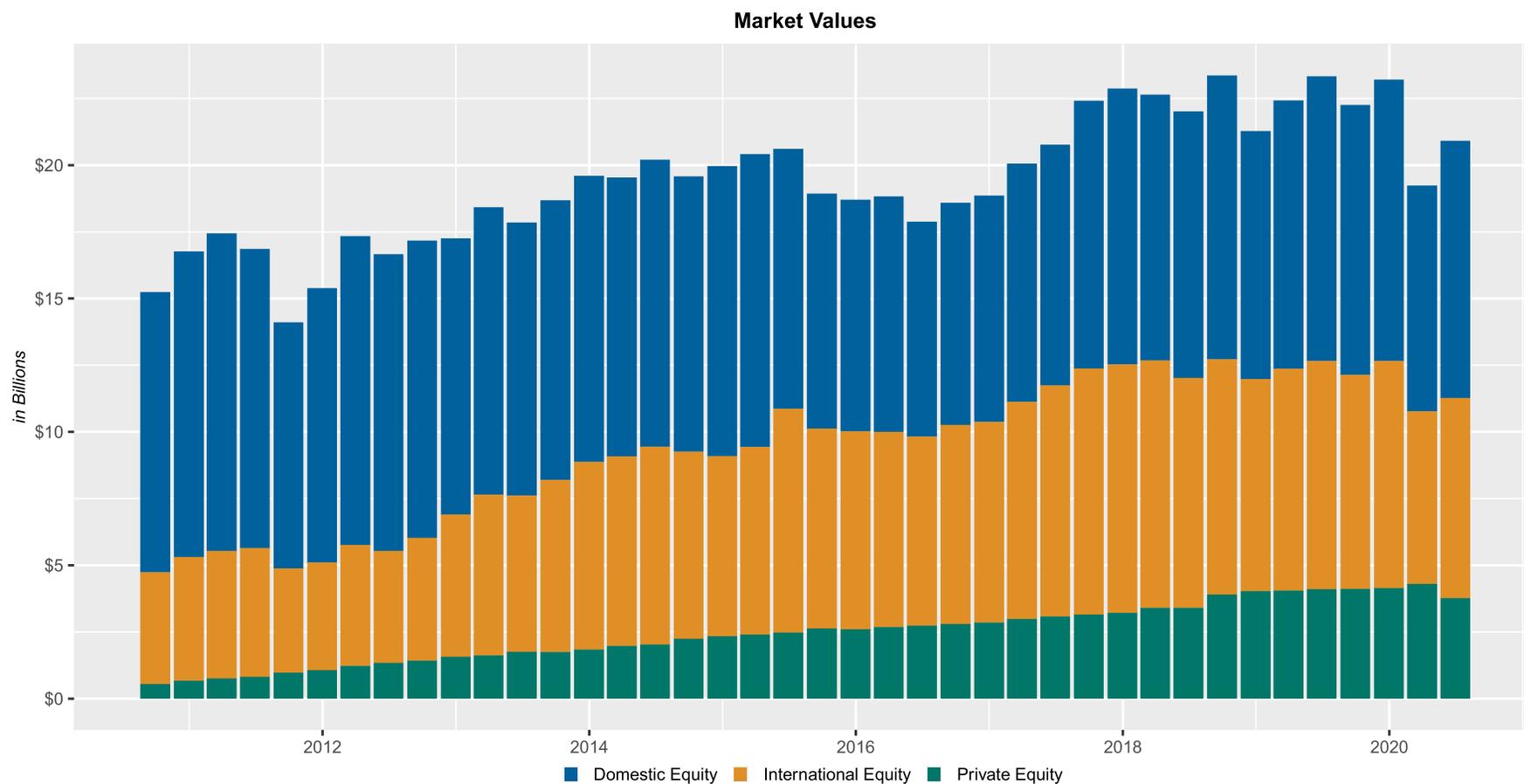
Equity

Total Equities for the period ended 6/30/2020

Returns for the period ended 6/30/2020

Composite	Quarter	One Year	Three Year	Five Year
Equity	12.08	-1.61	4.97	6.15
Benchmark	10.10	-1.30	4.74	5.98
Excess	1.98	-0.31	0.23	0.17
Public Equity	19.71	-0.19	4.76	5.84
Benchmark	19.93	1.50	5.88	6.63
Excess	-0.21	-1.69	-1.11	-0.78
US Equity	22.10	3.64	8.24	9.06
Benchmark	22.27	6.73	10.18	10.37
Excess	-0.17	-3.10	-1.94	-1.31
International Equity	16.84	-4.76	0.88	2.13
Benchmark	16.96	-4.74	0.92	2.35
Excess	-0.12	-0.02	-0.04	-0.22
Private Equity	-12.16	-7.31	6.55	8.56
Index IRR	-22.39	-12.97	-0.04	2.78
Excess	10.23	5.66	6.59	5.79

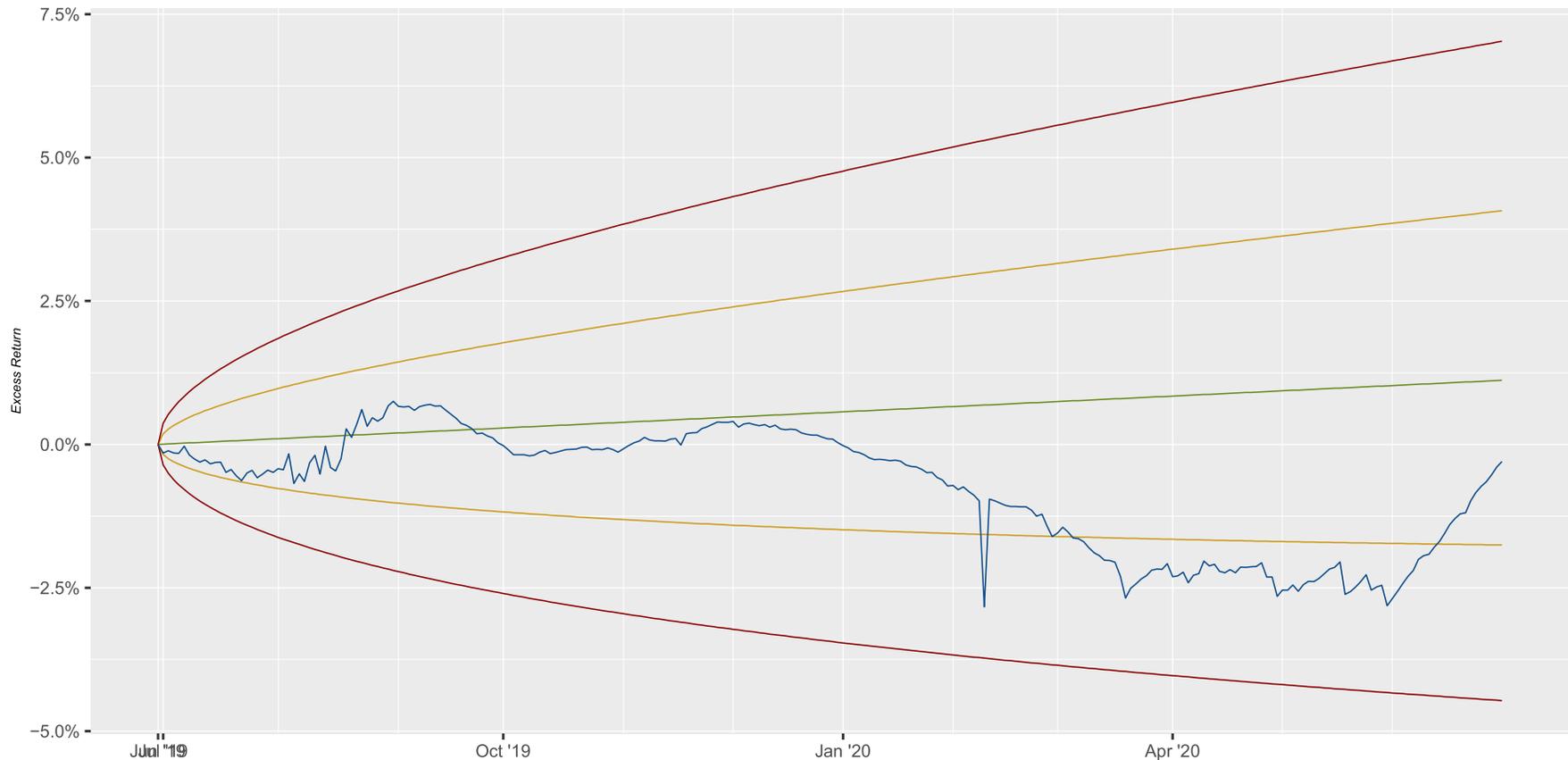
Total Equity Market Values for the period ended 6/30/2020



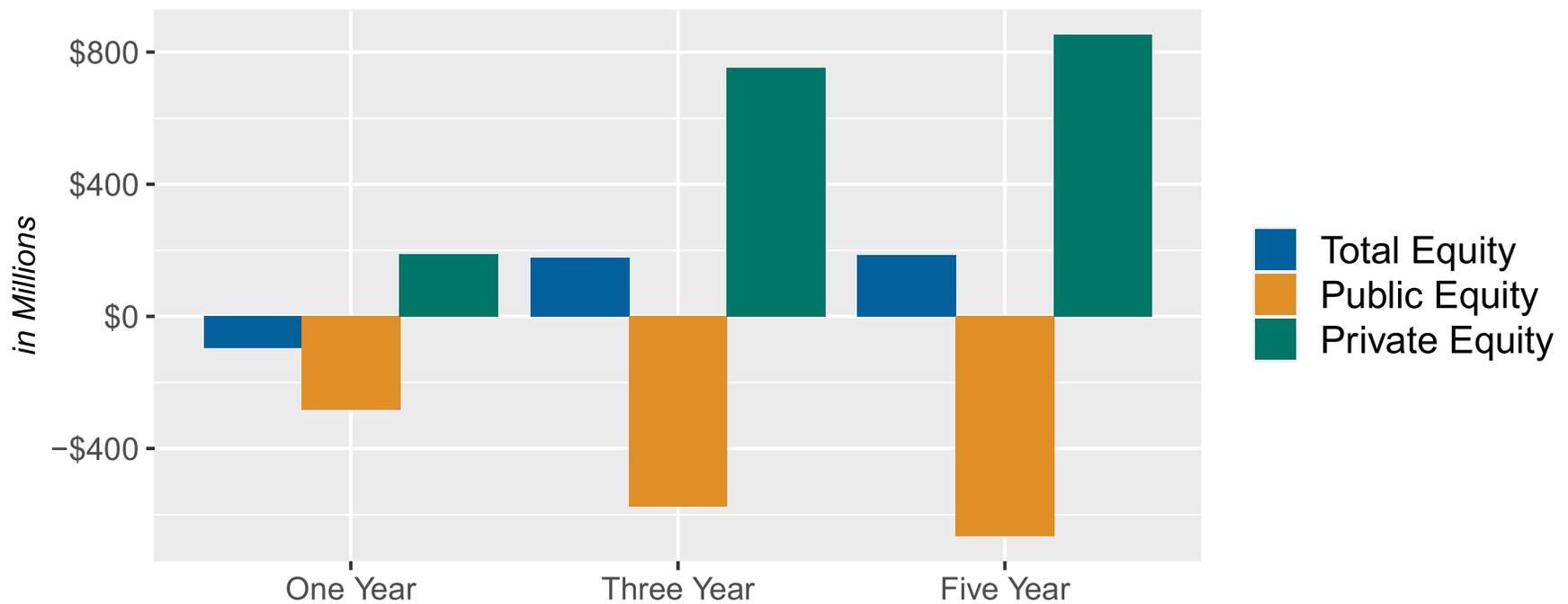
Total Equity Performance for the period ended 6/30/2020

Total Equity Portfolio Performance versus Expectations

110 Basis Points Expected Excess Return with 290 Basis Points Tracking Error



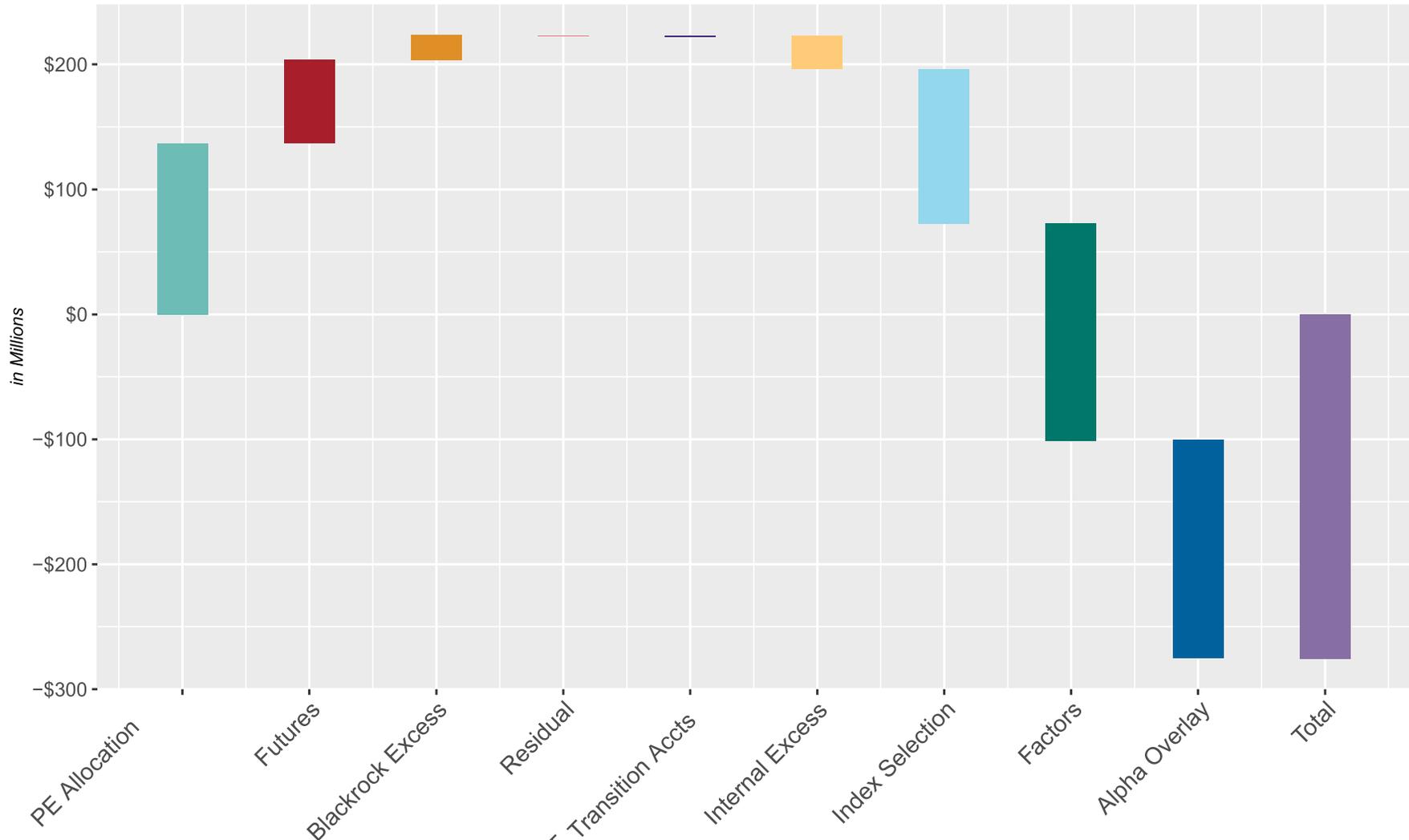
Total Equity Dollar Value Add for the period ended 6/30/2019



Public Equity “Levers” for the period ended 6/30/2020

Public Equity Dollar Value Add

Fiscal Year Dollar Value Add



Private Equity

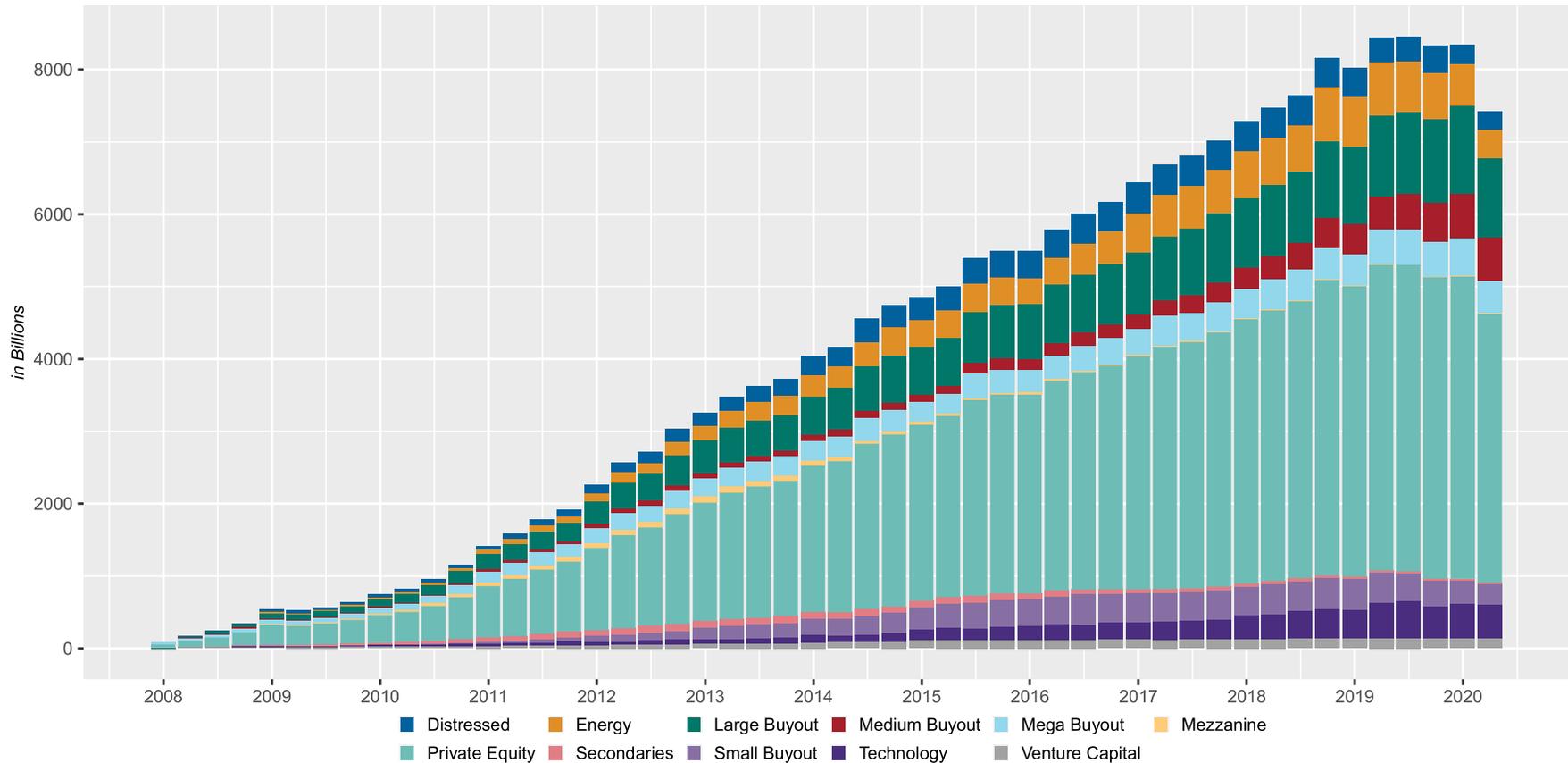
Private Equity Performance Overview & Allocation for the period ended 3/31/2020

Private Equity Internal Rate of Return

Composite	Quarter	One Year	Three Year	Five Year	Ten Year
Private Equity	-12.16	-7.31	6.55	8.56	10.94
Index IRR	-22.39	-12.97	-0.04	2.78	7.99
Excess	10.23	5.66	6.59	5.79	2.94
Distressed	-12.19	-17.68	-4.76	-1.66	3.04
Energy	-34.57	-47.10	-17.15	-9.26	-3.86
Large Buyout	-11.17	2.53	11.00	11.30	12.86
Medium Buyout	-4.93	7.13	13.72	13.79	15.28
Mega Buyout	-12.46	-3.07	9.34	13.30	13.90
Mezzanine	-8.11	32.87	9.96	7.22	9.84
Secondaries	-11.19	-13.35	4.00	3.53	10.79
Small Buyout	-5.24	4.59	16.75	18.37	15.83
Technology	-4.93	6.90	20.13	18.38	19.22
Venture Capital	-0.31	8.83	16.19	10.82	12.99
Private Equity	-12.16	-7.31	6.55	8.56	10.94

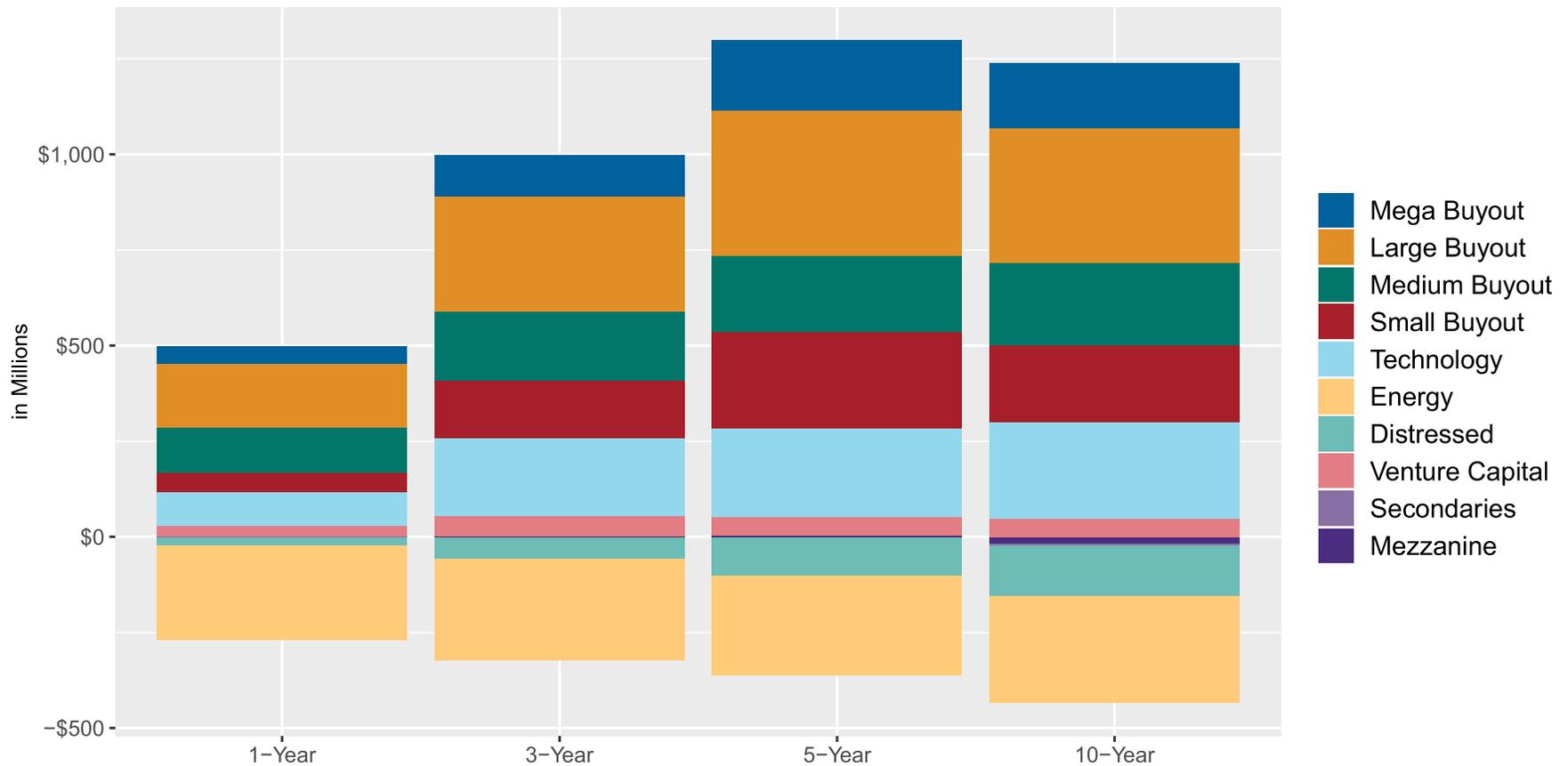
Private Equity Decomposition for the period ended 3/31/2020

Net Asset Value by Strategy



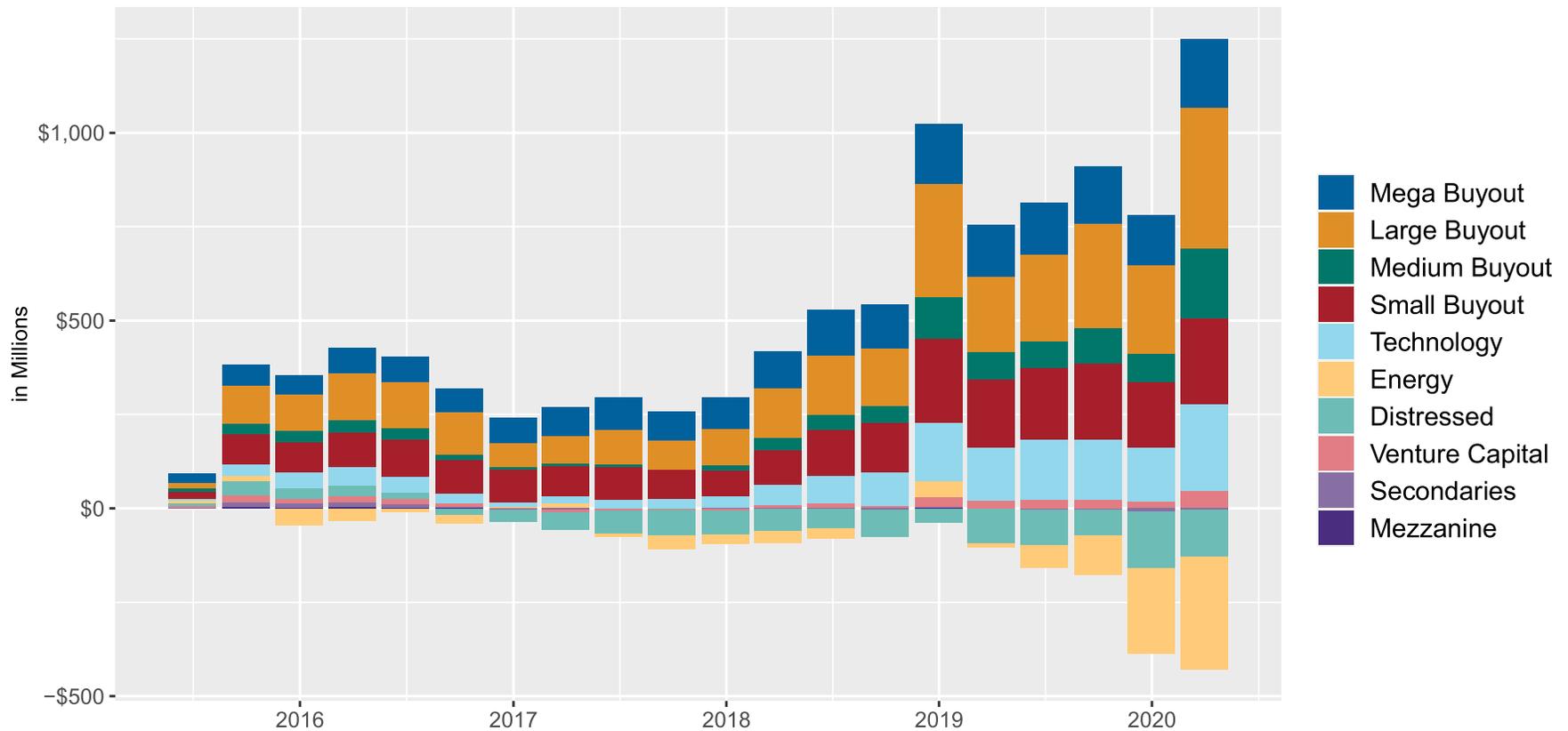
Private Equity Dollar Value Add for the period ended 3/31/2020

Private Equity Dollar Value Add

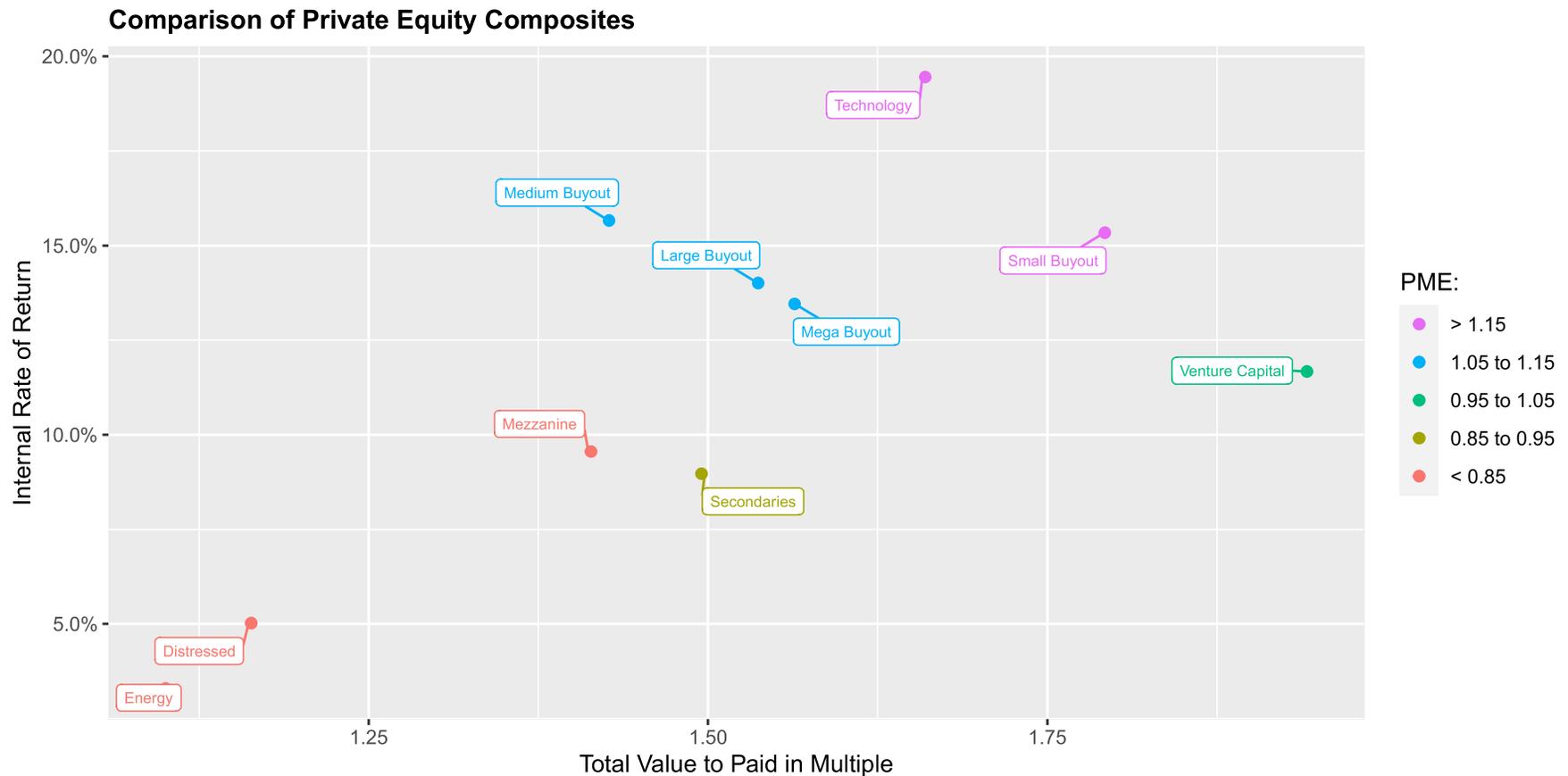


Private Equity Dollar Value Add for the five years ended 3/31/2020

Private Equity 5 Year
 Cumulative Dollar Value Add



Private Equity Performance by Category for the period ended 3/31/2020



Real Estate

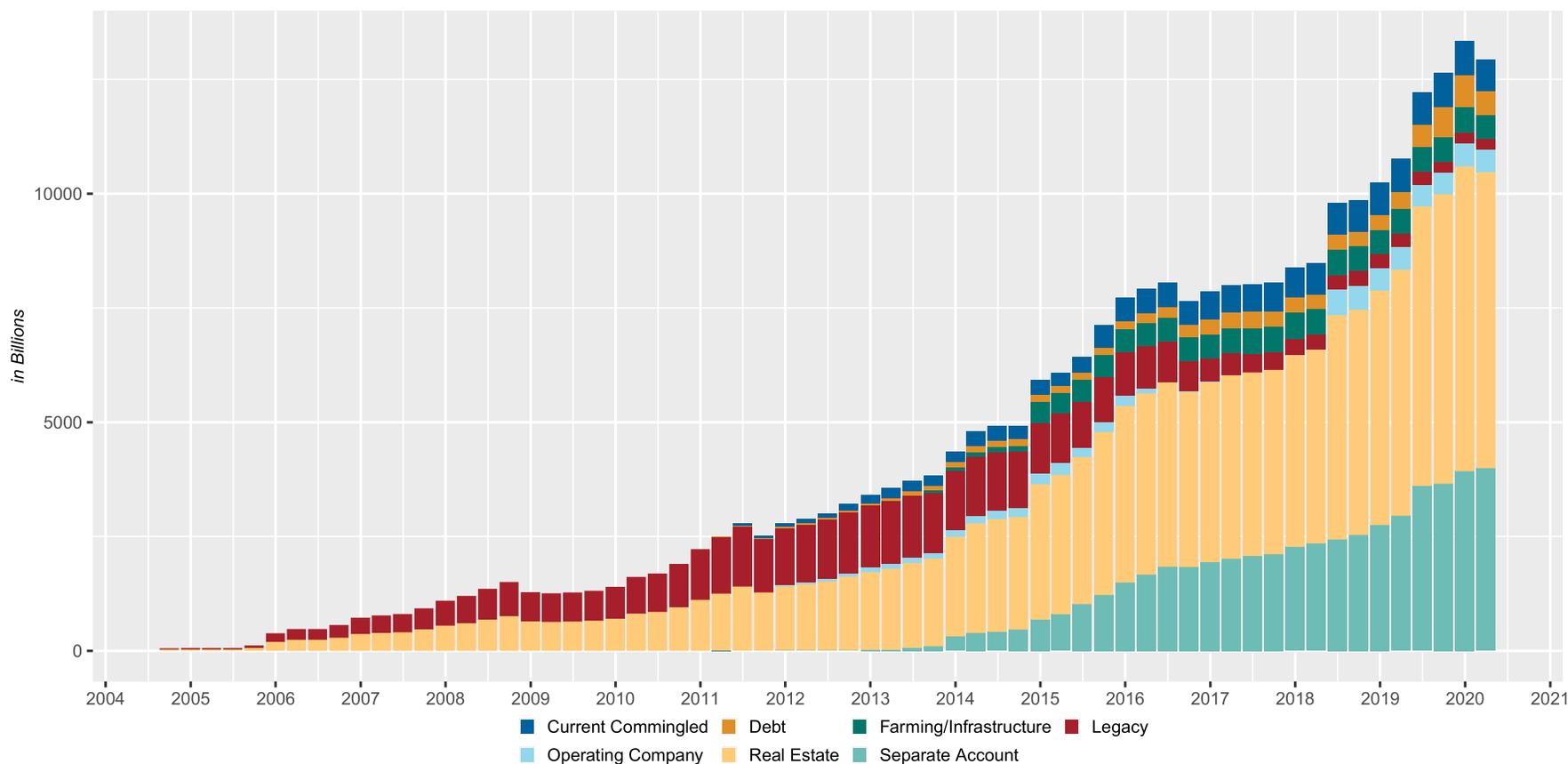
Real Estate Performance Overview & Allocation for the period ended 3/31/2020

Real Estate Internal Rate of Return

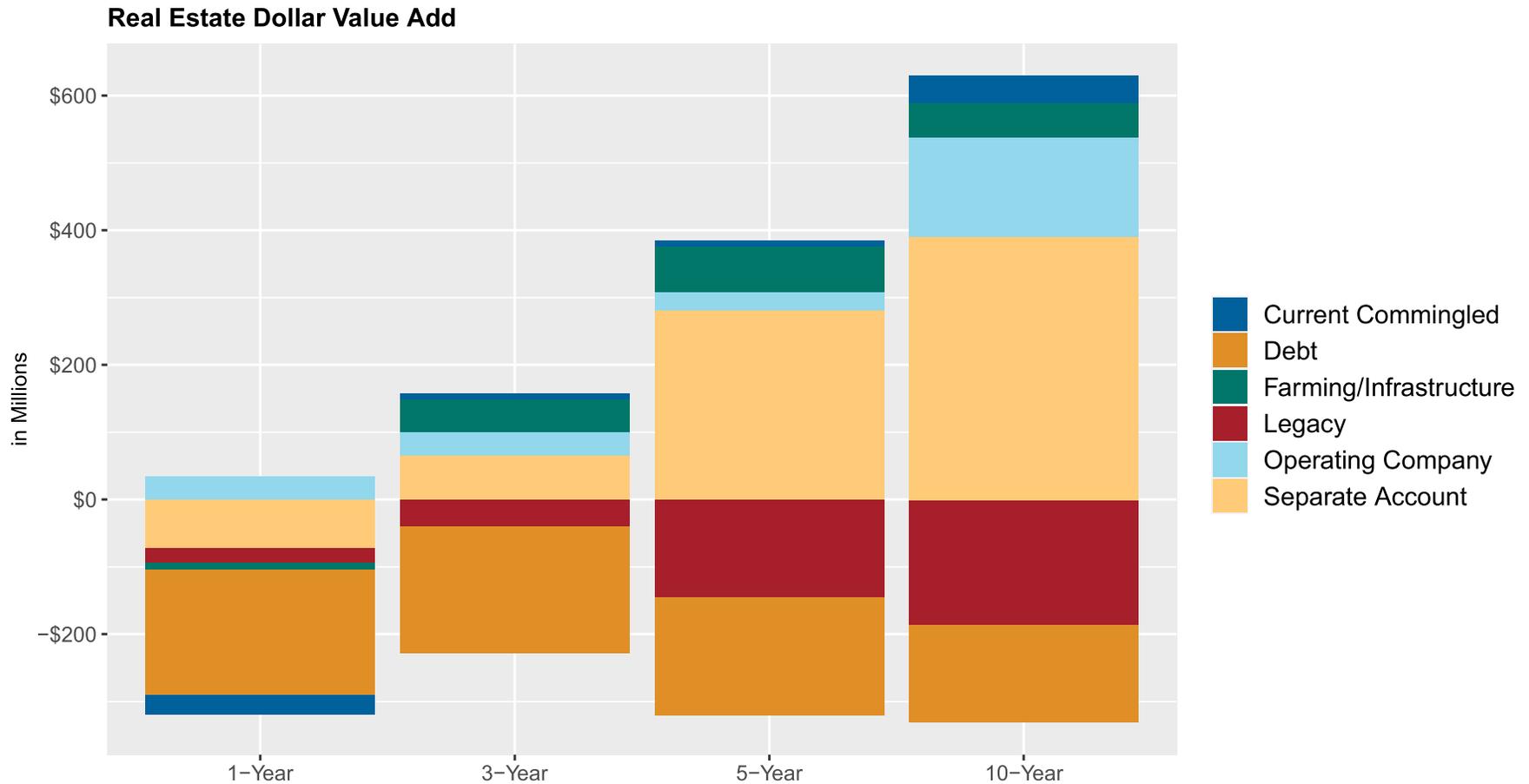
Composite	Quarter	One Year	Three Year	Five Year	Ten Year
Real Estate	-2.98	-0.81	4.57	7.11	9.90
Index IRR	0.75	3.81	5.04	6.84	9.10
Excess	-3.73	-4.62	-0.47	0.27	0.80
Current Commingled	-4.83	-0.27	5.65	7.54	9.40
Debt	-27.74	-27.78	-12.13	-5.63	-1.54
Farming/Infrastructure	-5.59	1.91	8.06	7.73	6.91
Legacy	-4.76	-4.63	1.37	4.75	11.28
Operating Company	21.54	11.04	7.97	7.33	15.64
Separate Account	-0.45	1.82	5.81	9.04	10.23
Real Estate	-2.98	-0.81	4.57	7.11	9.90

Real Estate Net Asset Value by Strategy for the period ended 3/31/2020

Net Asset Value by Strategy

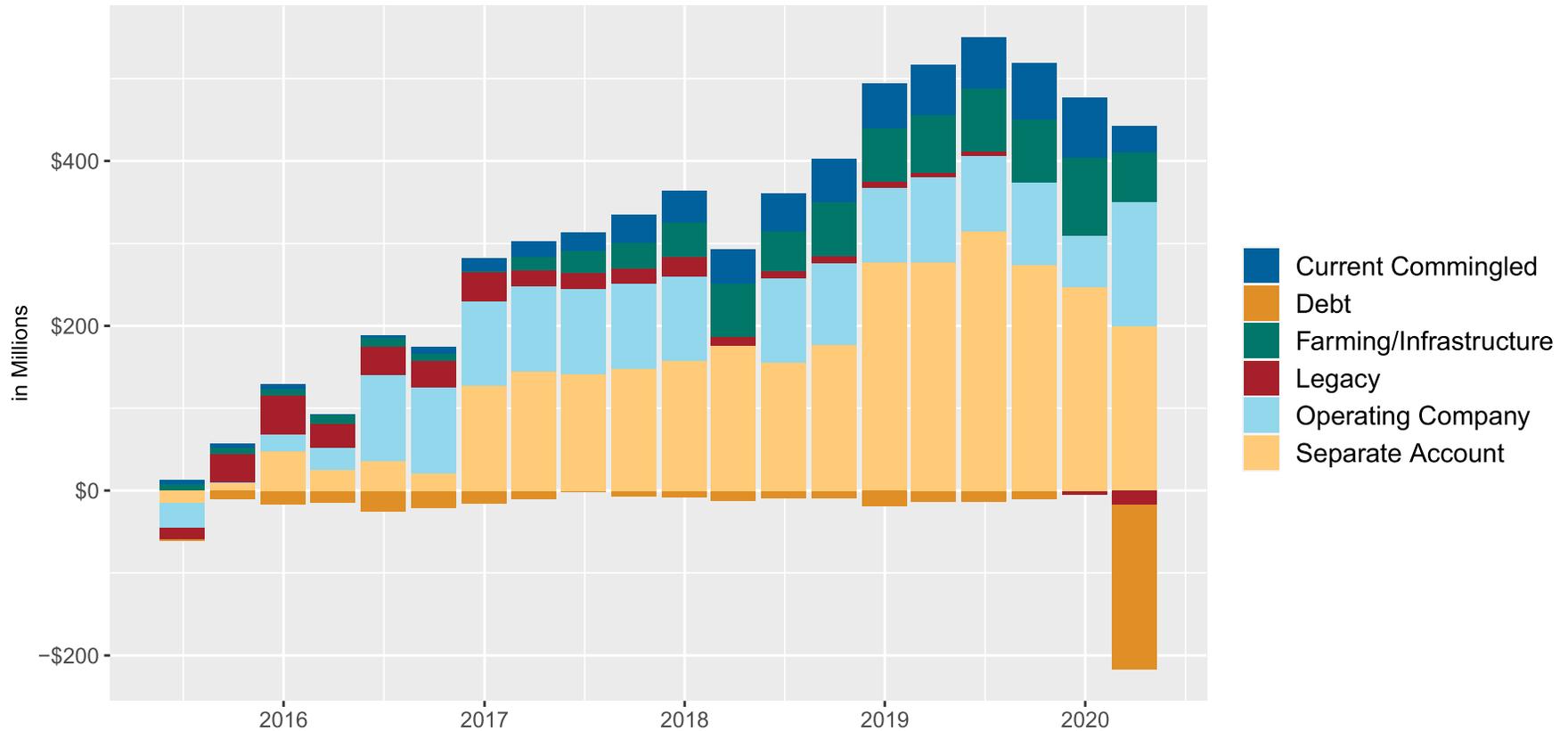


Real Estate Dollar Value Add for the period ended 3/31/2020



Real Estate Dollar Value Add for the five years ended 3/31/2020

Real Estate 5 Year
 Cumulative Dollar Value Add



Real Estate Performance Summary for the period ended 3/31/2020

Comparison of Real Estate Composites



Credit

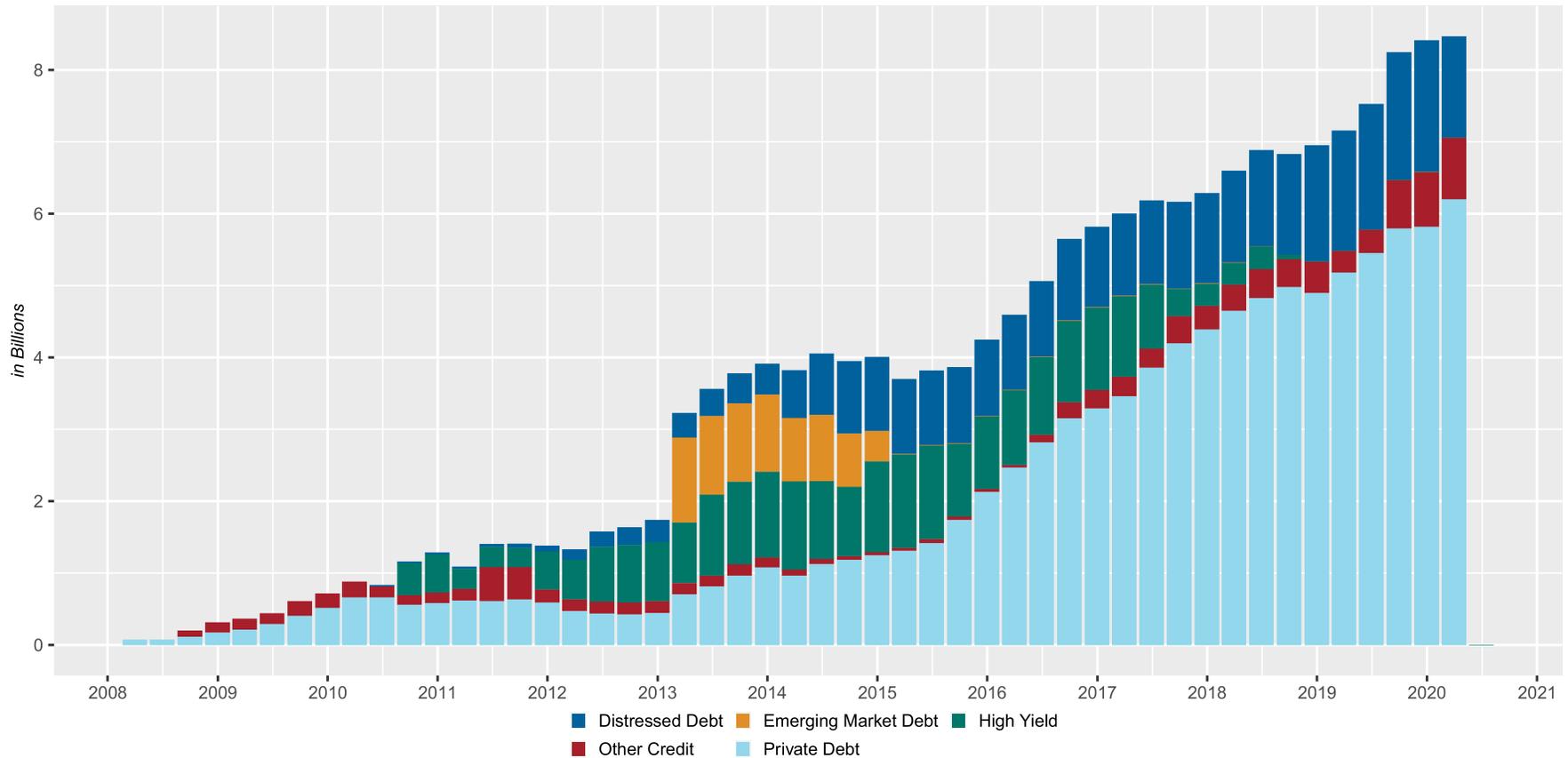
Total Credit for the period ended 6/30/2020

Credit Annualized Returns

Category	Quarter	One Year	Three Year	Five Year	Ten Year	Inception
Total Credit (TWR)	-2.34	4.41	7.30	7.50	7.03	7.03
Blended Benchmark	-12.47	-6.86	1.49	3.41	2.95	2.95
Total Credit Excess	10.13	11.26	5.80	4.09	4.08	4.08
Private Debt	-0.88	5.93	7.78	11.31	9.88	10.35
Index IRR	-12.33	-6.87	1.40	3.27	4.30	5.29
Excess	11.45	12.79	6.38	8.03	5.58	5.06
Distressed Debt	-7.98	-0.89	5.23	4.71	5.71	5.71
Index IRR	-11.90	-5.02	2.23	4.39	5.26	5.26
Excess	3.92	4.13	3.00	0.32	0.45	0.45
Other Credit	-3.53	-0.96	1.96	5.83	5.74	7.73
Index IRR	-12.74	-13.02	-1.73	-0.16	3.77	4.40
Excess	9.21	12.06	3.69	5.99	1.96	3.33

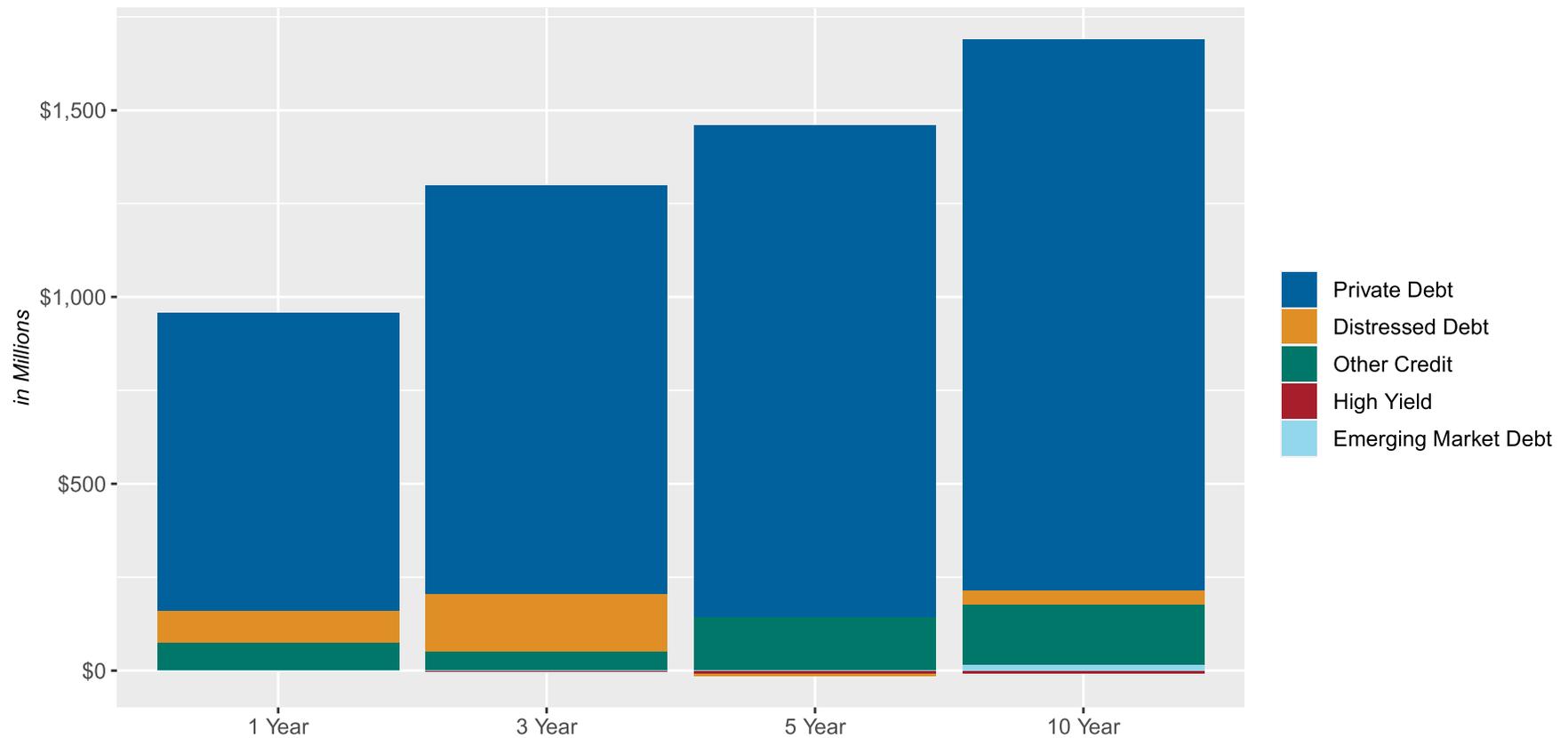
Credit Market Values and Performance for the period ended 6/30/2020

Credit Market Values



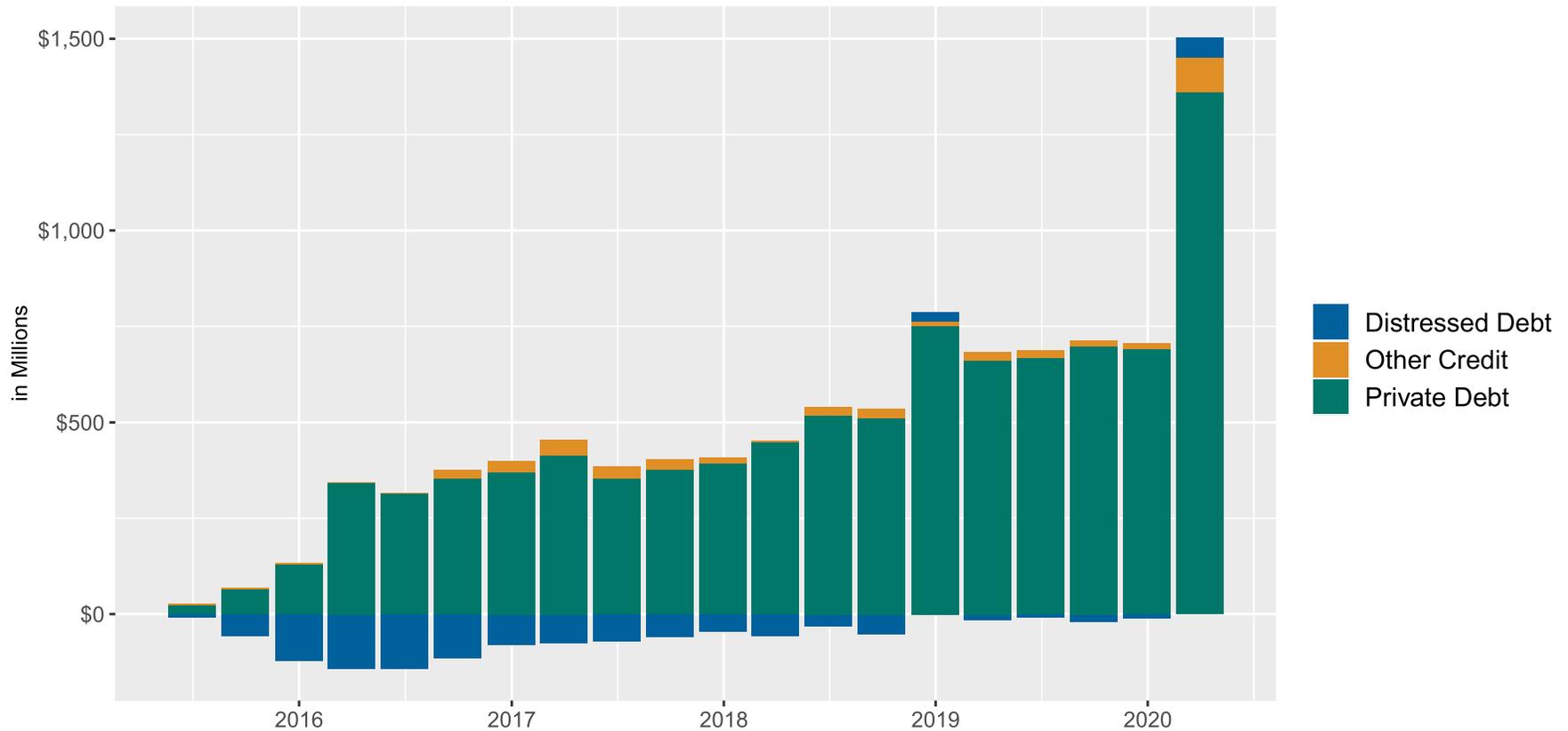
Credit Dollar Value Add for the period ended 6/30/2020

Credit Dollar Value Add versus Benchmark

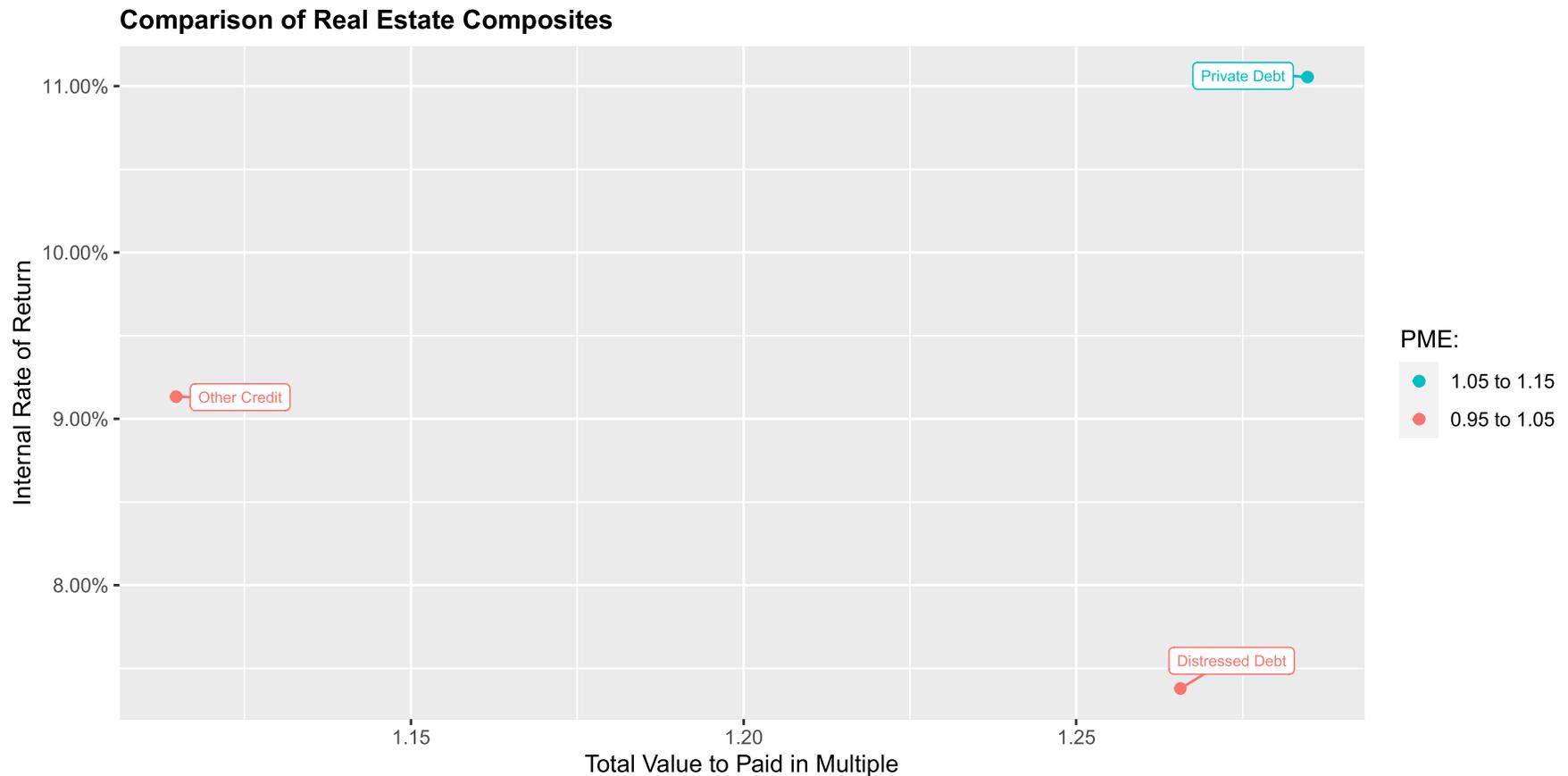


Credit Dollar Value Add for the five years ended 6/30/2020

Private Credit 5 Year
 Cumulative Dollar Value Add



Credit: Total Value to Paid in Multiple & Public Market Equivalent for the period ended 6/30/2020



Credit Performance for the period ended 6/30/2020

Total Credit Portfolio Performance versus Expectations

150 Basis Points Expected Excess Return with 350 Basis Points Tracking Error



Core Fixed Income

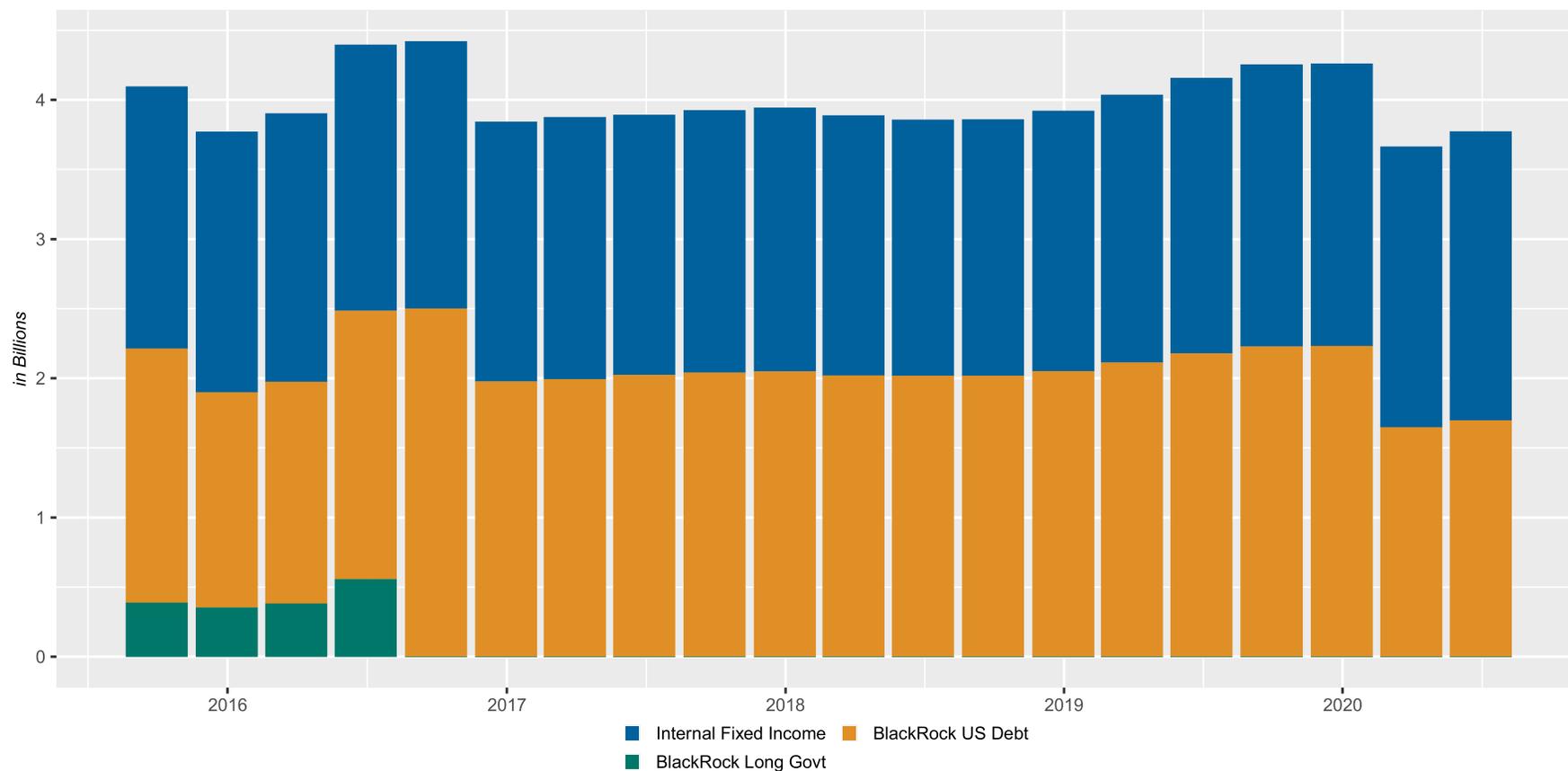
Core Fixed Income for the period ended 6/30/2020

Annualized Time-Weighted Returns

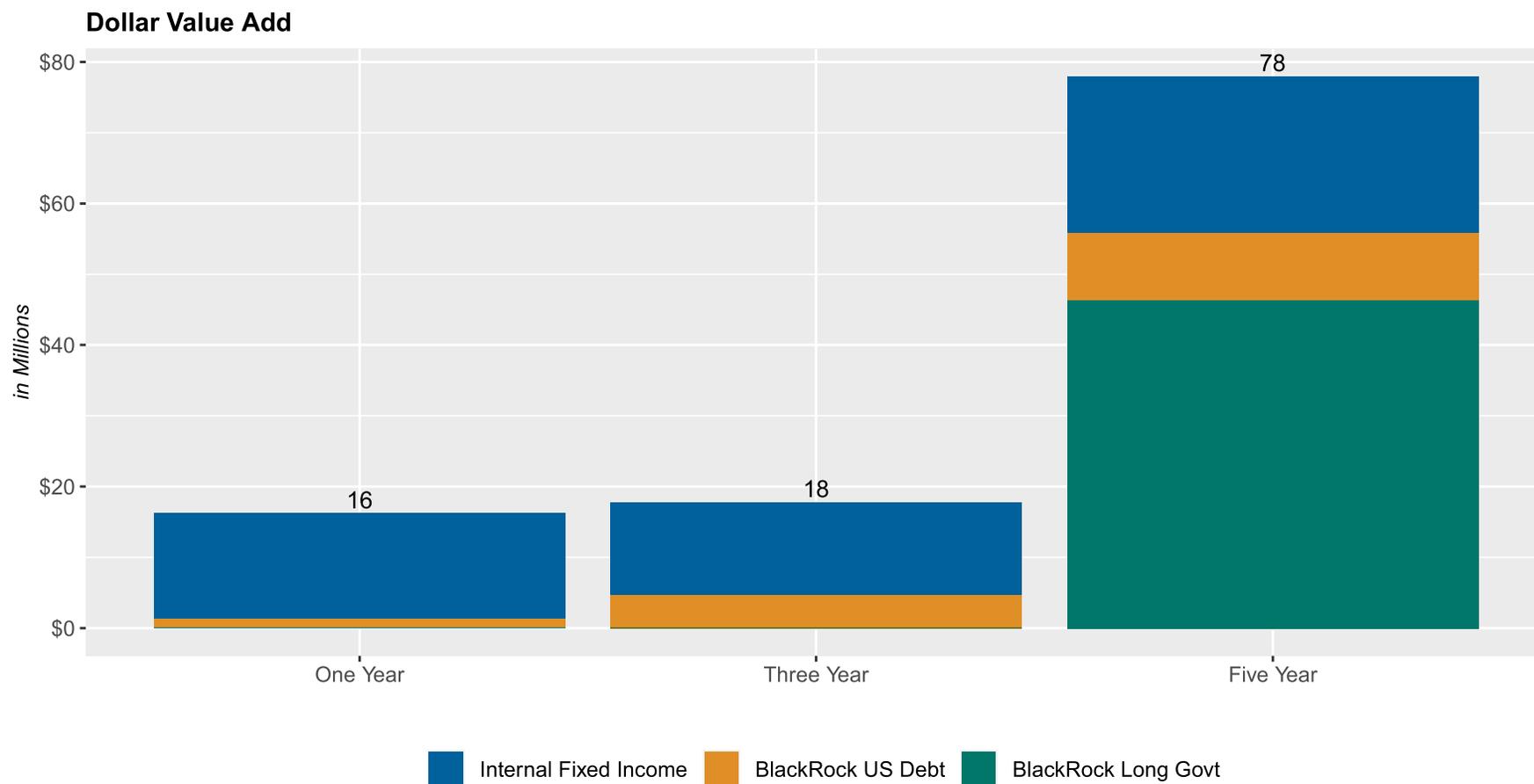
	Quarter	One Year	Three Year	Five Year
Core Bond Composite	2.97	9.02	5.43	4.60
Barclay's Aggregate	2.90	8.74	5.32	4.30
Core Composite Excess	0.08	0.29	0.11	0.29
Internal Fixed Income	2.96	9.50	5.54	4.51
Barclay's Aggregate	2.90	8.74	5.32	4.30
Internal Fixed Income Excess	0.07	0.76	0.22	0.21
BlackRock US Debt Fund	2.98	8.82	5.40	4.40
Barclay's Aggregate	2.90	8.74	5.32	4.30
BlackRock Excess	0.08	0.08	0.08	0.09

Core Fixed Income Decomposition for the period ended 6/30/2020

Core Bonds Market Values



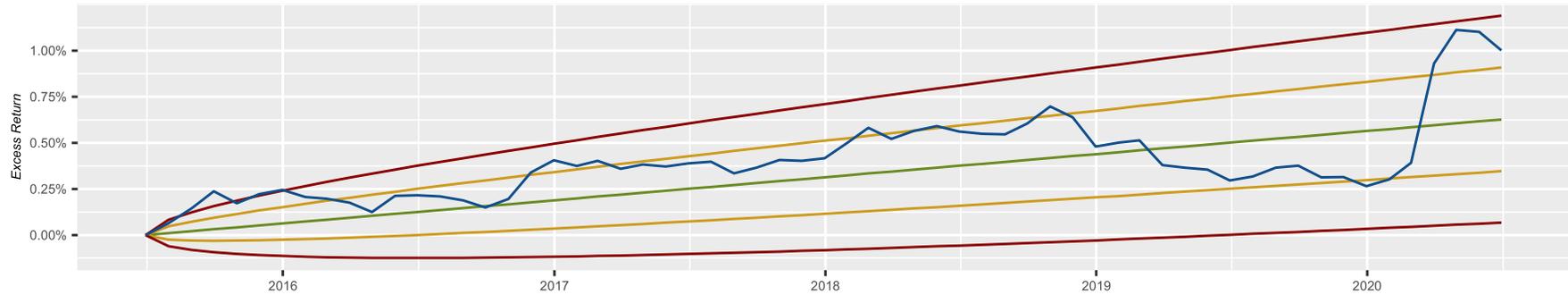
Core Fixed Income Dollar Value Added for the period ended 6/30/2020



Core Fixed Income Performance for the period ended 6/30/2020

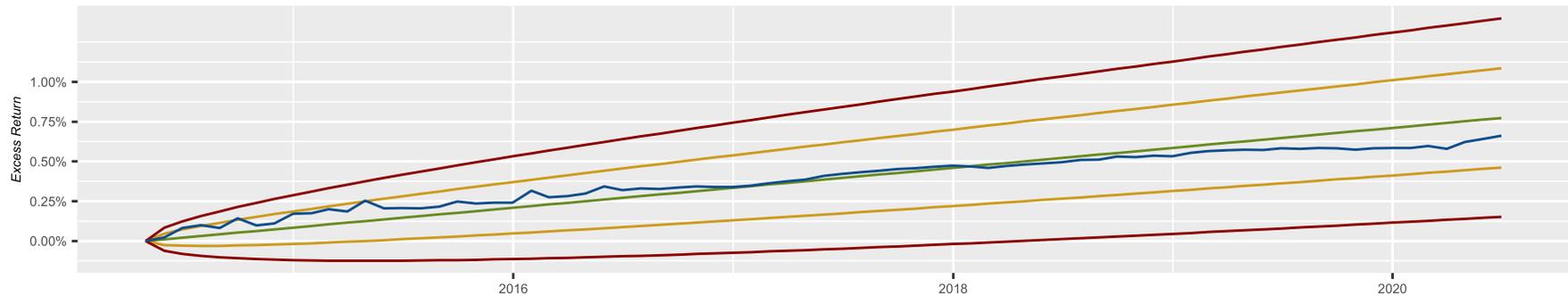
Internal Fixed Income Portfolio Performance versus Expectations

12.5 Basis Points Expected Excess Return with 12.5 Basis Points Expected Tracking Error



Blackrock US Debt Portfolio Performance versus Expectations

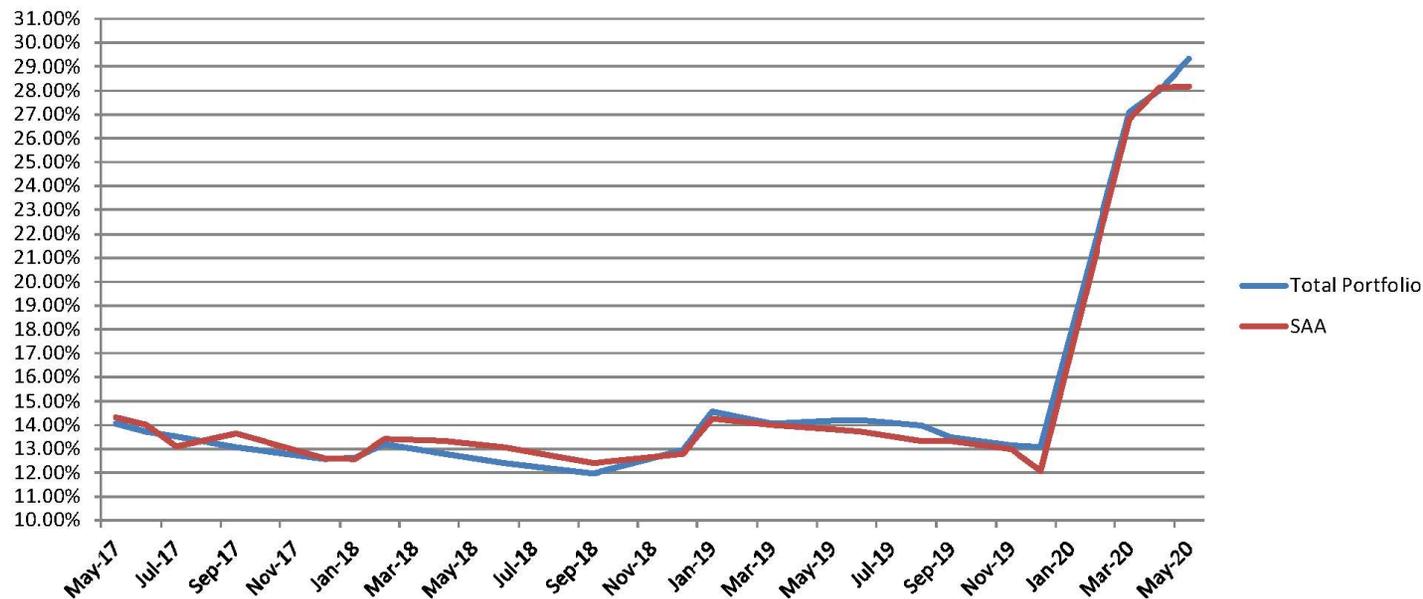
12.5 Basis Points Expected Excess Return with 12.5 Basis Points Expected Tracking Error



Total Portfolio Value-at-Risk at 5/31/2020

▀ Total Portfolio Value-At-Risk (VAR)

As of May 31st, 2020 Total VaR for ASRS Portfolio was 29.32%, indicating that there is a 5% chance that portfolio could lose ~\$11.35B in a given year. Note that a 5% event is expected to occur every 20 years



Agenda Item #5

MEMORANDUM

TO: Mr. Jim Hillyard, Chair, Arizona State Retirement System (ASRS) Board

FROM: Mr. Paul Matson, Director

DATE: July 21, 2020

RE: **Agenda Item #5:** Update on the Operational, Investment, and Program Statuses of the ASRS as a result of the Current Pandemic Situation

Trustees:

Please find the following material as background with respect to the various indicators that are utilized to monitor deviations in the following key areas:

1. Work From Home
2. Customer Service
3. Investment Positioning
4. Aggregate Cash Flows

In addition, we are currently following COVID-19 related utilization and related metrics for our health insurance programs.

1. Work-From-Home Summary Reports:

In summary, the ASRS is working at full capacity (with the exception of not allowing physical meetings with members other than by exception) with approximately 5-10% of its workforce in the office on an average day.

Staffing Update: July 20					
Today	81%	7%	2%	5%	5%
	Telework	Office	Sick	Annual L	Flex
7 day Average	85%	6%	3%	3%	3%
People	174	16	5	10	10
Contractors	18	1			

Staffing Update: July 14

Today	90%	5%	1%	2%	1%
	Telework	Office	Sick	Annual L	Flex
7 day Average	84%	5%	3%	5%	2%
People	194	11	3	4	3
Contractors	18	1			

Staffing Update: July 7

Today	86%	5%	3%	6%	1%
	Telework	Office	Sick	Annual L	Flex
7 day Average	80%	8%	3%	6%	3%
People	185	10	6	12	3
Contractors	18	1			

Staffing Update: July 2

Today	75%	6%	5%	12%	3%
	Telework	Office	Sick	Annual L	Flex
7 day Average	80%	8%	4%	6%	3%
People	161	12	10	26	7
Contractors	18	1			

Staffing Update: June 10

Today	85%	8%	3%	3%	0%
	Telework	Office	Sick	Annual L	Flex
7 day Average	86%	7%	3%	2%	2%
People	184	17	7	7	1
Contractors	18	1			



2. Customer Service Summary Statistics:

ASRS Call Center: Calls answered in under 20 seconds

- March 13,250 calls answered, 96% Service Level
- April 11,810 calls answered, 98% Service Level
- May 10,968 calls answered, 99% Service Level
- June 13,434 calls answered, 95% Service Level
- Summary: Members waited only 3 seconds on average for their call to be answered during these 4 months.

ASRS Member Emails Responded within 1 Business Day

- March 1,980 messages answered, 99.7% Service Level
- April 2,119 messages answered, 99.6% Service Level
- May 2,052 messages answered, 99.8% Service Level
- June 2,403 messages answered, 97.9% Service Level
- Summary: Members waited approximately 41 minutes for response on average.

Employer Emails responded within 2 Business Days

- March 344 messages answered, 93% Service Level
- April 406 messages answered, 94% Service Level
- May 457 messages answered, 95% Service Level
- June 587 messages answered, 92% Service Level
- Summary: Employers waited approximately 6 hours on average for a response. This number includes some emails that required extensive research. The majority of employers receive a response in less than 2 hours.

Member Group Meeting attendance via Webinar during Pandemic

- March 416 members in attendance
- April 204 members in attendance
- May 453 members in attendance
- June 321 members in attendance
- Summary: While in previous years webinars were offered for member meetings, this year during the pandemic all member meetings were converted to webinars. ASRS saw increases in webinar attendance increase tenfold.

One on One Meetings (Telephonic + Remote Online Counseling) appointments during Pandemic

- March 177 telephonic appointments, 49 remote online counseling sessions
- April 163 telephonic appointments, 82 remote online counseling sessions
- May 69 telephonic appointments, 46 remote online counseling sessions
- June 39 telephonic appointments, 63 remote online counseling sessions
- Summary: When members call in to schedule an appointment the advisors let the member know the appointment will be telephonic or via remote online counseling through the web. The advisor also notifies the member that they would be happy to help them at that time rather than to wait for an appointment. While this has always been ASRS practice, more members are now taking advantage of the immediate assistance while the appointments have become more of the complex issues only.

In addition, please refer to the reports under Agenda Item #9 "Operations Reports" for the most recent data on additional specific key service metrics.



3. Investment Positioning Summary Reports:

TOTAL FUND POSITIONING as of Close July 16, 2020				
Asset Class	Prior Close \$	Prior Close %	iSAA Target %	Over/Under %
TOTAL EQUITY	\$ 21,603	52.4%	52.3%	0.1%
INTEREST RATE SENSITIVE	\$ 3,805	9.2%	10.4%	-1.2%
CREDIT	\$ 8,505	20.6%	20.0%	0.6%
REAL ESTATE	\$ 6,802	16.5%	17.3%	-0.8%
PHYSICAL CASH	\$ 654	1.6%	0.0%	1.6%
SYNTHETIC CASH	\$ (173)	-0.4%	0.0%	-0.4%
FUTURES MARGIN	\$ 51	0.1%	0.0%	0.1%
OTHER	\$ 0	0.0%	0.0%	0.0%
Total Fund	\$ 41,249	100.0%	100.0%	0.0%

TOTAL FUND POSITIONING as of Close July 7, 2020				
Asset Class	Prior Close \$	Prior Close %	iSAA Target %	Over/Under %
TOTAL EQUITY	\$ 21,270	52.3%	52.3%	0.0%
INTEREST RATE SENSITIVE	\$ 3,788	9.3%	10.4%	-1.1%
CREDIT	\$ 8,520	21.0%	20.0%	1.0%
REAL ESTATE	\$ 6,772	16.7%	17.3%	-0.6%
PHYSICAL CASH	\$ 615	1.5%	0.0%	1.5%
SYNTHETIC CASH	\$ (364)	-0.9%	0.0%	-0.9%
FUTURES MARGIN	\$ 63	0.2%	0.0%	0.2%
OTHER	\$ 0	0.0%	0.0%	0.0%
Total Fund	\$ 40,664	100.0%	100.0%	0.0%

TOTAL FUND POSITIONING as of Close July 1, 2020				
Asset Class	Prior Close \$	Prior Close %	*iSAA Target %	Over/Under %
TOTAL EQUITY	\$ 20,960	52.0%	52.3%	-0.3%
INTEREST RATE SENSITIVE	\$ 3,773	9.4%	10.4%	-1.0%
CREDIT	\$ 8,523	21.1%	20.0%	1.1%
REAL ESTATE	\$ 6,763	16.8%	17.3%	-0.5%
PHYSICAL CASH	\$ 600	1.5%	0.0%	1.5%
SYNTHETIC CASH	\$ (370)	-0.9%	0.0%	-0.9%
FUTURES MARGIN	\$ 57	0.1%	0.0%	0.1%
OTHER	\$ 0	0.0%	0.0%	0.0%
Total Fund	\$ 40,306	100.0%	100.0%	0.0%

TOTAL FUND POSITIONING as of Close June 23, 2020				
Asset Class	Prior Close \$	Prior Close %	iSAA Target %	Over/Under %
TOTAL EQUITY	\$ 21,176	52.0%	52.3%	-0.3%
INTEREST RATE SENSITIVE	\$ 3,763	9.2%	10.4%	-1.2%
CREDIT	\$ 8,473	20.8%	20.0%	0.8%
REAL ESTATE	\$ 6,747	16.6%	17.3%	-0.7%
PHYSICAL CASH	\$ 875	2.1%	0.0%	2.1%
SYNTHETIC CASH	\$ (374)	-0.9%	0.0%	-0.9%
FUTURES MARGIN	\$ 59	0.1%	0.0%	0.1%
OTHER	\$ 0	0.0%	0.0%	0.0%
Total Fund	\$ 40,719	100.0%	100.0%	0.0%



4. Cash Flow Aggregate Report:

ARIZONA STATE RETIREMENT SYSTEM
 COMBINED STATEMENT OF CHANGES IN TOTAL FUND CASH
 FOR THE MONTH ENDED JUNE 30, 2020

	Retirement Plan Fund	Retirement System Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Current Period June	Fiscal 2020 YTD June	Fiscal 2019 YTD June
ADDITIONS							
Contributions							
Member contributions	\$ 123,049,077	\$ -	\$ -	\$ 1,756,762	\$ 124,805,840	\$ 1,291,006,841	\$ 1,210,479,373
Employer contributions	117,922,571	-	5,049,771	1,756,769	124,729,111	1,292,235,570	1,211,234,969
Alternative contributions (ACR)	3,216,300	-	15,633	21,874	3,253,807	34,030,895	33,694,630
Transfers from other plans	-	-	-	-	-	1,094,372	1,306,982
Purchased service	902,832	-	687	426	903,945	14,004,794	17,234,845
TOTAL CONTRIBUTIONS	245,090,780	-	5,066,092	3,535,831	253,692,703	2,632,372,473	2,473,950,799
DEDUCTIONS							
* Investment management fees	564,469	2,931	24,587	2,222	594,209	7,199,043	20,466,390
** Investment performance fees	-	-	-	-	-	365,905	-
*** Investment other fees	-	-	-	-	-	30,230	-
Custody fees	-	-	-	-	-	1,274,887	2,106,819
Consultant and legal fees	470,586	-	-	-	470,586	8,553,081	7,352,606
Internal investment activity expense	443,112	-	-	-	443,112	4,137,539	4,666,065
Retirement and disability benefits	267,529,143	2,868,979	11,843,252	4,543,795	286,785,169	3,418,948,270	3,288,032,103
Survivor benefits	5,863,669	-	-	-	5,863,669	52,949,583	47,334,988
Refunds to withdraw ing members, including interest	25,654,947	-	-	-	25,654,947	242,251,526	261,974,942
Administrative expenses	2,237,853	-	-	118,667	2,356,520	31,165,265	30,824,954
Transfers to other plans	168,648	-	-	-	168,648	962,368	163,279
Other	-	-	-	-	-	235	640,639
TOTAL DEDUCTIONS	302,932,427	2,871,910	11,867,839	4,664,684	322,336,860	3,767,837,931	3,663,562,784
INCREASE (DECREASE)	(57,841,647)	(2,871,910)	(6,801,748)	(1,128,853)	(68,644,158)	(1,135,465,458)	(1,189,611,985)
From securities lending activities:							
Security loan program	297,097	-	-	-	297,097	4,498,748	6,609,234
Security loan interest expense / (Rebate)	(200,557)	-	-	-	(200,557)	(241,402)	244,855
****Net income from securities lending activities	497,654	-	-	-	497,654	4,740,150	6,364,379
*****Capital Calls / (Distributions)							
Distressed Debt Total	(2,621,760)	(13,612)	(114,197)	(10,318)	(2,759,887)	(242,012,272)	275,803,240
Private Debt	-	-	-	-	-	-	(61,242,854)
Private Debt - European Credit Total	(20,186,473)	(104,809)	(879,272)	(79,446)	(21,250,000)	141,165,999	117,874,999
Private Debt - US Corporate Total	(16,218,793)	(84,208)	(706,450)	(63,831)	(17,073,282)	597,209,292	213,802,912
Private Debt - US RE and Asset Backed Total	(17,574,106)	(91,245)	(765,484)	(69,165)	(18,500,000)	(259,340,470)	(65,754,668)
Private Equity	(14,419,024)	(74,864)	(628,057)	(56,748)	(15,178,693)	(15,253,467)	(66,046,348)
Real Estate	192,106,206	997,420	8,367,666	756,057	202,227,349	789,547,303	777,920,776
Owned Real Estate	-	-	-	-	-	(642,900)	432,800
Other Credit Total	40,057,640	207,980	1,744,811	157,652	42,168,083	586,899,242	(98,709,806)
TOTAL Capital Calls	161,143,690	836,662	7,019,017	634,201	169,633,570	1,597,572,727	1,094,081,051
NET INCREASE (DECREASE)	\$ (218,487,683)	\$ (3,708,572)	\$ (13,820,765)	\$ (1,763,054)	\$ (237,780,074)	\$ (2,728,298,035)	\$ (2,277,328,657)

* Investment management fees for public investment managers and other managers paid by invoice. Does not include management fees paid through capital calls.

** Investment performance fees paid by invoice. Does not include performance fees paid through capital calls.

*** Investment other fees paid to White Oak. Does not include performance fees paid through capital calls.

**** Securities lending activities reported on a one month lag.

***** Capital calls / (Distributions) include investment management, incentive and other fees that were paid through capital call, rather than payment of an invoice, or through a reduction of a distribution.

Current period private market activity totals represent the best available preliminary information provided by our custodial bank. Changes in preliminary reported information for prior months are reflected in the year-to-date column.



Agenda Items #6

No Materials

Agenda Item #7



Fiduciary Duties

Arizona State Retirement System Board of Trustees

Cassie Adams, Assistant Attorney General
Arizona Attorney General's Office

Modified From Original Presentation Prepared By
AAG Jothi Beljan

FIDUCIARY DEFINED

Black's Law Dictionary

- Fiduciary - A person holding the character of a trustee in respect to the trust and confidence involved in it and the scrupulous good faith and candor which it requires. A person having duty, created by his undertaking, to act primarily for another's benefit in matters connected with such undertaking. The status of being a fiduciary gives rise to certain legal incidents and obligations, including the prohibition against investing the money or property in investments which are speculative or otherwise imprudent.

Fiduciaries Identified by the Employee Retirement Income Security Act (ERISA)

A Fiduciary is any person who:

1. Exercises any discretionary authority or control over the plan's management;
2. Exercises any authority or control over the management or disposition of the plan's assets;
3. Renders investment advice for a fee or other compensation with respect to plan funds or property; or
4. Has any discretionary authority or responsibility in the plan's administration.

The Duties of a Fiduciary

- Duty of Loyalty
- Duty of Prudence
- Duty to Administer the Trust in Accordance with its Terms and Applicable Law

Duty of Loyalty

Third Restatement of Trusts, § 7

- (1) Except as otherwise provided in the terms of the trust, a trustee has a duty to administer the trust solely in the interest of the beneficiaries, or solely in furtherance of its charitable purpose.
- (2) Except in discrete circumstances, the trustee is strictly prohibited from engaging in transactions that involve self-dealing or that otherwise involve or create a conflict between the trustee's fiduciary duties and personal interests.
- (3) Whether acting in a fiduciary or personal capacity, a trustee has a duty in dealing with a beneficiary to deal fairly and to communicate to the beneficiary all material facts the trustee knows or should know in connection with the matter.

General Comment:

- **a. The trustee and the trust relationship.** It follows from the nature of the trust relationship that the trustee stands in a fiduciary relationship with respect to the beneficiaries as to all matters within the scope of the trust relationship, that is, all matters involving the administration of the trust and its property. The duty of loyalty is, for trustees, particularly strict even by comparison to the standards of other fiduciary relationships.

Duty of Prudence

Third Restatement of Trusts, §77

- (1) The trustee has a duty to administer the trust as a prudent person would, in light of the purposes, terms, and other circumstances of the trust.
- (2) The duty of prudence requires the exercise of reasonable care, skill, and caution.
- (3) If the trustee possesses, or procured appointment by purporting to possess, special facilities or greater skill than that of a person of ordinary prudence, the trustee has a duty to use such facilities or skill.

Test of Prudence

General Comment (a)

- In matters relating to the administration of the trust, the trustee has a duty to exercise prudence—that is, to act with care, skill, and caution (Comment b)—as well as a duty to adhere to the other fiduciary standards described in other Sections of this Chapter.
- The test of prudence is one of conduct not of performance. The trustee's conduct, and compliance with other fiduciary standards, is to be judged as of the time of the decision or action in question.
- Thus, the prudence of a trustee's conduct is to be judged on the basis of circumstances at the time of that conduct, not with the benefit of hindsight or by taking account of developments that occur after the time of the action or decision. Also, whether a breach of trust has occurred depends on the prudence or imprudence of the trustee's conduct, not on the eventual results of managerial or other decisions. Investment performance or other results of trustee conduct become relevant, however, when a breach of trust is found and the measure of liability is in issue.
- On prudence in the investment function, see §§ 90- 92 (the “Prudent Investor Rule”). On prudence in delegation, see § 80 and also § 90, Comment j. On prudence and its application to a trustee's exercise of certain powers, see § 86.

Elements of Prudence: Care, Skill and Caution

- The duty of prudence encompasses the duty to exercise reasonable care and skill in trust administration and the duty to act with a degree of caution suitable to the particular trust and its objectives, circumstances, and overall plan of administration

Care

- The duty of care requires the trustee to exercise reasonable effort and diligence in planning the administration of the trust, in making and implementing administrative decisions, and in monitoring the trust situation, with due attention to the trust's objectives and the interests of the beneficiaries. This will ordinarily involve investigation appropriate to the particular action under consideration, and also obtaining relevant information about such matters as the contents and resources of the trust estate and the circumstances and requirements of the trust and its beneficiaries. (More generally, cf. Comment b(1).)
- As necessary or appropriate to informed decision making, care may also call for obtaining and considering the advice of others on a reasonable basis (cf. § 88 on proper expenses). It is ordinarily satisfactory that information or advice be obtained from sources on which prudent property owners or managers in the community customarily rely. (On the possible effects of trustees' reliance on the work of agents or on the advice of financial or legal counsel, see Comment b(2) and § 80, Comment g, and Reporter's Notes to those Comments.)

Skill

- More is required than the exercise of reasonable care alone, for a trustee may be liable for losses that result from failure to use the skill of an individual of ordinary intelligence, despite use of all the skill the particular trustee possesses. A person who serves as trustee should be reasonably able to understand the basic duties of prudent trusteeship. The practical need in trust law for some objective standard in these matters means that some persons are not properly capable of serving as trustees.
- The fact that some aspects of a trust's administration may require knowledge and experience greater than that of a particular individual of ordinary intelligence, however, does not normally prevent that person from serving as trustee. This just emphasizes the importance of obtaining competent guidance and assistance (*supra*) sufficient to meet the standards required by the combination of care and skill in a given situation. Simple, written guidelines prepared by legal counsel may be helpful for a trustee's general reference, or for presentation by an inexperienced trustee in conferring with a financial or other adviser or agent. Cf. § 80 on delegation (and *id.*, Comment b, on advice and consultation). Essentially, a trustee may either possess or hire the degree and types of skill needed for a specific transaction or required more generally by the needs and strategies of the particular trust's administration. See Comment b(1).
- **Care + Skill:** Thus, these two basic standards of trusteeship are neither excessively demanding nor monolithic, neither precluding conscientious service by friends or family members nor permitting casual, inattentive behavior by trustees who are able to meet a standard of competence and conduct higher than the ordinary. (See Comment e.)

Act with Caution

- In addition to the duty to use care and skill, the trustee must exercise the caution of a prudent person managing similar assets for similar purposes. The duty to act with caution does not, of course, mean the avoidance of all risk, but refers to a degree of caution that is reasonably appropriate or suitable to the particular trust, its purposes and circumstances, the beneficiaries' interests, and the trustee's plan for administering the trust and achieving its objectives.
- On the standards of **care, skill, and caution** imposed on a trustee in making and monitoring investments, for which the duty of prudence has its most significant application in most trusts, see §§ 90- 92. Also, see generally § 86 for illustrative applications of the requirement of prudence (and other duties) in the exercise of various powers of trustees.

General Standard of Prudent Investment

Third Restatement of Trusts, § 90

The trustee has a duty to the beneficiaries to invest and manage the funds of the trust as a prudent investor would, in light of the purposes, terms, distribution requirements, and other circumstances of the trust.

- (a) This standard requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation but in the context of the trust portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the trust.
- (b) In making and implementing investment decisions, the trustee has a duty to diversify the investments of the trust unless, under the circumstances, it is prudent not to do so.
- (c) In addition, the trustee must:
 - (1) conform to fundamental fiduciary duties of loyalty (§ 78) and impartiality (§ 79);
 - (2) act with prudence in deciding whether and how to delegate authority and in the selection and supervision of agents (§ 80); and
 - (3) incur only costs that are reasonable in amount and appropriate to the investment responsibilities of the trusteeship (§ 88).
- (d) The trustee's duties under this Section are subject to the rule of § 91, dealing primarily with contrary investment provisions of a trust or statute.

Scope of the Prudent Investor Rule

- Except as otherwise provided by the terms of the trust (see §§ 4 and 91), the trustee has a duty to preserve the trust property (see § 76, Comment d) and to make it productive (see § 76, Comment e). In doing so the trustee must exercise reasonable care, skill, and caution (§ 77) and must act with undivided loyalty to the beneficiaries (§ 78) and with impartiality among them (§ 79). This Chapter deals with the trustee's performance of these duties in making and reviewing investments.
- The prudent investor rule stated in this Section is an extension and clarification of the traditional, so-called “prudent man rule” originally articulated by the Massachusetts Supreme Judicial Court and followed by most states in the recent past. The prudent investor rule or an earlier but comparable rule has been adopted by statute in nearly all jurisdictions. (See Forenote to this Chapter.) In several states, the investment authority of trustees remains or may remain somewhat more restricted, at least for some trustees. See § 91.
- Several bodies of state and federal legislation dealing with various types of charitable, pension, or public funds have for several decades incorporated rules more or less similar to the prudent investor rule. See § 91. The principles of this Section are generally appropriate to those statutory rules, both by analogy and when those rules incorporate general principles of trust law. Specific provisions and special circumstances or relationships involved in the application of those statutory rules, however, may present different considerations. See, e.g., discussion of the ERISA statute in the Reporter's General Note.

Prudent Investor Rule

- In the absence of a contrary statutory provision, a trustee may generally invest in such properties and in such manner as expressly or impliedly authorized by the terms of the trust. Assuming no contrary trust provision, however, the rule of this Section describes the nature of the investment authority and duties normally to be implied.
- The Comments that follow in this Section describe how the trustee's general fiduciary duties apply to the investment function (Comments b through e), then explain the trustee's specific responsibilities in regard to risk, diversification, impartiality, and delegation (Comments f through j), and finally discuss principles and legally relevant considerations applicable to specific types of investments and courses of action (Comments k through p). The significance and effects of particular investment provisions that may appear in legislation or in the terms of a trust are considered in § 91. The influence an existing portfolio of investments may have on the trustee's duties, especially at the start of administration, is discussed in § 92.
- Note: The Reporter's General Note on this Section (§ 90), Comments e through h, briefly discusses investment principles that may be helpful in understanding the legal principles in the rules and commentary. That discussion attempts to provide an introduction to investment concepts and strategies and to the nature and significance of such concepts as risk, diversification, and capital-market efficiency.

Prudent Investor Rule: Duty to Conform to Fiduciary Standards

- Trustees have a general fiduciary duty to comply with the terms of their trusts. See § 91, and more generally § 76. The nature and extent of a trustee's duties and powers are primarily determined by the terms of the trust. See §§ 70 and 85. The phrase “terms of the trust” is broadly defined to include intentions of the settlor manifested in any way that admits of proof in a judicial proceeding. See generally § 4. Thus, the trust terms, expressed and implied, may be derived from written or spoken words, circumstances surrounding the establishment of the trust, and sometimes statutory language that is automatically imported into trusts or by which some trusts are established. *Id.*, Comments a and g. The terms may also be affected by subsequent modifications and by limitations imposed by applicable law. See § 76, Comment b(1).
- In managing investments, as in other matters relating to the administration of the trust, the trustee must adhere to fundamental fiduciary standards. See generally the basic standards referred to in §§ 70 and 86 and set out in Chapter 15 (§§ 76 through 84); and that cost-conscious management is fundamental to prudence in the investment function, see Introductory Note to this Chapter (“Principles of Prudence,” item (3)), Reporter's General Note (and also Additional Notes) on Comments e through h, Reporter's Note on Comment m, and, more generally § 88. The trustee's duties apply not only in making investments but also in monitoring and reviewing investments, which is to be done in a manner that is reasonable and appropriate to the particular investments, courses of action, and strategies involved.
- The trustee's compliance with these fiduciary standards is to be judged as of the time the investment decision in question was made, not with the benefit of hindsight or by taking account of developments that occurred after the time of a decision to make, retain, or sell an investment. The question of whether a breach of trust has occurred turns on the prudence and propriety of the trustee's conduct, not on the eventual results of investment decisions. The trustee is not a guarantor of the trust's investment performance. See § 77 and more generally Chapter 19.

Duty to Administer the Trust in Accordance with Its Terms and Applicable Law

Third Restatement of Trusts, §76

- (1) The trustee has a duty to administer the trust, diligently and in good faith, in accordance with the terms of the trust and applicable law.
- (2) In administering the trust, the trustee's responsibilities include performance of the following functions
 - (a) ascertaining the duties and powers of the trusteeship, and the beneficiaries and purposes of the trust;
 - (b) collecting and protecting trust property;
 - (c) managing the trust estate to provide returns or other benefits from trust property; and
 - (d) applying or distributing trust income and principal during the administration of the trust and upon its termination.

Investment Provisions of Statute or Trust

Third Restatement of Trusts, §91

In investing the funds of the trust, the trustee

(a) has a duty to conform to any applicable statutory provisions governing investment by trustees; and

(b) has the powers expressly or impliedly granted by the terms of the trust and, except as provided in §§ 66 and 76, has a duty to conform to the terms of the trust directing or restricting investments by the trustee.

Trustee's Role

General Comment

- The prudent investor rule of § 90 is subject to the trustee's duty to respect applicable statutes and the terms of the trust, as that duty is described in this Section. See also § 76; and see *id.*, Comment b(1), recognizing that most—but not all—trust fiduciary law is default law and therefore not applicable to the extent permissibly modified by trust terms.
- Nearly all states (as of 2006) have enacted a version of the prudent investor rule or comparable principles by statute. (See Forenote to this Chapter.) Also, analogous principles have been enacted by statute in most states to govern investment practices of charitable institutions and have been adopted by federal statutes and regulations to govern investment practices of private foundations and major types of pension funds. (On the relationship between these special rules and the prudent investor rule, see § 90, Comment a.) In several states the investment authority of trustees remains somewhat more limited by statute, for at least some trustees, in the absence of contrary trust provision.
- The terms of trusts often restrict, otherwise alter, or guide the trustee's common-law or statutory authority and responsibilities in investment matters, in either general or specific ways. These provisions sometimes leave important questions of interpretation to be dealt with by courts, trustees, and beneficiaries.

Trustee's Role

Statutory Investment Rules

- As noted in Comment a, most states have legislation adopting prudent-investor principles to govern investments by trustees; a few of these states have also preserved some traditional language of the so-called “prudent-man rule.” The rule of § 90 applies to these various statutory rules, except as clearly inconsistent with specific provisions of the statute. The designedly flexible and general terms and objectives of the modern statutes should not be encumbered by adherence to or rigid interpretation of decisions emanating from different economic circumstances, lesser knowledge of financial markets, and now outmoded investment concepts and offerings.
- Although now in general disfavor, more restrictive statutory rules governing investments, by at least some fiduciaries, still exist in several states. So-called “legal list” statutes may limit some trustees (absent contrary trust provision) or other fiduciaries to such specified investments as government securities, first mortgages on land, and, more recently, prescribed types of corporate bonds and perhaps stocks.

Federal Fiduciary Requirements

Internal Revenue Code, §401(a)(2)

- A qualified plan's trust instrument must make it impossible, at any time prior to the satisfaction of all liabilities with respect to employee and their beneficiaries under the trust, for any part of the corpus or income to be (within the taxable year or thereafter) or diverted to, purposes other than for the exclusive benefit of employees or their beneficiaries.

Federal Fiduciary Requirements

IRS Revenue Rulings 69-494 and 72-6

I.R.C. Section 401(a)(2) Fiduciary/ exclusive benefit Requirements are applicable to Investments as well as direct distributions. Investments must meet the following criteria:

1. The investment's cost does not exceed its fair market value at the time of the purchase.
2. The investment provides a fair return commensurate with the prevailing rate.
3. The plan maintains sufficient liquidity to permit distributions in accordance with terms of the plan.
4. The safeguards and diversity that a prudent investor would adhere to are present.

Federal Fiduciary Requirements

Internal Revenue Code, §457 - Deferred compensation plans of State and local governments and tax-exempt organizations

(g) Governmental plans must maintain set-asides for exclusive benefit of participants

(1) In general

A plan maintained by an eligible employer described in subsection (e)(1)(A) shall not be treated as an eligible deferred compensation plan unless all assets and income of the plan described in subsection (b)(6) are held in trust for the exclusive benefit of participants and their beneficiaries.

Federal Fiduciary Requirements

The ERISA Standard - 29 U.S.C. § 1104

A fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and—

- (A) for the exclusive purpose of: (i) providing benefits to participants and their beneficiaries; and (ii) defraying reasonable expenses of administering the plan;
- (B) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
- (C) by diversifying the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and
- (D) in accordance with the documents and instruments governing the plan insofar as such documents and instruments are consistent with the provisions of this subchapter and subchapter III of this chapter.

Arizona Fiduciary Requirements

Arizona Constitution, Article 29

Public Retirement Systems

- A. Public retirement systems shall be funded with contributions and investment earnings using actuarial methods and assumptions that are consistent with generally accepted actuarial standards.
- B. **The assets of public retirement systems, including investment earnings and contributions, are separate and independent trust funds and shall be invested, administered and distributed as determined by law solely in the interests of the members and beneficiaries of the public retirement systems.**
- C. Membership in a public retirement system is a contractual relationship that is subject to article II, section 25, and public retirement system benefits shall not be diminished or impaired.

Investment Fiduciary Requirements

Prudent Person vs. Prudent Investor Rule

1. The Prudent Person (Prudent Man) Rule requires fiduciaries of a retirement system to evaluate an investment in isolation rather than view it as part of the total portfolio.
2. The Prudent Investor Rule requires fiduciaries of a retirement system to evaluate an investment as part of the total portfolio rather than view it in isolation. **This is the standard for ERISA and Arizona.**

ARIZONA'S OPEN MEETING LAW BASICS

CASSIE ADAMS, ASSISTANT ATTORNEY GENERAL

ORIGINAL PRESENTATION PREPARED BY JOY HERNBRODE
AND KELLY GILLILAN-GIBSON
ASSISTANT ATTORNEYS GENERAL
ARIZONA ATTORNEY GENERAL'S OFFICE

LEGISLATIVE INTENT: OPENNESS IN GOVERNMENT

- ◆ Arizona's public policy requires that official deliberations and proceedings be conducted openly
- ◆ Any uncertainty should be resolved in favor of open and public meetings

A.R.S. § 38-431.09

WHO is subject to the Open Meeting Law?

“PUBLIC BODY”

- ◆ Arizona Attorney General Opinion I07-001

- ◆ “Public Body” means:

The Legislature, all boards and commissions of this state or political subdivisions, all multimember governing bodies of departments, agencies, institutions and instrumentalities of the state or political subdivisions, including without limitation all corporations and other instrumentalities whose boards of directors are appointed or elected by the state or political subdivision.

- ◆ All quasi judicial-bodies and all standing, special or advisory committees or subcommittees of, or appointed by, the public body.

A.R.S. § 38-431(6)

THE ASRS BOARD OF TRUSTEES IS A PUBLIC BODY AND IS SUBJECT TO OPEN MEETING LAWS



ADVISORY COMMITTEES & SUBCOMMITTEES

- ◆ “Advisory Committee” or “Subcommittee” means:
 - ◆ Any entity, however designated;
 - ◆ Officially established on motion or order of the public body or by the presiding officer;
 - ◆ Appointed to make a recommendation concerning a decision to be made or considered by the public body.
 - ◆ Doesn’t matter if the committee is made up of entirely non-Board members. *Attorney*

General Opinion 180-202

A.R.S. §38-431(1)

ADVISORY COMMITTEES & SUBCOMMITTEES

- ◆ Must comply with all Open Meeting Law requirements
- ◆ Must take minutes or make recordings of their meetings

WHEN does the Open Meeting Law apply?

WHAT IS A “MEETING”?

- ◆ **Gathering, in person or through technological devices**
 - Phone, email, fax, videoconference
- ◆ **Of a quorum, that**
 - ◆ Discusses, proposes or takes legal action, including deliberations. A.R.S. § 38-431(4)

WHAT IS A QUORUM?

- ◆ Generally in Arizona, a quorum is a majority of a board or commission.
- ◆ Look to your statutes and rules.
- ◆ Vacancies DO count toward the number of members of a board unless your statutes/laws say otherwise.

IS IT STILL A MEETING UNDER THE OPEN MEETING LAWS IF YOU DON'T HAVE QUORUM?

◆ You don't have a Quorum-then technically it is not a meeting

BUT

◆ Beware of serial communications

◆ Beware of “wheel and spoke” communications

- Meeting with individual members
 - Reporting what other members said
- Polling the members

DISCUSSING, PROPOSING OR TAKING LEGAL ACTION

- ◆ Normal use and meaning of these words will apply.
- ◆ Proposing legal action = “put forward for consideration, discussion, or adoption.”
- ◆ Includes deliberations = discussion of facts and opinions re: potential board business.
- ◆ **RULE:** If this occurs among a quorum of the Board IT IS A MEETING.

EMAIL COMMUNICATIONS

- ◆ **E-mail communications among a quorum of a public body are subject to the same restrictions that apply to all other forms of communication among a quorum.**

E-MAIL COMMUNICATIONS

Attorney General Opinion-No. 105-004, July 25, 2005

- ◇ Cannot use e-mail to circumvent open meeting laws
- ◇ Splintering the quorum or having separate discussions with each Board member is a violation of the open meeting law
- ◇ One way communication may be violative of the open meeting law if it proposes legal action

E-MAIL COMMUNICATION SUBJECT TO OML

- ◆ **E-mails among a quorum that involve discussions, deliberations or taking legal action on matters that may reasonably be expected to come before the board constitute a meeting through technological means.**
- ◆ **Does not have to be simultaneous**

E-MAIL COMMUNICATION SUBJECT TO OML

- ◆ **A one-way e-mail communication by one member to a quorum of members that proposes legal action is a violation even if there is no discussion, deliberation or legal action taken.**

PROPOSING AN AGENDA ITEM?

- ◆ Proposing an item for the agenda via e-mail is allowed if you do not propose legal action.
- ◆ Communicate the TOPIC only and NOT the legal action you want the board to take.
- ◆ Do not discuss, deliberate, or take legal action regarding the proposed agenda item.

“PROPOSE” – EXAMPLES IN THE OPINION

◆ **“Councilperson Smith was admitted to the hospital last night”**

- Does NOT propose legal action

◆ **“We should install a crosswalk at First and Main”**

- Does propose legal action

It's more than a topic for the agenda because it urges or suggests an outcome

ONE-WAY E-MAIL FROM STAFF

- ◆ Passive receipt of information from staff, without more, does not violate OML
- ◆ Staff may send e-mail to board members
- ◆ Staff may send agenda packets to board members

SUGGESTIONS FOR E-MAIL

- ◆ **If staff send e-mails to board members, you may want to include a notice that advises members not to forward the e-mail to other board members or copy other board members in their reply to staff.**

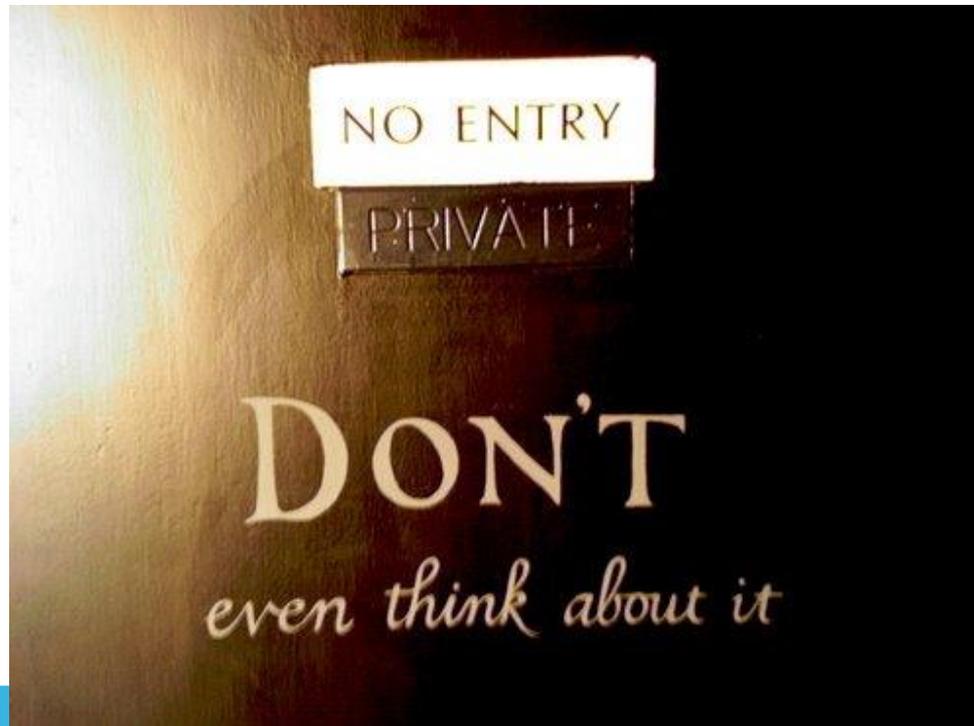
IMPROPER STAFF COMMUNICATION

- ◆ Staff may NOT send opinion or substantive communication about board business from a board member to enough other members to constitute a quorum
- ◆ Cannot use a third person to violate the OML
- ◆ A third person can be charged with a violation and pay penalties (A.R.S. §§ 38-431.01(I) and 38-431.07)

E-MAILS ARE PUBLIC RECORDS

- ◆ **E-mail communications of board members related to their official duties are public records that must be maintained for public inspection and reproduction.**

AVOIDING OPEN MEETING VIOLATIONS



AVOIDING OML VIOLATIONS

- ◆ **DO NOT discuss, propose, deliberate or take legal action on any potential board business between a quorum of the board outside a properly noticed public meeting.**
- ◆ **“Board business” – read broadly!
Includes anything that may foreseeably come before the board for action.**

IN SUMMARY . . .

- ◆ E-mail is a useful technological tool,
- ◆ But it must be used in a manner that follows the OML's mandate that all public bodies propose legal action, discuss, deliberate, and make decisions in public.

BY TELEPHONE/VIDEO CONFERENCING

- ◆ Allowed if the public body has approved this practice.
- ◆ The notice and agenda should indicate telephone/video participation.
- ◆ The public must be able to hear.
- ◆ Minutes should identify telephonic/video participants and describe public access.

WHAT ABOUT SOCIAL EVENTS?

◆ If more than a quorum may be present, best practice is to:

1. Post a “courtesy notice” announcing social event where a quorum may be present
2. Include statement that no public body business will be discussed and no action will be taken
3. Board members should avoid talking with each other - or have a witness!

HOW do you comply with the Open Meeting Law?

FIND A GOOD LOCATION

- ◆ Meetings must be accessible
- ◆ Discourage procedures that obstruct or inhibit public attendance such as:
 - Remote or inadequate location
 - Required sign in sheets-Only permissible for individuals desiring to speak at the meeting
 - Unreasonable time

GIVE THEM NOTICE

A.R.S. §38-431.02(A)

Public bodies of the State, counties and school districts shall:

- ◆ **Conspicuously post a statement on their website stating where all public notices of their meetings will be posted**
 - Include physical and electronic locations
 - Give additional public notice as is reasonable and practicable
- ◆ **Post all public meeting notices on their website and give additional public notice as is reasonable and practicable as to all meetings.**
- ◆ **A technological problem or failure that prevents posting or use of the website does not preclude the holding of the meeting if the public body complies with all other notice requirements.**

PHYSICAL POSTING LOCATION

- ◆ Post in a location where the public has reasonable access (unlocked building; geographically accessible)
- ◆ Post during normal business hours
- ◆ Make sure notice can't be “borrowed”
- ◆ Make sure front and back can be read if inside a locked display case

PRACTICAL POINTERS

- ◆ If you list multiple locations (website and physical, or multiple physical locations) the Agendas at each location **MUST** be the same and you **MUST** post at all the locations.
- ◆ If you want to post in multiple places do so, but only list **ONE** as your official location.

NOTICE OF MEETINGS

- ◆ Notice required at least 24 hours in advance of a meeting
- ◆ To all members of the public body
- ◆ To the public

A.R.S. § 38-431.02(C)

CONTENTS OF NOTICE

- ◆ The public body
- ◆ Date, time, place (address, room number)
- ◆ Agenda or how to obtain agenda
- ◆ Executive Session if applicable (cite specific statutory authority)
- ◆ Accommodations under the ADA

NOTICE OF REGULAR MEETINGS

Practical Pointers:

- ◆ **Consistent meeting times**
- ◆ **Avoid cancellations and rescheduling**
- ◆ **Be careful about scheduling special meetings and what makes the meeting special?**
 - Only schedule if necessary and give plenty of notice fro the meeting.

The meeting is special if it is out of the ordinary rotation.

PROOF OF POSTING

- ◆ **Document the date, time, and place of posting**
 - Consider creating a “Certification of Posting Notice”
- ◆ **Keep a record of notices and certifications of posting**

RECESSED & RESUMED MEETING

- ◆ Can recess and resume a meeting with less than 24 hours notice if proper public notice of initial session of the meeting is given and, prior to recessing, notice is publicly given regarding the time and place of the resumed meeting or regarding the method by which notice shall be publicly given.

A.R.S. §38-431.02(E)

AGENDA CONTENT

◆ Agendas must “list specific matters” to be

- Discussed,
- Considered or
- Decided
- At the meeting



◆ Must contain information reasonably necessary to inform the public

AGENDAS MUST BE UNDERSTANDABLE

- ◆ No acronyms
- ◆ Statutory cite is not enough without explanation
- ◆ No legalese
- ◆ No agency slang

AGENDA ITEMS

◆ Needs to include “specific” items to be discussed, considered or decided

◆ **NOT** GOOD ENOUGH without details:

■ “New business”

■ “Old business”

■ “Personnel”

■ “Announcements”

Agenda - Staff Mtg.

Production report issues

Staff party

New software implementation

Performance reviews - update

IF IT'S NOT ON THE AGENDA

- ◆ You **cannot** discuss it
- ◆ All discussion must be reasonably related to an adequately-described agenda item
- ◆ Add new items to the agenda for future meeting

WHAT IF THERE IS AN EMERGENCY?

- ◆ In the case of an actual emergency, a meeting may be held with such notice as is appropriate.
- ◆ May be either an open session, or executive session, or both.
- ◆ Must post a notice within 24 hours declaring that an emergency session has been held and what was discussed.

ARS § 38-431.02(D), (H), and (I)

BOARD MATERIALS

- ◆ **Members' packets**
- ◆ **State on the agenda where they will be available for public inspection**
- ◆ **Must be available 24 hours before the meeting**
- ◆ **Can charge reasonable fees for copies**

CHANGES IN AGENDA

- ◆ **Post and distribute same as original**
- ◆ **24 hour rule still applies**

EXECUTIVE SESSIONS

“gathering...from which the public is excluded...” (A.R.S § 38-431)

- ◆ **Must include in the notice that you may go into executive session if you plan to do so (cite specific statutory provision and subject matter)**
- ◆ **Executive Session is only allowed for specific types of items**

EXECUTIVE SESSIONS

- ◆ **Must first vote (in public session) to go into executive session**
- ◆ **Chair asks members of the public to leave the room or members adjourn to another room**
- ◆ **Chair is required to remind members that the matters discussed and minutes of the executive session are confidential**
- ◆ **DO NOT vote to exit executive session**

EXECUTIVE SESSIONS

- ◆ Just because you CAN have one, should you?
- ◆ Public suspicion vs. actual need

EXECUTIVE SESSIONS

- ◆ Only certain subjects are allowed
- ◆ Restrict discussion to purpose for which adjourned
- ◆ No ACTION permitted
- ◆ Must return to public session for a vote
- ◆ Must have Minutes from the Executive Session

EXECUTIVE SESSION CATEGORIES

- ◆ Personnel matters
- ◆ Confidential records
- ◆ Legal advice
- ◆ Litigation, contracts, and settlement discussions involving attorney consultation
- ◆ Employee salary discussions
- ◆ International, interstate, and tribal negotiations
- ◆ Purchase, sale, or lease of real property

A.R.S. §38-431.03(A)(1)-(7)

WHO MAY ATTEND EXECUTIVE SESSIONS?

- ◆ Members of the public body
- ◆ Officers, appointees, and employees but only as allowed in A.R.S § 38-431.03
- ◆ Auditor general in performance of official duties (A.R.S § 41-1279.04)
- ◆ “Only individuals whose presence is reasonably necessary in order for the public body to carry out its executive responsibilities.”

A.R.S § 38-431(2)

LEGAL ADVICE

- ◆ Discussion or consultation with attorneys *for the public body*
- ◆ Exchange of communication between lawyer and client
- ◆ Members may NOT discuss between themselves what action to take
- ◆ Members may NOT debate over what action to take - pros and cons; policy implications; alternatives
- ◆ Mere presence of an attorney does not make it legal advice
- ◆ Distinguished from legal consultation regarding litigation, contracts or settlement agreements
- ◆ ONLY provision where a general notice at top of agenda that board may go into executive session for any matter on the agenda is acceptable.

A.R.S. § 38-431.03(a)(3)

TAKING LEGAL ACTION

- ◆ **CANNOT do this in executive session**
- ◆ **Must return to public session to vote**
- ◆ **NO STRAW POLLS IN EXECUTIVE SESSION**

PERSONNEL

- ◆ Must be someone the public body has the authority to hire and fire
- ◆ Cannot use for groups of people, for example “Executive session to discuss reductions in pay for all employees.”
- ◆ Must give employee individual notice of executive session and opportunity to have it in open session
- ◆ Employee does not have to be present, but is entitled to minutes (but only related to the portion regarding the employee)
- ◆ Can do interviews, reviews, discipline, etc. in executive session

A.R.S. § 38-431.03(A)(1)

EXECUTIVE SESSION PITFALLS

- ◆ Failure to keep executive session discussion confidential
- ◆ Failure to advise persons about the confidentiality requirement A.R.S § 38-431.03(C)
- ◆ Practical pointer: Put a reminder right on the agenda for the chair to recite
- ◆ Individuals present who are not “reasonably necessary”

MINUTES

- ◆ **Must have them**
- ◆ **In writing or**
- ◆ **Recorded - audio or video tape**

A.R.S. §38-431.01(B)

CONTENTS OF MINUTES

- ◆ Date, time, place
- ◆ Members present/absent
- ◆ General description of matters discussed or considered
- ◆ Accurate description of legal actions proposed, discussed or taken
- ◆ Name of members who propose each motion and how each individual member votes
- ◆ Name of each person making statements or presenting material and a reference to the legal action addressed

CONTENTS OF EXECUTIVE SESSION MINUTES

- ◆ Date, time, place
- ◆ Members present/absent
- ◆ General description of matters discussed or considered
- ◆ Accurate description of instructions given to attorneys regarding contracts, litigation or settlement options
- ◆ Accurate description of instructions given to designated representatives regarding

Negotiations with employees for salary/benefits

Negotiations for purchase, sale or lease of real property

PUBLIC ACCESS TO MINUTES

- ◆ **Minutes or a recording of public session shall be available for public inspection 3 working days after the meeting**
- ◆ **Make tape available**
- ◆ **Can stamp as “draft”**

A.R.S. § 38-431.01(D)

PUBLIC ACCESS TO EXECUTIVE SESSION MINUTES

◆ Executive session minutes or recordings shall be kept confidential

A.R.S. § 38-431.03(B)

EXECUTIVE SESSION MINUTES

- ◆ **Must be kept confidential**
- ◆ **Keep separate tapes and minutes for public and executive sessions**
- ◆ **Consider – more detail may be better**

WHO MAY HAVE ACCESS TO EXECUTIVE SESSION MINUTES?

- ◆ Members of the public body, including members who did not attend meeting
- ◆ Officer, appointee or employee who was the subject of the meeting authorized by A.R.S. §38-431.03(a)(1) but only the portion that concerns that person
- ◆ Attorney for the public body
- ◆ Auditor general
- ◆ Attorney general or county attorney investigating open meeting law violations
- ◆ The court when open meeting law violations have been alleged

A.R.S. § 38-431.03(B)

SEPARATE TAPES AND MINUTES

- ◆ **Use separate tapes and written minutes for the public sessions and the executive sessions**
- ◆ **Makes prompt disclosure possible without redaction**

PUBLIC'S RIGHTS

- ◆ Must be permitted to attend meeting
- ◆ Cannot require them to sign in
- ◆ Not permitted to speak, unless public body allows it
- ◆ If they make presentation, must identify themselves (required for Minutes)
- ◆ Cannot disrupt proceedings (but make a good record before removing someone)
- ◆ Can limit speaking time of each speaker

MEETING “ETIQUETTE”

Discourage the Following:

- ◆ Whispering to other Board members
- ◆ Passing notes between Board members
- ◆ Letting members of the public talk to each member before the meeting starts with their hands over the microphone
- ◆ If it’s about business of the public body, this could become a violation
- ◆ In any event, it looks like a violation

CALLS TO THE PUBLIC

- ◆ Optional
- ◆ Be fair
- ◆ Avoid getting into a discussion of matters not on the agenda
- ◆ Public body's response is limited:
 - Direct staff to study the matter
 - Respond to criticism

Schedule matter for future meeting

A.R.S. §38-431.01(H)

PUBLIC'S RECORDING OF PROCEEDINGS

- ◆ **Public may record on tape, camera or video**
- ◆ **May restrict only if it truly interferes with conduct of the meeting**

A.R.S. § 38-431.01(F)

**WHAT happens if
there is a
problem?**

WHAT TO DO IF YOU KNOW YOU HAVE A VIOLATION

- ◆ Ratify (A.R.S. § 38-431.05(B))
- ◆ Consider self-reporting
- ◆ Cooperate with County Attorney, AG, or Ombudsman's Office and move early to remedy the problem
- ◆ Consider training and changes to policy to prevent violations in the future
- ◆ Think about the public perception

WHAT CAN THE AG OR COUNTY ATTORNEY DO?

- ◆ Investigate
- ◆ May issue “investigative demands”
- ◆ May conduct examinations under oath
- ◆ May require written statements under oath
- ◆ May file enforcement action in Superior Court

A.R.S. § 38-431.05

ARIZONA OMBUDSMAN'S OFFICE

- ◆ **Can investigate Open Meeting Law and Public Records complaints**
- ◆ **Can take anonymous complaints**
- ◆ **Offers training**

PRIVATE PARTIES

- ◆ Open Meeting Law allows private rights of action.
- ◆ May have to pay attorneys fees and costs
- ◆ If court finds “intent to deprive the public of information or opportunity to be heard”- could require the board member to pay out of his or her own pocket

A.R.S. § 38-431.07

RATIFICATION

- ◆ **Must take place within 30 days after discovery of the violation or after discovery should have been made**
- ◆ **Clear indication in agenda and notice of ratification**
- ◆ **Detailed written description of violation and all associated deliberations, consultations and decisions available to the public**
- ◆ **Notice a written description available 72 hours before the meeting**

PENALTIES

- ◆ Action is null and void, unless ratified (A.R.S. § 38-431.05)
- ◆ Imposition of a civil penalty (up to \$500 for second offense and \$2500 thereafter) for each violation
 - Against anyone who commits a violation
 - Against anyone who knowingly aids, agrees to aid or attempts to aid another in committing a violation

Individual, not public body, pays penalty

A.R.S. § 38-431.07

REMOVAL FROM OFFICE

Court may remove the public officer from office if the intention was to deprive the public of information or opportunity to be heard

A.R.S. § 38-431.07

RESOURCES

Arizona Agency Handbook

<https://www.azag.gov/sites/default/files/docs/agency-handbook/ch07-2013.pdf>

Arizona Revised Statutes §§ 38-431 to 38-431.09

<https://www.azleg.gov/arsDetail/?title=38>



MARK BRNOVICH
ATTORNEY GENERAL

OFFICE OF THE ATTORNEY GENERAL
STATE OF ARIZONA

March 13, 2020

Re: Concerns Relating To Arizona's Open Meeting Law and COVID-19

The Office has received multiple inquiries concerning the impact of COVID-19 in light of public bodies' responsibilities under Arizona's Open Meeting Law (the "OML"), including whether public bodies may conduct public meetings remotely through technological means. This informal opinion addresses these concerns.

The OML permits a public body to hold a remote meeting through technological means. *See generally Arizona Agency Handbook* § 7.10 (Ariz. Att'y Gen. 2018);¹ Ariz. Att'y Gen. Op. I08-008 ("after providing proper notice and an agenda in accordance with the Open Meeting Law and implementing procedures designed to safeguard the public's access to the meeting, a public body can conduct an online meeting to allow deliberation and discussion about matters within the public body's jurisdiction").

Providing the public as much notice in advance is key. "Notice enables members of the public to attend public meetings by informing them of when and where to go, and how to get information regarding the matters under consideration." *Arizona Agency Handbook* § 7.6.1. At a minimum, a public body must provide its notice and agenda at least 24 hours in advance, absent an emergency. *See* A.R.S. § 38-431.02(C), (G). If a public body chooses to hold a remote meeting, then the public body should follow best practices and provide as much advance notice

as is reasonably practicable. For example, a public body could:

- Post a statement on its website informing the public that a meeting will be held remotely through technological means;
- Provide a website location for a video conference and post directions on how to access a meeting;
- Provide a conference call number for telephonic meetings; or
- Provide technical support for questions, concerns, or difficulty accessing a meeting.

The Open Meeting Law also establishes a right for the public to attend and listen to a public body's deliberations and proceedings. A.R.S. § 38-431.01(A). This requires the public body to ensure that both the public and any members attending by technological means can hear any discussion from the public body and/or other persons making statements to the body. *Arizona Agency Handbook* § 7.10.3. Depending on how a public body chooses to conduct a remote meeting (i.e. the public body members attend the meeting at their normal meeting place and no members of the public are present, or if the individual members and staff also remotely attend a meeting), a public body should review the guidelines listed in § 7.10.3 of the *Arizona Agency Handbook*.

Public bodies that conduct remote meetings should consider implementing procedures to minimize any difficulties arising from remote conferencing. For example, a public body could:

- Ask members of the public body, staff, presenters, and members of the public to identify themselves each time they begin speaking;
- Include copies of any presentations, documents, etc. that will be discussed at a meeting with the agenda, and post any information relevant to the public meeting on the public body's website;
- Ask all participants to ensure microphones/phones are muted when not speaking;
- Record the meeting; or

¹ The Office's 2018 edition of the Arizona Agency Handbook is available at <https://www.azag.gov/outreach/publications/agency-handbook> (last visited on March 13, 2020).

- Take any additional steps the public body deems necessary to ensure that its meetings are conducted publicly and openly.

The OML permits, but does not require, a public body to include a call to the public on its agenda. A.R.S. § 38-431.01(H). (There may be other statutes not analyzed in this opinion that require public participation and comment.) If the public body holds a remote meeting, the public body may still choose to conduct a call to the public. The OML does not prohibit members of the public from addressing a public body through technological means. *See* A.R.S. § 38-431(4). But if the public body does agendize a call to the public, the public body should consider the above guidelines.

* * *

In sum, the OML generally permits public bodies to conduct remote meetings through technological means. Nonetheless, the public body must conduct such meetings in a way that satisfies the above notice and access requirements, which are designed to further the OML's underlying purpose. *See* A.R.S. § 38-431.09 ("It is the public policy of this state that meetings of public bodies be conducted openly ... any person or entity charged with the interpretations of [the OML] shall construe this article in favor of open and public meetings."). Transparency is the core of legality. Throughout any circumstance, the government must remain accountable to the people.



Mark Brnovich
Attorney General

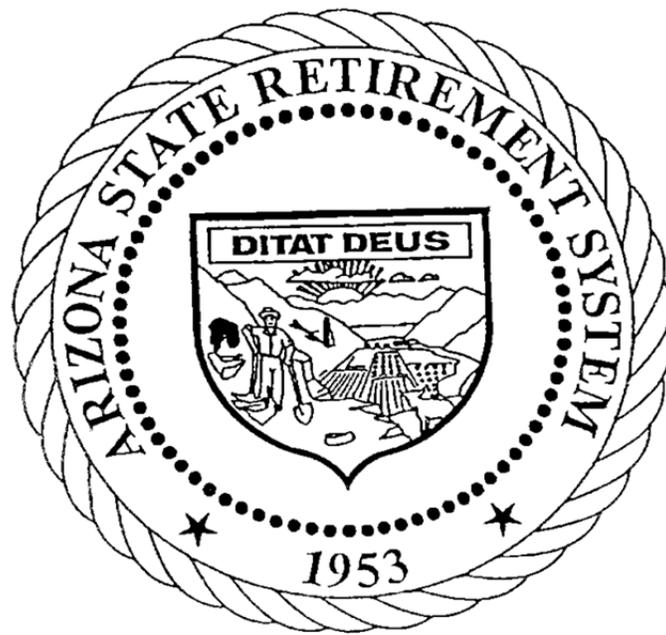
Agenda Item #8

Director's Report:

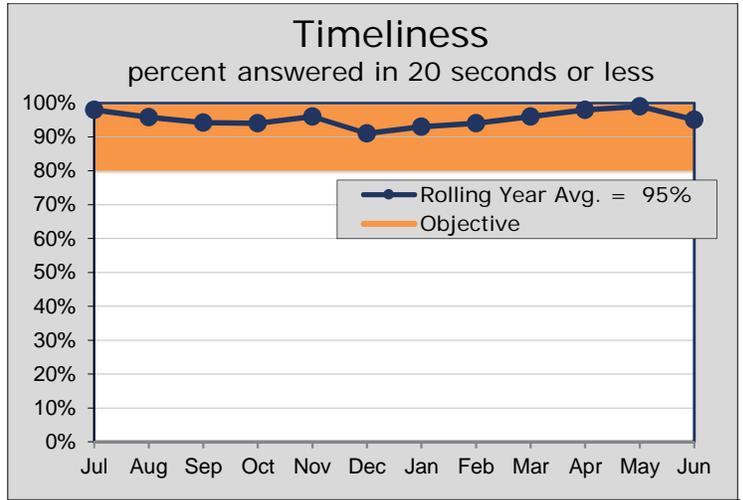
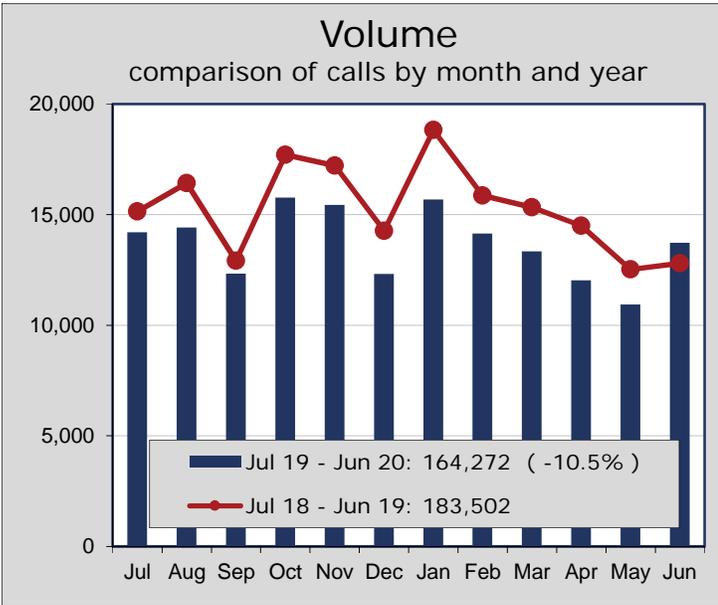
- 8a - Operations Report**
- 8b - Budget & Staffing Reports**
- 8c - Cash Flow Statements**
- 8d - Appeals Report**
- 8e - Employers Reporting**

Agenda Item #8a

Director's Report Operations Report

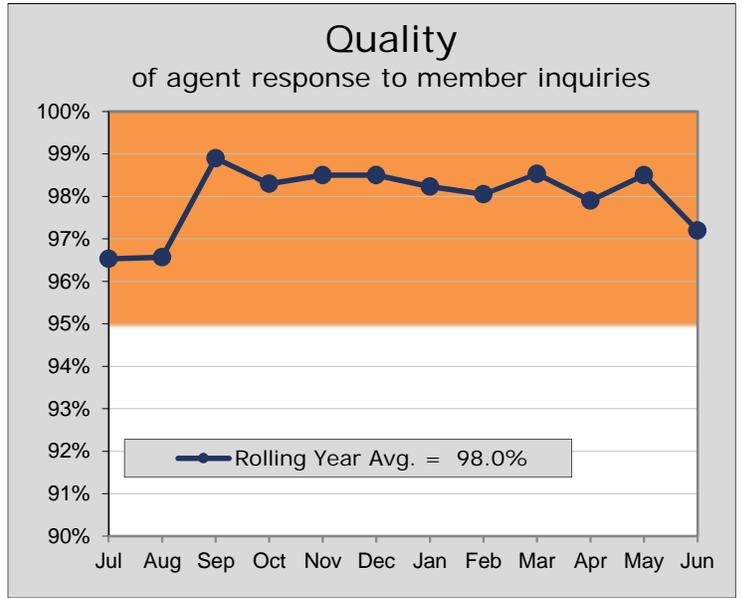
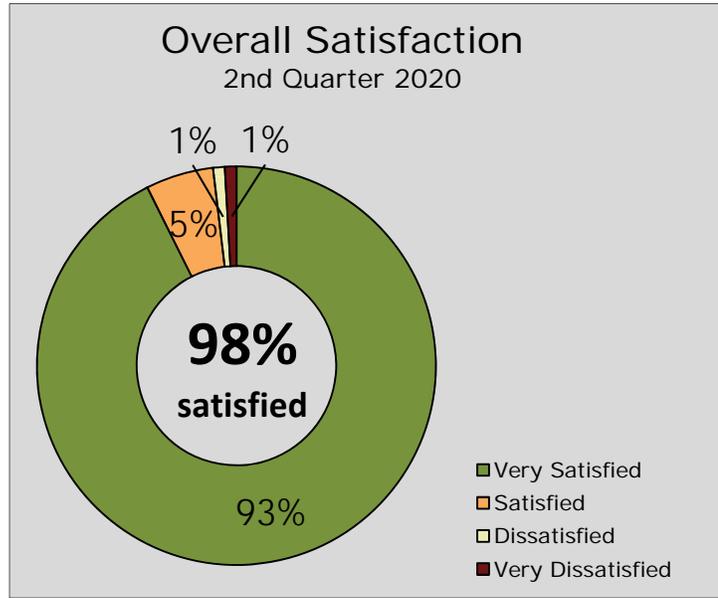
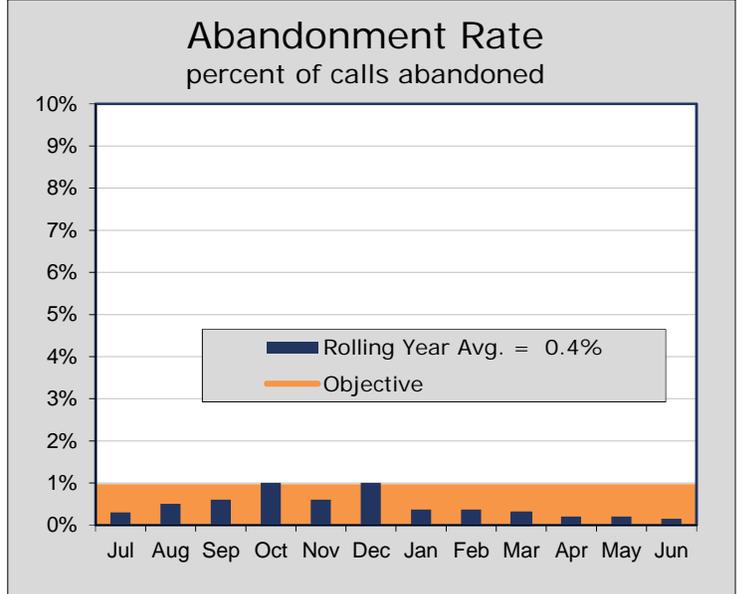
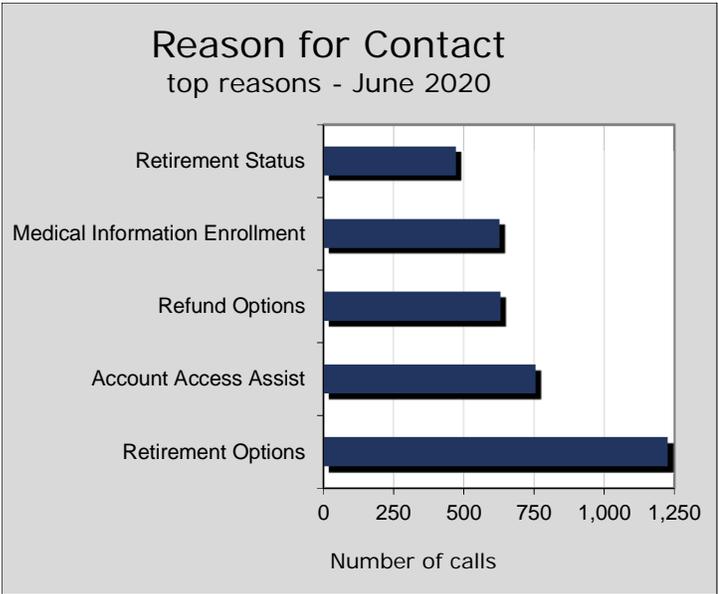


Member Advisory Center: Phone

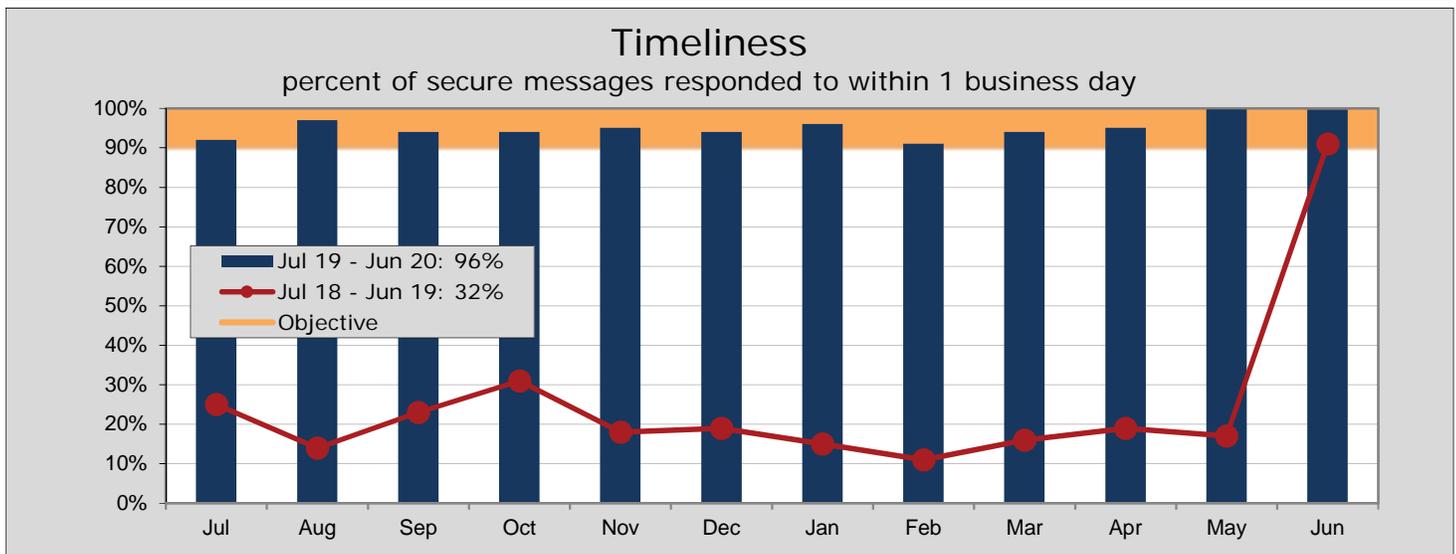
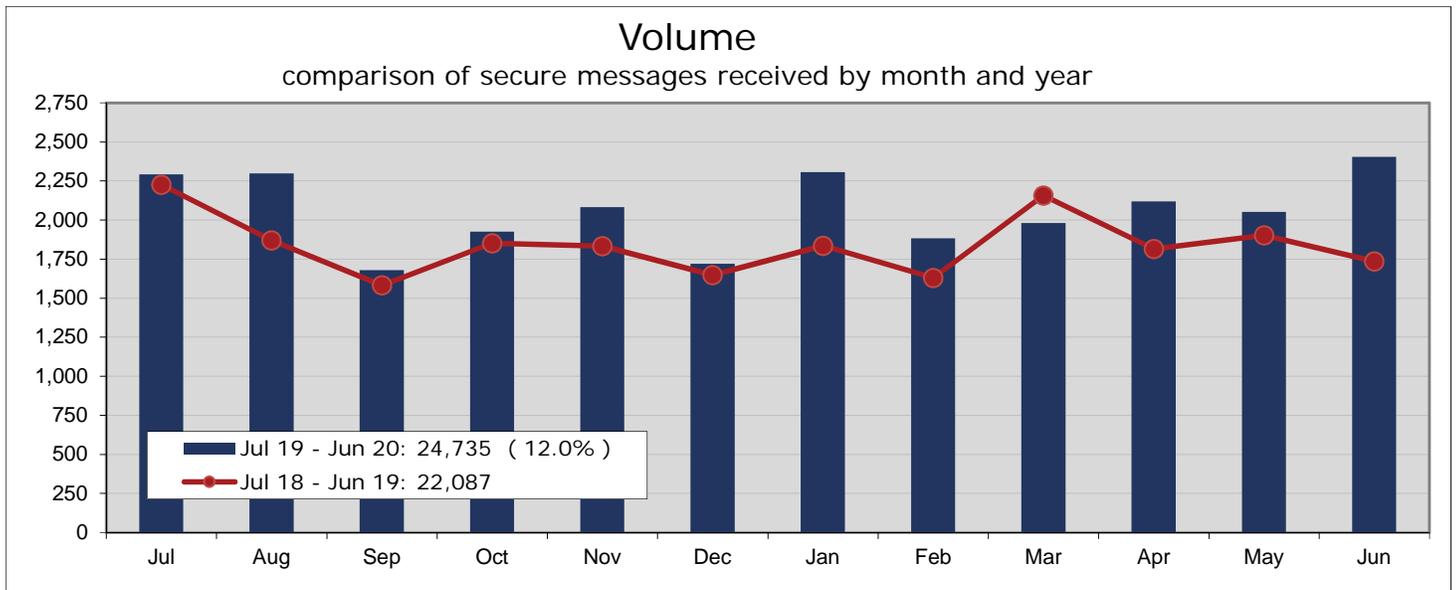


Timeliness (average wait time in seconds)

2	5	6	15	9	2	5	5	3	3	3	2
Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun



Member Secure Messages (MSM)

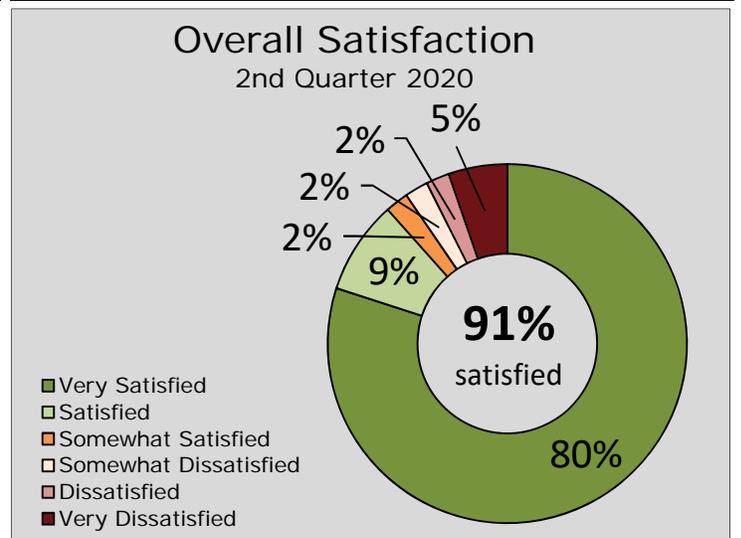
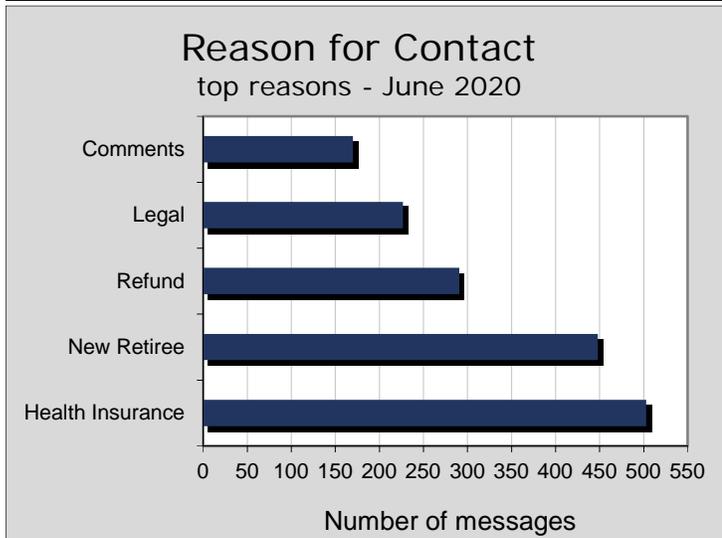


Timeliness (average response in days)

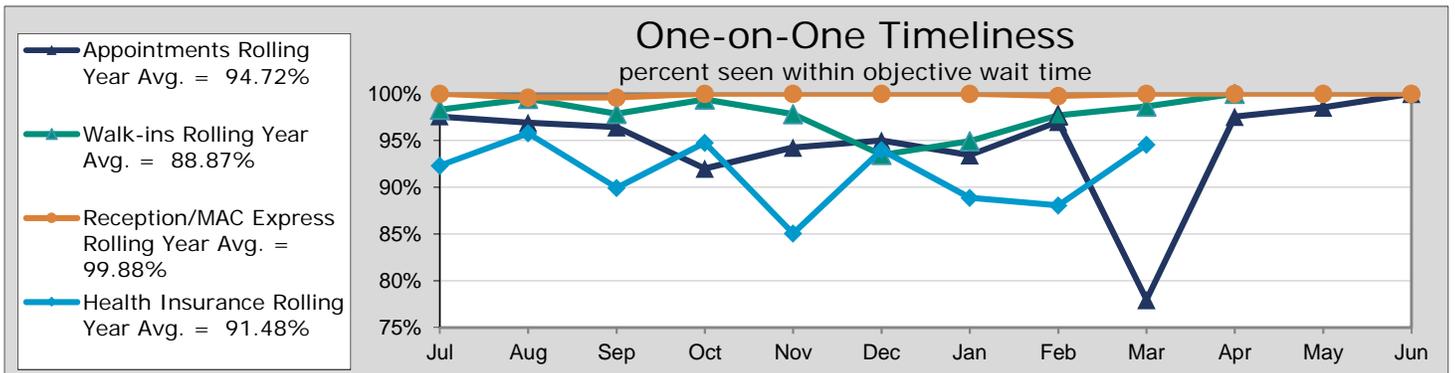
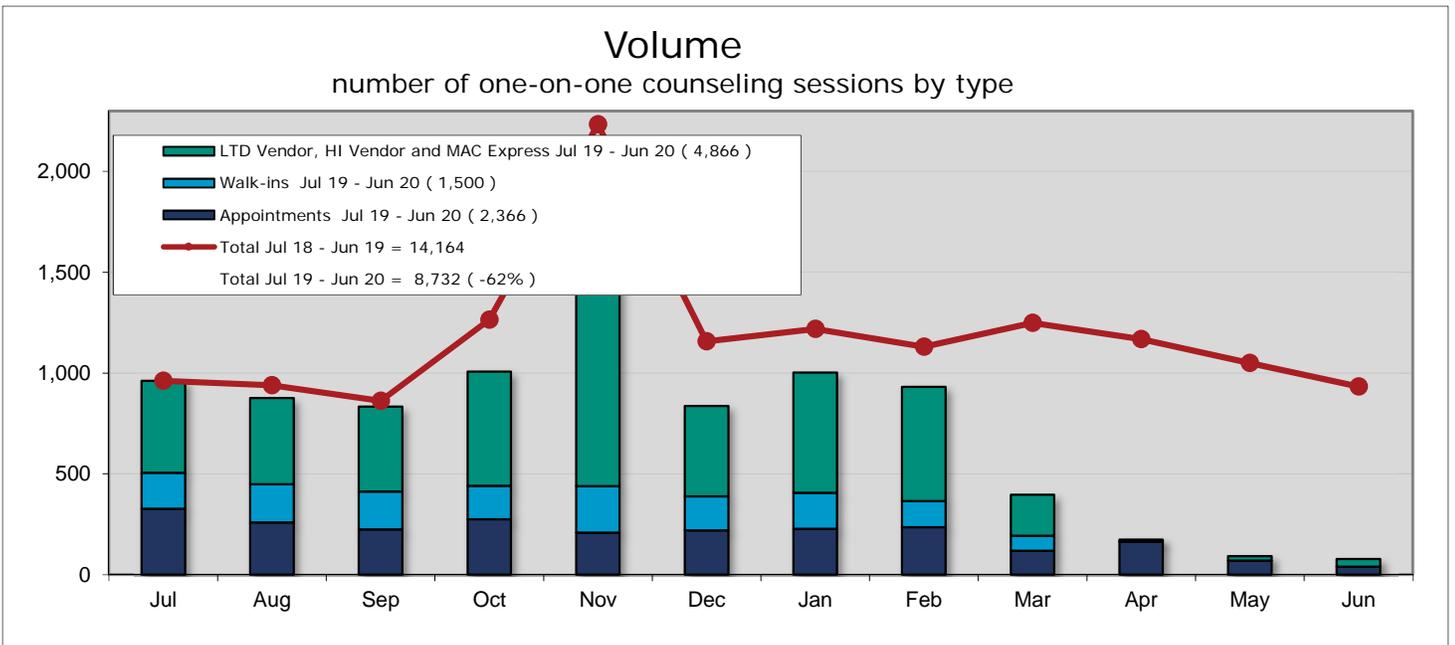
0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	2.5	0.1
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

Timeliness (service level)

94%	94%	95%	94%	96%	91%	94%	95%	100%	100%	100%	100%
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

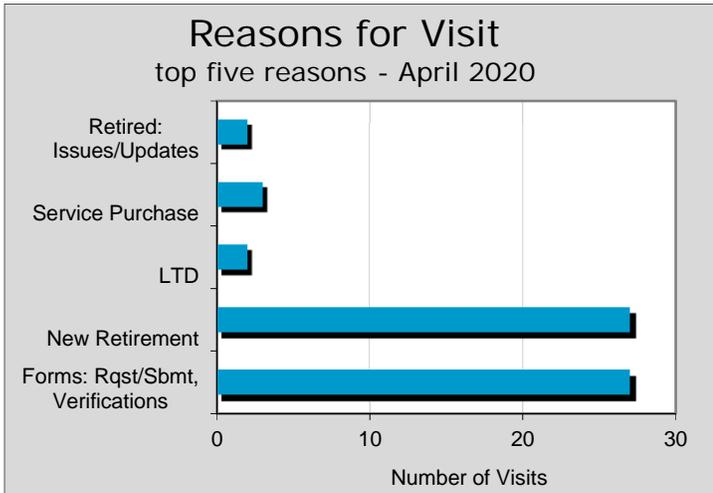


One-on-One Counseling



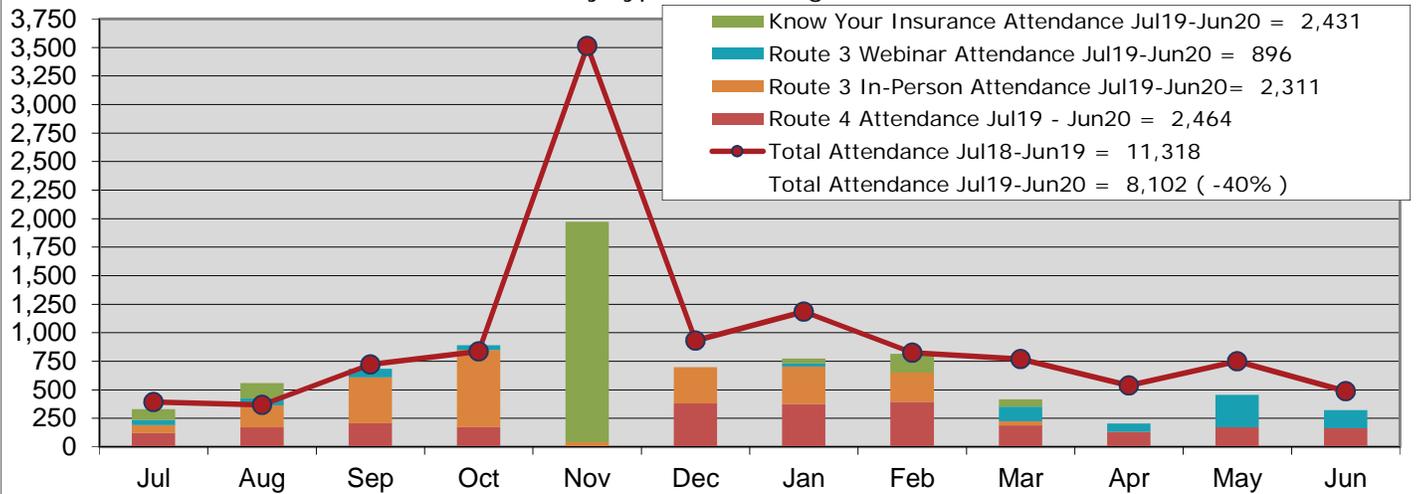
Timeliness (average wait time in minutes)

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Appointments	1	1	2	2	2	2	2	2	4	1	0	0
Walk-Ins	6	4	5	2	5	6	9	7	7	0	n/a	0
Reception/MAC Express	0	0	0	0	0	0	0	1	1	0	1	0
Health Insurance	4	0	5	6	8	7	7	7	7	n/a	n/a	n/a
LTD Vendor	0	0	0	0	0	0	0	0	0	n/a	n/a	n/a



Outreach Education and Benefit Estimates

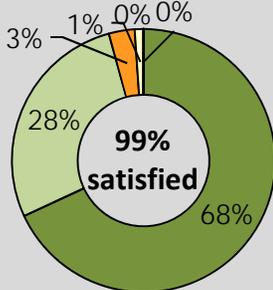
Total Meeting Attendees by type of meeting



Member Satisfaction

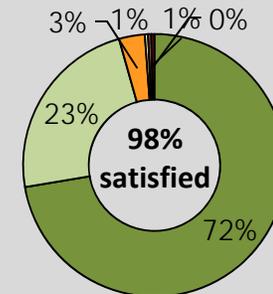
Route 3 2nd Quarter 2020

- Very Satisfied
- Satisfied
- Somewhat Satisfied
- Somewhat Dissatisfied
- Dissatisfied
- Very Dissatisfied



Route 4 2nd Quarter 2020

- Very Satisfied
- Satisfied
- Somewhat Satisfied
- Somewhat Dissatisfied
- Dissatisfied
- Very Dissatisfied



Benefit Estimate Timeliness

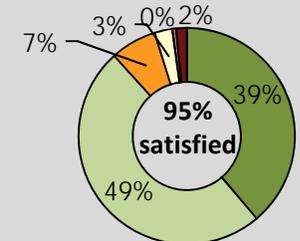


Benefit Estimate Timeliness (average TAT in days)

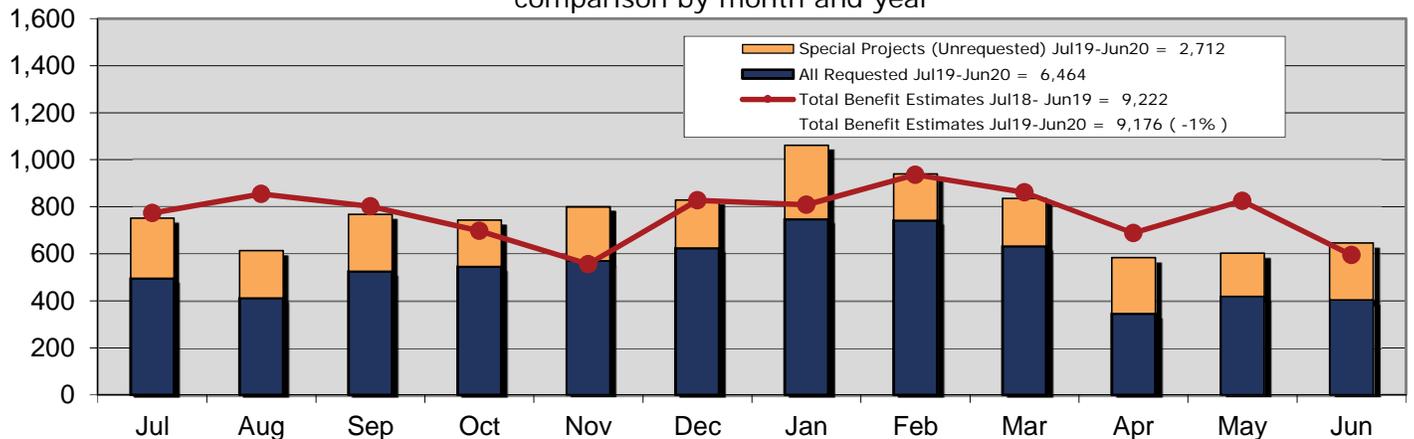
Month	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Average TAT (days)	0	0	0	0	0	0	0	0	0	0	0	0

Benefit Estimates 1st Quarter 2020

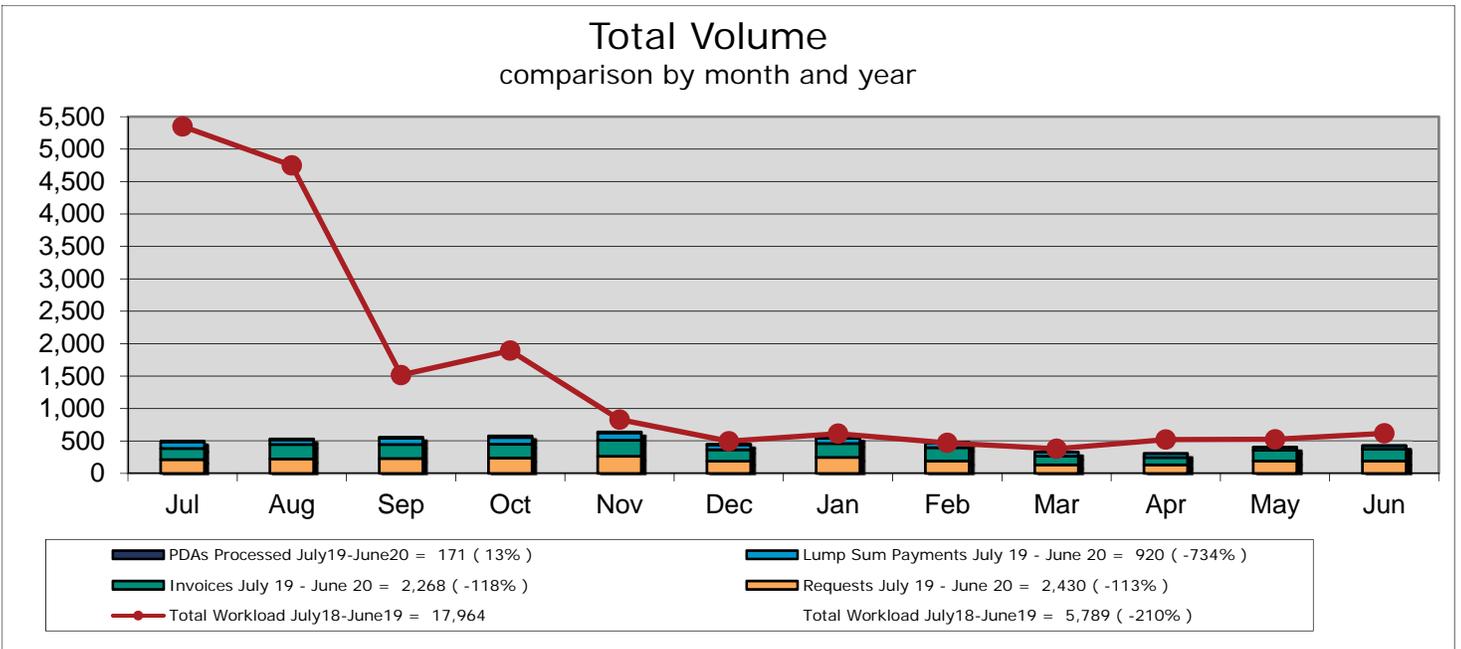
- Very Satisfied
- Satisfied
- Somewhat Satisfied
- Somewhat Dissatisfied
- Dissatisfied
- Very Dissatisfied



Benefit Estimate Volume comparison by month and year

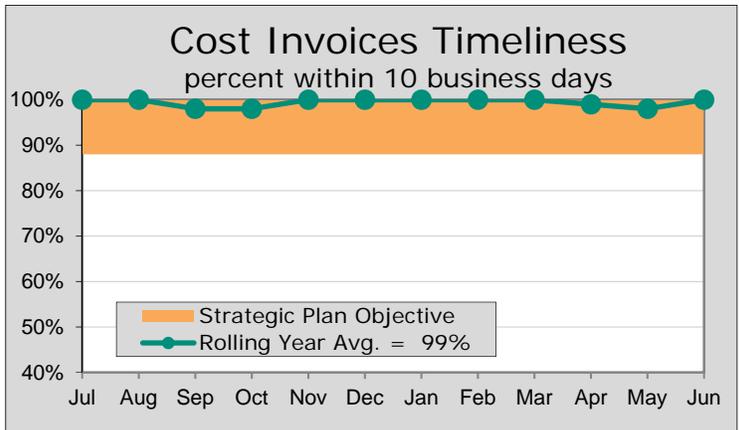
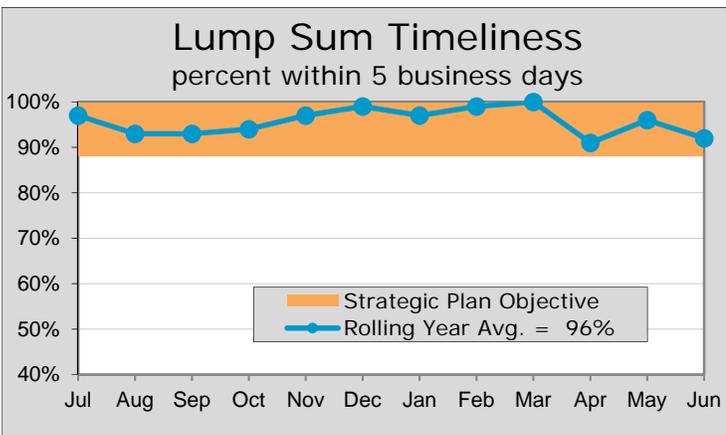


Service Purchase

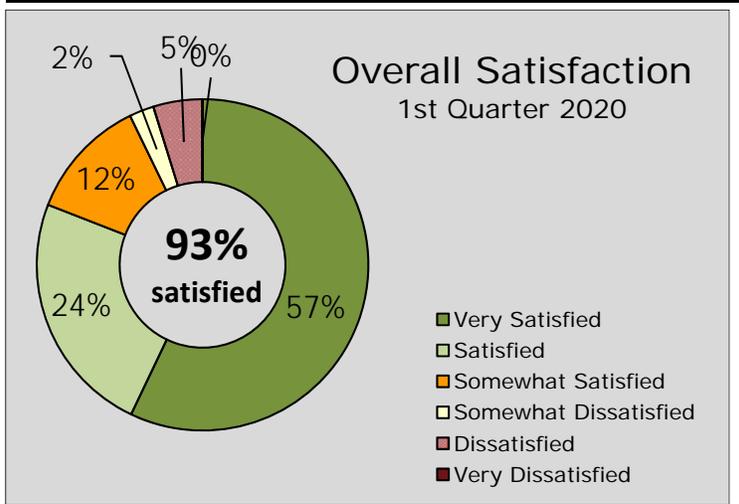


**Service Purchase Pending as of
June 30, 2020**

**Cost Invoices Pending: 73
Payments Pending: 1**

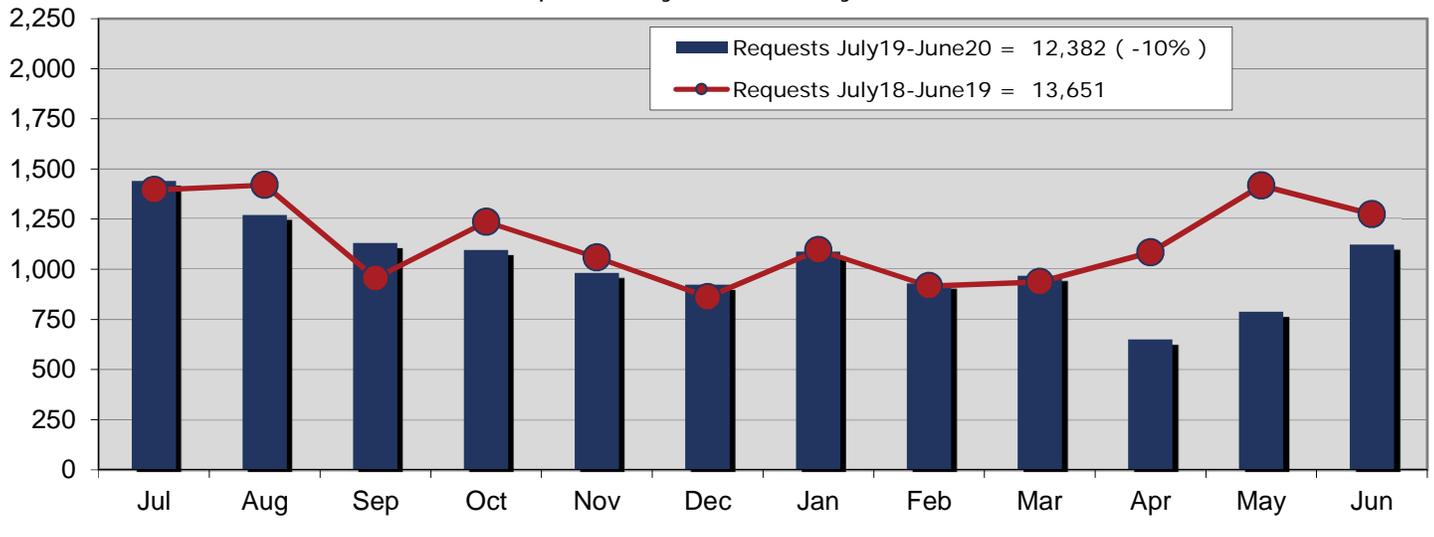


Timeliness (average turnaround time in business days)											
2	2	3	3	3	3	3	2	2	1	2	2
July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June



Refunds

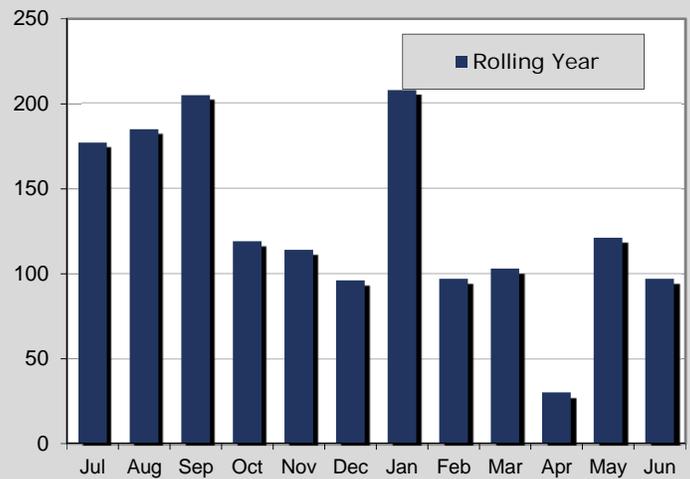
Volume
comparison by month and year



Timeliness
percent disbursed in 5 business days



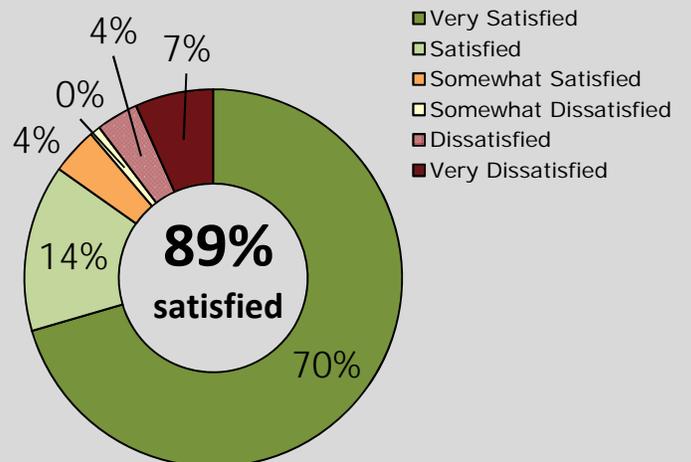
Requests Pending



Timeliness (average turnaround time in business days)

2	2	2	2	2	2	2	3	2	2	1	1
July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June

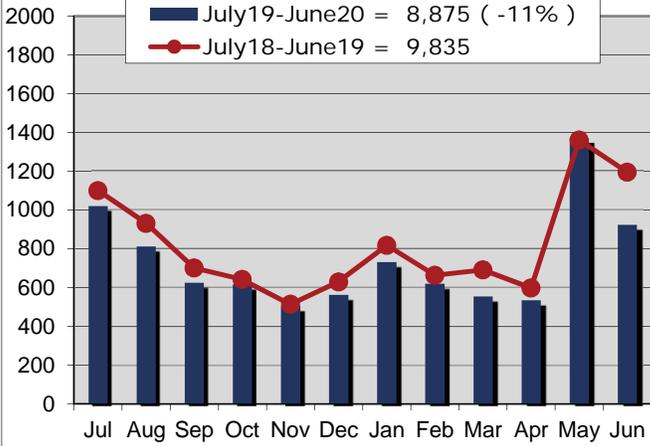
Overall Satisfaction
1st Quarter 2020



New Retiree and Pension Payroll

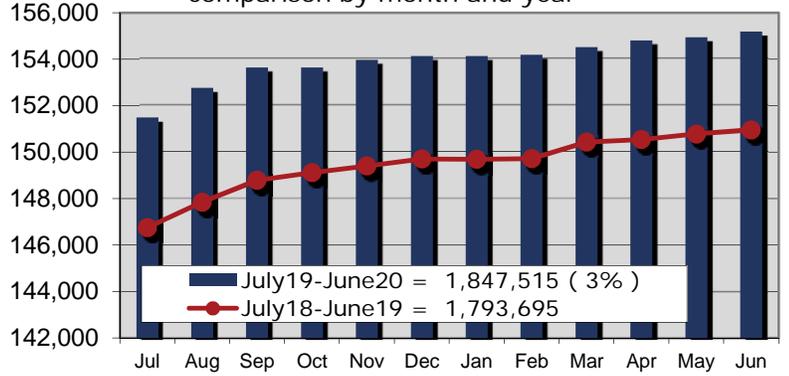
First Payment Volume

comparison by month and year



Pension Volume

comparison by month and year

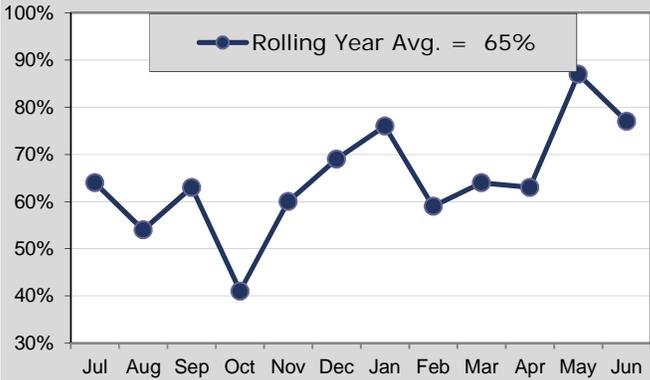


Pension Payment (percent disbursed by 1st of the month)

100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	

First Payment Timeliness

percent disbursed in 10 business days

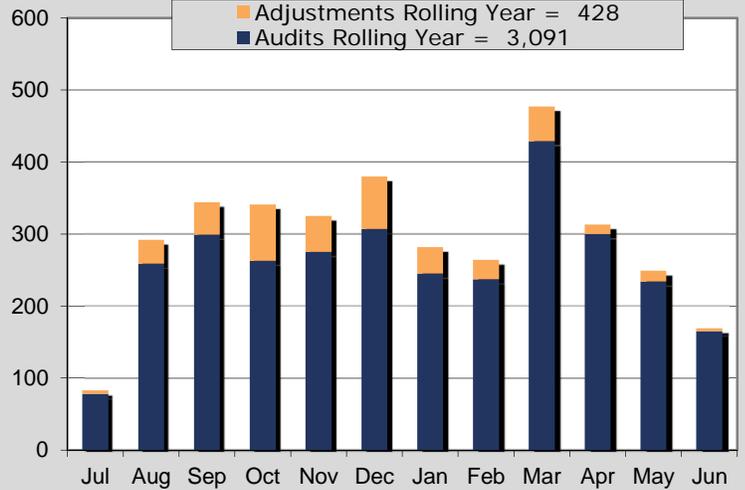


First Payment Timeliness (average turnaround time in days)

12	15	12	13	11	9	9	11	11	15	4	8
July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June

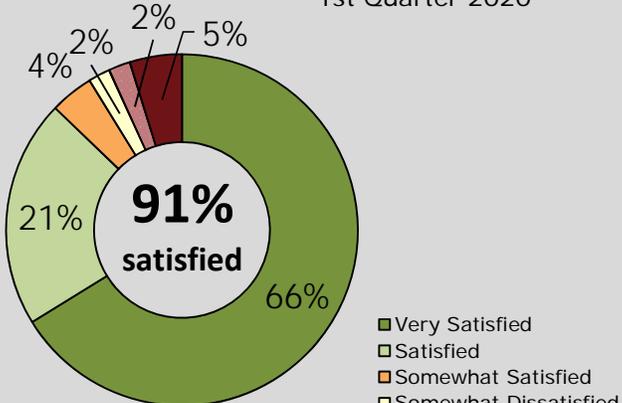
Audits & Adjustments

comparison by month and year



Overall Satisfaction

1st Quarter 2020



Adjustments Timeliness

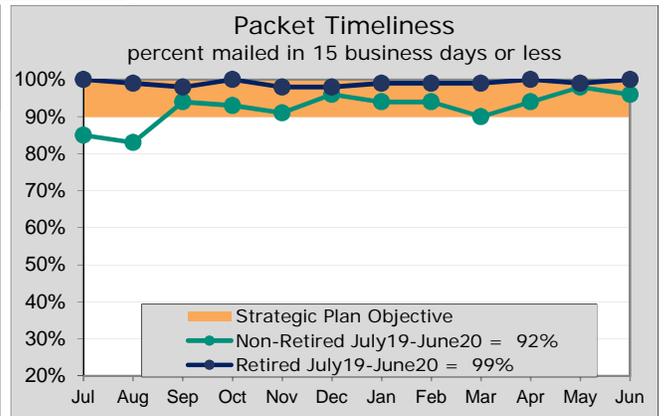
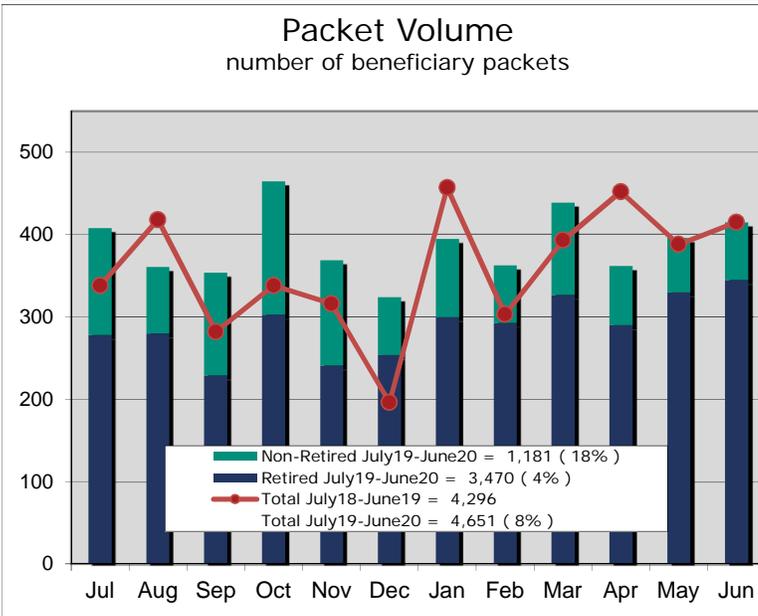
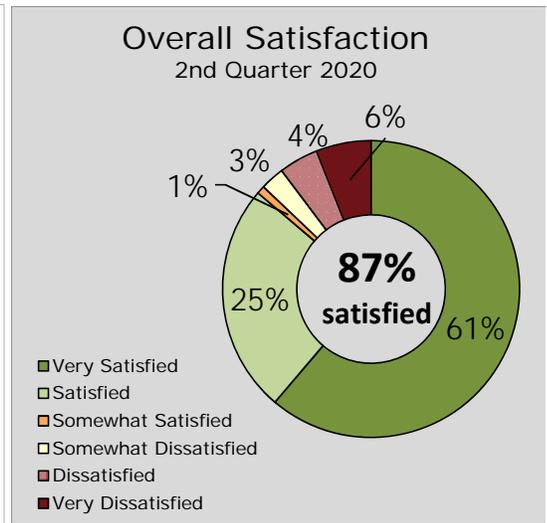
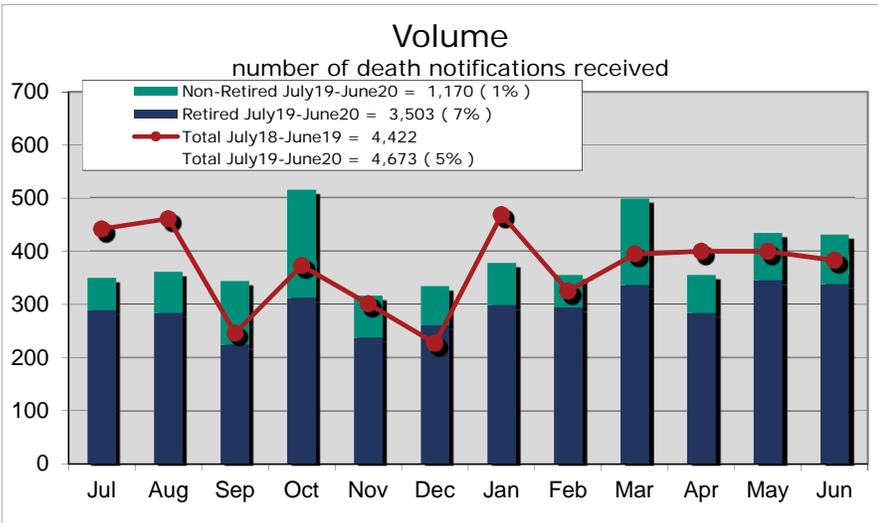
Percent completed prior to payroll



Adjustments Timeliness (average turnaround time in days)

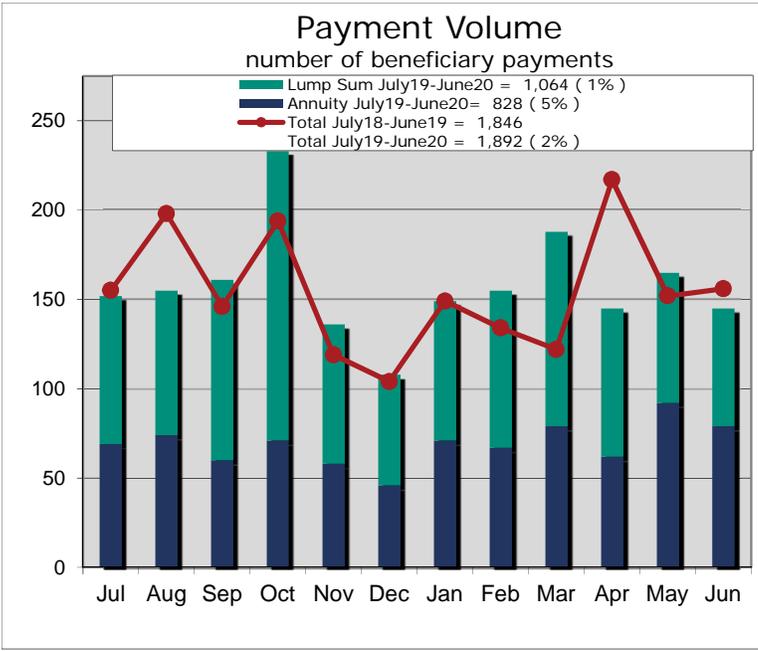
6	10	9	8	6	12	11	5	6	14	6	5
July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June

Survivor Benefits



Packet Timeliness (average TAT in days)

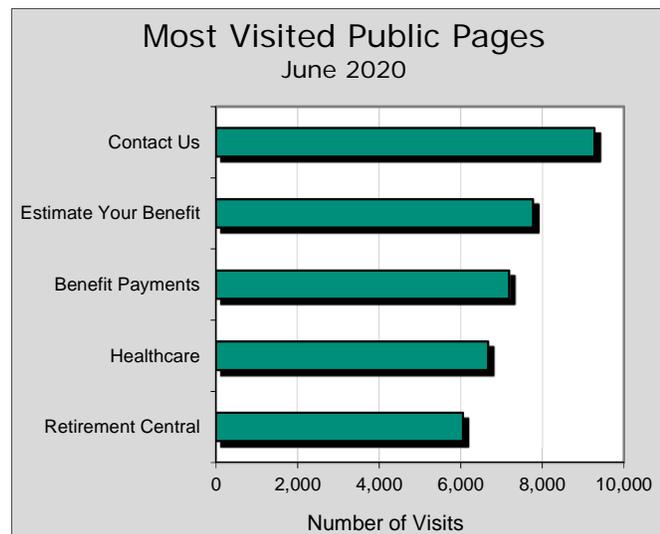
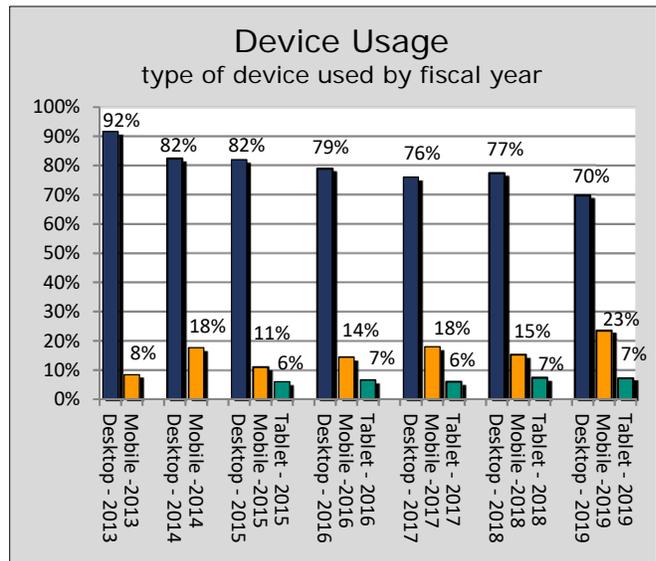
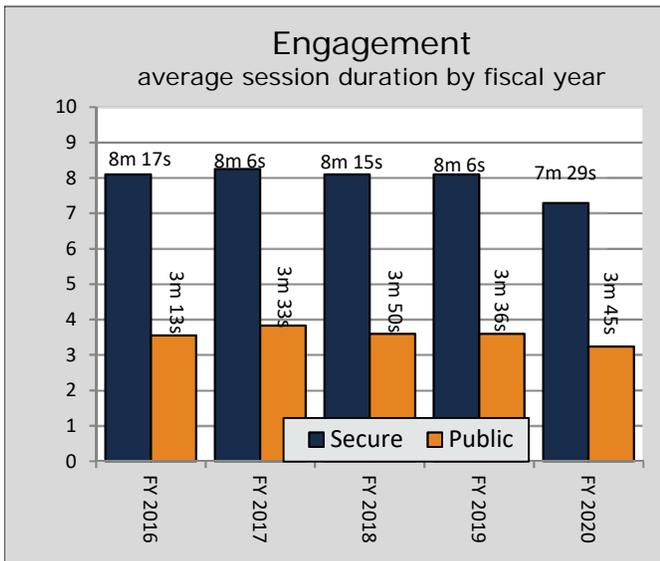
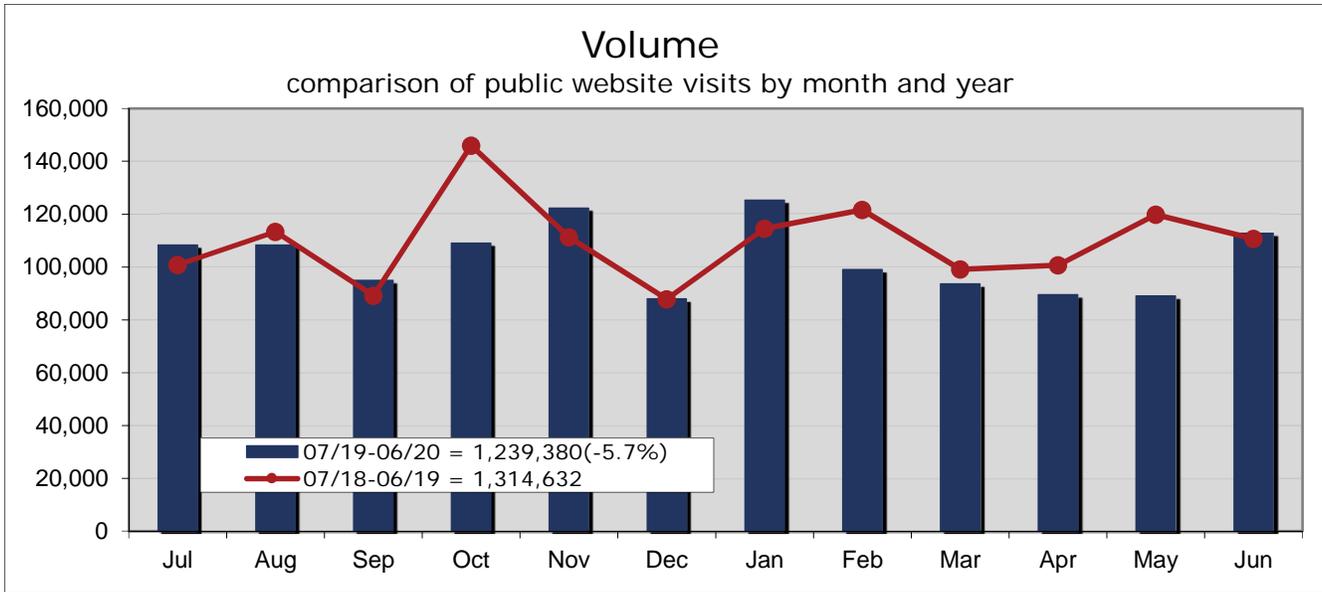
Non Retired											
6	7	5	7	6	5	6	6	4	3	4	3
Retired											
2	3	2	1	2	2	1	2	1	1	1	1
July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June



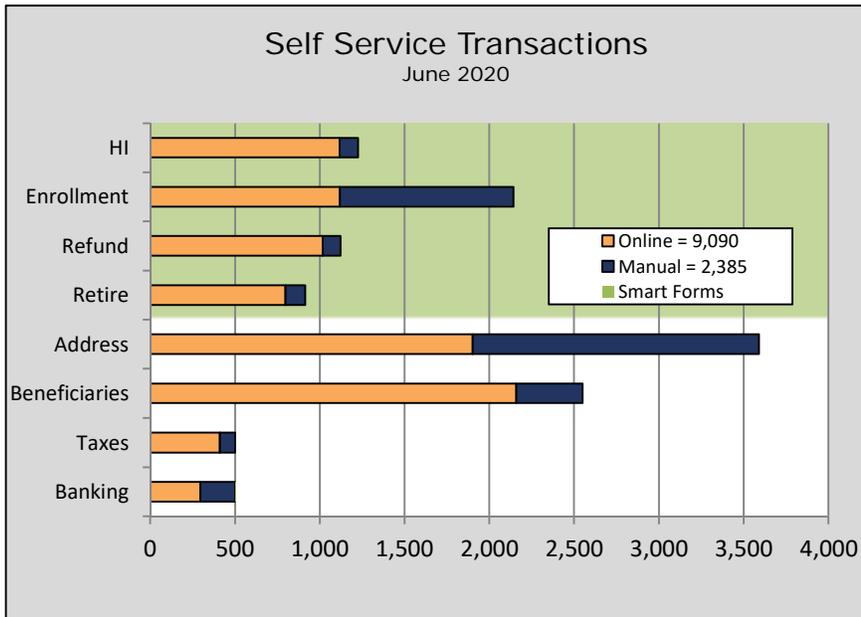
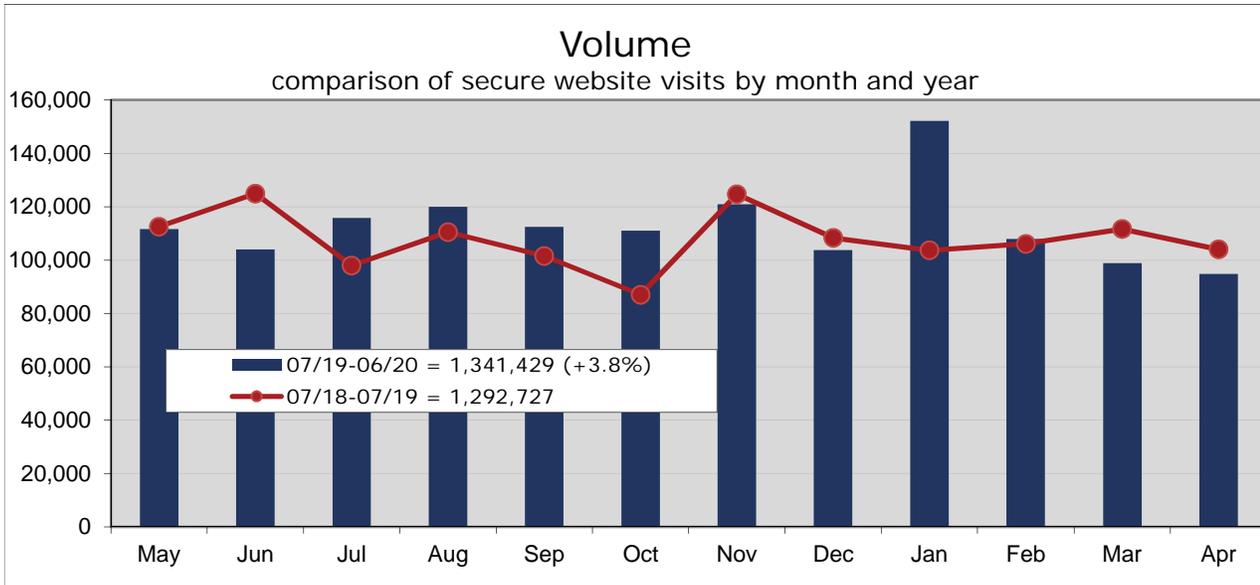
Payment Timeliness (average TAT in days)

Lump Sum (Non-Retired)											
5	5	5	6	6	8	6	9	7	7	6	5
Annuity (Retired and Non-Retired)											
3	3	2	4	2	2	3	5	2	3	4	4
July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June

Public Website: www.azasrs.gov

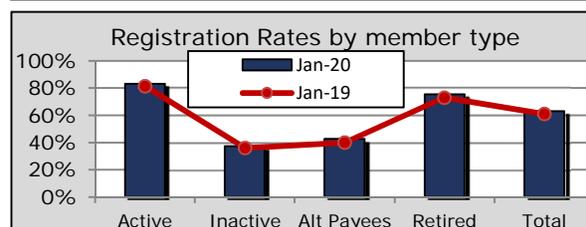
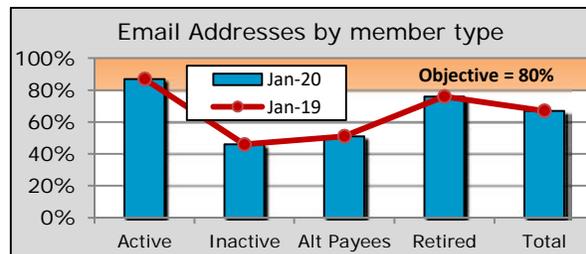
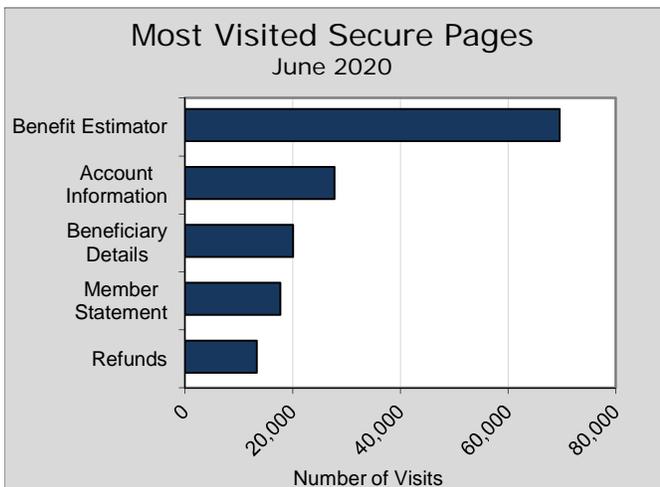


Secure Website: secure.azasrs.gov



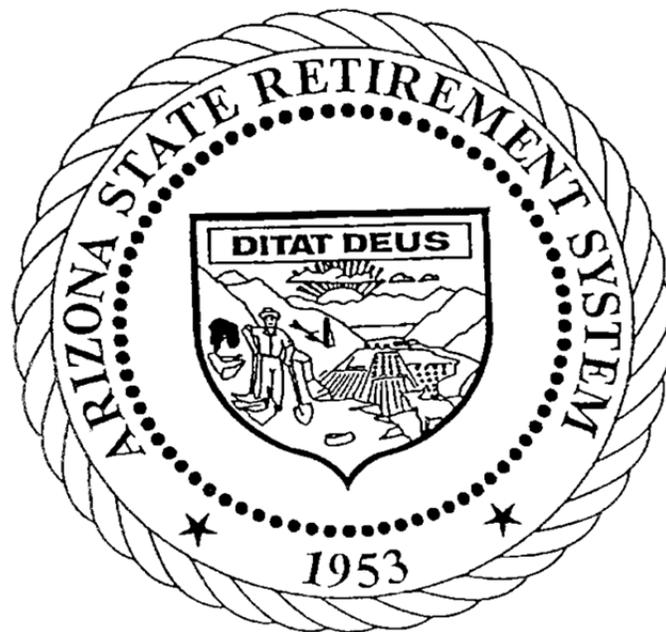
Historical Comparison of Online Usage

	This month	12mo Min	12mo Max	12mo Avg	Objective
HI	91%	65%	81%	68%	75%
Enroll	52%	92%	98%	95%	99%
Ref	91%	80%	90%	85%	90%
Ret	87%	67%	79%	74%	90%
Add	87%	70%	89%	79%	75%
Bene	85%	53%	87%	81%	75%
Tax	82%	55%	93%	80%	75%
DD	59%	42%	66%	57%	75%
Total online					
					70%



Agenda Item #8b

Director's Report Budget & Staffing Reports



FY 2020 ASRS Budget Report Administrative Expenses

(Expenditures at June 30, 2020)

	Base Administrative Budget			Obj by 6/30/2020: -3.00%	Administrative Projects Budget							Obj YOY: -1.50%
	Base Operating Appropriations	Long Term Disability Appropriations	Pension Payroll, Rent, and Actuarial Fees Continuous Appropriations	Current: -4.68%	Technology Services Improvements Projected Unspent Base Appropriations	Technology Technical Debt Sprints Projected Unspent Base Appropriations	Automation Upgrades and Oracle Modernization Special Line Item Appropriations	Benefits Disbursement Continuous Appropriations	Information Protection Security Continuous Appropriations	Manual Disbursements Continuous Appropriations	Benefits Self-Insurance Continuous Appropriations	Administrative Budget Total
Personal Services (PS)												
Salaries and wages	11,502,400		1,163,600	12,666,000	17,200	12,800	607,800	75,700	45,000	140,200		13,564,700
Variable Compensation Strategies Plan	118,800		-	118,800								118,800
Investment Incentive Compensation Plan	256,900		-	256,900								256,900
Total PS	11,878,100	-	1,163,600	13,041,700	17,200	12,800	607,800	75,700	45,000	140,200	-	13,940,400
Employee Related Expenses (ERE)												
Employer costs - benefits, taxes, charges	4,451,900		383,000	4,834,900	4,600	4,100	187,200	23,800	15,900	43,000		5,113,500
Total ERE	4,451,900	-	383,000	4,834,900	4,600	4,100	187,200	23,800	15,900	43,000	-	5,113,500
Professional and Outside Services (P&O)												
LTD Program administration		1,176,600		1,176,600								1,176,600
Pension payroll disbursement processing			90,500	90,500								90,500
IT Software Development	1,149,400		316,500	1,465,900	68,900	26,200	413,100	110,600	43,200	173,900		2,301,800
Actuarial services			203,400	203,400								203,400
Benefits consulting services			77,000	77,000							230,600	307,600
IT security professional services			152,500	152,500								152,500
Legal fees	452,300			452,300							68,500	520,800
Other outside services	18,700			18,700								18,700
Total P&O	1,620,400	1,176,600	839,900	3,636,900	68,900	26,200	413,100	110,600	43,200	173,900	299,100	4,771,900
Travel												
In-state	16,900			16,900								16,900
Out-of-state	16,600			16,600								16,600
Total Travel	33,500	-	-	33,500	-	-	-	-	-	-	-	33,500
Other Operating Expenditures												
Office rent			1,512,800	1,512,800								1,512,800
Software licenses and support	1,678,500			1,678,500								1,678,500
Telecommunications	313,200			313,200								313,200
Risk management insurance premiums	149,300		133,000	282,300								282,300
Newsletter printing and mailing	141,600			141,600								141,600
Dues, subscriptions, publications	127,900		111,300	239,200	42,700							281,900
Postage and delivery	82,600		71,900	154,500								154,500
Education, training and conferences	41,800			41,800								41,800
Equipment repair and maintenance	38,400			38,400								38,400
Other operating supplies and external printing	95,800		300	96,100								96,100
Total Other Operating Expenditures	2,669,100	-	1,829,300	4,498,400	42,700	-	-	-	-	-	-	4,541,100
Equipment												
Furniture purchases/replacement	22,700			22,700								22,700
Network, server, PC and devices	289,300			289,300								289,300
Total Equipment	312,000	-	-	312,000	-	-	-	-	-	-	-	312,000
TOTAL	\$ 20,965,000	\$ 1,176,600	\$ 4,215,800	\$ 26,357,400	\$ 133,400	\$ 43,100	\$ 1,208,100	\$ 210,100	\$ 104,100	\$ 357,100	\$ 299,100	\$ 28,712,400
APPROPRIATED / BUDGETED AMOUNTS	\$ 22,394,000	\$ 1,800,000	\$ 4,533,200	\$ 28,727,200	\$ -	\$ -	\$ 1,208,100	\$ 210,100	\$ 104,100	\$ 370,100	\$ 446,400	\$ 31,066,000
PROJECTED SPEND	\$ 21,264,300	\$ 1,390,000	\$ 4,533,200	\$ 27,187,500	\$ 178,400	\$ 43,100	\$ 1,208,100	\$ 210,100	\$ 104,100	\$ 370,100	\$ 446,400	\$ 29,747,800
FY 2020 PROJECTED UNSPENT	\$ 1,129,700	\$ 410,000	\$ -	\$ 1,539,700	\$ (178,400)	\$ (43,100)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,318,200
% EXPENDED YTD	93.6%	65.4%	93.0%	91.8%			100.0%	100.0%	100.0%	96.5%	67.0%	92.4%
% OF FISCAL YEAR ELAPSED	98.3%	13th period for administrative adjustment open										

FY 2020 ASRS Budget Report Investment Expenses

(Expenditures as of June 30, 2020)

	EXPENDED YTD	ESTIMATED EXPENSES	ESTIMATED EXPENSES AS % OF TOTAL AUM	ESTIMATED EXPENSES PER MEMBER
Investment Management Expenses				
Internal Investment Management				
Salaries and benefits	\$ 1,505,600	\$ 1,505,600		
Investment Incentive Compensation Plan (ICP) ¹	\$ 256,900	\$ 256,900		
Travel, education and training, rent, and other operational expenses	\$ 121,700	\$ 392,400		
Public Markets				
External investment management fees	\$ 2,185,800	\$ 4,416,200		
Transactional and other fees	\$ 2,886,100	\$ 5,000,000		
Private Markets				
Private Equity management fees	\$ 34,760,400	\$ 51,821,000		
Private Equity performance incentive and other fees ²	\$ 43,178,200	\$ 43,178,200		
Real Estate management fees	\$ 6,732,800	\$ 10,561,100		
Real Estate performance incentive and other fees ²	\$ 15,796,400	\$ 15,796,400		
Private Credit management fees	\$ 14,021,700	\$ 24,622,000		
Private Credit performance incentive and other fees ²	\$ 15,434,700	\$ 15,434,700		
Custodial Banking, Security Lending and Master Cash STIF Fees	\$ 2,575,200	\$ 4,030,500		
Investment Management Expenses Subtotal	\$ 139,455,500	\$ 177,015,000	0.46%	\$ 291.05
Investment Related Consulting, Legal and Information Services Expenses				
Investment Consulting Services	\$ 5,939,000	\$ 6,569,400		
Investment Related Legal Services	\$ 2,649,200	\$ 3,540,000		
Investment Electronic Information Services	\$ 2,629,400	\$ 3,302,100		
External Financial Consulting Services	\$ 94,000	\$ 120,000		
Services Expenses Subtotal	\$ 11,311,600	\$ 13,531,500	0.03%	\$ 22.25
Total Investment Expenses	\$ 150,767,100	\$ 190,546,500	0.49%	\$ 313.30

¹ The ICP is paid with base operating budget appropriated dollars.

² Due to the nature of the investments and contingent variables, estimated annual performance incentive and other certain fees and expenses that are contractually agreed upon are not projected and are only reported, on a cash flow basis, when identified and paid. Amounts in the Estimated Expenses column are equal to the actual Expended YTD.

FY 2020 ASRS Budget Report Total Administrative and Investment Expenses	EXPENDED YTD	ESTIMATED EXPENSES	ESTIMATED EXPENSES	ESTIMATED EXPENSES PER MEMBER
Administrative Expenses				
(from Page 1 - Appropriated/Budgeted Amounts minus Projected Unspent and excluding ICP) ¹	\$ 28,455,500	\$ 29,490,900	0.08%	\$ 48.48
Investment Expenses (including ICP)¹	\$ 150,767,100	\$ 190,546,500	0.49%	\$ 313.30
Total Expenses	\$ 179,222,600	\$ 220,037,400	0.57%	\$ 361.78
		ASRS Estimated Total Market Value of Assets Under Management (AUM) as of March 31, 2020	\$	38,907,016,000
		ASRS Total Membership as of June 30, 2019		608,200

Fiscal Year 2020
Budget Report Summary
(As of June 30, 2020)

The Arizona State Retirement System (ASRS) administrative and investment costs are expended in accordance with Arizona Revised Statutes (A.R.S.). The ASRS utilizes both appropriated and continuously appropriated funds. Column amounts represent the expenditures in each category to date. Information on the total appropriated and estimated planned annual expenses is also included as a guide to the rate of spend during the fiscal year. Reported expenditures include all pay periods (100% of the annual payrolls) but do not include anticipated administrative adjustments in FY 2020.

Appropriations

Columns labeled as *appropriations* represent **funds** that have been approved by the Legislature and the ASRS Board for fiscal year July 1, 2019 through June 30, 2020, and include:

1. **Base operating budget** – funds for administrative salaries and employee benefits, supplies, equipment and ongoing costs associated with member information and financial systems for the ASRS.
2. **Long Term Disability (LTD) Program** – funds for the administration costs of the LTD program.
3. **Technology Services Improvements project** – funds to implement a DevOps methodology and setting up the required infrastructure to achieve operational efficiency. ASRS will utilize dollars that are projected to be unspent from the base operating budget.
4. **Technology Technical Debt Sprints** – funds to complete additional solutions for previous software development projects to increase agility. ASRS will utilize dollars that are projected to be unspent from the base operating budget.
5. **Automation upgrades and Oracle Modernization project** – funds for the Oracle Forms and Reports Modernization project. Amounts appropriated in FYs 2015 to 2017 are non-lapsing, and the ASRS has the ability to utilize the unspent portion of the funds to complete the project.

Continuous Appropriations

Columns labeled as *continuous appropriations* represent funds that, in accordance with A.R.S. § 38-721(C), are continuously appropriated in the amount deemed necessary by the Board and include:

1. **Administrative costs**
 - *Pension Payroll* - funds for costs associated with administering retiree pension benefits and disbursements, including the Data, Transactional and Network Security Program, third-party fees, postage, benefit-related consulting fees, and the ASRS Benefits Disbursement, Information Protection Security, and Manual Disbursements projects to support the security program in FY 2020.
 - *Rent* – funds for rent required as tenants for occupancy at 3300 N Central Avenue in Phoenix and in the leased office space in Tucson.
 - *Actuarial fees* – funds for actuarial services related to plan design, benefits, administration and valuations and the one-time expenses related to activities to prepare the transition to self-insured health, pharmacy, and dental benefit plans.
2. **Investment management and related consulting fees necessary to meet the Board's investment objectives**
 - *Internal investment management* – funds for ASRS Investment Management Division (IMD) staff salaries and employee benefits, travel, education and training, rent, and other operational costs. However, the Investment Incentive Compensation Plan (ICP) is paid with base operating budget appropriations.
 - *External investment management* – funds for:
 - Public Markets investment management fees and transactional and other fees, which include foreign taxes and commissions on derivatives and other incidental costs.
 - Private Markets investment management fees and performance incentive and carried interest fees, which are only paid if earned - upon successful performance of the manager after other return criteria are met – or incurred, and other contractually agreed-upon fees and expenses.
 - *Consulting fees* – funds for investment-related consulting and legal fees, electronic information services and subscriptions, custodial administrative and investment services fees, and external auditing service fees. In order to gain insight into portfolios, investment performance, compliance, and investment opportunities, the ASRS utilizes supplemental, coordinated services of external professionals and data platforms.

The investment continuous appropriations budget report includes projected expenditures for the current fiscal year. Actual expenditures are reported monthly and estimated annual expenses are reviewed and adjusted quarterly. The ASRS Estimated Total Market Value of Assets under Management (AUM) and ASRS Total Membership values are updated as period ending amounts are finalized.

**Arizona State Retirement System
Staffing Report
(June 30, 2020)**

ASRS by Division	241 Full Time Equivalents (FTEs)	New Hires	New Exits	Vacancies	Vacancy Rate
Director's Office/ Public Affairs/ Information Security (DIR)/ Leg. Liaison	21	0.0	0.0	1.0	4.76%
Administrative Services Division (ASD)	12	0.0	0.0	2.00	16.67%
Financial Services (FSD)	71	1.0	0.0	9.75	13.73%
Technology Services (TSD)	57	1.0	0.0	9.00	15.79%
Internal Audit (IAD)	3	0.0	0.0	0.00	0.00%
Investment Management (IMD)	11	0.0	0.0	1.50	13.64%
Member Services (MSD)	66	0.0	0.0	3.5	5.30%
	241	2.00	0.00	26.75	11.10%

Turnover	Hires	Exits	Total Exits (Last 12 Months)	Annualized Turnover %
	2.00	0.00	28.00	12.71%

<u>Turnover benchmarks:</u>	
AZ State Personnel System 2019:	18.1%
BLS - State/Local 2019:	19.0%
Milliman AZ Comp. Survey 2019 - Gov't:	12.6%

Recruitments

Under recruitment:

- None

Internal hires (transferred/promoted from within the ASRS):

- None

External hires (new to the ASRS):

- DO: Web Content Manager (start date: 07/20/2020) and IMD: Senior Equity Analyst (start date: 07/27/2020)

Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
MSD	MAC (Call Center)	● ○ ○	
MSD	Outreach Education	● ○ ○	
MSD	E-mail and Written Correspondence	● ○ ○	
MSD	Phoenix: Appointments/Walk-ins/Outreach	● ○ ○	
MSD	Tucson: Appointments/Walk-ins/Outreach	● ○ ○	
MSD	Benefit Estimates	● ○ ○	
MSD	Employer Relations	● ○ ○	
MSD	Health Insurance/LTD Benefits Administration and Communication	● ○ ○	
FSD	Service Purchase Processing	● ○ ○	
FSD	Monthly Pension Payroll Processing	● ○ ○	
FSD	New Retiree Processing	● ○ ○	

Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
FSD	Survivor Benefit Processing	● ○ ○	
FSD	Records Management (data processing/imaging)	● ○ ○	
FSD	Mailroom and Printing	● ○ ○	
FSD	LTD/Health Benefit Supplement Processing	● ○ ○	
FSD	Transfer Processing	● ○ ○	
FSD	General Accounting	● ○ ○	
FSD	Contribution Collections and Posting	● ○ ○	
TSD	Network Support	● ○ ○	
TSD	Application Development Team	● ○ ○	
IMD	Investment Management	● ○ ○	

Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

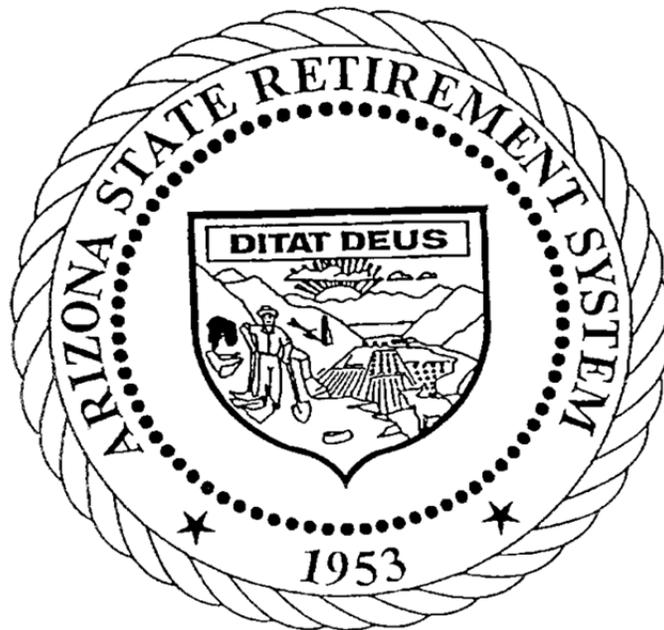
Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
DIR	Board/Executive Staff Support	● ○ ○	
DIR	Information Security	● ○ ○	
DIR	Strategic Planning/Analysis	● ○ ○	
DIR	Strategic Communications	○ ● ○	Greater than normal risk will remain until one vacant role is filled and trained.
DIR	Public Affairs	● ○ ○	
DIR	Rule Writing	● ○ ○	
DIR	Legislative Relations	● ○ ○	
DIR	Defined Contributions Plans	● ○ ○	
IA	Internal Audit	● ○ ○	
ASD	Human Resources	● ○ ○	
ASD	Training and Development	● ○ ○	
ASD	Contracts and Procurement	● ○ ○	

Impact of Staffing (Vacancies, Recruitments, Internal Transfers) on ASRS Operational Performance

Agency Divisions	Services and Functions	Staffing Impact	Comments
Impact of Staffing on ASRS Operations: Green = Normal risk Yellow = Greater than normal risk Red = Negative impact			
ASD	Facilities Management	● ○ ○	
ASD	Budget Administration	● ○ ○	

Agenda Item #8c

Director's Report Cash Flow Statements



**ARIZONA STATE RETIREMENT SYSTEM
COMBINED STATEMENT OF CHANGES IN TOTAL FUND CASH
FOR THE MONTH ENDED MAY 31, 2020**

	Retirement Plan Fund	Retirement System Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Current Period May	Fiscal 2020 YTD May	Fiscal 2019 YTD May
ADDITIONS							
Contributions							
Member contributions	\$ 122,303,449	\$ -	\$ -	\$ 1,745,779	\$ 124,049,228	\$ 1,166,346,176	\$ 1,090,165,362
Employer contributions	117,253,054	-	5,019,140	1,745,772	124,017,966	1,167,368,162	1,091,336,861
Alternative contributions (ACR)	3,245,588	-	15,771	22,079	3,283,437	30,777,088	30,828,330
Transfers from other plans	926	-	-	-	926	1,094,372	1,172,901
Purchased service	503,146	-	1,454	2,765	507,365	13,100,849	16,043,175
TOTAL CONTRIBUTIONS	243,306,163	-	5,036,365	3,516,396	251,858,923	2,378,686,648	2,229,546,629
DEDUCTIONS							
* Investment management fees	-	-	-	-	-	6,604,834	19,752,469
** Investment performance fees	-	-	-	-	-	365,905	-
*** Investment other fees	28,715	151	1,251	113	30,230	30,230	-
Custody fees	-	-	-	-	-	1,274,887	1,363,037
Consultant and legal fees	869,520	-	-	-	869,520	7,979,269	5,318,479
Internal investment activity expense	174,194	-	-	-	174,194	3,659,095	3,563,528
Retirement and disability benefits	268,700,945	2,899,744	11,868,292	4,614,089	288,083,070	3,132,813,339	3,011,578,493
Survivor benefits	4,912,706	4,161	-	-	4,916,867	47,085,913	43,858,031
Refunds to withdrawing members, including interest	12,328,537	1,929	-	-	12,330,466	216,597,791	229,474,166
Administrative expenses	1,927,696	-	-	132,474	2,060,170	28,430,099	26,627,513
Transfers to other plans	112,127	-	-	-	112,127	793,720	161,833
Other	-	-	-	-	-	172	273
TOTAL DEDUCTIONS	289,054,441	2,905,985	11,869,543	4,746,676	308,576,645	3,445,635,254	3,341,697,823
INCREASE (DECREASE)	(45,748,278)	(2,905,985)	(6,833,179)	(1,230,280)	(56,717,722)	(1,066,948,606)	(1,112,151,194)
From securities lending activities:							
Security loan program	241,436	-	-	-	241,436	4,201,651	5,871,617
Security loan interest expense / (Rebate)	(65,443)	-	-	-	(65,443)	(40,845)	340,099
**** Net income from securities lending activities	306,879	-	-	-	306,879	4,242,497	5,531,519
***** Capital Calls / (Distributions)							
Distressed Debt Total	(4,382,217)	(23,054)	(190,916)	(17,318)	(4,613,505)	(239,252,385)	287,710,739
Private Debt	-	-	-	-	-	-	(61,242,854)
Private Debt - European Credit Total	(9,356,191)	(49,222)	(407,612)	(36,975)	(9,850,000)	162,415,999	117,874,999
Private Debt - US Corporate Total	43,567,760	229,206	1,898,074	172,176	45,867,216	614,282,574	188,993,702
Private Debt - US RE and Asset Backed Total	48,443,223	254,855	2,110,479	191,443	51,000,000	(240,840,470)	(68,994,270)
Private Equity	6,715,348	35,329	292,561	26,538	7,069,776	(74,774)	(72,429,785)
Real Estate	22,862,863	120,279	996,044	90,352	24,069,538	587,319,954	415,736,827
Owned Real Estate	-	-	-	-	-	(642,900)	432,800
Other Credit Total	5,801,866	30,523	252,764	22,928	6,108,081	544,731,159	(151,340,363)
TOTAL Capital Calls	113,652,652	597,916	4,951,394	449,144	119,651,106	1,427,939,157	656,741,795
NET INCREASE (DECREASE)	\$ (159,094,051)	\$ (3,503,901)	\$ (11,784,573)	\$ (1,679,424)	\$ (176,061,949)	\$ (2,490,645,266)	\$ (1,763,361,471)

* Investment management fees for public investment managers and other managers paid by invoice. Does not include management fees paid through capital calls.

** Investment performance fees paid by invoice. Does not include performance fees paid through capital calls.

*** Investment other fees paid to White Oak. Does not include performance fees paid through capital calls.

**** Securities lending activities reported on a one month lag.

***** Capital calls / (Distributions) include investment management, incentive and other fees that were paid through capital call, rather than payment of an invoice, or through a reduction of a distribution.

Current period private market activity totals represent the best available preliminary information provided by our custodial bank. Changes in preliminary reported information for prior months are reflected in the year-to-date column.

**ARIZONA STATE RETIREMENT SYSTEM
COMBINED STATEMENT OF CHANGES IN TOTAL FUND CASH
FOR THE MONTH ENDED JUNE 30, 2020**

	Retirement Plan Fund	Retirement System Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Current Period June	Fiscal 2020 YTD June	Fiscal 2019 YTD June
ADDITIONS							
Contributions							
Member contributions	\$ 123,049,077	\$ -	\$ -	\$ 1,756,762	\$ 124,805,840	\$ 1,291,006,841	\$ 1,210,479,373
Employer contributions	117,922,571	-	5,049,771	1,756,769	124,729,111	1,292,235,570	1,211,234,969
Alternative contributions (ACR)	3,216,300	-	15,633	21,874	3,253,807	34,030,895	33,694,630
Transfers from other plans	-	-	-	-	-	1,094,372	1,306,982
Purchased service	902,832	-	687	426	903,945	14,004,794	17,234,845
TOTAL CONTRIBUTIONS	245,090,780	-	5,066,092	3,535,831	253,692,703	2,632,372,473	2,473,950,799
DEDUCTIONS							
* Investment management fees	564,469	2,931	24,587	2,222	594,209	7,199,043	20,466,390
** Investment performance fees	-	-	-	-	-	365,905	-
*** Investment other fees	-	-	-	-	-	30,230	-
Custody fees	-	-	-	-	-	1,274,887	2,106,819
Consultant and legal fees	470,586	-	-	-	470,586	8,553,081	7,352,606
Internal investment activity expense	443,112	-	-	-	443,112	4,137,539	4,666,065
Retirement and disability benefits	267,529,143	2,868,979	11,843,252	4,543,795	286,785,169	3,418,948,270	3,288,032,103
Survivor benefits	5,863,669	-	-	-	5,863,669	52,949,583	47,334,988
Refunds to withdrawing members, including interest	25,654,947	-	-	-	25,654,947	242,251,526	261,974,942
Administrative expenses	2,237,853	-	-	118,667	2,356,520	31,165,265	30,824,954
Transfers to other plans	168,648	-	-	-	168,648	962,368	163,279
Other	-	-	-	-	-	235	640,639
TOTAL DEDUCTIONS	302,932,427	2,871,910	11,867,839	4,664,684	322,336,860	3,767,837,931	3,663,562,784
INCREASE (DECREASE)	(57,841,647)	(2,871,910)	(6,801,748)	(1,128,853)	(68,644,158)	(1,135,465,458)	(1,189,611,985)
From securities lending activities:							
Security loan program	297,097	-	-	-	297,097	4,498,748	6,609,234
Security loan interest expense / (Rebate)	(200,557)	-	-	-	(200,557)	(241,402)	244,855
**** Net income from securities lending activities	497,654	-	-	-	497,654	4,740,150	6,364,379
***** Capital Calls / (Distributions)							
Distressed Debt Total	(2,621,760)	(13,612)	(114,197)	(10,318)	(2,759,887)	(242,012,272)	275,803,240
Private Debt	-	-	-	-	-	-	(61,242,854)
Private Debt - European Credit Total	(20,186,473)	(104,809)	(879,272)	(79,446)	(21,250,000)	141,165,999	117,874,999
Private Debt - US Corporate Total	(16,218,793)	(84,208)	(706,450)	(63,831)	(17,073,282)	597,209,292	213,802,912
Private Debt - US RE and Asset Backed Total	(17,574,106)	(91,245)	(765,484)	(69,165)	(18,500,000)	(259,340,470)	(65,754,668)
Private Equity	(14,419,024)	(74,864)	(628,057)	(56,748)	(15,178,693)	(15,253,467)	(66,046,348)
Real Estate	192,106,206	997,420	8,367,666	756,057	202,227,349	789,547,303	777,920,776
Owned Real Estate	-	-	-	-	-	(642,900)	432,800
Other Credit Total	40,057,640	207,980	1,744,811	157,652	42,168,083	586,899,242	(98,709,806)
TOTAL Capital Calls	161,143,690	836,662	7,019,017	634,201	169,633,570	1,597,572,727	1,094,081,051
NET INCREASE (DECREASE)	\$ (218,487,683)	\$ (3,708,572)	\$ (13,820,765)	\$ (1,763,054)	\$ (237,780,074)	\$ (2,728,298,035)	\$ (2,277,328,657)

* Investment management fees for public investment managers and other managers paid by invoice. Does not include management fees paid through capital calls.

** Investment performance fees paid by invoice. Does not include performance fees paid through capital calls.

*** Investment other fees paid to White Oak. Does not include performance fees paid through capital calls.

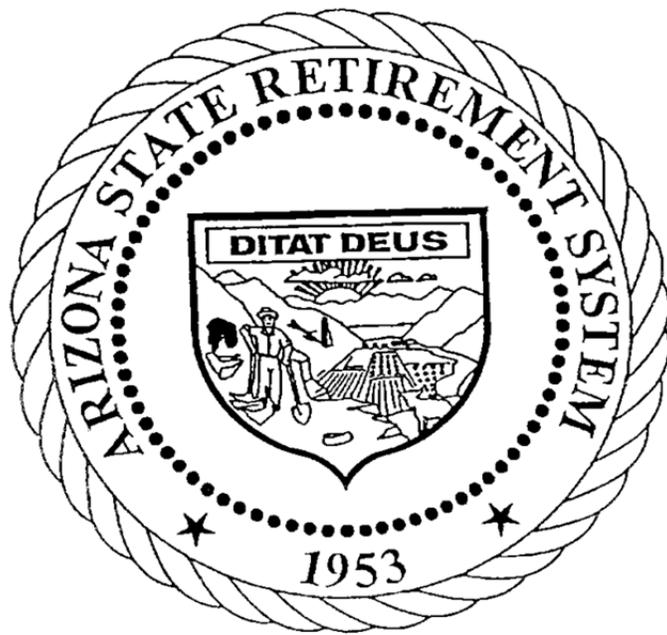
**** Securities lending activities reported on a one month lag.

***** Capital calls / (Distributions) include investment management, incentive and other fees that were paid through capital call, rather than payment of an invoice, or through a reduction of a distribution.

Current period private market activity totals represent the best available preliminary information provided by our custodial bank. Changes in preliminary reported information for prior months are reflected in the year-to-date column.

Agenda Item #8d

Director's Report Appeals Report



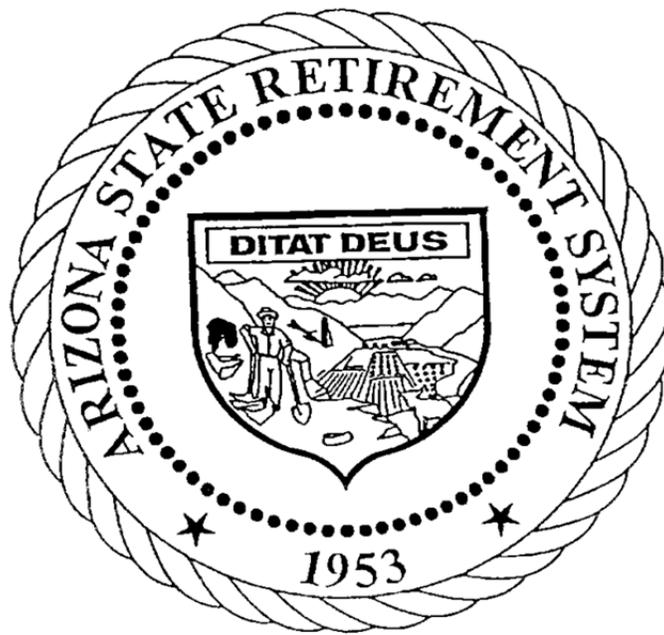
OUTSTANDING ASRS APPEALS

Date Received	Appeals	Issues/Questions Regarding	Status/Comments
6/13/2018	Elizabeth Mullavey	Member is appealing recalculation of pension benefit due to Mesa Public Schools audit.	Appellant filed this appeal on July 9, 2018. The member has agreed that a hearing will not be scheduled at this time due to a current Notice of Claim by other affected retirees in the Mesa Public Schools audit matter and possible resulting litigation in the superior court.
10/2/2019	Pepi Sandhaus	Member is appealing for interest to be paid to her on retroactive pension adjustment received.	OAH hearing occurred on 11/26/19. ALJ ruled in favor of the ASRS on 12/10/19. Scheduled for the 2/11/2020 Board Appeals Committee meeting. ASRS Board Appeals Committee accepted the ALJ Decision on 2/11/2020 upholding the agency action. Appellant filed appeal with Superior Court 4/8/2020. Appeal was settled 6/16/2020 and the appeal vacated in Superior Court.
12/23/2019	Scott McCarty	Member is appealing a service purchase cost calculation.	OAH Hearing is scheduled for 7/24/2020. All prehearing briefs and exhibits filed on July 13, 2020.
4/28/2020	Julie Wikman	Member is appealing the termination of her LTD benefits due to failure to submit required documentation.	OAH Hearing occurred on 6/24/2020 but appellant failed to appear. ALJ issued order to vacate appeal as appellant has burden of proof and failed to appear same day.
5/6/2020	Chad Gosnell	Member is appealing amount of return of contributions.	OAH Hearing rescheduled for 8/4/2020.
6/1/2020	Gregory Wingo	Member is appealing eligibility for Long Term Disability after forfeiting ASRS account and terminating membership	OAH Hearing is scheduled for 7/21/2020.

Information as of July 16, 2020. Updates are noted in bold font.

Agenda Item #8e

Director's Report Employers Reporting



MEMORANDUM

TO: Arizona State Retirement System (ASRS) Board

FROM: Mr. Paul Matson, Director

DATE: July 17, 2020

RE: Delinquent Employers

As of July 17, 2020, the following employers have failed to remit contributions by a date certain. These employers have received a letter advising them that the ASRS will initiate collection procedures unless they contact us within five days:

AKIMEL O'OTHAM PEE POSH CHARTER SCHOOL (3-5)	\$1,400*
YUMA CO INTERGOVE PUBLIC TRANSP AUTHORITY	<u>6,100*</u>
TOTAL	<u><u>\$7,500*</u></u>

*Estimated amount

Agenda Item #9

Committee
Meeting Updates

Operations, Audit and Legislative Committee

AGENDA

**NOTICE OF COMBINED PUBLIC MEETING AND POSSIBLE EXECUTIVE SESSION
 OF THE ARIZONA STATE RETIREMENT SYSTEM
 OPERATIONS, AUDIT, AND LEGISLATIVE COMMITTEE**

July 8, 2020
 2:30 p.m.

Pursuant to A.R.S. § 38-431.02(F), notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Operations, Audit, and Legislative Committee (OALC) and to the general public that the ASRS OALC will hold a **telephonic** meeting open to the public on Wednesday, July 8, 2020, beginning at 2:30 p.m. In light of the Arizona Department of Health Services’ recommendation to cancel or postpone mass gatherings of 10 or more people, and to help prevent community spread of COVID-19, the meeting will be audience free. **Trustees of the Board and the public may attend by telephone conference call at 877-820-7831, using Participant Passcode: 857127#.**

This is a regularly scheduled meeting of the OALC; however, due to possible attendance by other ASRS Board Trustees, this meeting may technically become a meeting of the Board or one of its committees. Actions taken will be consistent with OALC governance procedures. Actions requiring Board authority will be presented to the full Board for final decision.

The Chair may take public comment during any agenda item.

The agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks..... Mr. Clark Partridge
 OALC Chair
2. Approval of the Minutes of the April 8, 2020, Public Meeting and Executive Session of the OALC
 (estimated time: 1 minute) Mr. Clark Partridge
3. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Quarterly Update
 (estimated time: 10 minutes) Mr. Paul Matson
 Mr. Anthony Guarino
 Mr. Harold Mackey
 Chief Internal Auditor
4. Review of Recently Conducted Audits (estimated time: 10 minutes) Mr. Paul Matson
 Mr. Anthony Guarino
 Mr. Harold Mackey
 - Investment Management Fees – Internal Processes

5. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including: *(estimated time: 20 minutes)*

- a. The ASRS Appropriated and Continuously Appropriated Budget and Spending Plans for Fiscal Year (FY) 2021.
- b. The ASRS Appropriated and Continuously Appropriated Budget Request and Spending Plans for FY 2022.

..... Mr. Paul Matson
Director
..... Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
..... Ms. Martha Rozen
Chief of Administrative Services
..... Mr. Chris Gustafson
Procurement and Budget Manager
..... Ms. M. Harrison
Budget Manager, Administrative Services Division
..... Ms. Kerry White
Assistant Chief Investment Officer

6. Call to the Public..... Mr. Clark Partridge

Those wishing to address the ASRS OALC will be requested to do so telephonically. Trustees of the OALC are prohibited by A.R.S. § 38-431.01(H) from discussing or taking legal action on matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the OALC may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

7. Requests for Future Agenda Items..... Mr. Clark Partridge
..... Mr. Anthony Guarino

8. The next regular public OALC meeting is scheduled for Wednesday, October 14, 2020, at 2:30 p.m.

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(2), notice is hereby given to Trustees of the ASRS OALC and the general public that the ASRS OALC may vote to go into executive session, which will not be open to the public, for the purpose of discussion or consideration of records exempt by law from public inspection.

9. Presentation, Discussion and Appropriate Action Regarding the ASRS Group Medical Benefits Program Solicitation and Request for Proposal (RFP) *(estimated time: 20 minutes)*

..... Mr. Paul Matson
..... Mr. Anthony Guarino
..... Ms. Martha Rozen
..... Ms. Athena Elliston
Budget and Procurement Analyst, Administrative Services Division
..... Mr. Russ Levine
Health and Disability Plan Administrator, Member Services Division

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(2), notice is hereby given to Trustees of the ASRS OALC and the general public that the ASRS OALC may vote to go into executive session, which will not be open to the public, for the purpose of discussion or consideration of records exempt by law from public inspection.

10. Presentation, Discussion, and Appropriate Action Regarding the ASRS Information Security Program (estimated time: 20 minutes) Mr. Paul Matson
..... Mr. Anthony Guarino
.....Mr. Jeff Hickman
Information Security Officer

11. Adjournment of the OALC

A copy of the agenda background material provided to the OALC Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona and 4400 East Broadway Boulevard, Suite 200, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website (<https://www.azasrs.gov/content/board-and-committee-meetings>) approximately 48 hours prior to the meeting.

Persons with disabilities may request alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson, or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated July 1, 2020

ARIZONA STATE RETIREMENT SYSTEM

Signature on File

Melanie Alexander
Committee Administrator

Signature on File

Anthony Guarino
Deputy Director and Chief Operations Officer





ARIZONA STATE RETIREMENT SYSTEM

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AZASRS.GOV

Paul Matson
Director

MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS, AUDIT & LEGISLATIVE COMMITTEE

Wednesday, July 8, 2020
2:30 p.m., Arizona Time

A quorum of the Operations, Audit & Legislative Committee (OALC) of the Arizona State Retirement System (ASRS) met telephonically in public session.

Mr. Clark Partridge, Chair of the OALC, called the meeting to order at 2:32 p.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Clark Partridge, Chair
Mr. Tom Manos, Vice-chair
Mr. Rene Guillen

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

Mr. Clark Partridge, Chair, welcomed the attendees and thanked staff for their hard work and preparation for the meeting.

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

2. Approval of the Minutes of the April 8, 2020 Public Meeting and Executive Session of the OALC

Motion: Mr. Tom Manos moved to approve the Minutes of the April 8, 2020, Public Meeting and Executive Sessions of the OALC. Mr. Rene Guillen seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – approved
Mr. Rene Guillen – approved

3. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Harold Mackey reviewed the quarterly audit report with the Committee and provided the status of projects the Internal Audit Division (IAD) is currently working on. Mr. Mackey indicated the audit team

is currently not working at full capacity due to various reasons. Mr. Mackey reviewed the items in the "Follow-up Monitoring", noted significant progress has been made on the legislative implementation items, and they were waiting for the most recent report from CliftonLarsenAllen on the Cash Controls Audit follow-up, which was expected within the next week, or two. Mr. Mackey further noted they were able to make a significant turnaround with regard to the GASB 68 fieldwork/testing. Both FY2019 and FY2020 have been completed. Mr. Mackey reviewed some of the workplan modifications made since the last OALC meeting as follows:

- Priority ranking added to each audit
- Target field added to identify progress
- Highlight added on audits exceeding 10% of planned audit hours
- Revised column added to highlight adjustments

Mr. Mackey briefly reviewed the "Budget/Hours Allocation" slides.

4. Review of Recently Conducted Audits

Mr. Mackey reviewed the following audit conducted by the IAD:

a. Investment Management Fees – Internal Process

The IAD had no findings from the ASRS Investment Management Fees review of internal processes. This audit was initiated by an auditor who is no longer with the ASRS, therefore, completed by Mr. Mackey. This was a complex audit, as each contract had to be read, with no two alike. The primary focus was on private equities.

5. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including:

- a. The ASRS Appropriated and Continuously Appropriated Budget and Spending Plans for Fiscal Year (FY) 2021.**
- b. The ASRS Appropriated and Continuously Appropriated Budget Request and Spending Plans for FY 2022.**

Mr. Anthony Guarino introduced Ms. Martha Rozen, Chief of Administrative Services, Mr. Chris Gustafson, Budget and Procurement Manager, and Ms. Kerry White, Assistant Chief Investment Officer who led the discussion and present the proposed spending plans.

Ms. Rozen opened the discussion by recognizing Ms. M. Harrison, Budget Manager, who provided a great deal of assistance and input with preparing the materials. Ms. Rozen added that although Mr. Gustafson and Ms. White will be presenting the materials, she, Ms. Harrison and Mr. Dave King, Assistant Director, Technology Services Division, would be available to answer any questions the Committee may have regarding the proposal. Ms. Rozen turned the presentation over to Mr. Gustafson.

Mr. Gustafson reviewed the budget recommendation with the Committee. Mr. Gustafson highlighted the following:

- The budget includes key performance indicators to reduce the base administration budget by 3% between FY 2017 and FY 2021. The agency has not only met that goal but has exceeded it and reduced its base administrative spending by 4.68%.
- Over the course of the next several fiscal years, the ASRS continues to focus on managing budgets and implement strategies designed to improve operational effectiveness and make the ASRS more cost effective.
- FY 2021 and FY 2022, administrative spending plans support system and technology modernizations, the framework of the ASRS business model, with an emphasis on security

risk mitigation and re-engineering of processes. Investments will help the ASRS avoid future costs associated with inefficient processes.

- FY 2022 the ASRS must complete its required migration to the cloud, upgrade an essential system and implement a critical technology solution to further safeguard data. This will require an increase in the budget request of the ASRS' base operating appropriations. Mr. Gustafson provided the following details:
 - 2019 the Arizona Department of Administration implemented a Cloud First policy which necessitates the ASRS to migrate its infrastructure for data, systems, servers, and processes from its current physical data center to a cloud environment. With this will come a one-time Cloud Migration transition cost for external consulting resources, followed by ongoing annual Cloud costs for Cloud services.
 - The current version of FileNet is no longer supported and the ASRS will need external resources to successfully configure and implement an upgrade necessary to eliminate any disruption in service to this document management system.
 - Data subsetting, a software product compatible with core applications to allow teams to utilize only the relevant section of the ASRS' database rather than the full system will enable the ASRS to work on improvements without affecting the entire database or creating business disruption, along with enhancing data security.

Mr. Gustafson responded to questions from the Committee and turned the presentation over to Ms. Kerry White, Assistant Chief Investment Officer, to review the Investment Spending Plan as follows:

- FY 2021 and FY 2022 are relatively the same; with very little differences in the projections
- The bulk of the requested budget is for management fees in public and private markets
- Changes to the spending plan may occur from additional automation of workflow, mandate changes to the portfolio, regulatory or legislative changes or management decisions.
- Finalization of contractual changes currently in progress for additional automation of workflow, which will come with additional costs that are not reflected in the materials, presented but will be updated as the information becomes available.

Motion: Mr. Tom Manos moved to accept and forward to the ASRS Board of Trustees the following:

- 1) An appropriated budget request for FY 2022 in the amount of \$24,969,000, with an understanding there may ultimately be changes to the total appropriated budget amount due to legislative and executive recommendations.
- 2) The proposed administrative spending plan of \$30,596,300 and continuously appropriated investment spending plan of \$103,925,900 for FY 2022 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid.

Mr. Rene Guillen seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – approved
Mr. Rene Guillen – approved

6. Call to the Public

No members of the public requested to speak.

7. Requests for Future Agenda Items

None were requested.

8. The next regular public OALC meeting is scheduled for Wednesday, October 14, 2020, at 2:30 p.m.

Mr. Clark Partridge noted the next OALC meeting is scheduled for Wednesday, October 14, 2020 at 2:30 p.m.

9. Presentation, Discussion, and Appropriate Action Regarding the ASRS Group Medical Benefits Program Solicitation and Request for Proposal (RFP)

Mr. Paul Matson, Director, introduced Ms. Athena Elliston, Budget and Procurement Analyst, Administrative Services Division, who will be presenting on behalf of the Procurement Team.

Ms. Elliston opened the presentation stating the purpose of today's presentation is to present a recommendation for review and consideration for contract award for the ASRS group medical insurance and pharmacy services program.

Ms. Elliston further stated contracts are typically awarded for a maximum of five years and the current contract for medical and pharmacy services is in its fifth year; due to expire at the end of the calendar year, which is why the ASRS solicited for these services with an RFP. Ms. Elliston shared the ASRS was fortunate to have received a seven offers during this solicitation which are identified in the cover memo of the meeting materials.

Ms. Elliston advised the Committee the details of the review committee were included in the meeting materials and are confidential. If the Committee had specific questions regarding those materials, they would need to be discussed in executive session. The Committee indicated they had no further questions at this time.

Motion: Mr. Tom Manos moved to accept the Evaluation Committee's recommendation and forward to the full Board for approval. Mr. Rene Guillen seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – approved
Mr. Rene Guillen – approved

10. Presentation, Discussion, and Appropriate Action Regarding the ASRS Information Security Program

Motion: Mr. Tom Manos moved to go into executive session pursuant to A.R.S. § 38-431.03(A)(2) for the purpose of discussion or consideration of records exempt by law from public inspection. Mr. Rene Guillen seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – approved
Mr. Rene Guillen – approved

The Committee convened to Executive Session at 3:16 p.m.

Mr. Rene Guillen left the meeting at the conclusion of the Executive Session at 3:55 p.m.

The Committee reconvened to Public Session at 3:57 p.m.

11. Adjournment of the OALC

Mr. Clark Partridge adjourned the meeting at 3:58 p.m.

Respectfully Submitted,

Melanie A. Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM

DRAFT

Investment Committee



ARIZONA STATE RETIREMENT SYSTEM

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AGENDA

NOTICE OF PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

June 15, 2020
1:30 p.m.

Pursuant to A.R.S. § 38-431.02(F), notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Investment Committee (IC) and to the general public that the ASRS IC will hold a **telephonic** meeting open to the public on Monday, June 15, 2020, beginning at 1:30 p.m. In light of the Arizona Department of Health Services' recommendation to cancel or postpone mass gatherings of 10 or more people, and to help prevent community spread of COVID-19, the meeting will be audience free. **Trustees of the Committee and the public may attend by telephone conference call at 877-820-7831, using Participant Passcode: 682491#.**

This is a regularly scheduled meeting of the IC; however, due to possible attendance by other ASRS Board Trustees, this meeting may technically become a meeting of the Board or one of its Committees. Actions taken will be consistent with IC governance procedures. Actions requiring Board authority will be presented to the full Board for final decision.

The Chair may take public comment during any agenda item.

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks (*Estimated time 4 minutes*) Mr. Michael Lofton
Chair, Investment Committee

2. Approval of the Minutes of the March 23, 2020 Public Meeting of the ASRS IC (*Action item; estimated time 1 minute*) Mr. Michael Lofton

3. Presentation, Discussion, and Appropriate Action Regarding Portfolio Positioning, House Views and General Discussion (*Informational and discussion item; estimated time 30 minutes*)
..... Mr. Karl Polen
Chief Investment Officer (CIO), ASRS
..... Mr. Al Alaimo
Sr. Portfolio Manager of Fixed Income, Cash, and Liquid Alternatives, ASRS
..... Mr. Samer Ghaddar
Sr. Portfolio Manager of Equities, ASRS
..... Mr. Taylor Mammen
Sr. Managing Director, Director of Institutional Advisory Services, RCLCO

Objective:

The CIO and portfolio managers of ASRS and Mr. Taylor Mammen of RCLCO will present their investment views and the committee will discuss the current economic and investment environment. *No action is expected on this item, but the IC may express views or offer guidance on the matters discussed.*

4. Presentation, Discussion, and Appropriate Action Regarding Investment Performance (*Informational and discussion item; estimated time 30 minutes*) Mr. Karl Polen
..... Mr. Al Alaimo
..... Mr. Samer Ghaddar
..... Mr. Taylor Mammen

Objective:

The CIO and portfolio managers of ASRS and Mr. Mammen of RCLCO will report on investment performance and performance attribution in each of the portfolios. The discussion will include returns and holdings based performance analysis and a review of current strategies for the portfolios. *No action is expected on this item, but the IC may express views or offer guidance on the matters discussed.*

5. Presentation, Discussion, and Appropriate Action Regarding the Equities Implementation Plan and Private Equity Liquidity Compliance (*Informational and discussion item; estimated time 20 minutes*) Mr. Samer Ghaddar
..... Mr. Cole Smith
Portfolio Manager, Public Equities
..... Mr. Micheal Copeland
Portfolio Manager, Private Markets

Objective:

ASRS portfolio managers will update the committee on the Equities Implementation Plan and Private Equity Liquidity Compliance. *No action is expected on this item, but the IC may express views or offer guidance on the matters discussed.*

6. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight (*Informational and discussion item; estimated time 20 minutes*) Mr. Allan Martin
Partner, NEPC

Objective:

NEPC will present total fund performance results for the period ending March 31, 2020 and will report on their monitoring of IMD activities. *No action is expected on this item, but the IC may express views or offer guidance on the matters discussed.*

7. Presentation, Discussion, and Appropriate Action Regarding Risk Management (*Informational and discussion item; estimated time 10 minutes*)..... Mr. Karl Polen

Objective:

The CIO will present the MSCI risk management report. *No action is expected on this item, but the IC may express views or offer guidance on the matters discussed.*

8. Presentation, Discussion, and Appropriate Action Regarding Compliance (*Informational and discussion item; estimated time 10 minutes*)..... Ms. Kerry White
Assistant Chief Investment Officer for Reporting, Compliance & Administration

Objective:

The Assistant CIO will report on compliance activities. *No action is expected on this item, but the IC may express views or offer guidance on the matters discussed.*

9. Request for Future Agenda Items (*Discussion item; estimated time 5 minutes*).Mr. Michael Lofton
..... Mr. Karl Polen

10. Call to the Public..... Mr. Michael Lofton

Those wishing to address the ASRS IC will be requested to do so telephonically. Trustees of the Committee are prohibited by A.R.S. § 38-431.01(H) from discussing or taking legal action on matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the IC may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

11. The next ASRS Investment Committee Meeting is scheduled for Monday, September 21, 2020 at 1:30 p.m.

12. Adjournment of the ASRS IC Meeting.

A copy of the agenda background material provided to IC Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona, and 4400 East Broadway Boulevard, Suite 200, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website <https://www.azasrs.gov/content/board-and-committee-meetings> approximately 48 hours prior to the meeting.

Persons with disabilities may request alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated June 10, 2020

ARIZONA STATE RETIREMENT SYSTEM

Signed Copy on File

Joyce Williams
Committee Administrator

Signed Copy on File

Karl Polen
Chief Investment Officer

MINUTES

PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

June 15, 2020
1:30 p.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met telephonically.

Mr. Michael Lofton, Chair of the IC, called the meeting to order at 1:40 p.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Michael Lofton, Chair – via teleconference
Mr. Kevin McCarthy, Vice-chair – via teleconference
Mr. Clark Partridge – via teleconference

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

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

2. Approval of the Minutes of the March 23, 2020 Public Meeting of the ASRS IC

Motion: Mr. Clark Partridge moved to approve the minutes of the March 23, 2020 public IC meeting. Mr. Kevin McCarthy seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused and 0 vacancies, the motion was approved. The trustee votes were as follows:

Mr. Michael Lofton – approved
Mr. Kevin McCarthy – approved
Mr. Clark Partridge – approved

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

Mr. Karl Polen, Chief Investment Officer (CIO), introduced the topic noting that the ASRS is currently positioned neutrally with all asset classes within 1% of their strategic asset allocation target. He further noted that equity markets have held up surprisingly, given uncertainties on both economic and policy fronts.

Mr. Samer Ghaddar, Sr. Portfolio Manager of Equities, presented a macro overview and equity markets

information. He reported that consensus forecasts are for a gradual recovery from the virus pandemic with unemployment levels remaining above 5% through 2022. Economic effects of the pandemic have been mitigated through unprecedented fiscal and monetary stimulus targeted to protect incomes, stabilize credit markets, maintain liquidity, and support asset prices. With respect to equity markets, Mr. Ghaddar noted that the S&P500 is down only 7% for the calendar year while earnings are projected to be down 30%. The markets reflect both the effect of lower interest rates on required returns and a consensus view of an orderly return to normal earnings conditions. Private equity has seen a large reduction in deal volume but the rapid recovery in public equity markets is expected to be reflected in both deal volume and valuations in coming quarters.

Mr. Al Alaimo, Sr. Portfolio Manager of Fixed Income, provided an outlook on credit markets, noting that public credit markets declined precipitously in the first calendar quarter while well managed private credit portfolios held up relatively well and significantly outperformed in that time frame. He noted that the process will, to some extent, reverse in the current with a rapid recovery in public credit. He further reviewed interest rate markets with near record low rates for United States Treasury Securities, which are expected to continue for the foreseeable future.

Mr. Taylor Mammen, Sr. Managing Director and Director of Institutional Advisory Services, presented real estate outlook noting differential impacts by property type. He noted that multi-family properties have held up well in this recession with collections and leasing activity experiencing only minor impacts. Stay at home orders have accelerated the trend toward e-commerce and this is having a positive effect on industrial properties. Office properties have seen limited impact so far with generally long-term leases, but there is uncertainty regarding office utilization if physical distancing standards remain an expectation in the longer term. Retail and hotel are seeing severe impacts with low occupancy in hotels and many store closures leading to rent collection problems.

4. Presentation, Discussion, and Appropriate Action Regarding Investment Performance

Mr. Polen provided an update on the most recent information, with preliminary results available on 80% to 90% of investment funds and assuming flat public markets for the balance of the year, estimated returns for the fiscal year would be approximately 1% compared to benchmark returns of approximately 0%. He then reported final results for periods ending March 31, 2020. He noted that total fund returns of -1.1%, 4.9%, 5.2% and 7.7% for the one-, three-, five- and ten-year periods were 2% below the benchmark for the one-year period and .8%, 1.3% and 1% above the benchmark for the three-, five- and ten-year periods.

Mr. Ghaddar and Mr. Micheal Copeland, Assistant Portfolio Manager of Real Estate, presented information regarding equities performance. Total equity performance was -9.1%, 2.4% and 3.9% for the one-, three- and five-year periods. This performance underperformed benchmarks by 3.2%, .4% and .3% for these time periods. Mr. Copeland explained that private equity returns are quarter lagged and the one-year benchmark was 27% for periods ending 12/31/2019, which was well in excess of the portfolio return of 11%. He noted, however, that private equity relative performance is expected to substantially improve in the coming quarter with expected outperformance for the one-year period ended 3/31/2020 of approximately 4.8%.

Mr. Mammen reported real estate results, which, like private equity, are quarter lagged. For periods ending 12/31/2019, real estate earned 4.3%, 6.8%, 8.5% and 11% for the one-, three-, five-, and ten-year periods. These returns trailed the benchmark by .3% for the one-year period and exceeded the benchmark by 1.4%, 1.2% and 1.7% for the three-, five-, and ten-year periods. Mr. Mammen provided an estimate for the one-year period ending 3/31/2020 of -.8%, which trails the benchmark by 4.6%. This underperformance is driven largely by poor performance in a credit portfolio, which held positions in REIT credits, which sold off heavily in the first quarter. The manager of this portfolio has forecast substantial recovery of these losses in coming quarters.

Mr. Alaimo reported credit results for periods ended 3/31/2020 of 9.3%, 9.2%, 8.3%, and 7.7% for the one-, three-, five-, and ten-year periods. These results underperformed the benchmark by 2% for the one-year period and outperformed by 2.4%, 1.9% and 2.5% for the three-, five-, and ten-year periods. The credit portfolio is a

blend of public and quarter lagged private positions. However, in recent years it has transitioned to substantially all private positions and, as such, nearly all the positions are benchmarked against public market indices with an effective period end of 12/31/2019. The public benchmarks surged in that time frame. Mr. Alaimo provided an estimate of performance for the portfolio for periods ended 3/31/2020. During this quarter, public markets collapsed while the private portfolio experienced only minor losses. Mr. Alaimo estimated that the portfolio will earn a return of 4% for the one-year period ended 3/31/2020 while the benchmark lost 6.9% for an outperformance of 10.9% for the year.

Mr. Alaimo continued his presentation with a discussion of the interest rate sensitive portfolio. He reported that this portfolio earned 9.1%, 4.9% and 3.7% for the one-, three- and five-year periods, which outperformed the benchmark by .2%, .1% and .3% for the same time periods. The internal portfolios performed exceptionally well recently with outperformance of .6% in the most recent one-year period. This outperformance was achieved by unusual trading opportunities during March when spreads on high quality corporate credit widened substantially. The ASRS team capitalized on these opportunities generating substantial profits.

5. Presentation, Discussion, and Appropriate Action Regarding the Equities Implementation Plan and Private Equity Liquidity Compliance

Mr. Ghaddar and Mr. Copeland presented the equity implementation plan. They reviewed the prior implementation plan and described the focus on internal management, risk factors, alpha overlay, index selection and private markets as return drivers. While internal management and private equities have delivered results in line with expectations, the other strategies have underperformed and the equities team has recommended discontinuing them.

Mr. Copeland updated the committee on private equity pacing. With the drop in equity values earlier this year, private equity peaked at 22% of the total equity portfolio exceeding the 20% limit established in the 2018 strategic asset allocation. As a result of this, the team reevaluated the pacing plan and set lower targets which are expected to return the portfolio to compliance with this liquidity limit.

Mr. Ghaddar concluded the presentation by describing the excess return and tracking error expectations for each of the components of the portfolio in the implementation plan, noting that the portfolio will be managed with a goal of achieving 91bp per year of excess return with tracking error of 2.1%.

6. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight

Mr. Allan Martin, Partner, NEPC, presented the NEPC oversight. He noted that they review ASRS team calculations as presented to the IC to confirm their accuracy and consistency with the State Street official book of record. He reviewed compliance with ASRS noting full or partial compliance in all cases. He commended the ASRS team for liquidity management during financial turmoil related to the onset of the pandemic maintaining high liquidity throughout. He also noted that ASRS performance compared to other pension plans placed it in the top decile for all of the one-, three-, five-, and ten-year periods.

7. Presentation, Discussion, and Appropriate Action Regarding Risk Management

Mr. Polen presented the risk report from MSCI, noting that risk increased to 28% during the first quarter of the year.

8. Presentation, Discussion, and Appropriate Action Regarding Compliance

Ms. Kerry White, Assistant Chief Investment Officer for Reporting, Compliance, and Administration, presented the compliance report, noting that there were no instances of non-compliance to report for the period.

9. Request for Future Agenda Items

No requests for future agenda items were made.

10. Call to the Public

No members of the public requested to speak.

11. The next ASRS Investment Committee Meeting is scheduled for Monday, September 21, 2020 at 1:30 p.m.

Mr. Lofton noted the next IC meeting is scheduled for Monday, September 21, 2020 at 1:30 p.m.

12. Adjournment of the ASRS IC Meeting.

Motion: Mr. Clark Partridge moved to adjourn the meeting. Mr. Kevin McCarthy seconded the motion.

Mr. Michael Lofton adjourned the meeting at 3:54 p.m.

Respectfully submitted by:

Joyce Williams/Karl Polen
Investment Committee Administrator/Chief Investment Officer
ARIZONA STATE RETIREMENT SYSTEM

Appeals Committee

No Recent Meeting

Agenda

Items #10-13

No Materials