ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Location of Meeting
Anchorage Marriott Hotel
820 West 7th Avenue
Anchorage, Alaska

MINUTES OF
June 12-13, 2008

Thursday, June 12, 2008

I. CALL TO ORDER

VICE CHAIR TRIVETTE called the meeting of the Alaska Retirement Management Board to order at 9:00 a.m.

II. ROLL CALL

ARM Board Members Present
Sam Trivette, Vice Chair
Gayle Harbo
Larry Semmens
Martin Pihl
Commissioner Annette Kreitzer
Tom Richards
Mike Williams

ARM Board Members Absent
Gail Schubert
Commissioner Patrick Galvin

Consultants Present
Rob Johnson, Legal Counsel
Michael O'Leary, Callan Associates Inc.

Department of Revenue Staff
Brian Andrews, Deputy Commissioner
Gary Bader, Chief Investment Officer
Pamela Green, Comptroller, Treasury Division
Scott Jones
Zachary Hanna
Beth Larson
Judy Hall, ARM Liaison Officer, Department of Revenue

Department of Administration Staff
Rachael Petro, Deputy Commissioner
Patrick Shier, Director, Division of Retirement and Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits

IAC Members
George Wilson
Dr. William Jennings

Others Present

III. PUBLIC MEETING NOTICE

JUDY HALL confirmed that proper notice had been made of this meeting.

IV. APPROVAL OF AGENDA

MS. HARBO moved to approve the agenda. MR. RICHARDS seconded.

MR. SEMMENS asked that the time of the economic roundtable be changed to 11:50 a.m. rather than 11:45 a.m.

There being no objection, the agenda was approved as amended.

V. COMMUNICATIONS PUBLIC/MEMBER PARTICIPATION, AND APPEARANCES – None

VI. APPROVAL OF MINUTES

MS. HARBO moved to approve the minutes of April 24-25, 2008. MR. PIHL seconded.

There being no objection, the motion passed unanimously.

VI. REPORTS

1. Chair Report

CHAIR SCHUBERT was not present to give a report. GARY BADER reported that IAC member Jerrold Mitchell has indicated he will not be able to renew his contract, which expires at the end of the year. Dr. Mitchell will remain on the IAC and be available to the Board, Mr. O'Leary and Mr. Bader throughout the process of manager reviews, but will need to be replaced. Dr. Mitchell has been a tremendous asset to the Board and the predecessor board and will be missed. MR. BADER also reported that Chair Schubert has extended an invitation to the University of Alaska Foundation Committee to join the ARM Board at its educational seminar in September. That invitation was also extended to members of the Alaska Permanent Fund Corporation.

2. Committee Reports

a. Audit Committee

MR. PIHL reported that the Committee met yesterday with KPMG, audit partner Kathy Porterfield, and her team leaders with the Division of Retirement and Benefits (DR&B). The 2008 audit scope and plan and the schedule for auditing for both Treasury and DR&B. The Committee reviewed risk and critical audit areas. No significant changes in accounting principles or standards must be dealt with this year. It is clear that the improvements in the compliance desk at Treasury and the improved audit program for employer benefits will have benefits in terms of lower audit fees. The Committee conducted its annual review of legal matters with counsel Rob Johnson. The ARM Board does not have any outstanding legal problems. Mr. Johnson counseled the Committee on several potential issues, one of which is the need for training on insider trading that has caused problems for the Alabama system.

There was a review of the financial and accounting personnel status and succession planning for Treasury. There were updates and reports on compliance work. The ARM Board should be pleased with the program that has been developed and the work being accomplished in this area.

There was a good audit report for DR&B showing progress in the employer audit program. It is clear and gratifying to see greatly improved communication and coordination between Treasury and the DR&B. The Committee also reviewed its charter and plan and KPMG has provided good material on audit committees that will be reviewed for potential incorporation into those.

MS. HARBO asked if the audits for the employers are on a systematic review schedule. MR. SHIER replied that the goal is to conduct 50 audits every year. A total of 39 will be completed this year. At least two very large employers will be audited each cycle. There are two large employers on the agenda for this coming year that have experienced some challenges that have trumped a calendar cycle. MS. HARBO asked what cycle the Committee envisions. MR. PIHL preferred a three-year cycle and wanted to have a streamlined audit to ensure that payrolls are reported and premiums paid.

b. Defined Contribution Plan Committee

VICE CHAIR TRIVETTE reported that the Committee met in May and reviewed information compiled by staff. The Committee reviewed new options for participants and was happy with the options reviewed. The Committee met with Commissioner Kreitzer and discussed those options and she was also pleased with them. Because fee issues have not been resolved, this item is not on this meeting's agenda, but it will be reviewed in the future.

c. RFP Evaluation Committee

VICE CHAIR TRIVETTE stated this RFP is for replication of the actuary report, which is required by statute every four years. Two firms submitted proposals and one was found not in compliance with the RFP. A recommendation will be made to contract with the remaining firm to perform the replication audit later this year.

3. Retirement & Benefits Division Report

a. Buck Consulting Invoices

COMMISSIONER KREITZER stated that many changes are being made in the Division and she appreciated Trustee Pihl's comments in that regard. The Division is trying to develop a new retiree plan that would be attractive to those who may want to change.

PATRICK SHIER and KEVIN WORLEY presented to the Board. MR. WORLEY presented March and April invoices from Buck Consultants. He understood that these invoices are being provided to inform the Board what type of work Buck is conducting in relation to relevant House and Senate bills. The Division did not find anything out of the ordinary in these invoices.

b. SSgA Member Settlement – Member Outreach

MR. WORLEY indicated that a spreadsheet providing detail on the SSgA member settlement had been provided. There are outstanding releases of 57 at this time. The last group accounts for roughly $60,000. The Division has been in contact with at least 10 individuals, but some have not been found. There will be a third round of letters to members. The Division is using PFD databases and other sources to locate members. There are roughly 10 individuals with over $1,000 and the rest are below that amount. In the first part of July the outstanding accounts will be reviewed with Mike Barnhill with the Department of Law.

c. Legislative Update

i. SB 256 Grant to Political Subdivisions and School Districts for Overpayment of Contributions

MR. WORLEY stated SB256 was tied to SB125 from the last session, which was going to provide employer relief via a "hold harmless" and "heroes" listing. The "heroes" were reimbursed separately through SB256 through grants to employers meeting the criteria. The grants were provided through the Department of Commerce. The bill was signed April 13, 2008, payments were processed on May 6, 2008, and payments were mailed to employers by May 12, 2008.

MR. PIHL asked if it would be possible to get the list of employers that received payments. MR. WORLEY replied in the affirmative.

MR. SEMMENS asked if the grants were General Fund money. MR. WORLEY replied in the affirmative.

ii. SB 221 NGNMRS/JRS appropriation for unfunded liability

MR. WORLEY stated that SB221 was signed on May 22, 2008 providing $49 million appropriated from the General Fund to the Judicial Retirement System and $10 million to pay the unfunded liability of the NGNMRS. These transfers will occur on June 16, 2008. COMMISSIONER KREITZER noted that the Legislature favored this but not allocating additional funding to the PERS or TRS.

MS. HARBO noted that the cumulative statistics for the quarterly hires was not included in the packet. MR. WORLEY responded that the quarterly report was provided at the last ARM Board meeting and another quarterly report will be provided at the end of June 2008.

4. Treasury Division Report

BRIAN ANDREWS stated that the FY08 budget is in line with projections. The FY09 budget is set and in the next month the FY10 budget preparation will begin. He discussed monetary recovery for the systems. Mr. Worley has noted that there are still some claimants to be paid. To date, about $911,000 has been paid. Treasury anticipates receiving the full amount by the end of July or first of August.

5. Chief Investment Officer Report

GARY BADER asked for approval of an ovation agreement between the ARM Board and Rogge Global Partners. He explained that ING Management was purchased by Rogge Global Partners and an agreement transferring the account to Rogge Global Partners is anticipated. Staff views this as a positive event; the same team will continue on the ARM Board's account.

MR. O'LEARY noted that this was a friendly transaction and the physical location of the bond team is not changing.

MR. PIHL moved to approve the novation agreement from ING to Rogge Global Partners. MR. SEMMENS seconded.

There being no objection, the motion passed unanimously.

MR. BADER asked to place Relational Investors on the Watch List. This firm has managed on behalf of the Board for three years and there is performance data for 2.75 years. Their returns are substantially negative. Staff has confidence in this manager and that the style of investment they use will ultimately reward the Board's patience, but there is a policy that dictates their placement on the Watch List. He believed that the amount of the funds allocated to this manager creates more volatility than can be comfortable.

MS. HARBO moved to place Relational Investors on the Watch List. MR. SEMMENS seconded.

There being no objection, the motion passed unanimously.

MR. BADER asked to place Cadogan Management on the Watch List. This manager was removed from the Watch List at the last ARM Board meeting; however, they have taken a large amount of assets under management ($1.5 billion) and a number of new investment managers to manage that mandate without a commensurate increase in the size of their staff to oversee them. This situation has been discussed with Cadogan and they feel it is manageable, but staff feels it warrants additional oversight.

MR. SEMMENS moved to place Cadogan Management on the Watch List. MR. PIHL seconded.

There being no objection, the motion passed unanimously.

MR. BADER discussed the Winding Brook portfolio. The ARM Board's farmland investment has been built over the last four years. He felt this has been a rewarding effort, albeit slow. The predecessor board authorized staff to make inquiries about the Winding Brook portfolio. He talked to one of the partners three years ago and while there was an interest on their part, all three partners had to agree in order to consummate a sale. There have been mergers in this industry and the partners that remain managing the Winding Brook portfolio have decided to sell the portfolio and have put it to bid. The manager of the Winding Brook portfolio is also the ARM Board's investment manager. They withdrew from managing Winding Brook and Prudential took on that responsibility so that the ARM Board's manager could represent the Board without a conflict of interest. Staff felt that a fair bid could be made.

The Winding Brook portfolio has a market value of $229 million, includes 41 properties in 11 states, and is comprised of over 75,000 acres of farmland. The portfolio was managed by UBS for over 17 years. It is well diversified by geographic region. The properties include a Napa Valley vineyard, a Florida orange grove, and Midwest cornfields. The crop mix is 80% annual crops as opposed to permanent crops. The purchase price satisfies the ARM Board investment criteria and investment policy manual to have no more than 4% of gross return on any individual property and 5% across the portfolio. The purchase is expected to close on June 30, 2008.

Two properties in the portfolio, both located in California, receive water from the Bureau of Land Reclamation. Each property owner can have only 640 acres of land under irrigation. The ARM Board owns one property already that receives that benefit and is adding one from the Winding Brook portfolio, and attorneys have been working to find a satisfactory resolution to the issue. The resolution could be for the PERS system to one half of the two properties and the TRS system own the other half. Currently each system owns a pro rata share of each.

MR. BADER reviewed a graphic representation of the ARM Board's portfolio before and after adding Winding Brook. There are currently 40 properties, and there would be 80 after acquisition of Winding Brook. The current portfolio has 6% in permanent crops and 94% in row crops; the Board's target was 10% in permanent and 90% in row and that was recently changed to 20% in permanent and 80% in row. After acquisition of Winding Brook the crops would be 14% permanent and 85% row. MR. BADER next reviewed the geographic diversity of Winding Brook and what would be the diversity of the ARM Board portfolio after acquisition.

MR. BADER reviewed historical returns from the Board's farmland portfolio. From inception, underwriting criteria has been to have an asset that is an anchor to windward for a pension fund. The objective has been to have something with consistently good returns, not high returns with high volatility. With the major interest in corn and soybeans, fields that are close to a processing plant are demanding yields far less than the ARM Board's criteria. The Board prefers to take risks in other areas of its portfolio. The Hancock portfolio had a yield of 5.58%, appreciation of 7.85%, a total gross return of 13.80%, and a total net return of 12.81%. The ARM Board wants an annual appreciation that keeps pace with inflation. If this is achieved, the real rate of return of 5.0% will be achieved.

MR. BADER noted that the ARM Board allocation includes this asset class, as well as different weightings in other asset classes than those held by many other pension funds. The Board wants

to be well diversified. The Board's returns speak well to these investments relative to other pension funds.

MR. PIHL noted that the price of the Winding Brook portfolio is $4,000 per acre. He asked if the staff knows how much was left on the table in the bid process. MR. BADER replied that he did not have an answer to this question. He stated that the manager was very familiar with the cash flows on these properties, so the staff felt comfortable that the amount bid was within the ARM Board's parameters for investment.

MR. BADER next reviewed a listing of fund transfers between asset classes done by the CIO in order to maintain balance of target asset allocations or to meet requirements for capital calls. He noted that $65 million was taken from Lazard's Global fund and put into the Russell 1000 Growth and Russell 2000 Growth. This was done due to an over weighting in international equity and under weight in domestic equity.

MR. BADER reviewed the Watch List.

6. Fund Financial Report

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board, Financial Report as of April 30, 2008," kept on file at the ARMB offices.

PAMELA GREEN, State Comptroller, and KEVIN WORLEY, CFO, Division of Retirement & Benefits presented to the ARMB. MS. GREEN noted that the reports to the ARM Board have been revised. The Defined Contribution Retirement-Retiree Medical Plan, Defined Contribution Retirement-Health Reimbursement Arrangement, and Defined Benefit-Retirement Health Trust have been moved from the "Schedule of Investment Income and Changes in Invested Assets by Fund" and reallocated into the corresponding plans. She explained that in the PERS financial information, the Defined Contribution Retirement-Retiree Medical Plan, Defined Contribution Retirement-Health Reimbursement Arrangement, and Defined Benefit-Retirement Health Trust have a footnote explaining that the amounts are the for PERS only.

MS. GREEN noted that the pension systems' total invested assets for the ten months ending April 30, 2008 is $18.9 billion, an increase resulting from income growth for the month and an offset by predominantly net withdrawals in the PERS and TRS pension plans.

MS. GREEN stated PERS had ending invested assets of $11.2 billion, an increase of $307 million over the March 31, 2008, or 2.5%. TRS total assets were $4.9 billion, an increase of $100 million for the month, or 2.1%. She noted the figures in investment income, as well as benefit withdrawals and health care trust plan withdrawals. The Judicial Retirement Plan had an increase of $2.8 million for ending invested assets of $89 million, an increase of 3.2%. The Military Retirement Plan had an increase of .8%, primarily due to investment income assets. The SBS plan has ending investments of $2.2 billion, an increase of 2.2% from last month. Deferred Compensation has an increase of 3.5%, with an ending invested asset balance of $524 million.

MS. GREEN stated that for the last 10 months, the ending invested assets is $18.9 billion, an increase of $260 million over the last 10 months. There has been positive income and positive net contribution for all plans. There was activity over the 10 months within the Retiree Medical Plan, Health Reimbursement Arrangement, and Retirement Health Trust.

For the PERS system over the 10 months there was a total increase of 2.5% resulting from net investment income and net contributions, for a total of $11.2 billion. For the TRS system over the 10 months there was ending investment assets of $4.9 billion, an increase of less than 1%. Net withdrawals from both PERS and TRS are experienced in the Defined Benefit Plan.

The Judicial Retirement Plan ending investment assets are $89 million, down from a July 1 balance of $90.8 million. The Military Retirement Plan has increased to $18.1 million. The SBS is at $2.2 billion, a decrease of $37 million. The Deferred Compensation ending balance has dropped to $524 million, down $3.4 million.

MR. RICHARDS noted that as a teacher he is contributing to the TRS system and noted the $95 million in net withdrawals from the TRS. He asked if contributions is a sub-category. MS. GREEN replied in the affirmative. She noted that a packet had been provided containing detail of the net contributions and withdrawals. MR. WORLEY stated he would discuss the month end for April during his report.

MS. GREEN continued her report with review of a graphic representation of the activity in each fund over the year and comparing activity to prior years. PERS has less investment income this year than last year due to losses throughout the year. As of April, the allocation to domestic large cap equity was below target, but within range. International equity was slightly above the range. A reallocation was made to correct this imbalance. MR. SEMMENS clarified that the information in this report relates only to the Defined Benefit Plan.

MS. GREEN next reviewed a graphic representation of activity in the TRS fund for the last year and in prior years. The asset level has not changed significantly from last year, but income is less. Asset allocation is within bands.

The Judicial Retirement Fund has total invested assets of $88.2 million, just below last year. The investment income is below last year. Asset allocations are within bands and are tracking fairly close to policy.

The Military Retirement Trust Fund invested assets is close to last year and cumulative income is tracking for the 10 months with what was experienced last year. The asset allocation is close to target for the four assets in which this fund is invested.

MS. GREEN reviewed an analysis of asset classes for the month ending April 30, 2008 for the Defined Benefit Plans only. There have been losses for the month for the internal fixed income, the TIPS, and the international fixed income pool. The domestic equity pool had income of $255.9 million for the month of April 2008. For international equity there was an increase of $137.9 million for the month. Emerging markets had an increase of $20.5 million. There were mixed results in private equity, but overall there was a positive total of $3.1 million. Other

investment had income of $6.6 million and absolute return had a loss of ($10.9) million. Real estate had a return of $415 million.

MR. PIHL noted that the net contributions and withdrawals are ($46) million. He was surprised that contributions do not exceed withdrawals with the new plan. MS. GREEN stated this is the Defined Benefit Plan. There were net withdrawals to those plans. MR. PIHL asked if employees are leaving the state and withdrawing funds. MR. WORLEY responded that the net withdrawals are primarily benefit payments to retirees in the Defined Benefit Plan only.

MR. WILLIAMS understood that this report represents the pension assets and that the medical assets are in a separate report. MS. GREEN confirmed that pages 1-10 show investment results for the pension assets only. MR. WILLIAMS assumed that many of the negatives shown in this report represents transfers from previously pooled assets into separate accounts.

MR. WORLEY reviewed modifications to the DR&B report in order to align with the Treasury report. He explained how the DR&B report corresponds to the Treasury report. He noted that PERS Retirement Trust Fund contributions were $11.7 million and outflows were ($39) million. The contributions for the Retirement Health Trust were $41.9 million and outflow was ($16) million. He next reviewed the figures for TRS.

7. Performance Measurement – 1st Quarter

MICHAEL O'LEARY with Callan Associates Inc. presented to the Board. He stated the markets have been interesting and the economy is very interesting, and he would be pleased to discuss any items of interest to the Board. He noted that the reports before the Board are based on preliminary real estate returns, which historically are close to actual results. He reviewed a graphic representation of real GDP growth, which has been slow. Inflation from year to year, particularly at the producer level, has been quite high and disconcerting. Stocks were down close to 10% nearly across the board. Bonds had a positive return of 2.2%. For the trailing 12 months, there was a more than a 13% spread in return between stocks and bonds. The compound rate of return over 10 years was 3.9% for the Russell 3000 and 3.5% for the S&P 500. This makes earning the ARM Board's target return of 8.5% very difficult to accomplish.

MR. O'LEARY next discussed the fixed income market. Interest rates declined during the quarter, but spreads continued to widen. He reviewed effective yields of various parts of the bond market relative to Treasurys. Since the end of 2007, rates have increased greatly. Most bond managers, including the in-house portfolio, have less in Treasurys than in high quality spread instruments. As a result, performance is under the index, which has more in Treasurys. The further a portfolio diverged from the composition of the index, the greater the odds that performance was poorer. He noted that in the core plus style, the 10th percentile was 2.14% while 90th percentile was -3.63% and the index was 2.17%. He noted that the 10-year Treasury today is over 4%, which is up from the end of March.

MR. O'LEARY noted that a commercial mortgage backed security (CMBS) with a duration similar to Treasurys returned 7.77% less in the first quarter, which is an unprecedented difference in return. International bond yields declined in the first quarter and U.S. interest rates are, on average, lower than others. This is part of the reason for the concern about the dollar. If

U.S. interest rates are lower than interest rates abroad, people are not encouraged to own dollar denominated investments. International stocks were down -8.6% in the quarter and -2.7% for the trailing 12 months. This is deceptive because the returns are not denominated in dollars. The dollar has been exceptionally weak. In local currency terms, the returns would have been worse than the U.S. stock market. He noted there has been recent talk that the dollar has gone down too far and is likely to strengthen in the short to intermediate term. It has strengthened slightly subsequent to the end of March.

MR. O'LEARY reviewed non-U.S. equity regional performance. Japan was the best performing region in the quarter. Emerging markets under performed. Cumulative returns for major currencies show a sharp upturn for the Euro and the Yen. The U.S. equity market financial sector was decimated at the end of 2007. In the first quarter of 2008 the technology sector was the worst performing. In the March quarter, all sectors were hurt; even energy was down -6.3%.

Returns for large cap versus small cap were not much different in the quarter, but in the trailing 12 months it was in favor of large cap. Growth under performed value in the quarter, but over the trailing 12 months, largely because of the strength in tech and weakness in financial, growth has out performed value. The difference in returns between direct real estate and REITs has been substantial. In the first quarter REITs posted positive returns, after having abysmal returns in 2007.

Subsequent to the end of the quarter, April was a good month with emerging markets up and small cap slightly behind large cap. The EAFE return measured in dollars was less than that return measured in local currency. Bond markets had a negative total return. High yield had a good return after a poor first quarter.

MR. O'LEARY briefly reviewed the recent results for SBS. The vast majority of the options returned slightly above benchmark. The Target 2025 fund was slightly behind its benchmark, while the other target funds near their benchmark for the quarter. The individual asset class funds were near or above the index. Brandes International and Capital Guardian Global continue to under perform. The Citizens portfolio will end soon. MR. BADER stated that Citizens would cease managing on behalf of the ARM Board at the end of September. MR. O'LEARY noted that while that fund did not do well in the quarter, it is competitive over the trailing 12 months. T. Rowe Price continued to under perform. The component funds T. Rowe uses to build the target maturity funds did well relative to benchmarks, but the international was behind its benchmark.

Brandes invested in assets that were out of favor in the year, resulting in poor relative performance. Citizens had a competitive return for the year. Capital Global returned close to the benchmark but was not strong relative to its peers. T. Rowe Price Small Cap under performed in the quarter, but was above the small cap mutual fund median. Cumulatively that fund is lagging by more than fees.

MR. O'LEARY next reviewed the PERS asset allocation, noting that TRS has the same pattern. The big difference relative to target was an overweight in international equity and an under

weight in domestic equity. As Mr. Bader noted, money was taken from active portfolios and put into passive portfolios in order to reduce that mis-weighting.

The ARM Board asset allocation is more broadly diversified than the typical fund in the CAI public fund database. Only 53% of the funds in the database have a discrete real estate allocation and the Board's real estate allocation is greatest at 12%. Only 21% of funds in the database have a discrete allocation to international bonds and the ARM Board has a separate allocation. Approximately 35% of the funds have an allocation to alternative investments and the ARM Board alternative investment allocation is highest.

The ARM Board lost 4.58% in the quarter, but actually did fairly well, given the market. The target was down 4.80%. For the trailing 12 months the PERS returned 2.05% while the benchmark returned .46%. The 3-year return is 9.74% versus 8.30% and the 5-year return is 12.42% versus 11.79%.

MR. O'LEARY reviewed the cumulative total fund return versus the database. He cautioned that cumulative returns can be distorted by beginning or ending points, so individual periods were also reviewed. Over 16.5 years the return is 8.89% versus 8.64% for the target.

The return for fixed income fiscal year-to-date is at median. The ARM Board in-house fixed income was at median versus the CAI style group. MR. O'LEARY reviewed quarterly variation relative to the LB Aggregate, noting under performance in the third and fourth quarters of 2007 and the first quarter of 2008. The in-house team was investing in what it had been historically, but the market wanted more spread to justify those investments.

Large cap domestic equities did better than median for the quarter and worse than median for the fiscal and trailing year. The small cap pool did better than median and the benchmark in recent periods and for three years. International had a poor quarter relative to other public funds and relative to the index. The fiscal year-to-date return is better than the EAFE Index, due to the emerging markets exposure. The trailing year return is much better than the EAFE Index, but much worse than the ACWI ex-US, which is international stocks including Canada and emerging markets. International performance compared to other public funds for all periods other than the quarter is very attractive.

International excluding emerging markets and compared to primarily developed market manager portfolios, the ARM Board's performance is slightly better than benchmark, but slightly below median. The emerging markets pool performance is strong against the index and the database.

The global pool has helped performance in the last year. It was down -1.99% while the World Index was down -3.25% and the ACWI was down -0.68%. For the last twelve months non-dollar bonds returned 22.6%. Because of the change in the value of the dollar and other world events, bonds denominated in something other than the dollar had good returns. He cautioned that this could easily turn around overnight. Over the long-term, CAI expects developed market non-U.S. bonds to have a rate of return similar to U.S. bonds, but with twice the volatility. Mondrian, which has managed non-dollar bonds for the ARM Board for 11 years, has the flexibility to

hedge, but their target index is unhedged. This portion of the portfolio helped over the last 12 months, although it is small in terms of the overall fund.

The REIT portfolio did well in the last quarter. This value-tilted portfolio has still under performed year-to-date, but it has gotten better in the last quarter.

Two of the Board's three absolute return managers will present today. Mr. Hanna has been doing due diligence with these managers. Crestline is diversified, Cadogan has had an emphasis on long-short equity-related hedge funds, and Mariner has a more fixed-income tilt to their investments. Anything related to fixed income and relative value has tended to have weak performance. Mariner's performance relative to other hedge fund-of-funds has been weak, but understandable. They are on the ARM Board's Watch List because of performance.

Cadogan just came off the Watch List and now is back on. Year-to-date compared to long/short hedge fund-of-funds they have done well, and they have done well when compared to the same group against which Mariner or Crestline are measured. At the end of 2006 this manager had $2 billion in assets under management. They were partially acquired by Fortis and inherited about $2 billion more in assets to manage. MR. HANNA indicated that the acquisition was finalized in January 2007. MR. O'LEARY explained that Fortis was part of a consortium that purchased ABN AMRO, which had $1.5 billion in hedge fund-of-funds that Cadogan has assumed responsibility for in 2008. They are now managing over $7 billion. Cadogan's staff has grown and, while he felt comfortable, the change in the amount of assets merited placing them on the Watch List.

Crestline continues to have very competitive returns. MR. BADER noted that the benchmark has been no worse than the top 13th percentile over the last 3.75 years. He asked how Mr. O'Leary would react to the staff suggesting a hurdle that is not quite as high. MR. O'LEARY replied that this area has risk, leverage, and high management fees. He personally felt that, if the desired return pattern is not achieved over a reasonable period of time, there should be a question why it is being done. He felt that LIBOR plus 4% is a good target. LIBOR plus 5% is an aggressive target. When the target is difficult to achieve and the environment is that anything with risk has had a poor return, it is difficult to catch up. However, with several good years, it is possible to "catch up," and indeed the pension fund has had good returns. He did not favor lowering the return target at this point in time.

MR. O'LEARY added that hedge funds are not a panacea. These fund-of-funds are designed to provide a return pattern that is different from stocks and bonds with an expectation of doing better than the bond market over time. The return pattern has been different than the bond market. The overall volatility has been close to target to date. He hoped that the market environment in this quarter would be more supportive of Mariner's style.

MR. O'LEARY reviewed the returns of the Board's two high yield bond managers. ING has a record above benchmark and McKay Shields has done even better.

MR. O'LEARY reviewed the performance of Barrow Hanley, a large cap domestic value manager. This manager has done poorly compared to other managers, while QMA has done

satisfactorily. Barrow Hanley has a diversified portfolio but it included some stocks that did poorly. Capital Guardian has had weak performance in their large cap portfolio. Recently some of the growth holdings in that portfolio have caused their under performance. McKinley Capital has done well. Relational Investors was added to the Watch List today. This manager holds eight securities, most of them in the financial sector; there is no energy exposure. MR. O'LEARY stated he has read articles on this manager's activist approach to management, which he offered to share with the ARM Board.

The ARM Board's small cap managers, Jennison, Lord Abbett, Luther King and Turner, have done well relative to the market over the year. In terms of international equity, Brandes has done poorly for three years, but has strong five-year performance. Capital Guardian's international portfolio has done well. McKinley's international portfolio is ahead of the benchmark fiscal year-to-date, but suffered in the most recent quarter. McKinley's emerging markets exposure was up to 17% by the end of the quarter while the ACWI index was at 20%. SSgA is not doing well; managers of their international equity product left during the fourth quarter and went to Lazard. SSgA is a quantitative manager and that style had difficulty during the September and December quarters. They are being closely watched. There must be comfort that the new managers in this team are good and that the process is still working. A 9-month period of under performance has taken their strong returns and made them unattractive on a cumulative basis. Capital Guardian's emerging markets portfolio is doing well and Lazard is doing well comparatively.

BREAK 11:05 a.m. to 11:10 a.m.

8. Economic Roundtable Discussion

GARY BADER noted that the gentlemen appearing before the Board are some of the top experts in the investment industry. Members introduced themselves: Ken Monaghan with ING Investment Management, Doug Bowen with ING Clarion Partners, Greg Spencer with McKay Shields, John Reinsberg with Lazard, Michael Waldron with Cadogan, and Lee Sachs with Mariner.

Question: MR. BADER asked what rate of real GDP Mr. Sachs would forecast for next 12 months.

Answer: MR. SACHS predicted a growth rate of .5% to 1%. There are many headwinds facing the economy. His firm is in the lower end of the consensus range. MR. WALDRON stated his firm's prediction is similar at 0% to 1% with some non-material chance of 10% to 15% that it could be slightly negative, depending on housing and some other sectors of the economy.

Question: MR. BADER asked if Mr. Reinsberg had a similar view and what might cause him to change his forecast.

Answer: MR. REINSBERG stated he has a similar in the U.S. of up to 1% and slightly higher in Europe of 1.4% and double digit growth in some markets of Asia. Three things can change this forecast. First, in U.S., the pace of recovery in balance sheets. Second, the inflation outlook. Third is global implications in China.

MR. SPENCER stated that his firm's prediction is 0% to .5% growth and probably 0%. They did not see any a consumer-led economic recovery. International has been viewed as the engine of growth, but there are already some challenges internationally as well. He anticipated stagnant growth for the rest of the year.

Question: MR. BADER asked what drives Mr. Bowen's firm's view of economic growth or investments as a result of their involvement in real estate.

Answer: MR. BOWEN replied that his firm looks at job growth and constraints in new supply. The firm concentrates on the east and west coasts because there is growth in those markets.

Question: MR. BADER noted that the housing market is in all discussions. He asked what is Mr. Monaghan's outlook for the U.S. housing market and how does that influence his forecast.

Answer: MR. MONAGHAN stated his firm was a bull in the last market, but now it is more bearish than most. The firm is looking at recently downgraded bonds, but has previously avoided them. The firm has been on calls for companies with homebuilding bonds outstanding and hears no indication that things are improving. This is true in Florida, California, Nevada, and Arizona, which have been hardest hit. While there are arguments that homes are becoming more affordable, there are few price declines. In Florida and California, within the same development, declines were nearly 40% within the quarter. Home prices are falling nationally by 1% per month. The prospect of the investment of a downpayment eroding over a year's time is disincentive to home investment.

Question: MR. O'LEARY stated he has told the ARM Board that the last 9 to 10 months has been the scariest time for him since he began in the investment business. He asked for comment on de-levering in households and sectors.

Answer: MR. WALDRON felt there had been a wealth transfer or some kind of shift so that countries like Canada and the Middle East have generated huge amounts of cash. Many countries have completely de-leveraged; Japanese corporations have none. So there is buying power on the side. U.S. and European financial institutions have over leveraged, but in aggregate there is still a great deal of buying power.

MR. REINSBERG stated the availability of credit has been impaired in private equity real estate and also for the consumer. The combination of lower real estate prices and lower equity prices creates a wealth effect. The fact that the cost to borrow is higher will have a longer-term impact. The burden has gone from the company to the shareholder, who has taken the brunt of the problem. Equity shareholders are forcing companies like Lehman to de-lever. That is okay on the way down, but it completely eliminates recovery potential.

MR. BOWEN stated on the real estate side it is best to characterize this as "back to the future." Pension funds were not leveraging and now they are borrowing.

MR. SACHS stated this forms the backdrop to his firm's views. He noted that, if the indebtedness of the household sector as a percent of GDP has averaged 55% over the last 50 or 60 years, from 2000 to today it went from 70% to over 100% of GDP. Household indebtedness to net worth was 16% in 2000 and today it is approaching 25%. Getting back to historical norms, that will be a tremendous drag.

MR. SPENCER noted there is a lack of confidence in the marketplace. Investors have raised capital but are losing value; people will wait until the market hits bottom before investing.

MR. WALDRON stated that in the 1970s and 1980s there were times when assets were cheap and yields on real estate were without leverage were decent and P/E ratios of stocks were low, but that is not the case today. In hedge funds, many spread relationships have gone from very narrow to historical norms. His firm is holding a more cautious stance. He feared that either things are stabilizing or things have not yet hit bottom.

MR. MONAGHAN stated that for the last 25 years or so, second-guessing the consumer and making the assumption they will not spend has been a mistake. The leverage of the consumer has increased. There has begun to be a de-leveraging of the investment industry and more of that will occur, in part because regulators will demand it, and also because they will have a more difficult time generating a return. After 25 years, a decision to discount the consumer's ability to spend is the result of the fact that the consumer has little leverage available. First mortgages are becoming more difficult to get. The consumer is now using credit cards as they have pre-approved spending limits. Ultimately, that limit will be reached. The amount of money being distributed by the IRS will not continue. He anticipated that economic growth will be anemic for next year as well.

Question: MR. BADER asked whether there would be inflation.

Answer: MR. MONAGHAN stated there is not significant inflation in the U.S. economy right now. This does not mean that food and fuel prices are not rising; that is occurring. What is not seen is wage inflation. There is some evidence that this is occurring in Europe. Part of the concern around that in Europe is spilling into the U.S.

MR. SPENCER felt the biggest concern is perception, whether or not there is actual inflation. The Federal Reserve has to fight the perception of inflation, whether it is real or imaginary.

MR. REINSBERG read the headline "Fears Over Inflation Action Hits Markets. Bernanke Warns of Growing Pressures, Sharp Movements in Bonds and Futures." He stated that worldwide there is inflation on commodity end but not on wage end.

Question: MR. BADER asked if global over capacity would hold inflation in check.

Answer: MR. REINSBERG stated there are hard and soft commodities, but clearly in many areas there are commodity imbalances. He did not believe there would be any change in the new source of supplies in the short-term. Commodity inflation is likely to continue for some time. He did not see that in terms of wages.

Question: MR. BADER noted that this is an election year and the candidates have expressed points of view that differ from the way the economy is operating. He asked if the market is waiting until the election is over.

Answer: MR. SACHS stated that the economic policies both candidates will be discussing (fiscal, regulatory, trade, health care, energy, environment) represent massive parts of the economy. It is hard to decipher how the market is interpreting the position of one candidate or the other. The next president will be facing headwinds in terms of economic policy. It is difficult to know how whoever is elected will behave when they are in office.

Question: MR. O'LEARY asked if taxes will be up one year from now.

Answer: MR. SPENCER expected a large increase in taxes with the Democrats, particularly if they control the House and Senate. If that were the case, he expected a redistribution of income directed at the middle class and increased taxes to those making over $250,000 and increases in capital gains tax to 25% to 28%.

MR. WALDRON also expected a change in taxes at the local level as property taxes are revised downward. Many municipalities have said that they have promised raises and pension benefits and now must pay for those.

MR. SACHS believed that over the course of the next 10 to 12 years taxes will increase, regardless of who is elected. The budget situation is difficult and some taxes will have to increase.

MR. REINSBERG stated that foreigners are very cautious about investing in the U.S. They had been major buyers of U.S. assets and that has slowed. The Chinese sovereign wealth fund did their first RFP for investment and they invested in global equity, non-U.S. equity, greater China, and emerging markets.

Question: MR. BADER asked what the panelists felt would be the best performing asset class over the next 12 months.

Answer: MR. MONAGHAN anticipated it would be Treasury securities.

MR. BOWEN anticipated it would be private equity and countries like Brazil.

MR. SPENCER anticipated it would be distressed debt.

MR. REINSBERG anticipated it would be distressed asset backed securities, especially mortgages, in the short-term and frontier emerging markets over the longer term.

MR. WALDRON anticipated it would be emerging markets and large multi-national companies, especially those involved in infrastructure.

MR. SACHS agreed that it would be distressed assets, but not all distressed assets are attractive at this time. Distressed mortgages were the beginning point of the economic debacle and those have been declining for 1.25 to 1.5 years, so there are good investments in that sector with little risk. There has not yet been a break in corporate high yield bonds and there are not a plethora of distressed opportunities.

Question: MR. WILSON asked to expand this forecast to 5 to 10 years.

Answer: MR. MONAGHAN anticipated it would be Treasuries. He thought that in 6 to 12 months investment in distressed debt would be advisable. The average CCC bond is still trading not much over 1000 bp over Treasurys; in the last two cycles they have hit 2000 bp over Treasurys and the average high yield bond was trading at $.50 on the $1.00. There will be further pressure on stressed assets as part of the de-leveraging phenomenon. When that shifts, there will be enormous opportunity.

MR. BOWEN stated in terms of real estate, if something is bought at a discount to replacement cost in markets with growth, it should be safe over the long term, particularly given the increase in construction cost over the last five years.

MR. SPENCER anticipated it would be distressed debt, but the window for recovery will not be 5 to 10 years but rather 3 to 5 years. He believed that in that time period there will be attractive returns.

MR. REINSBERG anticipated it would be frontier emerging markets.

MR. WALDRON replied that from a risk-adjusted basis, investing in Japan is interesting. Japan is under leveraged, even its banks, so they have the potential to be a major beneficiary in the global market. Many stocks are globally owned by pension funds and as the pension issue becomes bigger, those owners will exert pressure to increase returns.

MR. SACHS stated the ARM Board has balance sheet and capital, which is in short supply in the world. The ARM Board will benefit if it can put itself in a position to invest with managers who can channel Asian capital into the assets that are not being bought. Today there are tremendous returns for those that have long-term capital.

Question: MR. PIHL asked how much loss might still be experienced in the financial sector.

Answer: MR. WALDRON stated that the majority of global financials would be bankrupt if they had to mark to market; they are trying to hold onto assets and earn their way out of their problems over time. He gave an example of a company that had to sell long assets and, while they were doing so, insiders were buying their stock.

MR. REINSBERG stated that risk/return is 2:1 in terms of upside versus downside; his firm has begun to invest again in firms like UBS, but there will still be casualties.

MR. MONAGHAN stated that a number of large financial firms have had access to capital and are on the mend. His firm is concerned with smaller banks that have financed homebuyers, property purchases, and small commercial, and have not appeared to take the appropriate hits. Investors who look at distressed assets believe there will be a massive number of insolvencies in smaller banking companies that they will end up acquiring.

MR. BOWEN agreed, citing a bank with which he has experience that is undergoing stress.

Question: MR. BADER asked what demographic trends might influence these managers' behavior over the next two years.

Answer: MR. MONAGHAN stated the consumer will influence his firm's behavior. The largest cohort in terms of the population is age 49 and historically after age 49 leverage starts coming down. Consumers need to repair their balance sheet, but a large portion of the population is at the stage of aging where they are no longer acquiring assets. This means growth should be anemic for a significant period of time.

MR. BOWEN agreed with these remarks with respect to Baby Boomers. He believed that one of the best investments today is buying distressed residential land in Florida, where many people retire.

MR. SPENCER agreed with the comments respecting Baby Boomers. He felt that there would be a gradual shift toward fixed-income and away from equity products.

MR. REINSBERG stated that one of the big demographic trends is the shift from the developed world to the emerging world. Over the last five years, the emerging market contribution to GDP has moved from 13% to 40%.

Question: MR. BADER asked what is meant by the term "frontier markets."

Answer: MR. REINSBERG explained that these are markets such as Vietnam and other pre-emerging markets.

MR. WALDRON added that healthcare would be a political issue and a wealth transfer issue. This will be an issue in Europe, China and U.S. There will be volatility between health insurers and health care providers, etc. and that is an interesting area to invest.

MR. STARK agreed that healthcare is an interesting area for investment.

LUNCH BREAK 11:50 p.m. to 1:00 p.m.

9. Cadogan Management LLC

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board" dated June 12, 2008 and kept on file at the ARMB offices.

RICHARD COLLIER and MICHAEL WALDRON presented to the Board after introduction by Mr. Bader. MR. WALDRON stated the goal of this investment is to achieve a return of 90-day

T-bills plus 5%. The portfolio began as conservative and over time the risk has shifted up slightly. Returns to date are under 8%, below the target of 9.2%. He noted that it is difficult to assess the true activity in hedge funds, and suggested that Cadogan's return be judged in terms of return over T-bills over an extended period of time.

MR. SEMMENS asked if the return for this portfolio is 8.21%. MR. WALDRON replied that this is the return after fees.

MR. WALDRON stated that performance in 2007 was strong, in part because of an investment in shorting sub-prime mortgages. There is a modest bias to energy and oil service and managers had a positive return as a result. In 2008 performance has been weaker. The returns in May and April are good so the firm is down 1% overall for the year. There has been general volatility in all markets, de-leveraging of financial intermediaries, and selling pressure in some of the securities in which the hedge firms in Cadogan's portfolio invest. Those firms are longer-term investors looking to find good investments with a 6- to 24-month time horizon and they are also shorting anything that is over valued. During this last period, flow of money and fear in markets drove money more than fundamentals. This makes it hard for managers to make money, but it sets up an environment where there are future opportunities.

MR. WALDRON explained that hedge funds are viewed as trying to capture efficiencies and yield better risk-adjusted returns than traditional investments, but there is currently a linear relationship between risk and reward, so risk has been shifted upward. There have been no changes in terms of styles. Throughout the last year managers were becoming more long biased in their portfolios. The firm also invests in managers who are short the market as an offset. The firm has a flagship fund called CAST and the Fund's portfolio structure is being shifted to mirror it; there is manager overlap between the two portfolios. There have been no large shifts in terms of sector holdings. Historically there has been a low investment to managers managing outside of the U.S. There are beginning to be more good investors overseas, so that allocation is increasing.

In 2007, return in the short mortgage area contributed to returns. There were also good returns from long/short managers, which were up 24% in 2007. There were weak returns from credit markets in 2007.

MR. COLLIER briefly reviewed the acquisition of a 70% interest in Cadogan by Fortis Investment Management USA. He reviewed the benefits of this acquisition for Cadogan's employees. He stated that the consolidation of Fortis fund-of-funds into Cadogan has been remarkably smooth. He emphasized that Cadogan is run today as it has been historically.

Since October 2006, several other things have happened. An equity ownership plan was initiated in October 2007, the CAST fund was closed, John Trammell joined as president, the firm acquired a lease on the 14th floor and will complete occupancy in June, and the firm acquired investment responsibility for the ABN AMRO fund-of-funds account. An arrangement was reached to assume $1.5 billion of ABN AMRO propriety funds because Cadogan wanted only one fund-of-funds manager. The benefits coming from Fortis have been substantially enhanced technology and accounting systems, increased server capacity, and increased staff. MR. COLLIER clarified that the $6,751,788,485 figure shown as assets under management as of

December 21, 2007 should be corrected to $5,411,047,000. In terms of the impact of managing more money on the management team, there were 9 managers for each investment professional at the end of 2006 and now that number is 14 managers per investment professional. The funds will shrink from six to three at the end of the year and the managers will be back down to 9 managers per investment professional. Three of the executive management team remains actively involved in research.

MR. WALDRON explained the practice of short selling. He noted that equity short selling is less widely understood. This practice is often viewed as a bad thing because the objective is to profit from the decline in the value of a stock. Short selling provides greater liquidity. Short sellers also do excellent research on companies. Short selling can have unlimited risk, however. It is important to focus on risk controls and understand the investments. Earning interest is an important part of the return. Human nature is optimistic, so it takes an unusual personality to want to be short. Many managers Cadogan considers are trying to find companies that are simply bad companies; the SEC cannot investigate all companies and there are companies that commit fraud. Many of Cadogan's managers also look for companies that do not have a sustainable business, but is profiting in the a short-term. They also look at companies that are either poorly run or they are such a competitive business that achieving a return is difficult. He reviewed the example of Tyco to illustrate a company that committed fraud and from which one of Cadogan's managers profited by shorting. He noted that many managers are using short selling also to control risk.

MR. BADER asked if, in the examples shown by Mr. Waldron, the manager who invested in Croc shoes offset with another shoe manufacturer. MR. WALDRON stated that the product became incredibly popular and Wall Street predicted continued growth. This manager saw that there were knock-offs and because the price of Crocs was high, it did not grow at the predicted rate. In other cases where there may be similar shoe types, a manager might be long in one manufacturer, such as Nike, and short in another, such as Reebok.

MR. WALDRON added that 130/30 managers have experience investing on the long side and will use research to use 130% of their capital to buy good companies and 30% to buy poor companies. There is also an arbitrage strategy where managers buy identical products at two prices. A manager can buy a cheap one and sell the short one, convert one into the other and capture the difference in price. He further explained that a stub trade occurs where one publicly listed company owns shares of another publicly listed company. He noted in a review of returns that there have been periods where, without the shorts, Cadogan would have out performed. However, during difficult markets, shorts add to returns. Over a 13-year period, shorts have had a slight positive return and have helped with volatility and risk.

MR. O'LEARY thought that without the shorts, Cadogan's returns would have been higher. MR. WALDRON agreed that the shorts have been up slightly while the rest of the portfolio has been up more. MR. O'LEARY recognized that the shorts helped in the down market environment. MR. WALDRON added that shorts also reduced risk during even up market periods.

VICE CHAIR TRIVETTE asked if hiring is completed at the company. MR. WALDRON replied that some additional client service staff and operations staff will be added, as well as an internal IT person and an additional due diligence person.

10. Mariner Investment Group, Inc.

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board, Arctic Bear Fund, L.P." dated June 12, 2008 and kept on file at the ARMB offices.

ELLEN RACHLIN and LEE SACHS presented to the Board after introduction by Mr. Bader. MR. SACHS explained that Mariner has been in business since 1992, has been a SEC registered firm in the fund-of-funds business for 14 years and hedge fund business for 16 years, and manages a total of $16 billion in funds. The firm's focus is providing low volatility returns with low correlation to other holdings in the Fund's portfolio. The firm's client base is broad and includes public and corporate plans, Taft Hartley, banks, and endowment/foundations. The organization involves 150 professionals with over 30 individuals in accounting and finance, and 10 individuals in legal/compliance. The firm's investment committee is populated with experienced professionals. Members have run either proprietary trading departments or firms covering a spectrum of investment types.

MS. RACHLIN reviewed the record and capital account of the Arctic Bear Fund. This is an absolute return portfolio with an emphasis on non-directional fixed income strategies. The Fund is flat on the year through May, down an estimated 10-12 bp. In the first half of 2007, the Arctic Bear Fund was up 510 bp. Housing health was deteriorating with inventories up and prices down. Credit extensions had peaked. Risk premiums were priced to perfection. Sub-prime delinquencies and foreclosures were escalating and equity volatility began to increase. By the second half of 2007, there was widespread reduction in market liquidity. The fallout to financial institutions began in earnest with declines in the extension of credit and a deterioration of trust among previously willing trading counterparties. The search for capital to repair balance sheets had begun.

Fixed income arbitrage and relative value strategies, Mariner's core focus, were the worst performing hedge fund sector. The equity markets were seemingly disconnected from the turmoil. By the end of 2007, the Arctic Bear Fund was rotated away from fixed income arbitrage strategies, or reduced greatly, and the exposure to long/short equity strategies was reduced. In the first quarter of 2008, there was continued global dislocation in mortgage and credit markets as well as rapidly falling equity markets, further reductions in market liquidity, de-leveraging of banks, and an increase in corporate bankruptcies. Some of the difficulties facing this market environment are evident in the following conditions, which could exist or persist. These include weakening in the prime market and housing sector particularly if payrolls continue to decline, weaker corporate earnings and rising bankruptcies, inflation fallout from non-core CPI with energy and depleting resources completing their super-cycle, and the Federal Reserve can do little after their expensive effort in extending lending facilities and their handling of the Bear Sterns crisis. There is also slowing growth in developing economies and growth continuing in emerging economies.

MS. RACHLIN reported that year-to-date through May the strategy performers contributing to performance in the Arctic Bear Fund include long/short equity Japan, commodities, and energy. The long/short equity Japan was successful in being long. Commodity-related, natural resource, and base material had a short position in export-dependent stock. The strategy was also successful in pairs trading, which is a more market neutral style of trading of having a long and short position in seemingly corresponding stocks. The commodity sector surprisingly performed due to some funds that were short wheat and cotton. Another sub-fund during the quarter was long grains, metal and energy and short the U.S. dollar and was involved in some relative value trading in the metals market. Energy trading has contributed to performance, particularly in April and May. Corporate bond arbitrage is the primary detractor in the portfolio.

The Arctic Bear Fund is an absolute return fund with an emphasis on non-directional fixed income strategies. Compared to the Credit Suisse Tremont index, the Arctic Bear Fund has a far greater allocation to fixed income. While there were rich shorting opportunities in the fixed income market in the first quarter, the portfolio was migrated toward funds with low levels of leverage and can be net short if there is deterioration in the credit markets. The Arctic Bear Fund also had exposure to managers that are experts in the mortgage market who can identify securities that have been sold beyond deterioration that could occur in the housing market. In the near term, relative value dislocation is expected as repair in balance sheets among financial institutions comes to the fore and valuations of individual holdings become a secondary consideration. Mariner expects that, in time, this and the rise in corporate bankruptcies will create a set-up for the distressed corporate bond market.

In the equity markets, Mariner is adding managers able to handle the seemingly contradictory themes in the market are being added, such as inflationary pressures and emerging market growth persisting alongside a declining U.S. housing market and a slowing European and U.S. economy. These managers have a good top down discipline and can identify broad sector trends. The firm is looking for managers with a good bottom up stock discipline that can assess the geographically diversified earnings potential of individual equities. Lastly, the Arctic Bear Fund has been invested in commodities for some time; it is a rich source of relative value returns as imbalances and structural changes emerge in the commodities markets. Some of the opportunities include pricing relationships within the energy complex, supply and price disruptions in the grain market, and general macro themes for natural resource based economies.

MR. SACHS commented that Mariner has a long history of providing clients with the returns they desire. Until July of 2007, Mariner was on track with the Arctic Bear Fund. The funds in which that Fund is invested is fixed income oriented and most of the turmoil in the market has been centered in the fixed income area. He stated that the turmoil that has just transpired has created some of the most attractive risk-adjusted opportunities that he has seen for some time, particularly in the area of fixed income.

MR. SEMMENS believed that history shows that a target return of T-bills plus 5% is reasonable. MR. SACHS agreed with this statement. MR. SEMMENS asked if that would be reasonable to expect going forward. MR. SACHS hoped that Mariner could provide returns that are consistent with the ARM Board's objective. MR. SEMMENS noted that CAI's database puts Mariner at 80-85 out of 100. He asked what would be expected in the next one or two years. MR. SACHS

replied that until June/July of 2007, the portfolio was on track to reach the Board's target. MR. O'LEARY recalled that a higher return was achieved for Mariner's primary fund, CAST, over a different longer period. MR. SACHS stated that the previous figures related to Mariner's fund-of-funds product went to 1994. The Arctic Bear Fund, which has a shorter life, was on track until July of 2007. The opportunity set as a result of market turmoil is fantastic and Mariner has identified managers who should be able to take advantage of that.

MR. SACHS continued with his presentation. He stated that in 2000, debt to GDP was 170% to 175%. The country has taken on debt in subsequent years to the point that it is 2.25 times GDP. The mean over the 60-period is 155%. Clearly there has been a bubble that has contributed to the turmoil in the markets. Household debt went from 70% of GDP in 2000 to over 102% now. The leverage at the household sector in terms of debt to net worth has jumped from 16% to 25%. Part of that is the debt/service ratio of the household sector, which was 14.3% at the end of 2007. Adding the additional expenditures for increased energy and healthcare costs, the household is severely constrained.

MR. RICHARDS asked if these are headwinds or tailwinds to Mariner's style. MR. SACHS explained he was referring to these things being a headwind in terms of their impact on the economy, which will hopefully be tailwind to Mariner. He noted that Citigroup recently announced that they are trying to sell $400 to $500 billion in assets. This presents a tremendous opportunity for institutions such as the Alaska fund, which has balance sheet. Mariner tries to find the hedge fund managers that are best positioned to take advantage of this situation. MR. RICHARDS noted that the changes in the market have not occurred only recently. He asked if there must be a downturn before the opportunities present themselves to Mariner. MR. SACHS explained that dislocations across credit markets have contributed to the development of a tremendous opportunity set. Capital structure arbitrage involves going long on one part of the capital structure of a company and short on another. He gave an example of a company with a subsidiary with secured 1st lien paper where one of Mariner's managers was able to buy the senior secured debt at 17% and, at the same time, sell the junior, unsecured paper at 14%. Dislocations in the market have made this type of earning possible. A portfolio with this type of risk/reward attribute is a good investment.

11. MacKay Shields

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board" dated June 12, 2008 and kept on file at the ARMB offices.

JENNIFER BEATTY and GREG SPENCER presented to the Board after introduction by Mr. Bader. MS. BEATTY stated the firm has been managing assets for 70 year and has been affiliated with New York Life since 1984. McKay Shields is currently led by its chair and CEO, who assumed that position this year. The firm handles assets for several different client types; public funds are one-third of the firm's institutional assets and approximately 7% of those are managed as high yield. Assets under management have grown to $37 billion and the high yield team has added two new analysts with a total of 18 years of experience. That team is comprised of 8 people. The ARM Board guidelines are unchanged other than a limitation of 90 days on equities.

MR. SPENCER reviewed performance of the ARM Board portfolio from the date of inception and in the last year. In 2007, the high yield market had a tight spread to Treasurys and the lowest default rate in history, so early in 2007 the firm became defensive and moved into senior secured bank loans. The firm was, and remains, uncomfortable that spreads remain tight; default rates are 2% despite historical averages of 5%. The firm believes that the credit cycle will run its course. Once the default rate and the credit correction occurs, the portfolio will be well placed to invest cash and seek attractive returns.

The fund is 90.2% fixed income and 9.4% cash versus a guideline of 10%. This cash position is defensive in nature. Over the next 9 to 12 months that cash balance should be reduced.

MR. O'LEARY noted that when investing in high yield, defaults are expected. The impact of defaults is decreased by recovery. He asked for comment on this. MR. SPENCER stated that historically the recovery has been between $.40 and $.45 on the dollar, but that has not always been the case. The firm places extreme emphasis on underlying credit risk. MR. O'LEARY understood that the firm buys bonds that are already well below par and where recovery as a percent of par will be reasonable.

MR. SPENCER reviewed the top industry holdings in the portfolio, with over weights in health care and energy and under weights in airlines, homebuilding, retail, and restaurant. He stated the consumer will remain under pressure and, as a result, retail, restaurants, and airlines have an historically low recovery rate. The firm has invested in health care and energy, particularly exploration and production. The company has investigated to Nortel and is adding to GCI. Te firm has reduced positions in GMAC and Paxson, a television broadcaster. The portfolio had a large weighting in Georgia Pacific, HCA, Videotron, and Sungar.

The Fund has gravitated to BB- quality investments and the portfolio duration of 3.88 years is shorter than the Merrill Lynch index. Bottom performers in the portfolio include Northwest Airlines, which came to McKay Shields as a part of restructuring. The impact of oil on airlines was not accurately assessed, so it has hurt the portfolio. The top performers in the portfolio have weightings of 1.5%. The firm is over weighting securities that add value to the portfolio.

The firm over weights relative safety and under weights credit risk. MR. SPENCER noted that Moody's expects the default rate to grow to over 6%. The portfolio is positioned for that and will benefit from that.

MR. SPENCER briefly referred to the packet information on the investment team members. There are eight analysts/portfolio managers and five of those have at least 20 years of experience in high yield and in the investment community. Two individuals were recently added to the team.

MR. SPENCER next reviewed the firm's investment process, which begins with a universe of 2,000 companies that are screened through a margin-of-safety financial analysis to identify under valued and cash generating companies. The remaining companies are subject to the business judgment of team members. Lastly, the firm looks at a positive catalyst, such as the ability to reduce debt or issue equity, or if there is a corporate restructure underway.

Each credit is placed into Group I, II, III or IV. Group I companies have two times underlying assets. Group II companies have two times asset coverage. Group III companies have 1.5 times coverage. Group IV companies have a significant discount to asset value. The firm is invested more heavily in Group I and II than it has been historically and is lower in the other areas. The default rate is approximately one-third of historical norms, so the firm thinks it is prudent to under weight risk and over weight safety in securities. The firm's style is basic and its sell discipline comes into play when there is a change in fundamentals.

MR. SPENCER noted that three of the larger names in the Merrill Lynch index are Ford, General Motors and Sprint; this portfolio has no exposure to Ford, very little to General Motors, and a .75% weighting in Sprint, which came into the market in the last quarter.

MR. BADER noted that the contract with the ARM Board limits the amount of cash that can be held. He asked whether the firm would be holding more cash at this time, if the contract did not restrict the amount. MR. SPENCER replied that there are ways to compensate for the restriction. He expected that, over the course of the cycle, the firm would be building cash, absent the contract restriction. There are times that recoveries can be achieved by being patient before investing, so it is worthwhile to hold cash. MR. BADER remarked that when the contract was written, the market was very different than it is currently. He asked if the current market is a strong argument to loosen the constraint on cash. MR. SPENCER felt the issue was not knowing when to go back to the constraint once it is loosened. The firm believes it is not possible to time the market and if an underlying investment fits the firm's guidelines it is made.

12. ING Investment Management

For more information on this presentation, please refer to the document entitled "Portfolio Review, Alaska Retirement Management Board" dated June 12, 2008 and kept on file at the ARMB offices.

KEN MONAGHAN and TOM NEUKRANZ presented to the Board after introduction by Mr. Bader. MR. NEUKRANZ reported that in 2007 ING had the most profitable year in its history. As a result, the firm is adding to its staff.

MR. MONAGHAN reviewed the absolute and spread relationship for high yield from 1996 through the end of April 2007. In March spreads hit the low 800s over Treasurys. Reviewing the spread relationship between BB and CCC securities, MR. MONAGHAN noted that CCC are not even 250% of BBB spreads, which causes concern. This means that the riskiest part of the marketplace is over valued, particularly at this point in the economic cycle.

The correlation between the distress ratio and the default rate has picked up slightly this year and is likely to pick up more in 2009. The distress ratio is the percent of the index that is trading at spreads 1000 points over Treasurys. From a low level in the middle of the summer last year, the distress ratio soared to over 25% in March and now is at 15%. On a six-month lag, this correlation is even higher over time. The fact that the distress ratio has picked up is a good indicator that defaults are likely to rise significantly in the near future.

MR. MONAGHAN stated that the percentage of net tightening of commercial and industrial (C&I) loans has been picking up significantly. The default rate is low from historic standards,

but the tightening indicates that over time defaults should rise to close to historic cyclical troughs. He believed that defaults should continue to rise for the next one to two years. There are increasing spreads of loan rates over cost of funds. There are more creditors showing demand for C&I loans in order to secure capital. He noted that large and medium sized companies are increasing their demand for loans, in part because they have reduced access to other sources of capital.

MR. O'LEARY asked if some of that increase is concern that banks may pull letters. MR. MONAGHAN stated that is the case; there are concerns that banks may pull lines of credit.

MR. MONAGHAN reviewed activity in the HUCO, the Merrill Lynch index, and the HUC3, the CCC portion of the index since December 2005. He noted that spreads for CCC have gone up significantly and the average bond in the index is trading at 50% of the spread in the market overall. Over time the portfolio has historically been at the 60th to 70th percentile, trying to take extra yield by buying things that were a little riskier than the average overall. Currently, the portfolio is at the 40th to 45th percentile; which has occurred over a less than 12-moth period.

The CCC basket of the portfolio was at 12% at the end of the quarter, well below the index position of 17%. He noted that this course of action was also taken in 2001 and 2002, which preserved return because there were fewer losses when the market dropped.

The portfolio out performed the index by 60 bp through 2007 and through the end of April the performance is -30 bp compared to the index. The under performance is primarily a result of the market being a big buyer of risk after March, which ING did not expect.

MR. MONAGHAN reviewed the characteristics and industry weightings of the Alaska portfolio. The portfolio duration is 4.14, yield to maturity is 9.27 and average quality is B1. The 19.5% exposure in basic industries is in steel, steel service companies, and metal and mining companies. The steel industry should increase in earnings due to international demand and the competitive value of the dollar.

MR. MONAGHAN next reviewed the quality composition of the portfolio. Compared with the Merrill Lynch US Master II Constrained Index, the Alaska portfolio is under weight in BB+ and B+, equal in BB-, and over weight in BB, B, and B-. The portfolio is under weight in CCC and below.

MR. WILSON noted that the firm talks about high quality in the portfolio, but is holding over weights in B and B-. MR. MONAGHAN stated that the firm is looking for positive event situations, a catalyst that will change the valuation of a credit. These situations would be a company going public through an IPO, a company being bought by an investment-grade concern, or a company that is leveraging its balance sheet in order to get a higher multiple for their stock. The opportunity for event risk is fewer in BB than in B securities.

MR. O'LEARY asked what are the ratings of auto company bonds. MR. MONAGHAN replied that they are in the CCC or B sector. MR. O'LEARY asked what are the ratings of finance

companies. MR. MONAGHAN replied that some are BB, but all are below investment grade. These remain a fairly large part of the index.

MR. MONAGHAN stated the best performers in Alaska's portfolio had good returns because of event risk. There are opportunities to generate incremental return in the portfolio through event risk.

MR. MONAGHAN next reviewed litigation involving Le-Nature's, a holding that had been in the portfolio. The suit against the underwriter and auditors was filed in California. Forensic accounting research performed on behalf of the trustee indicates that financial fraud predates the issuance of the bonds. ING Ghent has provided the plaintiff's attorneys with all its notes and documents on Le-Nature's and will continue to work with them through the conclusion of the suit.

The high yield portion of ING is in the process of being sold to Rogge. That sale should close by the end of June. Rogge is headquartered in London and is focused on global fixed income. They have assets under management of $37 billion. This is a friendly transaction. All of the team will transition to Rogge. ING is committed to making the transition as seamless as possible. The team will be retained by ING to manage its managed account clients and its Luxembourg-based SICAV fund.

MR. O'LEARY stated he was comfortable that the entity the ARM Board is invested with is simply moving location, but he was curious why ING would think it worthwhile to sell. MR. MONAGHAN responded that the ING Ghent high yield fixed income team has had a good relationship with ING, but they brought up this proposal because ING was originally designed with a boutique model where all the parts of the business operated independently and that business structure has become more integrated in the last four or five years. This portion of the firm is the remaining boutique model within ING. Other options than selling were considered, but they were not preferred. He and the CEO at ING worked to find the appropriate firm to acquire this portion of the firm. He stated he has a 22-year professional and personal relationship with Olaf Rogge and the partnership felt right. Old Mutual has a 70% interest in Rogge. The senior members of the ING team will make equity investments in Rogge. Rogge gets some assistance from Old Mutual, but runs its daily operations on its own. He noted that Rogge is a global fixed income manager for the Alaska Permanent Fund Corporation.

VICE CHAIR TRIVETTE asked whether there is concern that managing the Luxembourg-based SICAV fund will stress the capabilities of the ING team. MR. MONAGHAN explained that the firm manages this portfolio and will continue to manage it although the team is leaving ING. He noted that there are plans and hopes for growth, but the firm will remain a boutique model and will not grow to an extremely large size.

MR. NEUKRANZ stated that ING Ghent is attentive to the ARM Board and its objectives.

BREAK 3:10 p.m. to 3:25 p.m.

13. Lazard Asset Management

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board" dated June 12, 2008 and kept on file at the ARMB offices.

TONY DOTE and JOHN REINSBERG presented to the Board after introduction by Mr. Bader. This is one of the ARM Board's largest relationships managing a global equity fund on the Board's behalf. MR. DOTE noted that an emerging market equity portfolio began last fall and the emerging market debt portfolio began two months ago.

MR. DOTE stated that over the years the firm has opened several offices around the world, most recently in Hong Kong. Two-thirds of the assets under management are in global mandates, international equity mandates, and emerging markets mandates. Roughly 50% of the firm's clients are non-U.S.

MR. O'LEARY noted that Lazard has always been thought of as a banking firm and asked how Lazard Asset Management's business is similar to or dissimilar from the parent company's business. MR. DOTE stated that Lazard's business is dissimilar to the investment banking firms that are often in the press. Lazard is in the advice and guidance business and is not investing its own capital. All of the firm's business is advice-driven. Those two components will change over time in terms of contribution to the overall profitability of the firm. Two to four years ago a good amount of the firm's profit came from the banking side; today asset management is 50% of the firm's profitability. Business is good and the stock price has been fairly level. MR. REINSBERG added that Lazard spun off a capital markets business in May 2005.

MR. DOTE stated the firm is a relative value manager that looks at valuation and returns. Over the past six year market cycles, 2% has been added over the index. In a rising market, the firm participates, as occurred from 2003 through the fourth quarter of 2007. In down markets or slowing markets, the firm is defending and holding up relative to its peers and the index. The firm's process is to screen for companies with identified characteristics, do accounting validation, do a fundamental analysis, ensure that returns can be sustained, look for a catalyst, and then construct a portfolio. The six components of the global research mandate include consumer, financials, health care, industrials, power and TMT.

MR. DOTE stated the market environment is changing and is looking for new leadership. With this there has been more volatility. This is good for stock pickers such as Lazard. All of the small cap exposure had been taken out of the portfolio over the last 1.5 years, but small stocks have done better than large cap in first quarter 2008; Lazard still thinks the reverse will occur. There has been a strong currency in Japan over Europe and resources are still strong.

MR. O'LEARY felt it would be helpful to hear comment on how Lazard thinks about and manages currency exposure. MR. DOTE indicated this would be covered later in the presentation.

MR. DOTE reviewed performance through the end of May. The index was down -4% and the portfolio was down -3.7%. Through the end of March, the portfolio was out performing by 2%. Over weighting in consumer staples helped, as did under weighting in financials. The exposure to emerging markets has clearly helped returns. The under weighting to cyclicals and over

weighting in large cap companies has helped. The portfolio is up 10.1% versus 9.6% over a 3-year period and is up 5% versus 3% over the market cycle. Having more money in non-U.S. markets has helped over the market cycle.

The portfolio is allocated 56% in non-U.S. markets. Over the last eight years the international markets have out performed the domestic markets. Year-by-year from 1994 through 1998 when there was corporate restructuring, Lazard out performed the index by 2%. As the markets faded in 2000-2002, Lazard defended. In the recent rapidly rising market where the market has compounded at 17%, the firm has lagged. In 1999 the firm experienced its worst relative performance. During that year technology and telecommunication stocks did well. The firm has out performed the market for 10 of the last 14 years.

MR. REINSBERG reviewed the sector allocations in the portfolio. The prognosis for the world economy over the next 12 months is poor. The portfolio is conservatively positioned. The firm is over weighted in consumer stocks, particularly consumer staples. These are large multi-nationals with strong financial footings. There is a notable weight in health care companies, which are attractive stocks and good investments, given the aging population. Patent expiration is an issue that is carefully monitored.

MR. WILLIAMS saw a disturbing trend involving patent issues where patent makers are paying off generics to not produce. He asked how that is affecting Lazard's weightings in the health care sector. MR. REINSBERG replied that the sector has to be seen as a combination of pure pharmaceutical operations that have patent issues, as well as labs that are not in many other portfolios. Lazard monitors patent expiration closely and he agreed that it is relatively cheap for companies to buy out generic producers. An issue of concern in health care is the role of emerging market companies. The two largest manufacturers of generic drugs are in India and Israel. The lab pipelines are good, but the FDA has made it difficult to bring drugs to market.

MR. REINSBERG noted that Lazard has only 17% in financials. Lehman Brothers is on the list, but it has been sold, and Bear Sterns was also sold. The firm has recently been adding firms such as UBS. The portfolio is light in materials and that has hurt the portfolio performance in the last seven years.

MR. REINSBERG noted that a geographic breakdown of the portfolio was included in the materials distributed to the Board. The portfolio has been under weight the U.S. for eight years and over weight in the Euro. Exposure to Japan has been increasing. He stated that currencies are not hedged, but the portfolio is viewed on a micro basis, understanding where companies have earnings. The dollar has been depreciating and the basket of foreign currencies has been rising. The Treasury Secretary has expressed a desire for a stronger U.S. currency and, if that happens, the portfolio would migrate toward foreign companies that have big businesses in the U.S.

MR. O'LEARY asked if currency is viewed in terms of the effect on the business operations of the company and, although Lazard has the legal flexibility to hedge, it is unlikely. MR. REINSBERG replied that in the 20 years he has been with Lazard the firm has hedged twice. MR. O'LEARY because Lazard is making judgments about purchasing power parity or other competitive characteristics, if someone was overlying currency management where the

benchmark was the Lazard portfolio, they would be betting against Lazard's conclusions. MR. REINSBERG felt the benchmark should be the index, not their portfolio.

MR. REINSBERG reviewed the characteristics of the Alaska portfolio, which has a lower valuation and a higher return profile.

MR. REINSBERG reported that the ARM Board's emerging markets portfolio performed well recently, but 2007 was a difficult year. The conventional wisdom in emerging markets at the beginning of 2007 was that the Chinese market would run forever. Lazard thought that, while the Chinese economy was strong, stock valuations no longer provided value and all positions in China were sold. This action was taken a little early. In 2008, 400 bp has been added to the portfolio's performance and China is down -44%. MR. DOTE added that this is the allocation within the global portfolio that has ranged from 4% to 9%. The component invested in emerging markets has contributed 24% over the last 2.5 years. MR. O'LEARY noted that this is distinct from the ARM Board strategic investment in emerging markets.

MR. REINSBERG stated that until recently there has been a 5 to 6 year boom led by emerging markets. There has been a very profitable, but very narrow level of profit growth. As a percent of worldwide GDP, emerging markets has gone from 13% to 40% in the last five years. The impact of the global crisis on the real economy is yet to be determined. The consumer has not yet changed their pattern of behavior. MR. REINSBERG predicted that the next crisis will be defaults on credit cards. He stated that the biggest surprise in the last 1.5 years is the boom in commodity prices; the price of oil is irrational. The risk tolerance of investors has moderated and Lazard expects a movement back to large cap and companies that are consistently profitable with strong levels of cash flow. During this period, it will pay to be a contrarian. Stock momentum is at an 80-year extreme and that should not continue. Value stocks have become growth stocks and vice versa. Mega cap stocks are getting higher returns and have lower valuations. Small cap stocks have low returns with high valuation. Emerging markets have moved from a huge discount to a slight premium so Lazard's position has moved down. Small cap is selling at a huge premium with a return discount. In the first quarter of 2008, however, small cap performed well.

In summary, MR. REINSBERG believed that large cap and quality would out perform. There is some scope for negative surprises, such as a $200 a barrel oil price or a shift in interest rates. The U.S. Federal Reserve seems overly concerned with managing the financial system, particularly the stock market. This is not part of their charter.

MR. SEMMENS asked for discussion of Lazard's has large commitments in Kookmin, Tenaris and Turkcell. MR. DOTE explained that Kookmin is a bank, Tenaris is an Argentinean global company that makes pipes, and Turkcell is a Turkish company that makes cellular phones.

MR. DOTE noted that since the ARM Board started in emerging markets the index is down -.5|%, while this portfolio is up 1%. The emerging market debt portfolio, which began two months ago, is up 1.6% while LIBOR is up 50 bp.

14. ING Clarion Partners

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board" dated June 2008 and kept on file at the ARMB offices.

DOUG BOWEN presented to the Board after introduction by Mr. Bader. He stated ING manages $180 billion in assets in Europe, Asia, Australia, and North America. Within ING Real Estate $170 billion is managed. ING Clarion manages $47 billion of that $170 billion. Approximately half of that $47 billion is managed by ING Clarion Partners, which is a private equity manager, and the rest is managed by ING Real Estate Securities and CMBS management. He stated the Alaska Fund is invested in CDV II and CDV III. He stated CDV II raised $205 million from eleven investors, which is fully committed into 16 investments. Returns on two investments have been realized to date, and both exceeded pro forma. The portfolio has had strong performance in several assets that has offset poor performance on developments delivering in soft markets. CDV II is on target of achieving the targeted returns of 16% to 18%. CDV III held the initial closing in the 3rd quarter of 2007 and will close this fall. Only one investment has been made to date because the opportunities have changed significantly in recent months. Land and construction costs have come down and there has been a swing toward ING in terms of who is in a stronger position in terms of negotiating terms. The money should be invested in this fund over the next 18 months while this opportunity exists.

The CDV II fund has 16 investments with a total cost of $1.2 billion and an average size of $12 million. The fund has good diversity by region and type. He briefly reviewed the 16 investments in this fund. This is a short-term strategy so it is important to be extremely responsive to the marketplace. The first eight investments were in not in office because the market could not sustain it; later, there were office investments and condominium investments stopped. CDV II has sold two investments achieving a return of 29.6% and 37.9%, respectively. Of the 16 properties, some are doing very well.

MR. O'LEARY asked for discussion of the firm's approach of developing, stabilizing, and then selling properties, which involves using a fair amount of debt. He asked what is ING Clarion's perspective on the availability and the cost of debt. MR. BOWEN indicated he would cover this in his presentation.

MR. BOWEN individually reviewed the investments in CDV II that continue to do well.

MR. BOWEN next reviewed CDV III, noting that the current market environment has created opportunities. He stressed that supply and demand is in balance as compared to the early 1990s where there was too much supply and softening demand. He noted that for each property type ING Clarion finds that 3-year supply is lower than historical averages. The current capital market climate enhances CDV III's competitive position. Equity is in greater demand and the firm can negotiate dramatically more favorable terms than it could as recently as nine months ago.

MR. O'LEARY noted that some properties were bought before the market shifted and asked that Mr. Bowen explain how those investments are dealt with in terms of mitigating risk. MR. BOWEN gave the example of a project that had two phases. The first phase of the project was built and when the market slowed the second phase was not built. He noted that ING Clarion's

partner has recourse on the debt, while ING Clarion does not. In that case, risk was mitigated by not moving forward with the second phase of the project.

MR. WILSON asked for the firm's viewpoint on the current state of the real estate market. He thought that the markets were frozen, but Mr. Bowen indicated he felt the markets were fine and that the firm could still draw a higher return. MR. BOWEN replied that the capital in CDV II has been committed. The soft markets have been re-underwritten. There are some developments that are going well ahead of schedule and will yield an attractive return. Others markets should experience a slow down. For the most part, the assets that are doing well are large and the challenging ones are small. MR. WILSON asked when these assets would be sold and what are the return projections. MR. BOWEN replied that this varies from one asset to the next. The condominium development he referenced earlier should be sold this quarter and an office building in Phoenix will likely be sold mid-2009, whereas the larger office building will not be sold until the end of 2009. Each asset is viewed individually. MR. WILSON explained that he was trying to understand the period of liquidation for these assets. MR. BOWEN replied that, for the most part, CDV II would be completed at the end of 2010. The third fund is starting now and has a seven-year period. MR. WILSON asked if ING Clarion feels that the market has stabilized. MR. BOWEN stated that capitalization rates have been adjusted as part of the underwriting process. In certain cases, those rates have been raised by 25 to 50 bp. He explained that when the property is underwritten, a premium is added over the anticipated sales price.

MR. BOWEN stated regarding CDV III that some ventures have been formed in order to capitalize on the distress in the residential marketplace, focusing on Florida and Southern California. There is an opportunity to buy land at an attractive price and achieve very high returns on a risk-adjusted basis. Developers have taken on too many projects and cannot capitalize them as well, so that also provides opportunities.

MR. BOWEN stated the firm has targeted half a dozen markets nationwide. The firm likes Seattle, San Francisco, Los Angeles, Florida, Washington D.C., New York City, and Boston. There is one investment in the CDV III pipeline in Seattle. Several other projects are in the pipeline and are going through due diligence.

VICE CHAIR TRIVETTE assumed that the holding times for various properties can change, given circumstances. MR. BOWEN agreed that the holding periods have been revised based on the firm's current market view.

15. Lehman Brothers Real Estate Partners

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board, Lehman Brothers Real Estate Partners II and III Investment Highlights" dated 12 June 2008 and kept on file at the ARMB offices.

TANYA OBLAK, BOB ASHMAN, and COBIE PACKARD presented to the Board after introduction by Mr. Bader. MR. BADER noted that Lehman Brothers' stock is down 70%, they recently terminated the chief financial officer and president of the firm, they experienced a $3 billion loss, they have raised $5 billion in common and preferred stock after a $4 billion unconvertible bond offering. The market is troubled and he asked that these issues be addressed.

MS. OBLAK asked that Mr. Ashman respond to Mr. Bader's remarks. MR. ASHMAN stated the firm announced a loss of $2.8 billion in the second quarter. This is the first loss announced since the firm went public in 1994. There is a re-pricing of some of the assets of the firm and the losses associated with that emanate out of assets on the books that have been sold. He explained that the assets on the books are Lehman Brothers' assets. A total of $130 billion in those assets were sold last quarter, for net sales of assets of $60 billion. There were certain losses associated with those that are reflected in the earnings. In addition, the firm has significantly de-levered. The reality of the financial condition of the firm is that it is better than at any other point during this and probably last year. The balance sheet has been de-levered and $10 billion in capital has been raised. The operations of the firm either quarter over quarter or year over year are flat today, meaning that the business volume done last year, which was a good year, is the same today. The mood within the firm is positive. The firm has gone through the Russian currency crisis in 1998 and the loss of the headquarters building on September 11, 2001 when it had to work out of a hotel. MR. PACKARD added in relation to the real estate business that Lehman is in a good position because it is insulated structurally and in other ways from the broader firm. The capital has been largely raised for the third fund and the team is in place and is compensated based on how the fund performs, not on how the firm performs.

MR. O'LEARY felt it was easy to accept the notion that the assets are protected and that it is in the interest of everyone in the real estate group for them to work well. He stated that one can get cynical about Wall Street's ability to hire too many people when things are going well and fire too many when things are going poorly. He asked what kind of control exists over staffing within the real estate area and has there been attrition during this difficult period for the parent company. MR. ASHMAN replied that the real estate funds are in the private equity division. The other divisions within real estate are investment banking, which is an advisory function that has little to do with private equity, and fixed income, which has typically been a lending business. The fixed income area has downsized as a result of what has transpired in the marketplace. The lending volume today in commercial real estate is down dramatically, so the business does not support the number of people who were there. In the areas outside of private equity, spreads have declined, affecting the cost of capital for borrowers. As that continues, the lending business will likely start up again after being shut down for the last six months. That business has been most impacted by what has occurred in the marketplace. He felt that this was a phenomenal time to be a private equity or real estate investor with capital in an equity fund or a mezzanine debt fund. There is a scarcity of capital so investors who are able to make investments get better deal.

MR. PACKARD noted that the firm is growing in the area of private equity and is hiring primarily outside of the U.S. MS. OBLAK added that Lehman has 125 professionals that have been with the firm for an average of 10 years. There is tremendous continuity within the private equity staff.

MR. PIHL asked if the Lehman parent company participates in Lehman Real Estate. MR. ASHMAN replied that the parent firm committed 20% of the equity of the fund. MS. OBLAK added that Lehman Brothers has a $400 million commitment in LBRP II and up to an $800 million commitment in LBREP III. MR. PIHL asked if there has been pressure to sell real estate. MR. ASHMAN replied that while the investment is significant, it is not a driver of behavior within the fund.

MR. ASHMAN gave an update of real estate investment. He explained that this area has been a large part of the firm for the last 24 years. The fund business started in 2000 because the volume of opportunities available to the firm outstripped the ability of the firm to capture them. The business is global with offices around the world. It is dependent on partners and relationships for success. The business is able to choose good business opportunities by virtue of its global perspective and the volume of transactions available to it. The franchise is broad and allows for construction of a diversified portfolio. As a franchise, Lehman has over a thousand clients with which it has done multiple deals and 300 partners with which it has done more than five deals. The business is fundamentally driven. Each part of a property is underwritten when an investment is made. The firm looks at the overall environment, but does not rely on that alone for investment decisions. Lehman is able to decide to not invest in a specific country or region because on a risk-adjusted basis it does not think the returns are as strong as something in another region The investment committee is singular for the entire global real estate business.

MS. OBLAK explained that Lehman Brothers Real Estate Partners is a global firm, which is an integrated franchise within Lehman Brothers. The funds are co-headed by Brett Bossung and Mark Newman and are staffed by 100 employees. The firm also has 50 individuals working on asset management in Atlanta, Georgia. The firm has regional offices throughout the world. The firm employs multiple strategies including development, redevelopment, repositioning, renovation, leasing and others. Alaska's investments are in LBREP II and LBREP III. LBREP II is $2.4 billion fund that was closed in 2005 with a $150 million investment from the ARM Board. To date there have been $900 million of distributions and net returns of over 20% are on target. Alaska has contributed $140 million and the return has been $54 million, resulting in a net cash position of approximately $86 million, compared to an NAV as of year-end of $128 million. The net IRR since inception for this fund is 30%.

LBREP III fundraising is nearly completed with targeted commitments of $4 billion, of which $3.5 billion is committed or closed to date. The commitments from Lehman and its employees is $800 million or 20%. The ARM Board has a $50 commitment in this fund, of which $10 million has been called. There is currently $1.3 billion committed in this fund across 34 investments.

LBREP II has 78 investments, over 900 properties. The average investment size is $33 million. The allocation throughout the region is 44% in North America, 34% in Europe, and 22% in Asia, including India. The fund has good exposure across property types. The residential portfolio is global, so while there have been pockets of weakness in some U.S. holdings, there has been tremendous success in other holdings worldwide.

MR. WILSON asked where the residential investments are located. MS. OBLAK replied that there have been good successes in San Francisco, there is $100 million in Poland building residential development there, there are several deals in Singapore that have been successful. MR WILSON asked what percentage of the real estate is located in the U.S. MR. PACKARD stated that projected profitability is 10% from the U.S. and the rest from abroad. MS. OBLAK stated the condominium weakness is mostly in California and some other locations, while condominium deals in New York are still doing well.

VICE CHAIR TRIVETTE asked if there are problems pricing properties outside of the U.S. MR. PACKARD noted that prices are moving in all markets. The most difficult pricing in the residential portfolio is California. It is easier in urban markets. The firm tracks the markets closely. MS. OBLAK noted that the firm works with local operating partners in every deal.

MS. OBLAK reviewed the projected and realized returns in each of the deals in LBREP II and noted the tremendous diversification of the portfolio and the number of early realizations. Some deals have been marked down, but some recovery is expected over the longer term. Two deals were recently written off and those will yield a 0% return; those are reflected in the current return figures.

MS. OBLAK reviewed the sources of returns in LBREP II. This fund has $2.6 billion invested in 78 deals and projected proceeds are $5.9 billion. The fund targets 35.5% IRR and 2.3x multiple.

MR. PACKARD stated LBREP III has commits to invest $1.3 billion in equity and has made 34 investments. The size of investment is $5 million to $150 million, with an average investment of $35 million. Since this fund began investing in the middle of last year there has been less investment in the U.S. and more in Europe and Asia. India will be an increasingly larger percentage going forward. There has not been much investment in the U.S. because the market is moving and Lehman believes opportunities will arise in the future. Some new themes have emerged, such as South Africa and eastern European countries. There is a meaningful component of residential, the vast majority of which is not in the U.S. The fund includes office property in the U.S. with concentrations in Japan, Singapore and Germany.

MR. PACKARD reviewed projected market returns for the 34 investments made to date in LBREP III. He specifically noted the dollar amount, property type, and country location of these investments.

MR. PACKARD next reviewed current market opportunities in the U.S., Europe, and Asia. There continues to be a vast spread between buyer's and seller's expectations in the U.S. Supply and demand fundamentals in most areas seem to be positive. There is some thawing in the market in the U.S. Europe is similar, with strong fundamentals and some areas of weakness. Asia continues to be the growth engine.

MR. PACKARD reviewed the acquisition of a 24.0% share of interest in Tishman Hotel & Realty, which has ten full-service hotels in various U.S. cities and Puerto Rico. A 3x multiple of $120 million is anticipated from this investment. He next reviewed Gdansk Polnord in Poland, a residential investment in a well-established residential area. A 35% profit is anticipated on this deal.

RECESS 5:00 p.m.

ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Location of Meeting
Anchorage Marriott Hotel
820 West 7th Avenue
Anchorage, Alaska

MINUTES OF
June 12-13, 2008

Friday, June 13, 2008

I. CALL TO ORDER

CHAIR SCHUBERT called the meeting of the Alaska Retirement Management Board to order at 9:00 a.m.

II. ROLL CALL

ARM Board Members Present
Gail Schubert, Chair
Sam Trivette, Vice Chair
Gayle Harbo
Larry Semmens
Tom Richards
Martin Pihl
Commissioner Annette Kreitzer
Mike Williams

ARM Board Members Absent
Commissioner Patrick Galvin

Consultants Present
Rob Johnson, Legal Counsel
Michael O'Leary, Callan Associates, Inc.

Department of Revenue Staff
Brian Andrews, Deputy Commissioner
Gary Bader, Chief Investment Officer
Pamela Green, Comptroller, Treasury Division
Scott Jones
Zachary Hanna
Beth Larson
Judy Hall, ARM Liaison Officer, Department of Revenue

Department of Administration Staff
Rachael Petro, Deputy Commissioner
Patrick Shier, Director, Division of Retirement and Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits

IAC Members
George Wilson
Dr. William Jennings

16. GRS – Certification of Final FY07 Actuarial Valuation

GARY BADER explained that statute requires that the actuarial valuation prepared by Buck Consultants be reviewed and certified by a second actuary. The Board hired Gabriel Roeder Smith for that purpose. SUSAN HOGARTH with Gabriel Roeder Smith stated that the review for the State of Alaska has been completed. Leslie Thompson with Gabriel Roeder Smith presented findings of the actuarial review of the Alaska pension plans. Any findings from the review are de minimus and would have little impact to the plan.

MR. SEMMENS moved to accept review and certification of actuarial reports by Gabriel Roeder Smith & Company, and that staff coordinate with the Division of Retirement & Benefits and Buck Consultants, discussion and implementation of suggestions and recommendations of the reviewing actuary where considered appropriate. MS. HARBO seconded.

MR. BADER explained that the second portion of the motion relates to a letter from Mr. Slishinsky with Buck Consultants, which staff wanted to include with this review.

By roll call, the motion passed unanimously.

17. Actuarial Update

For more information on this presentation, please refer to the document entitled "State of Alaska Retirement Systems, Actuarial Update to the Alaska Retirement Management Board" dated June 13, 2008 and kept on file at the ARMB offices.

DAVE SLISHINSKY and MICHELLE DeLANGE with Buck Consultants appeared before the Board. MR. SLISHINSKY reviewed the items that would be presented to the Board. MS. DeLANGE explained that this is the first valuation Buck has completed based on actual Defined Contribution Retirement (DCR) members. SB141 created the DCR plan in 2005 as a new tier of benefits for members hired on after July 1, 2006. Actuaries do not perform valuations on a defined contribution plan, but two components of this tier do require an actuarial valuation. The first is for the occupational death and disability benefit and the second is for the retiree medical benefit.

MS. DeLANGE noted that the figures include conservatism because this is a new plan and the year started with no assets. If there were an adverse experience during the first year there would be no assets to cover any deviation from expected. As a result, conservatism would be reflected in at least the first few years of the plan.

MS. DeLANGE reviewed member information for PERS, which had 2,827 active members as of June 30, 2007. The annualized compensation for these employees was $115 million. The market value of assets was $1.240 million at the end of the year. The smoothed value of assets was $1.255 million, for an actual value to market ratio of 101.2%. No members became disabled during the year and no members were eligible for retiree medical.

MS. DeLANGE reviewed the calculation of the smooth asset value. The actuarial value at the beginning of the year was zero, $1.2 million in contributions were received and expected return was expected to be $50,000. This yielded an end-of-year value of assets of $1.259 million. There were losses during the year, 20% of which will be recognized this year. The ending value of assets is $1.255 million. The actuarial value ratio is 98.8%.

MS. DeLANGE next reviewed the development of the contribution, using the same assumptions of the PERS regular valuation. There were some adjustments to retirement and termination rates based on eligibility. The actuarial accrued liability for the combined PERS and TRS occupational death and disability is $48,461 and the retiree medical is $710,855, for total liabilities of $759,316. The actuarial value of assets is $1.255 million, so there is a surplus in the plan with a funded ratio of 165.30%. The annual normal cost, or the amount of expected contribution in the upcoming year, is $1.4 million. The surplus will be amortized over 25 years, reducing the contribution by ($31,253). The total contribution for occupational death and disability and retiree medical is $1.389 million, or 1.20% of payroll. This is split among the occupational death and disability at .37% and retiree medical at .83%.

MR. TRIVETTE asked how the breakout of the 1.20% figure is decided. MS. DeLANGE replied that there is a normal cost of $440,000 for death and disability and the remainder is retiree medical.

MR. BADER noted that the medical benefit is an unknown. He asked if the PERS regular medical benefit is being used as a basis and extrapolated to the new plan. MS. DeLANGE agreed that there will not be people under the retiree medical plan for about 10 years. Anyone who transferred as a non-active vested member from the Defined Benefit Retirement (DBR) plan to the DCR plan has 4.5 years of experience. To analyze the cost, Buck took the experience with PERS and TRS and made some adjustments. The deductibles and co-pays under the DCR plan will be higher than the previous tiers, so those adjustments were also made.

MR. TRIVETTE noted that under the new DCR plan people are required to retire directly from the employer. He asked how a calculation is made in that regard. MS. DeLANGE replied that rates are set for termination, retirement, death, and disability. It is assumed that people remain active from the date of hire until age 65. MR. TRIVETTE asked if DR&B has provided information regarding how many people retired from the employer versus those that quit and retired at a later date. MS. DeLANGE replied in the affirmative. MR. TRIVETTE understood that for current retirees it is possible to know that, for example, 30% of individuals quit and did not retire. MS. DeLANGE stated there is no fixed number; rather there is an annual review of death and retirement rates. MR. SLISHINSKY added that the application of those rates is at each future age. For example, there are certain rates of probability for withdrawal from the plan from the employee's age at hire until they reach normal retirement age. If that individual terminates,

an assessment is made whether they are eligible for a benefit. If they are not eligible for a benefit, there is no additional liability for that withdrawal. Depending on plan design and the extent of withdrawal benefits, those would be valued in the benefit stream. To the extent there are no benefits prior to retirement, there would be no liability.

MS. HARBO asked if the .83% percent of pay figure for retiree medical means that employers contributed .99% of the employee's salary to major medical in 2007-2008 and in 2008-2009 it would be .83%. MS. DeLANGE explained that a two-year time period was used because there was no additional information to update the second year rate. MS. HARBO clarified that she did not recall setting the rate for the second year. She understood the rate would be different for TRS and for PERS employers, whereas it was the same in the past.

MR. SEMMENS asked if this percentage applies to each employee's salary rate or does it apply to an average of the employer's salary range. MS. DeLANGE stated this was calculated to be a percentage of pay of the DCR members' pay only. MR. SHIER explained that the health reimbursement arrangement is separate.

MS. HARBO understood that the .83% is going to be calculated for each employer, so there will be a specific amount in each employer's account. MR. SHIER stated that because this is not a cost share plan, payrolls will be assessed based on this rate and DR&B will track what each employer has paid, but there will not be a running tally of their account balance for future medical costs. These funds will be invested in the retiree health trust for the DCR. MS. DeLANGE explained that these are a pool of assets and anyone with retiree medical will have access to these assets; they are not individual accounts.

MS. DeLANGE next reviewed information for TRS. The number of active members is 641, the annual compensation is $30 million, market value of assets is $590,409, compared to the actuarial value of $597,243, or a percent of AV to MV of 101.2%. No members became disabled or retired during the year. She next explained the smooth valuation of assets. There were no assets at the beginning of the year. The contributions were $575,000 and expected return on market value was $24,000, for an expected actuarial value of $599,000. There were losses during the year, which were smoothed, resulting in an ending actuarial value of $597,000. The ratio of market value to actuarial value was 98.9%.

MR. SEMMENS understood that "losses" referred to performance that is less than expected. MS. DeLANGE indicated this was correct.

The accrued liability under occupational death and disability for TRS is $15,792, the retiree medical is $358,242, for a total of $374,034 in accrued liability. The actuarial value of assets is $597,243, so there is a funded ratio of 159.68%. Amortizing the unfunded liability of over 25 years generates a reduction in contribution of ($14,071) this year, or a total employer contribution of $407,756, or 1.35% for the year.

MR. PIHL asked what is the first year compared to the current year rate for occupational death and disability and for retiree medical. MS. DeLANGE replied that for FY07 the occupational death and disability for PERS was .4% and for others it was .3%. The retiree medical was 1.75%

in FY07. For FY08 and FY09, the Peace Fire occupational death and disability 1.33% and other was .58%. The retiree medical was .99%. For TRS, the retiree medical is the same as PERS. No contributions were made for FY07 and FY08 for TRS occupational death and disability for TRS because of the language of the statute. MR. SHIER noted that the bill has passed to allow collection of contributions for TRS occupational death and disability for FY09.

MS. DeLANGE reviewed the employer contribution rates for FY10. The DCR rate for PERS is 1.20% and for TRS is 1.35%. Under the DB plan, the rate for PERS is 27.65%, TRS is 39.53%, and JRS is 58.70%. NGNMRS is a total of $2.4 million.

MS. DeLANGE reviewed pension and retiree medical history over 12 years for PERS. From 1996 through 2001 there were funded liabilities, but beginning in 2002 unfunded liabilities began to accrue. The actuarial valuation of assets exceeded the value of assets in the early years, but fell below the value of assets after 2002. The market value of assets exceeded actuarial value from 1996 through 2001; in 2002 the values were brought to the same level. From 2003 the market value is slightly above the actuarial value.

CHAIR SCHUBERT commented that, if the calculations had been done properly, the unfunded liability would have begun earlier. MS. DeLANGE agreed with this assertion. MR. SLISHINSKY stated that if the same process were used prior to 2002 to determine unfunded liability, this is true, but there would still be a greater unfunded liability in 2002 primarily due to investment performance.

MS. DeLANGE next reviewed pension and retiree medical history over 12 years for TRS, which is very similar to that of PERS.

MR. RICHARDS asked what is the estimated the unfunded liability in 2007 for PERS and TRS. MS. DeLANGE stated the 2007 unfunded liability for PERS is $4.67 billion and for TRS is $2.8 billion.

MR. SLISHINSKY noted that the ARM Board adopted adjustments to asset allocations at its last meeting. These were used to recalculate the actuarial figures. He reviewed PERS past investment returns from FY91 through FY07. For a number of years, actual returns were above expected returns, and some years they fell below. The mean rate of return was 8.83% from FY91 through FY07, greater than the expected return of 8.25%. For TRS, the pattern is slightly different and the mean return was 8.95%, above the expected return of 8.25%. JRS also had a mean return of 8.95%. He noted that the period of time from FY91 through FY07 included up markets and down markets. The National Guard and Naval Militia mean return was 8.11% because there is a different asset allocation for that pension plan.

MR. SLISHINSKY reviewed the current economic assumptions used in the actuarial calculations. An investment return of 8.25% is being used for PERS, TRS and JRS and an investment return of 7.25% is being used for NGNMRS. The underlying inflation estimate is 3.50%. Discount rates and salary increase assumptions are applied to cash flows that will occur over time. The interest on contributions for PERS, TRS and JRS is 4.50%. The salary increase assumption is comprised of inflation, productivity, and an economic portion. For PERS, TRS,

and JRS, inflation is 3.50%, productivity is 0.50%, and economic is 4.00%. Payroll growth for these three systems is 4.00%

MR. SLISHINSKY reviewed the development of the investment return assumption for PERS, TRS and JRS, for both DBR and DCR. These returns are based on a combination of past history and future expectations. The real rate of return is developed for each asset class. The total real rate of return expectation for the current asset allocation is 5.22%, to which inflation of 3.50% is added, yielding a gross return of 8.72%. Less administrative expenses at (0.06)% and including conservatism at (0.41)%, the assumed rate of return is 8.25%. Looking at the expectations long-term, Buck does not recommend changing the expectation from 8.25%.

COMMISSIONER KREITZER asked why, after listening to the discussion yesterday and reviewing the experience in FY08, the rate would not be changed. She asked that the Department of Revenue also consider this question. She asked that Buck explain why a change should not be made. MR. SLISHINSKY responded that these are long-term assumptions that are used to discount future cash flows. The period of time for payout could be 50 years for a current average member. The assumed rate of return is also based on a long-term inflation rate of 3.50% and many current projections have implied inflation rates of less than that. COMMISSIONER KREITZER asked if the inflation rate would cover the potential increase in health care costs. MR. SLISHINSKY replied that a separate medical inflation component is used to calculate health care costs.

MR. SLISHINSKY continued his presentation with a review of the distribution of nominal returns for PERS, TRS, JRS and DCR for the asset allocation as of June 30, 2008. The mean return for the asset allocation is 9.62% with a standard deviation of 12.84%. He explained that the chance for a one standard deviation variance above or below the mean is 68% and for two standard deviations is close to 96%. Standard deviation is viewed as a 12.84% above or below the mean. In one year there is a 68% chance that the returns could be as low as (5.00)% or as high as 22.00% return. Some years will experience good returns and others will experience poor returns, canceling each other out. As the time period extends, the mean return expectation decreases to a level of 8.88% for 30 years. The standard deviation drops over 30 years to 2.32%. This exhibits the volatility that occurs in returns, but that it diminishes over time.

MR. SLISHINSKY next reviewed the development of the investment return for NGNMRS, which uses a total real rate of return of 3.92%, inflation of 3.50%, administrative expenses of 0.00% and conservatism of (0.17)%, yielding an assumed rate of return of 7.25%. He stated that Buck recommends adding an expense load to the contribution calculation, given the 0.00% administrative assumption. He explained the distribution of nominal returns for NGNMRS. The mean is 7.80% and the standard deviation is 9.00%.

MR. BADER asked for explanation of the footnote “We recommend adding an expense load to the contribution calculation” on the NGNMRS charge explaining development of the investment return assumption. MR. SLISHINSKY explained that returns are often lowered based on expenses, so Buck will review expenses over a several year period and add it to the calculation of the contribution for NGNMRS. MR. BADER asked if this is done automatically or would the Board have to take action. MR. SLISHINSKY replied that the Board would have to take action

to change that assumption. MR. SEMMENS asked if the assumption for PERS, TRS and JRS is adopted. MR. SLISHINSKY replied in the affirmative. Only the way the expense assumption applies to the NGNMRS could change at this time. MR. SEMMENS believed this would not affect Buck's recommended rate because the conservative amount is most likely greater than the expense load. MR. SLISHINSKY responded in the affirmative.

MR. TRIVETTE asked what has been the expense load in recent years. MR. SLISHINSKY believed expenses were $150,000 last year, or about .8% of total assets held. This is significant, prompting the recommendation to include expense load to the contribution calculation for NGNMRS. MR. SEMMENS assumed that an administrative expense load of .06% would be proposed, similar to the other plans, but the rate just mentioned is much higher. MR. SLISHINSKY agreed that there is a larger degree of expenses in the NGNMRS. MR. SEMMENS stated that before adopting that expense load he would like an explanation of the amount and why it is higher than other funds. MS. DeLANGE offered to secure the historical expense information for NGNMRS during the break.

MR. PIHL asked if the expense is added into the annual contribution of $2.4 million. MR. SLISHINSKY replied that there is an assumption that some element of the investment return is used to pay for expenses. Based on this analysis, the investment return assumption would have to be reduced by .8% to cover the size of expenses. That is a large adjustment to the long-term rate of return.

MR. RICHARDS noted that between the funds there are rates of conservatism of (0.17)% for NGNMRS and (0.41)% for PERS, TRS and JRS, which he viewed as a contingency. MR. SLISHINSKY explained that for PERS and TRS there is a greater amount of risk in the portfolio, generating the need for conservatism. The asset allocation in NGNMRS is less risky.

MR. O'LEARY noted that the expense category would include investment expenses, as well as allocations for custodial expenses and actuarial expenses. MR. SLISHINSKY replied that these are only administrative expenses. Investment expenses are not typically included. The assumption with active management is that those managers will pay for themselves. MR. O'LEARY asked what is meant by "administrative expenses." MR. SHIER replied that the administrative expenses for the prior year as set by the cost allocation plan allow the DR&B $110,000 in the prior year and $150,000 this year. These expenses are considered in this actuarial report. Those expenses includes receiving money, accounting for the money, and passing the money to the investment side, as well as receiving applications for retirements and benefits and making sure the benefits are paid timely and correctly.

MR. ANDREWS asked if the costs incurred within Treasury are included in these administrative expenses. COMMISSIONER KREITZER indicated she would respond to this question at a later time.

MR. O'LEARY noted that various approaches are used with regard to expenses by others, such as an investment return amount that is reduced by 50 bp for expenses, that 50 bp includes both administrative and investment expenses. He asked if this approach could be used. MR.

SLISHINSKY stated that some systems include investment expenses, but Buck typically does not include investment expenses for active management.

MR. BADER assumed that this is a self-correcting issue. If the Department of Revenue or Department of Administration accesses Military funds, Buck calculates the funds available to Treasury and Benefits and if there are insufficient funds, Mr. Shier would be asked for the funds, so the contribution would be received when appropriation is sought from the Legislature. MR. SLISHINSKY stated that expenses are either paid immediately or they are deferred and paid through increasing the funded liabilities that are then amortized.

COMMISSIONER KREITZER asked what would be the impact if the Legislature funded half of the administrative fees for NGNMRS. MR. SLISHINSKY replied that the percentage of expenses as a part of the fund would be reduced, but it is still a higher percentage of the fund than is PERS or TRS and he would still recommend adding an expense load to the contribution calculation.

MR. SLISHINSKY next reviewed projections of benefit payments as a percentage of assets for PERS. Because PERS and TRS are closed plans, eventually all of the plan members will become retirees. When that process occurs, the benefit payments become a greater and greater portion of the plan assets. The benefits to be paid out of PERS as a percentage of assets rise slowly from 2008 through 2023 from just over 6% to 8%. Once the unfunded liability is paid off, it reduces the contribution coming into the fund and increases to 12% in 2038. This plan has many actives that have some length of employment in front of them.

MR. O'LEARY asked if there is a rule of thumb as to the ratio of benefit payments to assets that would cause Buck to counsel greater conservatism in asset allocation. MR. SLISHINSKY responded that is an asset allocation and an investment decision. For ongoing plans, typically the ratio of benefits to assets is 3% to 7%. When the percentage reaches 15%, there could be sizeable benefit payments in each year thereafter that affect the assets.

MR. BADER added that he analyzed when the fund would likely reach the peak of assets under management and the point when the fund must become more and more liquid. His recalled that the estimate was 2024 for PERS and TRS together. MR. SLISHINSKY stated he would have to re-examine the analysis to know that date.

MR. SLISHINSKY next reviewed TRS benefit payments as a percentage of assets. There is a lower funded ratio. The rate is expected to remain fairly level until the unfunded liability is paid of, at which point in time benefit payments as a percentage of assets is expected to grow, reaching 12% by 2038. This is based on all assumptions being realized, including investment return, life expectancy, retirement patterns, etc.

MR. SLISHINSKY reviewed the PERS employer contribution amounts, including non-State employer contributions, State employer contributions, and State assistance. This analysis assumes that all assumptions are realized, including economic and investment assumptions. The assumption for assets is calculated at market value. Deferred gains exist between actuarial value of assets and market value of assets. Those deferred gains become recognized in the first four

years of the projections, beginning in 2010, resulting in a drop in contribution amounts from 2010 through 2014. Once the gains are realized, State assistance is no longer required. Once the unfunded liability is paid off, the employer contributions drop. By 2027, the amounts are low, even if the rates are not as low. The costs are those for remaining actives, which is a low number after 2027. This projection would be different if an 8.25% return was placed on actuarial assets.

CHAIR SCHUBERT asked with regard to the sharp drop in employer contribution amounts between 2025 and 2026 whether a large retirement is assumed or are there other assumptions than the fact the unfunded liability is paid off. MR. SLISHINSKY replied that it is only the latter. Once the unfunded liability is paid off, only normal costs are being paid. CHAIR SCHUBERT asked if there is an assumption that by 2031 all actives will have retired. MR. SLISHINSKY replied that the fund would be only retirees by that date.

MR. SEMMENS asked what “non-State employer contributions” represents in the analysis being reviewed by the Board. MS. DeLANGE replied that it is the portion of employers that are non-State. This analysis assumes that if contributions are 22% or lower, only employers pay for it, but above that, State assistance is required. MR. SEMMENS asked if the drop in State assistance in 2009 to 2010 reflects the drop in the rate. MR. SLISHINSKY replied in the affirmative.

MS. HARBO noted regarding the drop in the contribution amount in 2026 and 2027, that if a person is hired in 2005, they would still be in Tier 3 under PERS and they would not be retired at this point if they work for 30 years. She estimated the time for everyone to be a retiree at 2050. MS. DeLANGE explained that the numbers get so small that the probability a 22 year old will be working in 20 years is very low, so they are not reflected. Additionally, this does not reflect the employees contributing. The employee contributions continue to out past these projections, but they are not shown. In 2033 employee contributions are enough to cover the costs accrued during the year. MR. SLISHINSKY added that in out years the only active members are people who were hired at a very young age and there have a low level of cost rates.

MR. SLISHINSKY next reviewed the employer contribution amounts for DCR. Over time, more and more of the employer contributions will be a result of benefits payable by DCR members. The graph on page 29 of the presentation depicts the total employer costs for all members, including DCR.

MR. TRIVETTE understood that employee contributions are not included in the graphs being presented. MR. SLISHINSKY indicated this was correct.

MR. SLISHINSKY next reviewed PERS employer contribution amounts by DBR and DCR employer. The graph on page 30 of the presentation depicts the DB normal cost amount, DB prior service cost amount, and DCR employer contributions. Over time, there are fewer DB active members and a lower cost amount. Once the unfunded liability is paid off, there are no longer State employer contributions and by 2027 the majority of the cost is for DCR members. MR. SLISHINSKY reviewed the PERS DB employer normal cost amount and DCR employer contributions. The DB costs decrease over time, so the cost shift to DCR.

MR. SLISHINSKY lastly reviewed that the TRS employer contribution rates, including DB normal cost amount, DB prior service cost amount, and the DCR employer contributions. Once the unfunded liability is paid off, most of the contribution will be for DCR members. The cost of accrued benefits for TRS shifts over time from DBR to DCR.

BREAK 10:35 a.m. to 10:45 a.m.

18. Final FY07 Actuarial Valuation

MR. SHIER explained that the ARM Board is being asked to accept the reports prepared by Buck Consultants for the retirement systems in order to set retirement system employer rates.

MS. HARBO moved to accept the Buck FY07 Valuation for the retirement systems. MR. TRIVETTE seconded.

COMMISSIONER KREITZER objected to the motion. She wished to agree to accept the FY 07 actuarial reports prepared by Buck in order to set the employer rates, but asked that Buck come back with a more conservative approach for possible consideration at the ARM Board's next meeting for the underlying assumptions upon which the rates are based. CHAIR SCHUBERT asked whether this is an amendment or would the matter be reconsidered at the next meeting. As parliamentarian to the Board, MR. WILLIAMS indicated there were several ways this issue could be addressed. The item could be tabled or the resolution could be adopted subject to the actuarial revisions that will come forward. MS. HARBO felt that Commissioner Kreitzer's suggestion could be accepted as a friendly amendment.

CHAIR SCHUBERT suggested that the motion be to accept the Buck FY07 Valuation with the requirement that Buck come back at the next meeting with a more conservative approach to the underlying assumptions. COMMISSIONER KREITZER moved. MS. HARBO seconded.

MR. JOHNSON stated that it may be undesirable to set a contingency by this amendment, as the statute speaks to setting rates. He noted that the matter could be reconsidered at a later date.

MR. SEMMENS stated the ARM Board has the opportunity each year to set the assumptions that give the actuary direction and the actuary has done that. He preferred to set the rates based on the direction given to the actuary. He would favor having a report or a discussion about changing the assumptions going forward, but he would prefer to set the rates using the assumptions that the ARM Board set when the actuary was given direction to do the FY07 valuation. COMMISSIONER KREITZER agreed to revisit this matter and asking Buck to address the Board with a more conservative approach to the underlying assumptions. She *withdrew her amendment with the concurrence of the second.*

MR. SEMMENS asked if there is agreement that the revised assumptions would apply to FY08 assumptions because the FY07 assumptions are being set today. COMMISSIONER KREITZER agreed.

By roll call vote, the motion passed unanimously.

MR. SHIER stated that Buck Consultants has completed the actuarial valuation of PERS as of June 30, 2007 and that valuation has been reviewed by Gabriel Roeder and Smith. He recommended that the ARM Board adopt resolution 2008-014 adopting FY10 PERS employer contribution rates, consistent with its fiduciary duty.

MS. HARBO moved to adopt Resolution 2008-14 Relating to FY10 PERS Contribution Rate. MR. WILLIAMS seconded.

COMMISSIONER KREITZER stated there is a new version of the resolution and deferred to Trustee Semmens to explain. MR. SEMMENS stated that the revised resolution changes the 5th whereas to delete "the difference between 22% and the actuarially required rate" and insert in its place "the difference between 22% and the employer contribution rate adopted by the Board," which is in accordance with statute. CHAIR SCHUBERT indicated this language would be the subject of the main motion.

By roll call vote, the motion passed unanimously.

MR. SHIER reviewed Resolution 2008-15 setting the PERS Retiree Major Medical Insurance rate and Resolution 2008-016 setting the PERS Occupational Death & Disability Benefit rate. The ARM Board sets these rates for the Tier 4 retirement plan. The PERS has two separately computed rates for each of the RMMI and the OD&D employer rates, one rate for Peace Officers/Firefighters, and a separate rate for All Others.

COMMISSIONER KREITZER moved to adopt Resolution 2008-15 Relating to FY10 PERS Retiree Major Medical Insurance Contribution Rate. MR. RICHARDS seconded.

By roll call vote, the motion passed unanimously.

COMMISSIONER KREITZER moved to adopt Resolution 2008-016 FY10 PERS Occupational Death & Disability Benefit Contribution Rate. MR. RICHARDS seconded.

By roll call vote, the motion passed unanimously.

MR. SHIER reviewed Resolution 2008-17 relating to the FY10 TRS employer contribution rate. The Division's actuary, Buck Consultants, completed the actuarial valuation of the TRS as of June 30, 2007 and it has been reviewed by the ARM Board's actuary, Gabriel, Roeder, Smith & Co. According to the TRS June 30, 2007 actuarial valuation report, the 2010 employer contribution rate should be 39.53%. In HB310, Section 1, the operating budget for FY09, the Legislature appropriated in Section 13(a) $206,300,000 from the General Fund to the Department of Administration "for deposit in the defined benefit plan account for the TRS as an additional state contribution for the fiscal year ending June 30, 2009, under AS 14.25.085." This practice will continue for FY10.

COMMISSIONER KREITZER moved to adopt the corrected version of Resolution 2008-17 Relating to the FY10 TRS Employer Contribution Rate. MS. HARBO seconded.

MR. SEMMENS explained that this establishes that the difference between the rate set in statute and the total rate is the rate paid by the employer.

By roll call vote, the motion passed unanimously.

MR. SHIER reviewed Resolution 2008-18 setting the TRS Retiree Major Medical Insurance rate and Resolution 2008-019 setting the TRS Occupational Death & Disability Benefit rate. A valuation was conducted by Buck Consultants to calculate those rates. He recommended setting the 2010 rates as set in these resolutions.

COMMISSIONER KREITZER moved to adopt Resolution 2008-18 Relating to FY10 TRS Retiree Major Medical Insurance Contribution Rate. MR. WILLIAMS seconded.

By roll call vote, the motion passed unanimously.

COMMISSIONER KREITZER moved to adopt Resolution 2008-19 Relating FY10 TRS Occupational Death & Disability Benefit Contribution Rate. MR. RICHARDS seconded.

By roll call vote, the motion passed unanimously.

MR. SHIER explained that the required rate as calculated by the actuary for the Alaska National Guard and Naval Militia Retirement System (NGNMRS) is $2,437,282. For FY09 the Legislature took the approach to fund the NGNMRS unfunded liability. In HB310, Section 1, the operating budget for FY09, the Legislature appropriated $750,800 in the Department of Military and Veterans Affairs operating budget to fund the normal cost of the total contribution due. HB301, Section 13(c) appropriated $1,722,500 from the General fund to DMVA "for deposit in the defined benefits plan account in the NGNMRS under AS 25.05.226." Total contributions via these two sections are $2,473,300. A similar approach is anticipated for 2010.

COMMISSIONER KREITZER moved to adopt Resolution 2008-20 Relating to the FY10 NGNMRS Annual Contribution. MR. RICHARDS seconded.

MR. PIHL wished to adopt the actuary's recommendations with respect to expenses, which would require that annual expenses be added to the $2,473,300 in the amount of $150,000. He stated this is a pay-as-you-go situation and he felt that it was important to also pay expenses. He moved to amend the motion so that the contribution includes an amount to cover expenses. MR. TRIVETTE seconded. COMMISSIONER KREITZER was concerned how this additional money would be appropriated, which is why she did not suggest this amendment at this time. MS. DeLANGE recommended adding the prior two years' expenses of $130,000. COMMISSIONER KREITZER asked that this be subject to appropriation, as an additional appropriation must be sought.

By roll call vote, the amendment passed unanimously.

By roll call vote, the motion passed unanimously.

19. Pension Obligation Bond Proceeds/Allocation

For more information on this presentation, please refer to the document entitle "A Guide to Pension Obligation Bonds," by Callan Associates Chart Investments Institute dated September 2003 and kept on file at the ARM Board offices.

BRIAN ANDREWS stated the POB corporation was signed into law. Prior to that, there was an informational meeting of the board of the POB, which is comprised of the Commissioner of Revenue, the Commissioner of Administration and the Commissioner of Commerce and Economic Development. A selling syndicate has been established. There are three co-seniors, in this transaction: Citibank, Merrill Lynch, and Goldman Sachs. Five co-managers were selected and four remain: JP Morgan, Morgan Stanley, Royal Bank of Canada, and DEFA. The three co-seniors have a 25%, 20% and 20% split, with a 10% jump ball. Each co-manager has been given a 5% allocation to the deal and a jump ball of 5%. First Southwest has been selected as financial advisor. This firm has had a number of POB deals and are very familiar with agencies in the state of Alaska. Bond counsel and underwriter's counsel have been chosen.

There are a number of individuals involved in this POB transaction. Monday, June 16, 2008 will be the first meeting of the POB corporation in Juneau. The charge given to the selling group and the financial advisor is to keep this transaction simple and straightforward. At the first meeting there will be discussions of structuring the transaction. The credit rating will be discussed. This is a taxable transaction. Moody's does a corporate rating and this is nearly guaranteed an AAA rating. S&P has bumped the State's credit rating to AAA+ and will be looking at this transaction, as will Fitch. The meeting topics will include marketing and legal issues, as well as actuarial work.

MR. ANDREWS anticipated that this transaction would be a success because of two factors. One is the low interest rate cost of the bonds. The timeline for the transaction is to sell the bonds late in September, but depending on interest rates, the schedule could be adjusted. The second factor is the marketing effort. The purchasers of these bonds are primarily European cover banks. They view Alaska almost as a sovereign nation. The State's oil wealth has intrigued them. The State of Connecticut came to market with a $2 billion transaction recently and the banks were asking when the State of Alaska was coming to market. The true interest cost was 5.81% for Connecticut; he expected the cost for Alaska would be 5.5%.

COMMISSIONER KREITZER asked for discussion of the limitations in HB13. MR. ANDREWS responded that HB13 requires a 150 bp required spread. Bonds cannot be issued unless there is a cost of 6.75% or less, based on the 8.25% actuarial rate. He expected a cost of 5.50% to 5.75%. These bonds are paying off past unfunded liability. That hurdle still exists going forward. The lower the cost of the bonds, the greater the success in paying that. He noted that the market has moved down since last fall, which is good for this transaction because hopefully the market will turn back up after these bonds are issued. He added that the maximum amount of bonds that can be issued is $5 billion. The size of this transaction is being discussed at $2 billion. If the rates decrease and the bonds cost less, there may be an incentive to do a transaction of $3 billion and if rates increase there may be an incentive to do a $1 billion transaction. For this first issuance, the objective is to be conservative.

MR. ANDREWS noted that the unexpected or unseen factors are the most concerning with this deal.

MR. SEMMENS wanted to know whether the source of the debt service funds would be the General Fund or would the retirement funds be impacted by debt service. MR. ANDREWS responded that this is the State's effort to pay down the unfunded liability. These are appropriation bonds, meaning that the Legislature will allocate funds annually to pay for the bonds. There is no cost to the DB system. The State is paying down the past unfunded liability, but not future unfunded liability. He stated he has told the Legislature that the best pool is cash or a combination of cash and bonds, but the State has chosen to use bonds. MR. SEMMENS favored the State contributing in any fashion to pay down the unfunded liability. He wanted to establish that debt service would be paid through the General Fund. MR. JOHNSON understood that the money would come from the State and go through the POB corporation.

MR. O'LEARY stated he has a fiduciary responsibility with respect to the ARM Board and, regardless of how he thinks about this, more money in an under funded program is better than less money. Therefore, he was enthusiastic about the improved certainty of improved funded status. This presents the question of what are the implications for the most appropriate investment policy for the system. If the entire unfunded liability went away through a huge issuance of bonds, one might be able to support a recommendation for a more conservative asset allocation. However, this is not likely and an under funded status will remain. He thought the net cash outflow from the fund is an important factor in evaluating the appropriateness of a policy. During the actuarial presentation this morning, it was indicated that for at least ten years there is no appreciable change in the percent of assets going out in benefit payments. In fact, given the acceleration of addressing the unfunded liability, he expected the cash flow in the less than 10-year period to actually increase.

The ARM Board understands the assumptions driving the rates and believed that the policy portfolio will reach 8.25% in the next five years, particularly given CAI's inflation expectation of 2.5% versus the actuary's inflation expectation of 3.5%. Given the probable magnitude of the pension bond amount, he recommended maintaining the current asset allocation policy and investing the proceeds per the current policy in a reasonable manner. An argument could be made that the issuance, if viewed in isolation, could be made more successful by doing exotic things, but it would likely detract from the ability to earn 8.25% over the entire investment period. MR. O'LEARY stated that, if the size of the issuance were significantly different than Mr. Andrews has outlined, he would need to revisit the matter.

MR. O'LEARY felt that a "Guide to Pension Obligation Bonds" by Jason Ellement dated September 2003 is still accurate. There was also a presentation to the Legislature regarding pension obligation bonds. Issuing the bonds will benefit the retirement systems and it may benefit the State by reducing the cost of funding.

In response to a question from Trustee Trivette, MR. O'LEARY stated the Board has adopted a new policy that will go into effect July 1, 2008. CAI does not feel there is a reason to change that new policy.

MR. WILLIAMS asked to reconfirm that the sizeable inflow of cash is within staff's capabilities to handle and can be addressed with the current stable of managers. MR. BADER replied that staff had anticipated the possibility of POB legislation being approved. The cash would be used to rebalance asset classes that are not within targets.

MR. PIHL thought the ARM Board is looking at managing the compounded value of $2 billion. MR. O'LEARY responded that in essence the unfunded liability grows by the discount rate each year that it remains unfunded, so with this influx, there would be a compounded impact in the reverse. MR. PIHL understood that the State would retire the bonds, including the interest, and asked whether the State would reduce the help it is otherwise giving to the retirement systems. COMMISSIONER KREITZER felt that more discussions would be had and the Governor will give her opinion in on the matter. The decision whether this goes to PERS and TRS or only one of the two has not been made. The discussion will likely begin with that. This brings out other questions regarding what happens with contributions going forward. MR. PIHL stated he did not want to imply anything negative, but just wanted to clarify what the ARM Board will be facing in terms of its obligations.

MR. TRIVETTE asked who has the legal authority to make these decisions. MR. ANDREWS stated that the authority will rest with the State and they will direct the ARM Board in the placement of these funds. MR. TRIVETTE did not believe that the ARM Board had any legal input into this decision. He asked how the ARM Board could offer its opinions. MR. ANDREWS stated the POB corporation will receive the proceeds, they will be turned over to the Department of Administration, and they will be deposited into the system.

MIKE BARNHILL explained that the legislation specifically authorizes the Commissioner of Administration to allocate the funds.

CHAIR SCHUBERT noted that the ARM Board has been discussing pension obligation bonds for some time. She asked if issuing pension obligation bonds several years ago would have been a benefit or a detriment to the system. MR. O'LEARY replied that had the issuance occurred five years ago, the rate of return that the systems have experienced has been above the probable cost of the issuance at that time, but this is a very time-sensitive matter. Eighteen months ago the rates were fairly high. With the benefit of hindsight, it appears that the cost would have been less than the benefit if the bonds had been issued five years ago, but there is no way to know this going forward from this date. MR. ANDREWS added that the market has appreciated tremendously since 2003/2004, which would have had a positive effect had these pension obligation bonds had been issued at that time. On average over the last 16 years, the pension funds have returned 9.6% to 9.7%, so the odds are in favor of this being a successful transaction. However, the focus cannot be on a one-year period.

MR. RICHARDS asked what factors would be used to determine if a second issuance beyond $2 billion might be done. MR. ANDREWS replied that factors include marketing response and reception from purchasers of the bonds.

COMMISSIONER KREITZER stated there are two issues of difficulty regarding pension obligation bonds. One is a state paying pension bonds and then benefits being increased for

employees. The other is to if a state were to take the savings and use it for paying other things. These things have contributed to failure in states that have used pension obligation bonds to pay down unfunded liabilities. She note that because Commissioner Galvin was unable to attend this meeting of the ARM Board, she asked that he be contacted to express his views on Resolution 2008-23 and Resolution 2008-24. A memorandum from Commissioner Galvin was distributed to the ARM Board.

COMMISSIONER KREITZER moved to adopt Resolution 2008-23 Relating to Pension Obligation Bonds for consideration, with the "Resolve" portion to state that, "…the Board opposes any potential legislation would increase pension or other retirement benefits, without the assurance of adequate analysis and counsel that the current assets plus a conservatively calculated earnings and future contribution rate(s) will adequately pre-fund any considered increases." MS. HARBO seconded.

MR. SEMMENS supported the resolution and the new language, but he felt the "Resolve" section relates to increasing pension or other retirement benefits, rather than pension obligation bonds. He moved to change the title of Resolution 2008-23 to "Relating to Legislation that Would Increase Pension or Other Retirement Benefits." MS. HARBO seconded.

By roll call vote, the amendment passed unanimously.

CHAIR SCHUBERT noted for the record that Commissioner Galvin supports the motion to adopt Resolution 2008-23.

MR. WILLIAMS noted that no current legislation is proposed to change the benefits, but this resolution pre-supposes that. In the past, the ARM Board has dealt with legislation as it is proposed. This resolution differs from previous actions.

MR. TRIVETTE agreed with Trustee Williams's remarks and noted that law requires that before benefits are changed there must be an actuarial report on the impact of those changes. He did not think it is necessary to repeat that action taken in 2005. He also did not want to be in a position of directing legislators. He felt there may also be disagreement with the language in the resolution. He did not want there to be implications on the PERS, TRS or ASPIB boards as a result of this resolution as worded.

MS. HARBO stated that the previous PERS and TRS Boards wrote letters to the Legislature in 2003, 2004 and 2005 asking that they not propose any legislation that would increase benefits to employees. She asked for comment from legal counsel. MR. JOHNSON stated the ARM Board is obligated to follow statutes and the motion seems to be a statement of intent.

MR. PIHL favored the resolution, finding that it addresses how the system got into trouble; that is, things were done without the type of analysis the resolution requires.

COMMISSIONER KREITZER appreciated Mr. Johnson's remarks. She wanted to highlight what is in statute in this resolution. This resolution does not recommend to the Legislature any kind of increase without assurance of adequate analysis. There are many factors and

uncertainties at play. She felt that the more that is put on the record to clarify the ARM Board's intentions, the better understood the Board's position will be when the bonds are issued.

By roll call vote, the motion passed with Trustee Trivette and Trustee Williams dissenting.

COMMISSIONER KREITZER moved to adopt Resolution 2008-24 Relating to Current and Future Pension System Rate Setting. MS. HARBO seconded.

COMMISSIONER KREITZER noted that the "resolved" clause states that "…current and future employer contribution rates be based and set on the Actuarial Required Contribution calculated by the consulting actuary, notwithstanding the welcome and extraordinary contributions made by the State of Alaska or from other sources."

MR. WILLIAMS noted that the statute sets the ARM Board's authority to set the contributions and the language of this resolution seems to indicate that only the actuary will be needed.

MR. SEMMENS agreed with Trustee Williams. He presumed the Board would likely always adopt the rate set by the actuary and there is virtually no likelihood that the Board would set the rate below the actuary's rate. While he agreed with the thought behind the resolution, he did not want to be on record binding the Board to the actuarial rate.

CHAIR SCHUBERT noted that Commissioner Galvin supports Resolution 2008-24.

By roll call vote, the motion failed with Ms. Harbo, Mr. Richards, Mr. Semmens, Mr. Trivette, and Mr. Williams dissenting.

20. Actuarial Audit RFP Award

MR. BADER stated that SB141 provides that the ARM Board will contract for an independent audit of the state's actuary not less than once every four years. Staff prepared an RFP to solicit the services of an actuary to perform this work. Notice of the RFP was sent to 16 vendors on the State's procurement list. Four responses were received and two of those were declining to submit. One firm failed to meet several requirements in the proposal. Another firm failed to meet one of the requirements. Section 6.1 of the RFP allows that, at the discretion of the ARM Board, minor errors could be addressed. Aon Consulting corrected that error. An RFP Evaluation Committee was established by the Chair and that Committee met on Tuesday. The proposal by Aon Consulting was reviewed and the Committee determined that it meets the requirements of the legislation and the needs of the ARM Board. The RFP Committee recommends that the Board direct staff to issue a Notice of Intent to Award the contract to Aon Consulting, and subsequent to the 10-day notice period expiring without a protest filed, engage in contract negotiations with said firm.

MR. TRIVETTE moved the Board direct staff to issue a Notice of Intent to Award the contract to Aon Consulting, and subsequent to the 10-day notice period expiring without a protest filed, engage in contract negotiations with said firm. MR. SEMMENS seconded.

MR. TRIVETTE noted that a gentleman who formerly worked with Gabriel Roeder Smith is now working for Aon Consulting and he will be the primary actuary on this contract. He noted that $300,000 was budgeted for this audit and this firm's proposal is $134,000 to $136,000.

By roll call vote, the motion passed unanimously.

21. Investment Actions

Treasury Bond Portfolio

MR. BADER explained that this action would permit staff to establish and fund a U.S. Treasury bond account. Staff already invests in U.S. Treasurys through a broad market fixed income account. Staff has found that a portfolio of U.S. Treasuries, as represented by the Lehman U.S. Treasury Index, provides an attractive alternative to a broader bond portfolio when included in a broadly diversified portfolio. This stems from the fact that U.S. Treasury returns are notably less correlated with the returns of the non-bond asset classes than is the broader bond market. Based on historical returns, the primary benefit of including a Treasury portfolio in the domestic fixed income pool is the prospect of creating diversified multi-asset class portfolios with essentially the same return and lower annual variations of return. Other benefits include increasing the credit quality and liquidity of the portfolio. He noted that the ARM Board adopted new asset classes when the new asset allocations were adopted for the coming year. Those asset classes included fixed income. One of the components of the index by which the fixed income area will be measured is a percentage that is U.S. Treasury only. Staff believes that, in the long run, it will be beneficial to staff to increase its expertise in U.S. Treasurys.

MS. HARBO moved to adopt Resolution 2008-25 Relating to the U.S. Treasury Fund Investment Guidelines and direct staff to create and manage a U.S. Treasury mandate benchmarked to the Lehman U.S. Treasury Index and managed in conformance with the U.S. Treasury Fund Investment Guidelines. MR. TRIVETTE seconded.

By roll call vote, the motion passed unanimously.

Brandes Investment Partners

MR. BADER explained that Brandes Investment Partners manages a defined contribution account on account of the ARM Board. That account is an institutional mutual fund. In discussion with Brandes, staff sees the possibility of substantially reducing the investment management fees associated with this option for participants. Staff wishes to engage them in the dialogue about reducing fees and going from an institutional mutual fund and into a separate account arrangement, which are typically less expensive than mutual funds and have more transparency to staff. This transaction would occur only if there is a financial benefit to the participants, as well as increased transparency to staff to monitor the activities of the manager.

MR. PIHL moved to direct staff to convert the Brandes Investment Partners mutual fund into a separate account or other structure if the terms are more favorable. MR. RICHARDS seconded.

By roll call vote, the motion passed unanimously.

VIII. UNFINISHED BUSINESS

1. Calendar

MS. HALL distributed a new 2009 calendar, noting that some dates had to be changed due to conflicts.

MS. HARBO moved to adopt the proposed 2009 Calendar. MR. TRIVETTE seconded.

Without objection, the motion passed unanimously.

2. Disclosure Report

JUDY HALL reported that all disclosure reports were filed timely.

3. Legal Report

MR. JOHNSON observed that, over time, the relative importance or attention to detail given to some committees changes from one to the next. Having participated in a number of Audit Committee meetings, he noted that many very serious issues facing the administration of this pension fund are being addressed at that committee. He submitted to the Board that those members who have the opportunity should attend more of the Audit Committee meetings. He commended the chair of that committee, Mr. Pihl, for his conduct of those meetings.

IX. NEW BUSINESS – None

X. OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD

MR. BADER noted that Dr. Jerrold Mitchell would not renew his contract as a member of the IAC. He asked that staff be granted authorization to advertise for an IAC member with substantially the same background requirements as when Dr. Mitchell was appointed. CHAIR SCHUBERT asked if there was objection; there was none. She thanked Dr. Mitchell for his work with the Board as a member of the IAC.

XI. PUBLIC/MEMBER COMMENTS – None

XII. INVESTMENT ADVISORY COUNCIL COMMENTS

MR. WILSON stated that he is struck that the U.S. stock market has been the worst performing asset class over the last 10 years and the ARM Board has returned 3%, similar to most large institutional managers. This is astounding when the target return is in the 8% range. He felt that thought should be given to what would do best over the next 10 years. He was not inclined to think that bonds would out perform U.S. stocks over the next 10 years. He also was struck that in the last 10 years the best class was emerging markets with a return of 13%. Real estate was also strong and international markets did well.

XIII. TRUSTEE COMMENTS

MS. HARBO thanked Dr. Mitchell for his service to the ARM Board. She noted that, since the appeals for PERS and TRS have gone to a hearing officer, the members on the ARM Board do not know what is being appealed. She asked that the Office of Administrative Hearings provide the ARM Board with a list of retiree appeals by PERS and TRS members, as well as the nature

of the appeals. She noted that some of the appeals and decisions are precedent setting. COMMISSIONER KREITZER stated she would see to this request, to the extent that the privacy of the individual can be protected.

MR. TRIVETTE suggested that the actuaries be given direction as to which of the 22 to 24 assumptions should be re-visited. COMMISSIONER KREITZER agreed to work with the actuaries in this regard.

MR. PIHL feared that the loss of the individual employer accounts would lead to serious escalation and impacts on costs. He urged that this be kept in mind as assumptions are addressed.

MR. TRIVETTE wanted to be sure that members who were not present at the last ARM Board meeting review Dr. Jennings's remarks at that meeting. DR. JENNINGS stated the primary point of his remarks was that investment return assumptions should also include inflation.

XIV. FUTURE AGENDA ITEMS – None

XV. ADJOURNMENT

MS. HARBO moved to adjourn the meeting of the ARM Board. MR. SEMMENS seconded.

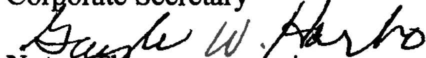
There being no objection, the motion PASSED unanimously.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, THE ARMB MEETING ADJOURNED AT 12:16 p.m. ON June 13, 2008.

Vice Chairman of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

Corporate Secretary



Note: The summary minutes are extracted from tape recordings of the meeting and are prepared by outside contractors. For in-depth discussion and presentations, please refer to tapes of the meeting on file at the ARM Board offices.

WORDSMITH
Kimberly D. Stalder
Anchorage, Alaska