



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, January 31, 2020
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. Jim Hillyard, Chair of the ASRS Board, called the meeting to order at 8:32 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. Jim Hillyard, Chair
Mr. Clark Partridge, Vice-chair
Mr. Rene Guillen (Via teleconference)
Mr. Michael Lofton (Via teleconference)
Mr. Tom Manos

Excused: Mr. Kevin McCarthy
Mr. Michael Miller

Two vacant positions.

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the November 15, 2019 Public Meeting of the ASRS Board

Motion: Mr. Clark Partridge moved to approve the minutes of the November 15, 2019 Public Meeting of the ASRS Board. Mr. Tom Manos 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 – approved
Mr. Michael Lofton – approved
Mr. Tom Manos – approved
Mr. Kevin McCarthy – excused
Mr. Michael Miller – excused

3. Presentation of the 2019 Annual PRIDE Recognition Award Recipients: Professionalism, Results, Improvement, Diversity, Excellence

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced the honorees to the Board, noting that becoming one of the best-run pension systems in the country would not happen without a talented and fully engaged staff. 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 – Susan Webner for Professionalism
Team – In-house Disbursements Team (Members: Noaman Ahmed, Meskel Assefa, Randy Braunm, Andrew Bruner, Valerie Burkett, Quinn Guiteras, Matthew Herman, Jim Herr, Erin Higbee, Ted Kistner, Sarah Korish, Harold Mackey, John Maczko, Molly Mahai, Rich Nacinovich, Brenda Palmer, Jeremy Pond, Srinivasa Puppalla, Penny Schultz, Ivan Sykes, Rama Tripuraneni, Mary Unnewehr, Carrie Waith, Sandy Wang, Tom Williamson) for Improvement

Quarter 2:

Individual – Jeffrey Hoffman for Excellence
Team – Payroll Manager Team (Members: Srinivasa Attaluri, Trent Kendall, Sunitha Surendra & Rama Tripuraneni) for Improvement

Quarter 3:

Individual – Rich Nacinovich for Professionalism
Team – Contribution Accounting/TSD Incredibles Team (Members: Manuel Burboa, Teresa Donohue, Felix Guerrero, Marcia Kumamoto, Krystal Mungia-Olivarez, Tina Ren, Bridgette Schwarz, & Jeannie Willeto) for Improvement

Quarter 4:

Individual – Ryan Guerra for Professionalism
Team – Work Environment Team (Members: Melanie Alexander, Lola Avila, Nate Brengle, Katie Daigneault, Janet Fuentes, Joy Fuentes, Jana George, Jeniffer Gomez-Pabon, Cincy Gould, Randi Gray, Chris Gustafson, JenaLee Hopkins, Jennifer Johnson, Marina Keith, Donna McNally, Michael Moreno, Krystal Mungia-Olivarez, Richard Musto, Kyle Patton, Angelica Torres & Mary Unnewehr) for Diversity

Mr. Jim Hillyard thanked the winners on behalf of the ASRS Board of Trustees and the members for their outstanding work.

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 all four initiatives listed on the ASRS 2020 Legislative Agenda have been approved by their assigned committees.

- SB1033 relating to the self-insurance program passed the senate yesterday with a vote of 29-1.
- SB1034 relating to the required minimum distribution date was amended in the Finance Committee and was approved to include the new required minimum distribution age set by the federal government, changed from 70 ½ to 72.

Ms. Thomas advised the Board that based upon further consideration, approval is requested from the Board for a possible floor amendment germane to the topic in A.R.S. § 38-751 - Non-Participating Employer Liability. In consideration of the application of this legislation ASRS staff discussed whether subsections (A)(2) and (J) would achieve their intended objectives.

A.R.S. § 38-751(A)(2) establishes a threshold of when a reduction in contributing employees results in an Employer being deemed as no longer participating in the ASRS for purposes of this statute. However, upon further analysis and legal input regarding the statutory language, ASRS staff believes the language is not clear, does not achieve its intended purpose of covering the payment of the unfunded actuarial accrued liability related to the outsourced positions, and may have unintended consequences.

A.R.S. § 38-751(J) indicates that once an employer is deemed nonparticipatory pursuant to this statute, the employer is not eligible to enroll new employees in the ASRS after their nonparticipation date. Upon further analysis, ASRS staff do not believe this is beneficial to the ASRS, the employer, or future employees. There is no harm to the ASRS by allowing an employer to enroll new employees in the ASRS, and disallowing such enrollment would result in a permanent reduction in ASRS membership.

Based on the information above, ASRS staff is recommending that the ASRS pursue legislation in the 2020 session to repeal subsection (A)(2) and (J) from A.R.S. § 38-751.

Ms. Thomas also directed the Boards attention to HB2717 and SB1354, both relating to the State Treasurer's Office's ability to create a prefunding program allowing them to accept employer's contributions in a 115 Trust to then invest for purposes of paying down required contributions to either the PSPRS or the ASRS. We are currently working with the Treasurer's Office on language to insure there is nothing harmful to the ASRS.

Ms. Thomas and Mr. Matson answered questions and provided background on this discussion item.

Motion: Mr. Clark Partridge moved to approve the proposed amendments to SB1034 relating to nonparticipating employers. Mr. Tom Manos 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 – approved
Mr. Michael Lofton – approved
Mr. Tom Manos – approved
Mr. Kevin McCarthy – excused
Mr. Michael Miller – excused

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 January 21, 2020 are approximately 6.7%, and assets are at \$43.2 billion.

The preliminary results for period ended December 31, 2019:

- Total fund returns of 15.6%, 10.1%, 7.9% and 9.2% exceeded benchmark returns by .9%, 1.7%, 1.6% and 1.1% for the one-, three-, five- and ten-year periods, respectively.

Final results for periods ended September 30, 2019 are summarized as follows:

- Total fund returns of 4.9%, 9.1%, 7.2% and 9.1% exceeded their benchmarks by 1.1%, 2%, 1.7% and 1.2% for the one-, three-, five- and ten-year periods, respectively.
- For the five-year period, the dollar value added was approximately \$2.1 billion, and for the ten-year period, \$4.3 billion was added.
- Compared to the public fund universe, the ASRS ranked in the top quartile for the one- and five-year periods and top decile for the three- and ten-year periods.
- Mr. Polen introduced two new charts. The first, Annual Returns for Years Ended September 30, provides the performance of each of the major asset classes for the last six years.
- The second chart shows annual excess returns for the major asset classes. This shows that private market activities have been an important source of excess returns. Public equities have not been a positive contributor to excess returns and that program is undergoing significant modification.

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

Mr. Matson had no further comments for the Trustees.

7. 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 April 8, 2020.

b. Investment Committee (IC)

Mr. Jim Hillyard announced the next regularly scheduled IC meeting is to be held on March 16, 2020.

c. Appeals Committee (AC)

Mr. Jim Hillyard announced the next AC meeting is to be held on February 11, 2020.

8. Board Requests for Future Agenda Items

No requests were made.

9. Call to the Public

Mr. Steve Ramos addressed the Board and on behalf of the Arizona Retirement Security Coalition expressed his appreciation for Director Matson's testimony to the Senate Finance Committee on January 29, 2020. Mr. Ramos said that Director Matson did an excellent job representing retirees, the Plan, ASRS staff, and the Board of Trustees. Mr. Ramos also spoke about the additional positive remarks given to the Senate Finance Committee by Mr. Allen McGuire, former interim director and Chair of the ASRS Board, and ended by expressing his appreciation for the Board of Trustees as well as ASRS staff.

10. The next regular ASRS Board meeting is scheduled for Friday, March 27, 2020 at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

Mr. Jim Hillyard noted the next Board meeting is scheduled for Friday, March 27, 2020 at 8:30 a.m.

The Board took a recess from 9:15 to 9:30 to transition to the 14th floor conference room for the final two agenda topics.

Mr. Michael Lofton joined the meeting telephonically at 9:24 a.m.

11. Presentation, Discussion, and Appropriate Action Regarding ASRS Strategic Plan Updates

Mr. Anthony Guarino introduced this presentation to the Board with an overview of critical functions, priorities, and performance. A six-part presentation was given to the Board by senior management, addressing the six priorities adopted by the Board, using a dashboard of key performance indicators (KPIs) and scores:

1. Plan Stability
2. Investment Management
3. Risk Management
4. Operational Effectiveness
5. Customer Service
6. Operational Continuity

Mr. Rene Guillen joined the meeting telephonically at 9:33 a.m.

Mr. Paul Matson began the presentation with a description of the software package that allows staff to aggregate data, have specific benchmarks, and have an array that allows for a review of data and results.

Various senior staff spoke to the Board about the variety of metrics being used to assess data and results, and responded to questions.

The Board took a recess from 11:40 to 11:45 a.m.

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

- a) Trustees' 2019 Self-Evaluation
- b) Board 2019 Self-Evaluation
- c) Key Issues of 2019
- d) Focus areas for 2020

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. Mr. Hillyard led the trustees in a discussion of the Board evaluation items. The trustees expressed a desire to fill one of the Board vacancies with a qualified individual who also has strong benefit and investment knowledge. The Board also expressed an appreciation of the hard work done by staff on the Strategic Plan updates and had a brief discussion with Mr. Matson regarding future Strategic Plan updates.

Mr. Guillen and Mr. Lofton left the meeting at 11:55 p.m.

13. Adjournment of the ASRS Board

Motion: Mr. Jim Hillyard adjourned the January 31, 2020 public meeting of the Board at 12:28 p.m.

Respectfully Submitted by:

Joyce Williams
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM