



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, January 25, 2019
8:30 a.m.

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:30 a.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Rene Guillen
Mr. Michael Lofton
Mr. Kevin McCarthy
Mr. Michael Miller
Mr. Clark Partridge

Excused: Mr. Jim Hillyard

Two vacant positions.

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the November 9, 2018 Public Meeting of the ASRS Board

Motion: Mr. Michael Miller moved to approve the minutes of the November 9, 2018 Public Meeting of the ASRS Board. Mr. Michael Lofton 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. Tom Manos – approved
Mr. Jim Hillyard – excused
Mr. Rene Guillen – approved
Mr. Michael Lofton – approved
Mr. Kevin McCarthy – approved
Mr. Michael Miller – approved
Mr. Clark Partridge – approved

3. Presentation of the 2018 Annual PRIDE Recognition Award Recipients: Professionalism, Results, Improvement, Diversity, Excellence

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, began by recounting some of the outstanding projects that were executed by ASRS Staff during 2018. Those being honored at this meeting were selected quarterly throughout the year by their peers for best representing the PRIDE values (Professionalism, Results, Improvement, Diversity, Excellence).

Quarter 1:

Individual – Richard Musto for Excellence
Team – General Accounting Team for Results

Quarter 2:

Individual – Ivan Sykes for Professionalism
Team – TKO Team for Results

Quarter 3:

Individual – Neal Park for Professionalism
Team – Fiscal Year End Team for Improvement

Quarter 4:

Individual – Irving Sanchez-Monroy for Improvement
Team – Service Purchase Oracle Modernization & PWEB Project Team for Improvement

Mr. Tom Manos spoke of the outstanding customer service and efficient operations consistently offered by the System and thanked the winners on behalf of the ASRS Board.

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS 2019 Legislative Initiatives

Ms. Jessica Thomas, Government Relations Officer, provided an update regarding the ASRS 2019 legislative agenda. Most ASRS bills went through their first committee and should continue through the legislative process in the coming weeks. In addition, Ms. Thomas requested Board input on the following topics:

1. **A.R.S. § 38-726:** Add to indicate that the ASRS does not pay attorney fees unless the opposing party is successful on adjudication of the merits of a contractual argument. This will:
 - a. Indicate that attorney fees can only be awarded based on successful adjudication of the merits
 - b. Limit the risk of the ASRS paying attorney fees on successful cases based on contracts when contractual actions are not at issue
 - c. Protect the fund from paying out additional expenses related to appeals

Ms. Thomas advised the Board that based upon further consideration, approval is requested from the Board to not pursue legislation regarding not paying attorney fees.

2. A bill being considered by ASU would change the default system if an employee does not make a selection between choosing the ASRS or an optional retirement system within 30 days of hire date. Each university would be allowed to choose its own policy identifying what the default would be. Would the Board like to oppose this or remain neutral on this topic?
3. The last item is another bill being introduced related to disclosure of investment fees. Typically, this would be opposed because it is harmful to the ASRS' investment program

and investment fees paid by the ASRS are already disclosed in aggregate based on existing statutory requirements.

Ms. Thomas fielded questions from the Board and discussion ensued.

Motion: Mr. Clark Partridge moved to remove the attorney fees issue from the legislative agenda. Mr. Kevin McCarthy 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. Tom Manos – approved
Mr. Jim Hillyard – excused
Mr. Rene Guillen – approved
Mr. Michael Lofton – approved
Mr. Kevin McCarthy – approved
Mr. Michael Miller – approved
Mr. Clark Partridge – approved

Upon further discussion, the Board decided to take a position and support Staff on the two non-ASRS bills.

Motion: Mr. Michael Miller moved to oppose the ASU proposal as well as the investment bill regarding fees. Mr. Rene 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. Tom Manos – approved
Mr. Jim Hillyard – excused
Mr. Rene Guillen – approved
Mr. Michael Lofton – approved
Mr. Kevin McCarthy – approved
Mr. Michael Miller – approved
Mr. Clark Partridge – approved

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

Mr. Karl Polen, Chief Investment Officer, reported that the market value of total fund assets was approximately \$39 billion and the Fund's current excess performance is approximately 0.75 – 1.0% for the year. Mr. Polen then reviewed the performance summary from State Street for periods ended September 30, 2018, and NEPC's comparison of ASRS returns and those of the public fund universe as of September 30, 2018, which indicates that ASRS is in the top decile in all time periods.

For periods ending September 30, 2018, the one-year return was 8.7%, outperforming the current actuarial assumption of 7.5% by 1.2% and the Strategic Asset Allocation (SAA) benchmark by 1.7%.

Finally, Mr. Polen reviewed the changes enacted by IMD over the past few years.

- Rebuilt investment programs for Real Estate and Equities, created a Credit program, and moved most investments with external managers into separate accounts, which grants high levels of control over investment strategies and high level monitoring of how investment strategies are executed.
- Implemented first direct investment, Mill Creek, where the ASRS shares direct ownership in the company, resulting in reduced fees. IMD will continue to seek new opportunities to increase this direct investment program.
- Made improvements in record keeping and calculating performance analytics.

Future plans include:

- Work to enhance the value provided by risk management systems.
- Implement SQL database systems.
- Work with TSD to create bespoke IMD security protocols.
- Continuing implementation of new SAA.
- Complete the middle office implementation.

Mr. Lofton expressed what a pleasure it has been working with Staff and the Investment Committee and noted the scope of execution involved in the work of the IMD. Mr. Manos complimented Mr. Polen and the IMD staff for continuing to improve performance over the long term, especially compared with other retirement systems.

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS General Investment Consultant Request For Proposal (RFP)

Mr. Kevin McCarthy moved to go into Executive Session for the purpose of discussion or consideration of records exempt by law from public inspection. Mr. Clark Partridge 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. Tom Manos – approved
Mr. Jim Hillyard – excused
Mr. Rene Guillen – approved
Mr. Michael Lofton – approved
Mr. Kevin McCarthy – approved
Mr. Michael Miller – approved
Mr. Clark Partridge – approved

The Board convened to Executive Session at 9:19 a.m.

The Board reconvened to Public Session at 9:32 a.m.

Mr. Clark Partridge moved to accept the recommendation of the Evaluation Committee and the Investment Committee of the ASRS General Investment Consulting service contract award. Mr. Kevin McCarthy 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. Tom Manos – approved
Mr. Jim Hillyard – excused
Mr. Rene Guillen – approved
Mr. Michael Lofton – approved
Mr. Kevin McCarthy – approved
Mr. Michael Miller – approved
Mr. Clark Partridge – approved

On behalf of the Board, Mr. Tom Manos congratulated NEPC for being selected as the General Investment Consultant to the ASRS Board of Trustees. Mr. Manos also congratulated Callan for being selected as the backup consultant.

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

Mr. Paul Matson drew three items to the Board's attention:

1. Mr. Matson and Ms. Jessica Thomas attended an informal meeting with legislators and other invited parties on Thursday, January 24, 2019, to discuss potential best options for the ASRS with respect to the contribution rate and funded status. No initiatives are expected to come out this year from that discussion, but they do want an engaged working group to discuss future initiatives. Mr. Matson and Ms. Thomas suggested that the working group be enlarged to include representatives of ASRS retirees and active members.
2. On Wednesday, January 30, 2019, Mr. Matson would be presenting an overview of retirement, the ASRS, and the health of the fund during a legislative briefing to the Arizona Retirement Security Coalition.
3. Mr. Matson informed the Board that the search for a replacement Assistant Attorney General is underway.

Mr. Manos commented on the good and detailed information contained in the Director's Report, most notably the Customer Service section.

8. 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 will be held on April 10, 2019.

b. Investment Committee (IC)

Mr. Clark Partridge announced the next regularly scheduled IC meeting is to be held on March 25, 2019.

c. Appeals Committee (AC)

Mr. Kevin McCarthy announced the next AC meeting is scheduled to be held on April 9, 2019.

9. Board Requests for Future Agenda Items

No requests were made.

10. Call to the Public

Ms. Janet Fee and Mr. Steve Ramos requested to address the Board. Mr. Ramos is a member of the Arizona Education Association's (AEA) Retired Group and represents over 2,000 AEA retired members. On behalf of the Retired group, he expressed to the Board the sincere appreciation of the retirees group, who love their Defined Benefit (DB) Plan and appreciate the staff's outstanding work in managing the Plan and answering the retirees' questions. He wanted to express the group's concern for two issues:

- Mounting political pressures that are gathering to attack the ASRS' Defined Benefit Plan.
- ASRS employers forcing members to make a hasty, ill-informed, irrevocable decision between the ASRS DB Plan and a 401k-style plan, with the 401k-style plan being the default if no choice is made. They feel that the default should always be the less-risky ASRS DB Plan.

Ms. Fee, the State Director for the All-Arizona School Retirees Association, with about 1200 members throughout the state, commended the Board and Mr. Matson for a well-managed defined benefit pension. Her group wants to work with the ASRS to keep the DB Plan strong and opposes any reforms that seek to change the DB plan to either a DC or a hybrid plan. They also appreciate the System's concern with any dilution of membership, and spoke of new teachers not fully understanding the great value of the ASRS DB Plan until much later in their careers.

11. The next regular ASRS Board meeting is scheduled for Friday, March 29 at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

Mr. Manos noted the next Board meeting is scheduled for Friday, March 29, 2019 at 8:30 a.m.

The Board took a recess from 9:46 a.m. to 9:53 a.m. to transition to the 14th floor conference room for the final agenda topic.

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

- a) Trustees' 2018 Self-Evaluation
- b) Board 2018 Self-Evaluation
- c) Key Issues of 2018
- d) Focus areas for 2019

The Overall Board Evaluation document taken from the Board Governance Policy Handbook prompts the Trustees to consider the following statements while reviewing their performance:

1. The Board maintains an effective oversight role with regard to benefits and investment issues.
2. The Board knows and understands the ASRS Strategic Plan, and reflects this understanding when addressing key issues throughout the year.
3. The Board engages in long-range strategic thinking and planning.
4. The Board has achieved the business objectives it set out to accomplish this past year.

5. The Board stays abreast of issues and trends affecting the ASRS, using this information to assess and guide the ASRS over the long term.
6. The Board conducts a comprehensive evaluation of the Director annually.
7. The Board ensures that new Trustees receive a prompt, thorough orientation.
8. Board meetings are conducted in a manner that ensures open communication, meaningful participation, and sound resolution of issues.
9. The Board meeting agendas are well-balanced, allowing time for the most critical issues.
10. The Board and Committee meetings are handled efficiently.
11. The Committees are effective, focusing on pertinent topics and allocating reasonable time.
12. The Board is well-educated on both benefit and investment issues.
13. The Board recognizes its policy-making role and reconsiders and revises policies as necessary.
14. The Board is consistently prepared for meetings.
15. The Board as a whole, and Trustees as individuals, evaluates their performance on an annual basis.
16. The Board reviews and adopts a reasonable operating budget that is followed and monitored throughout the year.
17. The Board periodically monitors investment performance and measures it against relevant benchmarks.
18. The Board periodically monitors service to members.
19. The Board comprehends and respects the difference between its policy-making role and the Director's management role.
20. Board goals, expectations, and concerns are promptly, candidly and effectively communicated to the Director.
21. The Board anticipates issues and does not often find itself reacting to "crisis" situations.

All scores were favorable, which is consistent with previous years. Two items from the Overall Board Evaluation document were highlighted by Mr. Manos. Item #2 regarding the Board's knowledge and understanding of the Strategic Plan, and #12 regarding the Board's knowledge of benefit and investment issues. The Board expressed interest in more frequent updates and reviews of the Strategic Plan. The Board also appreciated a recent seminar about investment issues and would like a similar, more detailed review of the ASRS benefits and administration.

Mr. Matson discussed the staff perspective with the Board, and explained that because there are no notable problems, there was limited staff input. They concluded with discussions regarding succession planning, staffing issues for various areas within the ASRS, among other topics.

13. Adjournment of the ASRS Board

Mr. Manos adjourned the ASRS Board meeting at 10:42 am.

Respectfully Submitted by:

Joyce Williams
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM