State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Meeting

Location
Anchorage Marriott Hotel
820 West Seventh Avenue
Anchorage, Alaska

MINUTES OF
December 6-7, 2012

Thursday, December 6, 2012

CALL TO ORDER

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

ROLL CALL

Seven ARMB Trustees were present at roll call to form a quorum.

Board Members Present
Gail Schubert, *Chair*
Sam Trivette, *Vice Chair*
Gayle Harbo, *Secretary*
Kristin Erchinger
Martin Pihl
Tom Brice
Sandi Ryan
Commissioner Butcher

Board Members Absent
Commissioner Becky Hultberg

Investment Advisory Council Members Present
Dr. William Jennings
Dr. Jerrold Mitchell
George Wilson

Department of Revenue Staff Present
Angela Rodell, Deputy Commissioner
Gary M. Bader, Chief Investment Officer
Pamela Leary, State Comptroller

Zach Hanna, State Investment Officer
Bob Mitchell, State Investment Officer
Scott Jones, Asst. State Comptroller
Judy Hall, Board Liaison

Department of Administration Staff Present
Jim Puckett, Director, Division of Retirement & Benefits

Consultants, Invited Participants, and Others Present
Robert Johnson, ARMB Legal Counsel
Michael O'Leary, Callan Associates, Inc.
Michael Hayhurst, KPMG
Melissa Beedle, KPMG
Gary Robertson, Callan Associates, Inc.
T.J. Duncan, Frontier Capital Management
Coleman Hubbard, Barrow Hanley Mewhinney & Strauss
Jim McClure, Barrow Hanley Mewhinney & Strauss
Peter Reinemann, Jennison Associates, LLC
Jason Swiatek, Jennison Associates, LLC
Kristin Shofner, Lord Abbett & Co, LLC
Mike Smith, Lord Abbett & Co, LLC
Mark Johnson, Luther King Capital Management
Steve Purvis, Luther King Capital Management
Don Frank, Victory Capital Management
Gary Miller, Victory Capital Management
Blair Thomas, EIG Energy
Rosalind Jacobsen, SSgA/State Street
Matt Philo, MacKay Shields
John Akkerman, MacKay Shields
Jeff Pantages, Alaska Permanent Capital Management

PUBLIC MEETING NOTICE

JUDY HALL confirmed that public meeting notice requirements had been met.

APPROVAL OF AGENDA

<u>A motion to approve the agenda was moved and seconded</u>.

Without objection, the agenda was approved.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

JAY DULANY, President of the Retired Public Employees of Alaska (RPEA), reported the RPEA had a board meeting this week and expressed appreciation for managing trust funds.

MR. DULANY introduced RPEA board members SHARON HOFFBECK, Medical Information Director from Anchorage, CHARLIE GALLAGHER, Northern Region Vice President from Fairbanks, TED MONINSKI, Executive Vice President, LINDA DALTON, Membership Director, and GARY MILLER, Regional Southeast Vice President.

APPROVAL OF MINUTES

A motion to approve the minutes of the September 21-22, 2012 was made and seconded.

Without objection, the minutes were approved without changes.

ELECTION OF OFFICERS

VICE CHAIR TRIVETTE stated annual nominations were open for Chair, the Vice Chair, and the Secretary of the Board.

TRUSTEE BRICE nominated GAIL SCHUBERT for Chair, and the motion was seconded.

The motion nominating GAIL SCHUBERT for Chair was approved.

TRUSTEE HARBO nominated SAM TRIVETTE for Vice Chair, and the motion was seconded.

The motion nominating SAM TRIVETTE for Vice Chair was approved.

TRUSTEE PIHL nominated GAYLE HARBO for Secretary, and the motion was seconded.

The motion nominating GAYLE HARBO for Secretary was approved.

REPORTS

1. CHAIR REPORT

CHAIR SCHUBERT was not available to make the Chair Report.

2. COMMITTEE REPORTS

A. Audit Committee

Committee Chair MARTIN PIHL reported that the committee met on December 5, 2012, and received and discussed more fully the report from KPMG on completion of audits for the fiscal year ending June 30, 2012. The audit had gone very well. At today's meeting, KPMG will bring one audit finding on the SBS system to the Board regarding information from the wrong dates being put in drafts. It was caught by KPMG and has been fixed.

KPMG supplied the committee with an outline of the provisions and ramifications of GASB 67 and 68, which will be issues to follow and comply with over the next two to three years.

The most important issue will be disclosure requirements on the unfunded liability, both by the State and employers around the state. This was under study by staff, will be of interest and followed by many in the coming months.

B. Actuarial Audit RFP Evaluation Committee

Committee Chair GARY BADER reported the Actuarial Audit RFP Evaluation Committee met on December 5, 2012; committee members present were MR. PIHL, MS. HARBO, and MR. BADER. MR. BADER stated that as required by law and directed by the Board, an RFP for actuarial audit services was prepared and advertised in a national publication. He noted that there were three respondents to the RFP and of the three respondents, one was chosen as the superior bid. An action item is set on the agenda for tomorrow to take up the committee's recommendation.

3. RETIREMENT & BENEFITS DIVISION REPORT

A. Membership Statistics/Buck Invoices

DRB Director JIM PUCKETT provided the Retirement & Benefits Division Report. On the Membership Statistics, there was nothing more than normal shifting, with a slight increase in retirement for Tiers I, II, and III. There was a little increase in the population to Tier IV, but nothing of significance to point out.

MR. PUCKETT reported on the Buck invoices. There is one item on the invoice that would be paid with General Funds and not come out of the Retirement Fund and that is the project for GASB rules. VICE CHAIR TRIVETTE requested that where those items are listed on the invoices, to put an "X" by them, indicating federal money is going to be replacing that.

B. Other DRB News

MR. PUCKETT reported the release to the public of the TPA RFP. Responses will back by December 28th, and an evaluation of those proposals received will be given. DRB will put together a Division team of 11 people and give an update in February. VICE CHAIR TRIVETTE clarified the RFP is for the Retiree Medical Plan. MS. HARBO asked if there is a replacement for the Comptroller position; MR. PUCKETT replied no.

MR. PIHL, on behalf of the Audit Committee, requested that the Audit Committee receive copies of what Buck does with respect to GASB 67 and 68. CHAIR TRIVETTE indicated all Trustees should receive copies. MR. PIHL stated any board member that would like the KPMG outline of December 5, 2012, staff can provide copies to anybody that wants to follow that closely.

4. TREASURY DIVISION REPORT

DEPUTY COMMISSIONER RODELL gave the Treasury Division Report. MS. RODELL reported the Treasury Division has been working closely with the Department of Administration to finish up financials and also that the Revenue Sources book was released this week. It can be found on the Department of Revenue website at www.tax.alaska.gov. CHAIR TRIVETTE asked if it also lists the reserves the State has at this point in time. MS.

RODELL stated it has a forecast of both the State's investment earnings and the Permanent Fund Corporation's forecast.

5. CHIEF INVESTMENT OFFICER REPORT

Chief Investment Officer GARY BADER reviewed a list in the packet of investment staff actions and other items, including rebalancing assets in conformance with board policy, funding of the FAMCO and Tortoise MLP accounts, and the announcement from Brandes that CEO Glenn Carlson is reducing his workload at Brandes and Brent Woods will become the new CEO. This would be a watch list item, and this is a significant development; Brandes is already on the watch list.

VICE CHAIR TRIVETTE recessed the meeting for a brief at-ease from 9:16 a.m. to 9:17 a.m.

6. FUND FINANCIAL REPORT

State Comptroller PAMELA LEARY reviewed the September 30, 2012 Fund Financials for each retirement plan. The beginning invested assets at the start of the year were $19.8 billion and ended the three months at $21 billion: the ending invested assets for PERS: $12.285 billion; Teachers, $5.17 billion; Judicial, $134 million; and National Guard Naval Militia, $34 million. The SBS Plan was $2.754 billion, and the Deferred Compensation Plan was $634 million.

MS. LEARY stated that as of September 30th, the Non-Participant Directed funds were at $17.2 billion, and numbers for November 30th put the Non-Participant Directed at $17.183 billion, so a slight decrease from the end of September through the end of November due to net withdrawals, and it was offset somewhat by the investment income. On the monthly activity for all funds, there were net withdrawals for the month of September and positive income for the month.

MS. LEARY provided graphical depictions of the asset allocation and invested assets growth/loss for each retirement plan. Also contained in the report were the individual investment manager results and information for the participant-directed plans.

DRB Director JIM PUCKETT presented the supplemental financial report prepared by the Division. He reported that, in August, over $50 million was paid out in pension benefits in a single month. That amount is expected to double in the coming years. It's projected to peak about 25 years from now, with a milestone for paying out benefits in a single month of going over $50 million. The health benefits paid out by PERS, TRS, and JRS decreased about 1.7% compared to the same period last year, although it's still $100 million over for the three-month period.

MR. PUCKETT also reported that, while the overall health benefit expenses are well-controlled, the JRS retirement health care trust shows year-to-date entries of 45% compared to last year. The fund is small, volatile, and has about 70 retired members. MR. PUCKETT pointed out that a single member may have a catastrophic medical event, and it will be reflected in an increase in this fund.

MR. PUCKETT reported the PERS and TRS Participant Directed Retirement Funds are continuing to grow rapidly, with a combined year-to-date individual member contribution more than 21% higher than the same period as last year.

MR. PUCKETT also reported, in the PERS and TRS Health Reimbursement Account and Retirees Medical Plan (for Tiers IV in TRS and Tier III in TRS), all paid a portion of the KPMG audit expenses this year for the first time and that's reflected in the administrative fees column.

VICE CHAIR TRIVETTE asked if there was a catastrophic occurrence in Judicial that caused such an increase. MR. PUCKETT stated he has not inquired about what was driving the increase. MR. PIHL stated the annual contribution occurred in that period, $3,650,000.

MS. ERCHINGER asked for an explanation of where would those costs have been previously and if they were in the PERS Retirement Fund, allocated in TRS as opposed to specifically health. MR. PUCKETT stated the fees had not been allocated in the past.

MS. ERCHINGER asked if the retirement funds have been paying those costs as administrative fees in the past and if it's just a redistribution of the costs among the retirement plans, specifically to health, or if the retirement plans have not been getting assessed the costs of audit in the past. MR. PUCKETT stated he could find out.

VICE CHAIR TRIVETTE questioned that there was a significant increase in contributions coming in this year on the Participant Directed side. MR. PUCKETT stated yes, and it would be reflected in the increase in Tier IV and Tier III for PERS and TRS, respectively, as the populations are growing.

MS. HARBO asked for clarification that, under refunds under Defined Contribution for PERS, in the first three months, there was a little bit over $4 million withdrawn, and those funds were from people who completely left the system under PERS, and took their money. MR. PUCKETT confirmed that $4.3 million was correct. MS. HARBO asked if, under TRS Defined Contribution, it was $2.4 million in the first three months, and MR. PUCKETT stated that is correct.

7. PRIVATE EQUITY PORTFOLIO – REVIEW AND PERFORMANCE ANALYSIS

VICE CHAIR TRIVETTE stated the meeting is ahead of schedule, and the KPMG Audit Report would be pushed back on the agenda. VICE CHAIR TRIVETTE introduced GARY ROBERTSON and stated he has 45 minutes for his presentation on Private Equity Evaluation.

GARY ROBERTSON, Senior Vice President of Callan Associates Inc., presented an annual review of the retirement fund's private equity portfolio as of June 30, 2011. *[A copy of Callan's slides for this presentation is on file at the ARMB office.]*

MR. ROBERTSON stated this has been a good year for private equity and for the ARMB portfolio. Even though the economy is not doing well, this is a good environment for private equity. MR. O'LEARY stated this is for periods ended June 30, not September 30 for private equity; MR. ROBERTSON agreed.

MR. ROBERTSON talked about the development of the portfolio. ARMB started 14 years ago, in 1998, with a 3% allocation to Abbott Capital Management. Ten years ago, ARMB hired Pathway and increased its allocation to 6%. ARMB hired Blum in 2005, but they had an issue with security selection and have not done well. In 2006, ARMB increased the target to 7%, and began the in-house portfolio in 2007. The first few investments in that portfolio were in a pricy environment, and the recession hit. Since then, things have been pretty slow for the portfolio to develop. The portfolio is doing fine. Last year, ARMB increased the allocation to 8%.

MR. ROBERTSON reviewed the details of the program's funded position at June 30, 2012 compared to June 30, 2011: ARMB's total assets decreased $120 million (7%) during the period, which decreased the private equity target by $10 million. Total private equity NAV increased $109 million (7%), so the over funding to private equity increased by 7%. The portfolio is 1.9% over target, but well within its upper target range of 12%.

MR. ROBERTSON described the private equity market conditions, showing industry commitments to partnership, as well as providing observations on the fiscal year characterized by volatility and low growth. From a portfolio diversification perspective, ARMB has a very good structure. It reflects all key strategies, it reflects the market opportunities set with some adjustments, it has a little more venture than the market, which is good and brings more balance, and it has fewer buyouts than the market, which dampens volatility. Diversification by region is very well constructed: 30% of assets are in non-U.S., 20% in Europe, about 10% elsewhere, 3% in Asia.

MR. ROBERTSON reported on the ARMB performance: commitments went up this year to $240 million and $295 million was received in distributions. With a starting NAV at 1.4, this represents a 20% cash yield. If the distributed is netted against the paid in, the difference is $33 million back to ARMB – meaning that ARMB didn't fund this portfolio, it was self-funding this year.

MR. ROBERTSON reported on the management structure, style and composition of each of the private equity firms, Abbott Capital Management and Pathway Capital Management. Both managers are performing well relative to benchmarks and their strategies are complementary. He noted that the private equity portfolio is mature, has provided good performance, and is well diversified.

MR. WILSON asked if these numbers are net of all the managers' fees, the third-party manager fees as well as Abbott's fees, and MR. ROBERTSON replied they are net of all the partnership fees, but gross of the Manager of Managers fees. The database does not add in Manager of Managers fees because it's all partnerships. MR. WILSON asked how much the

Manager of Managers fees were; MR. ROBERTSON asked MR. HANNA to respond. MR. HANNA stated it's about 25 basis points. MR. WILSON asked if there is an incentive; MR. HANNA said no, Abbott's has an asset management fee of 25 to 30 basis points MR. WILSON asked about Pathway; MR. HANNA stated Pathway's fee is based on commitments, and it works out to 35 to 40 basis points currently on assets, but it's more of a Fund of Funds. MR. WILSON asked if there is any incentive for Pathway; MR. HANNA replied no. MR. WILSON asked if that was net of the third-party manager fees; MR. ROBERTSON said yes, net of the partnership fees.

MR. ROBERTSON reviewed the in-house portfolio which is fairly concentrated in five funds, with a good balance of strategies, except venture capital although there is some venture exposure from the Warburg Pincus Fund. The portfolio is 61% paid-in, up from 43% last year; uncalled capital declined 31% since no new commitments were made, and distributions were $16 million – an 18% cash yield – up from $1.7 million last year. The IRR is positive at 6%.

MR. ROBERTSON reviewed the Blum portfolio. There was a large hedge fund vehicle, open-ended. This particular fund has two private positions and is a closed end fund. It's a private equity structure. There are nine companies left. Seven are public. Two are private. Seventy-six percent of the assets are in three companies. It's a three-stock portfolio. There was a write down, little in distributions. The performance turned somewhat negative and that will payout over time.

MR. ROBERTSON stated the portfolio is beginning to mature, but will take three to five years to fully mature. DPI (Distributed to Paid In) is at 73 cents, with about 27 cents to go. Performance is good; the managers are doing their jobs. It is well-balanced by strategy, industry, geography. The two managers complement each other. Abbott does mezzanine debt, but they don't do distressed debt. Pathway does distressed debt, but not mezzanine debt. Blum has not lived up to expectations.

VICE CHAIR TRIVETTE asked, if ARMB didn't have Blum, where it would be right now with the other two managers; MR. ROBERTSON stated he would have to add those portfolios together specifically and then look at it.

DR. MITCHELL asked MR. ROBERTSON if Abbott and Pathway are conservative in everything or only in their international ventures; MR. ROBERTSON stated it's across-the-board. DR. MITCHELL asked if there is any movement downward in fees. MR. ROBERTSON stated there has been a little bit of give on terms, and at the margin, fees have come down just slightly, but they haven't really moved off a "Two and Twenty" model, waterfall distributions that are more favorable transaction fees going to the LPs instead of sharing with the GPs.

MR. WILSON asked if venture has influenced behavior and how they are approaching the venture business these days. MR. ROBERTSON stated the venture market is contracting. MS. ERCHINGER asked, as it relates to the in-house portfolio and benchmarking that portfolio, is that done exclusive of fees, and if not, if it's inclusive of fees, how the in-house fees are determined comparatively to benchmark it. MR. ROBERTSON stated the numbers are net of the partnership fees, but don't include the Manager of Managers fees. In this case, Manager of Managers is staff. VICE CHAIR TRIVETTE asked if there is anything that he would recommend that the Board consider doing this year with Blum. MR. ROBERTSON replied there is nothing that can be done, as it's a closed end fund.

VICE CHAIR TRIVETTE recessed for break from 10:13 a.m. to 10:27 a.m.

8. KPMG AUDIT REPORT

The KPMG Audit Report was presented by MIKE HAYHURST, Engagement Partner and Office Managing Partner, and MELISSA BEEDLE, Senior Manager, Engagement Manager. *[The 2012 audit results had been presented in more detail to the Audit Committee at its prior meetings, and the minutes of those committee meetings are on file at the ARMB office, along with the KPMG slide presentation.]*

MR. HAYHURST reported KPMG met with the Audit Committee on two occasions: in October, to specifically go through the required communication and audit status related to the reports issued on the assets under investment for the Division of Treasury, and on December 5, 2012, to specifically go over required communication and information related to the audits for the systems and reports issued under Retirement & Benefits. He identified one deficiency in internal control that rises to the level of a significant deficiency related to the financial statements for the Supplement Benefit System.

MR. HAYHURST stated that the key element is that management is responsible for financial statements and for implementing internal controls. They do that under the oversight of this Board and the Audit Committee of this Board, and KPMG is responsible for planning and performing an audit under generally accepted auditing standards, and ultimately at the end of that, issuing an opinion, and as indicated, it was a clean opinion on all of the financial statements issued.

MR. PIHL emphasized KPMG brought to bear a lot of additional audit review and price checks on the valuation of alternative investments. MS. ERCHINGER noted KPMG does a great job of having an open dialogue with the Audit Committee.

9. INVESTMENT PERFORMANCE MEASUREMENT – Periods Ended 9/30/2012

MICHAEL O'LEARY, Executive Vice President, and PAUL ERLENDSON, Senior Vice President from Callan Associates Inc., presented a performance review of the retirement fund portfolio and individual participant plans as of September 30, 2012. *[A copy of Callan's presentation is on file at the ARMB office.]* MR. O'LEARY pointed out corrections to the dates on Slides 30 and 43: should be as of September 30, 2012 rather than June 30, 2012.

MR. ERLENDSON provided a synopsis of an article published in *Foreign Affairs* magazine with a thesis that the kinds of GDP growth rates described in emerging markets in the brick countries are unsustainable. Emerging markets are looked at as huge growth stories which they continue to be, but returns from the recent decade should not be extrapolated into the future - we should be a little bit guarded and look at the sustainability of those growth rates.

MR. O'LEARY provided a backdrop to the market and economic conditions in domestic, international and emerging markets, noting that over seven and ten-year periods or longer, emerging markets have been superior to the developed markets. He touched briefly on real estate and hedge funds before turning to the PERS actual asset allocation relative to target on Slide 13. MR. O'LEARY noted that at the end of the quarter, international equity was underweight and domestic equity overweight relative to the target, with real assets being close to target. The private equity portfolio is at 9.2%, down from 10-10.5%. The distribution relative to other public funds is exactly as it has been for the last several years, with the biggest extreme variation, the low fixed income exposure.

MR. O'LEARY noted that performance for the quarter was 3.7% versus the target of 4.55%, with a return for the year at 14.37%, which is a very respectable absolute rate of return, and should please the actuaries, but it is below the target [Slide 15]. And it was below target for the full year because the target for private equity was 25%. He stated that real assets had an attractive return, fixed income continued to beat targets, and absolute return ended below its target.

MR. O'LEARY reported the three-year annualized relative attribution effects of each asset category in the ARMB portfolio: domestic equity in aggregate detracted slightly from target return; fixed income returns were positive; real assets were positive; international equity was very slightly ahead of target; private equity was the winner; and absolute return detracted. The three-year annualized return is 8.71%, which is good relative to earnings assumption discount rates, but not strong comparatively and that's shown on both TRS and PERS.

MR. O'LEARY next reviewed the performance of each asset category in the ARMB portfolio:

- The U.S. Treasury fixed income pool returns, managed internally, are ahead of the target benchmarks. The two and a quarter years shown reflect the time period that this current benchmark has existed. The Mondrian non-U.S. fixed income returns are ahead of the benchmark for the fiscal year to date and for all periods since inception. MacKay Shields high yield bond portfolio slightly underperformed in the last year, but outperformed peers over a two-year period.
- Total domestic equity underperformed the Russell 3000 Index for the quarter; the large and small cap domestic equity pools underperformed for the quarter and the last year. Large Cap Returns at 29.3% versus the benchmark of 30.06%, and the small cap returns at 30.29, behind the Russell 2000 at 31.91%.
- International Equity, compared to other public funds shows competitive returns across almost all time periods. A focus on comparing the international equity pool ex-emerging markets relative to the developed market index show numbers better than the benchmark; emerging markets over five years are at the benchmark, but below the benchmark for shorter periods. The Lazard Global portfolio has shown strong performance over 10 years.

- The real assets portfolio return of 11.87% beat the target of 10.37%; the internally managed REIT portfolio returns at 33.31% slightly lagged the 33.81% benchmark; total farmland was up 15.26%; and timber was up slightly better than benchmark.

PAUL ERLENDSON reported on the individual investment funds that retirement plan participants can invest in. He noted that Callan tracks over 80 plans with $100 billion in assets, and the behavior of participants in Alaska is broadly consistent with the population of these 80 plans, so in the third quarter there were net transfers out of equity-oriented strategies into target date and balanced funds,

DR. MITCHELL asked if there is an educational component in asset movements, or if its random or headline related. MR. BADER stated the biggest driving force is that the target date funds are the default options, and that most people are defaulting in that option. There are educational seminars put on by the Division of Retirement & Benefits, but the default option is driving most of the money.

MR. O'LEARY stated the greatest similarity amongst target date funds is the date, not the composition of the portfolios, although the composition has changed from five years ago. DR. JENNINGS stated the debate centers around a "to retirement or through retirement" mentality noting that a couple retiring around 65 has a 30-plus year investment horizon.

MR. ERLENDSON resumed his review noting that the color-coding scheme for the passive options listed on the stoplight report is somewhat different than the color-coding used for the active options. He stated that rather than color-code the options based on performance relative to their respective peer groups, the passively managed options are color-coded based on how closely the index fund is matching the returns of its index, but that the index benchmarks are still color-coded based on their performance relative to the broader peer group. He explained how an index fund may be green, since its performance closely matches its benchmark, but that the index benchmark may be red since its performance trails the peer group of active managers, which is not unusual for a period of recovery and not a source of concern.

MR. BADER asked why the Alaska Balanced Fund and the Alaska Long-Term Balanced Fund are both colored red in the stoplight report. MR. O'LEARY noted that both funds outperformed their passive benchmarks, and that the color-coding is a result of the funds' asset allocation. He explained that the Alaska Balanced Fund is a very conservative balanced fund, and so the red coloration is a result of its performance relative to the peer group of other balanced funds. MR. ERLENDSON stated that the Alaska Balanced Fund has a greater allocation to fixed income than many balanced funds, and the equity underweighting relative to the peer group explains the performance. MR. O'LEARY explained that the color-coding on the actively-managed Alaska Balanced Fund is relative to other balanced funds.

MR.ERLENDSON noted that a challenge of performance evaluation is evaluating a fund relative to its specific benchmark, and in this case the fund is meeting its target. He stated that you then look at performance relative to peer group and try to determine a cause in any difference, which in this case is explained by the recent period when stocks have been outperforming fixed income.

MR. O'LEARY recalled the history of the Alaska Balanced Fund and the addition of the Long-Term Balanced Fund, and the introduction of the Target Date Funds. MR. BADER explained that at one point the Alaska Balanced Fund was the only fund available to participants and was never intended to be a typical balanced fund, but many participants have remained invested in the fund over the years and that explains why it is so large even though it has always been a conservative balanced fund.

MR. ERLENDSON noted that the conservative allocation contributed to the Alaska Balanced Fund's good performance over periods that include market decline. He described performance of the remaining actively managed options on the stoplight report.

MR. O'LEARY stated the RCM return is a source of concern. MR. BADER asked for clarification on that statement. MR. O'LEARY replied it is compared to both the broad market and the Socially Responsible Index and the 400 Index. RCM has had a rough performance patch across their growth portfolios.

VICE CHAIR TRIVETTE recessed meeting from 11:59 a.m. to 1:14 p.m.

10. ECONOMIC ROUND TABLE

MR. BADER introduced guests of the round table: MR. GARY MILLER, CIO of Small Cap Value Strategy for Victory Capital Management; MR. T.J. DUNCAN, Frontier Capital Management, Small Cap Value Fund; MR. JASON SWIATEK, Jennison Associates, Small Cap Core; MR. MIKE SMITH, Lord Abbett, Small Cap Core; MR. STEVE PURVIS, Luther King Capital Management; and MR. JIM MCCLURE with Barrow, Hanley, Mewhinney & Strauss.

11. FRONTIER CAPITAL MANAGEMENT

GARY BADER introduced Thomas J. Duncan, Senior Vice President and Portfolio Manager, from Frontier Capital Management to report on the ARMB's small cap portfolio. *[A copy of this presentation is on file at the ARMB office.]*

MR. DUNCAN said Frontier has been in business since 1980 with about $9.6 billion in assets. This portfolio has around $450 million in assets. The portfolio typically has about 80 stocks. He stated that Frontier expects to get most of its returns from stock selection and spends the vast majority of its time researching the individual companies in the portfolio. MR. DUNCAN then reviewed the portfolio returns, portfolio construction, and the firm's process is stock selection and retention. Frontier's top ten holdings are usually about 19% to 25% of the portfolio.

12. BARROW HANLEY MEWHINNEY & STRAUSS

GARY BADER introduced JIM McCLURE, Managing Director and Portfolio Manager, and COLEMAN HUBBARD, Analyst, from Barrow, Hanley, Mewhinney & Strauss to report on the ARMB's small cap portfolio. *[A copy of this presentation is on file at the ARMB office.]*

MR. JIM MCCLURE introduced COLEMAN HUBBARD and stated that he will replace him on the investment team. He noted the year-to-date number centered on September is not a very long time period in terms of the way BHMS looks at things. MR. McCLURE further discussed the firm's focus on economically stressed or beneficial parts of the economy, the firm's process in stock selection and the contributors to performance and underperformance.

VICE CHAIR TRIVETTE recessed the meeting from 2:37 p.m. to 2:38 p.m.

13. JENNISON ASSOCIATES, LLC

MR. BADER introduced PETER REINEMANN, Managing Director and JASON SWIATEK, Managing Director and Portfolio Manager, both from Jennison Associates. *[A copy of this presentation is on file at the ARMB office.]*

MR. REINEMANN reported Jennison stands at about $156 billion in total assets, also providing additional details of the composition of the firm's investment strategies. MR. O'LEARY inquired about evolution in management. MR. REINEMANN noted that the CEO role has been assumed by Mehdi Mahmud.

MR. SWIATEK gave a performance update which lagged by about 400 basis points through the first three quarters, but year-to-date through November 14th, that gap closed very significantly to 40 basis points down. He noted that since inception, over the last seven-plus years, ARMB's portfolio has returned about 85% compared to 60% for the Russell 2000, so 25% of outperformance over that time period, which equates to about 210 basis points annually and that's right within the goal. He then described the firm's investment process: the first step is to identify great businesses, those that can grow between 10% and 25% on a sustainable basis, and the second step is being very patient in terms of when it invests in these businesses. VICE CHAIR TRIVETTE asked if there anything particular that drove the last year and the last part of this year in terms of returns; MR. SWIATEK replied where you set the calendar plays a role.

MR. REINEMANN confirmed that Prudential Financial is the parent company of Jennison Associates.

VICE CHAIR TRIVETTE recessed meeting for a break from 3:00 p.m. to 3:16 p.m.

14. LORD ABBETT & CO, LLC.

GARY BADER introduced KRISTIN SHOFNER, Director, Public Fund Marketing, and MIKE SMITH, Director and Partner, from Lord Abbett LLC. *[A copy of this presentation is on file at the ARMB office.]*

KRISTIN SHOFNER reported that Lord Abbett is a privately held investment firm with assets at about $128 billion and that investment management is Lord Abbett's only line of business. After providing additional information regarding the status of the firm, Ms. Shofner introduced her colleague.

MIKE SMITH gave an update and noted the Investment Team page is probably the most important page in the presentation book. Their product has been closed since 2006. From a performance standpoint, they missed a low quality rally that started in the spring of '09. Historically as a small cap manager, Lord Abbett spends most of its time focusing on identifying good companies with good management teams and good growth prospects.

MR. O'LEARY asked MR. SMITH to characterize Lord Abbett's relative sector weightings versus its historic pattern of weightings, that is, the magnitude of under or overweights; MR. SMITH stated, in summary, Lord Abbett has a philosophy and process that drives it to pockets of opportunities in the marketplace where the stock is mispriced, fundamentals are improving, but haven't fully been anticipated by investors. In terms of weight, Lord Abbett is generally less than ten percentage points, plus or minus the Russell 2000 Index weighting. Lord Abbett's ten largest holdings are generally about 18% to 21% of the portfolio.

15. LUTHER KING CAPITAL MANAGEMENT

MARK JOHNSON, Portfolio Manager for Luther King Capital Management, introduced himself and STEVE PURVIS, a principal of the firm as well as the manager of the Small Cap Strategy. *[A copy of this presentation is on file at the ARMB office.]*

MR. PURVIS stated that LUTHER KING has $10 billion of assets under management, with about $2 billion in small cap. He provided additional information regarding the investment staff, experience and portfolio construction. The firm focuses on high quality, best in class companies that have already proven their business model. The three things the firm thinks are important are idea generation, finding/identifying those best in class companies. Since 1994, on a fee-adjusted basis, the firm has been able to average over 11% per year annualized and outperform, on average, by over 277 basis points.

MR. PURVIS provided some background information on the firm's relationship with ARMB, and highlighted the ARMB portfolio's three-year return, which has averaged 18% per year versus the market up 13%. He noted the five-year has averaged just shy of four versus a little over two for the market. Since 2005, it has generated a couple of hundred basis points of outperformance relative to the benchmark.

MR. O'LEARY asked MR. PURVIS to give an update on capacity and refresh everybody's memory about how frequently the firm has closed. MR. PURVIS stated they have put on a soft close at the $2 billion mark and that means they're not taking on any new mandates into their small cap strategy.

VICE CHAIR TRIVETTE complimented MR. PURVIS on page 13 of the presentation and thanked them for their presentation.

16. VICTORY CAPITAL MANAGEMENT

MR. BADER introduced DON FRANK, Institutional Sales Director, and GARY MILLER, Chief Investment Officer, from Victory Capital Management. *[A copy of this presentation is on file at the ARMB office.]*

MR. FRANK stated that Victory has about $76 million under management for the Alaska Retirement Management Board, and is the newest small cap manager. He noted further that the account received funding in May and the strategy has had its challenges in that short timeframe. He stated that the presentation would outline what has occurred in the market, and what Victory sees going forward.

GARY MILLER focused on the inception-to-date rather than just the quarter since the time period had been so short. The fund is up just shy of 2.5% versus about 665 basis points for the benchmark, so over 400 basis points of relative underperformance. He discussed in detail the three primary issues for poor performance: style, overexposure to capital spending, and the portfolio was not defensively positioned. The quarter-to-quarter update is it has picked up over 100 basis points in the last few weeks, and most of that recovery came in November, over 130 basis points, up 160 versus 30, and it has gone from lagging in all nine sectors to outperforming in seven of the nine.

RECESS FOR THE DAY

VICE CHAIR TRIVETTE recessed meeting for the day at 4:33 p.m.

Friday, December 7, 2012

CALL BACK TO ORDER

VICE CHAIR TRIVETTE reconvened the meeting at 8:59 a.m., noting that a quorum was present.

REPORTS (continued)

17. EIG ENERGY

GARY BADER introduced BLAIR THOMAS, Chief Executive Officer for EIG Global Energy Partners, noting that ARMB has three active investments with EIG. *[A copy of this presentation is on file at the ARMB office.]*

BLAIR THOMAS provided a high level overview of the firm. He stated that EIG is a specialist investor in energy with a 30-year track record in the space. The value chain approach is a key part of EIG's style, and it's one of the ways they help dampen some of the inherent volatility in the sector. MR. THOMAS stated that EIG does not favor power, natural gas, or renewables but does favor oil versus gas, and midstream or infrastructure assets, particularly in the United States, and Brazil. The largest oil finds in the world in the last 40 years are offshore Brazil.

MR. THOMAS noted that EIG is an asset-based investor, and tends to invest in the middle of the capital structure, either hybrid debt instruments or structured equity instruments. The firm is a global business with a global platform and a 30-year track record. MR. THOMAS provided additional information on the state of the market, the volatility in the marketplace, and the market cycle that offers opportunities for additional investments.

MR. THOMAS reported on the state of the ARMB investments, noting that EIG starts paying distributions very early and that about 11% of what ARMB funded has already come back in the form of income. Fund XIV, a $2.6 billion fund, outperformed; the ARMB investment was $100 million. Fund X was a 2003 vintage fund with 22 investments, about 111% invested. ARMB committed $80 million, and distributions, to date, are just under $95 million.

MR. PIHL asked for MR. THOMAS' views on gas-to-liquids and also coal. MR. THOMAS stated EIG is fairly bullish on particular types of coal in particular geographies, but has no interest in Appalachian coal. Where EIG does see coal activity, thermal coal in particular, which is coal used for power generation, is Asia. Gas-to-liquids technology is nothing new; it's Fischer Tropsch technology. The issue is cost. In order for gas-to-liquids to be economic, you're going to have sustained low gas prices and sustained high oil prices. MR. BADER inquired where MR. THOMAS' next stop is; MR. THOMAS replied Asia.

18. STATE STREET GLOBAL ADVISORS (SSgA)

CHAIR SCHUBERT invited ROSALIND JACOBSEN of State Street Global Advisors (SSgA) to present to the trustees. *[A copy of this presentation is on file at the ARMB office.]*

MS. JACOBSEN of State Street Global Advisors (SSgA) provided context for the presentation noting that SSgA is a very significant component of ARMB allocations within the Defined Benefit and the Defined Contribution Plans. MS. JACOBSEN stated, in the Strategic Partnership that SSgA approaches in the relationship with the State of Alaska, they view the investment tool kit available from effective use of beta management as the underpinning for every investment strategy that ARMB currently uses. She defined beta as purely getting market exposure.

MS. JACOBSEN next provided an update on the statute of SSgA, stating that it now has over $2 trillion in assets under management; and 53% of the clients have two or more strategies with the firm. The percentage of new business from existing clients is over 84% and the defined contribution platform $240 billion in assets under management. SSgA's stated intent would be to have zero tracking error, meaning whatever the market is doing, SSgA is doing. She described the approach for defined contribution participants are to deliver a retirement outcome that the participants are relying on the investment manager to help provide.

MS. JACOBSEN reviewed the various strategies that SSgA manages on behalf of ARMB and provided the trustees additional background and context for the returns, as well as insight into the firm's approach to each investment strategy.

MR. O'LEARY asked how the currency elements are accommodated in transactions in emerging markets when about 50% of customer transactions don't involve actual sale and then reinvestment. MS. JACOBSEN replied that SSgA is always moving to the U.S. dollar to produce, unless otherwise instructed, and this is accomplished through an agency process, not using an affiliated broker.

In response to several questions from MR. O'LEARY, MS. JACOBSEN confirmed that none of the high profile lawsuits pertaining to currency involve any of the ARMB index funds, and the lawsuits stem from a custody relationship not from the investment management arm, and that for ERISA managed assets, State Street Global Markets is not used for any market trade, and this extends to public funds who aren't subject to ERISA; and lastly, that all funds utilized by ARMB are non-lending funds.

MR. BADER asked for clarification during rebalancing in emerging markets as to access, which would be important information since there are strict market requirements. MS. JACOBSEN replied that SSgA has a very robust compliance team that participates in the process on a pre-trade/post-trade basis and then after-the-fact compliance mechanism to make sure that someone cannot game the system. Notification is required two days prior to the twice-a-month transactions, which is locked in so you can participate in the buy/sells, but if that deadline is missed, it requires waiting for the next opening in two weeks.

MS. ERCHINGER thanked MS. JACOBSEN for her presentation, noting that the volume of information was presented concisely, with great material in the packet, including the GIPS presentation at the back.

19. MACKAY SHIELDS

CHAIR SCHUBERT introduced JOHN AKKERMAN and MATT PHILO from MacKay Shields to present to the trustees. [A copy of this presentation is on file at the ARMB office.]

MR. AKKERMAN provided a brief snapshot of the firm affirming to the trustees that the firm has not changed its business model and that the management of the ARMB portfolio remains with the same team. He provided a high level overview of the high yield market noting that the strategy has been very popular but that MacKay has been cautious given that certain segments of the market are riskier than others, but the in spite of a significant correction in the market, the ARMB portfolio did very well in 2011, with a 7.19% return versus the benchmark of 4.37%. MR. PHILO next reviewed the ARMB portfolio historical returns along with portfolio characteristics as of October 31, 2012, noting that the market value of the portfolio is $492 million with a current yield of 7.16%.

MR. ERLENDSON asked if MR. PHILO could provide a look for the intermediate; if interest rates start to rise, is there going to be a mass exit from high yield and what should a strategic investor, like ARMB, be expecting in that environment? MR. PHILO stated the duration of high yield is relatively short, well under 40 years, but if interest rates go up because the economy is booming, that could be offset by credit improvement, so high yield comes out well within fixed income and a rising rate environment. .

MR. O'LEARY asked MR. PHILO to comment on what types of environments MacKay Shields would expect its performance to be superior to the index and then tell ARMB when those environments are going to occur. MR. PHILO stated the underperformance is really 2009, and reflects our dedication to process. He noted that the modest correction last year in August/September led MacKay to the top decile in the asset class, outperforming most peers. He stated that when the market reflects bond math and intelligent pricing, and in periods of weakness, the portfolio outperforms the majority of peers.

MS. ERCHINGER inquired about MacKay Shields' fees. MR. PHILO stated he will report them immediately after the meeting.

CHAIR SCHUBERT recessed meeting for a break from 10:36 a.m. to 10:50 a.m.

20. REBALANCING THEORY

CHAIR SCHUBERT invited Investment Advisory Council member DR. WILLIAM JENNINGS to present on rebalancing. [A copy of this presentation is on file at the ARMB office.]

Dr. Jennings stated that his current research project focused on taxable rebalancing, which led to a review of the literature of rebalancing and various academic points of view, balanced with a practitioner perspective which will be useful. Dr. Jennings described the annual effort by the Board to set the asset mix, with a portfolio in notional balance, but with normal market action the portfolio will then be out of balance.

Dr. Jennings reviewed slides depicting the asset mix on the efficient frontier (as prepared by Callan Associates), and described the case for rebalancing as a risk story, with rebalancing as a risk control mechanism in keeping risk in the range originally set. He noted additional reasons to rebalance, including monetizing diversification, adding return, and making decisions before a crisis. Dr. Jennings stated that in a crisis, the tendency is to second-guess whether to rebalance or not, but the Board has the right structural set-up with rebalancing ranges in place and the responsibility to implement rebalancing in accordance with that policy is delegated to staff. He described the case against rebalancing, citing trading costs, oversight costs, and trending market conditions.

Dr. Jennings outlined the big picture questions on rebalancing: how often, how wide the range around an asset class, and how big a trade? He noted that most studies look at monthly, bi-monthly or quarterly. The longer period allows more drift, and a shorter period requires more trading, which is costly, but may be better from a risk control point of view. Dr. Jennings stated that the range question included a narrow range which encouraged risk control and captured a diversification return versus a wider range which has lower costs, fewer reversals and is less work. He described the choices in trading strategy as back to range edge, half-way back between the range edge and the target, and lastly back to the target, noting that the process is a cost benefit analysis. He also described the rebalancing premium – the idea that rebalancing enhances returns. The estimate for ARMB is 57-59 basis points which is already calculated in Callan's geometric estimates.

Dr. Jennings concluded with his assessment that the Board has a good program in place and rebalancing should continue.

Responding to a question from Deputy Commissioner Rodell, MR. BADER described the current rebalancing process, which he noted was illustrated at each meeting in his CIO Report, with most items showing the rebalancing between the funds.

21. IFS ACTIONS

MR. BADER stated this is the last presentation on IFS items, noting that many of these recommendations have improved the function of the Board and the way that the Board approaches certain issues. The IFS recommendation is that the ARMB Board should develop an investment policy statement (IPS) supplementing the individual asset class policies and addressing total fund elements. [A copy of this presentation is on file at the ARMB office.]

MR. BADER reminded the Board that it had adopted all policies put in place by the Alaska State Pension Investment Board (the predecessor board to ARMB). He said that staff and the consultant had reviewed investment policy statements from other public funds, but the variety was overwhelming, so the current document was drafted for the Board's consideration. He described this as a status quo document putting in place the way the Board does business, the way it intends to continue to do business and also cover the objectives, investment guidelines, security guidelines, selection of managers and other control procedures. A second recommendation to review investment policies annually has been included in the IPS.

<u>VICE CHAIR TRIVETTE moved to approve Resolution 2012-33; the motion was seconded by MR. BRICE</u>.

VICE CHAIR TRIVETTE asked for clarification, to include the Judicial Retirement System and National Guard Naval Militia in the first paragraph of the document; MR. BADER replied the omission was not intentional and he had no objection to the amendment. CHAIR SCHUBERT clarified the addition of the Judicial Retirement and National Guard to this Policy Statement.

MR. PIHL noted, under Comptroller and Accounting Staff duties, it says monthly reports and inquired about monthly reports. MR. BADER clarified that the Comptroller and Accounting Staff duties include monthly reports and they do compliance reports and have monthly meetings. MR. PIHL requested, under the Compliance function, to add a mention that the Audit Committee of the Board is provided those reports; MR. BADER replied that can be added. MR. PIHL also requested that the Board be provided the report as of June 30, which the Board doesn't see in a packet due to the scheduling of its meetings.

MR. JOHNSON inquired about the previous board's statement to achieve top quartile returns, which is not included in this investment policy statement; Mr. Bader affirmed that it was not included. DEPUTY COMMISSIONER RODELL stated the goal was to achieve the actuarial assumed rate of return to meet the requirement to pay benefits, so that it creates this sort of risk offset to the language.

CHAIR SCHUBERT requested an amendment this Policy Statement, under Comptroller and Accounting Staff, to change the word "monthly" in the first dot to "quarterly." MR. BADER stated he hasn't discussed that with Ms. Leary. SCOTT JONES, Assistant Comptroller, noted the financial reports by plan are published to the website monthly and also show asset allocation for each plan. Typically, the June reports are published about the third week in July, up to the website, and those are the unaudited reports. MR. JONES stated he would be happy to email them out. MR. PIHL requested a hard copy, and MR. JONES agreed.

CHAIR SCHUBERT stated the proposed addition would be, after the words Deputy Commissioner, "and the ARMB Audit Committee." MR. PIHL agreed. DEPUTY COMMISSIONER RODELL stated, once the compliance reports are finalized, Ms. Hall sends them to the Audit Committee currently, so that reflects actual practice. CHAIR SCHUBERT asked if there were any objections; VICE CHAIR TRIVETTE replied no. MR. BADER noted he is advised by Ms. Hall that the language for the top quartile performance is in the handbook, but it's not in the Investment Policy Statement, just for clarification.

CHAIR SCHUBERT called for a vote. <u>The motion passed unanimously</u>.

MR. BADER stated, for the record, the item where the staff will review the investment policies was also an IFS recommendation and that it's approved with that last motion.

BOB MITCHELL, Senior State Investment Officer, addressed IFS Recommendation B.1#5. This recommendation affects five investment guidelines: TIPS; convertible bonds; international, fixed income, high yield, and the intermediate treasury investment guidelines.

MR. MITCHELL addressed the first sentence of the recommendation: "Consider the addition of minimum portfolio characteristics." He reported that after review of the IFS report leading to the recommendation, three items needed to be addressed in all guidelines: benchmarks should be stated, return expectations should be identified, and limits in corporate exposure should be specified. He stated that the external managers had been involved in the process and all were comfortable with the changes outlined in the proposed resolutions.

MR. MITCHELL stated that staff recommends the adoption of five resolutions, which are 2012-20 through 2012-24, inclusive.

VICE CHAIR TRIVETTE made a motion to adopt Resolutions 2012-20 to 2012-24, dealing with various fixed income investment guidelines; MS. HARBO seconded the motion.

MR. O'LEARY inquired about the discussion regarding industry limitations as a reference to the Barclay's. MR. MITCHELL clarified that Barclay's methodology doesn't include corporate sectors, so the reference is to minimize misinterpretation.

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VICE CHAIR TRIVETTE expressed appreciation to DR. MITCHELL for his presentation and materials provided to the Board.

CHAIR SCHUBERT called for the vote; the motion carried unanimously.

MR. BADER noted the last recommendation:, "ARMB should request a discussion of the rebalancing theory from staff and/or the consultant to determine what their primary goals are and whether or not a more sophisticated approach could be called for," and he considered that Dr. Jennings presentation provided compliance, unless the Board requested further information from staff.

22. INVESTMENT ACTIONS

A. Manager Review Report

MR. BADER reported that the annual Manager Questionnaire had been sent to all of the investment managers, and responses are reviewed and discussed by staff, consultants and the IAC at a meeting in Denver. The primary purpose of the meeting was to review the manager responses and have some discussion as to whether any action needed to be taken with respect to a manager, but other topics were discussed as well.

GEORGE WILSON expressed his concern about the domestic equity pool, which is 27% of the assets here, that it has not beat the index, and has underperformed by a fairly significant period, a fairly significant amount.

MS. ERCHINGER asked MR. BADER to expound on the SSgA legal comment. MR. O'LEARY noted, on the currency issue, the legal action is not limited to State Street. MS. ERCHINGER expressed appreciation on the write up; VICE CHAIR TRIVETTE agreed.

B. RFP Evaluation Committee Recommendation

MR. BADER reported the statutes call for a review of the actuary every four years. An RFP was developed and advertised within the state and nationally, resulting in three firms submitting viable proposals. An evaluation team appointed by the Chair: MR. BADER, MR. PIHL, and MS. HARBO evaluated and scored the proposals independently. The Committee came together as a Review Committee on December 5, electing Mr. Bader as Chair. Cost proposals were calculated by staff, and verified by MR. PIHL.

MR. BADER asked for a motion from the Board to issue a Notice of Intent to Award a contract and subsequent to the expiration of a ten-day period of protest, negotiate a contract with the Segal Group to conduct the required actuarial audit.

MR. BADER stated he made the motion as Committee Chair; CHAIR SCHUBERT stated there was no need for a second. <u>The motion passed unanimously</u>.

CHAIR SCHUBERT noted MS. HARBO had a question as to whether MR. BADER could make the motion because he's not a trustee, but he was elected Chair of the Committee. CHAIR SCHUBERT stated she was accepting the motion on behalf of the Committee from MR. BADER. MR. JOHNSON replied that would be appropriate.

CHAIR SCHUBERT recessed the meeting for a break from 12:10 p.m. to 1:25 p.m.

22. TAXABLE MUNICIPAL BONDS

JEFF PANTAGES, the Chief Investment Officer of ALASKA PERMANENT CAPITAL, and JASON ROTH, Senior Vice President and a Portfolio Manager at APCM, gave their presentation. [A copy of this presentation is on file at the ARMB office.]

MR. PANTAGES noted APCM celebrated its 20th anniversary, and has about $3 billion of assets under management, and manages money for many Alaska institutions, including the Permanent Fund.

MR. PANTAGES discussed taxable municipal bonds, bonds issued by state and local governments which have been around since the 1986 Tax Act.

MR. ROTH discussed historical and practical perspective on taxable municipal bonds versus corporate bonds and looked at it on a yield basis/evaluation basis, looked at some of default statistics, and looked at it as a risk/reward return on taxable municipals versus corporates and how they might be a very good diversification tool for a portfolio.

CHAIR SCHUBERT noted the data appears to be almost three years old and inquired if it still holds true today; MR. ROTH replied it's the most recent data he had.

MR. BRICE asked what kind of research is done to determine whether or not a particular issuance of a municipal bond is, going to be a safe bet or a reasonable investment; MR. ROTH stated, each issue has to be underwritten independently, which means the perspectives and financial statements have to be reviewed and the individual financials of every single issuer in the market.

VICE CHAIR TRIVETTE asked if they have a list of municipal bonds that they currently hold and if they're all Alaska bonds, from the Alaska municipalities. MR. ROTH replied, no; they don't have a list, but in the Appendix, there is a list of the top 25 issuers. VICE CHAIR TRIVETTE inquired about Alaska municipal bonds; MR. ROTH stated, if there is a community in Alaska that's issued them, they probably own them in one or more of their portfolios.

DEPUTY COMMISSIONER RODELL stated, in answer to TRUSTEE TRIVETTE'S question, the bond bank actually negotiates directly with local government, so it's a little bit different, and then issues its own tax-exempt bonds.

DEPUTY COMMISSIONER RODELL asked if they would recommend that the ARMB Board invest in Alaska taxable municipal bonds; MR. ROTH stated they are looking at the entire universe of investments.

COMMISSIONER RODELL asked, what kind of supply they see, since the Build America bond program ended in December of 2010, and asked if they see a lot of secondary market supply that comes with these bonds or if they tend to be to buy and hold owners; MR. ROTH replied, these aren't very long-term bonds, so there is a fair amount that are buy and hold.

MR. ERLENDSON inquired, within the capital structure of an issuing entity, where the taxable munis fit within the seniority status; MR. ROTH stated it's a senior unsecured obligation, unless it's a revenue bond and it's tied to that specific revenue source.

UNFINISHED BUSINESS

1. Calendar

CHAIR SCHUBERT asked Trustees to consider moving the February meeting date from the 20th to 22nd to the 11th, 12th, or 13th or March 6th, 7th, and 8th and also whether the Trustees are committed to going to Juneau.

COMMISSIONER BUTCHER noted it's the first session in the Legislature. VICE CHAIR TRIVETTE noted he already has commitments in March, but open to February dates. Discussion was had regarding dates and locations.

CHAIR SCHUBERT stated the change in the meeting date to February 11, 12, and 13, the 12th and the 13th for the Trustees and the 11th for Committee meetings, and the location would be Anchorage. COMMISSIONER BUTCHER made a motion was made to adopt the 2013 meeting calendar; MS. RYAN seconded the motion. The motion was adopted.

2. Disclosure Report

MS. HALL stated the Disclosure Report was included in the packets, and there is nothing to report other than usual transactions.

3. Legal Report

MR. JOHNSON noted there was no specific legal report.

NEW BUSINESS

MR. BADER noted, at today's meeting, a report was made by EIG Energy Group, an investment that was made following an education conference. At this recent Education Conference, the trustees heard a presentation from Goldman Sachs on a defined contribution strategy described as a portfolio completion strategy that provides access to asset classes that defined contribution participants don't typically enjoy such as private equity, commodities and things of that nature. MR. BADER asked the Board to allow them to engage Callan to do a due diligence review of that product for possible inclusion in the defined contribution plan. VICE CHAIR TRIVETTE moved the motion; the motion was seconded; the motion carried.

VICE CHAIR TRIVETTE clarified, for the new Trustees, that means MR. BADER will sit down with Callan, and they'll do a research of the areas. Today, no decisions will be made.MR. BADER stated these are not commitments.

MR. BADER next described the Lazard emerging market debt fund and requested contingent authority to engage Callan for a review of this product. VICE CHAIR TRIVETTE made the motion; MR. PIHL seconded the motion; the motion carried.

MR. BADER asked the Board to authorize a search for a taxable municipal bond manager for possible inclusion in the ARMB portfolio. MS. RYAN moved the motion; MS. HARBO seconded and the motion carried.

OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD

None.

PUBLIC/MEMBER COMMENTS

None.

INVESTMENT ADVISORY COUNCIL COMMENTS

DR. JENNINGS reiterated comments he would like to see: clustering like presentations, cross-sectional comparisons, and having the Panel, because we can ask the same question or hear different points of view.

TRUSTEE COMMENTS

COMMISSIONER BUTCHER echoed comments about the Panel. MR. BRICE noted the upcoming legislative session and addressed the unfunded liability issues. MS. ERCHINGER recommended the Legislative Committee have another meeting before the legislative session. MR. PIHL stated to keep in mind the implications of GASB disclosure requirements and recommended additional review of the earnings assumption.

CHAIR SCHUBERT thanked the Trustees for reelecting her as Chair.

FUTURE AGENDA ITEMS - None.

ADJOURNMENT

There being no objection and no further business to come before the Board, the meeting was adjourned at 2:17 p.m., on a motion by made MR. BRICE and seconded by MS. HARBO.

Chair of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

Gayle Harbo
Corporate Secretary