ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Location of Meeting
Kenai/Denali Room
Anchorage Marriott Hotel
Anchorage, Alaska

MINUTES OF
December 4-5, 2008

Thursday, December 4, 2008

I. CALL TO ORDER

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

II. ROLL CALL

ARM Board Members Present
Gail Schubert, Chair
Sam Trivette, Vice Chair
Gayle Harbo
Commissioner Patrick Galvin
Martin Pihl
Tom Richards
Mike Williams
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
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits

IAC Members
George Wilson
Dr. William Jennings

Others Present

III. PUBLIC MEETING NOTICE

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

IV. APPROVAL OF AGENDA

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

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

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES

THERESA NANGLE-OBERMEYER indicated she had distributed information for the review of the Board. She stated that the APFC believes that it is out of money and this group has lost all this money and Frank Murkowski merged the group. She wanted the employees of the Department of Revenue to know that Commissioner Galvin says the state is out of money. The Permanent Fund has lost $10 billion. She asked how this could have been possible. She questioned how this is possible. She stated that being a thinking person in Alaska means being targeted. She stated she is an American and questioned why the APFC board gets to do what they do when they are not even confirmed by the legislature. She asked why Bill Moran was able to invest over $15 million last month in the stock market to enrich his two privately held banks. She stated that the people for whom the ARMB is investing are the rock of the state. She asked on what basis are Wohlforth, Johnson and Brecht still the ARMB's attorneys. She thought this work would be given based on an RFP after 20 years. She wished everyone a happy holiday. She stated that Alaskans are so lucky and live in the resource base that is the future of this great nation and she is not giving it to Mr. Galvin's wife's company, British Petroleum.

COMMISSIONER GALVIN clarified that his wife does not work for British Petroleum.

VI. APPROVAL OF MINUTES

MS. HARBO moved to approve the minutes of September 25-26, 2008 and the minutes of October 15, 2008. MR. WILLIAMS seconded.

MR. TRIVETTE noted that the first page shows that the chair called the meeting to order, but she was not present.

DIRECTOR SHIER noted that Commissioner Kreitzer indicated Rachael Petro was shown somewhere in the minutes as being present for the Fairbanks meeting and she was not.

MR. WILSON noted that he did not attend the Fairbanks meeting.

There being no objection, the motion passed unanimously.

VII. ELECTION OF OFFICERS

MS. HARBO nominated Gail Schubert to serve as Chair. MR. RICHARDS seconded.

MR. PIHL requested unanimous consent. ***There were no objections***.

MS. HARBO nominated Sam Trivette to serve as Vice Chair. MR. RICHARDS seconded.

MR. WILLIAMS requested unanimous consent. ***There were no objections***.

MR. TRIVETTE nominated Gayle Harbo for Secretary. MR. RICHARDS seconded.

MR. WILLIAMS moved to close nominations. MR. TRIVETTE seconded.

There were no objections.

VIII. REPORTS

1. Chair Report

CHAIR SCHUBERT noted that the CIO has provided information on rebalancing and due diligence trips, as well as trips related to staff development. She also received an email from Cathy Ebert, a long-time manager first at Lowes and then at BlackRock, informing her that BlackRock had eliminated her position.

2. Committee Reports

A. Audit Committee

MR. PIHL reported that the Committee met for a third time yesterday with KPMG director Kathy Porterfield and the Department of Revenue staff and received a status report and draft of financial statements and management narrative related to the audit. The audit is basically complete. KPMG is tying up minor items. There were no adjustments found. There was full staff cooperation and KPMG complimented staff on its preparation for the audit. No material weaknesses were identified. There will be an unqualified opinion on all statements. Ms. Porterfield was thanked by staff and the Audit Committee for her years of service as partner in charge of the audit. The Committee reviewed, and Mr. Worley discussed, the highlights of the various plan statements, targeting changes from the prior year, as well as things that have happened over the year. Other reports covered the actuary work and schedule for completion by the May 23-24, 2009 meeting timeline. The Committee receives monthly reports on the work of the compliance team; there are no significant findings.

MR. TRIVETTE asked who would replace Ms. Porterfield. MR. PIHL stated this has not yet been determined, but he was hopeful that Ms. Porterfield would be involved in the transition.

B. Evaluation Committee

MR. PIHL reported that staff prepared the RFP for real estate consulting services and it is very thorough. The Real Estate Committee received the guidelines in advance for a systematic evaluation. The staff provided an evaluation of the fee proposals. When the evaluations were summarized, a clear winner emerged. On the basis of score, the Committee unanimously recommends that the ARMB direct staff to enter into negotiations with Townsend Group.

MR. WILLIAMS believed that this action is scheduled for tomorrow's meeting.

C. Health Care Cost Committee

MR. WILLIAMS reported that the Committee met yesterday and received a draft health care plan for Defined Contribution retirement plan covering Tier IV PERS and Tier III TRS members. The plan is in draft form, but the Committee appreciated the opportunity to review it and offer recommendations on the plan design. The Committee also received a preliminary review of the Buck health trend assumptions, which is on the agenda for tomorrow's meeting. Buck Consulting will give a presentation on the health care cost trend analysis and there is a resolution associated with that presentation; the Committee makes no recommendation on that resolution.

COMMISSIONER GALVIN asked the relationship between the cost estimate and the health trend. MR. WILLIAMS responded that there are some preliminary recommendations from the Society of Actuaries on long-term health care trend analysis and the resolution proposes to early adopt their recommendation. The Society of Actuaries has not yet finalized their recommendation, although it is unlikely that they will deviate from the preliminary recommendation. He stated there is no link between the Defined Contribution Health Plan and the other topic covered by the Committee.

D. Defined Contribution Plan Committee

VICE CHAIR TRIVETTE reported that the Committee met yesterday and reviewed the Global Balanced Fund, which has been under performing and has high fees. This fund is actively managed. Capital Guardian, who runs this fund, is eliminating their small cap component. There have been discussions of what other option might take the place of this option. The Committee believes that a search should be undertaken for a new manager and a resolution to that effect is on the agenda for tomorrow's meeting.

3. Retirement & Benefits Division Report

A. Membership Statistics

DIRECTOR PATRICK SHIER reported that upgrades have been done to the physical security, as well as to the customer service staff by deploying two monitors in each staff member's desk. This is benefiting the staff and customers. The health plan has ended several years of sub standard increases with the coming year. There has been between 0% and 2% health care trend increases primarily because of the new relationship with the existing TPA through which the network discounts were gained, representing a cumulative savings of $80 million. This year both the active and the retiree health plans are experiencing between 8% and 10% increases in expected costs. An RFP has been issued for a third party administrator, due December 9, 2008. Those will be evaluated and an announcement of award will be made at the next ARMB meeting.

KEVIN WORLEY reviewed cumulative and quarterly reports on membership statistics for PERS and TRS from July 2008 to September 30, 2008. He noted that in Tier I terminated decreased by 32 and on Tier II terminated decreased by 93. When school districts report their end-of-quarter/end-of-fiscal year employees, they submit their payrolls and then terminate their employees as part of payroll processing. As a result, someone who may be shown as terminated at the end of the school fiscal year will come back as a returned employee in the next quarter. For example, he explained that the 100 terminated TRS Tier I employees at the end of June had dropped to 68 because people had either gone back to a returned status or they retired.

B. Buck Consulting Invoices

MR. WORLEY indicated that invoices from Buck Consulting for the period ended September 30th are provided. A summary is also included showing $131,000 was spent for the three months ending September 30th, primarily for actuarial evaluation services of PERS and TRS. Another $28,000 was spent on the health care trend rate review.

MS. HARBO asked when the contract with Buck Consulting ends. MR. WORLEY replied that the contract continues for one more year with a one-year option. MS. HARBO asked if it began in October 2005. MR. WORLEY indicated he would research this.

4. Treasury Division Report

ACTING DEPUTY COMMISSIONER JERRY BURNETT stated the Treasury Division is currently fully staffed and the Division is well within budget for the ARMB's activities. He noted that the credit markets have not improved since the ARMB's last meeting, so activities related to the pension obligation bonds are indefinitely on hold.

MR. TRIVETTE remarked that it is difficult to keep positions full and the ARMB appreciates the efforts of the Division to retain employees.

5. Chief Investment Officer Report

GARY BADER reported that seven out of ten of the investment staff members have graduated from high school or college in Alaska and only two staff members have been hired from out of state. The Division believes that it is important to develop Alaska talent. He was appreciative of the Commissioner's office and the support they have given to staff.

MR. BADER reviewed the Callan Associates Form ADV Part II, which is distributed to clients that use Callan's services. He had also provided a statement from Hartford Insurance, a Deferred Compensation Plan provider. Hartford began providing services in the 1970s through deferred compensation investment options to state employees and it was determined that their fees were high and the State decided to terminate them. A number of employees were satisfied with their services, however, and those employees were permitted to keep their investments with The Hartford. He was not aware of any communications from plan holders who have investments with The Hartford.

MR. BADER noted that Capital Guardian is using JP Morgan/Chase for some of its back office services. He next discussed the sale of $50 million of Russell 1000 Growth Index Funds for benefit payments. This occurred in September. There was also a transfer of $70 million from domestic fixed income, $35 million each to Brandes and McKinley Capital, because the ARMB was low on global equity investments and over target in fixed-income. The next was a transfer of $10 million each from Turner, Luther King, Jennison, Lord Abbett and the Russell 2000 Growth to the Russell 2000 Value; a rebalancing to avoid a bias toward growth. There was a $30 million transfer to the Russell 2000 Index Fund from fixed-income to achieve rebalancing. There was also a transfer of $50 million each to Brandes International and Russell 2000 Index from domestic fixed income. Another $8 million in TIPS was transferred to the Russell 2000 Index Fund and $10 million from REIT holdings was transferred to the Russell 2000 Index Fund. Another transferred $50 million from domestic fixed income into the Russell 2000 Index Fund. A total of $50 million was transferred from Mondrian into Rogge Global High Yield and MacKay Shields High Yield.

MR. BADER stated that investments with private equity manager Blum Capital Partners were reduced by $13 million. The CIO has been given authority to reduce holdings with a manager by 25%, which is $13 million of the allocation to Blum. If their performance continues, there will be another reduction of 25%. The investment commitment to Relational Investors was reduced by $100 million. This manager has a corporate governance style that concentrates in large cap space. As a consequence, they are recorded as a large cap equity manager in the Board's returns. They hold about 12 stocks and for the past two years they have been heavily focused in financial and home buildings stocks. Their returns have been severely depressed beginning with a large decline in Sovereign Bank. This is too much volatility for the ARMB portfolio and it skews returns.

COMMISSIONER GALVIN asked if there is a recommendation that, if the ARMB granted more authority to Mr. Bader, he would move more dramatically in the direction of reducing Blum's holdings. MR. BADER stated that this authority would be used with Blum. There was a meeting with the IAC members who felt that reducing the allocation to Relational was good, but it would be good to stay the course with them. He noted that there are contract limitations in terms of how fast investments could be taken from Blum.

COMMISSIONER GALVIN moved to authorize staff to divest the ARMB's interest in Blum. MR. TRIVETTE seconded.

COMMISSIONER GALVIN understood that there are $39 million in holdings with Blum. MR. BADER stated this is the approximate amount of holdings with this manager.

By roll call vote, the motion passed unanimously.

MR. BADER announced that the Enhanced Cash Fund has been closed. This fund was an attempt to have a slightly broadened definition of cash and to manage it as an alpha source. The timing of that approach was poor. This account has been merged into other cash accounts.

MR. BADER stated there are some very illiquid asset classes and in order to balance it would be necessary to sell some very illiquid things at a bad time in the market. Direction has been given to open end real estate fund managers to reduce the ARMB's investment in their funds. They do this when it is felt best for the fund as a whole. They are not required to immediately honor requests for share redemption, instead the ARMB goes into a queue and, as they find assets to sell, they sell and distribute funds to the investors in the queue. In addition, staff has notified real estate and farmland managers that, although commitments were indicated, the market has changed and the ARMB would like to hold off from investing at this time.

MR. TRIVETTE understood that nothing has happened as yet in terms of selling from the open-end funds. MR. BADER replied that they fill redemption requests on a quarterly basis and the ARMB is in the queue.

MR. BADER next reported on private equity secondary funds. The ARMB has adopted an asset allocation for many of the Defined Benefit components of the new Defined Contribution Plans that includes a private equity allocation. However, there have been several discussions with the Department of Law and it is not yet determined that the private equity investments made by PERS and TRS can be allocated to this new plan. The ARMB has given the staff authority to hire secondary fund managers. A secondary manager is one who has bought funds that have been compelled to sell private equity for some distressed reason. They then re-offer those funds to investors. By going into secondary funds, the ARMB believes it can have a diversified portfolio at the outset, rather than building funds over years. A due diligence process has begun on private equity and Lexington Partners and Pantheon are under review. If approved, those two private equity managers would be added in the first quarter of 2009.

MR. BADER stated he recently received a letter regarding UBS Realty. A former employee has filed three complaints against UBS asserting irregularities in the pricing of real estate investments and that UBS over-collected fees from the ARMB. The item is in the courts. He and Mr. Johnson have read the complaints. There are also complaints about employment practices. The staff feels it should wait to see how this plays out. MR. JOHNSON stated that the allegations of irregularity are just that. There is no factual basis upon which the ARMB can independently believe that these allegations are correct.

MR. BADER announced that State Street and State Street Global Advisors intend to cut staff by 6% worldwide, many of who are US-based. Staff has not yet been notified of any loss of personnel or intended loss of personnel associated with the plans.

CHAIR SCHUBERT asked whether the under performance of some asset classes is because the asset is performing poorly or because the managers are performing poorly. She asked if the ARMB is taking money out of funds where managers are performing well and giving it to

managers who are not performing as well. MR. BADER replied in the negative. He noted that in the recent past a review of returns showed that all of the ARMB managers are out performing the market. In down markets, active managers do well. The staff has no recommendations to place managers on the Watch List. He noted that when funds need to raise money they can either sell equities or fixed-income; the only liquidity is in the stock market and, to some degree, in the fixed-income market. CHAIR SCHUBERT asked if there are any managers holding more than the 3% cash threshold. MR. BADER replied that this happens from time to time. A compliance report was provided to the Audit Committee yesterday. None of the managers maintain a higher level of cash habitually. Some managers sell and cannot get back into the market on the day of sale. Staff takes a dim view of holding cash. One manager asked if they could hold 15% cash and staff offered to take it back.

MR. PHIL stated that the Audit Committee receives monthly reports on cash holdings.

6. Mondrian Investment Partners

For more information on this presentation, please refer to the document entitled "Presentation to Alaska Retirement Management Board, International Fixed Income Portfolio Management," dated December 4, 2008 and kept on file at the ARMB offices.

LEE GIANNONE and DAVID WAKEFIELD presented to the Board after introduction by Mr. Bader. MR. GIANNONE explained that the firm runs the ARMB's international fixed-income portfolio. He indicated that the Mondrian organization is stable and has performed well across the board.

MR. WAKEFIELD reviewed a summary of performance for the ARMB's portfolio since inception. Year-to-date, Mondrian has performed well vis-à-vis the benchmark. For the 1-year period, the portfolio is up 4.6% through to October while the benchmark was up 0.7%. Mondrian strives to be a top decile manager and has been number one over the last year. Some of Mondrian's peers who have had good performance have been -20% against the market. He next reviewed a breakdown of the source of the 4% out performance. This portfolio was positioned for a period of market turmoil with an over weight to the Japanese yen; nearly all of the out performance has been from currency. Mondrian thought that the market would shift in a period of market slowdowns and that has occurred. Currency is not often the dominant force, but over the last year it has been the driving factor. Mondrian was over weight to the US dollar for part of the year as well. The US dollar has had a rally in the last year. Until very recently there was no allocation to the UK market and the UK sterling has been extremely weak versus the US dollar.

MR. BADER noted that the ARMB frequently has to make rebalancing decisions and the decision whether to do it domestically or internationally weighs heavily on the value of the dollar. He asked how Mondrian views the dollar over the coming year. MR. WAKEFIELD replied that there are a number of international fixed-income markets that, despite the low inflation forecast for the US market, offer better value than the US market. The US dollar now is around fair value versus the euro, and is close to fair value versus the yen. Versus UK sterling, the US dollar is toward over valuation. Sterling has gone from being over valued to being exceptionally under valued. One of the themes is whether there will be a further leg of dollar crisis, given the economic crisis in the US. His view is that the other key global currencies, the yen and euro, are not set to take over the mantle of being the reserve currency, so the dollar will

remain the reserve currency. There are important economic differences among the euro countries making policy difficult to set and making it not likely that the euro can take the mantle.

MR. WAKEFIELD reviewed the portfolio country allocation at the end of October. There are no currency hedges in the portfolio at this time. The weight in Japan was close to index, as was the weight in the Eurozone and in the UK. Changes have been made recently to take advantage of value resulting from the crisis over the last year. These include a change in the weight in Japan from 42% to 32%. Mondrian has initiated exposure to the Australian bond market and the Australian dollar where there is low expected real yield relative to other markets. Mondrian has also initiated a weight in Poland of 4% and has added 1% to Mexico, raising it to 5%. Mexico and Poland are emerging markets in equities, but they are developed in terms of fixed-income. With the risk aversion present in the global market, equity and debt markets sold off, but the economic fundamentals in Mexico and Poland have been strengthening. Their government balances are good and, most importantly, there are benign inflation outlooks in those economies. Mondrian has been in and out of Poland; investment in that market was the key reason for performance in 2004. Value in that market has increased again, so a weight has been added. There has also been an increase in the allocation to the UK as the housing boom is unwinding and inflation is benign. The sterling is extremely under valued.

MR. WAKEFIELD stated that the fact there is not great value in the US market belies Mondrian's belief, as an international manager, that the inflation outlook is benign. Unit value costs have barely grown, US dollar stopped rising, and commodity prices have turned around. Those were factors buoying up US inflation in recent years and they are now depressing US inflation. He stated he would not be surprised to see consumer prices falling in the second half of next year because of the unwinding of the commodity price bubble. He did not believe the US would experience what was experienced in Japan; however, partly because the policy response in the US has been more proactive than it was in Japan. The fall in US inflation will help US consumers by giving them additional purchasing power. He personally believes that the US housing correction is more than halfway through. He lastly commented that net trade would be a modest factor to buffer the domestic economy in the short-term.

MR. WAKEFIELD noted that the situations elsewhere are not unlike the situation in the US. The economic situation in the UK it is 6 months to one year behind the US. Australia is having a housing correction, and that economy is also 6 months to one year behind the US. The Eurozone and Japan are also experiencing slowdowns, but not because of the slowdowns experienced in the US. The recessions there will be more modest than in the US, but the similarities between these economies more than outweigh the differences.

MR. BADER asked how much value Mondrian places on the embedded inflation assumption in inflation protected bonds. MR. WAKEFIELD stated it looks low to him for a 10-year view, but it is something Mondrian considers. Mondrian's view on US deflation is that it is temporary and that it is borne out of the reversal in commodity prices. Mondrian has a two-year horizon and beyond that there is a danger that a tinderbox is being built for inflation by creating debt to correct a problem created by debt. There is a risk of insipient inflation pressures that will show themselves beyond the two-year horizon. MR. O'LEARY noted that he read that to some it appears that US TIPS are priced at 0% inflation for ten years.

MR. TRIVETTE asked what is Mondrian's allocation to Australia. MR. WAKEFIELD replied that it is 3%.

7. Fund Financial Presentation and Cash Flow Update

PAMELA GREEN and KEVIN WORLEY presented to the Board. MS. GREEN stated the ending invested asset balance for all funds for September 30th is $17.3 billion. The change since June 30th is a decrease of $965 million, or 5.25% of assets. The PERS system decreased in net assets since June 30th of 6.2%, or $680 million. The TRS system decreased $159 million, or 3.4%. The Judicial Retirement Plan decreased 8%, or $10 million. The Military Retirement Plan increased 2%, primarily the result of net contributions to the plan. SBS had a decrease of 3.5% and Deferred Compensation had a decrease of 4.2%. All of the plans had investment losses. Only the Judicial System had net withdrawals. The three-month period included an appropriation from the State.

MR. WORLEY reported that the primary source of income is appropriations from the State to pay the difference between the actuarial required contribution and what employers pay, as well as from employers, and from employees. At the end of July the State appropriation was $241 million for PERS and $206 million for TRS, allocated between the pension benefit system and Section 115. A majority of expenditures in both funds are for pension benefits and health care cost claims.

MR. TRIVETTE asked how decisions are made to allocate between pensions and health care. MR. WORLEY explained that the Division works with Buck to determine the rates and then, based on payrolls, what is the best split for those. The health portion is under funded, so the majority goes to that. For PERS it is more a 50/50 split.

MS. GREEN noted that most of the losses in the three months ending September occurred in September. There was a total decrease from $18.5 billion to $17.3 billion. She reviewed graphic depictions of activity in the three months ending September 30 for PERS. The defined benefit plan value totaled $9.67 billion. A loss of -$754 million over the three months is also shown. Global equity is toward the bottom of its asset allocation and private equity and real estate are toward the higher end of their asset allocation. This has been addressed through rebalancing transfers.

MS. GREEN reviewed the Defined Benefit Plans, which have total fixed-income for the month of September of $2.6 billion, a decrease of 8.4%. Domestic equities ended with a value of $4.6 billion, a decrease of 10.7%. Global equities were $2.4 billion, a decrease of 8.3%. Private equity increased by $14 million due primarily to net contributions. Absolute return was steady with under a 1% decrease. The energy pool had an increase and total Real Assets had a slight decrease. For the Defined Benefit Plans, the total net assets were $14.1 billion for the month, a drop of close to $1 billion for the month.

MS. GREEN noted that there is movement into the new options in the supplemental annuities plan through September.

MS. HARBO asked the figure for real assets for the end of October. MS. GREEN stated she has a figure for the entire system. Total net assets are $15.5 billion as of October 31st; that compares to $18.5 billion at the end of June.

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

8. Audit Report

KATHY PORTERFIELD with KPMG distributed a one-page summary of the audit status and results. She explained that the audit is substantially complete. All procedures have been completed and no figures in the draft audited financial statements will change. KMPG will continue to review the draft with staff. An update will be received from outside counsel on the IRS matter. There is a footnote on PERS, TRS and the Judicial System that needs updating with regard to that matter. New information became available regarding the IRS verbally approving the voluntary compliance. Some payroll testing is left on SBS and Deferred Compensation and some correspondence is yet to come. The statements in the packet are for the four retirement systems. The format has changed so that the PERS statement includes the entire system, regardless of whether the benefit is pension, healthcare, or defined contribution. The group health and life fund, retiree health fund, SBS and DCP are separate sets of statements. KPMG is issuing an unqualified opinion on all of the financial statements. There are some suggestions for improvement in some operational matters, but none are material. Those matters deal with timely accrual of administrative expenses and for more robust reconciliations of health care claims running through the Retiree Health Care Trust.

Audit adjustments typically relate to bookkeeping errors, but in this case it is primarily in relation to the IRS voluntary compliance filing. The Division could not record an estimated transfer amount until the IRS ruling was received. As a result, a $3.4 to $3.5 billion transfer was recorded in PERS and $1.1 billion in TRS. There were other minor adjustments, but nothing that caused concern. The Treasury Division does a good job of monitoring, evaluating, and valuing the alternative investments. There is actuarial information in the financial statements, some of which is audited and some that is not. KPMG found that there was good census data to support the actuarial data. In 2008 a new GASB 50 required that some actuarial information be pulled into financial statements and be subject to audit procedures, so a KPMG actuary reviewed that information to see if the assumptions fell within a reasonable range and his conclusion was that they are reasonable. Due to the IRS filing, a KPMG employee benefit tax specialist reviewed the documentation to see if it was indicative of any other matters, and no recommendations arose from that review.

MR. WORLEY reviewed an executive summary of the major changes that occurred or items of interest in each of the financial statements. The PERS financial statements are a one-year audit. The Alaska Retiree Healthcare Trust was added to the Defined Benefit Plan statement. The Section 115 trust was added for PERS, TRS, and the Judicial System. The balance of the health care trust fund that existed prior to the new trust, working with the Treasury Division. There is a reciprocal receivable in the Alaska Retiree Healthcare Trust for that $3.4 billion transferred. Two new columns have been added to the Defined Contribution Trust Plan statement for the Retiree Major Medical Insurance Plan and the Health Reimbursement Arrangement. Net assets held in trust for the pension and post-employment healthcare benefits as of June 30th are $10.7 billion.

GASB 50 requires disclosure of funded status and funding progress of the defined benefit plan in the footnotes and that has been provided. A subsequent event disclosure note is contained on page 53 regarding recent market conditions and the impact that has had on the system and its funded status. He noted that the items he has discussed in PERS are similar in TRS.

The Judicial Retirement System also includes the Alaska Retiree Healthcare Trust. As a result of the creation of the Alaska Retiree Healthcare Trust, the health claims for PERS, TRS and Judicial System that were previously paid by the Retiree Healthcare Fund are split out. A run out of the Major Medical Plan was done in FY2008 as claims were paid out; starting in March those claims were paid directly out of the Trusts for the systems.

MR. TRIVETTE asked if there are separate funds for each of the systems' healthcare. MR. WORLEY replied in the affirmative and noted they are separately identified on the monthly report prepared by Ms. Green.

MR. JOHNSON asked if the subsequent event disclosure is a new GASB requirement or a new due diligence practice. MS. PORTERFIELD replied that it is not a new GASB requirement; rather there has always been a requirement to disclose if there is a significant subsequent event to the financial statements.

MR. PIHL stated there has been great progress in the presentations of the financial statements while the complexity has multiplied many fold. He wished to ensure that Mr. Worley has adequate staff to do the job, given these increased responsibilities.

CHAIR SCHUBERT asked if Ms. Porterfield would continue to work with the Alaska account or would someone be reassigned to that account. MS. PORTERFIELD stated that there would be a reassignment. She noted that, in addition to her move, KPMG has a rule regarding how long a partner can be involved in a particular account. She stated she would be available to make the transition as smooth as possible, including attending Audit Committee and Board meetings. CHAIR SCHUBERT thanked Ms. Porterfield for her work.

9. Performance Measurement – 3rd Quarter

For additional information, please refer to the document titled "ARMB Board Meeting December 2008 Market and Economic Overview," prepared November 14, 2008 and kept on file at the ARMB offices.

MICHAEL O'LEARY with Callan Associates Inc. (CAI) remarked that the markets have changed substantially since his report was prepared, so he would be brief in his review of that material. He stated the third quarter was terrible with the Lehman Bankruptcy on September 15th, triggering turmoil. Credit markets froze around the world. The benefits of diversification were non-existent in the quarter. Anything with risk declined and only holdings perceived to have no risk went up in value. This begs the question whether there is value in alternative investments; he believes there is, but understood those who question it. He noted that financials did relatively well in the third quarter, while the poorest performing large sector of the equity market was energy/materials. This was reversed from the June quarter.

Equities are down -18.8% for the last there quarters. Domestic equities have fallen -40% calendar year-to-date. In the most recent quarter, international stocks measured in local currency

terms were down more than US stocks, but international stocks measured in dollar terms were down -20.6%. There was a -7% loss to a US investor in the index attributable to the dollar increasing in value. In the quarter, small cap stocks did better than large cap stocks, but the Russell indices are reconstituted in June and there were an extraordinary number of changes in names in the index. He noted that a review of a portfolio of 40 managers that holds this index showed that over 800 names were not in the portfolio after this reconstitution.

For the 12 months ended September the CAI real estate database had positive returns, while real estate securities fell dramatically. The question is which is a better reflection of the value of real estate and CAI believes it is between the two. MR. O'LEARY reviewed a chart depicting transaction versus current value cap rates to show that cap rates have begun to go up, which means that value is going down. Over time, the current value appraisal cap rates should move toward transaction cap rates, but there is no certainty in that because people who had to sell and did not like the prices in the third quarter did not sell; the sellers during that quarter were those who did not have a choice.

Vacancy rates are inching up and CAI expects they will increase further as a result of layoffs that are not yet reflected in those rates. Retail is of particular concern because there has been retail construction and many retailers have already been closing stores. There is an expectation that many retailers will reorganize under Chapter 11 that allows them to get out of leases. MR. O'LEARY noted that CMBS are a part of the Lehman Aggregate Index and many managers have a double weight or greater exposure to the index; those types of securities suffered greatly in the month of November. They are yielding close to high yield bonds, which have suffered throughout the year, but particularly subsequent to September 30th. There has not been a huge change in real estate value, but these securities are traunched and most managers have invested in the highest quality instruments that had 30% to 40% of credit subordinate to them. People are expecting big losses in this area.

MR. O'LEARY reviewed a graph depicting various financial crises an how much of GDP those losses represented. The US savings and loan crisis in the early 1990s was 5% of GDP. The Japan banking crisis in 19900-99 was 15% of GDP. The Asian banking crisis in 1998-1999 was 35% of GDP. The current US subprime crisis is 10% of GDP. He noted that this week an announcement was made that a US recession began in January 2008. The average length of a post World War II (WWII) recession is 10 months, but the current recession has passed 11 months. The longest post WWII recession was 16 months. He expected that the recession would continue through the first half of 2009. During recessions, on average, the stock market has gone up. He explained that it is normal for stocks to decline during a recession, but then to also recover during a recession.

MR. O'LEARY noted that during the recession of 1973-1974, the market declined -48% and in the subsequent 69 months returned 12% annualized. In the panic of 1987, the market declined by -33% and achieved a 24% annualized return over the succeeding 23 months. The Dot-Com bubble experienced a -48% decline and over the subsequent five years achieved a 14% annualized return on equities. CAI feels that it must raise its capital market assumptions for equities next year because the valuation level is so low. CAI acknowledges that there will be less leverage in the economy and secular underlying growth may be slower, but there should be a recovery.

Real consumer spending is going down. When it has gone down in the past, it has been protracted, primarily because of inflation. Home price stabilization is essential to a recovery. It seems that the economy has reached a point where home pricing is reasonable. Short-term credit markets are slowly responding, but short-term spreads are still wide. The TED spread is down to 2.4%, which is still high by historic standards. Various programs, including the backstop on money market funds and the acid pools for commercial paper, have done a lot to improve the short-term market. The longer-term market is different. The recent actions by the Federal Reserve with respect to mortgages has had a pronounced effect on reducing mortgage yields, making homes more affordable. The caveat is being able to qualify for a conventional mortgage.

Year-to-date, total returns for the Lehman indices were: Lehman Aggregate returned 2.16%, US Treasury returned 11.65%, 3-7 Year Treasury returned 12.61%, US Credit -7.79% and High Yield -31.76%. Between November 12 and yesterday, 3-7 Year Treasurys went from a calendar year-to-date return of 8.69% up to 12.61%. The US Treasury Index went from 6.48% to 11.65%. These changes are a result of government interest rates going down. US Credit went from -9.48% to -7.79%, but High Yield has gone the other way. Many industrial and parts companies are issuers of high yield bonds and there is no improvement in those areas. GM is saying that if they do not receive money from the government by the end of the calendar year, they will have to declare Chapter 11. Chrysler cannot survive if GM does not and Ford may follow.

Other major public plans are taking steps to gradually rebalance, but are not as proactive as the ARMB. They recognize that some privately held assets cannot be liquidated and there is a lag in their valuation that causes that to become a bigger percentage of the total. He asked real estate managers how much overvalued are real estate prices and most expect a 10% decline in valuation. Private equity is a big unknown. Some private equity funds bought stocks that are now zero or very low. More volatility is being introduced in private equity returns than has been experienced in the past just because of changing standards. The ARMB is at the upper end of the range for private equity, but perhaps is not as far over target as it appears, once valuation is known.

Many public plans are proactively exploring ways to capitalize on value opportunities. Secondary private equity commitments are considered because there are private equity investors that need liquidity and must sell. This creates a possibility for the ARMB to take over interest at an opportune price. MR. O'LEARY reiterated that this is a very serious recession with an expected reduction of 4% to 5% of GDP in the fourth quarter.

For more information on this portion of the presentation, refer to the document titled "ARMB Board Meeting December 2008 Total Fund Preliminary Performance," prepared November 25, 2008 and kept on file at the ARMB offices.

MR. O'LEARY reviewed the PERS asset allocation as of the end of September. The policy adopted in the spring became effective July 1st. Part of that policy was the recharacterization of asset classes to: domestic equity, global equity ex US, fixed-income, real assets, private equity, and absolute return. Performance for PERS/TRS was down -7.39% for the quarter, better than target with a positive manager effect. Absolute return was down -3.67%. State Street has a pool for the three absolute return portfolios that they value on a three-month basis. They use that pool return to drive the plan return. That number is lagged one month. The month not included in this figure is August, which was a bad month. The absolute return was actually down -8.37% for the

quarter. Nonetheless, the quarter performance was relatively good, as was the performance for the year at -12.64% compared to the benchmark. Cumulative total returns were in the 22nd percentile and the target was in the 41st percentile. Over the year the target was slightly over median and both major systems were in the top quartile. The calendar period performance was better than the target index for the 9-month period.

MR. O'LEARY reviewed returns for major sectors. Large cap equity was down -9.41% for the quarter, near the Russell 1000. Small cap was down -5.12% for the quarter compared to the index at -1.11%, however, the fund did better than the small cap median manager. Bond performance was good relative to other public funds, but below the custom index. The in-house portfolio was down relative to the custom index, but better than other core bond portfolios. International equity was a high point in the quarter and Brandes performed exceedingly well. Performance for the international ex emerging markets managers is similar with the pool doing relatively well compared to the index and median. New managers did relatively well in the quarter. Lazard is the single global manager; they experienced an extreme period and out performed the index. Mondrian has done well. The REIT portfolio has performed well. The absolute return composite was down -8.37% for the quarter, which is at median.

MR. BADER remarked on the higher return of the target and asked if the T-Bills +5% is used to model the absolute return portfolio. MR. O'LEARY replied there is a return and a volatility estimate used that he thought had been in the 6.5% range with a 9% standard deviation. He stated that this is a reasonable objective to warrant the fees paid in absolute return. He presumed that many investors are asking whether they got what they expected. The ARMB returns are entirely understandable and consistent with the extraordinary market environment.

MR. O'LEARY noted that SBS now includes new options. He was confident there would be changes in SBS because of the magnitude of the market change. The long-dated target maturity funds in the industry generally have more than 80% in equities and some more than 90% in equities. People are now recognizing the shorter-term volatility in equities. The challenge is that people may question how they got into funds with defaults to target maturity funds based on age and whether they want to be there. This may result in changes as people base investments on risk. MR. O'LEARY stated there is nothing notable in the returns of the SBS options, with the exception of the Global Balanced Fund, which Mr. Bader discussed earlier. He noted that the original Alaska Balanced Fund asset allocation policy was developed with the objective of minimizing the possibility of a negative return in a 12-month period and it has been close to achieving that objective. The Long-Term Balanced Fund has also done relatively well. Stable value funds are another area of concern because most are driven by underlying bond funds and bond funds have assets with market values below their book value. The value difference is $.95 to $.97 on the dollar. He noted that CAI does not believe the ARMB has a problem in this area.

MR. O'LEARY reported that Capital Guardian domestic large cap equity has had very poor trailing 12-month performance. Relational had a good quarter, but their 12-month numbers are lagging. Brandes was in the 5th percentile. Capital Guardian international has done fine. McKinley Capital international has had a rough quarter and, therefore, a rough year. State Street's international team left at this time last year and he looks at them closely because of that change. Their performance is not inconsistent with quantitative-oriented international portfolios, however, he indicated he would continue to watch this manager closely.

COMMISSIONER KREITZER asked if there is anything in this report that would cause the ARMB to re-assess its assumptions on rate of return. MR. O'LEARY stated he was looking forward to the asset allocation discussions scheduled for early in 2009. The major issue to consider is what is the appropriate long-run inflation estimate. If TIPS are right and inflation is 0%, the plan liability is not going to grow as is expected, and CAI's capital market return estimates would be lower, even if the real return estimates were kept the same or higher. The number embedded in CAI's returns is 2.75% for inflation. CAI's current target return is less than the ARMB's discount rate. At this point, CAI does not feel that its capital market projections should be adjusted.

LUNCH BREAK 12:05 p.m. to 1:18 p.m.

10. Private Equity Evaluation

GARY ROBERTSON, senior vice president with Callan Associates Inc. (CAI), noted that the figures he would review are dated June, so they do not reflect the recent market downturn. He stated that ARMB started its private equity program in 1998 with a 3% allocation. In 2001 the ARMB hired Pathway and increased its allocation to 6%. Pathway's managers have 22 investments. In 2005 the ARMB added a corporate governance component to the portfolio. In 2006, the ARMB increased its target to 7% and initiated an in-house private equity portfolio. The ARMB portfolio is broadly diversified. The ARMB's funded status declined in terms of overall assets from 2007 to 2008. Total plan assets declined -5%, reducing the private equity by $56 million. Funded status went from just below 7% to over in June; now the allocation is at the upper range of 7% +/- 5%. In the future, values will come down and the allocation as a percentage will drop.

MR. ROBERTSON explained that the ARMB wants to hire a manager that has the ability to invest in partnerships that benefit the fund. Cash flows are different in private equity. The ARMB makes commitments to partnerships on an annual basis, while actual investments occur over longer periods of time. At the end of a 5-year period, the last partnerships to which there were commitments would continue to call on the commitments. Distributions begin typically three years after commitments begin. The heaviest period for distributions are years 7 through 14. The decisions made in the first five years can be around for 20 years.

MR. ROBERTSON discussed private equity market conditions, noting that the ARMB has been through 1½ market cycles. He explained that when Abbott was hired in 1998 they invested for three years, followed by a recession. Pathway was hired in 2001 at the bottom of the cycle and their buyout style of investing has been in favor through the bull market. Blum was hired in 2005 and had two years of investing in high valuations. The recession began about a year ago and there has been a large market decline. With this decline, CAI expects private equity to slow to a halt. When public markets suffer, private equity suffers more. CAI expects a pattern similar to that seen in 2000-2001. In corporate America orders will be canceled and new purchase orders will not come. Revenues and earnings will decline. At that point, it is difficult to assign a valuation to a company. Capital calls and distributions will essentially stop. When this happens general partners focus on their portfolios and do not open for investments. The deals through the nine months of this year are one-third of the dollar volume compared to last year. CAI also

expects valuations to decline. FASB 50 requires that assets be marked to market so there will be larger and quicker write downs. When public markets rise, there should be an 18-month lag in private equity recovery. Now is a good time to make commitments because the best valuations will exist when the public markets clear.

MR. TRIVETTE asked if the number of private equity companies that have filed for bankruptcy has increased from the 31 by June 30th. MR. ROBERTSON estimated the number has doubled.

MR. ROBERTSON stated that the ARMB's private equity performance has achieved a premium in all periods. The average performance for the ARMB's managers is better than the industry. Abbott has achieved 11.2% for 10 years and Pathway has achieved 27% for 7 years. He reviewed the position of the portfolio in June 2007 versus June 2008. Commitments over that year were $380 million and the portfolio has 23 more partnerships for a total of 189 partnerships. General partners have called to invest $315 million, so the uncalled capital increased slightly. The distributions were $225 million, providing a 27% cash yield. The net asset value increased by $200 million, $90 million of which was fundings in excess of distributions. There is also $110 million in unrealized appreciation, totaling 10%.

Abbott has had 6 years of top quartile and four years of second quartile returns over the 10 years they have managed for the ARMB. In 2001 and 2003 they out performed the upper quartile significantly. The convention in the industry is that for funds that are less than four years old, performance is not meaningful. Pathway has achieved first quartile returns in each year, but only two years are mature enough to consider.

MR. ROBERTSON indicated that Abbott Capital provides 32% venture capital exposure while Pathway provides 59% buyout exposure. Abbott likes mezzanine and does not like distressed debt and the reverse is the case for Pathway. The ARMB is close to its strategy diversification, while somewhat over target in venture capital and the buyout areas and under target in special situations. The net asset value exposures are close to the targets as well.

The ARMB corporate governance investments began in May 2005. The Blum is a highly concentrated, publicly traded small cap portfolio, not private equity. One pool is permitted to do some private investments. This manager was early in financials and real estate. They have achieved 4th quartile performance.

MR. ROBERTSON summarized that the ARMB portfolio is maturing, well diversified, and has strong performance. Abbott is overcoming the initial timing and difficulties of the venture capital market that they experienced. Pathway's buyout style has been in favor in recent years. Both managers are putting the ARMB into top tier groups that are difficult to access. Performance has been good June to June with 27% cash yields by both managers.

CAI expects a lengthy rough patch for private equity. P/E values will be declining. The 30% backlog in uncalled commitments should be good. Now should be a good time to make commitments to private equity. The deals that will be made when the economy recovers should be high paying. MR. ROBERTSON suggested continued dollar cost averaging on a consistent basis into the market.

MR. TRIVETTE asked for comment on the in-house portfolio. MR. ROBERTSON stated it is early to comment. Those managers got started before the crisis began. With only 20% of the capital drawn, those investments should be okay in the long run.

MR. O'LEARY asked what mainstream private equity managers think about opportunities in this difficult environment. MR. ROBERTSON stated there is a risk of style drift such as private investment in public companies rather than leveraged buyouts, for example. He thought they would try to move offshore if debt financing cannot be accessed in the US. This should be a good time for secondaries, distressed, etc. MR. O'LEARY thought from a private equity perspective that, if there are going to be bankruptcies and reorganizations, this creates an opportunity to buy entities with enhanced management or that are combining with other like entities to create something that is viable. MR. ROBERTSON agreed that there are good companies without enough customers. MR. O'LEARY stated that Lehman Asset Management owned an asset management business and Lehman went bankrupt so the asset management business has to be sold. Two highly regarded private equity managers were going to buy that company in conjunction with the employees. At the last minute, the portfolio managers at Lehman wanted to buy it, so they bought 51% and the bankruptcy estate owns 49%. He anticipated seeing this kind of activity throughout the business.

MR. RICHARDS asked who holds the uncalled funds and how are they supplied. MR. BADER replied that the ARMB holds those funds and typically has to sell out of the fixed-income portfolio to provide them when they are called.

CHAIR SCHUBERT asked if the ARMB has seen many calls for funds recently. MR. BADER replied that calls are received. MR. HANNA stated that calls have slowed and the nature of the calls has changed to primarily distressed debt. The normal buyout oriented groups are by and large not calling capital.

MR. WILSON asked what is the total of the ARMB's uncalled commitments. MR. ROBERTSON replied that it is $776 million as of June, about one-third of commitments. MR. WILSON presumed there would be little in terms of distributions over the next couple of years. MR. ROBERTSON stated that when calls start, the distributions should start as well.

11. Small Cap Economic Roundtable

Gary Bader moderated the roundtable. Participants included: Tom DiBella with Turner Investment Partners, Jason Swiatek with Jennison Associates, Steve Purvis with Luther King Capital Management, and Mike Smith with Lord Abbett.

Question: MR. BADER asked how refinancing risk impacts current portfolio decisions.

Answer: MR. SMITH replied that this is a huge issue in the marketplace. Credit markets are shut down to a large extent and especially for small cap companies, as well as to the consumer, especially a consumer in the subprime area or below. The portfolio is focused on companies with solid balance sheets where refinancing risk is low. Lord Abbett is also looking at companies with strong competitive positions in the marketplace.

Question: MR. BADER asked how Luther King is investing in financials like community banks and REITS.

Answer: MR. PURVIS replied that Luther King invests in high quality companies with a competitive advantage. In the regional banking area, Luther King wants to be in attractive areas of the country where there is above average growth in population and deposits. These include several Texas banks, a bank in the Midwest, and no exposure to the east or the west coasts. He noted that five of the six banks they hold refused the Troubled Assets Relief Program (TARP) money, which speaks to how well capitalized they are and how well positioned they are in their marketplace.

MR. SWIATEK stated Jennison is also invested in higher quality community banks. The banks in which they are capitalized tend to be over-capitalized. Two of the banks have taken TARP money, one to acquire a struggling bank and another to accelerate its loan growth in a high growth market.

MR. DiBELLA stated his firm had been under weight in banks for the last 5 to 6 years. When the firm started buying banks in the third quarter, Texas banks were bought. Some has been added to regional banks, but the firm is underweight 100 to 150 basis points in this area.

MR. SMITH stated Lord Abbett owns one REIT based in Washington D.C. and one bank in the upper Midwest. His firm has a significant under weighting to banks.

Question: MR. BADER asked how has the TARP affected the firms' investment approaches.

Answer: MR. SWIATEK replied that it has not changed the firm's overall investment approach. The Federal Reserve and the Treasury recognize they need to get ahead of the curve. The TARP was an effort to begin to do that. There must be focus on when company debt is coming due.

MR. DiBELLA stated the TARP has caused his firm to significantly under weight banks. The firm is doing nothing different, but they are reading footnotes.

Question: MR. BADER asked if the significant change in national leadership that will occur in 2009 has changed investment approach.

Answer: MR. PURVIS replied that his firm's strategy is to find the best in class companies, which will do well regardless of who is president. Some of the early programs for additional employment via infrastructure spending should benefit those companies. From a policy perspective, some HMOs and healthcare companies may have additional issues over the next four years.

Question: MR. O'LEARY noted that the auto companies appeared before Congress today and there is concern that if they do not get funding, GM may be in Chapter 11 by the end of the month. The ripple effect to parts companies, etc. is perceived to be extensive. While GM and Ford may arguably be small cap stocks now, many of these other companies have been small cap stocks for some time. He asked how is this considered in structuring portfolios.

Answer: MR. DiBELLA thought the auto industry has had problems for some time. He felt the government would have to step in considering the number of jobs that would be lost. He believed the infrastructure program would be bigger than people think, but it is the only way to create jobs in the country. A few days after the election, President-Elect Obama was asked who he thought were the best presidents and he mentioned Lincoln, FDR, Kennedy and Eisenhower, who built the highway system in the US. He stated his firm has added one stock and will add some others, but there are not good small cap companies in that area.

Question: MR. O'LEARY asked about investing in industrial companies that are partially dependent on the auto industry that may be hurt if the auto industry is not bailed out.

Answer: MR. DiBELLA felt this would mean a loss of jobs and he would not want to be over weight in consumer names.

MR. SMITH anticipated there would be an auto industry bail out after the first of the year. The domestic US auto industry has major problems. His firm wants no exposure at all to the auto industry.

MR. SWIATEK stated his firm also has not invested in auto companies in several years, as it is a structurally flawed industry.

MR. PURVIS felt this highlights the uncertainty in the market and his firm has avoided anything the consumer would have to buy by taking out a loan to finance it.

Question: MR. BADER asked if there are sectors that might stand a better chance of succeeding given the coming change in Washington.

Answer: MR. SWIATEK replied that his firm is not targeting the direct beneficiaries, but is targeting the suppliers. HMOs could be a difficult business, but hospitals and home health care could do better as more people have health insurance.

Question: MR. RICHARDS noted there was a presentation at the Board's educational conference about feeding people. He asked if the firms invest in food companies.

Answer: MR. PURVIS felt this was a viable issue, but the issue for small cap managers is the lack of opportunities for investment. Companies are either not small enough or are risky start-up enterprises.

Question: MR. BADER asked, if a company grows to a size where it is no longer in the Russell 2000 Index, how is that dealt with in portfolio construction.

Answer: MR. DiBELLA replied that the firm will buy up to $2 billion and when a company's valuation reaches $3 billion, it is sold.

MR. SWIATEK replied that his firm also buys firms at $2 billion and sells at $3 to $4 billion.

MR. PURVIS replied that $2.5 billion is the upper limit for new purchases; they are trimmed when they get above $3.5 billion, and they are sold at $5 billion or above.

MR. SMITH stated $2.5 billion is the upper limit for his firm and the firm keeps them.

Question: MR. O'LEARY remarked that the September quarter was unusual in that the index beat the majority of small cap managers. CAI has indicated to clients that small cap is an area where active management has a greater potential to beat the index. He asked why this happened.

Answer: MR. DiBELLA stated that companies under $3 billion significantly out performed the rest of the index, those with little or no earnings expectations out performed the index, and there was a huge about face in energy and materials with no rebound.

MR. SWIATEK stated that a key factor was people having to cover shorts, which forced them to buy the lower quality companies they were short and sell higher quality companies where they were long.

MR. PURVIS noted that the financial sector was the best performer up almost 18%. After this summer when exposure began to the worst credit crisis since the 1930s, it was not anticipated that the financial sector would be the leader.

MR. SMITH added that fundamentals were not a primary driver of price action in the market for the quarter. Over longer periods of time, the small cap market will be efficient and active management will add value.

Question: MR. BADER asked where each manager would place his personal money for the coming year.

Answer: MR. DiBELLA felt small cap was more attractive than large cap. He noted that in the early 1970s small cap out performed large cap because inflation was a detriment to large cap. This is happening at this point in time.

MR. SWIATEK stated that his firm attends company meetings it is notable that in recent meetings companies are seeing opportunities in their own debt, particularly in convertible bonds. Convertible bond managers have been liquidating quickly and there is no natural buyer for these types of securities. In a company that has no debt senior to the convertible bonds, they are seeing yields of 20% to 25%. Returns may not be as high as a snap rebound that might occur in small cap stocks, but for the risk/return dynamic it will be an attractive buy.

MR. PURVIS replied that he would invest in small cap. On a training 12-month basis, small caps are down 40%, which is one of the top 3 or 4 12-month declines. During other periods there has been a 50% rebound after this kind of sell off.

MR. SMITH stated he would invest in micro- cap equities, levered loans, and high yield.

Question: MR. BADER asked what is the better index for small cap stocks, the Russell 2000 or S&P 600.

Answer: MR. DiBELLA felt the Russell 2000 is the better index, although when they rebalance it is difficult.

MR. SWIATEK also felt the Russell 2000 is the better index because it is more pure.

MR. PURVIS also felt the Russell 2000 is the better index, noting that it is really a micro-cap index.

MR. SMITH also felt the Russell 2000 provides a broader view.

Question: MR. BADER asked if any manager does anything special when the Russell 2000 is reconstituted.

Answer: MR. SMITH responded that the reconstitution now happens more regularly throughout the year. Two years ago, one-quarter to two-thirds of that index turned over at the end of June/ beginning of July.

MR. PURVIS indicated that in most years the rebalancing is a non-event.

Question: MR. O'LEARY stated that a small cap equity manager who had $1.5 billion in October/November 2007 now has $600 million because the market is down 40%. There are consequences associated with a manager not meeting their budget. He asked what are the business risks that a plan sponsor should be mindful of in terms of the manager business risk.

Answer: MR. SWIATEK stated his firm has generally prepared for this type of environment. The firm has the same number of employees as it did six years ago. Portfolios are managed as they have been historically.

MR. SMITH felt this was an extremely important issue. Across the world there have been tremendous problems in financial institutions. The ARMB needs to look at how the organization managing its money has risks and, for instance, if it is firing people or has litigation issues. Lord Abbett is privately owned and has had stable staff.

MR. PURVIS stated his is a small independent firm with a goal to manage for clients and not to work for a budget. The company is not trying to grow assets by a certain amount, but wants to do a good job for its clients. The firm is a C corporation and has excess reserves.

MR. DiBELLA stated his firm has added one staff over the last year and may hire another person next year.

Question: MR. TRIVETTE asked if value versus growth is important in this market or are there more important things.

Answer: MR. DiBELLA replied that there is a risk control in his firm's portfolio that does not allow more than 40% or 60% growth or value. From 2003 through 2006 the only stock with any kind of earnings momentum or pricing momentum were metals.

MR. PURVIS stated his firm is a core manager and others call them growth at a reasonable price (GARP). They like companies that reinvest in their companies to grow them. The firm will go one way or the other where the most attractive ideas are found.

MR. SWIATEK stated that his firm does not view investments as growth or value, but looks for good companies.

MR. SMITH stated in this small cap environment it is possible to find companies with tremendous growth potential at value prices.

Question: MR. BADER noted that much of the volatility in the market can be driven by margin calls and redemptions. If, based on an assessment of the fundamentals of a company, that company is determined to be a buy, do technical factors, such as hedge fund liquidations, redemptions, and margin calls, come into play in the decision whether or not to buy.

Answer: MR. SWIATEK replied that his firm first determines whether the company needs capital because in those situations selling can become a self-fulfilling prophecy. After that the firm separates winners from losers by determining which companies are gaining share and which are losing share. The firm is more patient in this environment when buying. Forced selling has been a significant factor and, until it is over, the firm is waiting to invest.

MR. PURVIS stated the firm has been phasing in buys and sells, taking advantage of volatility. The firm tries to work into positions and then work out of positions.

12. Jennison Associates LLC

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

JASON SWIATEK and RICHARD MASTAIN presented to the Board after introduction by Mr. Bader. MR. MASTAIN explained that the firm has been in business for 39 years and it has been run lean. At the beginning of 2003 the firm had 242 employees managing half of the assets that are managed today. Today there are 12 more employees. Some firms that have recently laid off employees have twice the assets, but eight or nine times the employees. There are no plans to lay off employees at Jennison. Five investment professionals were added this year and two were lost. New clients have been added in each of the firm's capabilities. Asset flows into the firm have been net positive.

MR. SWIATEK stated the small and mid cap team is comprised of seven professionals. He reviewed the qualifications of the team, noting that having deeply experienced analysts who have followed their companies and industries for a number of years and who have developed alternative information sources is an advantage of the firm. This is the only small cap team at Jennison. The third quarter was difficult, so year-to-date the firm is down close to 400 basis points (bp) after a strong 2007 and 2006. Over the 3-year period, the firm has out performed by 270 bp, or about 90 bp on an annualized basis. For the composite, the firm has out performed by 310 bp since inception and by 150 bp over five years.

MR. SWIATEK reviewed performance for the portfolio in different market conditions. The firm beat the benchmark 68% of the time or in 28 out of 41 periods. Regardless of the market environment, the firm has out performed the benchmark at least 50% of the time. Portfolio earnings growth is superior to the benchmark and has a valuation at or below the market. In 2009 the firm's numbers appear to be below the benchmark, but he believed that at the end of the year the numbers would be ahead of the benchmark. Sector allocations are balanced across industries. The firm's out performance is 80% the result of bottom-up stock selection and 20% sector weightings. The firm became under weight financials two years ago, recognizing the issues in the housing industry and how that would flow through the mortgage market. There is an over weight in telecommunication services as they have good, stable revenue, good recurring cash flow, and strong returns on capital. He expected to continue to be overweight in telecommunication services.

MR. SWIATEK briefly reviewed the largest holdings in the portfolio, noting that the largest holding will generally be 2.5% to 3% of the portfolio, scaling down to 1% for the 20th largest holding. The portfolio is somewhat smaller than one year ago; in general, it will have 110 to 135 holdings. The firm believes that in a choppy economic environment and a difficult market environment, it is sensible to concentrate in highest conviction ideas.

MR. SWIATEK next reviewed the five largest holdings in the portfolio. The largest holding is Bank of the Ozarks, which has grown its loans and deposits steadily at 15%. This bank took TARP financing, despite the fact that it was over capitalized. Petrohawk Energy Corporation was sold in the middle of the year. W-H Energy Services and Performance Food Group were both buyouts. Large cap companies with cash on their balance sheets and limited growth prospects are now looking at smaller cap companies to spur that growth. The bottom five holdings include Century Aluminum Company and four healthcare companies.

MR. SWIATEK stated that Jennison believes the selling in the small cap area has been indeterminate and is not tied to individual company fundamentals. Going forward should be a stock-pickers market with a large opportunity for active manager to add value for their clients. The economy has gone into a recession and Jennison expects that to continue for at least two more quarters. The Federal Reserve and Treasury are trying to institute some level of inflation, but until that happens, lenders will not want to lend against deflated assets. The firm will maintain its over weight in energy and telecommunications and expects to maintain an under weight in financials and consumer discretionary. After 2009 when the consumer has repaired its balance sheet to some extent, there is a possibility Jennison would reduce that under weight over time.

MR. TRIVETTE asked if there is no sector that Jennison believes rises above others at this time. MR. SWIATEK replied that the firm is benchmark-aware, but its competitive advantage is the team of experienced analysts who know these companies. Telecommunications is one area where the firm is comfortable because it is defensive and there is growth potential.

13. Lord Abbett & Co.

For more information on this presentation, please refer to the document entitled "Small Cap Core Equity Management, Alaska Retirement Management Board," dated December 4, 2008 and kept on file at the ARMB offices.

MICHAEL SMITH presented to the Board after introduction by Gary Bader. He explained that the firm was founded in 1929 and is one of the nation's longest existing money management firm. There are 62 active partners in the business. The firm is research-driven and the small cap product has been in place since 2001. At the end of September, the firm had $29 billion of fixed-income assets under management and $57.9 billion of equity assets, of which the small cap core product was $2.6 billion. He briefly reviewed the composition of the small cap core investment team. The firm has a new CIO and one member of the investment team left and was replaced. All of the investment team has over 10 years of investment experience.

The firm looks for mispriced stocks with modest expectations and improving fundamentals. A three-step process is used to control risk. The first two steps are quantitative research to reduce valuation risk and identify positive fundamental change. The third step is fundamental research to reduce business risk and identify a catalyst that will move the stock to fair value. The investment process begins with a 2800 stock universe that goes through a quantitative screen looking for companies selling at the low end of their historic valuation range with a 3-year EPS growth of 10% or greater and positive earnings. The third screen looks for positive fundamental change such as earnings surprises or insider buying. The stocks have been reduced to 150 at this point and the staff shifts to fundamental research, including meetings with management to identify business risk, as well as opportunities and growth drivers. Lord Abbett also identifies the catalyst that will drive shareholder value. The firm wants to be involved with companies that have a competitive advantage. The small cap team taps into other analysts at the firm, including fixed-income analysts for insight into commercial paper markets, leveraged loan markets, and asset-backed securitization markets. The portfolio is comprised of 69 stocks filled with companies with strong fundamentals. Valuations are attractive and there should be encouraging growth prospects over time.

Lord Abbett has out performed since inception and believes active management can add value in this area. The attribution analysis for the year ended October 31, 2008 shows the biggest areas of out performance are technology and auto & transportation. He reviewed specific companies in these areas. The largest detractors to the portfolio were consumer discretionary and some stock selection. The portfolio healthcare weighting has been increased over the last year as a defensive move. Healthcare stocks have tended to have less sensitive and valuations in general are compelling. The biggest reductions are in consumer discretionary and materials & processing. The largest over weights are in healthcare and producer durables. The largest under weight is in financial services. Lord Abbett believes that small cap banks will continue to have difficult credit issues ahead. The firm also has small REIT exposure as well as consumer discretionary.

MR. RICHARDS asked if Mr. Smith said more small banks would go under. MR. SMITH responded that 22 small banks have gone under this year and he expected that would significantly increase over the next 12 to18 months. Smaller banks are typically portfolio lenders as opposed to distributing larger loans and their asset base tends to be those customers that are having difficulties.

MR. PIHL asked if the banks would actually go under or being acquired by another bank. MR. SMITH anticipated tremendous consolidation. The FDIC would generally shut down lending operations and sell the deposits to a larger bank and carve the portfolios. MR. PIHL asked if the 22 banks to which Mr. Smith referred were acquired by other banks. MR. SMITH replied that they were, in general, acquired by other banks.

MR. SMITH reviewed portfolio characteristics, noting the portfolio is higher than the Russell 2000 Index in terms of median market cap and weighted average market cap. The companies are also relatively cheap compared to long-term averages with P/E of 12x. MR. SMITH briefly reviewed the ten largest holdings in the portfolio. The largest holding is Amedisys, a healthcare provider.

MR. TRIVETTE asked for an explanation of Psychiatric Solutions, one of the ten largest holdings in the portfolio. MR. SMITH indicated this firm provides behavioral psychiatric solutions for children outside of a hospital. There is little economic sensitivity to this business and they continue to get business from hospitals that have historically provided those services.

MR. TRIVETTE asked when Lord Abbett might experience positive returns. MR. SMITH replied that the market typically bottoms halfway through a recession, so it should be reaching a bottom soon. Small cap valuations are tremendous at this time. President-Elect Obama ran on tax increases and some big programs and he has a Democratic Senate and House. There have been tremendous monetary actions that help the market, but the consumer is still stretched thin and it will take some time for the consumer to get back on their feet. Fiscal policy in terms of tax cuts would help, but he did not expect that, the recession would likely be prolonged.

BREAK 3:05 p.m. to 3:10 p.m.

14. Luther King Capital Management

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board, Investment Review" dated December 4, 2008 and kept on file at the ARMB offices.

STEVE PURVIS and MARK JOHNSON presented to the Board after introduction by Mr. Bader. MR. PURVIS briefly reviewed information on the firm, noting the strength of the investment professionals at the firm. The firm's strategy is to identify and invest in high quality companies that are profitable and can reinvest in the business to grow over time. The goal is to generate superior performance with lower volatility. The approach is a fundamentally driven, bottoms-up approach. There are roughly 15 analysts contributing to the small cap strategy visiting companies, understanding business models, and looking for investment opportunities. Performance has waned in this difficult environment; return was impacted by financials. Financial exposure has been increased from 10% to 15% over the last 90 days as the majority of the challenges in the sector is known and can be analyzed. The portfolio has return on equity above the benchmark, higher capitalization, less debt than the benchmark, similar earnings growth, but a lower P/E ratio. He noted that information in this presentation is as of October and since that time the market is also down.

From the beginning of the Russell in 1979 there have been periods where it has declined 20|% in a 12-month period. This recent decline has been significantly worse than that. Luther King feels that this is the wrong time to take money out of small cap and, in fact, there should be a rebound in small cap moving forward. The S&P 500 has also fallen significantly in comparison to prior bear markets. Since the Dot-Com bubble peak in 2000, value stocks had significantly out performed until early 2007. Since that time, growth has been a better performer and Luther King began tilting the portfolio toward growth in 2006.

As of September 2008, the portfolio is strategically positioned recognizing that the aggressive monetary and fiscal policy stimulus should result in a rebound in the economy. The credit markets have had a chokehold on the economy and on the markets and, while it is beginning to ease, it remains an issue. The stimulus that is going into the economy has historically triggered a recovery. The areas that will benefit from this recovery will be consumer discretion and transportation. The firm is optimistic about the future because the issues and challenges are now very visible and clear and decisive action is being taken at the government level to address those issues, leading to a better recovery and a stronger stock market going forward.

MR. TRIVETTE asked how long the recession might last. MR. PURVIS replied that forecasting the recession is always interesting, but this recession has existed for 12 months and historically recessions last 14 to 16 months. Some could say this is a longer lasting recession. Based on the stimulus, he expected stronger economic growth in the second half of 2009 and maybe even quicker.

15. Turner Investment Partners, Inc.

For more information on this presentation, please refer to the document entitled "Alaska Retirement Management Board Client Review" dated December 4, 2008 and kept on file at the ARMB offices.

TOM DiBELLA and JOHN FINNEGAN presented to the Board after introduction by Gary Bader. MR. FINNEGAN stated Turner is an independent, employee-owned firm. An IPO was discussed last year, but given the market conditions in the interim, the IPO was pulled. Long-term an IPO is still envisioned as a way to transfer some ownership of the firm while maintaining independence. The firm was in the process of adding an eighth investment professional to Mr. DiBella's team last year and that was done.

MR. DiBELLA stated that through the first half of the year the firm's performance was in line with and slightly ahead of the market, but in the third quarter it was poor. The firm was under weight banks and had been for at least two years. The firm under performed in finance as a result of this under weight in banks because the government intervened. Stocks with caps under $3 billion significantly out performed and the firm owned few of those. The stock selection was below par for this quarter. Since that time, the portfolio and the process have been examined and 400 basis points were gained in the fourth quarter; currently, Turner's performance is behind the index by 50 to 75 bp.

There is some good news in the economy as stocks have low valuations, but the market is trading more on liquidation than on valuation. There is the unanswered question of how much the balance sheet will come unraveled if the economy stays weak for a long period of time. The firm owns two infrastructure companies. One is a cement company that has spent $32 a share on new

plant and equipment in the last two years and is selling for $28 a share, clearing Turner's capital expenditures screen.

Going forward, the earnings visibility for most of corporate America is clouded so it is difficult to value stocks. Stocks are valued on P/E or earnings growth or they are valued on earnings screens; the latter will have value going forward. The firm uses several screens to address the viability of companies going forward, including the Armageddon Screen that was created after the market crash in 1987. There are also a "no debt" screen, a "net cash" screen, and a "net/net" screen that address the viability of companies going forward.

MR. TRIVETTE asked what comprises the Armageddon screen. MR. DiBELLA replied that screen was developed in 1987 in anticipation of a poor coming year. This screen removes earnings in the future year and screens out stocks with the lowest price/cash flow, even if they do not make money.

MR. BADER asked whether the firm has added or lost any accounts since their last presentation to the ARMB. MR. DiBELLA replied that one small cap core account was added that will fund in January and the firm recently was awarded a small cap value account as well that will also fund in January. MR. BADER asked how many assets would be under management after these additions and how that compares to what the firm believes should be its maximum under this mandate. MR. DiBELLA replied that total assets would be just under $1 billion. The capacity is the combined small cap core and small cap value, which together could be $2.4 to $2.6 billion and together they are $1.2 billion.

MR. O'LEARY stated Turner has done work measuring capacity relative to market cap. The market cap has declined. He asked whether, in a relative sense, the other things that might influence capacity have changed. MR. DiBELLA replied that how the stock trades is more important than market cap. MR. FINNEGAN stated that the firm does an annual capacity study, but much of the market sell-off in 2008 has not been factored into that study; much of that will be captured in the first quarter of 2009. The study is typically published. Small core and small value are going to be treated in combination, rather than separately, since there is a 50% crossover between the two portfolios. MR. O'LEARY understood that the value component of the core portfolio is the value product. MR. FINNEGAN confirmed this is the case.

MR. DiBELLA responded further to Mr. Bader that since Turner met with the ARMB last year the mid-cap core strategy has grown substantially. At the end of the quarter it was just under $1.2 billion.

MR. TRIVETTE asked what changes in the US Administration Turner believes might have an impact on stock selection 2009. MR. DiBELLA replied that infrastructure will create jobs and fix something that needs to be fixed. It is also a boon to local business.

RECESS 3:43 p.m.

ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Location of Meeting
Kenai/Denali Room
Anchorage Marriott Hotel
Anchorage, Alaska

MINUTES OF
December 4-5, 2008

Friday, December 5, 2008

I. CALL TO ORDER

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

II. ROLL CALL

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

ARM Board Members Absent
Commissioner Patrick Galvin

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

Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits

IAC Members
George Wilson
Dr. William Jennings

Others Present

16. Farmland Review

STEVE SIKES stated the farmland program began in 2002 when the Board hired Hancock Agricultural Group (Hancock) and UBS AgriVest (UBS) with an initial allocation of $100 million each. The total allocation for these two managers is currently $560 million. The portfolio targets 80% row crops and 20% permanent crops with a band of +/- 10%. The strategy is a lease-based strategy so the return is income from the lease payments from farms and the farmers take the risk of the crop price. There are no development properties or leverage. The program is part of the Real Assets allocation of the Board's portfolio, which also includes real estate, timber, TIPs and energy.

The rationale for this investment is attractive total returns, high cash distributions, historical low volatility, portfolio diversification, and to serve as an inflation hedge. The program objectives are to generate a minimum net real return of 5% over rolling 5-year periods. The benchmark is a custom index derived from the NCREIF Farmland Index weighted 80% leased row and 20% leased permanent. Diversification minimums are in place for crop type and location. The policies and procedures set the requirements and constraints. This asset is highly correlated to inflation and negatively correlated to stocks and bonds. The income return for farmland has averaged 6.12% per annum over the past 16 years. The distributions are returned to the ARMB and are typically invested in fixed-income to fund capital calls or other ARMB expenses. The total return has averaged 10.95% over the past 16 years.

MR. SIKES explained that row crops are grains and vegetables that are planted and harvested annually. Permanent crops include trees and vines, citrus, wine, grapes, almonds and apples. The ARMB's farmland advisors have the discretion to make investments within the allocation, within constraints established in the policies and procedures. Annual plans and budgets are prepared by the advisors and reviewed by staff. There are annual audits on each advisor's portfolio, as well as annual appraisals. A registration system is maintained to ensure that the advisors are not competing for the same property. At September 30, the net asset value of the portfolio is $454 million or 3.2% of the ARMB assets. The total allocation is $559 million with a remaining allocation of $129 million and $36 million in additional investments under contract. Advisors have been asked to suspend making new investments for the time being. The portfolio includes 79 properties totaling 157,258 acres in 15 states. The current portfolio structure is 81% row and 19% permanent.

The ARMB composite nominal return gross of fees is 14.97%. The net annualized return is 10.42%, exceeding the expected real return. The returns have been slightly less than the NCREIF custom benchmark, primarily attributable to the relatively young age of the portfolio and lack of exposure to permanent crops in the index that have done well in recent years. MR. SIKES

reviewed a table indicating the crop type and geographic location. The main positions are in corn at 19.5% and permanent crops at 19.2%. The permanent crops include wine grapes, pistachios, almonds, walnuts, apples, pears, and cherries. The portfolio is primarily in the Pacific Northwest, Mountain, and Southern Plains, as well as Delta States.

COMMISSIONER KREITZER asked what are the legally restricted states. MR. SIKES stated that those states do not allow institutional ownership of farmland. The number of those states seems to be reducing over time.

MR. SIKES stated the farmland sector would probably be impacted by the economic downturn. This is most visible in terms of what has happened with commodity prices; corn futures are down 49% from May/June highs and soybeans are down 45%. The ARMB portfolio is affected because the prices the farmers can get from their crops affects what can be charged for the lease. A positive aspect of farmland in recent years is prospect for alternative energy uses because of the high cost of oil and the higher demand for protein as global economies improve. So far in 2008, the portfolio has done well, returning 12.08%. The ARMB's portfolio has no leverage and there is little leverage in this sector in general, which is another positive. The income-based strategy is another positive; these assets are paying a coupon and not relying on appreciation. In the long-term this is an attractive asset class in that it provides diversification, income, inflation hedge, and ultimately will be a beneficiary of global growth.

MR. SIKES noted that last year the ARMB authorized hiring Hancock Timber Resource Group and Timberland Investment Resources (TIR) in September 2007. Each firm received $100 million separate account mandate. TIR recently closed on the first acquisition in the portfolio, a $40 million, 28,065-acre pine and natural hardwood property. This year timber returns have been good with the Index returning 6.14% through September 30, 2008. The managers know the ARMB is patient and will wait for good opportunities.

MR. TRIVETTE asked if Mr. Sikes could foresee issues in the coming year that have not occurred in this year. MR. SIKES responded that there is a question how the commodity price dynamic will play out in rents. He felt the advisors had built high quality, diverse portfolios. He noted that staff did a site tour this fall and he was impressed in the pride in management that the operators show.

MS. HARBO asked if there is a limited amount of farmland available and could there be a time when the ARMB is unable to find farmland. MR. SIKES explained that the problem is the average size of each piece of farmland. It has taken some time to build a portfolio. He was not concerned with a lack of additional opportunities arising in the future.

DR. JENNINGS noted that public timberland REITs are off quite dramatically and asked if Mr. Sikes interprets that as a caution for private timberland. MR. SIKES believed that fear and some technical factors are driving those securities below fair value. The private market values have held up and there should be caution buying in at those values. However, several transactions have occurred this year that support those values.

MR. PIHL asked if the growth rate on timber in the southeast where the ARMB is invested is 8% per year. MR. SIKES did not recall the growth rate. MR. PIHL stated that in the next year or two

there should be some stellar opportunities in this investment area and asked if the ARMB is in a position to take advantage of such opportunities. MR. BADER stated that with $100 million still available to Hancock and $60 million to TIR, the ARMB is in a position to take advantage of any opportunity that arises. He noted that the farmland portfolio was built over five years. It is more important to the ARMB to wait for opportunities than to invest quickly.

A. UBS Agrivest

For more information on this presentation, please refer to the document titled "Global Real Estate – US, Farmland" dated December 4, 2008 and kept on file at the ARMB offices.

JAMES McCANDLESS and BRIAN WEBB presented to the Board. MR. WEBB stated that while farm commodity prices have gone up, after adjusting for inflation, those prices are lower than they were in 1970. Grocery price increases are driven by transportation and packaging rather than an increase in farm commodity pricing. The US farm sector is solid. Rather than leveraging up, the farm sector debt/equity ratio has been falling. Much of the money that has come into the sector, and particularly into acquisition, has been driven by like kind exchange by farmers who sold farmland near cities and acquired farmland in rural areas, as well as from farmers themselves. In both cases, those acquisitions have been equity and are not highly leveraged. As land values have risen, the debt/equity ratios have fallen to historic lows. The price of farmland to earnings is in an historic normal range.

Commodity prices have remained in a tight trading band over time, beginning in 1970 and until 2004. There were two sources of increase in demand for farm commodities in 2004: improved diets in developing countries and alternative fuels. That increased demand has not had a corresponding increase in supply, driving prices to higher levels. Current rents and values are supported by sustainable commodity prices that might allow farmland returns to resume at historic average levels.

Farmland has experienced only three years of total negative returns. Income returns have been consistent in the 5% to 7% range over time. The income trend has drifted down slightly in recent years, but it is still at levels consistent with historic averages. The appreciation that has been seen is starting to pull back and that should continue in the next year to two. The agricultural sector is, however, being impacted by activity in the global economy. Demand from developing countries has been pulling back as their incomes have begun to fall. Credit in other parts of the world is an issue as well, particularly in developing countries. For example, Brazil has been increasing its agricultural production, but this year will be pulling back because it does not have the credit to plant the crops.

COMMISSIONER KREITZER asked what impact government subsidies have on the profitability of farmland and what happens to the future if subsidies go away. MR. WEBB replied that three years ago overall farm income was 22% from government subsidy. That has already lessened to less than 15% today. Part of the subsidy program is based on supporting commodity prices and since those prices have risen, those payments go away. If the US subsidy was withdrawn and the rest of the world kept subsidy programs in place, there would be an impact. He noted that, if this were done, over the entire UBS portfolio it would have had an impact of 10% to 15% on the underlying value of the farmland; today it would be less than that.

MR. McCANDLESS noted that the portfolio is divided into commodity crops, vegetable crops, and permanent crops. The investment universe is split roughly 80/20 between vegetable and permanent crops with 60% commodity crops, 20% vegetable, and 20% permanent. The range of allocation in the portfolio is 45% to 75% commodity crops, 15% to 25% vegetable and 15% to 25% permanent. The target allocation is 65/20/15. The guideline for the ARMB portfolio is 80% in the commodity group and 20% permanent.

All of the properties in the ARMB portfolio are held in various title-holding entities with the name Midnight Sun. There are 62 farms totaling 110,722 acres in 12 states. The cost basis is $300.7 million and the market value is $315 million. The diversification is 22.54% in vegetable, 13.80% in permanent, and the remainder in commodity crops. The highest geographic exposure is the Pacific Northwest and the lowest is the Southeast. During this year, UBS entered into the Winding Brook transaction in the amount of approximately $230 million. UBS worked with ARMB staff in pricing this portfolio, which was sold by sealed bid. These properties were managed by UBS until recently and UBS knew the properties quite well, having acquired them for Winding Brook. This investment is a seasoned institutional diversified farmland portfolio. The portfolio contains 41 properties in 11 states totaling 75,000 acres. It is comprised of 63% annual row crops, 17% annual vegetable crops, and 20% permanent crops.

As of September 30, the ARMB agriculture portfolio does not exceed the guidelines for no more than 40% in any NCREIF region, 30% in any single commodity, 15% leased to a single tenant, 80% row crop, 20% permanent crop, and 15% in a single property. A total of $54 million remains to be invested and $3.3 million is under purchase contracts. The portfolio is on hold at this time, pending notification by the ARMB.

CHAIR SCHUBERT noted that ethanol has been popular in the last year and because of that there was a huge demand for corn, which had a ripple effect throughout the economy and for other users of corn. She asked if there is still a huge demand on corn. MR. McCANDLESS replied that the mandate for renewable fuels has been established by the government and the projection for 2009 is 20% to 25% of the corn crop will have to go into ethanol. CHAIR SCHUBERT asked if it is still more expensive to produce than the price for which it is sold. MR. McCANDLESS stated this is the case. One ethanol producer actually went bankrupt. Fuel sources other than corn are being developed, but they are not yet economically viable. MR. PIHL asked if the government might change the program. MR. McCANDLESS could not predict what the government might do. He noted that, if that happens, the land being planted with corn would likely go into other crops.

MR. TRIVETTE understood that, irrespective of the mandate for ethanol, UBS did not see the prices for corn decreasing because of global demand. MR. McCANDLESS indicated this is correct and noted that the price of corn has begun tracking the price of oil.

MR. McCANDLESS reviewed property level comparative returns versus the ARMB benchmark. Since inception, the portfolio total return has been 14.53% gross of fees compared to the benchmark of 19.05%. The real return on the portfolio is 10.93%. The income return on the portfolio sine inception is 6.86% while the benchmark is 5.26%. The appreciation return for the portfolio is 7.31% compared to 13.28% for the benchmark, primarily because of acquisition activity, when the portfolio began, and the distribution of portfolio properties in the early years

compared to the index. The real return for the portfolio exceeds the target for all periods, as does the income return.

B. Hancock Agriculture Investment Group

For more information on this presentation, please refer to the document titled "State of Alaska Farmland Portfolio Review" dated December 5, 2008 and kept on file at the ARMB offices.

JEFF CONRAD, OLIVER WILLIAMS and CAROLYN BAILEY presented to the Board. MR. CONRAD explained that Hancock's program is equity investments in farmland where Hancock buys farmland and leases them to local tenants. These investments are both in row croplands and in permanent crops. The returns associated with farmland come from leasing (3% to 7% current), operating (8% current), and appreciation (land and improvements). The portfolio has a targeted unleveraged nominal total return of 8% to 11% before fees.

Farmland carries higher risk and return than commercial real estate, is comparable to the equity market with a lower risk level, and has higher return and less risk than bonds. Farmland provides diversification benefits in that it has a negative correlation to stocks and bonds and a positive correlation to real estate. It has also historically been a good inflation hedge. Farmland also tends to be counter cyclical and did fairly well during the 1970s when the equity market suffered.

MR. O'LEARY noted that the 1970s were characterized by high inflation, which would be good for real assets. He was concerned that the country is likely to have very low inflation going forward. MR. CONRAD stated that while inflation was high in the 1970s the sector also benefited from export growth. The bottom line is that farmland produces food, which will always be in demand.

MR. CONRAD remarked that farmland fundamentals include long-term upward trend in value. The US farm sector does not have much debt and is positioned to deal with an income shock. There should be stability in land values.

MR. TRIVETTE asked who does the forecasting that produces the graphs on pages 7 and 8 of Hancock's presentation MR. CONRAD replied that these are US Department of Agricultural (USDA) forecasting. USDA figures tend to be conservative.

MR. CONRAD stated that export growth has been a growth factor for the farmland sector in recent years. The US is well positioned in terms of higher valued products and export growth in that area is expected to continue. The US farm sector has to be able to feed the world and is well positioned to do that. The emerging markets of China and India have had strong growth records and Hancock anticipates they will continue to grow. While the growth may not be what was expected, the fundamentals still exist. Crops are harvested on an annual basis and Hancock uses stocks-to-usage analyses to determine price trends. If there were a drought in the Midwest, for example, the reduced soybean, corn, and wheat stocks would drive up price.

MR. TRIVETTE asked if there have been changes in bulk prices in the last three months. MR. CONRAD stated the prices of soybeans and corn are trending downward. There were high levels of pricing and land values did not go up high enough to match commodity prices at their peak, therefore, land values may not trend downward.

MR. RICHARDS asked why nearly 100% of wheat was being stored in 1985, according to the chart on page 11 of the presentation. MR. CONRAD explained that the USDA takes a snapshot right before harvest to determine how much is left. This chart indicates there was enough wheat to feed the country over the next year at the time that snapshot was taken. MR. RICHARDS asked how exports are considered. MR. CONRAD stated that the US is a player in the wheat market, but does not dominate it.

MR. WILLIAMS stated the agriculture economy remains a bright spot in the US economy. Credit availability is a concern, but today there is credit available although underwriting standards have tightened. Farm credit and agricultural lending banks remain strong. There have been limited defaults in this sector. The balance sheets of producers are very strong and they have the ability to weather income shocks for some time. Fundamentals remain strong for agricultural land. The primary buyers have been producers who have had record earnings in recent years. There has been some movement in currencies that have not yet translated into export issues, but slowing in exports is possible. The dietary change in developing countries is driving the need for food products. These diets are changing from grain to protein. In countries where there is disposable income there is demand for healthier products, including nuts, cranberries, and fruits. Land and water resources are fixed, so as populations grow and demand for land and water grows, the existing agricultural base should benefit. There is also growth in alternative energy associated with farmland. Hancock suspects there will be some demand as these food crops are addressing the need for energy independence and it is has been targeted as an area for employment.

MR. WILLIAMS stated that Hancock Agricultural Investment Group was founded in 1990 as a division of the Hancock Natural Resource Group. The Hancock Timber Group also manages for the State of Alaska. Hancock Agricultural Investment Group is a wholly owned, indirect subsidiary of Manulife Financial Corporation and is a AAA rated company. As of September 30, Hancock managed $1.1 billion in real estate investments and commitments, covering 158,000 acres in the US and 5,800 acres in Australia. There has been no change in this firm's investment approach. MR. WILLIAMS briefly reviewed the geographic distribution of the holdings in the Hancock portfolio and noted that 59% of the portfolio is in permanent crops and 41% in row crops.

MR. TRIVETTE asked if India or China would be able to grow their own crops. MR. WILLIAMS stated that the issue is allocation of land and water resources. They have not yet been able to allocate enough in bulk commodities to fulfill demand. They could shift toward corn production, but it would be to the detriment of a different commodity. MR. CONRAD stated this is one of the tough questions going forward 20 years. Demand is a factor of population growth, which can be calculated, but the other factor is how quickly they will change their diet.

MR. PIHL asked if the increase in storms around the world would impact the Delta States. MR. CONRAD replied that the Hancock portfolio is not close to the coast, so there has been little impact from storms.

MS. BAILEY stated the ARMB's investment strategy is a passive lease structure. The three portfolio benchmarks is a total return of 5% per annum, an income return rate is cash distributed to 4% over a 5-year rolling period with a minimum of 3% distributed for each individual

property, and the minimum going-in yield is 5% in the initial 3-year period, before fees. The other key guidelines set out maximum geographic and quantity diversification. The portfolio cannot hold more than 40% market value within the same NCREIF region, 15% in a single property, 15% leased to a single tenant, 80% row crop, 20% permanent crop, and 30% in a single commodity. An initial allocation of $100 million was given to Hancock in 2004 with a target of 80% row and 20% permanent. Currently the allocation has been increased to $205 million. The firm has stopped actively looking for acquisitions as of October 30th. The ARMB is under commitment to own $165 million. The portfolio contains five operating companies, 17 owned assets, 4 farmland assets under contract, and 1 under negotiation at this time. The ARMB has 26% remaining to invest; the portfolio is appropriately distributed in terms of geography and farmland crop type.

MS. BAILEY reviewed a graph of total investment commitment diversified by NCREF region and crop type. The ARMB's total one-year return is 14.85%, the 2-year return was 12.87% and the 3-year is 10.68% and since inception the return is 10.41%. Hancock is meeting the benchmark of rolling 5% income returns and appreciation has been strong with a one-year number of 8.31%.

MR. CONRAD summarized by stating credit is still flowing in the sector, not much debt has been applied, and the fundamentals remain in place globally, albeit not as strong as six months ago

BREAK 10:17 a.m. to 10:20 a.m.

17. Buck Health Trend Presentation

DAVE SLISHINKSY, MICHELLE DeLANGE, AARON JURGAITIS, and CHRISTOPHER HULLA introduced themselves and were participating telephonically.

Gabriel Roeder Smith Review

LESLIE THOMPSON introduced herself and was participating telephonically.

DIRECTOR SHIER explained that the Commissioner asked Buck Consulting to review models with a 6% ultimate trend rate. In the course of examining the long-term health care cost trend rate (HCCTR), Buck discovered a new cost model out for review by the Society of Actuaries (SOA). The model was introduced in early 2008 and is not yet adopted as the standard, but there is some consensus that it will be in the future. Some of the features of this model are that it goes out through 2099 and it includes analyses about the percentage of GDP that may end up in healthcare and some of the driving factors. The national health expenditures as a percentage of GDP for 2007 is 16% and the limit it is allowed to grow is a maximum of 25% for all scenarios. The State of Alaska is not an exact fit for this model because there is a constitutional limitation on changes to the health plan in the future. The consultants attempted to replicate that constraint through some of the inputs in the model.

MR. SHIER reviewed a graphic depiction of healthcare cost trend rate comparisons among the various model scenarios. The current model proceeds downward to just below the 6% line, as does the SOA optimistic model and SOA baseline. MR. SHIER reviewed graphs depicting the

effect of each model in terms of dollars. He also reviewed an analysis of the effect on employer contribution rates for PERS and for TRS under each scenario.

MR. SHIER noted that over the last decade the State has changed healthcare cost trend tables multiple times. The SOA model uses long-term projections with the trend rate being reached in 2080 rather than 2014 in the current model.

MR. TRIVETTE assumed that when Ms. Thompson wrote a letter to Mr. Bader, she also sent the material to Buck. He asked if she could provide the Board with copies of that correspondence. MS. THOMPSON replied in the affirmative. MR. TRIVETTE asked what is the length of the letter. MS. THOMPSON replied that it is a two-page memorandum.

CHAIR SCHUBERT asked if the State does anything in terms of a preferred provider plan or generic prescriptions to reduce the cost of healthcare. MR. SHIER replied that the State has been active for many years to contain fees. Currently an $80 million savings is achieved by participating in a network with the third party administrator. Before that, there has been work with retiree groups to use preferred providers. CHAIR SCHUBERT asked if the State could mandate use of a preferred provider or generic drugs. MR. SHIER thought this question would be answered in court. It is possible that a retiree may consider this a diminishment of benefit. It is a passive network currently. CHAIR SCHUBERT asked if a cost:benefit analysis has been done on this question. MR. SHIER stated that the savings of $80 million in the passive network is an indicator of what savings could have been achieved. A change to mandatory may be harder to predict at this point.

COMMISSIONER KREITZER noted that a health survey is being rolled out for active employees and the DB retiree plan is being examined in terms of moving employees voluntarily to a plan that focuses more on prevention.

CHAIR SCHUBERT asked if the Department tracks health costs among the different tiers. MR. SHIER replied that data is received that differentiates between active and retirees. MR. HULLA confirmed that the summary data from Premera is retiree versus active only.

MS. HARBO remarked that in 2005 the previous PERS and TRS boards' health committee worked on the use of generic drugs. That committee was also trying to work to get disease management in the current program to lower costs, with a focus on diabetes. Most retirees used Providence Hospital and at that point in time it was not a preferred provider. MR. SHIER stated that both with the current third party administrator and in the RFP on the street for a new third party administrator, there is direction to engage participants with chronic disease in disease management. In addition, there are nurses at local hospitals to help manage a patient's transition from hospital to home health care. There is no requirement in the program for people to engage in disease management. There are hospitals in Anchorage in the network as preferred providers and the State is working with other hospitals. The highest single recipient of healthcare dollars is a hospital outside of Alaska and the State has entered into contracts with them.

COMMISSIONER KREITZER added that the State is moving forward with disease management; the health surveys will give data to the third party administrator. MR. SHIER stated that this information would go through the WebMD process to the third party

administrator. COMMISSIONER KREITZER explained that, through that process the State would be better able to help members manage disease and develop incentives. MR. SHIER stated the Department has attended meetings with retiree groups to discuss and work on these issues and the Department also includes pertinent information in newsletters.

MR. PIHL had concern with the assumption of a .5% medical trend rate drop per year over the next five years, feeling that is too rapid. He asked what factors support this assumption. MR. HULLA stated that the .5% drop is assumed, as is a 1% prescription drug reduction. The rationale underlying the decline in both models is the concept that a certain percentage of GDP is currently spent on healthcare and economic modeling and assumptions indicate there is a tolerance level at which additional changes will be made to reduce healthcare spending when healthcare rises to a given percentage of the GDP. In the current model, there is a more rapid decline than in the SOA model. The biggest underlying difference in the SOA model is that tolerance for ever-increasing healthcare as a percentage of GDP is greater. MR. PIHL was glad to see the reference to adjustments for Alaska because Alaska is a large state and the programs that have healthcare coverage will pay the bill; there are large areas where the bill is not paid.

COMMISSIONER KREITZER asked that Ms. Thompson review her memorandum to Buck. MS. THOMPSON confirmed that her suggestions were minor and gave context about what was being done in the study and adding more discussion in connection with the study. One of the positive features with this model is that it gives a range from optimistic to pessimistic.

MR. BADER stated that he had suggested Ms. Thompson write this letter. It was a communication between actuaries. The statutes require review by the second actuary and that it not be presented to the Board before the second actuary has approved the work products. Ms. Thompson approved the work products and he thought the letter should so state.

COMMISSIONER KREITZER moved to adopt Resolution 2008-34 that the plan actuary adopt the new Society of Actuaries healthcare cost trend model baseline assumptions in the valuations for establishing contribution rates beginning with FY2011 valuation rates. MR. WILLIAMS seconded.

MR. TRIVETTE noted that the Healthcare Cost Containment Committee received this information. He explained that he does not have background in this area and noted that the SOA model has not been adopted and it could change. He did not think there was a rush and a need to take care of this today and stated he wanted more time to consult with others. He asked that this Resolution be postponed to the February meeting.

MR. WILLIAMS felt the SOA model, although draft, represents the consensus the Board has expressed at earlier meetings that it does not see the long-term healthcare trend dropping down as low as 5%; the SOA model shows it closer to 6%. Although the ARMB may be early adopters of this baseline model, from an accounting point of view, he guessed the SOA might change the number slightly in final form, were that to happen, the ARMB could amend its decision. Knowing the deliberative process undertaken by the SOA, he felt it was unlikely that the model would change dramatically. He supported the motion.

MS. HARBO asked if one of the advisors had indicated the SOA has adopted this model. MR. JURGAITIS with Buck stated this model is final, according to the SOA. It has not been adopted by the various auditing firms. The SOA did due diligence in creating the model and the auditing firms now need to decide when and if to adopt it. MS. HARBO still had some concerns with the model because in Alaska the trend rates are going down too fast. She agreed with Trustee Pihl that the costs in Alaska are significantly higher than Outside.

MR. RICHARDS was also concerned with the analysis because it is based on GDP and when doctors are treating patients they are not thinking about GDP. He preferred to see other information about why the trend would change. If the government began working on healthcare today, he doubted that change would be seen in the next four years.

COMMISSIONER KREITZER noted that every other model is greater than the model baseline assumption. She agreed that this is an area of concern, which is why she asked for re-examination of healthcare costs. This model has been adopted by the SOA. The letter from GRS does not speak to GDP or major issues.

By roll call vote, the motion passed with Trustees Richards and Trivette dissenting.

18. Investment Actions

A. Global Balanced Fund

MR. BADER stated the Global Balanced Fund currently made available to members of Defined Contribution, SBS and Defined Compensation participants is offered by Capital Guardian. Capital Guardian has had turnover in its portfolio management team and has indicated they will eliminate the small cap product line, which is a component of the Global Balanced Fund. The Global Balanced Fund has consistently under performed in recent years. It is difficult for the Department of Revenue staff to monitor the Global Balanced Fund because the majority of the product is mutual funds. This is a popular offering and staff has examined how to continue to provide it while having the ability to monitor it and achieve better returns. Staff talked with RCM, Lazard, and SSgA about this and, after some work from RCM, they determined they could not provide a product that would satisfy the State’s need. Lazard suggested a product that would be a combination of strategies. The product was appealing; it was actively managed, and while they agreed to operate within parameters, there is always the possibility the product would stray from indices. The initial fee for that product was 50 bp, although negotiations would likely result in a lower fee. SSgA offers some passively managed index funds and has offered to provide the equivalent of a global balanced fund by combining passively managed funds and keeping the relative allocations between passive and active as the Department of Revenue has suggested; the fee would be 10 bp. SSgA is a large manager of assets for the ARMB. The Committee has determined that the product offered by SSgA is the preferable way to proceed and CAI should be asked to provide a due diligence study of their ability to provide this option to the defined contribution plans and report back to the Board.

MR. TRIVETTE moved that the ARMB direct staff to engage Callan to assist with the evaluation and due diligence of the global balanced strategy presented by SSgA. No second was required as the motion was made by the committee chair.

By roll call vote, the motion passed unanimously.

B. Securities Lending

MR. BADER noted that the Board was asked at a previous meeting to suspend the security lending program for assets under its control. That program has been suspended and that suspension was a timely move on the part of the Board. There may be the potential to still have a successful securities lending fund, but staff is asking the ARMB to continue to suspend this program until market conditions improve.

MR. PIHL moved to continue to suspend the securities lending program until market conditions improve. MS. HARBO seconded.

COMMISSIONER KREITZER asked if this action would be brought to every Board meeting. MR. BADER stated the intent was to suspend the program until market conditions warrant re-establishing it. MR. TRIVETTE suggested amending the motion to suspend the securities lending program until the staff brings it back to the Board. *This was accepted as a friendly amendment*.

By roll call vote, the motion passed unanimously.

C. Asset Allocation

MR. BADER stated this resolution relates to the bands around the ARMB's asset allocations. It is the Board's policy that staff rebalance within the asset allocation approved by the Board and not allow assets to go beyond established bands. This approach has worked, but because of the extraordinary market conditions and the dramatic declines in bonds and stocks, asset values have dropped and now real estate and other holdings represent a larger percent of the holdings than is contemplated in this plan. The valuation of real estate and those types of assets lag what is happening in the marketplace. Staff expects that there will be markdowns in these other asset classes. It would be imprudent to sell real estate assets at this time, given the market. In discussions with another CIO, he found there is a general perception that there would be between 20% to 50% losses by selling these funds. As a result, the staff is asking to increase the bands around the Real Asset category from +/- 5% to +/- 8%. This would negate the need to sell assets under duress. Real estate investments are being scaled back. Adoption of Resolution 2008-35 would change the bands around real estate.

MR. TRIVETTE moved to adopt Resolution 2008-35 approving the PERS, TRS and Judicial Retirement Systems asset allocation. MS. HARBO seconded.

MR. TRIVETTE supported this motion, finding that the staff is working diligently to manage in this extremely difficult economic environment and being forced to sell assets now would be irresponsible.

MR. O'LEARY stated CAI fully supports this recommendation, feeling it is prudent to not force liquidations in illiquid markets.

MR. RICHARDS also supported the motion and asked when there may be a return to the 5% range. MR. BADER responded that the ranges were established relatively recently when a number of asset groups were compressed into Real Assets. Staff intends to continue working

with the IAC and Mr. O'Leary to recommend different bands when asset allocation is next before the Board.

DR. JENNINGS stated the academic theory behind this would say that broader ranges are being done for the wrong reasons today; in fact, those concerned with risk should institute tighter ranges. Actuary costs would recommend broader ranges because of high transaction costs.

By roll call vote, the motion passed unanimously.

D. Farmland Guidelines

MR. BADER explained that the intent of this change is to bring into alignment the different policies and procedures put in place when Hancock became a manager and when UBS became a manager. For some reason, different policies and procedures were put into these two contracts. This is an attempt to align the two so both managers have the same requirements.

MR. TRIVETTE moved to adopt Resolution 2008-36, which adopts the revised Farmland Investment Policies, Procedures and Guidelines. MS. HARBO seconded.

By roll call vote, the motion passed unanimously.

MR. BADER stated that in some of the newer retirement funds there is an allocation to private equity with an empty basket. During his CIO report he mentioned that staff is exploring some secondary private equity funds and, when those are added, those baskets will be full. In this process of rebalancing, he has realized there is no mechanism with regard to what the CIO does when the investments are outside of the bands and the CIO judges that it is not in the best interest of the ARMB to go within the bands. He proposed to revisit the policy with a recommendation that the CIO advise the Board when the investments are outside the bands and the reason for it.

19. Domestic Fixed Income

BOB MITCHELL began with a discussion of option-adjusted spread, which is the yield premium demanded to not own Treasurys of several high quality portions of the bond market. There has been some movement in the spreads from 1994 when the measurement option-adjusted spread began through June 2007. There has been a general widening and contracting in spreads, attributable to Treasury surpluses that resulted in a lower issuance of Treasury securities and, as a result, Treasurys experienced a yield premium, causing everything else to widen.

MR. MITCHELL noted that the changes in the option-adjusted curve over history pale in comparison to what has been experienced in the last 1½ years. He stated that this is characteristic of a crisis at the heart of the financial system, centered in the bond market. He emphasized that this is high quality bonds, not junk bonds. In general over this 18 to 19 year period investors have been better off by not owning Treasurys and owning other types of securities; that changed in the last year as spreads widened. Over 20 years, an investor would have been better off owning Treasurys than non-Treasurys. That illustrates the magnitude of the recent under performance in the bond market.

MR. MITCHELL briefly reviewed the fixed-income investment team at the Department. He noted that there has been some turnover in staff in the last year, which he reviewed.

The in-house investment mandate for the ARMB at the end of September was $1.69 million, representing 13.08% of the defined benefit assets of the system. This is a core mandate, investment grade, and denominated in the US dollar. The portfolio mandates include a 20% duration band and there are limitations on the amounts and types of securities. About one year ago the staff began managing a TIPS portfolio, which resides in the Real Asset class. The in-house bond portfolio provides the primary bond exposure for the ARMB and acts as a source for payments and capital calls. The team's approach has been to seek yield by under weighting Treasury and Agency securities with shorter maturities. This has not been a favorable strategy in recent times. The team gives liquidity to gain other advantage, such as yield and convexity.

The market value of the portfolio has declined substantially over the last year because of both value decline and outflows into the equity markets during rebalancing. The portfolio is currently at $1.5 billion and should stabilize for a month or so. Returns have been less than the index for the quarter and year, which has lowered returns over longer periods of time. The portfolio has under performed the index for the quarter, 1-year, and 3-year periods. Compared to the CAI core bond universe, the portfolio is above median for the quarter, 1-year, 3-year and 5-year periods. October and November were tumultuous in the market, so the bond portfolio has been stressed. Performance has continued to be under the index; through November it is lagging the index by 400 bp. MR. MITCHELL stated he was heartened to learn that the average bond mutual fund under performance in November was 400 bp and through November the average return is 10% below the return of the index year-to-date.

MR. O'LEARY asked if the performance of the in-house portfolio was positive in November. MR. MITCHELL replied that it was not. MR. O'LEARY asked if that is the case, despite the change in Treasury yields at the end of the month. MR. MITCHELL stated he would have to look to see whether the performance was positive. Through November the index was slightly positive and the in-house performance was down 360 bp in absolute terms. He noted that the regulatory response has been tentative. There has been a lag in the realization of the magnitude of the problem. Once the regulators saw the problem, their attempts to fix it were untried. The change by the Treasury Secretary from using the $700 billion in bailout funds to buy troubled assets from banks equity and instead investing in preferred equity in the companies created stress in the asset-backed markets, which had been firming up in anticipation of direct government purchases.

MR. MITCHELL stated the portfolio is currently enjoying an over 1% yield advantage, which is historically high. Effective and spread durations are near the index. The under weight to Treasurys and agencies is consistent to the historic approach. The asset allocation through November has been roughly the same as last year. The Treasury allocation has been drawn down to 6.5% to date as a result of liquidations out of the portfolio.

MR. MITCHELL stated in terms of outlook that the Treasury Department, Federal Reserve, other governmental agencies and Congress have stated they will do what it takes to prevent the worst possible outcomes. He suspected that the economy would remain challenged because consumer spending will continue to trend downward. There is a sudden large drop in consumer

spending; a 7% to 9% drop in consumption is forecasted for the fourth quarter. He remarked that lending conditions were very easy over the last five years and now are difficult. The government is moving to support specific areas of lending. Liquidity conditions in the bond markets have been strained and remain so. There is a need for capital committed to inventory. There is continued uncertainty about the value of some assets, further constraining the market. It will take some time for the bond market to recover, so as bonds are sold, it will be more difficult to find buyers. Consumer spending is likely to continue to retrench, resulting in a slower economic recovery. He expected that, based on historical consumer spending rates, the pace of consumption will not be robust. Spreads are at wide levels and there are opportunities to buy high quality bonds with good yields.

MR. TRIVETTE asked if the ARMB would run into difficulty in terms of cash flow for healthcare and pension obligations in 2009. MR. MITCHELL stated that bonds can be traded and, so long as there are problems in the equity market, bonds can be sold. The need to liquidate will likely impact the portfolio's performance, however. He stated this recession has been longer than the two others that have occurred in the post World War II era. The equity markets tend to rebound before a recession ends, so he was hopeful of a resurgence in equity performance in 2009. Other asset classes may also assist with the need for cash flow. Mr. Bader has also taken action to bring in liquidity from other areas.

20. External Manager Review

GARY BADER explained that the IAC, CAI and he meet annually to review all the ARMB's investment managers that are under contract. Due to changes at Capital Guardian and their poor performance, they are on the Watch List. They are behind the benchmark for the 1-, 3- and 5-year periods and ahead of the benchmark for the 10-year period. Staff took $100 million from Relational; the Committee felt they should be allowed to continue with their strategy, but had concern with their size. There was some concern that Luther King has added to its number of clients and their recent returns bear continued watching. Absolute return has a lack of transparency, more beta than anticipated, headline risk, and more fees; but they dampen volatility in the portfolio and offer better returns as a whole. In the DC plans, there should be notification to participants that Barclays has security lending in the option they manage and perhaps there should be exploration of whether the ARMB could get into one of their non-security lending options. There was considerable discussion about indexing.

MR. BADER indicated that the group examined 13 years of return for the three large cap indices, the Russell 1000 Value, the Russell 1000 Growth, and the S&P 500. In the late 1990s the ASPIB had a growth bias while value was out performing. As a consequence of manager review, ASPIB began to terminate some of the value managers. In the 2000s, value out performed and there was a growth bias. This speaks to the perils of taking too short a view of managers.

Since inception, Capital Guardian, an active manager, is core like although it is called large cap value. They have style drift to growth or to value, depending upon what is in vogue in the market. Their annual return for the 13-year period as of June 30 was 10.17% versus 8.64% for the S&P 500 and 8.9% for the Russell 1000. RCM large cap growth inception to date returns are 10.07% versus the S&P 500 at 8.64% and the Russell 1000 Growth of 7.05%. McKinley Capital inception to date returns for the 10.5-year period were 6.09% versus 2.71% for the Russell 1000

Growth. Barrow Hanley's one-year returns are -18.85% versus the Russell 1000 Value -18.78%. QMA's one-year return is -18.02% versus -18.78% for the Russell 1000 Value and -13.12% for S&P 500.

MR. BADER reviewed an analysis of gain on equity through active management for a $5 billion portfolio, noting that if there is 200 bp of out performance, the gain is $100 million a year. He next reviewed performance of the ARMB's current managers, excluding Relational because they were hired as a corporate governance manager and have been under contract only a short time. He explained that this analysis does not include managers that have been under contract and then removed. He also explained that the word "average" is not weighted average. Finally, the column heading "appropriate index" is an attempt to measure management style against the appropriate index. Further, Lazard should probably have not been included in international, if they were not included in domestic, but he thinks of them as global and included the in international. Finally, some of the international managers have emerging market stocks in their portfolios. This analysis was intended to find managers who can out perform a growth or value index. About 1½ years ago the Board approved adding growth and value indices. This was an attempt to balance the cumulative style bias of managers by offsetting them with style indices.

MR. BADER reviewed a graphic representation of the ARMB's large and small active and index holdings. The portfolio has been gradually changed to include more index investments. Large cap has also been gradually increased. MR. BADER suggested that the ARMB should become more index-like, particularly in the large cap area.

MR. BADER offered no suggestion for immediate change in the portfolio in terms of manager structure.

MR. O'LEARY stated he looks forward to the Manager Review Committee meeting each year and he was comfortable with the directions the Committee collectively put in place. He stated he has interest following up on the absolute return area to see if the same objective can be accomplished in other ways.

COMMISSIONER KREITZER noted a correction to slide 12 of Mr. Bader's presentation, indicating that the figure for 2000 should have been 28%, rather than 38%.

MR. WILSON noted that his former employer, the State of Massachusetts, has indexed all of its large cap after 10 or 15 years of trying to deliver performance and failing, after fees. He stated that the Foundation he works with presently is also moving toward indexing; even with smaller amounts of money, they have found it difficult for active management to exceed the index.

MR. TRIVETTE asked, assuming the ARMB moves toward indexing large cap, what are the steps to unwind and what is the timetable. MR. O'LEARY stated there are a great number of issues involved. On the one hand, the relative proportion of the active portfolio could be shrunk. There could be a view that a particular type of active management style could be more successful. Those questions must be examined further in order to develop recommendations. The Board's willingness to provide the flexibility with style-related indexes gives staff a tool to maintain balance. There is flexibility to consider ways of increasing the passive component over time. MR. BADER stated that it is almost axiomatic that making a big move is done at the wrong

time. For this reason, staff has followed a systematic and gradual path. He noted that it would be possible to take pension payments from large cap active.

DR. JENNINGS noted that there is strong evidence that managers are fired at the wrong time. He encouraged approaching the situation on a broad front, trimming all managers concurrently.

21. Real Estate Consultant RFP

MR. PIHL suggested that Mr. Bader discuss the real estate consultant RFP preparation process. MR. BADER stated the RFP was prepared by Ms. Hall and Mr. Sikes and reviewed by him. It was advertised in Pension & Investments. There were five responses to the RFP. The scoring was based on understanding scope of services, overall organization, professional qualifications, personnel experience, and cost. Committee members evaluated the RFPs and staff evaluated the cost proposals. Points for the cost proposal totaled 30; the lowest cost got the highest points. This information was provided to the Committee.

MR. PIHL stated the Committee consisted of Trustees Harbo, Williams and him. They received the five proposals in advance for independent, systematic evaluation based on the factors Mr. Bader outlined. When the evaluation ratings were summarized, a clear winner arose. On that basis, the Committee unanimously recommends that the ARMB authorize and direct staff to negotiate and enter into a new contract with the Townsend Group.

MR. BADER suggested that the language of the motion be "staff publish a notice of intent to award the real estate consulting services contract to the Townsend Group and, upon expiration of a 10-day notice period, if there are no protests, that a new contract be entered into with the Townsend Group. MR. PIHL withdrew his previous motion and so moved. MR. WILLIAMS seconded.

By roll call vote the motion passed unanimously.

IX. UNFINISHED BUSINESS

2. Calendar

MS. HALL stated that the calendar for 2009 is contained in the packet. The Audit Committee will now meet in April rather than June. She stated that an updated calendar would be provided.

CHAIR SCHUBERT asked that the February 11-12, 20098 meeting in Anchorage be changed to February 12-13, 2009 in Juneau. MS. HARBO expressed a conflict with those dates. MR. PIHL stated he would miss that meeting on either date. MS. HALL noted that there is also a contract with the hotel in Anchorage and she would need to discuss a date change with them. CHAIR SCHUBERT stated it is easier for commissioners to meet in Juneau that during the legislative session.

1. Disclosure Report

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

3. Legal Report

MR. JOHNSON had no report. MIKE BARNHILL advised the Board that a trial date is set for the Mercer case, which will be heard before Judge Collins in Juneau Superior Court starting February 8, 2010.

CHAIR SCHUBERT noted that she spoke with Ms. Hall about the possibility of holding the educational conference in New York City, noting that conferences in that location attract more speakers. There were no objections to holding the educational conference in New York City.

COMMISSIONER KREITZER asked to understand the context of the educational conference because having that ahead of time helps her to prepare.

MR. TRIVETTE stated he would also prefer to hold the educational conference in New York City.

X. NEW BUSINESS – None

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

XII. PUBLIC/MEMBER COMMENTS

CHAIR SCHUBERT stated she was contacted yesterday by a beneficiary of the system who was upset about the timing of receiving information concerning some investment options. COMMISSIONER KREITZER stated this individual’s concern was that had she known these options were coming, she could have prepared to act on them. Notification was sent by mail and it is on the website, but there is no reason why this information cannot be sent via email, which was suggested during her discussion with the beneficiary yesterday. She appreciated all suggestions by members for improved communication.

XII. INVESTMENT ADVISORY COUNCIL COMMENTS

DR. JENNINGS encouraged the Board to be open to liability driven investment (LDI). He thought the Defined Contribution Committee would see more discussion in the press of LDI thinking for target date funds, given that portfolios are down as much as they are and people need to fund the same retirement. In terms of defined benefits, the ARMB should probably be open to additional education on liability issues. It has been some time since a formal asset liability asset allocation study was performed. There may be benefits to a formal asset liability study for those who are involved in setting asset allocation.

MR. WILLIAMS asked if the LDI concept encompasses the trend in the DC arena to have an “insured” product that gets a guaranteed income for life benefit so the DC benefits mimic what would have been received in a defined benefit plan. MR. O’LEARY stated that prior to the market collapse there was an emerging area of insurance-related products that could provide that benefit to DC participants. This is an emerging area, but it has been set back by the financial crisis. However, there is a legitimate need and it could be timely for the next educational session to address that topic. How the guarantee of benefits is structured can vary; it can begin prior to retirement or it can shift a balance to that type of product. The degree of growth opportunity varies greatly from one to another. The extensive use of derivatives that had been envisioned is a stumbling block causing vendors to reconsider the viability of this insurance. At some insurance

companies there was a concern that even the principal guarantees they had provided as variable annuities were inadequately priced and that has become a potential source of concern about their viability. MR. WILLIAMS felt this was an emerging issue that should be discussed.

DR. JENNINGS added that even a small bit of that insurance product helps beneficiaries quite a bit. Annuitizing a quarter of the portfolio can dramatically increase how well the portfolio works for members. There is also academic research on delayed annuitization.

MR. WILSON stated he just finished the new book about Warren Buffett called Snowball and a quote in that book is "be greedy when others are fearful and fearful when others are greedy." He applied this philosophy to today's environment. He read this to mean that it is important to adhere to asset allocation.

XIV. TRUSTEE COMMENTS

MR. TRIVETTE stated that early in the summer he had a conversation with Brian Andrews and he thought Mr. Andrews was interested in this as a topic of discussion. He added that a service for Mr. Andrews and his son was held last Friday and was extremely well attended. He asked that his family be kept in everyone's thoughts and prayers. He appreciated the contributions of Mr. Andrews to the ARMB.

COMMISSIONER KREITZER agreed with Trustee Trivette's sentiments. She corrected the minutes of the September 25-26, 2008 meeting, noting that a number of staff were not present at that meeting. She also mentioned with respect to the executive working group recommendations regarding compensation to state employees that she will be sending out an email to all state employees about the geographic differential survey being undertaken; an RFP for that work will be on the street shortly. That study will examine how employees across the state are compensated by where they live, the region, and whether or not that is appropriate. A salary survey will be undertaken for a number of State positions where recruiting has been difficult.

MR. TRIVETTE asked if there would also be discussion of per diem, noting that when he was a State employee the per diem for State employees was very different than that for federal employees. COMMISSIONER KREITZER stated that the per diem requirement is dictated by union contract and some by the administrative manual; she is trying to bring everything in line with the latter and ensure that the per diem rate is fair.

MR. WILLIAMS expressed gratitude to Larry Semmens for his service on the ARMB. COMMISSIONER KREITZER asked if official gratitude has been expressed to former Trustee Semmens. CHAIR SCHUBERT suggested that a plaque be prepared for this purpose.

CHAIR SCHUBERT echoed the comments made by Trustees Trivette and Williams concerning Mr. Andrews and former Trustee Semmens. She noted that this is the last day that the Board's Recording Secretary, Kim Stalder, would be providing services to the ARMB.

XV. FUTURE AGENDA ITEMS – None

XVI. ADJOURNMENT

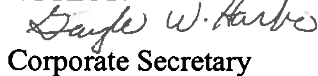
MR. WILLIAMS moved to adjourn the meeting of the ARM Board. MS. HARBO seconded.

There being no objection, the motion PASSED unanimously.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, THE ARMB MEETING ADJOURNED AT 12:27 p.m. ON December 5, 2008.

Chairman of the Board of Trustees
Alaska Retirement Management Board

ATTEST:



Corporate Secretary

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

WORDSMITH
Kimberly D. Stalder
Anchorage, Alaska