State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Location:
Anchorage Marriott Hotel
820 West Seventh Street
Anchorage, Alaska

MINUTES OF
June 20-21, 2013

Thursday, June 20, 2013

CALL TO ORDER

CHAIR GAIL SCHUBERT called the meeting of the Alaska Retirement Management Board (ARMB) to order at 9:07 a.m.

ROLL CALL

Eight 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
Commissioner Bryan Butcher
Commissioner Becky Hultberg-phone
Tom Brice
Sandi Ryan

Board Members Absent
Martin Pihl

Investment Advisory Council Members Present
Dr. William Jennings
George Wilson

Investment Advisory Council Members Absent
Dr. Jerrold Mitchell

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

Zachary Hanna, State Investment Officer
Scott Jones, Assistant State Comptroller
Pamela Leary, State Comptroller
Judy Hall, Board Liaison
Allison Campbell
Shane Carson (sp), Manager of Public Equity

Department of Administration Staff Present
Lee Hullinger, CFO, Division of Retirement & Benefits
Mike Barnhill, Deputy Commissioner

Consultants, Invited Participants, and Others Present
Robert Johnson, ARMB Legal Counsel
Michael O'Leary, Callan Associates, Inc.
Kim Nicholl, The Segal Group
Matthew Strom, The Segal Group
Thaddeus Gray, Abbott Capital Management
Tim Maloney, Abbott Capital Management
Jim Chambliss, Pathway Capital Management
Canyon Lew, Pathway Capital Management
Leslie Thompson, Gabriel Roeder Smith
Dave Slishinsky, Buck Consultants
Christopher Hulla, Buck Consultants

PUBLIC MEETING NOTICE

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

APPROVAL OF AGENDA

MS. HARBO moved to approve the agenda. MS. RYAN seconded the motion. CHAIR SCHUBERT noted the new business could probably fit under Item 10 as a work session discussion. With that note, the agenda was approved.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

None.

APPROVAL OF MINUTES

MS. HARBO moved to approve the minutes of the April 18-19, 2013 meeting. MR. TRIVETTE seconded the motion.

MR. TRIVETTE made note of two corrections:

Page 5, third paragraph: should have said "Commissioner Hultberg stated that the Parnell Administration," and cross out ARMB.

Page 5, fourth paragraph: should have said "school districts would be required to have their employees as part of the Alaska Care plan," and cross out ARMB plan.

MR. O'LEARY made note of one correction:

Page 21, fifth paragraph beginning with "Mr. O'Leary stated that the IAC considered a range of possibilities, and decided on" should have said "Mr. O'Leary stated that the IAC considered a range of possibilities for all the programs and suggested those that are proposed in Resolutions 2013-04, 05 and 06."

The minutes were approved as revised.

REPORTS

1. CHAIR REPORT

CHAIR SCHUBERT did not have anything to report.

2. COMMITTEE REPORTS

A. Audit Committee

MS. ERCHINGER reported the Audit Committee met on June 19 and reviewed the KPMG's independent audit plan. KPMG gave a presentation on the audit plan. The Audit Committee had a good discussion on the upcoming GASB 67 and 68 pronouncements and their impact on the financial presentation for the state. MS. ERCHINGER believes the state will be presenting to the ARMB at the meeting in September regarding the allocation of the unfunded liability among employers. MS. ERCHINGER noted Director Jim Puckett and auditor Kay Gouyton provided results of their study of public pension plans, finding that 61% of the plans were not actually performing employee audits. She thanked Mr. Puckett and Ms. Gouyton for their hard work in setting the best standards for employer plan audits for pension plans.

B. DC Plan Committee

MR. TRIVETTE reported the DC Plan Committee met on June 19 discussing two primary objectives. Staff has been talking with T. Rowe Price about making modifications to the target-date funds and some of the other funds. He stated the discussion is ongoing. MR. TRIVETTE expects to hear from staff about some possible changes within the next six months or so.

MR. TRIVETTE reported Goldman Sachs gave a presentation on their newly established fund. He said it was an interesting presentation, but not ready to be considered by the Board.

The staff will continue working with Goldman Sachs and it may be brought to the Board for further review in the future.

C. IAC Evaluation Committee

MR. TRIVETTE reported the IAC Evaluation Committee, consisting of himself, Ms. Erchinger and Ms. Harbo, met last week. The Committee reviewed 21 very qualified applications and narrowed it down to four applicants, who will be interviewed during the Board meeting tomorrow under Item 19. Investment Advisory Council Finalists. MR. BADER noted he will provide the Board with questions he believes may be useful to ask the applicants.

MR. TRIVETTE next discussed the RFP secondary actuary selection. The RFP Committee, consisting of the himself, Ms. Erchinger and Ms. Harbo, held a meeting on June 19 discussing the three submitted proposals. MR. BADER noted the Board will take action today under Item 14. B. Review Actuary. MR. TRIVETTE thanked the Committee for all their hard work in preparing the recommendation.

D. Legislative Committee

CHAIR SCHUBERT stated the Legislative Committee met June 19 and recommends Mr. Johnson give a short presentation to the Board at an upcoming meeting regarding Board duties and responsibilities, with particular focus on the role the Board played in the last session about the additional appropriation request. The next item discussed was scheduling a work session in August with stakeholders to formulate strategies, priorities and perhaps a white paper around the issues of unfunded liability and appropriation requests. The stakeholders invited could include, but not limited to, the NEA, members of the Legislature and RPEA. MS. HARBO commented the Legislative Committee meeting was good.

CHAIR SCHUBERT stated Ms. Erchinger gave a report of a meeting she and Mr. Trivette had with Representative Munoz and her staff. MR. TRIVETTEE informed the Board the purpose of the meeting was to open the dialog and do a better job communicating with the Legislature on the Board's position on various issues. The House Finance Committee is planning on meeting throughout the summer/fall and this could be a good opportunity to meet with them.

MS. ERCHINGER commented that Mr. Pihl worked with the actuaries to provide the scenarios that would include the resolution requesting a $2 billion appropriation between FY14 and FY17. She stated the new data came out at the end of May and her big take-away of the outcome was it saves the state on-behalf contributions of $1.7 billion between now and 2032. This has a result of reducing the state's contributions by about 300 million dollars per year over what they would be contributing under the status quo. If the state is required to pay the status quo, the payment will be in excess of $1 billion for nearly a decade, which is unsustainable and could pit stakeholder groups against one another in the future. MS. ERCHINGER said she believes the solution of injecting $2 billion early on will have the impact of reducing the state's future required contributions and have a downward trend in the contributions, which would match the expected downward trend of oil production.

2. RETIREMENT & BENEFITS DIVISION REPORT

A. Buck Consulting Invoices

Deputy Commissioner MIKE BARNHILL stated Mr. Puckett is at the Health Care Commission meeting this morning and he will present in his stead. He stated the Division has prepared quarterly summaries through March 31st and a fiscal year summary shown in the presentation. MR. BARNHILL noted the lion's share of the $475,000 total is incurred in actuarial valuations.

MS. HARBO asked if this is the only reporting the actuary will provide in terms of the health care design work cost. MR. BARNHILL responded the work on Plan B and the DCR Plan is ongoing and additional policy decisions regarding the design of those plans have to be made, so more reporting will be provided. MS. ERCHINGER did not recall the request of a 60-year projection scenario and requested eliminating the words "60-year projection" so it begins with "scenario of additional state appropriation." MR. BARNHILL responded that Mr. Pihl requested the 60-year projection, but he is not present today. MR. BARNHILL commented Mr. Slishinsky was nodding his head in confirmation. MR. BARNHILL stated the request for a wording change can be made.

CHAIR SCHUBERT asked for clarification on the billings report because it appeared to encompass more than one fiscal year. MR. BARNHILL explained the report covers work incurred through the three quarters of FY13 ending March 31st. He stated it is possible there is work that was incurred, but not yet billed.

B. Membership Statistics

MR. BARNHILL reported on membership statistics for three quarters in FY13 ending March 31st. He noted there was one retiree reflected in the PERS DC Plan, which does not exist yet. MS. HARBO believes Mr. Puckett explained the one person is a survivor and not a retiree. MR. BARNHILL noted there are just over 38,000 retirees between PERS and TRS.

C. DRB Update

MR. BARNHILL stated he will report on the completion of the third-party administrator RFP this afternoon.

4. TREASURY DIVISION REPORT

Department of Revenue Deputy Commissioner ANGELA RODELL reported she attended the annual meeting of the Government Finance Officers' Association in San Francisco last month from which she brought back a guide to the new pension accounting rules, which will hopefully provide clarity to the intentions of GASB 67 and GASB 68. MS. RODELL announced the new Treasury Division website will be unveiled by July 1st. The Board will have its own page and its own activity. She welcomes any feedback regarding the website.

5. CHIEF INVESTMENT OFFICER REPORT

Chief Investment Officer GARY BADER introduced two staff members. Alyson Campbell works for Bob Mitchell and Mr. Bader, and also is a back-up for Judy Hall. The new Manager of Public Equities and the Defined Contribution Plans is Shane Carson, who has worked with Department of Revenue for five years. Mr. Carson has a Master's Degree in Capital Markets from University of Alaska, Fairbanks.

MR. BADER stated the first item in his report is the communication from Michael Cerne with a response from Mr. Carson. Mr. Cerne asked the Board to consider adding a total bond fund as an option. MR. BADER reported this request to the Defined Contribution Committee yesterday and recommended not adding another option in the fixed income area. Currently, the options include a World Government Bond Fund, Long-Term Treasury Bond Fund, TIPS Fund, Intermediate Bond Fund, Stable Value Fund, and Treasury Money Market Fund.

MR. BADER reported the next item is a communication from Bernard Landeis with a response from Mr. Carson. MR. BADER noted this is included to demonstrate to the Board the technical types of engagement the staff is having with participants. MR. BADER noted there were two rebalances of Defined Benefit plans included in his report. Item 4 is the transfer of $6 million from State Street Index Fund to Analytical Investors for the covered call account. MR. BADER explained Items 6 through 11 are the transactions that attempt to equalize the amount of assets between the active equity managers and at the same time, bring the equity exposure to indexing in large cap up to 65%.

MR. BADER stated Item 12 is a transfer of $150 million out of the Treasury Inflation Protected Securities portfolio to buy more Master Limited Partnerships, both to Tourtoise and FAMCO. He reminded the Board they approved this investment at the September meeting last year and the investment was made on November 1st. MR. BADER noted since that time, the index has gone up 19.1% and the managers have returned 13.9%, which is approximately $40 million dollars.

MR. BADER reported a transfer of $119 million from Lord Abbott small cap to the Small Cap Growth Fund, which was discussed with the Board at the last meeting. A transfer of $100 million was made to each of the absolute return managers, GAM and Prisma. MR. BADER informed the Board that at the end of May, GAM had an 11.6% fiscal year-to-date return and Prisma had returned 13.9% fiscal year-to-date. He commented the Board's patience has finally been rewarded.

MR. BADER added that manager RCM, who has been struggling and is slightly below the index now, has decided to lower their fees from 29 basis points to 22 basis points from now until the end of the fourth quarter 2014. He noted that will result in a savings of investment fees of approximately a half-million dollars and expressed his appreciation to RCM.

MR. BADER reported that several years ago, the Board approved staff's investment in futures to equitize the frictional cash money managers are holding. He stated the equitization program is run internally and the cash is invested in a large cap futures index and a small cap futures index. The cumulative earning to date of the equitization program is over $11 million and doesn't get reported on much. MR. BADER wanted to bring this to the Board's attention because he anticipates at the next Board meeting, he and Mr. Mitchell will be presenting a strategy for trying to offset duration or to balance duration using futures. This is a derivative. MR. BADER made it clear the Board has authorized using futures for over five years now and staff will be looking to expand that program.

MR. TRIVETTE expressed his gratitude to MR. BADER and his staff for their appropriate communication with members regarding their concerns. MR. TRIVETTE stated he expressed his thanks to them at the Committee meeting yesterday and wanted to thank the staff again in front of the Board.

6. FUND FINANCIAL PRESENTATION

Comptroller PAMELA LEARY went over the fund financial report for the 10-month period ending April 30, 2013. Ending invested assets for PERS were at $13.1 billion; TRS, $5.4 billion; Judicial Retirement system, $142 million; and National Guard/Naval Militia, $35 million. For participant-directed plans, the Supplemental Annuity Plan was at $2.9 billion, and the Deferred Compensation Plan was a $691 million at the end of April. For the 11 months ended May 31, 2013, the total for all the DB and DC plans is $22.4 billion.

MS. LEARY noted page 2 of the report shows the one-month change for April, which resulted in change of invested assets of 1.45% and a higher change for investment income of 1.64%. Page 3 of the report is a graphical depiction of what is happening with the PERS retirement plan, all the numbers were well within the targets. Short-term fixed income was at the low side of the target, domestic equity allocation was on the high side, and the absolute return was on the low side, a trend that goes through all of the different plans. The rebalancing memos MR. BADER just spoke of will have the effect of bringing all of the targets closer to their median.

MS. LEARY stated that pages 10 through 14 show the one-month change for the month of April by asset class and manager. She noted pages 15 through 22 show the participant directed plans.

LEE HULLINGER, the Chief Financial Officer for the Division of Retirement and Benefits, presented a supplemental cash flow report. The DRB report presented by MR. HULLINGER breaks out the column in the Treasury's report, labeled "Net Contributions/Withdrawals," into contributions and expenditures. Page 1 of Mr. Hullinger's report reveals that during the 10 months ending April 30th, 2013, the fund has received over $829 million in contributions from employers and members. With legislative relief and other income, this comes to over $1.45 billion in total contributions so far this fiscal year.

MR. HULLINGER explained that "other income" of $13.8 million for the various healthcare trust funds is primarily Medicare reimbursements received from the retiree drug subsidy program. He noted that of the $1.2 billion paid out in benefits so far this year, 68 percent is defined benefit pension payments to retirees, while 32 percent was spent to provide medical care for those retirees and their dependents. MR. HULLINGER stated that total administrative expenses during the 10 months ending April 30th, 2013, come to $59.2 million, about 11 percent more than last year. He noted a driver within these higher costs includes the upgrading of the information systems, which includes transitioning to a new operative platform in Oracle and the development of a disaster recovery system.

MR. HULLINGER stated that page 2 shows over $101 million in contributions received during the month of April and $115 million in benefits paid out; they also processed over $21 million in refunds and disbursements during April.

MS. ERCHINGER asked if the interest expense on the unfunded liability gets recorded anywhere as an actuarial exercise rather than an accounting exercise; MR. HULLINGER replied he will bring a concise summary report on that very issue at the upcoming meeting in September. He stated the accountants and actuaries will work together as one unified reporting entity to address that issue as well as other issues regarding GASB 67 and 68. MS. ERCHINGER commented she would like to talk about this in the future because it is such an enormous number and is not reflected in the financial statements.

7. ACTUARIAL AUDIT REPORT

MR. BADER commented there are three actuarial firms represented in the room today. He explained when Senate Bill 141 was passed, the Legislature was justifiably concerned the information that was used for decision-making should be thoroughly vetted. So the Legislature determined that not only should there be a primary actuary, but there should be a reviewing actuary that looked at their work product before it was presented to the Board, and then in an abundance of caution, there should be a third review the comes every four years. The Board has selected The Segal Group to perform the four-year review. MR. BADER introduced Kim Nicholl and Matthew Strom from The Segal Group. He noted that he and Ms. Hall have been working closely with The Segal Group over the last few months, and Buck and GRS have also cooperated with The Segal Group in providing data and additional interpretations and explanations of data and assumptions.

MS. NICHOLL provided a formal actuarial report and gave a presentation on the full scope replication audit used to determine whether or not the June 30, 2011 actuarial evaluation for the large plans from Buck were complete, accurate and followed actuarial standards. MS. NICHOLL assured the Board they found the work was accurate and met all actuarial standards. She stated there are some comments to present to the Board.

MS. NICHOLL explained Segal set up its programs and performed the valuation results independently from what Buck had done. The two main tasks were the peer review of the experience study as of June 30, 2009, which covered PERS, TRS and DCR, and the second task was the replication of the June 30, 2011 actuarial valuations for PERS, TRS, DCR and the June 30, 2010 valuations for JRS and NGNMRS. MS. NICHOLL expressed her appreciation to the ARMB staff for their assistance and to Buck for their cooperation.

MR. STROM stated the experience study replication was an independent analysis for the four years' worth of experience and primarily reached a lot of the same conclusions as Buck, but will note the differences and suggestions for alternative approaches. MR. STROM reported Buck used the count-weighted mortality assumption and he recommends using the benefit-weighted mortality assumption. MR. TRIVETTE asked if using the benefit-weighted assumption would be more accurate in reflecting the liability; MR. STROM answered yes.

MR. STROM further explained Buck used static post-termination mortality tables with projections, and even though this is a fine approach, Segal recommends an alternative approach using tables with no margin and applying a generational adjustment that reflects projected improvements in mortality in each future year. MR. STROM stated there may only be a slight increase in the liability numbers for the PERS groups using this method.

MR. STROM stated Buck counts the turnover experience based on gross turnover, not adjusted for former vested terminated members who are rehired. He commented there is conservatism built in, but doesn't account for the entire number of rehires. Segal recommends using a net turnover assumption, which reduces turnover count by rehires, those members that move from terminated vested status to active status. MS. ERCHINGER inquired if the rehires reentering the system are buying back their benefits. MR. STROM replied people cannot buy back in. MS. ERCHINGER asked if the impact of the rehires relates only to this particular assumption and not to the overall system; MR. STROM and MS. NICHOLL answered that was correct.

MR. STROM noted Buck used an uncommon approach of counting all non-death/disability exits from active status as retirements, if they were eligible for retirement, and counting all non-death/disability exits from active status as terminated vested, if they were not eligible for retirement, thus ignoring the actual status. MR. STROM commented it is unusual to have a significant number of members terminate while eligible for retirement and not commence their unreduced benefits. MS. HARBO inquired if those members could be waiting to receive complete health care coverage. MS. NICHOLL doesn't believe that is the case because collecting a retirement benefit does not prohibit a member from getting the retiree health care when they are eligible. MS. HARBO commented the member is paying out-of-pocket for health care costs and that would be a significant consideration. MS. NICHOLL asked if the member left active service, do they have to pay for retire health care in some way.

MS. ERCHINGER believes this issue deserves a closer look and it is important for the Board to dig a little deeper. She thanked MS. NICHOLL for her observation. VICE-CHAIR TRIVETTE added part of the explanation could be many people are working at another job where they get health care. He stated it would be good to see the numbers and thanked MS. NICHOLL for raising the issue. MR. BARNHILL commented that normal retirement is permitted at age 55 and a lot of these folks have kids in high school and college and have to keep working somewhere else. MR. STROM noted that one in six people in TRS and one in

10 people for PERS Others were eligible for unreduced benefits, but not taking them. He recommended the Board study this further.

MR. STROM recommended extending the 100% retirement to age 75 for PERS and TRS, but no change to PERS Peace Officer/Firefighter 100% retirement age of 65. MR. STROM stated the assumptions Buck set up work out mathematically, but it is unusual to see a 100% retirement age of 90.

The next recommendation from Segal was for Buck to study retirement experience separate for Tier 1 and Tiers 2 and 3 since these groups have different retirement eligibility criteria.

MR. STROM reported Segal did not match the numbers from Buck regarding PERS refunds, which are the portion of terminated members who elect a refund of contributions instead of a deferred benefit. For PERS Others, Segal reported 18% had elected a refund and Buck reported 11%. For the other PERS group, Segal reported 40% had elected a refund and Buck reported 22%. For TRS, Segal reported 3.5% had elected a refund and Buck reported 2%. Segal recommends an additional review of the data and revision to the assumption, if warranted.

MS. HARBO stated the use of "terminating members" in Segal's report is confusing because it is different than the definition the DRB uses. She believes the wording needs to be consistent. MR. STROM agreed and stated it is referring to people who get a full refund of their contributions. MS. HARBO commented the previous term used was "withdrawn" and now it is called "full disbursement."

MR. STROM went through the economic assumptions of the report and stated Buck generally followed the building block approach, though their report leads with the investment return assumption. Segal would have preferred that Buck lead with the inflation assumption and build onto that. MR. STROM stated the 3.12% inflation assumption was reasonable. He showed the analysis where Segal recommended lowering the investment return assumption from 8.25% to 7.5%. Buck's recommendation was to lower to either 8% or 7.75%, and the 8% assumption was adopted. MR. STROM noted with the rosier outlook of today, Segal would probably recommend 7.75% return assumption, but would definitely have a discussion about the current 8% assumption.

The salary scale approach matched Buck's recommendation, but MR. STROM noted they recommend setting the rates midway between actual salary increase experience and expected increase. There continue to be losses for salaries in the valuation subsequent to the experience study.

MS. NICHOLL went through the retiree healthcare assumptions of the experience study. She noted agreement with Buck's analysis and recommendation for the base claim cost rate and health care trend rate. She recommends the valuation report describe the plan inputs for more clarity. The morbidity rates and participation rates assumption were found to be reasonable and appropriate.

MS. NICHOLL agreed it is reasonable to use the same assumptions from the PERS/TRS study for the DCR retirement rates. She noted an inconsistency with the maximum retirement age Buck allows teachers in the TRS DB to work as late as age 85, while the TRS DCR assumption stops at age 70. MS. NICHOLL commented as more experience is developed with this plan, the experience study could be more explicit. Segal recommends the handbook that describes the plan provide more information about the factors that are being used and also describe how the substantive plan is being valued. Once the actual experience of the DCR population emerges, the actual claims will improve accuracy.

MS. NICHOLL commented the data was sufficient to perform the study and in most cases, the analysis was very similar to Buck. The three recommendations Segal suggested for improvement in the report format were:

* Include the number of exposures in the report tables so people could assess the current and the proposed rates
* Show total counts, in addition to just male and female separately
* In the economic section of the report, the inflation assumption should be analyzed first, followed by the investment return and other related assumptions.

MS. NICHOLL stated the census data files were comprehensive and reasonable. She noted an inconsistency between the "Tier" and "Plan" designators as to date of hire and recommended a cross-section study of these inconsistencies to make sure the codes are correct in the data. MS. NICHOLL reported the valuation costs, including pension and retiree healthcare liabilities, were reasonably matched with Buck. She noted an inconsistency for those in TRS who terminate due to non-occupational death, retiree health benefits are reduced by 10%, but this assumption is not applied to pension benefit or occupational deaths. MS. HARBO asked MS. NICHOLL to explain who is getting the benefit. MS. NICHOLL said this is a spouse coverage of the survival benefits and apologized for it not being clearer.

MS. NICHOLL commented for DCR, the premiums do not anticipate any Medicare Part D reimbursements, but if it is factored in, the projected retiree contributions would be lower and the projected retiree health obligation would be higher. MS. NICHOLL stated Buck is using retiree premiums based on individual rates, but the report stated they are using retiree premiums based on a composite rate. Segal recommends modifying the report language to describe the individual rates approach. MS. NICHOLL stated the format of the reports was ideal and Segal only has minor recommendations to include:

* For PERS and TRS, show the DB and DCR payroll separately
* Define maturity ratio and liquidity factor on the pages where they are shown and trend analysis information would be useful
* Modify the increase in total member population for the PERS and TRS projections using 1% for "Best Case," 0% for "Optimistic" and -1% for "Pessimistic."

MS. NICHOLL stated Segal was able to duplicate the results of the valuation within a reasonable range and none of the suggestions for improvement needed immediate attention, but rather could be studied and reflected in the next experience study by Buck.

CHAIR SCHUBERT recessed the meeting from 10:40 a.m. to 10:58 a.m.

8. ABBOTT CAPITAL MANAGEMENT

THADDEUS GRAY of Abbott Capital Management thanked the Board for their support and confidence over that last 15 years of working together. He stated the highlight for venture capital and growth equity is a continuing consolidation of the market with steady levels of fund raising since roughly 2000. MR. GRAY commented the buoyant debt markets have produced probably the strongest seller's market in six or seven years, which has led to a significant increase in the distributions received since the second half of 2010. The accelerating distributions were seen in 2012 and the first quarter of 2013.

MR. GRAY explained venture capital and growth equity is the category that includes both early stage partnerships, as well as more established, often profitable companies. This comprises 1/3 of the portfolio. The risk/reward characteristics of these subsegments are monitored constantly, which weeds outs a number of the early stage groups and maintains a very healthy exposure to balanced and growth equity groups. There are no clean tech focus funds in the portfolio, which is fortunate because this segment experienced almost a complete implosion. Social media has also struggled, as evidence by the disappointing performance of a number of companies in the public market. The new areas emerging are more attractive and have sustainable business models. These include cloud computing and big data applications. MR. GRAY believes the IPO market for venture capital and growth equity will continue the trend of large number of groups struggling to raise capital, while a small handful of sought after groups consolidate the market for raising capital.

MR. GRAY explained the buyouts and special situations segment comprises 2/3 of the portfolio. Buyouts refer to control-oriented transactions with established companies with varying amounts of leverage that over time, with the success of these companies, the cash flow is used to pay down the leverage and normalize the balance sheets. Special situations refer to transactions that are neither buyout transactions nor venture transactions, a category which captures groups who do a variety of different things. The fund raising for buyouts and special situations is better than it is for venture capital and growth equity. MR. GRAY stated even though the sale and distribution activity in this segment picked up significantly in the last year, because of the price in the market, the new deal activity has somewhat moderated. It is a seller's market and people are being very slow and cautious about deploying new capital. There is a growing gap between the capital calls in the account and the distributions, which is positive if you want to get cash back, but we have to be patient in deploying new commitments.

MR. GRAY reviewed several important developments for Abbott Capital in terms of promotions and additions to the team over the course of the last year. He noted there have been no departures, other than Ray Held's retirement, on the partnership team above the analyst level since 1998. MR. GRAY introduced Managing Director TIM MALONEY who discussed the commitment activity in 2012/2013, the pipeline of opportunities for the rest of the year, the performance metrics and gave a current status of the active portfolio.

MR. MALONEY reviewed a graphic showing 450 opportunities reviewed, which turned into nine new primary commitments in 2012. In 2013, four commitments have been made and a few more are anticipated. He presented a graphical listing the pipeline of potential investment for 2013. MR. MALONEY noted the portfolio remains constructed in a manner that is consistent with the guidelines of the ARMB tactical plan and consistent with the overall investment strategy. This is a mature portfolio reflected by the recent cash flows and the average age of an underlying company investment, which is 4.5 years. The portfolio has continued to appreciate in value over the last few years and as of the first quarter of 2013, the net IRR to the portfolio was 9.1%, which represents a premium of about 500 basis points to the S&P and a premium of about 450 basis points to the Russell 3000. MR. MALONEY described a graphic showing the ARMB cash flow activity. In 2012, the liquidity received back into the plan increased to $178 million. Year-to-date, it is about $75 million. MR. MALONEY discussed a graphic representing the diversification of the portfolio.

MR. MALONEY commended the Board and staff for their patience and discipline in yearly allocations, which allowed the portfolio to take advantage of buoyant capital markets and achieve this level of recent liquidity. MR. GRAY noted he looks forward to seeing the Board in October in New York for the education session. A speaker from New Enterprise Associates will be presenting.

MR. TRIVETTE expressed his gratitude for the commitment Abbott Capital Management gives in training their new people and expressed his appreciation for their results.

9. PATHWAY CAPITAL MANAGEMENT

MR. BADER introduced Managing Director JIM CHAMBLISS and Director CANYON LEW of Pathway Capital Management. MR. CHAMBLISS gave a brief update on Pathway. Their assets under management have increased from $24.2 billion to $25.9 billion. They have 36 investment professionals and have opened a fourth office, which is in Hong Kong. MR. CHAMBLISS reviewed the organizational chart.

MR. CHAMBLISS continued his presentation discussing three main topics, 1) where the private equity world has been over the last 12 months and where it might be going in the near-term, 2) what their concerns are for the near-term in the asset class, and 3) how interest rates might impact what goes on in the private equity world. MR. CHAMBLISS stated private equity has been characterized by a very strong exit environment in 2012 and into 2013, which is driven primarily through strong accommodative debt markets and the M&A markets. He believes they will continue to see a slower investment pace over the next six months and fund raising will remain moderate.

MR. CHAMBLISS stated, aside from the global concerns everyone worries about, they are concerned with the ever-increasing competitive nature of the private equity asset class. He believes private equity will continue to outperform the public markets on a relative basis and by a significant margin if done well. On an absolute basis, MR. CHAMBLISS believes there will be pressure on returns going forward.

MR. CHAMBLISS explained how private equity benefitted from the low interest rate environment by providing companies with cheap debt, which resulted in reduced interest expense, higher leverage and higher return expectations. The search for high yield in this low interest rate environment led to significant realizations and distributions back to the private equity companies. MR. CHAMBLISS expressed there is room for an increase in rates with a limited impact in private equity, assuming those rates come back for the right reasons; return of growth in the overall environment.

MR. CHAMBLISS stated over the last 12 months, 300 opportunities were reviewed and about 4% of those deals were added to the portfolio. The performance has been solid at a gain of almost $100 million, with a net return of 12.4%. There were record distributions in 2012 and into 2013. MR. CHAMBLISS explained the importance of managing the underlying portfolio and showed a graphical representation of 55 one-on-one meetings with underlying partners and a Senior Investment Professional attending 120 annual meetings or advisory board meetings for funds in the portfolio during the year. He noted Pathway has weekly and monthly communications with MR. HANNA and MR. SIKES and have been to Juneau two times in the last 12 months for face-to-face meetings.

MR. LEW gave a detailed presentation on the portfolio. Page 15 of the presentation shows the commitment activity in 2013, which is on target relative to the plan. Page 16 provides a snapshot of performance from the portfolio's inception in March of 2002 through March 31, 2013. The contributions have grown to $1.57 billion in total value and generated a net return of 12.7%. Approximately half of the total value has been realized, equaling $786 million. Page 17 shows the investment strategy diversification at the partnership level and the portfolio remains comfortably with all of the long-term targets. It is currently 47% in buyout funds, 27% in venture capital and 26% in special situations, with sub-diversification within each core strategy. Only 15% of the portfolio is in partnerships that focus outside the U.S. and the exposure to the more problematic areas of Europe remains relatively low.

MS. RODELL inquired if Pathway is starting to see future opportunities for the fund as Europe is "bottoming out." MR. LEW responded they always observe and allow the best opportunities to come out of troubled situations. MR. O'LEARY noted the markets have not been tranquil the last couple of days and there seems to be real concern about potentially serious consequences in Asia. He asked for a comment regarding their exposure to Asia, particularly China and the emerging market of Brazil. MR. CHAMBLISS responded he believes the best way to manage this portion of the portfolio is by giving the general partners, who operate globally, an opportunity to occasionally invest in those markets. The non-U.S. bucket is 1/4 the overall portfolio and of that bucket, 2% is in China, 3% is in Brazil and 4% is in India. He believes these small percentages are the right portion of the overall portfolio, but time will tell over the long-term how these companies perform.

MR. LEW continued the presentation noting that page 19 highlights the portfolio's contribution and distribution activity. 2012 was a record year for distributions with $185 million distributed, driven largely by very strong activity in the buyout funds. He noted 2012 was the second consecutive year of positive net cash flow where distributions exceeded contributions and this trend has held in 2013 by a ratio of more than two to one thus far. Page 20 shows the year-over-year change in performance between March 31, 2012 and March 31, 2013, generating $92 million in gains for a one-year net return of 12.4%. Page 23 reflects a graphic of the portfolio versus Thomson Reuters benchmarks. It has generated above-median performance compared with the private equity industry, with and average ranking in the upper quartile on both a net IRR and DPI basis. The portfolio is outperforming the private equity benchmark by 340 basis points and outperforming the public benchmark, which includes a 350 basis-point premium, by more than 200 basis points.

CHAIR SCHUBERT recessed the meeting from 11:59 a.m. to 1:14 p.m.

10. ACTUARIAL REVIEW

A. Judicial Retirement System/National Guard Naval Militia Retirement Systems/Certification of Actuarial Valuation Review - FY12

MR. BADER introduced LESLIE THOMPSON of Gabriel Roeder Smith, who is the actuary reviewing the actuarial valuation prepared by Buck Consultants as required by statute.

MS. THOMPSON stated the review of Buck's actuarial report of the Judicial Retirement System generated no findings and no concerns.

MS. THOMPSON stated the review of Buck's actuarial report of the National Guard Naval Militia Retirement Systems match almost to the penny, but there are two areas for future review. She recommended that there be more clarity pertaining to the actuarial value of assets and which investment expenses or administrative expenses are being used in the projection. It was not clear when rolling forward and measuring gains and losses which piece was an investment expense and which piece was an administrative expense. This could be provided as an additional disclosure.

MS. THOMPSON commented the economic hurdles of 2008 have raised the question in her mind of what creates long-term resiliency for a plan during times of market volatility. She framed the question for the Board and Buck Consultants: if they really want to have the recommended contribution be normal cost minus this piece of surplus, because the plan is over 100% funded. MS. THOMPSON encouraged that the Board and Buck consider the minimum plan contribution to be made is at least the normal cost, which is the cost of benefits that accrue during the year.

MS. ERCHINGER suggested to staff it would be nice to have an update on what progress has been made with the employers who contribute into this plan in providing timely and accurate data. MS. ERCHINGER appreciated Ms. Thompson’s observation regarding fully funding at least normal costs. MS. THOMPSON commented taking the credit and not paying the full normal cost is an established standard and there is nothing wrong with this approach. She noted it is worthwhile to take a different look, given the market history we have all come through.

B. Actuarial Valuation - FY12/Judicial Retirement System/ National Guard Naval Militia System

CHAIR SCHUBERT invited DAVE SLISHINSKY, a consulting actuary, and CHRIS HULLA, a healthcare consultant, from Buck Consultants to present actuarial valuation results on the Judicial Retirement System and National Guard Naval Militia System. MR. SLISHINSKY expressed his gratitude to Ms. Nicholl and Mr. Strom from Segal and Ms. Thompson from GRS for their reviews and presentations this morning. He stated every other year, on the even years, Buck performs a roll-forward valuation for the JRS and NGNMRS where the liabilities are measured. This was performed in 2012 and those are the results being presented today.

MR. SLISHINSKY addressed points GRS raised in April regarding Buck's valuation methodology and a mismatch between the eligibility and the benefit amount calculated to approximate a middle of the year decrement timing. He explained it may have been the result of approximating the middle of the year, but Buck is actually performing a slightly different calculation, which takes a measurement of the benefit amount at the beginning of the year and takes a measurement of the benefit amount at the end of the year and determines the average benefit paid.

MR. SLISHINSKY commented on the recommendation from GRS regarding calculating benefits at the middle of the year. He stated this comment was also made regarding healthcare benefits. MR. SLISHINSKY explained the differences in the methodologies used and he stated the results are going to be very, very close, with only minor differences. He appreciated that GRS included in their audit a comment that there are always differences in the actuarial process. MR. SLISHINSKY noted actuaries attempt to measure the value of payments into the future that they think are going to be made. The actuarial standards of practice that are followed gives the actuary the ability to provide their opinion and exercise professional judgement when making these measurements, as long as it is reasonable standard of practice and does not deviate significantly.

MS. ERCHINGER asked for an explanation of the logic behind the midyear method. MR. SLISHINSKY replied that both methodologies are the mathematical measurement of the continuous nature of decrements, including retirement, termination or death, for a one-year period at a time. All of the assumptions will be used to determine the chance of the member being active during that one-year period and if they leave during that one-year period, what value of benefit do they get based on their age and other factors. He stated both methodologies are reasonable and acceptable standards of practice.

MR. SLISHINSKY reported there have been no changes to the benefit provisions and actuarial assumptions for the JRS. There have been no changes in the asset method, funding method or the health care based claim rate methodology. There were changes made in April to the assumptions of the health care valuations, which were the same changes made to PERS and TRS. The Medicare Part B information was updated, which resulted in gains because it recognized a lower cost for members who had Medicare Part B.

MR. SLISHINSKY showed a graphic on page 9 of the report, which is the development of the actuarial value of assets. He explained the methodology is a smoothing of the market value over a five-year period. The difference between the expected investment return and the actual investment return is the asset gain or loss. That gain or loss is then recognized over five years. For the fiscal year ending June 30, 2012, there was an investment loss of almost $10.2 million.

MS. ERCHINGER requested an explanation regarding the issue of smoothing the gains or losses attributable to the unfunded liability. MR. SLISHINSKY explained there is double smoothing happening. The accrued liability equals the actuarial value of assets plus the unfunded. There is interest charged on both the accrued liability and the actuarial value of assets. If all the future benefit payments are discounted at a rate the assets are expected to grow, and the assets do grow at that rate, then the cost of the accruing benefits and normal costs are being paid and also the interest charges and a piece of the unfunded liability is being paid. At some point in time at the end of that amortization period, the system is 100% funded.

MS. RODELL asked for an explanation regarding amortization over 25 years. MR. SLISHINSKY explained the amortization methodology layers the unfunded amount. A new base is created each year, which is then amortized over 25 years. The base is the measurement of difference between the expected unfunded for the next year and the actual unfunded. The previous base is being amortized separately, so it is a layered structure of pieces of the unfunded liability. This is not a closed period method that amortizes and ratchets down each year. It is a layered approach. MS. RODELL expressed her thanks for the explanation of the layered amortization. She believes there is a lot of confusion around when the liability will be paid off.

MR. BADER asked when the fund would be fully paid off, if every actuarial assumption was met right on the nose. MR. SLISHINSKY stated that projected year is stated in the report, but believes it is 2032 for PERS. He explained the projection is based on all the assumptions being met, including investment return, longevity and retirement patterns, and salary increases. MR. BADER wanted to establish it is not going to keep rolling forward if every assumption is met. MR. BARNHILL commented the layering amortization is shown on page 25 of the draft PERS valuation, which was presented at the Board's last meeting.

MR. SLISHINSKY reviewed the graphic on page 10 of the history of the accrued liability and the assets. The financial crisis and loss of the assets in FY09 has really dampened the growth of the assets, which increases the accrued liability, and thus increases the unfunded liability. There was an increase in the unfunded liability from about $58 million to $65 million. The funded ratio dropped from 70% to about 67%. The employer normal cost increased from about $9.2 million last year to about $9.5 million. Most of the normal cost of the JRS is in the retirement benefit, which he noted is a valuable benefit.

MR. BARNHILL asked how many other states have a normal retirement cost rate for judges in the range of 40%. MR. SLISHINSKY found that Maryland's system was the closest to that of Alaska.

MR. SLISHINSKY reported the 2012 expected unfunded liability is about $62 million and the actual unfunded liability is about $65 million. MS. ERCHINGER commented it is logical to take the unfunded liability and add back the gain on the non-health care side when the plan is fully funded, but it is illogical to do that when there is unfunded liability accruing interest.

MR. SLISHINSKY reviewed the NGNMRS report results. The actual rate of return for the five-year period was 2.3%. This system has a funded ratio of over 100%. It has more assets than liabilities. He stated the recommendations MS. THOMPSON made about how to maintain the overfunded status can be discussed for this plan. MR. SLISHINSKY stated the expenses on the NGNMRS are determined separately and added into the employer contribution.

MR. SLISHINSKY reported the Board adopted the level dollar amortization method last year for the summary of employer contribution rates shown in a graphic on page 22. The rates are: PERS 39.85%, TRS 66.31%, JRS 79.06%, and National Guard is about $627,000. The additional contribution or state assistance contribution for PERS was about $519 million and for TRS was $456 million.

MS. ERCHINGER stated one of the observations made in the actuarial review process was that salaries were being underestimated in PERS. The Legislature will be asked to pay a particular dollar amount that was actuarially calculated. She asked if there was going to be a lag between those numbers. MR. SLISHINSKY explained there would be a difference. MS. ERCHINGER commented that the Board does not have a mechanism for having a conversation of what to do with the information from the actuarial valuation and reviews after it has been presented. She requested Buck separate the tiers and look at them individually for the employees who have been with the system for five years or less, because that is where the bulk of the salary losses are. She commented it is possible higher salaries have to be paid to attract people because there is no longer a DB plan available.

COMMISSIONER HULTBERG commented there are a complex array of variables that go into the decision an employee makes within the first five years. She is not attributing retention data to the plan. It may be the experience of some employers, but it does not appear from the statistics to be the experience with the State of Alaska. MS. ERCHINGER stated she is referring to the valuation of the salaries in that initial five years is significantly higher. COMMISSIONER HULTBERG suggested looking at the pay plan, because the state provides regular pay increments. MS. HARBO believed the most recent PERS valuation report showed approximately 12,900 DC employees hired since 2006, and of that number, there were approximately 830 that have stayed for five years of more, indicating quite a turnover.

MS. ERCHINGER expressed her appreciation to MR. SLISHINSKY for all of his hard work on running the scenarios for the Board for their resolution and for his graciousness of having the valuations being publicly audited twice in one day. MR. SLISHINSKY recommended the Board have some kind of planning session to discuss the different methods of amortization and how they really look.

C. Board Discussion/Questions

MR. BRICE moved to formally accept the review and certification of the actuarial reports by Gabriel Roeder Smith and Company, and that staff coordinate with the Division of Retirement and Benefits and Buck Consultants to discuss and implement the suggestions and recommendations of the reviewing actuary where considered appropriate; the motion was seconded by MR. TRIVETTE.

A roll call vote was taken and the motion carried unanimously.

MS. RYAN moved to accept the actuarial valuation reports prepared by Buck Consultants for the Public Employees, Teacher, Public Employees Defined Contribution for occupational benefits and disability and retiree medical benefits and Teacher's Defined Contribution for occupational benefits and disability and retiree medical benefits, retirement systems as of June 30th, 2012, in order to set the actuarially determined contribution rates attributable to employers; the motion was seconded by MS. HARBO.

A roll call vote was taken and the motion carried unanimously.

MS. HARBO moved to accept the actuarial valuation report prepared by Buck Consultants for the National Guard and Naval Militia Retirement System as of June 30th, 2012, in order to set the actuarially determined contribution amount; the motion was seconded by MR. BRICE.

A roll call vote was taken and the motion carried unanimously.

CHAIR SCHUBERT recessed meeting from 2:34 p.m. to 2:53 p.m.

11. CONTRIBUTION RATES FOR FY2015

CHAIR SCHUBERT called the meeting back to order and noted the action item adopting contribution rates for FY2015 will be moved to this point in the agenda.

MS. HARBO moved to adopt Resolution 2013-09; the motion was seconded by MS. ERCHINGER.

MS. ERCHINGER expressed concerns about this being a fairly large relative increase from prior years and asked if this was due to having a new plan. MR. BARNHILL responded this issue was discussed at the last meeting and it was recommended this be a shared approach between the employer, employee and the retiree.

MR. TRIVETTE reminded the Board that GRS said they could not valuate this because there was no written plan. He is in favor of adopting a rate now and moving forward.

A roll call vote was taken and the motion carried unanimously.

MS. HARBO moved to adopt Resolution 2013-10; the motion was seconded by MS. RYAN.

A roll call vote was taken and the motion carried unanimously.

MR. BRICE moved to adopt Resolution 2013-08; the motion was seconded by MS. HARBO.

A roll call vote was taken and the motion carried unanimously.

MS. HARBO moved to adopt Resolution 2013-12; the motion was seconded by MS. RYAN.

A roll call vote was taken and the motion carried unanimously.

MS. HARBO moved to adopt Resolution 2013-13; the motion was seconded by MS. RYAN.

A roll call vote was taken and the motion carried unanimously.

MS. HARBO moved to adopt Resolution 2013-11; the motion was seconded by MS. RYAN.

MS. ERCHINGER commented when a rate on salaries reaches nearly 71%, she wished there was a better way of associating the cost of retirement with the employees related to the unfunded liability. She believes it adds to the poor perception of public employees and makes her think about pension obligation bonds as a way of looking at this differently.

MR. TRIVETTE concurred with MS. ERCHINGER and stated he would have done some things differently in 2005 had he known what he knows now. Trying to explain this situation to the general public is extremely difficult and he will work harder to resolve this issue as soon as possible.

MR. JOHNSON stated when the legislation was first passed to include medical benefits as part of the employment package it was not known the Alaska Supreme Court would take the position it did on never diminishing benefits, starting from the day that an employee was first hired. It was also not known that medical benefits would escalate the way they have.

A roll call vote was taken and the motion carried unanimously.

MR. BRICE moved to adopt Resolution 2013-14; the motion was seconded by MS. HARBO.

MS. ERCHINGER commented she will support the resolution, but would hope in the future that before a contribution rate is set, there could be a conversation about whether it makes sense to reduce the required contribution rate for a portion of the rate that has a gain when there is an unfunded liability accruing interest.

A roll call vote was taken and the motion carried unanimously.

MR. BARNHILL reported the Commissioner of Administration, by statute, sets the JRS rates. The recommended JRS contribution rate of 79.06% is pending adoption.

12. HEALTH PLAN UPDATE

MR. BARNHILL gave an update on the third-party administrator RFP and stated Aetna won the proposal for the medical TPA. Aetna won the proposal for the pharmacy benefit manager. Aetna won the proposal for the health care manager. Oregon Dental Service won the proposal for the first ever dental network. MR. BARNHILL presented highlights of each manager and the Aetna network by far delivered the most discounts. The next step is addressing the contract and strategy for possible plan design changes, which would be incremental and brought to the Board. The active plan and retiree plan are calendar year plans and Aetna will start work as the TPA on January 1, 2014, thus giving them six months in transition time. Open enrollment will be later this fall.

MR. BARNHILL requested the Board continue to think about steerage in the retiree plan, which provides a true PPO plan where in network receives a reimbursement of a certain rate and out of network receives reimbursement of a lesser rate. He believes this would help in managing the health care spending proactively. Other cost issues to consider in the retiree plan include the two-million-dollar lifetime maximum. He stated one person in the active plan reached two million dollars' worth of spend in one year. MR. BARNHILL stated the $150 deductible is unique and is not suggesting to radically change it, but wants to think carefully about the cost structure and how responsive it is to members' needs right now.

MR. BARNHILL gave an update on the discussions with various stakeholders on the defined contribution retirement plan and what is called Plan B, which would provide added enhancements the retiree plan currently does not have, like an uncapped lifetime maximum, preventative care, and coverage to age 26. In an attempt to be responsive to the concerns of the stakeholders, Plan B would have a cost structure that could adjust over time and is reflective of medical expense and inflation in order to keep it sustainable.

MR. BARNHILL expressed his concern about the discussions with stakeholders wanting to add or force benefits to the existing plan with no ability to change the cost. He gave the specific example of a discussion with the American Cancer Society and their lobby for colorectal screening into the existing plan and if it is not placed in the existing plan, they will lobby the Legislature for a mandate. MR. BARNHILL wants to continue these discussions to see if a Plan B approach would actually accomplish the goals set out, because it can't just be adding benefits that cause the plan to have higher expenses, particularly with the current high unfunded health liability.

MR. BARNHILL updated the Board on the long-term care self-funded insurance policy, which is an add-on coverage, a new retiree can elect at the date of retirement. There are concerns about the lack of home health care in the plan. A liaison has been added at the DRB to help facilitate folks through the long-term care claims process. The premiums have not increased since 1989. He would like to see this plan be responsive to members' needs and also be sustainable from a cost structure. The mantra is high quality care for our state employees and our retirees at a reasonable cost.

COMMISSIONER HULTBERG commented the RFP process has been incredibly time-consuming and complex. That process is now over and there is stability going forward for the next five years. She believes these issues and initiatives will begin to move more rapidly.

13. EQUITY YIELD STRATEGY

MR. BADER stated in April 2012, the Board authorized an equity yield strategy to be operated by staff, funding $100 million for an internally managed dividend portfolio benchmarked against the Dow Jones 100 Dividend Index. The investment funds are divided among five internal staff, who are responsible for certain sectors. Staff monitor the selections on a daily basis and rebalance the portfolio periodically using the reversion to mean approach. At the end of May, the portfolio was up 11.33%, outperforming its benchmark by 45 basis points.

MR. O'LEARY inquired who has the authority to permit investment in and out of index issues; MR. BADER replied he has the authority, but the investment has to meet list specific constraints. MR. O'LEARY asked if there was a targeted tracking error estimate. MR. BADER answered they don't have a targeted tracking error estimate at this point, but the tracking error will be small because the active share is only 8.9%. MS. HARBO asked if one of the conditions was the companies in the index had to be paying a dividend continuously for four years. MR. BADER said he did not believe that to be the case.

14. INVESTMENT ACTIONS

A. EIG Fund XVI

<u>MS. HARBO moved to commit 80 million dollars to EIG Fund XVI, subject to satisfactory completion of due diligence; the motion was seconded by MS. ERCHINGER.</u>

A roll call vote was taken and <u>the motion carried unanimously</u>.

B. Review Actuary

<u>MR. TRIVETTE moved to hire Gabriel Roeder Smith as the reviewing actuary, subsequent to the expiration of a 10-day protest period, for a term of one-year, with three options to renew, subject to successful contract negotiations; the motion was seconded by MR. BRICE.</u>

A roll call vote was taken and <u>the motion carried unanimously</u>.

<u>MS. HARBO moved to designate MR. BADER procurement officer for the reviewing actuary contract; the motion was seconded by MR. BRICE.</u>

<u>The motion carried unanimously.</u>

RECESS FOR THE DAY

CHAIR SCHUBERT recessed the meeting at 3:44 p.m.

Friday, June 21, 2013

CALL BACK TO ORDER

VICE-CHAIR TRIVETTE reconvened the meeting at 9:00 a.m. Trustees Harbo, Erchinger, Hultberg, Brice, Ryan, and Butcher were present.

15. PERFORMANCE MEASUREMENT - 1ST QUARTER

MICHAEL O'LEARY from Callan Associates reviewed the graph on page 3 of the presentation, showing the poor environment for bond investors at 3.8% for last year. He discussed investment returns in international and U.S. markets in the past and present for different asset classes. He characterized the economy during the first quarter as positive. MR. O'LEARY reviewed the new targets for the fiscal year, starting July 1st, are domestic equity 26%, global equity ex US 25%, fixed income 12%, real assets 17%, private equity 9%, absolute return 5%, and cash returns 3%. The policy for the year has not significantly changed from last year. The equity representation of the portfolio is becoming more global.

MR. O'LEARY stated the three-year return is just under 9% annualized, with a slight underperformance in domestic equity, with private equity the best performing single asset category. Both plans have had strong cumulative performance relative to their targets during the quarter. Page 24 shows the actual performance has been very close to the target over time. Total bond performance has been above the fixed income target, which is comprised of intermediate treasuries, high yield bonds, and a non-dollar fixed income. Non-dollar bonds hurt returns and trailed the benchmark for the last year. The total domestic equity pool, for the fiscal YTD, performed better than the S&P 500, but below the Russell 3000.

MR. WILSON commented that this total domestic equity chart on page 29 is one of the first pages he looks at upon receiving all the materials, because it represents 30% of the portfolio. He apologized for missing the last meeting and the discussion regarding active versus passive investing. MR. WILSON noted this was his last meeting with the ARMB. He stated over the last seven years, it has concerned him the portfolio continues to underperform the Russell 3000. MR. WILSON urged the Board to take a close look at their managers to determine if they have an edge that is repeatable. He recommended if the managers can't demonstrate they can beat the index benchmark, then the Board should index.

MR. O'LEARY agreed with MR. WILSON's point. He explained the Domestic Equity Component Returns table on page 30, which shows the greatest area of underperformance is attributable to the Other Equity category. He stated the new asset allocation will give a clearer picture of what have been the major contributors to the inferior equity performance of Other Equity.

The large cap portion of the portfolio has been raised to 65% passive. MS. ERCHINGER asked what the previous indexing percentage was; MR. BADER stated it was around 59% in the large cap. MS. ERCHINGER stated she did not remember discussing what the mix should be between active and passive and was curious if there was going to be a follow-up on that at some point in the future. MR. BADER stated equal weighting of the managers resulted in superior returns and moving toward a 65% weighting was discussed at the last meeting and also mentioned in his opening comments yesterday. He commented there is debate about what mix is right and he will try to do more in figuring out a way to approach that issue.

MR. O'LEARY discussed the individual account plans, stating that relative to their targets, he was pleased with the performance, except that Brandes International has not done well in three years. MR. O'LEARY gave an update on the infrastructure search requested by the Board at the December meeting noting that Mr. Bader and Mr. Sikes will visit the candidates put forth by Callan in late July and early August with the intent to bring finalists to the Board for review and approval at the September meeting.

MR. O'LEARY noted Goldman Sachs gave an interesting presentation to the Defined Contribution Committee Wednesday on their Collective Trust Retirement Completion Fund and analysis is still ongoing. MR. O'LEARY expressed happiness that interest rates are higher, because it shows evidence of recovery. He believes it also encourages more rational behavior on the part of investors.

MS. HARBO asked what exposure the plan has to health care sector funds, other than in the new equity yield strategy. MR. BADER responded there is a medical fund in the private real estate ventures that is coming nearing the end of its life. The disposition of the assets is being discussed with the various stakeholders, but it has had great success.

16. MONDRIAN INVESTMENT PARTNERS

Senior Vice President TODD RITTENHOUSE, with Mondrian Investment Partners, introduced Senior Portfolio Manager ORMALA KRISHNAN, who is the lead portfolio manager on the International Small Cap Strategy. MR. RITTENHOUSE gave an update on Mondrian and reviewed their organization chart, noting all of the investment professionals are based in London.

MS. KRISHNAN discussed the members of the International Small Cap Team. She stated at the heart of their value-oriented investment approach lies the use of the inflation-adjusted dividend discount methodology, which is used for all companies across all sectors. The graph on page 2.3 shows the emphasis on upside performance while providing downside protection. They outperform during bear market periods and are not expected to outperform during bull market periods, but are able to capture 90% of that upside.

MS. KRISHNAN reviewed the composite performance since 2003, highlighting capital preservation in 2011. The fund has underperformed the benchmark YTD by about 2.2%. Their outlook for the global economy remains cautious, even as markets have staged robust performance in 2012 and into 2013. The sources of market risk include fiscal consolidation in the U.S., fiscal austerity in the eurozone economies, and the scope of monetary easing. MS. KRISHNAN explained the reason for their continued underweight position in Japan. She stated the strategy is very defensively positioned and remains unchanged since the end of 2007.

MR. O'LEARY requested an overview on the Asia Pacific area, particularly China. MS. KRISHNAN sees China as a policy-driven market completely on the back of urbanization. She believes a 7% growth rate is sustainable, but by 2035, it will have declined to 3.5 to 4.5%. The concern for China is much of the credit growth has gone into speculated assets.

CHAIR SCHUBERT asked why the fund underperformed the benchmark by about 350 basis points last quarter. MS. KRISHNAN stated the underperformance is primarily from the underweight position in Japan.

CHAIR SCHUBERT recessed the meeting from 10:29 a.m. to 10:44 a.m.

17. SCHRODERS INVESTMENT MANAGEMENT

JAMES MACMILLAN, U.S. Institutional Business Development Director, from Schroders Investment Management, introduced MATTHEW DOBBS, Head of Global Small Cap, who is based in London. MR. MACMILLAN reviewed Schroders' firm information and noted the international small cap funds has assets of about $3.2 billion, which is made up of 8 clients, including the states of New Mexico and Connecticut.

MR. DOBBS explained their investment philosophy is growth and quality at the right price, with their management approach being more growth than value. He stated stock selection is the primary source of added value and also the primary source of portfolio risk, but this approach has yielded good returns over time. In the last 12 months, the fund is up 12.4%, the index is up 17.9%, which is a 5.5% shortfall. MR. DOBBS stated the biggest single issue for the shortfall has been from Japan. He feels the small cap market has been tough, but they should be doing better in Asia. MR. DOBBS noted their response to this was making a change to the small cap specialist for Pacific ex Japan. Staff was made aware in September that Paul Rathband has taken over leadership of that team. Two other people have also been added to that team. There has been more activity in the portfolio than would usually expect, but it has already started to show improvements. Schroders has also added an additional person for oversight in the IT services and software sectors in Japan.

MR. BADER requested comments regarding quantitative easing in the U.S. and how that may affect internation small cap stocks. MR. DOBBS stated the knee-jerk reaction is for small caps to underperform large caps in periods when people are concerned about liquidity and risk conditions. Their style is looking for companies based on fundamentals, sustainable return and good business management and not liquidity moves into low quality stocks. He believes the QE injects a bit of sense into areas like the high yield bond markets, and a bit of moral hazard into some emerging markets.

MR. BADER asked what sector Schroders is being pointed to right now. MR. DOBBS replied they don't manage by sectors, but stated they want to make sure there is some provision for emerging markets. He believes that since the most dynamic, interesting and fastest growing small cap universe is happening in Asia and has underperformed so badly over the last 12 months, it is a signal that they should focus on Asian domestic and industrial types of stocks.

18. PORTFOLIO RISK ANALYSIS

MR. BADER stated at the September meeting, the Board approved the hire of MAP Alternative Asset Management to do risk analytics for the investment portfolio. They will give two presentations a year. MR. BADER introduced KIMBERLY MOUNTS, who is the founder and CEO of MAP, along with her colleague MARCO RICCIARDULLY. MS. MOUNTS described several types of investment risks; market, liquidity, inflation, credit, leverage and counterparty risks. Risk management is a process to avoid or minimize potential losses from concentration risks, downside risks, and crisis prevention.

MAP provides line-by-line position level analysis to identify any potential risk-related issues and advises on appropriate actions to mitigate and manage risks. MAP measures risk using the VaR, Value at Risk, method. VaR is the maximum value of losses that can be expected during a specified time period at a given level of probability. The Board staff and MAP recommended using the historical VaR, primarily because it accommodates non-normal distributions to capture periods of extreme losses, left-tail events, such as what happened in 2008. Also used to identify the risks within the portfolio are conditional VaR, comprehensive stress testing and historical scenario analysis.

DR. JENNINGS asked if the time period of the 2.5% left-tail shown in the graphical on page 7 is for one month out of 40 months; MR. RICCIARDULLY agreed. DR. JENNINGS requested comments on the hindsight bias of the historical VaR approach. MS. MOUNTS responded historical VaR is being used because Board staff wanted to take into consideration what happened in 2008, and by using a five-year lookback period with no decay, each day has an equal weighting in the results. MR. BADER added this method was also recommended by staff because it is used widely in the industry and has been used by other risk managers they talked to.

MS. MOUNTS discussed the total plan volatility is projected to be 18.5% annualized and the asset class with the highest volatility is private equity at 38%. MR. O'LEARY asked for an explanation of how those numbers are determined. MS. MOUNTS said proxies are used for the illiquid assets and will provide the extensive list of proxies developed after the meeting. From page 9, she reviewed the plan asset class allocation versus their contribution to total volatility. The highest is domestic equities with 32% of holdings, contributing 39% to total plan volatility contrasted with fixed income, which is 15% of holdings, contributing less than 1% of total volatility. DR. JENNINGS commented it is important to remember equity risk is the dominant risk in the portfolio.

MS. MOUNTS stated the portfolio has a VaR of $2.13 billion and showed illustrations of two historical scenario analyses of the G8 countries. The Black Monday, October 19, 1987, historical scenario analysis showed the portfolio was projected to lose 20%. DR. JENNINGS requested a peak-to-trough analysis that would highlight what the order of magnitude of the series of really bad events might be. MS. MOUNTS responded they have 87 different historical scenario analyses they can provide and they can also perform stress tests by equities, currencies, commodities, interest rates and volatilities. DR. JENNINGS asked what MAP can provide in terms of managing liability risk and the risk of active management. MS. MOUNTS stated the liability risk can certainly be modeled. As far as the risk of active managers, they can run a benchmark analysis and compare the manager's performance and risk versus a benchmark.

MR. BRICE requested an additional column be added to the tables shown on pages 11 and 12, which compares the volatility of each asset class with the returns that were received from each asset class. MS. MOUNTS replied they have that capability and is happy to provide it. MR. BRICE asked what approach or strategic questions MAP would use to interact with asset managers to bring the portfolio their greatest return. MS. MOUNTS stated part of the reason a third-party independent risk assessment is vital to the portfolio is to keep the managers honest. MAP's role is to report what the manager is doing compared to what the manager says they are doing.

CHAIR SCHUBERT stated that similar to what MR. BRICE requested for the tables on pages 11 and 12, and in trying to understand the practical aspects of those tables, she requested they show whether or not the portfolio was rewarded by the types of risks taken in the various asset classes and if there is something that happened that might have increased the risk factor that is an anomaly. MS. MOUNTS responded this analysis has not incorporated the specific manager returns, but they do have that capability. CHAIR SCHUBERT commented she was more interested in sector-specific, as opposed to manager-specific.

MR. BADER stated the primary focus of this first presentation was to keep it understandable. He believes the requests raised by Chair Schubert and Mr. Brice are valid and will be sure to have those metrics the next time MAP presents to the Board.

MR. TRIVETTE commented it is important to note the staff has found this to be useful and with some tweaks, the trustees may find it more useful too. He expressed his appreciation for the work that has been done.

CHAIR SCHUBERT recessed the meeting from 11:56 a.m. to 1:19 p.m.

19. INVESTMENT ADVISORY COUNCIL FINALISTS

MR. BADER stated the Board authorized an advertising for the position of IAC member that is currently held by George Wilson, which expires at the end of the month. There were 21 applications and Mr. Wilson submitted a letter on his application asking not to be considered, unless there was an increase in the stipend and remuneration. The committee, appointed by Chair Schubert, consisted of Trustees Trivette, Erchinger and Harbo. It was decided there was significant attraction at the current advertised salaries and narrowed the applications down to four applicants, who are present today to be interviewed. MR. BADER stated staff has prepared a list of questions as a benefit to the Board, but are by no means intended to limit the questions for the applicants. CHAIR SCHUBERT stated in fairness to all of the applicants, the 30-minute time limit will be adhered to strictly.

A. Gary Dokes

CHAIR SCHUBERT welcomed MR. DOKES and asked him tell about himself, why he applied for the position and what he would contribute to the Board. MR. DOKES stated he put together a welcome packet that he will leave with the Board, which includes information about himself and the Arizona State Retirement System. He has been the CIO of the Arizona State Retirement System since 2003. He began with the ASRS as a manager of the fixed income portfolio and ended up managing about a third of their stocks and bond funds internally. MR. DOKES expounded on his background and experience. He believes in the prudent management of public retirement systems.

MR. BRICE asked for a description of some of the difficulties or advantages ASRS has had with their DC plan. MR. DOKES stated the DC plan is not for state employees, but for some state entities. It has the line up of different asset classes, offering active and passive choices, and they have chosen risk funds versus target funds.

MS. HARBO inquired about his availability to attend all the ARM Board meetings, including the annual Ed Conference, and secondly, what emphasis is placed on strategic planning in his system. MR. DOKES stated he has already talked to his boss regarding this opportunity and his number one objective would be to attend, but he periodically would participate by video conference. MR. DOKES explained the importance of strategic planning, with one of the main focusses being the long-term objectives of an 8% return.

MS. ERCHINGER asked for a comparison of the role as an advisor to the ARM Board versus the role as a CIO. MR. DOKES stated his role as an advisor would be stepping back and bringing different perspectives to the table on issues such as risk reporting and market conditions.

MR. TRIVETTE stated there are 5 regular Board meetings a year, plus the Ed Conference, plus as many as 3 other special meetings, and sometimes committee meetings the week before the regular Board meetings and asked how this would fit with his schedule. MR. DOKES noted he looked at the requirements and saw no problems, but if the meeting schedule has now doubled to 14 meetings, then he would have to take that into consideration because he would not be able to attend them all in person and would have to participate by teleconference or video conference.

MR. TRIVETTE asked what asset class he feels particularly as an expert. MR. DOKES noted fixed income, emerging market, real estate, private equity and his job is to touch upon all of those.

COMMISSIONER BUTCHER asked MR. DOKES, since he has been CIO of ASRS, what their performance has been compared to the benchmarks and have they achieved their targets. MR. DOKES answered 8% is their target and the 1-yr 10.8%, 3-yr 10.1%, 5-yr 5.7%, 10-yr 8.7%, and inception to date 9.9%.

B. Jeffrey Sharpe

CHAIR SCHUBERT welcomed MR. SHARPE and asked him tell about himself, why he applied for the position and what he would contribute to the Board. MR. SHARPE expounded on his background and experience, beginning his career as an employee benefits executive compensation lawyer advising investment committees on different plans. He moved to become general council of investment management at Lockheed Martin and went on to run their private equity portfolio. He stated he was attracted to the job opportunity because he has a passion for working with the types of issues the Board is facing. He believes his experience with addressing these same sorts of issues is a benefit and also his years as a lawyer are a benefit.

MR. BRICE asked what he sees as the greatest opportunities for growth in the world of public pensions, taking into account risk and reward. MR. SHARPE answered he would start by not losing the assets and if he said he knew, then he probably should not be hired. MR. BRICE asked in which asset class he has the most background. MR. SHARPE stated private equity. MS. HARBO requested comments regarding the structure of Alaska's investment program and asset allocation. MR. SHARPE replied he was pleasantly surprised by the degree of diversification and would need a better understanding of the liability structure, funded status and risk profile to comment further.

MS. ERCHINGER asked what experience he has had with creating investment policies. MR. SHARPE stated he has experience in both drafting and redrafting all of the policies at Lockheed Martin, because they are living documents and he has learned more from his mistakes than his successes. MR. TRIVETTE inquired if he has a tilt toward growth or value as an equity investor. MR. SHARPE replied his tilt is toward value, but as a CIO he tried to remain neutral and defer to the advice of his team.

MR. BRICE asked for his reaction to an equity investment manager that is holding onto large cash amount for long periods of time. MR. SHARPE explained the easy way out would be to say, "I'd need to know more," but if the manager is consistently beating his benchmark, then he does not have any problem with that. He has dealt with that issue previously and they treated it as an equity allocation. MS. ERCHINGER asked what his bias is relating to active versus passive investing. MR. SHARPE believes it is cyclical in terms of the degree to which managers can add value through active management. He is in favor of having some active management in the portfolio, as long as they are adding value consistently over rolling five-year periods or reducing risk.

MR. TRIVETTE asked how many clients he advises in his current position. MR. SHARPE stated Gallup is a single client, advisory board whose role is still being developed. They advise on many things including policies and procedures, risk management, and marketing materials. MR. BRICE inquired regarding the flexibility of his schedule in terms of providing advice and meeting with the IAC above and beyond the stated 5 meetings a year. MR. SHARPE replied his schedule is busy, but flexible and the more notice he has, the better it is, because he is on the east coast.

C. Robert Shaw

CHAIR SCHUBERT welcomed MR. SHAW and asked him tell about himself, why he applied for the position and what he would contribute to the Board. MR. SHAW was born and raised in Juneau and has dreamed of this type of opportunity. He has been in the institutional market on almost every single asset class for the last 20 years and is currently acting/interim CIO for the city and county of San Francisco.

MS. HARBO asked if he anticipates being able to attend all of the ARM Board meetings and Ed Conference. MR. SHAW has reviewed the prior calendars and there did not appear to be any conflicts, but if the meetings were always on the second Wednesday of the month, then he would have to appear by conference call. MS. HARBO asked what emphasis he places on strategic planning and what experience he has with strategic planning in his current position. MR. SHAW responded he spent a quite of bit of time on that at a very high level while at Callan. His system currently reviews the asset class allocations once a year. He believes the critical aspect of strategic planning is hitting the actuarial return assumption and seeing if it can be done with less risk, rather than an emphasis on beating or replicating the benchmarks.

MR. BRICE asked if he preferred active management over passive management. MR. SHAW replied using the German word jein, which is a combination of yes and no. He explained he is passive in large value because it is really difficult to beat the benchmark with the median managers net of fees, but he is active in areas where there is a stronger propensity over market cycles to beat benchmarks and prefers to take those resources and put them into high value added areas. MR. BRICE asked for comments regarding the transition between his current CIO position and the IAC position. MR. SHAW believes he will benefit from the information gathered as much as he will provide benefit. He views himself as a fiduciary and is trying to find the best way to do things.

MR. TRIVETTE asked if he was familiar with the commission recapture program and what he thought about it. MR. SHAW stated they restructured a program recently and it was not his favorite program, but he goes back to the policy statement and reviews what is directed. MR. TRIVETTE asked for his favorite asset class and for comments on Alaska's allocations. MR. SHAW replied in his current plan, the most exciting area is their fixed income portfolio, because it has all sorts of different types of broadly diversified investment opportunities. He stated from an enjoyment perspective, private markets are always interesting. He commented he is very careful with capital, because it is easy to get enamored with a pitch from a manager and end up making a long-term mistake.

MR. TRIVETTE requested comments on security lending and the risks of security lending. MR. SHAW answered his plan has seriously downgraded the program and is debating whether to continue the program. He is not a fan of it. It takes a lot of staff resources, consultant resources, time and effort, and questions its value to the system. MS. ERCHINGER asked how the balance is decided between bringing investments in-house versus hiring managers at his fund and requested a description of his fund's in-house investments. MR. SHAW stated he avoids active management in the areas where it makes no sense and would prefer to make it internal, as opposed to external, to the degree he can.

Currently, the short-term cash fund is run by the head of fixed income. They pay optimization fees on their S&P 500 and Russell 1000 value, and are in the process of being able to run those optimization models in-house, saving around $500,000 in annual fees.

MS. ERCHINGER inquired if his system invested in real assets and if so, which areas. MR. SHAW responded they currently have an outstanding RFP for a real asset consultant. Real estate is the largest area at 12% of plan assets and there are other areas, including energy-based. He stated they try to be creative in what they do, because replicating benchmarks gets them nowhere.

D. Robert Storer

CHAIR SCHUBERT welcomed MR. STORER and asked him tell about himself, why he applied for the position and what he would contribute to the Board. MR. STORER expounded on his background and experience, stating he began his career at the L.A. County Retirement System, in 2000, became the Executive Director of the Permanent Fund, and since retirement, has served as advisor on a number of boards, including currently with the Idaho Retirement System. He stated he enjoys being on the plan sponsor side of the table and he is member of the Alaska retirement system.

MS. ERCHINGER asked in which asset classes he feels he has the most background or expertise. MR. STORER stated he started out in bonds, has managed bonds and has overseen staff. He has spent a lot of time with publically traded equities and he also started private equity programs in two places. MS. HARBO asked if he was familiar with the new defined contribution program and requested his comments regarding the investment options. MR. STORER replied he has not seen the options and so cannot comment on them, but was familiar with the process.

MR. TRIVETTE asked if he would be able to attend all of the Board's scheduled meetings, including the Ed Conference in New York. MR. STORER does not anticipate any conflicts. Since he was hired first by Idaho, he feels loyalty to them, but reports to the staff, rather than the Board, and the staff have been very flexible. In the rare event, he could participate telephonically. MR. BRICE asked if he tilts toward active investing or passive investing. MR. STORER replied there is a place for passive, but is biased toward active management and believes they provide many sources of value.

MR. TRIVETTE stated that part of the role as an IAC member is providing advice to the Board and asked if that will be an issue with his style, personally. MR. STORER responded he liked this model so much, he recreated it at the Permanent Fund. He believes there is a huge advantage if the Board members know they are getting unfettered information and hearing all sides. He stated he has known MR. BADER for quite some time, respects him and suspects he will disagree with him from time to time and knows his loyalty is to the Board. CHAIR SCHUBERT requested comments regarding equity managers holding large amounts of cash for prolonged periods of time. MR. STORER stated there are exceptions, but they were hired to manage equities and should be, by and large, fully invested.

MS. ERCHINGER requested comments regarding the plan's asset allocation, if he is familiar with it. MR. STORER said he doesn't have any problems or quibbles with the current asset allocation, but has no manager information and cannot comment on that. He guessed the 14% expected volatility is probably the highest it has ever been. MR. TRIVETTE inquired about his views on strategic planning. MR. STORER is a big fan of strategic planning and believes the best managed funds have a well-articulated long-term view.

CHAIR SCHUBERT asked his thoughts on securities lending. MR. STORER stated his diplomatic answer is he loathes it, because it is putting a lot at risk for a little bit of money.

CHAIR SCHUBERT recessed the meeting from 2:57 p.m. to 3:07 p.m.

E. Board Discussion and Appointment - Executive Session

MR. BRICE moved to go into Executive Session to compare and contrast the resumes of the candidates; MR. TRIVETTE seconded the motion.

The motion carried unanimously.

CHAIR SCHUBERT requested MR. BADER, DR. JENNINGS, MS. RODELL, and MR. JOHNSON join the Board in Executive Session. The Board will go off record at 3:08 to 3:24 to go into Executive Session.

CHAIR SCHUBERT noted the Board is out of Executive Session and took no action while in Executive Session.

MS. HARBO moved the Board appoint ROBERT SHAW to the Investment Advisory Council; MS. ERCHINGER seconded the motion.

A roll call vote was taken and the motion carried unanimously.

UNFINISHED BUSINESS

1. Calendar

MS. HARBO moved to accept the proposed 2014 meeting calendar; MS. ERCHINGER seconded the motion.

The motion carried unanimously.

2. Disclosure Report

MS. HALL stated that the disclosure report was included in the packet and there was nothing unusual to report.

3. Legal Report

MR. JOHNSON reported he intends to give a presentation at the September meeting regarding the Board's overall roles pursuant to the governing statutes and to bring clarity on the issue respecting the appointment of the actuary language found in SB 141 and in AS 37.10.22.

NEW BUSINESS

None

OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD

MR. BRICE commented that a recommendation came from the Legislative Committee meeting regarding scheduling a facilitated meeting with stakeholders to address the unfunded liability issues.

CHAIR SCHUBERT believes this is a two-pronged process. First, Mr. Johnson prepares a memo within the next several weeks regarding the ARM Board duties and responsibilities, with a particular focus on the funding issues. She would like this memo before the meeting. CHAIR SCHUBERT stated she feels uncomfortable moving forward as a Board to address the funding issue without having the other stakeholders involved.

COMMISSIONER BUTCHER asked for clarification about what this meeting will try to accomplish and who should be invited. He commented he is excited about the idea of getting more consensus with the stakeholders and educating the Finance Committees about the unfunded liability.

MS. ERCHINGER noted her opinion from the Legislative Committee meeting was the Board wanted to have a collaborative meeting with stakeholders who have an interest in identifying a specific strategy to move forward to address the impacts of the unfunded liability on the state budget, with the primary goal of meeting to seek options to reduce the impact of pending retirement system contributions on the state. The goal is to try to avoid tension by bringing everybody to the table to have a good conversation about the issue and a discussion on the resolution that was passed at the last meeting showing Buck's results of the scenario of injecting $2 billion up front, for example, which would save $1.7 billion in required future contributions. This would also reduce the annual budget impact by $300 million a year and produce a downtrending curve matching the decline in oil revenues.

COMMISSIONER BUTCHER asked if this two-step process would include an educational session with the stakeholders first, and then a session with the Legislature. CHAIR SCHUBERT agreed and recommended providing a work product. She expressed concern over requesting an appropriation which may impact projects for a number of stakeholders. MR. BRICE believes expanding the conversation to a broader group will give the policymakers the political support they will need to take such an action.

CHAIR SCHUBERT commented on using a facilitator for this meeting. COMMISSIONER BUTCHER stated the Permanent Fund has used a facilitator for a few work sessions and Mike Burns would be able to provide the name. CHAIR SCHUBERT requested Ms. Hall follow up regarding that facilitator.

The invitees would include Alaska Municipal League, School Board Association, the Co-Chairs of both the House and Senate Finance Committees, OMB, NEA, RPA, State Chamber. MR. BRICE commented most of the employee organizations invited are represented on the Board by himself, Trustees Trivette, Ryan and Harbo, and that the Administration would be represented by Commissioner Butcher and Commissioner Hultberg. COMMISSIONER BUTCHER stated he and Commissioner Hultberg have a meeting planned with the OMB Director with the point of getting on the Governor's schedule to discuss this issue. He will try to have that meeting before August in order to bring more insight to the collaborative stakeholder meeting.

The date for the collaborative stakeholder meeting is tentatively scheduled for August 8th or 9th. MS. HALL will follow up with the Board members on their availability. The location will be around Anchorage or possibly Girdwood.

PUBLIC/MEMBER COMMENTS

None

INVESTMENT ADVISORY COUNCIL COMMENTS

DR. JENNINGS recommended having a discussion regarding developing an engaging process for selling assets, realizing the gain and moving onto something else. He stated there is a bias toward adding asset classes and getting educated on new things and suggested creating a similar process to get out of asset classes.

TRUSTEE COMMENTS

MR. BRICE thanked Mr. Puckett for answering members' questions in a timely manner. He commented this has been a wonderful two days.

MS. ERCHINGER noted two interesting points from the Segal report; 1) page 41 shows the investment and administration cost of the plan has decreased from 31 basis points in 2006 to 22 basis points in 2009. She stated the actuarial valuation of the plan would have to be shown to determine whether or not this provides a material impact on the plan. The second item of interest was Segal's recent 2013 capital market assumptions that reported a 52% confidence level at an 8% return. She expressed her gratitude to Mr. Wilson for his years of service to the ARM Board as an IAC member. She stated she has learned a lot from his perspective and will miss his input.

MS. HARBO thanked the Legislative Committee for their report and their hard work in setting up the collaborative stakeholder meeting. She thanked Mr. Puckett and Ms. Gouyton for all the research they have done for the Audit Committee.

MR. TRIVETTE commented the committee work takes up a huge amount of time, but needs to be done in order for the Board to complete their work. He expressed his gratitude to everyone who sat in on committees this week. At the planning meeting later this year, he requested developing something like an action list, where people are held accountable for information they agree to provide. He stated he is proud to be working with all the people on the Board and especially thanked Commissioner Hultberg and Commissioner Butcher for their willingness to work on issues.

COMMISSIONER BUTCHER thanked the Department of Revenue, Department of Administration and all of the committees for their tremendous amount of work.

CHAIR SCHUBERT expressed her appreciation to Mr. Wilson for his service as a member of the IAC. She requested Ms. Hall draft a letter that she would sign thanking him for his service on the committee.

FUTURE AGENDA ITEMS

CHAIR SCHUBERT requested a presentation regarding the issue Dr. Jennings addressed about the process of selling assets.

ADJOURNMENT

There being no objection and no further business to come before the Board, the meeting was adjourned at 4:02 p.m. on June 21, 2013, on a motion by made MS. HARBO and seconded by MR. BRICE.

Chair of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

Gayle Harbo
Corporate Secretary