

**MINUTES  
PUBLIC MEETING  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, November 13, 2020  
8:30 a.m.**

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

Mr. Jim Hillyard, Chair of the ASRS Board, called the meeting to order at 8:32 a.m.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Jim Hillyard, Chair (via teleconference)  
Mr. Clark Partridge, Vice-chair  
Mr. Rene Guillen (via teleconference)  
Mr. Tom Manos (via teleconference)  
Mr. Kevin McCarthy (via teleconference)  
Mr. Michael Miller

Excused: Mr. Michael Lofton

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 September 25, 2020 Public Meeting and Executive Session of the ASRS Board**

**Motion:** Mr. Clark Partridge moved to approve the minutes of the September 25, 2020 Public Meeting and Executive Session of the ASRS Board. Mr. Kevin McCarthy seconded the motion.

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

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

Mr. Michael Miller – approved

### 3. Presentation, Discussion, and Appropriate Action Regarding the ASRS 2021 Proposed Legislative Agenda

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, presented to the Board the proposed 2021 Legislative Agenda, indicating it is mostly the same as the 2020 agenda placed on hold earlier this year due to the pandemic. Ms. Thomas identified two changes from the 2020 agenda as follows:

- In Legislative Agenda Item #2 regarding employer credit, the language has been adjusted to remove specific reference to "check" to allow the ASRS more flexibility in the method employer contributions may be returned
- Legislative Agenda Item #3 includes an update to A.R.S. § 38-775 pertaining to Required Minimum Distributions (RMD). It was determined that federal requirements needed to be included and take precedence over the ASRS Long-Term Disability (LTD) statutes. A.R.S. §§ 38-775 and 38-797.07 proposed amendments will include clarifications that the RMD provisions take precedence over Article 2.1 (LTD), and a member may receive both LTD and RMD.
- Legislative Agenda Item #5 is a new proposal from staff to amend A.R.S. § 38-748(A) to replace "legally obligated to" with "shall" to make it clearer to the employer when the ASRS can charge an unfunded liability while still maintaining the agency's discretion.

Ms. Thomas offered to answer any questions from the Committee. Ms. Thomas indicated that if the Committee had no questions, staff requested the Board consider accepting the appropriate 2021 ASRS Legislative Initiatives for approval.

**Motion:** Mr. Michael Miller moved to accept the Operations, Audit, and Legislative Committee and Staff's recommendation to approve the ASRS 2021 Proposed Legislative Agenda. Mr. Rene Guillen seconded the motion.

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

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

### 4. Presentation, Discussion, and Appropriate Action Regarding the ASRS 2021 Proposed Regulatory Agenda and Update on ASRS Rulemaking Activities

Ms. Jessica Thomas provided the Board with a brief update on the rulemaking initiatives from 2018, 2019, and 2020 as follows:

- **2 A.A.C. 8, Article 9, Compensation**  
Staff has filed a Notice of Final Rulemaking with the Governor's Regulatory Review Council and anticipate this rulemaking being completed in early 2021.
- **2 A.A.C. 8, Article 1, R2-8-121(new rule) Non-Participating Employer Invoices**

Staff has postponed this rulemaking initiative pending amendments to the corresponding statute, A.R.S. § 38-751, during the 2021 legislative session.

- **2 A.A.C. 8, Article 1, R2-8-116 Alternate Contribution Rate (ACR) Credits**  
After further reviewing ASRS processes, staff has determined not to pursue this rulemaking because further clarification of how an Employer may obtain a credit for ACR contributions under A.R.S. § 38-766.02 is unnecessary.
- **2 A.A.C. 8, Article 3, Long-Term Disability**  
Staff has filed a Notice of Final Rulemaking with the Governor's Regulatory Review Council and anticipate this rulemaking being completed in early 2021.
- **2 A.A.C. 8, Article 1, R2-8-119 (new rule) Liability Invoices under A.R.S. § 38-748**  
Staff has filed a Notice of Proposed Rulemaking with the Secretary of State and will hold an Oral Proceeding for public comments on December 20, 2020.

Ms. Thomas proceeded to the proposed regulatory agenda for 2021. The following rulemakings have been identified:

- **2 A.A.C. 8, Article 5**, to clarify:
  - "Other public retirement system" for purposes of a service purchase
  - Service purchase cannot be completed after the death of a member
- **2 A.A.C. 8, Article 1 (new rule)**, to clarify various processes for Domestic Relations Orders:
  - Transfers in and out of the System
  - How community property is split
  - How to renounce a community property assertion
- **2 A.A.C. 8, Article 8**, to clarify how overpayments are collected for a health insurance premium benefit
- **2 A.A.C. 8, Articles 1 and 2**, to clarify:
  - The process for long-term disability and Required Minimum Distributions (RMD)
  - The process for Return to Work (RTW) and RMD

Ms. Thomas ended her presentation by reviewing two five-year review reports that are required and scheduled:

- **2 A.A.C. 8, Article 6 Public Participation in Rulemaking** – April 2021
- **2 A.A.C. 8, Article 7 Contributions not Withheld** – June 2021

Ms. Thomas offered to answer any questions for the Board and requested the Board consider approving the ASRS 2021 Proposed Regulatory Agenda.

**Motion:** Mr. Clark Partridge moved to approve the ASRS 2021 Proposed Regulatory Agenda. Mr. Kevin McCarthy seconded the motion.

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

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

## **5. Presentation, Discussion, and Appropriate Action Regarding the ASRS' Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2020**

Mr. Jason Ostroski, CPA, CliftonLarsonAllen Principal, introduced himself to the Board and spoke on behalf of CliftonLarsonAllen, LLP, the ASRS' external auditor. Mr. Ostroski presented an unmodified Independent Auditor's Opinion for the fiscal year ending June 30, 2020, on the ASRS financial statements that collectively comprise the ASRS' financial statements in the CAFR. Regarding the Independent Auditors' Report on Internal Controls, Mr. Ostroski reported no material weaknesses or significant deficiencies identified during the audit. Mr. Ostroski further noted that there were no additions to the requirements and standards of GASB 74. Additionally, Mr. Ostroski pointed out that the accounting estimates, which are focused on alternative investments and actuarial information, including the pension and the health plans, were determined to be reasonable in relation to the financial statements as a whole.

Mr. Ostroski highlighted how the financial statement audit was performed this year in light of the COVID environment. He informed the Board that although things were done differently this year, the quality of the audit did not suffer. Mr. Ostroski attributed this to being able to leverage the technology that had been implemented in the last few years. Virtual applications used by the teams were invaluable in keeping lines of communication open and in keeping everyone connected.

## **6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Actuarial Valuation and Resulting Contribution Rates**

### **a. The Pension Plan and Health Insurance Valuation**

Mr. Ryan Falls and Mr. Paul Wood of Gabriel, Roeder, Smith, and Company (GRS) addressed the Board and summarized the results of the 2020 ASRS valuations. They also presented charts summarizing the contribution rates and the funded status. The resulting Plan contribution rate is 12.22% for each the employee and employer with the experience study changes phased in, including pension and health benefit supplement rates. This percentage represents an increase of 0.18% from the fiscal year 2019 contribution rate of 12.04%. The actuarial value of assets funded status of the Plan as of June 30, 2020, is 72.8%. The market value of assets funded status of the Plan as of June 30, 2020, is 70.1%.

### **b. The System Valuation**

GRS provided information regarding accrued liabilities, the market value of assets, and funded status for the System. The resulting funded status of the System as of June 30, 2020, is 73.1%.

### **c. The Long-Term Disability (LTD) Valuation**

GRS addressed the Board regarding the ASRS LTD Valuation. The resulting contribution rate is 0.19% for each the employee and employer with the experience study changes phased in, which results in a 0.01% increase from the fiscal year 2019 contribution rate of 0.18%. The actuarial value of the LTD Plan's assets funded status as of June 30, 2020, is 73.1%. The market value of assets funded status of the LTD Plan as of June 30, 2020, is 67.9%.

### **d. Actuary's Recommendation Regarding 13th Checks for Retired System Members**

Chairman Hillyard asked Mr. Paul Matson to review the history and practice of the System and 13<sup>th</sup> check. Mr. Paul Matson summarized the history and structure of the System. He described the 13<sup>th</sup>

check process, including a prior written Arizona Attorney General's Opinion on benefit guarantee and a rule defining the process and funded status to consider an additional 13<sup>th</sup> check.

Based on the results, GRS recommended there will be no addition to the 13<sup>th</sup> check or supplemental credit balances.

Mr. Falls, Mr. Wood, Mr. Matson, and Ms. Sara Orozco, Strategic Planning and Analysis Manager, answered questions and provided additional background on this discussion item.

**Motion:** Mr. Clark Partridge moved to accept the Actuarial Valuation of the Plan and Health Benefit Supplement program as presented with the resulting contribution rate of 12.22% for each active employee and employer, with 0.21% allocated to the 401(h) account. Mr. Kevin McCarthy seconded the motion.

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

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

**Motion:** Mr. Clark Partridge moved to accept an aggregate Alternate Contribution Rate of 10.22%, consisting of 10.13% for the Plan, 0.0% for the Health Benefit Supplement program, and 0.09% for the Long-Term Disability program for fiscal year 2022. Mr. Kevin McCarthy seconded the motion.

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

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

**Motion:** Mr. Clark Partridge moved to accept the Actuarial Valuation of the System as presented. Mr. Kevin McCarthy seconded the motion.

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

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

**Motion:** Mr. Clark Partridge moved to accept the Actuarial Valuation of the Long-Term Disability Program as presented with the resulting contribution rate of 0.19% for each employee and employer for fiscal year 2022. Mr. McCarthy seconded the motion.

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

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

**Motion:** Mr. Clark Partridge moved to accept the Actuary's recommendation to not provide an increase to the 13<sup>th</sup> check for Retired System members and no additions to the Supplemental Credit balances of non-retired System members. Mr. Kevin McCarthy seconded the motion.

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

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

## **7. Presentation, Discussion, and Appropriate Action Regarding the ASRS Investment Program Update**

Mr. Paul Matson gave a brief overview of the construction of the fund investment portfolio, covering several points, specifically including:

- **Risk:** There are many definitions and perceptions of risk. One common definition of risk is the standard deviation of short-term rates of returns. However, the ASRS looks at relevant risk somewhat differently, focusing on both the volatility over longer periods and the probability of underperforming the actuarial rate of return assumption longer periods.
- **Asset Centric Approach:** The ASRS has an asset-focused approach to portfolio construction. Liabilities are measured, monitored, and considered, but the ASRS is more concerned with the longer-term compound rate of return.
- **Impact Focus:** The real impact of investment decisions is in contribution rates. As a government pension fund, the ASRS has advantages in being able to smooth out investment rates of returns over longer periods and to amortize deficits over longer periods. These advantages significantly mitigate the volatility that flows through to contribution rates and enable minimizing average long-term contribution rates.
- **Key Items:** Two big items determine contribution rates and funded status: aggregate liabilities (pensions due for our present and future retirees) and asset base.

- In constructing the investment portfolio and setting actuarial methods, significant consideration is given to the absolute size of expected average contribution rates, as well as their potential highs and lows, and their volatility,
- Contribution Rate Volatility and Level: The ASRS mitigates contribution rate volatility mostly through actuarial methods and assumptions and minimizes the level of long term aggregate contribution rates through portfolio construction with a greater focus on returns and a lesser emphasis on short term changes in portfolio valuation.
- Portfolio Liquidity: Portfolio liquidity is enhanced and controlled by maintaining certain cash flow controls within private investments through separate accounts and negotiated terms.
- Efficient Markets: ASRS accepts most of the Efficient Markets Hypothesis and believes it is challenging to do better than the average when investing. The ASRS believes in the ability to add value because of market segmentation and operating within the reality of the regulatory environment.

Using all of these tools and approaches, the ASRS can expect to earn higher rates of return over longer periods. The ASRS can also maintain significant levels of liquidity and use actuarial assumptions to mitigate volatility of contribution rates. Finally, using these tools allows the team to construct portfolios that focus on maximizing longer-term rates of return.

Director Matson then turned over the floor to Mr. Sammer Ghaddar, Sr. Portfolio Manager of Equities, to review the CIO Report. Mr. Ghaddar briefly reviewed the current state of global markets. At this point in the calendar year, although the U.S. stock market is up 12½%, global equities are up 7%, and expectations for Gross Domestic Product (GDP) growth are still being adjusted upward; contractions in the markets are expected. European and emerging markets are anticipating further contractions. High-frequency indicators of economic activity are positive, and interest rates are nearing historic lows. The tech sector is leading the recovery, and with market rallies driven by news of potential vaccines for COVID-19, the economy is expected to perform much better.

Mr. Ghaddar reported that the fund's total asset value is \$42.3 billion as of November 3, 2020 (\$43.2 billion as of November 12, 2020, because of the stock market rally caused by vaccine news).

- Fiscal year-to-date total fund returns through November 3, 2020, are approximately 5.5%, underperforming the benchmark by 3.10%.
- Total equity returns for the period ending September 30, 2020 of 8.06% underperformed the benchmark by 2.15%.
- Private equity returns for the period ending June 30, 2020 are approximately 6.99%, with an underperformance of 12.94%.
- Real estate returns for the period ending June 30, 2020 are -0.23% with excess performance of 1.53%.
- Total credit returns for the period ending September 30, 2020 are 3.16%, underperforming the benchmark by 7.22%.
- Total Portfolio Value-At-Risk (VaR) as of September 31, 2020, was 26.12%.

Mr. Ghaddar and Mr. Matson fielded questions from the Trustees.

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

Mr. Paul Matson provided the Board a brief update on various topics regarding the ASRS as follows:

- Mr. Matson stated that the occupation rate of the 3300 N. Central Avenue building is still at an aggregate level of about 65 people a day, or just under 13% occupied, with ASRS staff averaging about 12% onsite daily. Many of that 12% are in the office for partial days.

- Mr. Matson provided additional background on the agenda item for legislative issues. The Arizona State Governing Committee for Deferred Compensation Plans had a strategic initiative for 2020 to consider the consolidation of defined contribution plans in Arizona. Mr. Matson informed the Board that the OALC would discuss this consolidation initiative before bringing the topic to the full Board.
- Mr., Matson stated that Ms. Martha Rozen, ASRS Assistant Director of Administrative Services, was nominated for the 2020 Woman Achievers of Arizona, sponsored by the Arizona Capitol Times. Nominees are "women who excel in their professions and work every day to advance their company, firm, or community, and in doing so, make a difference in the lives of Arizonans." Ms. Rozen was nominated in the category of "Private Company" for her work as Chairperson of the Board for OneAZ Credit Union. Ms. Rozen and her fellow nominees were honored for their achievements on October 27, 2020. Mr. Matson expressed how fortunate the ASRS, and the State, are to have Ms. Rozen's leadership, talent, professionalism, and ethics, and applauded her achievement and philanthropic pursuits on behalf of the ASRS. ASRS staff and Board members joined in congratulating Ms. Martha Rozen on her most recent achievement and significant value to the ASRS.
- Mr. Matson stated that Mr. Karl Polen, Chief Investment Officer, had announced his retirement from the ASRS. Mr. Polen began his time with the ASRS in September 2010, initially focused on real estate and private equity, and was later appointed as the Chief Investment Officer. Mr. Matson indicated that during his tenure, Mr. Polen had been a highly energetic and intellectually sophisticated portfolio manager and chief investment officer. Mr. Matson further stated that Mr. Polen had added value in many areas of the investment fund, including the structuring of real estate investments, developing real estate strategies, and developing sophisticated performance attribution. On behalf of the ASRS, Mr. Matson thanked Mr. Polen and wished him the best in all his future endeavors.

Mr. Jim Hilliard, on behalf of the Board of Trustees, congratulated Ms. Rozen on her nomination, noting her excellent work on behalf of the ASRS. Mr. Hilliard also expressed good wishes to Mr. Polen and appreciation of his work on behalf of the ASRS over the years. Finally, Mr. Hilliard voiced his support for the consolidation of the governance of the State of Arizona's deferred compensation plans.

## **9. Presentation, Discussion, and Appropriate Action Regarding Board Self Evaluation Material Distribution**

Mr. Jim Hillyard announced to the Board members they were provided a packet with Board Evaluation information and requested they be completed and submitted to Mr. Hillyard before December 31, 2020.

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

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

Mr. Clark Partridge informed the Board that the Legislative and Rules agendas presented in this morning's Board meeting were discussed in the most recent OALC meeting and expressed his appreciation for the staff and their hard work. Mr. Partridge also mentioned their discussion about staff's ongoing security efforts to ensure that our systems are secure and their continued attention to all things from an information technology risk perspective. Mr. Partridge also expressed appreciation for the staff's ongoing outreach to members and the good hard work they do to serve the employers, employees, and members of the ASRS. Mr. Partridge finished by announcing that the next OALC meeting will be held on January 13, 2021.



**b. Investment Committee (IC)**

Mr. Jim Hilliard announced that the next IC meeting is to be held on December 21, 2020.

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

Mr. Michael Miller announced the next Board AC meeting is scheduled to be held on December 8, 2020. Mr. Miller also expressed a debt of gratitude to the staff and the Assistant Attorney General for all of the hard work they put in on the various appeals at different levels and for the guidance they provide to the Board.

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

No requests were made.

**12. Call to the Public**

No members of the public requested to speak.

**13. The next regular ASRS Board meeting is scheduled for Friday, January 29, 2021, at 8:30 a.m.**

Mr. Jim Hillyard noted the next Board meeting is scheduled for Friday, January 29, 2021, at 8:30 a.m.

**14. Adjournment of the ASRS Board**

**Motion:** Mr. Michael Miller moved to adjourn the November 13, 2020, ASRS Board meeting at 10:44 a.m. Mr. Renee Guillen seconded the motion.

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

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

Respectfully Submitted by:

Joyce Williams  
Board Administrator  
ARIZONA STATE RETIREMENT SYSTEM