

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

**Friday, May 28, 2021  
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. Clark Partridge, Chair of the ASRS Board, called the meeting to order at 8:30 a.m.

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

Present: Mr. Clark Partridge, Chair  
Mr. René Guillen (joined the meeting via teleconference at 8:37 a.m.)  
Ms. Diane Landis (via teleconference)  
Mr. Michael Lofton (via teleconference)  
Mr. Tom Manos (via teleconference)  
Mr. Kevin McCarthy (via teleconference)  
Mr. Michael Miller  
Ms. Ashley Ruiz (joined the meeting via teleconference at 8:32 a.m.)

One vacant position.

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 26, 2021 Public Meeting of the ASRS Board**

**Motion:** Mr. Michael Miller moved to approve the minutes of the March 26, 2021 Public Meeting of the ASRS Board. Ms. Diane Landis seconded the motion.

By a roll call vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved  
Mr. René Guillen – excused (*Mr. Guillen joined the meeting at 8:37 a.m.*)  
Ms. Diane Landis – approved  
Mr. Michael Lofton – approved  
Mr. Tom Manos – approved  
Mr. Kevin McCarthy – approved  
Mr. Michael Miller – approved  
Ms. Ashley Ruiz – approved (*Ms. Ruiz joined the meeting at 8:32 a.m.*)

### **3. Presentation, Discussion, and Appropriate Action Regarding the 2021 ASRS Legislative Session**

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, presented an update on the status of the ASRS 2021 legislative initiatives. The current legislative session began on January 11, 2021, and is still in session. All six ASRS initiatives have passed, been signed by the Governor, and will become effective on the general effective date once the legislature adjourns sine die.

Mr. Clark Partridge noted the failure of the proposed legislation that would permit university employees to opt into the optional retirement program, and Ms. Thomas confirmed that outcome. Mr. Paul Matson informed the Board that several of the bills would result in the ASRS forming several new work teams in order to implement the necessary modifications.

Ms. Thomas offered to answer any additional questions from the Trustees, but there were none.

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

Mr. Samer Ghaddar, Deputy Chief Investment Officer, reviewed the CIO Report, beginning with house views on the current state of global markets. The global recovery continues, although many voice concerns about inflation. Staff views these concerns as a limited risk, noting that the Federal Reserve's dovish monetary policy currently in place should continue to be supportive of asset pricing. The U.S. continues to lead the world in economic recovery, with this quarter promising to be the highest in gross domestic product (GDP) growth, with estimates ranging as high as 10%. Even with more modest gains in the second half of the year, staff expects that the U.S. will close 2021 with GDP gains potentially approaching 7%. Jobless claims of around 400,000 show that the U.S. recovery is still in the early stages, with the unemployment rate just

under 6%. Recovery is starting to improve in the European Union, and emerging markets are also slowly improving.

*(Mr. Rene Guillen joined the meeting at 8:37)*

Mr. Ghaddar reported that the fund's total asset value is estimated through March 31, 2021, at just under \$47 billion, and fiscal year-to-date total fund returns are approximately 18.4%.

Highlights of ASRS performance as of March 31, 2021, are as follows:

- Fiscal year-to-date total fund returns through March 31, 2021, are approximately 18.4% against the benchmark of 21.28%.
- Total equity returns for the period ending March 31, 2021, of 33.45 outperformed the benchmark by 0.28%. Staff feels that this improvement in performance directly reflects the restructuring of the equity portfolio in 2020.
- Fixed income (Interest Rate Sensitive) is underweight by about 2% and underperforming by 0.01%.
- Private equity fiscal year-to-date performance is 27.05%, and Mr. Ghaddar noted that on May 27, 2021, private equity performance is at 37%.
- Real estate fiscal year-to-date performance is 4.04%, exceeding its benchmark by 4.45%.
- The total credit portfolio for the three months ending March 31, 2021, shows a valuation of just under \$10 billion.

## **5. Presentation, Discussion, and Appropriate Action Regarding the ASRS Fiscal Year (FY) 2022-2023 Audit Plan**

Mr. Harold Mackey, Chief Internal Auditor, presented the Biennial Audit Plan for fiscal years 2022 and 2023 to the Board.

Mr. Mackey reviewed the 2022 and 2023 Audit Plans. He noted that a major distinction between this year's audit plan and last year's audit plan is the use of the Enterprise Risk Management (ERM) software to leverage information for the purposes of the audit. The ASRS used the ERM solution to identify their high-level risks. These risks were cross-referenced to the updated ASRS strategic priorities, and from that analysis, the ERM Committee provided the Internal Audit Division (IAD) with its top strategic risks. The IAD was then able to utilize the information to construct their 2022 – 2023 Audit Plan. The priorities relating to risk included the following:

- Enhancing Risk Management Capabilities
- Optimizing Operational Effectiveness
- Providing Outstanding Customer Service

Mr. Mackey briefly reviewed some of the other activities of the IAD, including the five-year peer review currently underway and the acquisition of new audit management software. Mr. Mackey offered to answer questions from the Trustees, but there were none.

Mr. Matson offered the staff recommendation, and Mr. Partridge clarified that the request was for the Board to consider approving the Biennial Audit Plan for the Fiscal Years 2022 and 2023.

**Motion:** Mr. Michael Lofton moved to approve the Biennial Audit Plan for the Fiscal Years 2022 and 2023. Mr. Michael Miller seconded the motion.

By a roll call vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved  
Mr. René Guillen – approved  
Ms. Diane Landis – approved  
Mr. Michael Lofton – approved  
Mr. Tom Manos – approved  
Mr. Kevin McCarthy – approved  
Mr. Michael Miller – approved  
Ms. Ashley Ruiz – approved

Mr. Partridge thanked Mr. Mackey and the important work that is being done to focus on high-level risk areas for the organization.

## **6. Presentation, Discussion, and Appropriate Action Regarding the Results of the 2021 ADOA and ASRS Engagement Survey**

Mr. Anthony Guarino, ASRS Deputy Director and Chief Operations Officer, introduced the topic discussion, noting that the ASRS believes an engaged workforce improves productivity and this report shows that the ASRS staff is highly engaged. Mr. Guarino turned the presentation directly over to Ms. Katie Daigneault, Strategic Planner and Survey Administrator, who reviewed the following highlights of the Engagement Survey for the Trustees.

- The 2021 Annual ADOA Engagement Survey results show 88% favorable responses, reflecting a 2% increase over the results from 2020 and is 13% above the State of Arizona average.
- Staff employs a systematic and repeatable approach to analyzing the results. ASRS looks to areas of disengagement for root cause analysis as well as areas of high engagement to share best practices throughout the agency. This approach has resulted in responses that have continually improved over the past three years.

- The survey period was about nine months, which was shortened from twelve months in past years due to the pandemic.
- Ms. Daigneault reported that three additional questions were added related to remote work because of the primarily teleworking status the State of Arizona has operated within over the past eighteen months.
- The ADOA adjusted its calculation methodology for engagement in 2020, and the ASRS adjusted its strategic plan target accordingly, including performance targets for positive responses as well as negative responses in place of the former engagement ratio. When measured against the new performance standards, the ASRS exceeded both targets.
- Ms. Daigneault also reviewed various strengths and opportunities that were illustrated by the survey results.

Mr. Partridge thanked Ms. Daigneault for her presentation, agreeing that this is a very good indicator of the work, planning, and coordination with a focus on the staff. He also thanked ADOA for continuing to do the survey and compiling such important information and feedback. Finally, he congratulated the agency as a whole for the work the employees do every day.

## **7. Presentation, Discussion, and Appropriate Action Regarding the Operational Performance of the ASRS as Measured by the CEM Pension Administration Benchmarking Survey for the Period Ending June 30, 2020**

Mr. Guarino introduced this agenda item, noting that he believes there is a correlation between the previously reported engagement survey results and the results of the benchmarking survey. The results of this year's benchmarking survey are among the best results the ASRS has seen over the past twenty years of CEM performing this analysis for the agency. He then turned the presentation directly over to Mr. Brian Crockett, Senior Strategic Planning Analyst. Mr. Crockett presented the results of the pension benefit administration benchmarking study conducted by CEM Benchmarking Inc. for the fiscal year 2020. Mr. Crockett explained how the peer comparisons are performed and how the ASRS ranks among its peers. CEM's analysis also explains how the ASRS can make improvements to its score.

The ASRS has participated in the CEM pension benefit administration benchmarking study since 2001. Each year, the ASRS submits data regarding service features, transaction volume, costs, and staffing, broken down by activity membership and plan design. CEM compiles the results and provides a report detailing the cost-effectiveness of the ASRS. Specifically, the report compares and contrasts:

- Peer Characteristics
- Total Costs
- Cost by Activity
- Staff Costs and Productivity

- Transaction Volumes
- Service Levels
- Complexity
- IT and Major Projects

Currently, the ASRS spends \$72 per member and annuitant, which is \$33 below the peer average of \$105. Additionally, the ASRS service score improved from 85 to 92 between 2013 and 2020. The fiscal year 2020 report demonstrates the ASRS has a productive, low cost, and cost-effective operation that provides high levels of service.

Mr. Partridge noted that staff's ability to pivot and focus is reflected in the ASRS' favorable peer comparisons relating to total service score and cost per member and annuitant. Mr. Matson noted that the decision to produce technological solutions in-house also proved to be more cost-effective than purchasing ready-made software and helped the ASRS' continuous improvement in those key areas. Mr. Matson also wanted to emphasize that administrators in pension fund management across the U.S. are team-oriented and engaged, and helpful in sharing best practices.

Mr. Crockett and Mr. Matson answered questions from the Board.

#### **8. Presentation and Discussion Regarding an Actuarial Experience Study Educational Presentation, and Preliminary Results of the Current ASRS Actuarial Experience Study**

Mr. Matson informed the Board that this presentation is primarily introductory to the experience study results, and the actual results will be presented at the next Board of Trustees meeting on July 30, 2021. At that time, a determination of which modifications and recommendations will be approved by the Board. Those changes will impact the calculations that will be done for the period ending June 30, 2021, which will affect valuations and contribution rates.

Mr. Ryan Falls, Senior Consultant and Actuary for Gabriel, Roeder, Smith & Company (GRS), and Mr. Paul Wood, Consultant and Actuary for GRS, provided a detailed analysis of the ASRS Experience Study Findings. Mr. Falls noted the purpose of the findings is simply informational data, and the Board will not be adopting or taking action on any of the findings at the end of the presentation. The information presented at this meeting is being provided as a means to help the Board make informed decisions when determining future contribution rates and will also assist them in understanding the actuarial liabilities of the ASRS Trust Fund.

Mr. Falls and Mr. Wood fielded questions and comments from the Board.

## 9. Presentation, Discussion, and Appropriate Action Regarding the ASRS Strategic Plan Update

Mr. Paul Matson introduced this presentation to the Board, noting two purposes:

1. To provide the Board with a high-level refresher of the strategic priorities of the ASRS.
2. To request the Board to authorize the Director to make updates to the strategic priorities, as needed.

Mr. Anthony Guarino commented further that the Strategic Plan serves to give the organization clarity and purpose, prompt performance measurement, and motivate continuous improvement. The current protocol is for the Board to review and approve our strategic vision every five years. Staff wants to more clearly define key performance indicators (KPIs), but priorities remain unchanged:

1. Maintain Sustainable Benefit Plans
2. Achieve Investment Goals
3. Enhance Risk Management Capabilities
4. Optimize Operational Effectiveness
5. Provide Outstanding Customer Service
6. Ensure Operational Continuity

Ms. Sara Orozco, Manager of Strategic Planning and Communications, noted that there were fewer KPIs, but more details are included. Ms. Orozco highlighted changes being made in the Technology Services Division (to optimize operational effectiveness) and in Health Insurance plans (with improvements to provide outstanding customer service), adding that the updates to both of these KPIs were adding more detail to the existing metrics. Mr. Matson added commentary detailing the changes to the objectives relating to ASRS Health Insurance Plans, and he and Mr. Guarino responded to questions and comments from Trustees.

**Motion:** Mr. Michael Miller moved to approve the Strategic Plan updates and authorization for the Director to update goals, objectives, key performance indicators, and associated performance standards when warranted to better achieve the Board-approved strategic priorities. Mr. Kevin McCarthy seconded the motion.

By a roll call vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved  
Mr. René Guillen – approved  
Ms. Diane Landis – approved  
Mr. Michael Lofton – approved  
Mr. Tom Manos – approved  
Mr. Kevin McCarthy – approved  
Mr. Michael Miller – approved  
Ms. Ashley Ruiz – approved

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

Mr. Paul Matson made two brief comments. First, Mr. Matson announced the arrival of the new Chief Investment Officer, Mr. Michael Viteri, who will start on June 1, 2021. Next, Mr. Matson reported that the agency has moved into Pandemic Response-Phase Two, slightly broader authorization by Assistant Directors, allowing staff to have an increase in the number of associates working in person. The next phase will be a "return to the new normal," and staff will return to the office at 3300 N. Central in greater numbers, but with more teleworking flexibility than offered in pre-pandemic workplace options, as well as continued enhanced health protocols while onsite.

Mr. Matson responded to questions from the Board.

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

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

Mr. René Guillen announced that the next OALC meeting is to be held on July 21, 2021.

### **b. Investment Committee (IC)**

Mr. Michael Lofton announced that the next IC meeting is to be held on June 21, 2021.

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

Mr. Michael Miller announced the next Board AC meeting is scheduled to be held on August 10, 2021.

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

No requests were made.

## **13. Call to the Public**

Mr. Jordan Ash with the Private Equity Stakeholder Project addressed the Board regarding the ASRS' investment with Roark Capital Group, owner of Inspire Brands. Inspire Brands is the owner and franchisor of the fast-food chain, Sonic. Mr. Ash informed ASRS Trustees that Sonic's drive-through workers have concerns about being paid less than the federal



minimum wage, and they feel these concerns are not being addressed by restaurant management. Mr. Ash also wanted to highlight the earnings record of Roark Capital Group and ask the Board to consider these things when considering further investment in Roark Capital Group.

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

Mr. Clark Partridge noted the next Board meeting is scheduled for Friday, July 30, 2021, at 8:30 a.m.

**15. Presentation, Discussion, and Appropriate Action Regarding the 2020 Review and the Employment Agreement of the Director of the ASRS**

Before calling for a motion for Executive Session as the subject matter and materials are confidential, Mr. Clark Partridge, Board Chair, read the following statement: Pursuant to A.R.S. 38-431.03(B), minutes of and discussions made in executive session are required by law to be confidential and shall not be communicated to any person outside this meeting room.

**Motion:** Mr. Michael Miller moved to go into executive session to discuss the 2020 review and the employment agreement of the Director of the ASRS. Mr. Rene Guillen seconded the motion.

By a roll call vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved  
Mr. Rene Guillen – approved  
Ms. Diane Landis – approved  
Mr. Michael Lofton – approved  
Mr. Tom Manos – approved  
Mr. Kevin McCarthy – approved  
Mr. Michael Miller – approved  
Ms. Ashley Ruiz – approved

The Board convened to Executive Session at 11:15 a.m.

The Board reconvened to Public Session at 11:35 a.m.

## **16. Adjournment of the ASRS Board**

Mr. Clark Partridge adjourned the May 28, 2021, ASRS Board meeting at 11:36 a.m.

Respectfully Submitted by:

Joyce Williams  
Board Administrator  
ARIZONA STATE RETIREMENT SYSTEM