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**EVAN G. DANIELS**  
 Director

**MINUTES OF THE INVESTMENT COMMITTEE OF THE BOARD OF DIRECTORS  
 OF THE  
 ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND**

MONDAY, OCTOBER 25, 2021

Pursuant to a Public Notice dated October 20, 2021, the Investment Committee of the Board of Directors of the Arizona Property and Casualty Insurance Guaranty Fund (“APCIGF”) was convened on October 25, 2021, at 1:01 p.m. in a virtual video conference format using Google Meet. Chair Paul Matson called the meeting to order. Executive Director Lori Nestor, determined that a quorum was present.

Present at the meeting were the following members of the Board of Directors:

Paul Matson, CFA, FCSI .....	Chair
Noel Cole Young, Esq. ....	Member
William P. Melchionni III .....	Member

Also present at the meeting were:

Tom O’Malley .....	Managing Director for Insurance, Wells Fargo Asset Management
Jonathan Buenaventura.....	Wells Fargo
Lori D. Nestor.....	APCIGF Executive Director
Monique Coady .....	Arizona Attorney General’s Office
Lynette Evans Esq. ....	Arizona Assistant Attorney General
Sharyn Kerr .....	APCIGF Administrative Support Specialist

The following matters were discussed, considered and decided at the meeting:

**1. LEGAL OPINION FROM ARIZONA ASSISTANT ATTORNEY GENERAL**

Committee Chair Paul Matson stated that the general theme was to ensure that the Investment Committee (“IC”) understands (a) what we can do where APCIGF investments are concerned, (b) what is being done, and to (c) discuss rational modifications to what we are doing under current statutory authority and potential modified statutory authority. He then recognized Monique Coady from the Arizona Attorney General’s Office, who stated that she reviewed the statutes pertinent to APCIGF investments to address two questions asked by the IC regarding 1) investment parameters, and 2) any potential conflict of interest created should APCIGF invest in banking entities regulated by the newly

merged Department of Insurance and Financial Institutions (“DIFI”). Ms. Coady indicated that she and Arizona Assistant Attorney General Lynette Evans were in agreement with the options provided in the legal memorandum that they authored dated July 1, 2021. She further stated, in response to the specific question whether APCIGF investments can be made in specific out-of-state governmental entities, that both attorneys had concluded they could be.

The Chair then asked for confirmation that there was no conflict of interest indicated should APCIGF invest in entities regulated by DIFI. Ms. Coady confirmed that to be correct in light of the statutory safeguards built in to avoid same. The Chair then asked for confirmation that out of state municipal bonds are allowable investments as long as they are general obligation bonds but are not allowable if they are revenue bonds, and that Arizona municipal bonds can be either general obligation or revenue-generating bonds. Ms. Coady cited A.R.S. § 20-538, and stated that she believed that to be correct. Chairman Matson then asked whether a Certificate of Participation (often referenced as a Lease Revenue Bond), as they are called in Arizona, would be an acceptable investment vehicle. Ms. Coady indicated the need to research Certificates of Participation before being able to state that such would fit within the parameters outlined in their Memorandum. She and Ms. Evans will follow up with researching these.

## **2. FREQUENCY AND TYPES OF ACTUARIAL STUDIES**

The Chair recognized Executive Director Lori Nestor, who shared the results of research and stated that the informal industry standard seemed to be to perform actuarial studies on an annual basis. An annual study was also recommended by the actuary who has performed past studies for Arizona. As an alternative, the actuary recommended that Arizona perform a biannual study with a forecast built in. If a large deviation was found between the study and the forecast, then an additional study would be commenced to investigate the deviation and implications for the APCIGF. Ms. Nestor stated that her recommendation would be to conduct an annual actuarial study of Worker’s Compensation liabilities to support APCIGF’s new basis of accounting, and because current liabilities were large. Ms. Nestor indicated that June 30, 2019 was the last time a non-roll-forward study was conducted.

Director Noel Cole Young opined that spending additional money for annual actuarial studies may be unnecessary, as APCIGF cannot go bankrupt due to its ability to assess when necessary. He further opined that APCIGF operations don’t fit the normal long-term purpose for an actuarial study. Executive Director Nestor stated that in the case of guaranty fund operations, an actuarial study provides both an analysis regarding the need for assessment and documentation to support maintaining the balance that APCIGF carries should any interested party request that information. The Chair indicated that a study may also provide input with respect to how APCIGF conducts future investments. Committee members then discussed conducting a full actuarial study through December 31, 2021, followed by roll-forwards

over the next two or three years and then reevaluate, if such can be conducted at a reasonable cost. The Committee then discussed who has the authority to make and proceed with an actuarial study and concluded that it was the APCIGF Executive Director.

### **3. RECOMMENDATIONS FROM WELLS FARGO**

The Chair then recognized Tom O'Malley from Wells Fargo for recommendations regarding portfolio changes the IC should consider under the current statutory framework in light of the recent Arizona Attorney General opinion. Mr. O'Malley recommended that APCIGF continue the current course we have been operating within. Interest rates have been very low for about a decade but now appear to be starting to increase and an uptick in short and intermediate rates is predicted, possibly as early as 2022. We shouldn't be in a hurry at present to make a large investment in longer duration as the yield in benefit could be small and could incur a larger penalty.

### **4. ADDITIONAL RECOMMENDATIONS FROM WELLS FARGO**

- a. The Chair further recognized Tom O'Malley for any recommended changes to the current investment policy. Mr. O'Malley stated that today's discussion clarified some additional asset classes and suggested modifying guidelines to include expanded municipal capability, super-national and U.S. branches of foreign banks. He stated that the current IC guidelines don't reflect "supernationals". Wells Fargo advisor Jonathan Buenaventura stated that the Memorandum had opined on A.R.S. § 20-551.A. about branches of foreign banks located in the U.S. which he believes would allow for purchase of "Yankee" Certificates of Deposit. He did state, however, that he would like further clarification from the committee and from "legal" regarding whether they would support the expansion of the investment policy to include the issuers listed in (A.R.S. § 20-551) sections B. to possibly include "supernationals" and C. to possibly include commercial paper and bonds of foreign banks that fit the criteria outlined.

The Chair requested that Wells Fargo modify the investment policy guidelines to include full investment opportunities according to state statute based on what has been stated today and possibly include, pending additional review by the Arizona Attorney General's Office, Certificates of Participation within Arizona. Mr. O'Malley stated that they would be happy to do so and send their recommendations to the Chair and Executive Director Nestor. Executive Director Nestor will coordinate further analysis regarding Certificates of Participation from the AG's Office to be incorporated into the draft policy guidelines. The committee will review the recommended draft guidelines at the next meeting of the committee.

- b. No modifications were recommended regarding current statutory authority.

- c. No modifications were recommended to statutory authority.

Upon invitation by the Chair for further discussion/comment by other committee members,

- i. Director Noel Young expressed the desire to consider investing more of the large balance held in the APCIGF Workers Compensation account in longer duration investments in pursuit of higher yield, but asked for confirmation that Wells Fargo was not recommending that action at this time. Mr. O'Malley indicated that some longer duration investments were already being added incrementally, but that additional change to longer duration was not currently recommended based on the current point in the cycle and an anticipated uptrend in intermediate yield in the next 12 – 18 months.
- ii. The Chair then asked if all “muni’s” contemplated would be taxable. Mr. O'Malley indicated that they most likely would be.

There being no further business to come before the Committee, a motion was made to adjourn by Director Young, and without objection, the meeting was adjourned at 1:40 p.m.

Dated this 27th day of October, 2021 and respectfully submitted,

**APPROVED:**

LORI NESTOR

PAUL MATSON, CFA, FCSI

*Lori Nestor*

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APCIGF EXECUTIVE DIRECTOR

*Paul Matson*  
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CHAIR OF THE INVESTMENT COMMITTEE