



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, May 31, 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. Kevin McCarthy called the meeting to order at 8:31 a.m. on behalf of the Chair and Vice-chair, who were both attending the meeting via teleconference.

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 (Via teleconference)  
Mr. Jim Hillyard, Vice-chair (Via teleconference)  
Mr. Rene Guillen  
Mr. Kevin McCarthy  
Mr. Michael Miller  
Mr. Clark Partridge

Excused: Mr. Michael Lofton

Two vacant positions.

A quorum was present for the purpose of conducting business.

### 2. Approval of the Minutes of the March 29, 2019 Public Meeting and Executive Session of the ASRS Board

**Motion:** Mr. Clark Partridge moved to approve the minutes of the March 29, 2019 Public Meeting and Executive Session of the ASRS Board. 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 – approved  
Mr. Rene Guillen – approved  
Mr. Michael Lofton – excused  
Mr. Kevin McCarthy – approved  
Mr. Michael Miller – approved  
Mr. Clark Partridge – approved

### 3. Approval of the Minutes of the April 23, 2019 Ad hoc Public Meeting of the ASRS Board

**Motion:** Mr. Michael Miller moved to approve the minutes of the April 23, 2019 Ad hoc Public Meeting of the ASRS Board. 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 – approved  
Mr. Rene Guillen – approved  
Mr. Michael Lofton – excused  
Mr. Kevin McCarthy – approved  
Mr. Michael Miller – approved  
Mr. Clark Partridge – approved

#### **4. Approval of the Minutes of the April 23, 2019 Public Meeting and Operations Educational Seminar**

**Motion:** Mr. Rene Guillen moved to approve the minutes of the April 23, 2019 Public Meeting and Operations Educational Seminar of the ASRS Board. Mr. Michael Miller 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 – approved  
Mr. Rene Guillen – approved  
Mr. Michael Lofton – excused  
Mr. Kevin McCarthy – approved  
Mr. Michael Miller – approved  
Mr. Clark Partridge – approved

#### **5. Approval of the Summary of Discussion of the May 2, 2019 Operations Educational Seminar**

**Motion:** Mr. Clark Partridge moved to approve the minutes of the May 2, 2019 Operations Educational Seminar of the ASRS Board. 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 – approved  
Mr. Rene Guillen – approved  
Mr. Michael Lofton – excused  
Mr. Kevin McCarthy – approved  
Mr. Michael Miller – approved  
Mr. Clark Partridge – approved

#### **6. 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. The Legislature has adjourned sine die as of May 28, 2019. All five agency bills pursued by the ASRS have been signed and will become effective ninety days thereafter, making the effective date August 27, 2019.

**HB2007: ASRS; Political Subdivision Plans; Adjustments** – This bill addresses service purchase arrangements when a new employer joins the ASRS as well as allows employers to make current year payroll adjustments for instances where contributions were not previously withheld.

**SB1016: ASRS; Ineligible Contributions; Unfunded Liability** – This bill addresses ineligible contributions and allows the ASRS to charge the employer who submits ineligible contributions an unfunded liability cost that is accrued when the ASRS is required to pay out a higher benefit.

**SB1017: ASRS; Paying Interest; Authorization** – This bill prohibits the ASRS from paying interest on any amount paid to a member, an alternate payee, or an employer unless specifically authorized by statute.

**SB1018: ASRS; Compensation; Definition** – This bill creates a new definition for compensation for members whose membership began on or after January 1, 2020.

**SB1079: ASRS; Long-Term Disability Program** – This bill will allow the ASRS to conduct investigations to prevent LTD fraud.

Ms. Thomas provided an update on a bill that affects the ASRS but was not initiated by the ASRS.

**SB1213 ASRS; Return to Work** – This bill addresses the payment of an alternate contribution rate that is assessed on behalf of a retired member returning to work. This bill has been sent to the Governor and is expected to be signed.

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

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

Mr. Karl Polen, Chief Investment Officer, updated the board on the investment program and provided results for periods ended March 31, 2019. He noted that portfolio remains conservatively positioned in a late cycle environment with underweight equities and overweight cash.

He noted that fiscal year-to-date returns are a little over 3% with excess return of about 1.5%.

For periods ended March 31, 2019 he noted the following:

- Total fund returns of 4.7%, 9.3%, 6.8% and 11.3% beat their benchmarks by 3%, 2.5%, 1.8% and 1.3% for the one, three, five and ten year periods respectively.
- For the ten year period, the dollar value add from this excess performance is nearly \$4 billion.
- This performance placed ASRS in the top 5% of public pension plans for the ten year period and in the top quartile for all other periods reported.
- Tactical positioning has added significant value to the portfolio over longer periods but was neutral in the most recent year, with positive contribution from the underweight equities

posture but negative contribution from the short duration posture anticipating rate increases that did not occur.

- Equity returns beat their benchmarks in aggregate.
  - Private equity outperformed its benchmarks by 21% for the one year period and 7% for the five year period.
  - Internally managed portfolios and futures implementation added to excess performance.
  - Factor portfolios underperformed due to high performance in growth and mega-cap names, which are underweighted in the factor portfolios.
- Real estate portfolios outperformed for all time periods reported with strongest performance in the separate account portfolio which is the focus for future investment.
- The credit portfolios outperformed in all time periods with particularly strong performance in late 2018 due to a selloff in the bank loan market which is the benchmark for the strategy.
- The core bond portfolio continues to outperform for longer time periods but suffered in the most recent year because of unanticipated declines in longer rates while the portfolio was positioned for a rising rate environment.

## **8. Presentation, Discussion, and Appropriate Action Regarding Board Elections of Chair and Vice-chair**

**Motion:** Mr. Tom Manos moved to nominate Mr. Jim Hillyard as the ASRS Board Chair. 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. Kevin McCarthy – approved  
Mr. Tom Manos – approved  
Mr. Rene Guillen – approved  
Mr. Jim Hillyard – approved  
Mr. Michael Lofton – excused  
Mr. Michael Miller – approved  
Mr. Clark Partridge – approved

**Motion:** Mr. Jim Hillyard moved to nominate Mr. Clark Partridge as the ASRS Board Vice-chair. Mr. Michael Miller 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. Kevin McCarthy – approved  
Mr. Tom Manos – approved  
Mr. Rene Guillen – approved  
Mr. Jim Hillyard – approved  
Mr. Michael Lofton – excused  
Mr. Michael Miller – approved  
Mr. Clark Partridge – approved

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

Mr. Matson relayed the following information to the Trustees:

- Mr. Dave King, formerly the Assistant Director of the Member Services Division, is now the Assistant Director for the Technology Services Division.
- Mr. Jeremiah Scott, formerly Senior Strategic Planner and Lean Manager in Strategic Planning and Analysis, is now the Assistant Director of the Member Services Division (effective June 3, 2019).
- Mr. Russ Levine, Health and Disability Plan Manager, is currently spending a significant amount of time working on driving down costs for pre-65 Medicare eligible members and finding improved dental programs.
- The State just compiled the results and ASRS will be analyzing the data from the State Engagement Study. Mr. Matson will be reporting the results to the Board at a later date.
- Mr. Matson introduced Mr. Chris Gustafson, new Budget and Procurement Manager, to the Board.
- New Assistant Attorney General, Ms. Cassie Adams, will begin her assignment with the ASRS on Monday, June 3, 2019.

Mr. Matson answered questions from Trustee members.

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

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

Mr. Jim Hillyard announced the next OALC meeting will be held on July 10, 2019.

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

Mr. Clark Partridge announced the next regularly scheduled IC meeting is to be held on June 17, 2019.

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

Mr. Kevin McCarthy announced the next AC meeting is scheduled to be held on June 11, 2019.

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

No requests were made.

#### **12. Call to the Public**

No one from the public requested to speak.

#### **13. The next regular ASRS Board meeting is scheduled for Friday, July 26 at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.**

Mr. McCarthy noted the next Board meeting is scheduled for Friday, July 26, 2019 at 8:30 a.m.

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

**Motion:** Mr. Clark Partridge moved to adjourn the May 31, 2019 public meeting of the Board at 9:07 a.m. 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 – approved  
Mr. Rene Guillen – approved  
Mr. Michael Lofton – excused  
Mr. Kevin McCarthy – approved  
Mr. Michael Miller – approved  
Mr. Clark Partridge – approved

Respectfully Submitted by:

Joyce Williams  
Board Administrator  
ARIZONA STATE RETIREMENT SYSTEM