ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Location of Meeting
Fairbanks Princess Hotel
4477 Pikes Landing Road
Fairbanks, Alaska

MINUTES OF
September 25-26, 2008

Thursday, September 25, 2008

I. CALL TO ORDER

ACTING 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
Commissioner Patrick Galvin
Martin Pihl
Tom Richards
Mike Williams

ARM Board Members Absent
Gail Schubert, Chair
Larry Semmens
Commissioner Annette Kreitzer

Consultants Present
Rob Johnson, Legal Counsel
Kathy Porterfield, KPMG

Department of Revenue Staff
Jerry Burnett, Acting Deputy Commissioner
Gary Bader, Chief Investment Officer
Pamela Green, Comptroller, Treasury Division
Scott Jones
Steve Sikes
Zachary Hanna
Judy Hall, ARM Liaison Officer, Department of Revenue

Department of Administration Staff
Patrick Shier, Director, Division of Retirement and Benefits
Jim Ruppert, Deputy Director
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits

IAC Members
Jerrold Mitchell
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

GARY BADER asked to consider adding an Executive Session after agenda item VII.6 to discuss Lehman holdings. He also asked to add an agenda item after VII.21 to receive an update on pension obligation bonds by Commissioner Galvin. He also asked to consider item an item VII.22.G to discuss the real estate consultant RFP. Lastly, he asked to add an Executive Session with outside legal counsel after item VII.16.

PATRICK SHIER asked to conduct the Executive Session after item VI in order to accommodate the schedule of Kathy Porterfield.

MS. HARBO moved to approve the agenda, as amended. MR. RICHARDS seconded.

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

V. COMMUNICATIONS PUBLIC/MEMBER PARTICIPATION, AND APPEARANCES

CHARLES GALLAGHER, retired auditor of the economic security division of the Alaska Department of Labor, stated he retired at the bottom of the last economic retraction in the spring of 2002. He is now the elected chair of the Northern Region of the Retired Public Employees of Alaska (RPEA). He welcomed the ARMB and thanked them for the work on behalf of the RPEA. As one of the 550 auditors in the United States Department of Labor, Alaska had the experience to audit every single public and private institution in America, including all the federal agencies. This was an eye-opener because the deviations from the law continued unabated throughout his career. The errors were mostly repetitive but there was always something new. Thirty-eight years ago when he graduated college he was part of a small team with an early model of a data processing scheme they were trying to sell to Wall Street. The team arrived in New York in 1970 at the bottom of the 1969/1970 retraction. While well received, top management was determined to not invest in any product, including theirs. The idea and software was good, but the “wall” of Wall Street was solid. They understand that contractions do and will happen. One year ago he learned that the ARMB audit system identified a deviation in a certain bond fund and through the ARMB's quick intervention straightened out the irregularity. This morning he researched that institution and found it was not doing badly, unlike so many of the financial investment institutions. As an auditor he was impressed by the ARMB's actions as was RPEA and he urged the ARMB to never let down its guard. He urged the ARMB to support re-regulation done with an eye on the regulatory systems of foreign competitors.

MARY ZALAR, member of the Retired Public Employees of Alaska (RPEA), stated it is good to have the ARMB in Fairbanks annually because many retirees are interested in learning how their funds are managed. She addressed the Healthcare Cost Containment Committee yesterday about her interest in having a public forum or some structure that facilitates more information sharing between the Division of Retirement and Benefits (DR&B) and employees, especially about healthcare and insurance benefit issues. She asked Commissioner Kreitzer to urge the Committee to create such a forum. She believed Director Shier felt it was appropriate for the Committee to create a group similar to the health benefits evaluation committee that engages active employees in dialogue. ARMB meetings and committee meetings provide valuable information to retired public employees and she appreciated information available through the website. She asked that the upcoming meeting list on the website continue to be improved. She encouraged publishing draft minutes immediately after the meeting. The time lag in availability of minutes makes it difficult for the public to know what issues are being discussed and actions taken. She also asked that agendas of past meetings be published. Lastly, she suggested posting the information packet on the website before each meeting.

VI. APPROVAL OF MINUTES

MR. WILLIAMS moved to approve the minutes of June 12-13, 2008. MR. PIHL seconded.

There being no objection, the motion passed unanimously.

MS. HARBO moved to approve the minutes of July 25, 2008. MR. RICHARDS seconded.

There being no objection, the motion passed unanimously.

VI. REPORTS

1. Chair Report

CHAIR SCHUBERT was not present.

2. Committee Reports

A. Audit Committee

MR. PIHL reported that the Committee met yesterday principally to review the draft audit from KPMG. The audit has gone smoothly and there was good preparation and full cooperation by staff. There was no need for a management letter, no adjustments, and no issues. The Committee also received updates on the employer audit by the DR&B and there was some discussion of compliance team effort, which is a good development. The Committee will meet again on December 3 when the full audit will be received. He noted that Ms. Porterfield has been promoted to manager of the KPMG Seattle office effective at the end of the year.

B. Budget Committee

ACTING DEPUTY COMMISSIONER JERRY BURNETT reported that the Committee met on September 8 and reviewed the proposed ARMB budget for FY10 compared to 2007-2008, and 2009 budgets. The FY10 budget contains some changes relative to FY2009. These include the addition of one staff, an investment officer at a $130,000 salary, and a 5% pay increase for all exempt employees totaling $156,000. Another major change in FY10 is a reduction of $135,000 for an actuarial audit. The total budget will be approximately $50,439,000, of which about $6.3 million is internal operations in Treasury and $40 million is investment fees and custody fees. The Committee recommended that the ARMB approve the budget.

C. Salary Review Committee

MR. PIHL reported that the Committee met August 25 in Juneau. Executive staff salaries that were effective January 1, 2008 were brought to a level comparable to the Alaska Permanent Fund Corporation. The Committee recommends the ARMB adopt a continuing resolution regarding staff compensation. It is important to keep salaries comparable. The Committee also reviewed its charter, the organization of the Treasury Division, and current staffing.

MR. PIHL noted that Resolution 2008-33 has been redrafted to shorten the length, refine the content, and express appreciation to the Commissioner of Revenue for recent progress respecting resolutions, and was presented to the Board.

MR. PIHL moved for approval of Resolution 2008-33, Staff Compensation, as amended. MS. HARBO seconded.

By roll call vote, the motion passed unanimously with Commissioner Galvin abstaining.

D. Real Estate Committee

MS. HARBO reported that the Committee met August 25 in Juneau. The Committee reviewed FY08 performance, as well as proposed changes to policies, procedures and guidelines for real estate investment and the proposed real estate plan for FY09, all of which are on this meeting's agenda. She commended Steve Sikes and his team for their work. The performance in this portfolio reinforces the need to diversify among asset classes.

E. Healthcare Cost Containment Committee

MR. WILLIAMS reported that the Committee met yesterday in Fairbanks and received a progress report on the design of the Defined Contribution Retiree Health Plan. The Department of Administration (DOA) continues to work on that plan to put in place a document outlining the coverages that plan would provide to PERS Tier IV and TRS Tier III retirees. A plan should be presented at the ARMB December meeting. Members of the public commented and the Committee agrees that retirees should have a forum to engage with the DR&B and ARMB to put forward comments and recommendations on retiree healthcare.

2. Retirement & Benefits Division Report

A. Membership Statistics

PATRICK SHIER reviewed the report entitled "PERS/TRS Membership Statistics." There is nothing remarkable compared to the last report presented to the ARMB. In discussions with the CIO and in preparing information for other purposes, the DOA is seeing unusual patterns in terms of who refund out. There is a larger population of Defined Benefit members who refund out and because there is a larger population of those members, that number is expected to be higher for some time.

MS. HARBO asked if these people are vested. MR. SHIER did not have that information. MS. HARBO noted under the cumulative numbers that no new employers are allowing conversion. MR. SHIER stated this is correct.

B. Buck Consulting Invoices

MR. SHIER referred to the invoice showing a notation of $2,592 for work process to respond to Mercer litigation. There has been no funding authorized or spent specifically on the Mercer litigation. This is a way to track normal costs associated with information requests that an actuary might have to provide. If there is some recovery from Mercer, the DOA may seek recovery for those expenses.

C. Summary of Participant Appeals

MR. SHIER explained that Trustee Harbo had asked for a census of appeals for PERS and TRS. During the period 7/1/05-7/1/08, there were 111 appeals, 104 for PERS and 7 for TRS. Of those, 52 PERS were disability and 4 TRS were disability. The DOA is examining the possibility of a two-year window of opportunity to change records in the plan so there is finality. Currently, if an error is discovered that is 25 years old, the records must be researched and the issue corrected. This is an expensive effort.

MS. HARBO asked, when there is a decision by the Division, are members informed of their right to appeal. MR. SHIER responded that all documents are replete with information about how to file an appeal. MS. HARBO thanked the Division for preparing this information because appeals were a large part of the work of the previous boards. She was particularly interested in members' rights for an appeal. She asked if there are doctors sitting on disability hearings, where are the hearings held, and if they are held in Anchorage who pays the transportation of the appellant. MR. SHIER replied that doctors are retained by the Division to review medical information. There have been times when he has been asked to authorize an external specialist to review the information further. They are often called as witnesses during the course of appeals. The office of Administrative Hearings is concerned about the fairness of a hearing. Parties can attend telephonically. Hearings have taken place in Anchorage and Juneau.

ROB JOHNSON stated it appeared to him that the number of appeals is roughly the same as when the PERS and TRS boards reviewed them. He noted that the PERS and TRS boards were not necessarily advised if appeals were withdrawn, so it is difficult to measure that.

MR. SHIER stated it was important to Workforce Development when he worked with them for everyone to feel they had all the resources they needed to conduct an appeal. It is the goal to ensure that cases are fairly heard.

4. Treasury Division Report

A. FY10 Budget

ACTING DEPUTY COMMISSIONER JERRY BURNETT stated that subsequent to the Budget Committee meeting, the federal government has approved the cost allocation plan for the

Division. This will not change the ARMB budget, but it will change the proportion of the Division's budget that the ARMB pays and that proportion will be more dynamic on an annual basis. There has been a 65/35 or 70/30 split in the last several years. The balance in the General Fund in FY09 and FY10 may exceed current balances in the retirement fund, Constitutional Budget Reserve, and other funds. Investment officer salaries will be paid out of other funds to a greater extent in future years. This will likely be adopted in FY09. He believed OMB had favorably received the Treasury Division budget.

MS. HARBO moved that the ARMB adopt the FY10 proposed budget as attached, with the understanding that salary increases will be included during review by OMB and the Legislature. MR. WILLIAMS seconded.

By roll call vote, the motion was approved unanimously.

5. Chief Investment Officer Report

GARY BADER reported on a transfer of $25 million from the Russell 2000 Growth to the Russell 2000 Value. There are now 14 DB retirement plans rather than 4 plans being reviewed. Every month cash flows allow rebalancing of the funds. The contributions from employers are close to the outflows in terms of benefit payments in PERS and TRS, so transfers occur in PERS, TRS and JRS. There is activity in the other funds as well.

There was a $40 million transfer from International Fixed Income to Domestic Fixed Income in order to stay within the asset allocation bands. There was also a rebalancing of $100 million from Russell 1000 Growth to Russell 1000 Value.

The ARMB is being asked to issue an RFP for an independent audit of the performance consultant. SB141 required that every four years the ARMB conduct an audit of this nature. The performance consultant is a function like Callan Associates Inc. (CAI) and Townsend.

COMMISSIONER GALVIN moved to direct staff to prepare and issue an RFP for an independent audit of the state's performance consultant to be conducted during FY10, and that funding for such audit be included in the FY10 ARMB budget. MS. HARBO seconded.

ACTING CHAIR TRIVETTE asked the cost of this audit. MR. BADER replied that the cost would be $150,000 and it will be competitively bid.

By roll call vote, the motion was approved unanimously.

MR. BADER reported on the intent to enter into a partnership with Onex Partners III. The staff was directed to make investments in private equity and report those to the Board. The firm has been thoroughly reviewed by CAI, staff, and Mr. Johnson.

MR. BADER asked that the ARMB remove Barrow Hanley Large Cap from the Watch List. They are a value firm with $100 million invested on behalf of the ARMB. They were put on the Watch List shortly after being engaged because one of the top executives left the firm. That executive was not involved in the management of the ARMB account. Relative to value managers, this firm has done a satisfactory job and would not otherwise be on the Watch List.

MS. HARBO moved to remove Barrow Hanley from the Watch List. MR. WILLIAMS seconded.

There being no objection, the motion was approved unanimously.

MR. BADER asked for removal of Lowe Enterprises from the Watch List. This firm has achieved stability in the last year and the ARMB's investments are doing well.

MR. RICHARDS moved to remove Lowe Enterprises from the Watch List. MR. PIHL seconded.

There being no objection, the motion was approved unanimously.

MR. BADER advised the Board that the fixed income investments have recently been reduced by $70 million and ordered $35 million to Brandes for an international equity mandate, as that asset was below target, and another $35 million was ordered to McKinley Capital for international investments.

MR. BADER reported that, according to the September 1st issue of *Pension Investments* publication the ARMB is the 157th largest fund in the world. He also advised the ARMB that, under the authority granted to the CIO to make certain investment manager changes, he has increased the allocation to Hancock Farmland Managers by $10 million. He also noted that the ARMB approved a number of changes to the Defined Contribution investment options and staff at the Department of Revenue (DOR) and Department of Administration (DOA), as well as representatives from Great West, State Street, and the managers, has worked hard to make those investment options available. He remarked that there has been concern about the equity wash provision, which says a person cannot go from a stable value investment option directly into a cash account. This is because people will play the market and always select against the plan, if allowed to do so on a short-term basis. The equity wash requires that the funds be somewhere else for 90 days before going into cash. Members are no worse off with this provision implemented. The Treasury cash component allows a safe harbor for those concerned with short-term volatility in the market.

MS. HARBO asked if people in SBS have been notified in writing that these changes are available. MR. SHIER replied that written notification was given a short time ago.

MR. BADER stated that this is a fine example of DOA and DOR working together to accomplish an objective. In these critical market times, it was imperative that the ARMB show its resolve to find investment options for participants. MR. SHIER agreed that cooperation between the departments has been extraordinary.

6. Audit Report

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board, Financial Report as of February 29, 2008," kept on file at the ARMB offices.

KATHY PORTERFIELD with KPMG stated there are four sets of draft financial statements before the ARMB for PERS, TRS, JRS and Military. Although these are shown as draft, there is nothing remaining to be done that would change the conclusions or information before the ARMB. She reviewed the PERS Independent Auditor Report, noting that it indicates that KPMG is rendering an unqualified, or clean, opinion, believing that the statements fairly represent the assets in accordance with generally accepted accounting principles. There were no changes in accounting principles in 2008. The financial statements for PERS and TRS are formatted differently than in the prior year in recognition of a comment made by KPMG last year that the DOA and DOR work to create a more easily understood presentation of financial information. KPMG is making no proposal for audit adjustments to the financial statements and there were no immaterial errors. MS. PORTERFIELD explained that the financial statements show 12 months of activity ended March 31 because the June 30 information is not available for alternative investments when the books are closed in July. KPMG spent time examining internal controls, testing to ensure they were operating effectively, and there were no exceptions in that regard. MS. PORTERFIELD noted that when the audit standards changed regarding alternative investments there was discussion about what controls were needed and what documentation was required. She recognized the good work of the Treasury Division in regard to their oversight of that portfolio and the documentation they assembled in that regard. She thanked Scott Jones for his work in preparing information for the audit. She reiterated that unqualified opinions are being issued on all statements.

BREAK 10:00 a.m. to 10:15 a.m.

MR. WILLIAMS moved that the ARMB go into Executive Session to discuss matters that affect the assets of the system and that the Trustees, staff of the Department of Revenue and Department of Administration, Investment Advisory Council, and outside counsel participate. MS. HARBO seconded.

Without objection, the motion passed unanimously.

EXECUTIVE SESSION 10:15 a.m. to 10:50 a.m.

ACTING CHAIR TRIVETTE indicated that there was a discussion during Executive Session regarding certain investments; no decisions were made, but an update was received. The ARMB believes staff is protecting the interests of the ARMB.

7. Real Estate FY09 Annual Plan
Real Estate Guidelines Policies and Procedures

STEVE SIKES, State Investment Officer, presented the FY09 annual plan for real estate and explained that, following his report, Townsend will provide a compliance overview. This afternoon will be a roundtable from real estate advisors, followed by presentations from each advisor.

MR. SIKES stated that as of June 30, 2008, real estate represented 12.5% of the pension assets of PERS and TRS. Real estate has demonstrated a low to negative correlation to bonds and stocks and a positive correlation to inflation, so it is valuable for inflation-hedging purposes. There has been a stable income component in real estate over the long term. Appreciation has been a large component of the strong performance of the asset class in recent years. Over the last

10 years, private and public real estate have done relatively well in comparison with other asset classes. There is an ability to achieve higher returns with the idea that value can be manufactured by skilled real estate advisors.

The 2007 returns for the NCREIF Property Index were attractive at 15.85%. In 2008, there has been a sharp deceleration in those returns, with a 6-month return of 2.17%. Drivers of return in 2007 were good income return, low vacancy, balanced supply/demand conditions, continued institutional investor interest, low capitalization rates, and favorable capital market conditions. Real estate will not be immune from the current economic concerns. Real estate depends on a strong economic backdrop and job growth. Loss of jobs, slower GDP, a dramatic drop in consumer sentiment, and low home sales plays out in higher vacancy rates and lower rents in commercial properties going forward. There will be a favorable interest rate environment, however, in the future.

In terms of stock and bond risk premiums, the S&P VIX Index has spiked up and the volatility of that index has increased. Looking at the Lehman Brothers Aggregate BBB Corporate and commercial asset backed security baskets; the latter is trading near BBB corporates. Real estate fundamentals have been good with low vacancies and increasing rent growth, but this is changing in 2008. Vacancies are expected to increase and rent growth to slow. It is hard to imagine that space demands will be the same after the purchase of Lehman's by Barclays and other consolidations in the market.

In 2007 capital market conditions were positive and that has changed dramatically in 2008. Monthly sales volume for real estate has dropped dramatically in recent times. CMBS issuance has dropped significantly from 2007 to 2008. The outlook for fiscal year 2009 is negative, given the economy. Risk premiums are increasing across asset classes. The global credit crisis is slowing transaction volume. Vacancy rates are expected to increase and rent growth to slow. The US REIT market has undergone a correction over the last year. The real estate market enters the downturn in a situation of balanced supply and demand conditions. In the past, the real estate market has been negatively impacted by over building.

The fiscal year 2008 portfolio has not changed much from 2007. Core investments are high quality, well-leased properties in the best markets. The ARMB invests in those properties through four separate account managers. All assets are owned by the ARMB. There are also two open-end core funds, as well as an internally managed REIT portfolio totaling $80 million. The non-core component of the fund comprises $818 million. The Lehman Brothers assets are separate from the Lehman bankruptcy, but a management change is anticipated; the ARMB will be kept abreast of the situation.

MR. SIKES reviewed returns for the quarter, one-year, three-year and five-year periods. The quarterly return ending June shows an end of the relatively long run of strong returns with a -.43%. The one-year return was 5.12%. Compared to the ARMB benchmark of 90% NCREIF Property Index and 10% NAREIT, the portfolio has under performed on a quarterly and one-year basis. This is a result of the relative under performance of the internally managed REIT portfolio and the strong performance from the NCREIF Property Index from very large assets, which the ARMB is under weight in because of its size. The 14.74% net return for three years and roughly the same for five years shows that the portfolio has done very well over the longer term.

Property type diversification is well balanced relative to the NCREIF Index. In terms of geographic diversification, there is an under weight in the northwest region compared to the NCREIF. Cornerstone did an economic diversification analysis and found that the portfolio is well diversified. There is a relative high weight to the L.A. area at 19.7%, which is driven by two large assets in the Cornerstone portfolio. Cornerstone has a favorable view of those assets over the long-term. He is recommending advising separate account advisors to avoid the L.A. area in future transactions. The internally managed REIT portfolio value is about $80 million. The strategy for this portfolio is to invest half in the largest REITs in the index at index rates and invest the other half in REITS with the deepest discount or lowest premium to net asset value. Year-to-date the portfolio was up, but over the longer term, this portfolio is down over 500 basis points since inception. The ARMB put this on the Watch List in April.

MR. SIKES reviewed real estate portfolio asset allocation as of June 30, 2008. The real estate portfolio allocation is 10% with a band of 4%. It is at 12.5%, within the band for this asset class. The portfolio is 70% core and 30% non-core as of June 30, 2008. The ARMB's goal is 60/40. He felt that the Board's goal is being met with the mix of assets in the portfolio. He noted that approximately 1% of that weight is attributable to the under performance of public stocks and other asset classes going down last year while real estate maintained its value.

LaSalle sold one industrial building in Atlanta and Sentinel acquired a Class A apartment building in Folsom, California.

MR. SIKES next reviewed the Fiscal Year 2009 Plan. He noted that the projected allocation percentages over time range from the current 12.5% to 9.4% in FY13. These projections are driven by an expectation of continued pension fund growth, as well as returning capital from the real estate funds. He expected the core allocation to move into the high 60% range in the next couple of years and revert as distributions come back. In FY09 the ARMB approved a real asset allocation for real estate, so it is no longer a standalone allocation. Real assets also include farmland, timber, TIPS and energy. The ARMB has an allocation of 16.5% for real assets overall. No major changes are proposed for the core strategy. A small allocation increase to Cornerstone and Sentinel is recommended because of their acquisitions and remaining allocation. None of the advisors have sufficient remaining allocations to purchase without making a sale. Should sales occur, he recommended reinvesting proceeds in assets located in high barrier to entry markets. He also recommended no investment in the L.A. market. No changes are recommended in the open-end fund exposure, but consideration should be given to the UBS Trumbull Property Fund to invest in non-pension defined benefit trust; this could be an investment for the Retiree Health Trust. The $100 million CIO discretionary allocation permits flexibility.

MR. SIKES stated that no changes are anticipated in the non-core strategy in FY09. In FY09 $140 million in commitments were made and approximately $100 million is yet to be invested. He expected there would be a slower distribution pace, suggesting a slower pace of capital commitment. Commitments made in 2008 were follow-on to predecessor funds with Clarion, Five Arrows, Tishman Speyer, and Lehman Brothers. UBS is under pressure as a result of financial sector distress. Colony VIII is under performing. Tishman Speyer Venture VII and Lehman Brothers III are expected to produce relatively poor results in the short-term. He recommended a commitment to BlackRock Diamond Fund, an open-end non-core value fund, as a solution for the non-pension defined benefit trust.

MR. SIKES summarized his recommendations to increase the allocation to Cornerstone by $10 million, to Sentinel by $5 million, that proceeds from any sales be reinvested in assets located in high barrier to entry markets, that there be no investment in the L.A. market, UBS Trumbull Property Fund to invest in non-pension defined benefit trusts, continue to consider commitments under the CIO discretionary authority, consider making new commitment to BlackRock Diamond Property Fund as a solution to the non-pension defined benefit trust, evaluate the current strategy given the performance and Watch List status of the REIT portfolio, and fund Townsend as the ARMB's real estate consultant.

ACTING CHAIR TRIVETTE asked when the revised plan for the internally managed REITs would be presented. MR. SIKES replied that it would be presented in December.

DR. MITCHELL asked if the 96/4 split between private and public REIT markets is intentional or is it a reflection of the market. He also asked if it is still true that in the short-term REITS tend to act like the stock market, but in the long-term they act more like the real estate market and is there a current opportunity in REITs. MR. BADER stated the ARMB's initial foray into REITS was based upon staff research and there was also a need to balance the asset allocation when equity was over weight. There was no intent to strike a balance between public and private markets. Research shows that long-term REITs have returns similar to the private markets. There may be an opportunity to do more in this area, but real estate is over weight 2%. MR. SIKES added that 90/10 is a typical balance for public/private. He thought the correlation to the S&P financial REITs has been 90% over the last year.

DR. JENNINGS asked for comment on US versus international views. MR. SIKES stated Lehman and Colony are global strategies. The ARMB strategy has been to invest with managers who have the capability to evaluate all the major REITs of the world and make risk/return decisions. The REITs that have come out in the last year have not been desirable in terms of the countries. There is no desire to push toward more international exposure due to the illiquidity of the asset class and risks associated with real estate.

8. Consultant Evaluation of Real Estate Plan Diversification, Compliance and Performance Measurement

MICOLYN YALONIS with Townsend Group introduced NIKISHA KENDALL who worked at Lehman prior to joining Townsend. MS. YALONIS explained that Townsend reviews the staff's real estate plan proposal and ensures it is best practices. The staff recommendations were reviewed and Townsend concurs with the changes, which are primarily housekeeping and best practices. Townsend has suggested that staff include debt vehicles within the real estate portfolios as a market opportunity to enhance returns. These are commingled funds taking advantage of distressed debt in the market today. There are 60 to 65 debt vehicles available today for this type of investment. Townsend also suggested enhancing staff discretion; staff is comfortable with the current level of discretion.

MS. YALONIS stated that since 1996 the ARMB has been achieving a 5% net real rate of return target in each year, however, this has been in a 10- to 12-year up market cycle. Going forward, this will be more difficult to achieve and what happens with inflation will affect this greatly. ARMB has out performed its benchmark for the 3- and 5-year periods on both a gross and a net basis. The ARMB performance is competitive relative to its peers, although the strategies of other investors differ from those of the ARMB and this comparison is not risk-adjusted.

Strategic objectives for 2008 include removing the core separate account yield requirements, which was done last year. Advisors were given the ability to reinvest and the ability was given to allocate a substantial amount of capital into the non-core area. There was not an allocation of $300 million and managers have not reinvested proceeds because of the market. There is active management against market cycle risk. The majority of Townsend's clients did not allocate capital that was expected as the market shifted and there was pricing risk. The core portfolio under performed the NCREF for 1- and 3-year periods, but out performed for the 5-year period. The non-core has many early vintage year J curve influence. The ARMB made significant commitments to newer funds that are not expected to make a high return profile in their initial period. It is normal to have low returns at this point in the cycle for these investments. There are concerns with Colony and Lehman and those will be monitored. On a relative basis with the rest of the market, the risk premium should be realized on these investments. Townsend talked to staff about the under performance of public real estate and staff will return to the ARMB with suggestions. A number of clients have added public REIT securities to their real estate portfolios, predominantly on a global basis. If it is done internationally, Townsend recommends staying in that investment, but ARMB has always been tactical, which requires shifting in and out of markets.

The non-core younger funds are under performing and older funds are doing well, except the hospitality fund. Long term the hospitality fund should achieve a good risk-adjusted return. The core portfolio includes some managers who, on a 1- and 3-year basis, were under performing the index. In the recent market cycle, core assets have struggled with pricing and income returns have been driven down. The ARMB's portfolio is also conservative and does not mirror NCREIF. Each of the ARMB's separate account managers will present to the Board today.

MR. BADER asked for explanation of NCREIF. MS. YOLANIS explained this is an acronym for National Council of Real Estate Investment Fiduciaries. This is the only market index for real estate, comprised of office, industrial, apartment, and hotel assets across the US. It is an unlevered index. It is not investable, unlike most indices. There are derivatives of the index now available in the marketplace. It is core only; non-core managers are expected to provide incremental basis point increases over the NCREIF.

MS. YOLANIS reviewed annual cash flows. Contributions are expected to slow, which will be reflected in distributions to the ARMB. Townsend is in discussions to extend managers' investment windows. There is no rush for the ARMB to put out additional capital. The ARMB has a significant international exposure. When clients want to take an active role in international portfolios, which is 20% to 30% as a target with a 5% real rate of return target. There are no issues related to the diversification of the ARMB portfolio.

MS. KENDALL reviewed key individual managed account (IMAs). Returns for UBS, Sentinel and LaSalle returns fell under the NPI. MS. YOLANIS explained that IMAs are completely owned and controlled by the ARMB. MS. KENDALL reviewed performance of the ARMB core managers for the 3-year period versus the risk each took. ARMB's four accounts fared very well and are consistent with the rest of the universe; it is the same for the 5-year period. The Strategic Property Fund and Cornerstone IMA were the top performing ARMB IMA managers for a 3-year period. For the 5-year period the Strategic Property Fund and Sentinel IMA were top performers.

The UBS IMA has out performed the NPI for the 5 years since inception. The leasing rate for those properties is 97% and this manager has realized a $22.2 million net unrealized gain for the 12 portfolio properties. They are under performing the NPI for the 1- and 3-year periods, but going forward returns should be close to the NPI. LaSalle recently sold a property that achieved a 23.7% IRR. Their portfolio properties are 99% leased. This portfolio has under performed the NPI overt the 1- and 3-year periods. The portfolio had a $5.2 million write down of a property in Arizona. There was a $540 million decline in operating income over the fiscal year. There will be a new manager of this fund who has a strong reputation in the industry. Cornerstone has been a strong performer, out performing the NPI over 1-, 3- and since inception. Vacancy at one property has been an issue, but it is better than the overall market. Sentinel has out performed the NPI for the 5-year and since inception periods. They have no write-downs. They are invested in two markets that are under pressure: Tampa and Las Vegas. Portfolio income will soften in those markets.

MR. PIHL recalled remarks at the Real Estate Committee on the good quality of the ARMB's holdings. MS. YOLANIS stated that the buildings have strong tenants in good markets. There is good, solid income and, in today's market, capital will be seeking security and good incomes, so these assets will be able to demand greater pricing.

MR. SIKES stated that LaSalle has closed its Denver office where the ARMB's portfolio manager was located. Another manager, who is well respected, will now manage the portfolio out of Baltimore. No recommendation is made to put LaSalle on the Watch List.

9. Adoption: Real Estate FY09 Plan & Policies

MR. SIKES stated there are three substantive changes recommended. The first change is to incorporate an asset allocation to real estate into the guidelines. He suggested imbedding the allocation within the guidelines in order to keep the diversification limits without restructuring everything. The second change is with respect to the guideline exception to the single property limit at 5% of the real estate portfolio. This initially resulted in an exception to go to $85 million. Now the 5% is close to $85 million. He suggested removing this exception to avoid confusion. The third and final meaningful change relates to the CIO's discretion in regard to allocating funds within investment bands to $150 million rather than $100 million. Formerly this discretion was tied to specific geographic markets and those references are being removed. The new language gives $150 million discretion to be used for assets in high barrier to entry markets. For low barrier markets, the discretion is limited to single properties only.

MS. HARBO moved for approval of Resolution 2008-27, Real Estate FY09 Annual Plan. MR. WILLIAMS seconded.

Without objection, the motion passed unanimously.

MR. PIHL moved for approval of Resolution 2008-28, Real Estate Policies and Procedures. MR. RICHARDS seconded.

Without objection, the motion passed unanimously.

LUNCH BREAK 12:00 p.m. to 1:15 p.m.

10. Real Estate Economic Roundtable

Gary Bader moderated the roundtable. Participants included: Anne Pfeiffer with JP Morgan, Brian Murdy with Cornerstone, Jacque Gordon with LaSalle, Peter Henkel with Coventry, Kevin Traenkle with Colony, and Peter McNally with BlackRock.

Question: MR. BADER noted that this past year has been one of the most volatile in history and one in which the foundation of the financial system is being tested by challenges. What are the ramifications for real estate investing at JP Morgan?

Answer: MS. PFEIFFER responded that, to the extent there is financial turmoil in the capital markets, there are long-term ramifications for real estate and how it is priced in that most buyers of commercial real estate use debt and look at commercial real estate as a part of their asset allocation. To the extent there is extensive use of debt, an investor is more dramatically invested and the amount of leverage is impactful. She stated that the implications of discussions in Washington are unknown, as are the long-term impacts to real estate. MR. HENKEL noted that there is great uncertainty in the markets, but it safe to say that the limits of liquidity will have a dramatic impact on real estate for the foreseeable future. Property valuations will likely decrease and that is a new paradigm, even within a market that is shifting so quickly. The question is who will fill the capital markets void.

Question: MR. BADER noted that some strategies rely heavily on borrowed money. Has the credit crunch has created opportunities?

Answer: MS. PFEIFFER replied that her strategy is core, relatively low leverage, and high quality assets. The current capital markets do not present problems for that portfolio. The leverage in the portfolio is less than 25%. There are longer-term implications for liquidity and pricing. Decision-making is taking longer; under writing standards have increased. Getting the markets back to transacting normally would be a goal because they have currently frozen. MR. McNALLY stated that he believes his mandate can operate with lower leverage. He was curious how more opportunistic funds will operate. MR. TRAENKLE stated there is no debt available that he is interested in borrowing for the strategy his fund has been executing for the last five years. There is nothing on the horizon, no catalyst that will make asset values rise in the near-term. His firm currently is buying debt positions from the distressed financial institutions.

Question: MR. BADER asked how this cycle compares with others.

Answer: MR. GORDON replied that each cycle is different and this is the third he has personally experienced. He felt that commercial real estate is not the heart of the problem with the US economy or credit markets. He agreed with other panelists that these real estate funds cannot help but be caught up in this cycle. At this point in time, commercial fundamentals are in reasonably good shape going into this market. Contractual income is fine, occupancy levels are good, but this was not the case in 1989-1990 when there were record high vacancy rates and over building. In 1990-1991 the RTC was formed to bail out savings and loans. The impact will be on the cap rate, which will rise. In 1992-1993 there was distressed, fire sale pricing. That has not occurred in US commercial real estate yet. He thought this would happen, but it would be protracted. There is some question if the institutional side will take a mark to market approach and be realistic about the value of assets but not disgorge into the market. MR. HENKEL added that in addition to property fundamentals being better, there is more liquidity on the buy side than existed in the early 1990s. Hopefully that liquidity will help the market recover more quickly. He also thought there are parallels today to the early 2000s when the tech bubble broke and there was an economic downturn.

Question: MR. BADER asked if there has been slowing in retail properties that are dependent on retail sales.

Answer: MR. HENKEL stated that many retailers are doing well in this market and, as a result, there are many property plays that can be successful in this down market. Those retailers most dependent on discretionary spending will be most negatively impacted. Those that rely on discount pricing and value should flourish. From an investing perspective, this is a good market. There is no question the consumer is being impacted. MR. McNALLY stated that leasing of some of the marquee assets that are under development has slowed, which is disconcerting. MR. HENKEL stated that this is a binary market, from a retailer's perspective. MS. PFEIFFER noted that retailers are being selective about their locations with many pulling back into known markets. They are making decisions to open stores in 2010. Most are not making many commitments in 2009.

Question: MR. BADER asked for an explanation of a queue.

Answer: MS. PFEIFFER replied that a queue means that more capital wants to redeem or rebalance than there is liquidity to give out. In the open-end fund world, there is a notion that there is ready liquidity. JP Morgan last had a queue in 1990. In the last couple of years when more capital wanted to come into the funds, investors queued to get into the funds. Today there is the reverse, with some investors wanting the money out on a periodic basis in order to rebalance their plans. There is currently a redemption queue at JP Morgan. The firm has taken in $500 million in 2008 and has redeemed $1 billion, so cash flow is -$500 million. About another $450 million will be redeemed in October. Her forecast for the fund for 2008 would have net outflows of capital of $1 billion on a base of $16 billion, for a 7% to 8% contraction in the fund. She noted that she has $500 to $600 million in new capital that wants to come into the fund.

Question: MR. BADER asked if BlackRock has a queue.

Answer: MR. McNALLY replied in the affirmative. The Diamond Fund has redeemed $112 million in the last year and has a small queue of $12 million. He anticipated a build up in the queue.

Question: MR. BADER asked what would be the most attractive real estate investment opportunities over the next five years.

Answer: MR. MURDY replied that the markets have been frozen lately. Over the next five years, he would look at the markets that have been most impacted: south Florida, Las Vegas, south California, New York City office, and maybe Boston office and San Francisco office. There is more capital on the sidelines to take advantage of these opportunities.

Question: MR. O'LEARY remarked that mortgage financing in commercial real estate is fundamentally different than residential real estate in that it typically does not amortize. CMBS are priced at very high premiums relative to history. There is a challenge in refinancing existing commercial mortgages. He asked who are big users of mortgages and is there a bubble of mortgages maturing that will have to be refinanced and does that create distress.

Answer: MR. McNALLY stated there is good value in some of the more senior CMBS notes, but the down side is not fully priced in the subordinated position. MR. GORDON noted that subordinated traunches are now priced at 1200 over, so it is difficult to think the downside is not yet priced in. MR. McNALLY stated that BlackRock anticipates owners and bankers will be unable to refinance. MR. GORDON clarified that it feels to him as though the distress is coming, but it will take a while. With the credit bubble, so much new debt was put on and refinanced out in 2006 and 2007 that a huge traunch of five-year debt was put in place. As a result, the bubble will likely occur 2011-2012. MS. PFEIFFER added that unless assets are extremely over levered, there will be opportunity for investors to come in at today's pricing and come up with some of the equity needed to take out debt. She did not think that all of the assets financed with mezzanine debt will go back to lenders, but restructurings will occur before those occur. MR. MURDY added that CMBS markets were roughly 60% of the supply market. Transaction volume on sales is down 70%, so insurance companies and some banks have made up the volume this year. MR. GORDON stated that the single biggest change in the last year is the debt markets. The larger companies and foreign banks are still lending at a 60% loan-to-value and recourse. He thought the industry, as a whole, was overlevered. He felt there would be a negative impact on values of 10% to 20%. He also thought the next concern will be the real economy. The third thing commercial real estate will feel is occupancy and rents going down. Non-contractual income will be the first place to see this. He did not think apartments will suffer as badly, but other types of commercial real estate will have a gradual write down of NOI. When income streams are dropping over the next few years, this is a concern. MS. PFEIFFER noted that credit markets will also play out in new construction/new development. It is difficult today to get money from banks for new construction. There may be time-sensitive construction projects that will run into problems. MR. HENKEL stated this is a good governor on supply. This is a period where lending markets have gone overboard and even good projects are having trouble getting money.

Question: MR. BADER asked what would be the opportunities in the next five years.

Answer: MR. GORDON felt the cycle would play out for two to three years across a variety of asset markets. Real estate is caught up in the US economy. A five-year view of commercial real estate, and realizing this is a cyclical sector anyway, is that this segment of the market will come out of the crisis and pricing will rise rapidly. The time to invest is ahead of that. He advised that the ARMB stay with the asset class and keep putting money judiciously into the asset class through 2009 and 2010 vintage years. He believed that 2009 would be the bottom in terms of pricing. He commented that when the US housing market recovers in 18 to 24 months, then the US economy can start to rebuild, and then his NOI will start to rebuild. MR. HENKEL felt there were opportunities in the next couple of years in retail as owners of high quality, core, institutional grade assets and retailers who own their real estate locations decide to sell.

Question: MR. RICHARDS asked how medical space would differ from general real estate or retail and would it have a softer landing because medical costs are increasing?

Answer: MR. GORDON stated it is holding up well. He felt that 2009 and 2010 are times to be defensive. New niche sectors that were not institutional before are good defensive plays; these include medical, university-related real estate and other things not as impacted by a recession. In medical there has been rental rate growth, growing occupancy, and no distress. Doctors are coping with higher costs by joining groups.

Question: MR. BADER asked, if there were an ideally situated regional mall in an upscale area, whom would you want as an anchor?

Answer: MS. PFEIFFER responded that the strongest department store is Nordstrom. They have a strong market following, they are good merchants, and they are good real estate negotiators. They are one of the few anchors that continue to provide a draw into regional malls. From a macro perspective, the value that large anchors brought to regional malls is not as great today relative to the kind of controls they are seeking. This has given rise to lifestyle centers that are smaller and more nimble.

Question: MR. O'LEARY noted that in the midst of a recession is traditionally a good time to buy stocks. He asked when in a recessionary environment is it ideal to buy core.

Answer: MR. MURDY replied that an appropriate time to buy is just coming out of a recession when some of the lower pricing is available. This varies also by market. It would be good to get into retail earlier and into office later. It might also be good to get into hotels earlier. MR. McNALLY agreed with these comments. The open-end core fund at BlackRock will continue to buy and dollar cost average. In the value added space, Diamond will buy when there is distress. An opportunity has to be more precise in terms of timing. MR. TRAENKLE stated the opportunity fund tries to market time. It is better to over pay on the way up than under pay on the way down. MR. HENKEL stated that in core he would think it is inopportune to buy because core asset pricing has just gone through a time when levels were unprecedented. This is a difficult time to argue for a core buying strategy.

Question: DR. MITCHELL noted that, when investors look at returns from stocks and bonds they are unlevered, while real estate returns are levered. He asked if real estate could ever be a good investment without leverage.

Answer: MR. GORDON replied that there is corporate debt in stocks. The index most of the real estate industry uses is unlevered. He agreed that the unlevered base return should be the starting point to understand whether or not there is additional benefit to the leverage versus the underlying real estate. The ARMB has a lot of unlevered core and low-levered core. The biggest mistake a real estate investor could have made is to invest in a single style. The ARMB has made several types of investments and together they offer protection and diversity.

Question: MS. HARBO asked what effect Baby Boomers will have on the real estate economy, particularly with attempts to revitalize downtowns in large cities to apartment buildings with all services in a small area so that personal vehicles are not needed.

Answer: MR. HENKEL felt this was an interesting question. Other than traditional 24/7 cities in this country, which are few, most other cities face a dramatic challenge to draw people into the urban center. In response, there are opportunities to build mixed-use projects that offer this type of urban lifestyle in the suburbs. Demand exists across the country for an urban lifestyle, but not in the cities.

11. JP Morgan Asset Management

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board, Strategic Property Fund" dated September 25, 2008 and kept on file at the ARMB offices.

ANNE PFEIFFER and JOEL DAMON presented to the Board after introduction by Mr. Bader. MR. DAMON noted that Ms. Pfeiffer has run this strategy since inception in 1998. MS. PFEIFFER explained that the Strategic Fund is a traditional, relatively low risk fund. The fund size is $16 billion, which is a large fund that benefits the ARMB in terms of broad diversification. The 3-month return for the Fund was .9% and the 1-year return was 9.4%. The year-to-date return at the end of June was 1.9%. Going forward she expected that there would be flat returns in the third quarter of zero to slightly negative. With the change and uncertainty in the market, JP Morgan is doing what it knows. The portfolio owns large, high quality assets with stable cash flow streams. It is highly leased and there is minimal rollover. She expected in 2008 to see a flat to perhaps slightly positive return. Price depreciation may lower the overall return.

MS. PFEIFFER noted that the open-end core index, which Strategic comprises 22%, is all open-end commingled funds. Current pricing is incorporated into values and unit prices. There will be changes in performance in the index before it is seen in the broad index. Strategic has out performed its peer group, largely attributable to the quality of assets and the fact that they are in good trade areas.

MS. PFEIFFER reviewed some assets in the fund. The Fund has not done many forward commitments to buy an asset at completion. This means there is free liquidity over 2009 and 2010 to buy assets at current pricing. She stated that she would selectively invest in core, making sure that under writing reflects the pricing today. Not many assets were bought in 2008 and the Fund has sold $500 million of assets at fair prices. When those assets were brought to market, largely in the second quarter, financing was found and sales closed. Over the last two weeks, the markets have frozen and JP Morgan would not recommend bringing assets to market. This fund has a low leverage strategy with less than 24% levered. In the third quarter, the Fund refinanced from short-term to long-term debt and put money on apartments. She noted that two dozen investors are looking to rebalance in the Fund. A large rebalancing takes two to three quarters to achieve.

MR. BADER asked if leverage is done by property or are there blanket mortgages. MS. PFEIFFER replied that the Freddie Mac refinance was on 22 assets and there can be replacement of assets within that portfolio. She also negotiated coverage ratios and loan-to-value ratios so that, if she wants to sell an asset, she has the right of substitution. There is no portfolio level debt; all debt is against individual assets.

MS. PFEIFFER stated she expects the queue will be eliminated over a couple of quarters. No investors are leaving the Fund entirely.

MR. O'LEARY asked about the safeguards that protect a "run on the bank." MS. PFEIFFER replied that the pro rata formula does not incentivize anyone to ask for more money than they need. For the last 25 years, JP Morgan has had a formula that gives importance to the size of the investor's investment in the Fund. The formula determines who wants liquidity and how much they comprise of the Fund. Secondly, there are no requirements to give out liquidity. There is no timeframe that must be met and no requirement to give up a certain amount of liquidity. Cash flow is generated from the portfolio and that becomes an available source of liquidity. At this time, there are no compelling investments that would use that liquidity. She thought that with the capital coming into the Fund and the cash flow, existing investors that want to rebalance will be satisfied.

MS. PFEIFFER reviewed the geographic distribution of the portfolio holdings. L.A., New York and Washington have been strong markets. There is still a spread between contract rent and market rent and that will be captured. Strategic has an office portfolio of 29 million square feet and one lease with Lehman for 16,000 SF in Dallas. All the investment banks that have been in the press would aggregate less than 2.5% of the total office portfolio. Some of these will be opportunities for JP Morgan.

MS. PFEIFFER reviewed recent transaction activity for both acquisitions and sales. She expected sales to be down dramatically in 2008.

MR. PIHL asked if most banks like to lease rather than own their own real estate. MS. PFEIFFER replied that banks like to own data facilities and banks that have large trading activities like to own their facilities. Banks that are more typical office uses prefer to be tenants. Banks typically like to own their branch banks.

MR. BADER asked with regard to the Bear Stearns and JP Morgan merger whether Ms. Pfeiffer would manage more. MS. PFEIFFER replied that Bear Stearns did not have real estate business, so the merger did not impact the real estate group.

12. Cornerstone Real Estate Advisors

For more information on this presentation, please refer to the document entitled "Cornerstone Real Estate Advisors LLC, ARMB" dated September 25-26, 2008 and kept on file at the ARMB offices.

BRIAN MURDY, DEB SCHWARTZ and PAT KENDALL presented to the Board after introduction by Gary Bader. MR. KENDALL stated Cornerstone has just under $10 billion in assets as of June 30. The firm has core, value added and development competencies in funds and individually managed accounts. The firm also has domestic and global REIT capacity. Hotel, residential, and office dominate the firm's assets. The bulk of assets are on the eastern seaboard or the west coast. The portfolio is comprised of opportunistic at 7.9%, core at 35.8% and value added at 56.3%. The firm's performance lags on the one year, but above the benchmark for 3-, 5-year and since inception periods. The first Rotational investment liquidated in 2007 with a 38% net IRR to the investor. The direct value-added returns for the firm are outstanding. The current offering is the second in the Rotational strategy. Assets for the Patriot Fund are being increased. Offices have been opened in Amsterdam and Hong Kong to expand global investments.

MR. MURDY reviewed the ARMB IMA. There have been 3.5 years of performance. No sales have occurred this year. Since inception, returns range from 12.4% to 19.4% on the properties in this fund. The portfolio has beat the index over the 1-, 3- and 5-year periods. The firm is focused on tenant retention and rollover in the next two years, which are likely to be the most distressed areas of the market. There has been growth in occupancy over the course of the year, although it is ultimately behind the target for one of the properties. The firm recognizes that two of these assets are the largest in the ARMB fund.

330 North Brand Boulevard in Glendale, California is the largest property in that area market. There is minimal construction in Glendale, California. A lifestyle center opened nearby and there is a good amenity package for this large office building. In 2008, this property earned 12.47% gross and 11.95% net. When the real estate plan was put together in May the year was thought to be flat, but now 5% to 7% depreciation is expected for this property. When the property reaches 90% occupancy, Cornerstone will look to sell.

MS. YOLANIS asked that Mr. Murdy speak to cap rates and their relation to income. MR. MURDY explained that cap rates are generally low for southern California. The appraiser was looking at a 10-year hold, not immediate income. As cap rates are now rising, some value will come from that, not the operational side.

Arden Hills I, II and III in Minnesota is the second property in the Fund. The purchase of this property closed in March 2004. This property has had strong performance. There is no construction in this market. The property is 100% leased. Cornerstone attempted a sale of this property during the year, but after receiving several offers, it was pulled from the market. Two tenant leases expire in 2010 and buyers saw that as a risk rather than an opportunity. Cornerstone is looking to renew a lease with one tenant and they are looking to expand. There are no tenant issues in this property. Last year this property had a 7.1% income return and -1.28% appreciation return.

Cerritos Towne Center in Cerritos, California was bought in 2005. No retail can be developed anywhere around this property. It is in the heart of the city and is 100% occupied. One tenant is in distress and is vacating, but three prospects are lined up. Wal-Mart is looking to expand their store and there is also the ability to expand the theaters. He expected to see erosion in income for this property over the next year.

MR. BADER asked for information on the management structure of the Cerritos property. MR. MURDY stated it was purchased in a joint venture. When the property was being sold, the opportunity to buy it was enhanced by keeping that JV partner in at 5%. They have a vested interest in the property and are very much aligned with ARMB.

MS. SCHWARTZ reviewed the Cornerstone Apartment Venture III fund. This fund was incepted in April 2007 and the ARMB is a 14% investor in the fund. The fund is 60% committed to 9 investments. There have been four capital calls to date for five investments, four of which are operating properties. There is one additional opportunity. Terms have been worked out with the JV partner and Cornerstone is trying to find construction financing. There is capacity in the fund for $150 million of additional assets. No new opportunities are identified. The lending environment is very volatile. Fannie Mae and Freddie Mac are still available to do permanent financing, but construction financing is difficult to find. Underwriting is becoming more rigorous. The properties in this fund are doing very well. They are in barrier markets. The occupancy rates of the properties are good. MS. SCHWARTZ briefly summarized the assets currently in the fund.

MR. PIHL noted that the unit costs for apartments are very high. MS. SCHWARTZ explained that this is because they are downtown in high-rise construction, which is very expensive. MR. PIHL asked what monthly rent is. MS. SCHWARTZ replied that the rental rate is approximately $2,500 per month. MR. KENDALL added that Cornerstone joint ventures with local developers, so the actual construction cost risk is not assumed by Cornerstone. As a result, the returns are more conservative. Cornerstone takes the risk in terms of renting and the market.

MR. BADER asked if “green” is becoming more attractive and is it attractive to the owner because costs are less. MS. SCHWARTZ replied that there is not a lot of “green” residential construction because it is costly. Cornerstone is trying to make the Charlotte project as green as possible and would try to get certified. It gives an edge in the market. MR. MURDY stated that he is looking for green certifications in office as well. Costs for development

MS. SCHWARTZ noted that there are not many empty nesters moving into urban projects, it is young people.

MS. HARBO asked if Donald Trump just opened a 92-story apartment building in Chicago. MR. MURDY replied in the affirmative and noted that this building was supposed to be condos but they are now apartments. This has posed unexpected competition.

13. LaSalle Investment Management

For more information on this presentation, please refer to the document entitled “Alaska Retirement Management Board, Portfolio Update and Investment Review” dated September 25, 2008 and kept on file at the ARMB offices.

GEORGE DUKE and JACQUES GORDON presented to the Board after introduction by Gary Bader. MR. GORDON introduced Mr. Duke and reviewed his qualifications. MR. DUKE briefly reviewed the teams involved in the management of the ARMB portfolios. LaSalle is real estate focused, has 28 years of experience, and has $54 billion under management. The property operations are going well, with 97% average occupancy and net operating income (NOI) within 1% of budget. Returns have been 8.7% over the year, 13.4% over the three years, and 13.3% since inception. He noted that income of 6.1% for the year is still good. Capital market valuations have been coming down, contributing to the reduced income.

MR. DUKE stated this is a diversified portfolio comprised of 7 properties. There is a concentration in the west and in office. There are slight increases in all categories through NOI growth. Some properties have had over 5% increases. The largest property in the portfolio is Virginia Square outside of Washington DC. Some early lease renewals were completed there last year. LaSalle is looking to have this building Energy Star certified at the end of this year; only 25% of buildings in the country will be able to qualify for this certification. There are many government contractors and, to the extent Washington is pushing energy efficiency, this is important. There are about 100 buildings in the country with LEED status and 1000 have applied for it, including this building. This addresses not only the building but also practices at the building, such as recycling. MR. GORDON noted that points can be gained because of the location of the building near mass transit. MR. DUKE stated it is likely not possible to achieve gold or platinum LEED status for an existing building. MS. HARBO asked what the benefit of this certification to the ARMB is. MR. DUKE replied that this certification affects leasability. There will not be many LEED buildings available. MR. GORDON stated that early data is showing LEED buildings have higher occupancy and greater retention. Over time, LaSalle hopes to charge higher rent as well. MR. DUKE noted that if there is LEED status, it is an indication that expenses are well managed, at least in terms of energy. MS. HARBO asked if this means the air quality in the building is much better. MR. DUKE replied that air quality is a measure.

MR. DUKE reviewed Broadway 101 in Phoenix. LaSalle is also seeking Energy Star status for this building to indicate to tenants that the building is energy efficient, but is not going after LEED status for this building. West Fremont may see IBM as its largest tenant. If IBM signs a lease, a termination penalty may be imposed. LaSalle is negotiating with Intel and a lease with McAfee has been renewed for AmberGlen in Portland. LaSalle is negotiating with CVS about renewal of its lease at Aliso Creek Shopping Center in April 2009 and to more than double their rent to about $30/SF. This will contribute to increased NOI in the next year. Shallowford's NOI rose in 2008 as a result of renewals increasing to market levels. This is the only property that is less than 90% leased. This is top decile in terms of income in the area. Rainer Industrial is the smallest property. It is in a good market and one tenant is renewing next year.

In fiscal 2009, LaSalle will continue to analyze short-term sales and long-term holds, complete renewals at various properties, achieve 93% occupancy at Shallowford, achieve Energy Star status at Virginia Square and Broadway 101, and pursue LEED designation for Virginia Square.

MR. DUKE stated the ARMB has a $30 million commitment to the LaSalle Medical Office Fund, which is dedicated to buying medical office buildings through the US. There are 11 investors and the investments can be put into play before April 2010. Roughly $303 million has been committed. Performance has been good. Over the 19 medical buildings there was a return of 9.6% for the rolling four quarters, 7.5% of which was income. Some of that was achieved through a 57% leveraged loan program, while the borrowing rate is under 6% while. These properties are 98% leased. The strength of hospital systems keeps these investments sound.

MR. PIHL asked how it is possible to get a rental rate increase from $12 to $30 without losing the tenant. MR. DUKE explained that CVS has a rate of $12 and proposed $24 for rent. The highest rent in the area was in the $40 range, but this is a larger store. LaSalle countered to them at $34 and they went to $30. MR. GORDON noted that LaSalle inherited six or seven takeover assets and, of those, only two were kept and this was one. Rents have tripled in this area over the last 10 years.

MR. GORDON stated this portfolio is well positioned and defensive. He had great confidence that strong NOI streams would be produced over the next 12 months. No problems are anticipated with the rent roll.

MR. GORDON noted that opportunities for fiscal year 2009 include global REITS in the public area, international commingled funds in the private area, as well as domestic commingled funds. LaSalle's global REITS are beating their benchmarks, but the global REIT index is -15% year-to-date. Monday, REITS were down -9% in the US and Asia was down -20%. It is best to look at REITS year by year. REIT holdings are defensive relative to a stock group.

DR. MITCHELL asked for a comparison of the relative attractiveness between public and private real estate markets. MR. GORDON stated that Sharpe ratio work does not show a good measure of risk on the private equity side. REITS show attractive Sharpe ratios versus other public sectors. DR. MITCHELL asked if money should be put into REITS or private deals. MR. GORDON added that REITs are better because they trade at a 22% discount to their net asset value. Shares in Simon are trading at a 25% discount to the underlying mall valuation.

BREAK 3:40 p.m. to 3:55 p.m.

14. BlackRock

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board, BlackRock Diamond Property Fund" dated September 25, 2008 and kept on file at the ARMB offices.

CATHY EBERT, JOHN LAMB, and PETER McNALLY presented to the Board after introduction by Mr. Bader. MS. EBERT stated the gentlemen worked together at AEW and headed BlackRock's US acquisitions team in the eastern half of the US prior to managing the Diamond Fund. She noted that Merrill Lynch had a 49% interest in BlackRock and, as a result of the purchase of Merrill Lynch by Bank of America; Bank of America will assume that position. They will have two seats on the 17-seat board.

MR. McNALLY thanked the ARMB for its support. He stated that much of the Diamond Fund's strategy has not changed in this economic environment. The Fund continues to buy high quality buildings. Diamond is a flagship, open end, US only, multi sector fund. It contains 65 properties valued at approximately $2.5 billion. The leveraged level is under 50%. The Fund is structured as a private REIT. It has an independent board of directors that meets quarterly. Diamond is unique in the universe of value added funds because it focuses on high quality properties. It also focuses on urban and coastal areas, knowledge based economies, and higher income areas. Risk management infiltrates everything at BlackRock. Diamond is a target market investor in 8 to 12 markets.

MR. LAMB stated the Fund has underlying gross asset value of $3 billion, $2.4 of which is Diamond and the remainder is the joint venture partner interest. The fund net asset value with 48% leverage is $1.2 billion. There are 65 properties in the portfolio. The portfolio is over weight in apartment and office sectors. There is a coastal presence in knowledge-based markets. The Fund will naturally transition in terms of lifecycle. The traditional value added will be pushed to 65%. The Fund posted a -1.67% return for the second quarter, which is the first negative return for the Fund, creating a flat return for the year. He anticipated the third and fourth quarters would be choppy. The Fund is in good shape then going forward. The Fund has had $125 million in redemptions over the year and has a $12.5 million queue. New commitments have slowed. The Fund has $150 million in commitments that are in due diligence currently. Commitments to the Fund have slowed. The Fund disposed of one asset and bought one small asset.

MR. McNALLY stated BlackRock is focused on building liquidity. The firm is building every protection possible for the Diamond Fund to ensure it can meet capital and funding requirements for a year and beyond. Building liquidity means the Fund is more active in the sales market. BlackRock has been earlier in securing financings. The firm is also reducing leverage as returns for real estate are falling below the cost of debt. BlackRock is increasing the income component of returns and is moderating the risk profile of the Fund. BlackRock has unwound six development deals that were being considered. Lastly, BlackRock wants to prepare for buying opportunities. There will be very attractive buying opportunities and BlackRock wants to buy more of the type of assets it has.

MR. LAMB reviewed returns. The fund is clearly under weight in retail as a result of selling a large asset in Oakland, however, two of the large development assets are retail and that will bring the retail position up. Office is a large concentration of the fund; BlackRock is currently under contract to sell one of the large office assets, which will bring that exposure back in line. In terms of geographic focus, there is over weight in New York City. Cash flows have reduced, so that exposure is being brought down through other methods. There is a firm contract to sell one of the properties in New York and an equity partner will be brought in on 530 Park Avenue, which would allow rehabilitation and improvement of that asset. BlackRock would like to invest in several markets, including Houston, San Francisco, and Miami. MR. LABM cited a listing of the 10 largest investments.

MR. BADER asked if the existence of a queue moves the firm to either buy or sell property. MR. McNALLY replied that this is absolutely not a motivation to buy or sell. The fund is run for the benefit of existing and future investors.

ACTING CHAIR TRIVETTE asked how many assets would be sold. MR. LAMB replied that two more assets would be sold before the end of the year and maybe three or four more if the capital markets open. ACTING CHAIR TRIVETTE asked if the New York properties are rented to financial entities. MR. LAMB replied that office buildings have some financial tenants, but they are not a significant percentage. He noted that residential property in Manhattan is somehow related to the financial sector.

COMMISSIONER GALVIN asked how the new investments are positioned in relation to the current financial situation. MR. LAMB replied that Potomac Town Center is a $200 million transaction in Washington DC. It was financed in March with attractive construction financing. Although the retail market is slow across the country, this has a tremendous anchor and key tenants are signed. Troy Pavilion in Michigan is under review because it is not 70% leased; this investment will not move forward without that.

MR. RICHARDS noted that Bank of America is a 49% partner but only has two seats on a 17-seat board. MS. EBERT indicated this is correct. She noted that the other significant owner is PSE bank, which also has two seats.

15. Coventry Real Estate Advisors

For more information on this presentation, please refer to the document entitled "Presentation to the Alaska Retirement Management Board" dated September 25, 2008 and kept on file at the ARMB offices.

PETER HENKEL presented to the Board after introduction by Gary Bader. He explained that the firm has existed for 10 years, does only value added retail real estate investing, recognizes the uniqueness of retail among other real estate assets, and has an 18% target gross IRR. Since 1998 the firm has completed 27 transactions totaling $2.5 billion. Fund I is fully realized, achieving a 42% IRR. Fund II, in which the ARMB is invested, is fully committed and the life cycle for a number of its assets is reached, so exit strategies are being explored. The team at Coventry is what distinguishes the firm. Coventry buys existing assets that are under utilized, participates in joint ventures with local partners, and buys portfolios of stores from retailers. Each type of retail investment, including malls, power centers, lifestyle centers, mixed-use assets, grocery-anchored properties, and retailer portfolios, has unique characteristics. The strategy for acquisition is to maximize the spread. Coventry under writes the spread to 200 to 300 basis points. Coventry is looking for characteristics where under utilized assets can be made into good performers. The firm's development strategy is also to maximize return on yield. Coventry does not buy tracts of land that are unentitled or not zoned.

The firm's track record is good. Fund I is 100% realized. Fund II is 100% committed with $413 million in equity and $1.4 billion in transactions. Coventry is looking at exit strategies, subject to market conditions. Fund III has $150 million of capital commitments and Coventry has closed on three investments. The management team has experience both in investment management and retail management.

MR. HENKEL remarked that the current market environment is extraordinary. There is still no deal among the House, Senate and Administration on a rescue package for the US economy. Over the past year, housing prices, energy prices, an economic downturn, wars abroad, and now an almost systemic failure in the economic system, has affected real estate with a seizing up of the capital markets. There are enormous challenges for everyone in this sector to execute. The lack of availability of debt financing has created stagnancy. MR. HENKEL stated that one of the most interesting effects of the lack of liquidity is the under writing standards being applied. For new development transactions some level of pre-leasing has historically been required, but banks were flexible in terms of what that meant. Now there is a minimum requirement of 50% leases signed before construction lending is put in place. That is a difficult metric to hit because oftentimes construction of a project must begin in order to generate leasing activity. As a result of this situation, there is a paradigm shift with respect to asset pricing. The conventional wisdom in retail is that Class A assets in an A market will be nominally affected, but Class B assets in a B asset or worse market, cap rates are gapping. Each year in history, retail sales have gone up 10% in aggregate and 2009 is projected to be the same. While the rate of growth will slow, retail sales will continue to rise. Healthy retailers will continue to add new stores. In 2007 through 2009 those retailers have added new stores at a steady pace. This is because retailers do not achieve growth on an internal basis and must add new stores in order to grow their earnings base. Supply is not as much of an issue in this recession as it has been in other recessions, particularly in retail. New supply in retail peaked in 2007 and is projected to decrease through 2011. Retail sales per capita are outstripping retail square footage per capita. Discount retailers continue to grow far above conventional and national chain department stores. This trend is irreversible and is exacerbated in this type of economic environment. Current market trends benefit Coventry. Location has become more important than the format of a development for retailers. There is a demographic trend toward demand for “live/work/play” venues and retailer demand for new store locations to meet growth expectations.

MR. HENKEL reviewed Coventry Fund II. A total of $413 million in equity is committed in this fund through 12 investments. Potential asset sales are three, subject to market conditions. He briefly reviewed each of these three potential buys. The weighted average projected gross IRR for stabilized investments is mid-20% range versus the target of 18%. He noted that the extent to which there are challenges in Fund II relate almost entirely to the capital markets. Construction financing for an asset that is being developed has taken longer, so the development must continue to be funded with equity. Coventry is not highly levered. Refinancing is very difficult and borrowing costs will be higher. The underlying Treasury or LIBOR, depending on how Coventry borrows, is very attractive on an historical basis. Coventry is also working hard to refinance some assets in Fund II, to find selective opportunities to sell properties, and to complete the strategic plan on the assets that require development, redevelopment, and releasing work. This fund is a joint venture with Developers Diversified.

MR. BADER remarked that he visited Totem Lake Mall several years ago and while, in Seattle the day his grandson was born and coming back from the hospital he noted how much it has changed. MR. HENKEL noted that Spectrum is also a great success. The location is great and good for discount retailers Wal-Mart, Costco, and Target.

16. Colony Advisors

For more information on this presentation, please refer to the document presented at this meeting and kept on file at the ARMB offices.

ROMMEL MARSEILLES and KEVIN TRAENKLE presented to the Board after introduction by Gary Bader. MR. TRAENKLE reported that Washington Mutual was just taken over by the FDIC and JP Morgan is buying their assets, and the bailout plan has stalled for now. He explained that Colony’s presentation includes information on factors the firm tracks in determining its investment strategy.

MR. O’LEARY asked when housing prices would stop going down. MR. TRAENKLE estimated that they would stop a decline in 18 to 24 months.

MR. TRAENKLE stated that commercial real estate is not the cause for the current economic downturn. The commercial economy is growing, but it is unstable. Financial markets have yet to undergo significant change. Developers did not create an overhang of supply in this market. Unemployment is on the rise and, if it continues to go up, commercial real estate will not come out of the crisis unscathed. The average US corporation is doing better this cycle compared to the last cycle. US corporations are not as levered as in previous cycles and interest rates on the debt they do carry are low. Colony is not seeing an implosion in terms of fundamentals, is not seeing rental rates spike, or rental rates crash, but there are concerns. There is an up tick in the spread versus risk free borrowing rates. The risk free rate of investing is going down. No one knows where to put capital; there is a flight to quality. Treasuries are not giving much yield, so other investments must be considered.

The problem is the “hung” inventory of all of the loans originated over the past several years. Investment banks are not, by and large, in the business of holding mortgages. Banks made loans, credit rating agencies blessed them, and investors bought them. Nothing will get better until credit is cleaned up from the balance sheets of financial institutions. The cost of capital is staggering. Much of the losses are paper losses, but there must be a bottom where buyers and sellers agree upon a price.

The housing market began the financial crisis and it snowballed. This is the biggest housing recession since the Great Depression; however, housing prices have risen significantly over the past three to four years. During that time frame people were refinancing their homes because their home equity became available cash for the consumer. In terms of inflationary pressures, everything is more expensive than five years ago. These high commodity prices have kept construction at bay. RMBS default and delinquency rates are rising substantially, primarily because these loans should not have been originated. When CMBS come due in the next few years, those default rates will likely rise. However, the leverage ratios were not nearly as high on the commercial side as they were on the residential side. There is lower transaction volume in commercial real estate in recent quarters. To date, consumer discretionary and financials have been the areas most downgraded by S&P. This is a consumer versus a corporate-led contraction. In the early 1990s, it began in the corporate side and went to the consumer side. Residential real estate is the culprit, rather than commercial real estate. Debt markets are in total disarray, but the equity market is okay. There are inflationary pressures and a risk of stagflation, which is potentially positive for commercial property values. Financial risk is more spread out.

MR. TRAENKLE observed that the housing recession might take years to resolve. Employment trends are a concern. Massive stimulus packages may help. The market will remain volatile until the pipe clears. There is a mixed picture with great opportunities.

Existing investments in Colony VIII are under pressure. The fund is 27% below cost basis. The structures in place will help weather the storm. The real opportunity is going forward.

MR. O’LEARY asked noted that the leverage to cost figure for Colony is 58% and asked what the ratio of leverage to market is. MR. TRAENKLE replied that figure is 73%. Colony will probably do everything unleveraged going forward.

MR. TRAENKLE briefly reviewed several investments in the portfolio, including Station Casinos in Las Vegas, Carrefour, the world’s second largest food retailer that owns all of its retail locations, and Accor, the fourth largest lodging company worldwide.

Colony is looking at debt opportunities and does not want to invest in equity, as nothing on the horizon will make equity values of real estate more valuable in the near future. Consideration is being given to distressed debt positions. Colony recently bought a portfolio of 11 loans from an investment bank at a 30% discount. That portfolio, on a weighted average basis, was 33% LTV. It was priced at 13% yield on cost and a yield to worst projected at 18%.

MR. WILLIAMS <u>moved that the ARMB convene an Executive Session for purposes of receiving information on legal matters and that such session be limited to Trustees, legal counsel, and staff</u>. MS. HARBO <u>seconded</u>.

By roll call vote, the motion passed unanimously.

EXECUTIVE SESSION 5:02 p.m. to 5:23 p.m.

RECESS 5:23 p.m.

ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Location of Meeting
Fairbanks Princess Hotel
4477 Pikes Landing Road
Fairbanks, Alaska

MINUTES OF
September 25-26, 2008

Friday, September 26, 2008

I. CALL TO ORDER

ACTING 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
Patrick Galvin
Tom Richards
Commissioner Patrick Galvin
Martin Pihl
Mike Williams

ARM Board Members Absent
Commissioner Annette Kreitzer
Gail Schubert, Chair
Larry Semmens

Consultants Present
Rob Johnson, Legal Counsel

Department of Revenue Staff
Jerry Burnett, Acting Deputy Commissioner
Gary Bader, Chief Investment Officer
Pamela Green, Comptroller, Treasury Division
Scott Jones
Steve Sikes
Zachary Hanna
Judy Hall, ARM Liaison Officer, Department of Revenue

Department of Administration Staff
Patrick Shier, Director, Division of Retirement and Benefits
Jim Ruppert, Deputy Director
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits

IAC Members
Jerrold Mitchell
Dr. William Jennings

17. Fund Financial Report with Cash Flow Update

PAMELA GREEN, Comptroller, Department of Revenue, and KEVIN WORLEY, CFO, Department of Administration, presented to the Board. MS. GREEN reviewed monthly performance as of July 31, 2008. Invested assets are $18.6 billion, $291 million above the beginning invested asset number, due primarily to net contributions to PERS and TRS defined pension plans attributable to the General Fund contributions under HB310. Ending invested assets for PERS was $10.8 billion, an increase of $79 million. Ending invested assets for TRS is $4.9 billion, an increase of $222 million. JRS experienced a decrease of $1.3 million for a total of $131.8 million. The Military Retirement Plan is at $26.9 million, a decrease of 1%. The SBS had ending assets of $2.1 billion, a decrease. The Deferred Compensation Plan had $501 million, a decrease of 3%. All plans suffered losses during this month.

MR. WORLEY reviewed a summary of financial information entitled “The Cliff Notes Version” for the one month ending July 31, 2008, particularly focusing on contributions and withdrawals. A General Fund contribution was received in the amount of $241,600,000 of which $79 million was allocated to the PERS Trust Fund and $161.9 million to the Alaska Retiree Health Care Trust. PERS contributions totaled $48 million.

ACTING CHAIR TRIVETTE asked what method was used in allocating the contributions. MR. WORLEY explained that the Division consulted with Buck Consultants in allocating between the pension and the health trust funds.

MR. WILLIAMS felt that $99 million paid out on the PERS Retiree Trust was unusually high. MR. WORLEY explained a true up was required in July because when the Healthcare Trust payments began coming in, Premera, the third party payer, was submitting daily requests for reimbursement and for the period March through June those costs were allocated among the funds, based on head count. When the true up was done, actual allocations were made.

MS. HARBO noted that percentages of funds allocated to the pension fund and health trust fund are different for PERS and TRS. She asked how much of the amount went to each. MR. WORLEY explained that the percentage allocation of employer rates for FY09 was used and a determination was made that the greatest percentage was going to healthcare under PERS. This is a much different split than for TRS. ACTING CHAIR TRIVETTE assumed that there would be truing up this year because of the requirement to split the funds per IRS requirements. MR. WORLEY stated this is correct. The Division will also be moving amounts from June 30, 2007 with IRS approval.

MS. HARBO thanked Mr. Worley for preparing the financial information in this format because it is easier to follow.

MR. WORLEY reported that the JRS was appropriated $49 million and National Guard was allocated $10 million, but those were done in June and will be shown in those financials.

There was consensus among the Board that the "Cliff Notes Version" would suffice for future reviews.

MR. WORLEY noted that normally the National Guard appropriation comes from the Department of Veterans and Military Affairs in July of the fiscal year. That $1.7 million appropriation was received in July, so it was processed in August.

MS. GREEN reviewed graphic representations of the PERS total invested assets, investment income, actual versus target asset allocation, and invested assets by major asset class. She also reviewed the same information for the TRS fund. She noted that for both funds there are now 7 rather than 13 asset classes. Global equity is nearing the bottom band. The total invested assets for JRS shows that the infusion for unfunded liability occurred in June. The private equity band for JRS is at 0. When the number of asset classes was changed, the bands around them were not changed; there is a resolution addressing this later on the Board's agenda. The Military Retirement Trust Fund received $10 million in General Fund money during June. She noted that the funds by manager in the report have been regrouped into new pools. The presentation format will be changing as more asset classes are included in the other plans.

MR. PIHL was surprised that PERS and TRS have gotten two State contributions and the balance at the end of July is less than it was at the end of June 2007. MR. WILLIAMS noted that a portion of that loss is attributable to investments. ACTING CHAIR TRIVETTTE noted that the prior fiscal year was one of the worst since 2000.

COMMISSIONER GALVIN acknowledged the work done by Mr. Worley and Ms. Green in terms of the audit and the financial reports. He stated that everyone who works with them and who uses the work product recognizes the outstanding nature of their work. He appreciated the efforts to try to make the information more understandable to members of the ARMB and to improve transparency.

18. Performance Measurement – 3rd Quarter

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board, FISCAL 2008 Performance Evaluation" dated June 30, 2008 and kept on file at the ARMB offices.

MICHAEL O'LEARY began with a review of the US economy during the quarter. There were concerns about increases in inflation and slow economic growth. There was a debate as to whether more stimuli were needed. Dollar weakness was a focal point of investor concern. The dollar strengthened at the end of the second quarter. Interest rates had an incredible decline through the fiscal year across the entire yield curve, with most of the decline in the front of the end of the yield curve. During the quarter, however, Treasury rates increased. Throughout the fiscal year there was a widening in yield spreads as people became more and more concerned with safety issues and the meltdown in subprime and other structured asset categories. Through

June over 10 years the Russell 3000 has returned 3.5% while the Lehman Aggregate returned 5.7%. This period includes two bear markets and the dot.com bust.

In terms of domestic versus international stocks, over a 5-year period the EAFE in US dollar terms performed 16.7% versus 11.2% measured in local currency. This period was dominated by the dollar declining in value, which translated into an additional return for international stocks. This has been a powerful contributor to the out performance of international compared to domestic stocks. During the June quarter, the dollar increased in value, detracting from the total return of international stocks.

In the June quarter, the energy sector returned over 20%. The financial sector had a return of over -16%. The holdings of the ARMB's managers in these two sectors significantly impacted their returns. Trailing 12-month returns for the Russell 1000 Growth versus the Russell 1000 Value, plotted against the Russell 1000, show growth out performing value in 2008; during the dot.com bust, value out performed growth. Since then value has out performed, but it has been controlled. The fact that growth is out performing is a notable change. MR. O'LEARY noted that the P/E ratio based on forecasted earnings is low.

MR. RICHARDS noted that over time it appears that growth is up 50% of the time and down 50% of the time. MR. O'LEARY stated this is a truth that must exist because of the way that Russell constitutes the indices. Half of the index by market capitalization must be in the growth index and the other half in the value index. Each year the index is recomposed.

MR. O'LEARY next reviewed returns of large versus small cap stocks; large companies under performed small companies during the first six months of the year, with most of the under performance occurring during the June quarter.

There are three hedge fund of fund style groups: absolute return, core, and long/short equity. Absolute return has a focus on strategies that are capital market driven, such as those based on spread relationships. The majority of ARMB holdings in absolute return are more conservative and those have not done as well strategies that have taken directional bets in some sort of levered way. Long/short has done better than the other style groups.

MR. O'LEARY reviewed the asset allocation for SBS, noting that the Alaska Balanced Fund is close to, but slightly under, the benchmark, as is the Long-Term Balanced. The Target 2010 is above target, Target 2015 is better than target, Target 2020 is better than target, and Target 2025 close, but slightly behind, target.

Brandes had a decent quarter relative to the benchmark, but poor performance relative to the benchmark for the year and Capital Guardian's Global Balanced Fund is below target. Sentinel Sustainable Core, which grew out of the Citizens fund, was difficult to measure because of the timing of the transition. MR. O'LEARY explained that he took the actual results of the Citizens fund prior to becoming part of the core fund at Sentinel and linked the two returns. Citizens was a growth fund, so Sentinel's return is compared to the Russell 1000 Growth, but the Sentinel fund is characterized as a core fund, so it is also compared to the S&P 500. T. Rowe Price Small Cap underperformed for the year, but had a positive quarter and did better than the benchmark.

T. Rowe Price Stable Value Fund had a positive return that exceeded the 3-month Treasury bill and was only slightly below the GIC Master Index.

MR. O'LEARY next reviewed the T. Rowe Price component funds. Each target maturity fund will over or under perform because the components have done so or the actual asset allocation of the target maturity fund will be different than the target. The Large Cap component was near the S&P 500 for the year, the Small Cap did better than the Russell 2500, International Equity under performed for the year, and Government/Credit out performed the index, as did the GNMA component.

Brandes International Mutual Fund has had above benchmark performance for the longer term and weak performance in the shorter term. Thus it is on the Watch List.

DR. JENNINGS felt there was some ambiguity in the appropriateness of the benchmark for Brandes because they are value biased. If Brandes were compared to a value index, it would have out performed. MR. O'LEARY noted that it was for a long time the only international vehicle, and over the longer term it is compared to the EAFE. DR. JENNINGS favored having added the MSCI ACWI for comparison.

MR. O'LEARY reviewed the Sentinel Core Fund, a core equity style fund. Citizens merged into Sentinel. The Capital Global Balanced Fund over the 5- and 9-year periods is close to, but behind, the international index, despite recent under performance. MR. BADER noted that staff has looked at this fund for the last year. This fund has international equities and international fixed income and poses challenges in terms of monitoring and getting access to the holdings. Staff has tried to find an index fund to better approach this investment. When the Defined Contribution Committee next meets, he felt it would be good to review this fund and some of the other under performing funds in the DC option. MR. O'LEARY stated this was a particularly poor year for this fund relative to the benchmark. They are on the Watch List.

T. Rowe Price Small Cap has had competitive performance overall, but lags the index.

MR. O'LEARY next reviewed Defined Benefit investments. He noted that these returns do not include the final figures for real estate. Those figures have been calculated now, but they are not included in the figures in his presentation. He noted that with those figures, there was a seven basis point reduction in return for the quarter and the year, primarily due to the performance of Colony.

Relative to other public funds the ARMB's asset allocation has lower total domestic equity exposure, comparatively low fixed income exposure, comparatively high real estate exposure, median international equity exposure, and comparatively high alternative exposure. Real estate has been a good performer for the last five years and, to date, it appears to be better than equities, subsequent to year-end. Both international and domestic equities have been exceedingly weak since the end of the prior fiscal year. Alternative investments include absolute return and real return, as well as private equity. Only 39% of the CAI database has a dedicated allocation to alternatives. He expected that alternatives have done significantly better than equities, but not as well as bonds in the September quarter.

MS. HARBO asked what percent of public funds invest in commodities. MR. O'LEARY stated a comparatively small percentage invest in commodities, which is within private equity. Allocations, where they exist, are 2% to 3%. DR. MITCHELL noted that there are several ways to invest in commodities. MR. O'LEARY noted that Orange County has had a 10% real allocation, which for years was in TIPS and now is invested in three distinct commodity strategies.

For the quarter, performance was -.61% and –the final return was -.68%. For the trailing 12 months the return for PERS was -3.13% and for TRS was -3.12%. Over the trailing 3 years, the return for PERS and TRS is in excess of the actuarial discount rate and well above target. Absolute return and international equity contributed to this performance, with managers adding value. Domestic equity was better than target for the 12 months, although the manager effect was slightly negative. Although absolute return is below its target of Treasuries plus 5, it is higher than the total fixed income return. Domestic equity was better than target for the fiscal year. The fixed income return was superior to the absolute return. Both fixed income and absolute return were below target. International equity was down -7.5% for the year. The best performer was "Other", which is energy, farmland and water. The next best performers were private equity and international fixed income. MR. O'LEARY noted that the diversification benefit is evident when reviewing all of these asset category returns over time.

COMMISSIONER GALVIN stated he is hearing more and more talk about active versus passive management and advocating a strategy of using passive in efficient markets and focusing active management in areas where there is the most benefit. These returns seem to bear out this opinion. MR. O'LEARY responded that he agrees with this, but felt the ARMB has done this with a large passive commitment in the most efficient market, large cap domestic equity. COMMISSIONER GALVIN noted that the passive/active allocation in that asset is 50/50 and asked if that is enough of a movement in the direction of passive management or should it be 100%. MR. O'LEARY noted that in the last year this allocation has helped reduce returns because active did better. He felt this was a value judgment. He noted that Relational pulled things back in the past year because of the size of their allocation and their style. They were chosen almost as a public form of private equity because of their activist strategy. In the short-run they can impact overall returns. In the long-term they have been successful in generating attractive returns, but have not done so in the short-run in the fund where the ARMB has participated. COMMISSIONER GALVIN felt that the method used to report returns dilutes this effect. He felt the ARMB cannot adequately evaluate Mr. O'Leary's response. He wondered whether it would be beneficial to split out those returns so the impact is more understandable. MR. O'LEARY remarked that this information exists. He cautioned that in building a portfolio one must be fully aware of how each component interacts with the other. Looking at each in isolation creates a different picture than seeing them as part of a whole. COMMISSIONER GALVIN felt that at times the reporting method being used is necessary to encapsulate information, but it would be beneficial to have additional information that separates managers in order to more easily understand how active management is working. MR. O'LEARY stated he would do this in future reports.

MR. BADER noted that page 11 of Mr. O'Leary's report contains a record of performance of different equity classes and in 2001 there was a big divergence between growth and value. At that time, there were no active value managers in the portfolio. Over the 15 years he has been associated with this portfolio; active versus passive has never been balanced. Slightly more than one year ago staff received authority from the ARMB to use the Russell Growth and Russell Value to balance the portfolio. Last year an analysis tool was used to analyze the characteristics of the actively managed portion of the portfolio and determine whether it was growth or value. The historical record does not take into account the biases that the Board has had in active versus passive management. COMMISSIONER GALVIN stated this experience is his concern. Having watched how decisions are made, there would be a tendency to choose active managers based on what is popular at a particular time. He thought that it may be beneficial to use passive management to achieve a long-term goal, and also in recognition of the staff workload associated with active management. MR. O'LEARY felt that this Board's confidence in staff and the growth in staff have created a meaningfully different fact set than existed five years ago. This was first evidenced in the small cap arena and now in the large cap and international arenas.

MR. O'LEARY stated that for the fiscal year when the market was down, the ARMB performed in the upper quartile. This was also the case when the market was up. Achieving this in both up and down markets is difficult. This performance is attributable to asset allocation and manager performance. Internally managed fixed income was below the benchmark, but very competitive relative to the core bond style group. The Small Cap Pool out performed the index. Total International was in the 33rd percentile for the year and the 17th percentile over the three years. International excluding strategic emerging markets allocations has out performed the index and is at median. The Emerging Markets Pool performed under the benchmark for the fiscal year and the quarter. Longer-term results are close to the benchmark over other periods. The Global Pool, comprised of Lazard, was down for the fiscal year, above the MSCI World, but below the MSCI ACWI. Lazard has done better than benchmark over longer periods. Mondrian out performed the index and was in the top quartile. The REIT portfolio under performed the index and is on the Watch List. Performance is improving in the recent six months. The Absolute Return Composite is at median and well below target. Mariner has had consistently weak performance and is on the Watch List. Cadogan's performance was below median for the year, but above median for the 2- and 3-year periods. ING's High Yield Bond portfolio, which is now Rogge, is on the Watch List for performance. MacKay Shields High Yield Bond portfolio has done well. Barrow Hanley, a new value manager, was just removed from the Watch List. Capital Guardian Large Cap Domestic Equity is on the Watch List. Their performance for the quarter was slightly below benchmark, but longer-term results are above the benchmark. Relational had a decent quarter, but results for the fiscal year were poor. Brandes International is on the Watch List. Their longer-term results are very strong. They are a very deep value manager. Capital Guardian International has done well for the fiscal year. SSGA is on the Watch List because the team that assembled this portfolio left to join Lazard. They had good returns for the quarter.

MR. O'LEARY stated that Washington Mutual is now a failed bank. It is the largest bank failure in history. JP Morgan bought their assets and branches. He has not seen the details of this deal. Depositers will have total access to their money at their branches and there will be no FDIC involvement. The early part of last week Wachovia was a candidate to merge with Morgan Stanley and today reports are that people are worried about Wachovia. Trouble remains. People like he do not have to deal in credit markets on a day-to-day basis, but they are not working right now. Dr. Mitchell told him that the yield on a high quality paper with little time left to maturity was only 27% because no one wants to buy it. There were reports yesterday about a large auto dealership closing largely because financing could not be obtained. After listening to real estate managers yesterday, it seemed that real estate is not a good investment in the next several years. Every real estate manager presumed that the current liquidity challenge would be handled. He noted that there were people sleeping outside banks in Singapore trying to withdraw their funds. People are beginning to panic.

ACTING CHAIR TRIVETTE asked if Mr. O'Leary sees a huge impact on the international market. MR. O'LEARY responded that since June international stocks have done better than domestic stocks, but they have cratered. On a calendar year-to-date basis, emerging markets are down approximately 30% and developed international markets are down 20% to 22%. In September, the US large cap market is down 17%. He remarked that there is a tendency for people to be positive in their thinking, but he felt that many participants are indeed scared. He felt optimistic that problems would be dealt with sufficiently to avoid serious problems.

COMMISSIONER GALVIN remarked that, given what is happening and the general pessimism felt about the market going forward, the ARMB will be asked if it did what it could do to respond to this crisis. He asked if the ARMB should re-examine its asset allocation or direct staff to make changes in its operations. MR. O'LEARY felt there was nothing to change in dealing with the immediate situation. Expectations must be re-assessed and people's actions going forward will change. He recalled that in the late 1960s when he graduated college people said they would never buy a stock because their parents went through the Great Depression. The ARMB should be thorough and thoughtful about everything in its existing policy. This is a marvelous test period to determine whether absolute return will do what is expected. The importance of liquidity has been taken for granted. The question is how to better plan for other periods that are stressful on liquidity. He was very comfortable with the ARMB allocation to bonds, stocks, real estate, and other asset classes.

MR. RICHARDS stated that in light of the way the world changed after 9/11 there has been change in the world markets. He understood Mr. O'Leary is comfortable with the ARMB diversification and asked if there should be more diversification. MR. O'LEARY was sure there would be changes at the margin, but not fundamental changes. The ARMB is a large fund and it is tied to the success of the global and US economies. It may be beneficial to tilt toward the global economy at some point. Right now the fund is tilted toward the US economy. He anticipated that inflation would be problematic in the future and the ARMB is already working with that assumption.

MR. PIHL asked what Mr. O'Leary has done with his personal portfolio. MR. O'LEARY stated he has always been an equity person with a tendency toward small cap. He has not changed his heavily equity oriented portfolio. He has a value, a small cap, and a pronounced equity bias in his personal portfolio.

COMMISSIONER GALVIN was aware that the ARMB staff is mindful of the liquidity issue. He asked whether, as a board, the ARMB should be watching for anything that would cause it to consider meeting before its next scheduled meeting. MR. O'LEARY thought there might well be some news events that will create an opportunity for constituents to get very scared. It is important to make them aware that there is active consideration of these concerns. Last week a major public state fund was challenged because they wanted to transfer money from a STIF account and their custodian said they could not take money out of STIFS, which caused angst.

That fund held some Lehman paper and there was a run on the fund. He stated he has been looking for information on money market insurance, but has not found much. It appears that it does not cover STIF funds; it covers only registered mutual funds of a certain category. Another major custodian is having problems with STIF funds as well.

On another subject, MR. BADER stated that one of the most popular new DC plans was anticipated to be Treasury Money Market account. He has learned that $7.1 million was transferred out of Stable Value and $12.1 million into Stable Value. During the same period, only $655,000 has gone into the Treasury Money Market fund. Participants are being levelheaded and long-term in their investments.

BREAK 10:345 a.m. to 10:55 a.m.

19. Capital Guardian Trust Company

For more information on this presentation, please refer to the document entitled "A Global Balanced Review to Alaska Retirement Management Board" dated September 26, 2008 and kept on file at the ARMB offices.

PAULA PRETLOW and DAVID HOLSTEIN presented to the Board after introduction by Gary Bader. MS. PRETLOW indicated Mr. Holstein joined Capital Guardian in 2005 and was with GM Global Equities prior to that. She thanked the ARMB for its business and long-term relationship with Capital, which manages more than $1 billion on behalf of the ARMB.

MS. PRETLOW stated the investment philosophy at Capital remains the same. The business approach is focused on investment management. Being a privately held company allows Capital to provide superior long-term results for its clients. Capital manages three global balanced portfolios for the ARMB and they are all managed the same. The Deferred Compensation Plan is the largest and oldest of these portfolios. As of August 31, 2008, the DC Plan had total net assets of $98.7 million, $60.5 million in equities and $38.2 million in fixed income. This account has been managed for 13.5 years on behalf of the Plan. Over the life of this investment, Capital has added value. Over the last year to 1.25 years, Capital has not achieved that performance on an absolute or relative basis.

MR. HOLSTEIN described the decision-making process, which begins with research, involves communication, moves to decision-making that produces asset allocation and fund mix, and ends with implementation into a client's portfolio and risk control. The decision-making involves equity-oriented managers, fixed income oriented managers, and generalists. Capital spends time on valuation of stocks versus bonds, US versus international and small cap versus large cap. The second consideration is global economic indicators and outlook. Technical factors are also considered, such as election cycles and calendar periods. Many portfolio managers are involved in the information gathering aspect of asset allocation. There is a monthly meeting at which 8 voting members meet and share their views in all these areas. Decisions are then made through a voting process and implemented. MR. HOLSTEIN reviewed the backgrounds of voting members, all of who have long experience with Capital and in the investment industry. These individuals use asset allocation in making their investments and bring unique capabilities to the investment committee. He reviewed each committee members' votes on asset allocation during the month of August. The overall asset allocation is typically a 60% equity/40% bond mix. The conclusions of the group in August were divided. Two equity advisors think this is a good time to get back into the market, one fixed income investor feels the opposite, and others are between those views. There is a bias toward US equities over other asset classes in this August 2008 vote. Voters took some risk off the table by giving low allocations to small cap and emerging markets. US bonds was also an area of interest. The final position is an average of all 8 committee members' votes.

MR. HOLSTEIN noted that a bullish perspective is that equities are cheap, policy makers understand the problems and will come to the right conclusions so the economy forms a bottom and improves, and equity markets forecast what will happen 6 to 12 months from now. A bearish perspective is that this will take longer to work out and will be messier than is commonly perceived in the marketplace, the Main Street US economy has not turned over, and the bond market has been forecasting a recession for some time.

MR. HOLSTEIN stated that the ARMB's portfolio is more US-centric with a higher allocation to US equity and a smaller allocation to US small cap than the portfolio he reviewed earlier. The Global Balanced Account has been relatively successful in adding value over the longer periods. The last year has been difficult.

MR. HOLSTEIN explained that the Global Balanced Account is a diversified portfolio that has the goals of generating income and growth, is tactical in terms of identifying near-term market opportunities, is driven by exchange of ideas and individual accountability, achieves the bulk of value through underlying portfolios, and undergoes periodic review of long-term assumptions and asset class structure.

MS. PRETLOW noted that a letter would be issued on Monday explaining personnel changes at the firm. David Fisher will come off the US equity portfolio. Karen Miller is coming off the US small cap team and will be focusing on global unconstrained product and other US equity products. Jim Malowi who has been on the fixed income team will focus on mutual funds. Jim Kang will replace David Fisher on the US equity core portfolio.

ACTING CHAIR TRIVETTE noted that over the last five years selection has drug down results. MR. HOLSTEIN stated that in the last year the portfolio has not been successful in under weighting equities. The difficulty in terms of selection has been in the underlying fixed income fund where there was more spread product in the Capital portfolio than in the index. Being in US Treasuries would have benefited the portfolio. There has also not been good stock selection in US equities, particularly financials.

COMMISSIONER GALVIN noted that the annualized returns in the presentation are gross of fees, so in comparison to the benchmark net of fee returns would be worse. MR. HOLSTEIN referred to page 5 of the presentation, which has both gross and net returns.

MR. PIHL noted that the summary attribution analysis on page 23 of the presentation indicates that the holdings include Lehman, AIG, Wachovia, WaMu, and Fannie Mae. MR. HOLSTEIN stated that Capital believed the underlying franchise, the take over premium that would be awarded to WaMu, and their US base would have created value over time, which has not been the case. Capital's analysts saw value at attractive prices, but did not understand the severity of the liquidity crunch and the psychology of the market that could drive solid businesses to the brink of bankruptcy. He remarked that Capital has had lengthy discussions on these subjects, but have spent more time on valuation than the way the world would handle the situation.

MR. O'LEARY noted in terms of selection that the US fixed income benchmark was up 7.75% and the portfolio was up, even before fees, only 2.23%. The international fixed income benchmark was 18.72% and Capital was almost 5% below that. US equities were 6.4% behind the benchmark. The only place Capital was above the benchmark was international and only by 1.3%. He did not agree that selection was the reason for under performance. MR. HOLSTEIN noted that asset backed securities returned 800 basis points more than the index in August 2008 and those securities, at the index level, returned -13.1% versus 1.7% for government. It is more surprising to be under performing on the fixed income side to such a large degree, and that is a key to portfolio under performance.

20. Relational Investors LLC

For more information on this presentation, please refer to the document entitled "Portfolio Review with Alaska Retirement Management Board" dated September 26, 2008 and kept on file at the ARMB offices.

RALPH WHITWORTH and FRANK HURST presented to the Board after introduction by Gary Bader. MR. WHITWORTH reviewed information on the firm and discussed the large cap and mid-cap funds it manages on behalf of the ARMB. He noted that the principal partner and he have worked together for 25 years working on this strategy or a derivative thereof. No member has left senior management for 11 years. He noted that the firm has grown over time, this year adding nine investment staff. The firm has out performed the S&P 500 since inception, with some volatility along the way.

It is appropriate stewardship that investors engage the management and boards of companies on issues like their strategy, their capital allocation, their governance, and their executive compensation. The common themes of the companies in which Relational invests are that they are mature, they have sure cash flows, they are profitable, they are not over leveraged, and for some reason they have been discounted or under valued in the market relative to their peers. Relational attempts to identify the reasons for under valuation and if it is readily identifiable and appropriate for an investor to address, investment may be made in that company.

MR. BADER asked that Mr. Whitworth share information on the background of the firm's leaders prior to forming Relational. MR. WHITWORTH replied that he and David Batchelder met when they both worked for Boone Pickens in the 1980s. Mr. Batchelder and he then established separate firms doing advisory work and investing in one investment at a time in this strategy. They found they were working together and decided to form Relational. Between the two of them, Mr. Batchelder and he have been on the boards of 20 public companies and have chaired a number of those boards. This experience allows them to understand the decisions companies are making and the difficulty of those decisions.

MR. WHITWORTH returned to his presentation. He explained that Relational is trying to find situations with the most upside possible as a result of changes and where changes are the easiest. There are situations where tenacity was required. He reviewed returns for Prudential Financial, noting the stair step approach Relational takes to entering an investment. Based upon periodic assessment of the situation, the investment may be increased, terminated or otherwise changed. MR. WHITWORTH briefly reviewed an organizational chart for the firm. Over the history of the firm, approximately four analysts have been added per year and one of those becomes a longer-term, permanent member of the organization. This year a lift out was done of a research group at Credit Suisse. They are now integrated into the company and will help with the front-end screening process.

MR. WHITWORTH reviewed cumulative performance for the aggregate fund. He noted that the firm under or out performs the index episodically. The stage of an investment contributes to this performance and the portfolio can be out of favor in sectors. The under performance in 2007 was primarily due to under allocation in financial services. There was also an investment in Sprint that brought performance down. This year the firm is ahead of the market, but that is a relatively short period. In periods when the market has been down, Relational has out performed the market. Performance levels out over longer time periods. MR. WHITWORTH reviewed a graphic representation of performance in quarterly, 1-year, 3-year, and 5-year rolling periods. Year-to-date and fiscal year-to-date performance has been better than the market. Returns for fiscal year 2008, which were affected by the last two quarters of 2007, were materially negative. Since inception, primarily attributable to the two quarters in 2007, the returns are behind the market.

MR. HURST noted that in fiscal year 2008 there was exposure to financial securities and Home Depot, and a lack of exposure to energy. The latter is a common thread in the firm's strategy. Stock selection fiscal year-to-date yielded flat returns.

MR. WHITWORTH noted there is information in the presentation showing portfolio attribution and stock contribution over various time periods. He discussed several holdings in the portfolio, beginning with Sovereign Bancorp. The firm owns roughly 10% of this company. He is on the board of directors and he is the chair of the credit risk committee. In 2007 this company contributed heavily to the firm's under performance. All MBS securities were sold to Bear Stearns when he became chair of the credit risk committee, but this company lost money on the Freddie Mac/Fannie Mae situation. While margins are improving as a result of lower interest rates on borrowing, he did not believe that the overhang in the real estate market would be cleared up with legislation to address the financial crisis. There is an excess of homes on the US market, but there is uncertainty in terms of how the supply side will fluctuate.

MR. O'LEARY asked for a conceptual explanation of what a financial institution was confronted with and how Freddie Mac and Fannie Mae presented a problem. MR. WHITWORTH stated that any bank that carried a lot of mortgages and was in the mortgage origination business sold to Freddie Mac and Fannie Mae. There is encouragement from Freddie Mac and Fannie Mae, as well as from regulators, to own the preferred shares issued by Freddie Mac and Fannie Mae. Almost every bank of that character owned Freddie Mac and Fannie Mae preferred shares. To participate in that, a bank has to have a certain number of assets that relate to mortgages. The value of all equity securities was essentially wiped out when Freddie Mac and Fannie Mae were taken over. Those will be marked off against earnings and there is less capital for lending. Sovereign Bancorp raised $2 billion in new capital in May at only a 3% discount to the closing price. There have been many and significant changes in the industry since that time.

MR. WHITWORTH next reviewed Baxter International, which is one of the largest blood plasma companies in the world. They are growing quite rapidly, primarily because of the developing world exposing them to more sophisticated healthcare. They were taking cash flows and trying to diversify and invest; most of that money was wasted over a period of time. Relational helped them recruit a new manager with a fundamental business focus and they have become very successful.

MS. HARBO asked what was done with Outboard Marine, which went out of business. MR. WHITWORTH indicated that company was sold before it went private.

LUNCH BREAK 12:05 p.m. to 1:15 p.m.

21. Actuarial Update: How Change to Health Care Cost Trend Rates Impact Employer Contribution Rates

DAVID SLISHINSKY, CHRISTOPHER HULLA, ERIC JUGADIS, JOE COOPER, and MICHELLE DeLANGE with Buck Consultants presented to the Board, assisted by Patrick Shier. MR. SLISHINSKY stated that after the presentation in June there were follow-up discussions with ARMB members that resulted in Buck being asked to perform calculations and return to the Board at this meeting. One study was to look at the contribution rate and determine what it would have been had the Board not capped the increase in the employer rate at 5%. There was also discussion regarding consideration of health care cost trend rates and what would be the impact on employer rates by using a new model issued by the Society of Actuaries.

MR. SLISHINKSY indicated that prior to FY05 the actuarially required contribution rates were lower than today. In 2002, the actuarially value of assets was re-initialized to market, reducing the value of assets because the market performed poorly. At the same time, changes were made in assumptions with respect to healthcare benefits. With the increases in those rates, a decision was made to increase employer rates by 5% per year.

The employer rates were calculated using the assumption that the actuarial rate was contributed for FY05, FY06 and FY07. With the large increase in the actuarial rate and limited increase in the employer rate, there were lower contributions to the fund. The impact of that is noticeable primarily in the rates for 2008-2010. If there were no 5% cap, the rate for 2008-2010 would be slightly lower.

ACTING CHAIR TRIVETTE understood that the lack of contribution to the total rate had a minimal impact. MR. SLISHINSKY agreed that the difference is not dramatic.

MR. SLISHINSKY reviewed the contribution rate limit study for PERS, noting that the actuarial value of assets if there had been no 5% cap is not far different than what was adopted.

MS. HARBO remarked on the notation that the Board decided not to increase employer contribution beyond 5% and asked if that refers to action by PERS and TRS in FY02. MR. SLISHINSKY stated this was a decision that affected the rate in FY05. MS. HARBO recalled that the PERS Board was limited by statute to an increase of no more than 5%, it was not that they decided to not increase the employer contribution by more than 5%. MR. JOHNSON stated there was a regulation in place pertaining to PERS, but not to TRS. MR. PIHL noted that the Commissioner set the rates and the Board accepted those rates. MR. JOHNSON stated that prior to SB141, the provisions in code were that the PERS Board set the rates for PERS and the TRS Board was in an advisory role with the Commissioner setting the rates for TRS. He added that the 5% cap was set in regulation many years ago. Regulations for PERS had to be presented by the Administration to the Board for acceptance or rejection, not presented by the Board to the Administration. MR. PIHL felt it was important that documents reflect which board is being discussed, and that it is not ASPIB. He asked that the documents be clarified in this regard.

MR. SHIER suggested that the third bullet on page 2 of the Buck Consultants' presentation be amended to insert "PERS and TRS boards." ACTING CHAIR TRIVETTE noted that the PERS Board was limited by regulation and the TRS Board did not set the rate, rather the Commissioner did. MR. SHIER indicated the Department of Administration would work with Mr. Johnson to correct the wording of the Buck Consultants presentation.

MR. SLISHINSKY reviewed the funded ratio for PERS, noting that the original funded ratio would have been slightly higher by 2007 had there not been a cap on the increase in the employer rate. That difference is approximately 4%.

MS. DeLANGE reviewed the contribution rate limit study results for TRS. The actual required contribution is 39.53% in 2010, while the Board-adopted contribution rate was 15% to 20% lower than the actuarially required rate for 2004-2007. In 2008 it spiked above the actuarially required rate because the Board adopted a level dollar rate. The actuarially required rate without a 5% cap on contribution results in a 4% lower employer contribution rate for FY2010. MS. HARBO stated there was no cap on the TRS Board. They adopted a 5% increase because PERS did. Furthermore, the Commissioner could have adopted a different rate than the TRS Board advised. MR. PIHL stated the spike to go to level dollar averaging did not occur. He recalled SB115 that changed the rules to spread the increase over all payrolls. MR. SHIER recalled that in April/May 2006 this changed. MR. PIHL recalled that it changed before the rate became effective. DAVID KIEHL with Legislative Affairs clarified that because of the switch in systems and application of the rate to the defined contribution population, a decision was made to not go to the level dollar method. The Board reviewed their decision to assign a rate of 54% and lowered it. The Legislature said it would accept the rate for PERS. TRS was substantially over funded in that year because of the unfunded liability situation. In FY09 there was a drop because the calculation went back to the actuarial method.

MS. DeLANGE reviewed the value of assets, had the contribution rate equaled the actuarially required rate for TRS. The value of assets would have been $400 million higher. The funded ratio would have been 5% higher had the contribution rate equaled the actuarially required rate.

MR. SLISHINSKY stated that the findings from the contribution rate limit study are that the increased contributions that might have been paid lowered the unfunded liabilities, increased the funded ratio, and would have had a slightly lower employer contribution rate today. However, overall, the lower contribution amounts and lower funded ratios are relatively minor.

MR. SHIER suggested that the language in this presentation refer only to the increases not being limited without attributing that limitation to any party.

MR. SLISHINSKY next reviewed the Health Care Cost Trend Rate study. MR. SHIER reminded the ARMB that when Buck last discussed this there was some concern with the decrease to a 5% assumed rate in the out years. Commissioner Kreitzer asked that the actuary review those assumptions again. It is not the Commissioner's desire that there be an action associated with this at this point in time. If the ARMB agrees that something should be done, an action memorandum can be prepared.

MR. HULLA explained that Buck analyzed different healthcare models and ultimate trend rates using both the current model with a 6% ultimate trend rate and using the Society of Actuaries model with varying inputs. He further described the Society of Actuaries model, which was developed in early 2008 but not adopted as a standard. The input into this model is not really different than Buck has been using, but there is a more rigorous process. Inputs to the Society of Actuaries model include inflation, real GDP, an income multiplier, and taste and technology, which attempts to capture the fact that healthcare costs as a percent of GDP keep are climbing over time. The model includes factors that dampen trend increases over time, including national health expenditure as a percentage of GDP. This is limited to a maximum of 25%.

MR. HULLA reviewed the results of various models from 2007 forward. The current model drops to the lowest 5% trend. He also reviewed various models extended through 2100, noting that most models gravitate toward a 5% or 6% actual trend. Another analysis shows per retiree/per year expenditure in the Society of Actuaries model rising to almost $12,000 by 2018, whereas the current model is closer to $10,000. Per retiree/per year figures out to 2030 shows a more pronounced change. MR. HULLA reviewed accrued liability and normal cost under each of the models. The Society of Actuaries model – baseline includes all of the variables Buck knows in its experience with the plan and it is an about 6% increase in accrued liability. The Society of Actuaries model – pessimistic model assumes a faster growing economy, higher income, and a resultant 35% increase in the actuarial accrued liability.

MR. SHIER observed that in his first review of this material, the most remarkable thing is that the current model is the shortest bar on the graph on page 21 of Buck's presentation. Even if the most optimistic model were adopted, it would still represent an increase over the current model.

MR. HULLA reviewed a graphic translation of the change in the actuarial liability and in the normal cost to a change in the employer contribution rate. Maintaining the current methodology, but being more conservative in terms of long-term trends, is a 22% increase in the healthcare component of the employer contribution rate, so the total jumps from 27.7% to 31.4%. The Society of Actuaries model – baseline is higher than the current contribution rate, and the Society of Actuaries model – pessimistic is a combined 38.7%.

MR. HULLA reviewed the findings of Buck Consultants' work that the State has changed trend rates multiple times, which is not unusual, and that the Society of Actuaries model is much more long-term with the ultimate trend rate being reached in 2080. Using a model with longer-term projections should reduce volatility.

ACTING CHAIR TRIVETTE asked that the actual increases in the last three fiscal years be provided. MR. HULLA stated he could provide that information. Trend rates were fairly high for a while, tapered off favorably over the last several years, and jumped in the current year.

MR. SHIER stated that two years of good experience occurred at the same time that the TPA was changed. The TPA discounts in the medical community were very effective and he believed that the plan saved $60 to $80 million as a result.

COMMISSIONER GALVIN noted that the current model does not match what other models are showing and asked if the ARMB is changing the model used for future analysis. MR. SHIER replied that Commissioner Kreitzer indicated that this is information the ARMB should consider and now is not the time to put an action memo on the table. She encouraged the ARMB to consume and consider the information and she would ask to place the topic on the agenda for the next Board meeting and perhaps the meeting after that. COMMISSIONER GALVIN did not see justification for keeping with the current model, so he encouraged a recommendation at the next ARMB meeting to move toward something within the parameters shown in this analysis. MR. SHIER personally concurred. He noted that the model that the actuaries came up with came forward at the same time the Department of Administration was questioning the modeling.

Pension Obligation Bond Update

COMMISSIONER GALVIN reported that last session the Legislature passed the authorizing bill for a pension obligation bond corporation. The formation of the pension obligation bond corporation formation is ongoing. Three primary banks, Citigroup, Merrill Lynch, and Goldman Sachs are being engaged as co-leads to move toward testing whether or not this will be the market to embark on this. There is enough lead-time to allow this to move forward with a target of November for potentially pricing and making a determination whether or not to go forward. Financial advisors at First Southwest, bond counsel, and underwriting counsel have been working quickly to assemble the legal documents underlying a bond sale. There is an authorization up to $5 billion and a potentially $2 billion sale is being considered. The European market is being considered, in addition to the US market. Credit rating agencies are coming to Juneau next week for two days of presentations. An AAA rating is being requested. A response is expected in one to two weeks. As of today, the possibility is left open to go out to pricing in early/mid November. However, things will have to change in the coming weeks in order to maintain that schedule. There is no sense of imperative to move forward if the market is not appropriate. It is unlikely that this will move forward this fall, at this point in time. MR. BURNETT stated that, if this moves forward, it would be in the nature of accelerated capital into the fund. There is no direct relationship to employer rates. The credit is to the State, not the employers or the system.

MR. RICHARDS asked if there are monies around the world looking for a good investment, so this might be a good time to move forward. COMMISSIONER GALVIN stated that is part of the thought process, but the countervailing issue is that if the underlying confidence in the market in general slips; there is a risk premium on everything that exceeds acceptable limits. This is a completely opportunistic venture and there is no reason for the State to enter the market at a high point. There is no assurance at this point that the State would have a marketing edge simply because these pension bonds are appropriation dependent and not general obligation bonds; there may be some concerns with that.

COMMISSIONER GALVIN departed the meeting.

22. Investment Actions

A. Secondary Private Equity

MR. BADER noted that in some asset classes there is no private equity. When asset allocations were adopted last spring, staff anticipated using the private equity pool. That is still on the table, but has not been decided upon; it requires further legal review and analysis. In any event, a secondary private equity fund would benefit the Board. Secondary private equity funds are generally lower yielding but have more predictable returns. They are generally purchased at a discount and are sometimes considered lower risk because they do not have an associated J-curve. Staff requests the ability to engage a secondary private equity fund and invest in that fund.

MR. PIHL moved that staff be directed to engage Callan Associates to assist with the evaluation and due diligence of secondary private equity funds and delegate to staff the authority to invest up to $75 million in secondary private equity funds subject to due diligence and consultant concurrence. MS. HARBO seconded.

MS. HARBO asked if there is a timeline associated with this investment. MR. BADER hoped to report on this matter in December 2008.

By roll call vote, the motion passed unanimously.

B. Asset Allocation Revisions

MR. BADER explained that staff is proposing to adjust the bands around asset allocations. Earlier this year the staff suggested broader asset allocations, which reduced the number of asset classes. Because of this change, there is a need to, in some instances, drift further from target than has been the case in the past. He summarized the three resolutions relating individually to PERS/TRS/JRS, PERS/TRS/JRS Retirement Health Trust, and Retiree Major Medical HRAP/ODD. The recommendation is for an increase in the investment range in broad domestic equity from ± % to ± 6% and increasing the range for global equity Ex-US from ± 3% to ± 4%.

MS. HARBO moved for approval of Resolution 2008-29, PERS/TRS/JRS, Resolution 2008-30, PERS/TRS/JRS Retirement Health Trust, and Resolution 2008-31, Retiree Major Medical HRAP/ODD. MR. PIHL seconded.

MR. WILLIAMS noted that in Resolution 2008-30 and 2008-31 instead of a normal band width of ± 5% for private equity, real assets, and absolute return the proposal is to effectively eliminate those asset classes on the lower end. He asked if there is justification for the broader band width on the lower end. MR. BADER stated there are some asset classes with 0% because investments cannot be made in them yet, and the negative number allows a 0% allocation in those without violating the policy.

By roll call vote, the motion passed unanimously.

C. Equity Guidelines

MR. BADER explained that the ARMB has equity guidelines including the amount of cash a manager can hold. This was done because in the past some managers were making an asset allocation decision by being up to 15% in cash. From time to time a manager will sell a security and attempt to put in a limit order to buy at a particular price and it may not reach that price, resulting in them holding trade cash. This results in a call to the staff and compliance picks it up as a violation. This creates more work for staff and does not address the Board's concern with holding cash. The recommendation from staff is for managers to not average more than 3% cash for 10 days or more than 5% cash for 10 days.

MR. WILLIAMS moved for approval of Resolution 2008-32, approving the revised Investment Guidelines for Domestic and International Equities. MR. PIHL seconded.

By roll call vote, the motion passed unanimously.

D. Farmland Guidelines

MR. BADER stated the ARMB has been investing in farmland since 2004 and has $435 million invested to date. There are two advisors in this program and they have slightly different guidelines, but in general focus on annual valuations based on varying degrees of third party appraisal or advisor assessment. Over the past few years, there has been an increased focus on private equity accounts. The Financial Accounting Standards Board issued FASB 157 related to Fair Value Measurements of alternative assets. This clarified many things, including that it is management's responsibility to make fair value assessments and disclose. This responsibility may not be transferred to somebody else. Management must have sufficient information to evaluate and independently challenge the valuations of investment managers. Last year the ARMB moved real estate appraisal to an annual appraisal cycle at March 31 each year. That date is intended to meet the needs of the June 30 audited balance sheet of the ARMB. Staff recommends that the valuation policy for farmland be enhanced to more stringently account for auditing requirements. Staff asked to improve consistency between the two advisors and across all real assets in which the ARMB invests. The policy relating to farmland valuation provides that all assets shall be appraised at the time of acquisition and further that all assts shall be appraised annually during the quarter ending March 31st, unless the property was acquired during the preceding 12 months. thirdly, it requires that all property valuations shall be reviewed internally by advisors for the quarters ending June, September, and December. Staff believes that adopting this policy will provide for consistency between the two farmland managers and with other real return asset classes.

MR. PIHL asked if it is possible to get a full appraisal every three years and get an update in the interim years. MR. BADER replied that this is possible, but FASB 157 imposes a greater responsibility to conduct an annual audit. He asked what the cost of this type of appraisal is. STEVE SIKES replied that the cost averages $3,000. VICE CHAIR TRIVETTE asked what would be the cost for the entire portfolio. MR. SIKES explained there are 80 properties, so the appraisal cost would be approximately $250,000. MR. PIHL felt money could be saved by simply updating data in interim years. MR. BADER understood the requirement for an annual audit is driven by FASB157 more than anything else. MR. SIKES stated that in terms of best practice and where things are going, an annual appraisal is advisable. To be consistent with real estate, an annual appraisal cycle is advisable. MR. WILLIAMS asked if there has been discussion with the farmland advisors to see if they are receptive to this change in policy. He heard Mr. Sikes indicate they are already moving toward that with a June 30 deadline. MR. SIKES stated he has discussed this with them and they are prepared to make this change.

MR. PIHL moved to adopt the Farmland Valuation Policy. MR. RICHARDS seconded.

By roll call vote, the motion passed unanimously.

MR. O'LEARY left the room for the next item.

E. General Consultant Contract – RFP

MR. BADER stated the contract with Callan Associates Inc. runs from April 1, 2004 through June 30, 2007 with two optional one-year extensions. At its February 2008 meeting, the Board directed staff to exercise the final one-year extension through June 30, 2009. Due to the time frame necessary to develop an RFP and receive responses, staff has asked that the Board direct staff to prepare and issue an RFP for a general consultant for the Board in a time frame that will result in a general consultant contract being in place by July 1, 2009.

MR. PIHL directed staff to prepare and issue an RFP for a general consultant for the Board in a time frame that will result in a general consultant contract being in place by July 1, 2009. MR. WILLIAMS seconded.

By roll call vote, the motion passed unanimously.

DR. MITCHELL left the room for the next item.

F. Investment Advisory Council Appointment

MR. BADER explained that by statute the ARMB may appoint an investment advisory council composed of at least three and not more than five members. Currently, three IAC members are under contract to provide investment advisory services to the Board and staff. The term of Dr. Jerrold Mitchell expires December 31, 2008. Several months ago Dr. Mitchell advised him that due to the number of ARMB meetings per year and the press of his work, he would be unable to attend all of the meetings. He later indicated he would not be a candidate for renewal of his contract to the IAC. The Board authorized a committee to begin a search to replace Dr. Mitchell. Subsequently the staff issued a solicitation for membership in the IAC and a committee was formed consisting of Trustees Semmens, Pihl, and Harbo and Trustee Trivette was present. During the evaluation process, there was discussion of an alternative attendance schedule for Dr. Mitchell and Mr. Bader was asked to contact Dr. Mitchell to see if he would be interested. Dr. Mitchell has agreed to be available to attend three meetings per year: capital markets allocation, manager review with the CIO, and one other. Dr. Mitchell will attend other additional meetings he is able to attend.

MR. WILLIAMS recognized the value that has been derived from Dr. Mitchell's involvement with the ARMB over the years and asked if this reduced schedule would still provide value versus someone who would attend on a full time basis. MR. BADER noted that with the previous board the IAC members attended meetings on a rotating basis. On balance, he felt that rotating attendance worked well. It is slightly better that members attend every meeting. He noted that the value of IAC members goes well beyond the meeting attendance.

MR. PIHL did not feel that every IAC member needs to attend every meeting. He favored adopting the same rotating schedule for other IAC members. MR. BADER stated the committee discussed that concept, but it was clear that this amendment was for Dr. Mitchell only and a change for all IAC members is another topic.

MR. JOHNSON recalled when the decision was made that IAC members attend all meetings. He asked if that is in a resolution that might need to be amended. MS. HALL stated there is no resolution in this regard.

MR. WILLIAMS had concern with limiting all three IAC members to only three meetings as he values the contributions of the IAC members, both individually and collectively.

MS. HALL clarified that in past practice with the ASPIB when IAC members did not attend a meeting they always received the full packet for each meeting. This would continue with Dr. Mitchell.

MS. HARBO moved to appoint Dr. Mitchell to a new term on the Investment Advisory Council to begin January 1, 2009 and end December 31, 2011. MR. PIHL seconded.

By roll call vote, the motion passed unanimously.

G. Real Estate Consulting Contract

MR. BADER explained that the current contract with Townsend expires in March 31, 2009. No extension options remain on the contract. Given the time frame necessary to prepare and issue an RFP, evaluate responses, and negotiate a contract with a successful respondent, staff requested authorization to proceed with an RFP for a real estate consultant for the Board in a time frame that will result in a general consultant contract being in place by March 31, 2009.

MS. HARBO moved to direct staff to prepare and issue an RFP for a real estate consultant for the Board in a time frame that will result in a general consultant contract being in place by March 31, 2009. MR. PIHL seconded.

MR. RICHARDS asked why real estate has a consultant. MR. BADER replied that the previous board desired to have a separate consultant for real estate. Eileen Byrne was a consultant to the ASPIB and they valued her expertise. The ASPIB felt it needed a special consultant as the asset class was being ramped up. Townsend bought Ms. Byrne's firm and she joined them. He noted that Callan Associates also may bid on this contract and has done so in the past.

MR. WILLIAMS asked if the ARMB is benefiting from this consulting contract, which is beyond the scope of the Callan contract. MR. BADER stated that Callan has real estate consulting capabilities. MR. O'LEARY stated the general consultant scope of work does not include real estate. Callan and other consultants have real estate consulting capability. Townsend is widely regarded as an excellent real estate consultant and they do not have a general consultant practice. ACTING CHAIR TRIVETTE recalled that this contract has evolved over the years. He recalled that a consultant was key in helping the ASPIB select types of real estate in which to invest. These services are now reduced and fees have been commensurately reduced. MR. BADER thought the ARMB might want to think about structuring the general consultant RFP to include a bid with and without real estate consulting, as well as issuing an RFP for just a real estate consultant. MR. RICHARDS asked if this would reduce the number of companies that could bid for the general consulting contract. MR. O'LEARY encouraged the ARMB to do both a general consulting RFP with or without real estate and a separate RFP for real estate consulting.

MR. JOHNSON suggested that the ARMB think more carefully about how to structure these RFPs to ensure the broadest possible input into both areas.

MR. PIHL thought Callan Associates would be able to create economies of scale in a response to the real estate RFP.

DR. JENNINGS stated the ARMB is in the top 10% of public fund real estate allocations, which highlights the importance of real estate expertise. On the other hand, staff confidence and ARMB confidence with the real estate program has grown in the five years of his association with the ARMB.

By roll call vote, the motion passed unanimously.

MR. RICHARDS <u>moved to reconsider the motion on the general consulting contract</u>. MR. WILLIAMS <u>seconded</u>.

MR. RICHARDS suggested adding "with or without real estate consulting" in the general consulting contract RFP.

By roll call vote, the motion passed with Mr. Pihl dissenting.

MR. RICHARDS <u>moved to amend the general consulting contract RFP to request bids for general consulting either with or without real estate consulting services</u>. MR. BADER understood that a proposal that bids general consulting without real estate would be considered. MR. PIHL felt that including this provision would reduce the number of candidates for the general consulting contract. MR. RICHARDS did not think this would be the case, particularly with Mr. Bader's clarification that a proposal that bids general consulting without real estate would be considered. MR. WILLIAMS <u>seconded</u>.

MS. HARBO asked if the difference in expiration dates for the general consultant contract and the real estate consultant would have any effect. MR. BADER thought all of the work on these RFPs might be completed by March when the Townsend contract expires, but it would be difficult. He suggested that there could also be a three-month period without a real estate consultant. MR. WILLIAMS commented that Townsend might also be amenable to a three-month extension to its existing contract. MR. SIKES stated there are no more extensions on that contract. MR. BADER suggested that no amendment be made and if the ARMB is not satisfied with the outcome of the solicitations, it can take other action. He remarked that the general consultant RFP is far more detailed than the RFP for real estate.

MR. RICHARDS wished to clarify that the date on his motion is March 31, 2009.

By roll call vote, the amendment failed with all members dissenting.

By roll call vote, the reconsidered main motion passed unanimously.

BREAK 3:10 p.m. to 3:20 p.m.

23. Farmland Presentation: Executive Session

MR. WILLIAMS moved to convene an Executive Session for purposes of discussion that affects the investments of the fund. MS. HARBO seconded.

There being no objection, the motion passed unanimously.

EXECUTIVE SESSION 3:20 p.m. to 3:35 p.m.

ACTING CHAIR TRIVETTE stated no business was conducted during Executive Session and no decisions were made.

VIII. UNFINISHED BUSINESS

1. Disclosure Report
JUDY HALL reported that a disclosure report is contained in Trustees' packets.

2. Calendar
MS. HALL stated that the calendar is also included in the packet.

ACTING CHAIR TRIVETTE recalled that the ARMB should get the report from AON, the replication actuary, but he did not see it on the meeting agendas listed on the meeting schedule document. MS. HALL believed that the final report is due in March or April.

3. Legal Report
MR. JOHNSON had no report.

IX. NEW BUSINESS – None

X. OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD – None

XI. PUBLIC/MEMBER COMMENTS – None

XII. INVESTMENT ADVISORY COUNCIL COMMENTS
DR. MITCHELL thanked the ARMB for their confidence and stated he looks forward to continuing his relationship with them. He stated he had prepared extensive comments, but Mr. O'Leary and others have said what he intended to say. He noted that on a relative basis the DB

fund did very, very well. The top quartile ranking is a source of pride. He was surprised and pleased to see combined positive manager effect for the 1-, 3-, and 5-years, and specifically to the 1-year even in domestic equities, which is a difficult area to beat the indices. DR. MITCHELL stated that investors can never rest because investment is ongoing. The crisis environment in the financial markets may cause some people to worry whether or not this fund is on the right track. For the professional investor, crises are opportunities and a test to see if the broad asset class diversification and manager diversification works in both tough and good times. He thought it would work and urged the ARMB to stay the course and not change what it is doing. He commented that it is always good to review the manager line up, determine whether equities are split right in terms of domestic/international and passive/active, whether real estate is correctly balanced between public and private, and whether the alternatives commitment is large enough. He stated the best advice he could give is to keep doing what the ARMB is doing.

DR. JENNINGS mentioned an academic study that points to market timing written by Javier Estrada at the School of Barcelona. Mr. Estrada reviewed 15 markets and threw out the 10 best days of data. Throwing out the best 10 days cut returns in half. Throwing out the worst 10 days improved returns by 50%. Given that 10 days represent less than .1% of the days considered in the average market, the odds against successful market timing are staggering.

The other article is in the Journal of Finance and deals with how institutional sponsors do in terms of selecting managers. Hiring decisions are made after alpha has been generated. The article concludes that hiring decisions add no value. Under performers get fired, but the under performance subsequently reverses. The article found that if plan sponsors had stayed with fired managers, their excess returns would have been larger than those actually delivered by the newly hired managers. DR. JENNINGS suggested that rebalancing is the way to maintain an asset allocation. He encouraged staff to remain diligent about rebalancing and for the ARMB to feel comfortable with those changes.

XIII. TRUSTEE COMMENTS

MS. HARBO was happy to have Dr. Mitchell serving another term on the IAC. She thanked Kevin Worley and Pam Green for providing informative and readable information on the fund financials. She also thanked Mr. Bader and his investment team for their work.

MR. RICHARDS remarked on the ARMB educational conference held last week, noting that staff does an exemplary job. He appreciated that the conference had a theme.

MR. PIHL emphasized that the work on employee compensation is not complete. The comptroller position is the only position in the Treasury Department that is partially exempt with a salary set by the Legislature. The Commissioner has said he will try to get that corrected. He understood that legislation is required to make that change. It is also important to ensure that the salary for the liaison officer is appropriate. The ARMB must ensure that the salaries remain comparable to the Alaska Permanent Fund Corporation.

MR. WILLIAMS thanked Mr. Bader and his staff for the education conference and for being flexible to address daily changes in the investment environment.

ACTING CHAIR TRIVETTE concurred with the comments of other members. He thought that if the Board can remain stable, it would benefit the portfolio. The ARMB has excellent staff and he concurred with Trustee Pihl's comments regarding employee compensation. The ARMB will support the staff in whatever way needed.

XIV. FUTURE AGENDA ITEMS

VICE CHAIR TRIVETTE asked that AON Consulting be put on the ARMB calendar. He also asked to return to the issue of healthcare; he hoped there would be better ways to deal with healthcare in the future.

MR. BADER stated that he and the staff feel supported by the ARMB and appreciate the positive comments the members make.

VICE CHAIR TRIVETTE stated he has spoken with the Acting Deputy Commissioner of Revenue who said it might be necessary to issue press releases in the next few months, depending on the activity of the market. He stated he would be willing to meet on short notice, if the Chair is unable to do so. He commended Ms. Hall for her work in arranging meetings of the ARMB and serving as its liaison officer.

XV. ADJOURNMENT

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

There being no objection, the motion PASSED unanimously.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, THE ARMB MEETING ADJOURNED AT 4:00 p.m. ON September 26, 2008.

Chairman of the Board of Trustees
Alaska Retirement Management Board

ATTEST:
Gayle W Harbo
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