



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

Friday, December 14, 2018
9:00 a.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met in the 14th Floor Conference Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. Clark Partridge, Chair of the IC, called the meeting to order at 9:02 a.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway Boulevard, Suite 200, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Clark Partridge, Chair
Mr. Jim Hillyard, Vice-chair
Mr. Michael Lofton

A quorum of the IC was present for the purpose of conducting business.

2. Approval of the Minutes of the September 28, 2018 Public Meeting of the ASRS IC

Mr. Jim Hillyard moved to approve the minutes of the September 28, 2018 public IC meeting. Mr. Michael Lofton seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused and 0 vacancies, the motion was approved. The trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Jim Hillyard – approved
Mr. Michael Lofton – approved

3. Presentation, Discussion, and Appropriate Action Regarding Portfolio Positioning, House Views and General Discussion

Mr. Karl Polen, Chief Investment Officer, noted that the portfolio remains slightly defensive with small underweight in equities and small overweight in cash. While equity valuation metrics have improved with a recent pullback in the market, significant political and economic uncertainty creates risk in the market that leads ASRS to remain defensive. Real estate markets remain robust with little pullback notwithstanding rate rises. ASRS remains cautiously active with a disciplined and selective approach. Mr. Al Alaimo noted that various private credit strategies remain with a focus on fully covenanted corporate loans and non-correlated structured credits such as air craft leasing. Rising rates remain a concern and with a relatively flat yield curve, ASRS retains a cash position offsetting its underweight in the Bloomberg Ag and equity portfolios. The committee discussed the house views and the CIO and portfolio managers responded to questions concerning the investment and economic environment.

4. Presentation, Discussion, and Appropriate Action Regarding Investment Performance

This agenda item was not presented because materials were not ready in time for the meeting. ASRS, State Street and NEPC are still coordinating reconfiguration of performance systems in light of changes in the strategic asset allocation and certain upgrades to reporting systems which are being implemented simultaneously.

5. Presentation, Discussion, and Appropriate Action Regarding the Credit Implementation Plan

Mr. Al Alaimo, Sr. Portfolio Manager of Fixed Income, Cash, and Liquid Alternatives, presented the credit implementation plan. He described the ASRS approach to investing in credit markets including high yield, distressed debt, private debt and structured credit. He discussed portfolio implementation and how it will be structured to comply with the liquidity and leverage requirements of the strategic asset allocation. He discussed historic outperformance and market conditions and noted that the combined asset class committee adopted an excess return benchmark of 1.5% with a tracking error of 2.5% for analytical purposes in assessing the performance of the portfolio. The committee discussed the implementation plan and Mr. Alaimo answered questions concerning the plan and the lending environment.

6. Presentation, Discussion, and Appropriate Action Regarding the Interest Rate Sensitive Implementation Plan

Mr. Alaimo presented the interest rate sensitive implementation plan. He noted that this asset class is focused on investments in government and high grade corporate bonds and that its role in the portfolio is to provide exposure to interest rates which typically behave counter-cyclically with equities and to provide liquidity for rebalance and tactical purposes in adverse markets. He noted that this asset class is implemented entirely in a daily liquidity format with no leverage. He discussed historic performance of the asset class and noted that the combined asset class committee adopted an excess return benchmark of 12.5bp with a tracking of 12.5bp for analytical purposes in assessing the performance of the portfolio. The committee discussed the implementation plan and Mr. Alaimo answered questions concerning the plan and the rates environment.

7. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight

This agenda item was not presented because materials were not ready in time for the meeting.

8. Presentation, Discussion, and Appropriate Action Regarding ASRS Supplemental Salary Deferral Plan (SSDP) and Supplemental Retirement Savings Plan (SRSP)

Ms. Lupita Breland, Sr. Portfolio Analyst, presented an update on the SSDP and SRSP defined contribution plans. The SRSP plan was created in 1999 but has seen limited reception due to federally required plan features resulting in participation of only 149 people with \$10 million in combined savings. The SSDP plan was adopted in 2009 with more flexible features including availability of loans. There are nearly 5,000 plan participants in SSDP with \$235 million in combined savings. The committee discussed the plans and Mr. Paul Matson, Director, and Ms. Breland answered questions about them.

9. Presentation, Discussion, and Appropriate Action Regarding Risk Management

Mr. Polen presented the risk report noting that MSCI measures risk for the portfolio as lower than the modeled risk for the strategic asset allocation portfolio due to lower exposure in equities and higher exposure in cash.

10. Presentation, Discussion, and Appropriate Action Regarding Compliance

Ms. Kerry White presented the compliance noting that there are no unresolved compliance matters.

11. Request for future agenda items

There were no requests for future agenda items.

12. Call to the Public

No members of the public requested to speak.

13. The next ASRS Investment Committee Meeting is scheduled for Monday, March 25, 2019 at 1:30 p.m. at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix , Arizona

Mr. Partridge noted the next IC meeting is scheduled for Monday, March 25 at 1:30 p.m.

14. Presentation, Discussion, and Appropriate Action Regarding the General Investment Consultant Request for Proposal (RFP)

Motion: Mr. Michael Lofton moved to go into Executive Session for the purpose of discussion or consideration of records exempt by law from public inspection. Mr. Jim Hillyard seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused and 0 vacancies, the motion was approved.

Mr. Clark Partridge – approved
Mr. Jim Hillyard – approved
Mr. Michael Lofton – approved

The Committee convened to Executive Session at 11:25 a.m.

The Committee reconvened to Public Session at 11:31 a.m.

Motion: Mr. Jim Hillyard moved to accept the Evaluation Committee's recommendation regarding the General Investment Consultant Request for Proposal (RFP) and forward it to the ASRS Board of Trustees for approval. Mr. Michael Lofton seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused and 0 vacancies, the motion was approved.

Mr. Clark Partridge – approved
Mr. Jim Hillyard – approved
Mr. Michael Lofton – approved

15. Adjournment of the ASRS IC Meeting

Motion: Mr. Michael Lofton moved to adjourn the meeting at 11:32. Mr. Clark Partridge seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused and 0 vacancies, the motion was approved. The trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Jim Hillyard – approved
Mr. Michael Lofton – approved

Respectfully submitted by:

Joyce Williams/Karl Polen
Investment Committee Administrator/Chief Investment Officer
ARIZONA STATE RETIREMENT SYSTEM