

State of Alaska  
ALASKA RETIREMENT MANAGEMENT BOARD  
Relating to Watch List Guidelines

Resolution 2012-25

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for each of the funds entrusted to it; and

WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, the Board contracts an independent consultant to provide experience and expertise in asset allocation and other investment matters to come before the Board; and

WHEREAS, the Board has established an asset allocation for the funds that considers earnings and liabilities on a current as well as a future basis; and

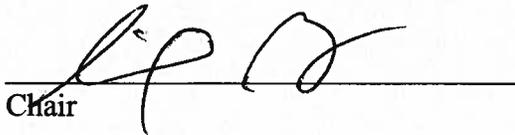
WHEREAS, the Board has established qualitative and quantitative criteria to evaluate investment manager performance; and

WHEREAS, the Board will from time to time as necessary modify guidelines for the evaluation.

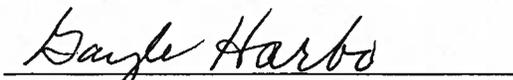
NOW THEREFORE BE IT RESOLVED THAT THE ALASKA RETIREMENT MANAGEMENT BOARD adopt the Watch List Guidelines, attached hereto and made a part hereof.

This resolution repeals and replaces Resolution 2006-01

DATED at Fairbanks, Alaska this 20<sup>th</sup> day of September, 2012.

  
Chair

ATTEST:

  
Secretary

## **GUIDELINES FOR MANAGER “WATCH LIST”**

The performance of the Board's investment managers will be monitored on an ongoing basis. The Board may place a manager on a “Watch List” at any time. The Board may also terminate a manager at any time whether or not a manager is on the “Watch List”.

Managers may be placed on a “Watch List” for a variety of reasons: Personnel changes, violation of policy and investment guidelines, style deviation, underperformance and asset allocation changes. The ARMB has two clearly stated fund performance objectives in the investment guidelines, the preservation of capital and consistent positive returns. These “Watch List” guidelines were formulated with these objectives as a foundation. There are various factors that should be taken into account when considering placing a manager on a “Watch List”. These can be separated into two broad categories – qualitative and quantitative factors. The former focuses on personnel, organizational and legal issues while the latter addresses performance.

Placing a manager on the “Watch List” is an intermediate step which may be taken to either resolve the problem or terminate the manager. Managers may only be removed from the “Watch List” under these two conditions.

## QUALITATIVE FACTORS

Below are *qualitative* factors that may be considered in determining whether an investment manager should be placed on the “Watch List.”

<b>FACTOR</b>	<b>EVALUATION</b>	<b>ACTION STEPS</b>
<ul style="list-style-type: none"> <li>• Violation of investment guidelines</li> </ul>	<ul style="list-style-type: none"> <li>• Review portfolio holdings vis-a-vis the investment guidelines               <ul style="list-style-type: none"> <li>- individual securities.</li> <li>- their percentage weight in the portfolio.</li> </ul> </li> </ul>	Correct violation. Review violations with manager to reestablish appropriate guidelines. Manager to compensate ARMB for any losses that occurred from violation. Place on watch list for one year – may terminate on additional violation.
<ul style="list-style-type: none"> <li>• Deviation from stated investment style and philosophy</li> </ul>	<ul style="list-style-type: none"> <li>• Style mapping – total fund analysis.</li> <li>• Style attribution – manager specific style analysis.</li> </ul>	Place on watch list. Monitor for ongoing fit with asset allocation policy. Terminate if no longer consistent with asset allocation structure.
<ul style="list-style-type: none"> <li>• Changes in ownership</li> </ul>	Require immediate notification of any pending changes in ownership.	Place on watch list for 18 months. Qualitatively determine if change may detrimentally affect asset performance.
<ul style="list-style-type: none"> <li>• Turnover of key personnel</li> </ul>	Require manager to establish a list of key personnel, and rank in level of importance, at the inception of the account. Manager updates on an as needed basis.	Place on watch list. May terminate if 60% of the key personnel turnover on the account (as specified in the manager-provided list) and/or 2 out of the top 3 people leave.
<ul style="list-style-type: none"> <li>• Litigation</li> </ul>	Require manager to notify immediately if entity which manages the funds is involved in any litigation.	Evaluate seriousness and likely impact of changes on the investment process and take appropriate action.

## QUANTITATIVE FACTORS

Below are *quantitative* factors that may be considered in determining the appropriateness of placing an investment manager on the “Watch List.”

- ⇒ Minimum of six years of performance required prior to placement on the watch list.
- ⇒ Three out of three (where applicable) performance tests must be failed for watch list.

<b>PERFORMANCE TEST</b>	<b>BENCHMARK</b>	<b>FAIL CRITERIA</b>
Test 1: Trailing 6 year results	Annualized performance relative to the agreed upon market index.	Fail if underperform index by 1% per annum over measurement period, gross of fees.
Test 2: Trailing 6 year results	Relative to an appropriate style index (if applicable).	Fail if underperform style index by 1% per annum over measurement period, gross of fees.
Test 3: Peer group comparison	Performance compared to that of an appropriate peer group.	Fail if cumulative performance is at 65% percentile or lower over relevant timeframe.

The following factors are important to monitor on an ongoing basis to understand and track the performance of the investment managers who have been placed on the watch list:

<b>FACTOR</b>	<b>EVALUATION TECHNIQUE</b>
Consistency of returns	<ul style="list-style-type: none"> <li>• Rolling 6 year returns relative to market index.</li> <li>• Rolling 6 year returns relative to appropriate style group.</li> <li>• Rolling correlations to market index.</li> </ul>
Risk-adjusted performance	<ul style="list-style-type: none"> <li>• Rolling 6 year information ratio.</li> <li>• Risk reward chart.</li> <li>• Sharpe ratio.</li> <li>• Treynor ratio.</li> </ul>