

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
SPECIAL TELECONFERENCE MEETING

Location of Meeting
11th Floor Treasury Conference Room, State Office Building
Willoughby Avenue, Juneau, Alaska

MINUTES OF
February 25, 2009

CALL TO ORDER

CHAIR GAIL SCHUBERT called the meeting of the Alaska Retirement Management Board (ARMB) to order at 3:00 p.m.

ROLL CALL

Seven trustees were present by telephone to form a quorum at roll call. Mike Williams joined the meeting in progress.

ARMB Board Members Present

Gail Schubert, *Chair*
Sam Trivette, *Vice Chair*
Gayle Harbo, *Secretary*
Kristin Erchinger
Commissioner Annette Kreitzer
Martin Pihl
Tom Richards
Mike Williams

ARMB Board Members Absent

Commissioner Pat Galvin

IAC Members Present

Jerrold Mitchell
George Wilson

Department of Revenue Staff Present

Jerry Burnett, Deputy Commissioner
Gary M. Bader, Chief Investment Officer
Judy Hall, Board Liaison

Others Present

Michael O'Leary, Callan Associates, Inc.

Rob Johnson, Board legal counsel

Mike Barnhill, Department of Law

PUBLIC MEETING NOTICE

Judy Hall confirmed that public meeting notice requirements had been met.

APPROVAL OF AGENDA

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

Chief Investment Officer GARY BADER asked to add item V.(a), Status of Consultant Merger. The speaker would be Mr. O'Leary.

The agenda was approved with the one addition.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

There was no one present in Juneau or on teleconference who wished to address the board.

STATUS OF GENERAL CONSULTANT MERGER

MICHAEL O'LEARY of Callan Associates, Inc. spent a few minutes telling the Board about the status of Mercer Investment Consultants' acquisition of Callan Associates. Mercer is a subsidiary of Marsh McClennan Cos. He also described how he anticipated things would operate once the transaction is closed around the end of March. The intent is that Callan clients will be serviced by the same people that the clients have been working with, and that for the intermediate future all work done for Callan clients will be continue to be done by Callan employees. The estimate is that it will take through the end of this year to consolidate the two operations. There is a commitment to maintaining the combined staffs and therefore becoming a much larger entity. The key driving point for Callan in the decision to proceed with the acquisition was that the investment world has become much more complex, and that the depth of resources necessary to be the best in class could not be provided by Mercer alone or by Callan alone. By the combination date, all 65 Callan shareholders will have completed signing employment letters and non-compete agreements. The intent is to compete in the Alaska's request for proposal for general consultant services that is already on the street.

MR. O'LEARY said he recognized that this was an awkward situation for the ARM

Board, and that the Board has to do whatever it believes it must do. But at a minimum, the assignment of the contract through June 30, 2009 will insure a smooth transition, if that becomes necessary. And hopefully it doesn't become necessary. He offered to answer any questions.

MR. TRIVETTE mentioned the state's pending lawsuit with the actuary arm of Mercer. He asked if Mr. O'Leary and his staff believed Callan would have the internal firewall necessary, if the board were to approve transfer of the contract, so that the ARMB's interest would not be potentially impeded by Mercer and Callan combining.

MR. O'LEARY said that with respect to the continuation of the existing contract through June 30, 2009, the answer was yes.

MR. PIHL asked if Mr. O'Leary felt good about his position and continuing role in the new organization. MR. O'LEARY replied yes, that it is a challenge in that he is co-chairing an integration committee that will deal with what has been called intellectual capital. That committee cannot begin its work until the merger is consummated. Their key mission is to understand how Mercer Investment Consulting does things and for Mercer to understand how Callan does things. This involves manager research, what they think about hedge funds and other forms of alternative investments, where the research should be conducted, and how they think about asset allocation. Mercer has worldwide research people on the ground -- in the U.K., Australia, Canada and the U.S. Mercer's U.S. operation is focused in Chicago, while all of Callan's people are in San Francisco. They will be maintaining the San Francisco office. Mercer has an approach to developing capital market assumptions, and their projections tend to be different but more similar to Callan's, so that ought not to present a problem.

MR. PIHL said he was thinking more about Mr. O'Leary's personal enthusiasm for his new job and his enthusiasm for working for the ARMB. MR. O'LEARY said his job has been working with his clients, and he did not envision that changing. He also hoped the clients did not change. He has not taken on any new accounts for two or three years and would not be taking on anyone new. The earn-out payment associated with this merger is three years from now.

MS. HARBO inquired who approached whom for the merger. MR. O'LEARY said Mercer approached Callan over a year ago. Others have approached Callan over the past five to ten years and asked to explore the possibility of combining or acquiring Callan. The talks with Mercer did not become very serious until December, when things really accelerated.

MR. BADER asked if Mercer Investment Consulting does any investment management. MR. O'LEARY said they have an investment management entity, which he does not know anything about. His belief is that it is very similar to what Callan does, which is not

manage money directly. Callan has its small cap equity fund that has 40 small cap managers in it. As a policy, to minimize potential conflicts of interest, Callan cannot consult on that investment. Callan also had a glide path series of target date maturity funds, where they are a sub-advisor that controls the asset allocation for a trust entity that then distributes those funds to small financial intermediaries. Again, because of the conflict of interest problem, these funds are not offered to Callan consulting clients. If a Callan consulting client wants to use the target date maturity funds, Callan would have to tell them to use somebody else for the evaluation. He said he believed that was the approach that Mercer had as well.

CHAIR SCHUBERT asked if Mercer offered any key personnel employment contracts. MR. O'LEARY said that Callan's chairman Ron Peyton and the president Greg Allen are the two people who have employment contracts. The incentive for retention of the 65 Callan shareholders (out of 170 employees) is that the earn-out payment is contingent upon them being there three years from now. The people have to sign a non-compete to join the new entity.

MR. O'LEARY mentioned that 10 to 20 Callan employees, who are either very small shareholders or not yet shareholders, have been taken care of by Mercer providing them with retention bonuses so they would benefit the way the shareholders would if the firm is successful.

MR. WILSON questioned Mr. O'Leary about his personal plans and if he intended to stay on for the next three years. MR. O'LEARY responded that he was not planning to retire and was taking it a year at a time. He was strongly committed to staying through the transition process. He enjoys working with clients and hopes that he has enough clients that he will be sticking around. The Public Employees Retirement System of Idaho asked him a similar question yesterday. In Callan's response to the ARMB request for proposal for consulting services he is proposing to be the lead consultant. He knows the duration of the contract and expects that he would be around. He is not at all unhappy with the combination of Callan and Mercer.

After making sure there were no more questions, MR. O'LEARY left the teleconference.

EXECUTIVE SESSION: CONSIDERATION OF OPTIONS RELATED TO INVESTMENT ADVISOR CONTRACT

MR. TRIVETTE moved that the Alaska Retirement Management Board go into executive session to get advice from legal counsel and to receive and consider communications from the attorney general which are attorney/client privileged. MS. HARBO seconded.

The motion passed without objection.

Board members, staff, IAC members, and legal counsel disconnected from the public teleconference and dialed back in using a separate connection code to meet in executive session at approximately 3:20 p.m.

When the executive session concluded at about 3:45 p.m., the meeting returned to a public teleconference.

ACTION MEMO: CALLAN-MERCER CONTRACT ASSIGNMENT

Staff had prepared a memo outlining Callan's request that the ARMB consent to the assignment of the Callan consulting contract to Mercer, as a result of the two firms agreeing to merge.

MR. TRIVETTE moved that the Alaska Retirement Management Board direct staff to assign the Callan consulting contract to Mercer Investment Consulting, Inc., subject to legal review and negotiation. MS. HARBO seconded.

MR. TRIVETTE inquired if the motion should contain the contract end date of "June 30, 2009." MR. JOHNSON said no, that the assignment is of the contract as it exists, and that contract ends on June 30, 2009.

Roll call vote

Ayes: Harbo, Pihl, Trivette, Williams, Schubert

Nays: Erchinger, Kreitzer, Richards

The motion passed, 5-3.

OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD - None.

PUBLIC/TRUSTEE COMMENTS - None.

ADJOURNMENT

THERE BEING NO OBJECTION AND NO FURTHER BUSINESS TO COME BEFORE THE BOARD, THE MEETING WAS ADJOURNED AT 3:50 P.M., ON A MOTION MADE BY MS. HARBO AND SECONDED BY MR. WILLIAMS.

Chair of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

Corporate Secretary

Note: The summary minutes are extracted from staff's tape recording of the meeting and are prepared by an outside contractor. For in-depth discussion and presentation details, please refer to tapes of the meeting and presentation materials on file at the ARMB office.

Confidential Office Services
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