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
Mr. Michael Miller

Excused: Mr. Kevin McCarthy

Two vacant positions.

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the September 27, 2019 Public Meeting of the ASRS Board

Motion: Mr. Tom Manos moved to approve the minutes of the September 27, 2019 Public Meeting 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. 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 – approved
3. Presentation, Discussion, and Appropriate Action Regarding the ASRS Actuarial Valuations

   a. The Pension Plan and Health Insurance Valuation

   Mr. Paul Matson, Director, summarized the purposes of actuarial valuations and also addressed the Board regarding a clarification to a motion made during the September 27, 2019 Board meeting. The Board had moved to migrate from a 30 year to a 25 year amortization schedule, and today’s motion will clarify that the valuation for June 20, 2019 is to be included in the new 25 year schedule.

   Mr. Ryan Falls and Mr. Paul Wood of Gabriel, Roeder, Smith and Company (GRS) addressed the Board and summarized the results of the 2019 ASRS valuations. They presented charts summarizing the contribution rates and the funded status. The resulting Plan contribution rate is 12.04% for both the employee and employer, which includes both pension as well as health benefit supplement rates. This represents an increase from the fiscal year 2019 contribution rate of 11.94%. The actuarial value of assets funded status of the Plan as of June 30, 2019 is 72.3%. The market value of assets funded status of the Plan as of June 30, 2019 is 74.0%.

   b. The System Valuation

   GRS provided information regarding accrued liabilities, market value of assets and funded status for the System. The resulting funded status of the System as of June 30, 2019 is 75.5%.

   c. The Long Term Disability (LTD) Valuation

   GRS addressed the Board regarding the ASRS LTD Valuation. The resulting contribution rate is 0.18% with the experience study changes phased in, which results in a 0.01% increase from the fiscal year 2020 rate. The actuarial value of assets funded status of the LTD Plan as of June 30, 2019 is 74.8%. The market value of assets funded status of the LTD Plan as of June 30, 2019 is 73.5%.

   d. Actuary’s Recommendation Regarding 13th Checks for Retired System Members

   Based on the results, GRS recommended there will be no addition to the 13th check or supplemental credit balances.

   Mr. Falls, Mr. Wood, and Mr. Matson answered questions and provided background on this discussion item.

   Motion: Mr. Clark Partridge moved to accept the Actuarial Valuation of the Plan and Health Benefit Supplement program as presented with the resulting contribution rate of 12.04% for each employee and employer and the Alternate Contribution Rate of 10.21% for fiscal year 2020/2021. 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. 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 – approved
Motion: Mr. Tom Manos moved to clarify that the motion at the September 27, 2019 ASRS Board meeting with respect to the migration to a 25 year amortization period for future experience that impacts new actuarial accrued unfunded liabilities for the pension fund was to begin with any such experience for the year ended June 30, 2019 and therefore is to be included in the June 30, 2019 actuarial valuation. 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. 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 – approved

Motion: Mr. Michael Miller moved to accept the Actuarial Valuation of the System as presented. Mr. Tom Manos 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. 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 – approved

Motion: Mr. Clark Partridge moved to accept the Actuarial Valuation of the Long-Term Disability Program as presented with the resulting contribution rate of 0.18% for each employee and employer for fiscal year 2020/2021. 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. 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 – approved

Motion: Mr. Tom Manos moved to accept the Actuary’s recommendation to not provide an increase to the 13th check for Retired System members and no additions to the Supplemental Credit balances of non-retired System members. 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. 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 – approved
4. Presentation, Discussion, and Appropriate Action Regarding the ASRS’ Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2019

Mr. Jason Ostroski, CPA, CliftonLarsonAllen Principal, introduced himself to the Board and spoke on behalf of CliftonLarsonAllen, LLP, the ASRS’ external auditor. Mr. Ostroski presented an unmodified Independent Auditor’s Opinion for the fiscal year ending June 30, 2019, on the ASRS financial statements that collectively comprise the ASRS’ financial statements in the CAFR. Regarding the Independent Auditors’ Report on Internal Controls, Mr. Ostroski reported there were no material weaknesses or significant deficiencies identified during the audit. Mr. Ostroski further noted that there were no additions to the requirements and standards of GASB 74. Additionally, Mr. Ostroski noted that the accounting estimates which are focused on alternative investments and actuarial information including the pension and the health plans were determined to be reasonable in relation to the financial statements as a whole.

Mr. Ostroski congratulated the Financial Services Division, noting that even with the challenges of the implementation of the new disbursements system as well as new additions to the team, they enjoyed a very smooth audit and had no issues in dealing with management.

Further, Mr. Ostroski reported no uncorrected misstatements or corrected misstatements, therefore no adjusted journal entries were reported during the audit.

5. Presentation, Discussion, and Appropriate Action Regarding the ASRS 2020 Proposed Legislative Agenda

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, presented three recommended statute amendments to be placed on the 2020 ASRS Legislative Agenda. Ms. Thomas reviewed the following recommendations in detail:

- Amend A.R.S. §§ 38-782(A) and 38-783(F) to clarify how the ASRS may implement a self-insurance program by utilizing the HBS fund for reserves as needed.
- Amend A.R.S. § 38-738 to indicate that the Employer must request a credit and return the employee portion to the employee. Also, amend the statute to indicate that a CNW cannot be completed after death of the member.
- Amend A.R.S. § 38-775 to indicate that the ASRS will treat non-retired members who die after the federally mandated Required Minimum Distribution (RMD) date as if they had retired with a straight life annuity on their RMD date and will distribute survivor benefits accordingly.

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

**Motion:** Mr. Michael Miller moved to approve the proposed 2020 ASRS Legislative Agenda. 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. 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 – approved

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS 2020 Proposed Regulatory Agenda and Update on ASRS Rulemaking activities
Ms. Thomas reviewed the outstanding rulemaking activities from the 2018 and 2019 Regulatory Agenda with the Board as follows:

- **2018 Regulatory Agenda**
  - 2 A.A.C. 8, Article 5, and 2 A.A.C. 8, Article 7, has been completed and became effective March 18, 2019.
  - 2 A.A.C. 8, Article 1, R2-8-126, the filing has been postponed. Although staff has completed the draft language, the filing has been postponed pending completion of two additional rulemakings on the 2019 Regulatory Agenda that are closely related to this rule. This is to eliminate multiple submissions of the same rule. All recommended amendments will be contained in one submission.

- **2019 Regulatory Agenda**
  - 2 A.A.C. 8, Article 1, R2-8-122; 2 A.A.C. 8, Article 1, R2-8-115; and 2 A.A.C. 8, Article 1, R2-8-120 are expected to be completed and filed by the end of the calendar year.

Ms. Thomas proceeded to review the proposed 2020 Regulatory Agenda. Five rulemakings have been identified, most of which correspond with legislation passed this year as follows:

- 2 A.A.C. 8, Article 9 (Compensation) – may consider resurrecting some of the rules that were expired in 2018 to now correspond with the new definition of compensation
- 2 A.A.C. 8, Article 1, R2-8-121 (new rule) – Non-participating Employer Invoices
- 2 A.A.C. 8, Article 1, R2-8-116 – Alternate Rate Contribution Rate Credits
- 2 A.A.C. 8, Article 3, (Long Term Disability) – codify in rule how the ASRS is applying the new statutory definition going forward
- 2 A.A.C. 8, Article 1, R2-8-119 (new rule) – Liability invoices under A.R.S. § 38-748
- 2 A.A.C. 8, Articles 1, 2, 4 and 5 – 5 Year Rule Review report for 2020 is required to be submitted to the Governor’s Regulatory Review Council

**Motion:** Mr. Clark Partridge moved to approve the proposed 2020 ASRS Regulatory Agenda. Mr. Tom Manos 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. 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 – approved

7. **Presentation, Discussion and Appropriate Action Regarding the ASRS Biennial Audit Plan for Fiscal Years (FYs) 2020/2021**

Mr. Clark Partridge, Chair of the OALC, introduced Mr. Harold Mackey, Chief Internal Auditor, who presented the proposed ASRS Audit Plan for FY 2019 to the Board.

Mr. Mackey introduced the Plan and cited the goal of enhancing risk management within the Agency. Mr. Mackey then described the process used by IAD that was used to identify the top 10 risk categories that directly connected to the Strategic Plan.

Mr. Mackey summarized the rest of the Audit Plan and highlighted the sections which detailed the risk categories and auditable areas that were identified, as well as noting administration and staffing requirements that will be needed to complete the Audit Plan. Mr. Mackey also noted the approval of external auditors CliftonLarsonAllen, Clearwater, and RiskSense.
Mr. Mackey responded to questions from the Committee.

**Motion:** Mr. Tom Manos moved to approve the ASRS Audit Plan for FYs 2020/2021 as presented. 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. 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 – approved

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

Mr. Karl Polen, Chief Investment Officer, reported that total fund year-to-date returns through October 30, 2019 are approximately 2.5%.

The preliminary results for period ended September 30, 2019:

- Total fund returns of 4.9%, 9%, 7.2% and 9.1% beat their benchmarks by 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.
- Equity returns beat their benchmarks in aggregate by 90 bps, with private equity returns of 13% outperforming its benchmark by 7.6%.
- Credit program returns of 8.9% outperformed their benchmark by 2.3%, primarily attributable to the private debt program, which outperformed its benchmark by 2.7%, adding nearly $150 million for the one-year and $700 million for the five-year periods ended September 30, 2019.
- Real Estate one-year returns of 8.1% exceeded its benchmark by 3.6%, attributable to the separate account program.
- The core bond program had returns of 10.2% for the one-year, underperforming the benchmark by 9 bps.

9. **Presentation, Discussion, and Appropriate Action Regarding the ASRS Strategic Communications Initiatives**

Mr. Matson introduced Ms. Sara Orozco, Manager, Strategic Planning and Analysis, and Ms. Pamela Foust, Manager, Strategic Communications.

Ms. Foust provided the Board with background for the thorough analysis of ASRS communications performed by Strategic Communications. She described the Brand Team Initiative, a ten-month long, eight-member, multi-divisional team whose purpose was to identify the ASRS’ core differentiators and key messages, defining and conveying them in meaningful, consistent ways for ASRS’ stakeholders. The Team explored the impressions that ASRS members have of the ASRS and used that information to create a new visual brand mark and brand position statement. The new ASRS visual brand was presented in video form to the Trustees, and Ms. Foust gave a detailed explanation of that logo and brand position statement, “Your money. Your future. Secured for your lifetime.” Ms. Foust went on to explain how this new image would be used on Agency materials going forward.

Ms. Foust then explained how the Brand Team identified the need to reevaluate the way the ASRS communicates with our members. The Team began by identifying five member types, or personas, which
represent members at different stages of their careers and relationships with the ASRS. This exercise presented opportunities to craft targeted messaging and improve customer service to those personas.

Next, Ms. Foust reviewed the strategic goal of the Strategic Communications Team, which is to communicate in a way that informs, educates and fosters trust and confidence among members and stakeholders. Ms. Foust also shared with the Trustees the key performance indicators used to measure progress toward achieving the strategic goal.

Finally, Ms. Foust concluded her presentation with a review of Communications Initiatives for Fiscal Years 2020/2022.

Trustees thanked Ms. Foust and Ms. Orozco for the information and engaged in a dialogue about improving communications with members, as well as member perception of the ASRS. Trustees also look forward to a future update on how the targeted messaging is working.

10. Presentation and Discussion Regarding Fiduciary Education

Mr. Matson introduced Ms. Cassie Adams, Assistant Attorney General, to the Board. She began her work with the ASRS on June 3, 2019, and has focused on appeals, statutory interpretation, and oversight of ASRS’ external legal representation. Additionally, Ms. Adams has been assigned by the Attorney General’s office as the state representative for deferred compensation committee.

Ms. Adams provided brief presentations regarding Trustee fiduciary responsibility as well as basics on Arizona’s Open Meeting Law.

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

Mr. Matson had no further comments for the Trustees.

12. Presentation, Discussion, and Appropriate Action Regarding Board Self Evaluation Material Distribution

Mr. Hillyard announced to the members of the Board they were provided a packet with Board Evaluation information and requested they be submitted to Ms. Joyce Williams prior to December 20, 2019.

13. 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 January 8, 2020.

   b. Investment Committee (IC)

      Mr. Michael Lofton announced the next regularly scheduled IC meeting is to be held on December 16, 2019.

   c. Appeals Committee (AC)

      Mr. Michael Miller announced the next AC meeting is scheduled to be held on December 10, 2019.

14. Board Requests for Future Agenda Items

Mr. Manos requested a future update on the progress of the specific communications initiatives that were
discussed during today’s meeting.

15. Call to the Public

Mr. Joe Geusic addressed the Board and expressed his perspective on contribution rates.

16. The next regular ASRS Board meeting is scheduled for Friday, January 31, 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, January 31, 2020 at 8:30 a.m.

17. Adjournment of the ASRS Board

Motion: Mr. Clark Partridge moved to adjourn the November 15, 2019 public meeting of the Board at 11:10 a.m. Mr. Tom Manos 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. 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 – approved

Respectfully Submitted by:

Joyce Williams
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM