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
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