State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Location:
Dena'Ina Convention Center
K'enakatnu Room
600 West Seventh Avenue
Anchorage, Alaska

MINUTES OF
April 24-25, 2014

Thursday, April 24, 2014

CALL TO ORDER

CHAIR GAIL SCHUBERT called the meeting of the Alaska Retirement Management Board (ARMB) to order at 9:04 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 (Telephonic)
Commissioner Curtis Thayer
Tom Brice
Sandi Ryan
Martin Pihl

Board Members Absent
Commissioner Angela Rodell

Investment Advisory Council Members Present
Dr. William Jennings
Robert Shaw

Department of Revenue Staff Present
Gary M. Bader, Chief Investment Officer
Scott Jones, State Comptroller
Zachary Hanna, State Investment Officer
Pamela Leary, Director, Treasury Division

Judy Hall, Board Liaison

Department of Administration Staff Present
Mike Barnhill, Deputy Commissioner
Jim Puckett, Chief Operating Officer, Division of Retirement & Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement & Benefits
Kathy Lea, Chief Pension Officer, Division of Retirement & Benefits
Michele Michaud, Chief Health Official, Division of Retirement & Benefits

Consultants, Invited Participants, and Others Present
Robert Johnson, ARMB Legal Counsel
Ben Fischer, Allianz Global Investors
Melody McDonald, Allianz Global Investors
Burns McKinney, Allianz Global Investors
Jim Robertson, Allianz Global Investors
Manolis Liodakis, Arrowstreet Capital Limited Partnership
Neil Tremblay, Arrowstreet Capital Limited Partnership
Larysa Bemko, Baillie Gifford
Gerard Callahan, Baillie Gifford
Monica DeGraff, Buck Consulting
Chris Hulla, Buck Consulting
Michael O'Leary, Callan Associates, Inc.
Paul Erlendson, Callan Associates, Inc.
Leslie Thompson, Gabriel Roeder Smith
David Slishinsky, Buck Consulting
Perry Christie, Great West
Jennifer Gibson, State Street

PUBLIC MEETING NOTICE

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

APPROVAL OF AGENDA

MS. RYAN moved to approve the agenda. MR. TRIVETTE seconded the motion.

CHAIR SCHUBERT requested to add 11D. Authority to Contract. With that amendment, the agenda was approved.

COMMUNICATIONS, PUBLIC/MEMBER PARTICIPATION, AND APPEARANCES

There were no public comments.

APPROVAL OF MINUTES: February 6-7, 2014

MS. HARBO moved to approve the minutes of the February 6-7, 2014 meeting. MS. RYAN seconded the motion.

MR. TRIVETTE recollected MR. LARRY SEMMONS did speak to the Committee at the meeting in Juneau and it is not reflected in the minutes. MS. HALL reported there is a word-for-word transcript of the minutes and MR. SEMMONS' comments would be included in that transcript.

The minutes were approved.

REPORTS

1. CHAIR REPORT

CHAIR SCHUBERT had nothing to report, but welcomed COMMISSIONER THAYER to the Board and looks forward to his participation.

2. COMMITTEE REPORTS

A. Legislative Committee

CHAIR SCHUBERT reported the Legislative Committee met April 23, the day before this board meeting. She commented there was a very good discussion regarding the legislative session and the retirement system legislation. CHAIR SCHUBERT stated the charter was reviewed. No action items occurred during the meeting. CHAIR SCHUBERT noted issues discussed at the meeting will be presented later in the agenda.

B. General Consultant Evaluation Committee

Chief Investment Officer GARY BADER reported the Committee met April 23, the day before this board meeting, and members included MR. BADER, KATHY LEA, Trustee BRICE, and Trustee HARBO. There will be a report on findings later in the agenda.

C. Real Estate Consultant Evaluation Committee

MR. BADER stated that Trustee ERCHINGER was appointed Chair of the Real Estate Consultant Evaluation Committee. Other members included MR. SIKES and MR. BADER. There will be an action memo and a report later in the agenda.

D. IAC Evaluation Committee

CHAIR SCHUBERT reported the IAC Evaluation Committee met April 23, the day before this board meeting, and elected CHAIR SCHUBERT as the Chair of that Committee. There was an action item concerning the appointment of an IAC member. That action item will be reported upon later in the agenda.

3. RETIREMENT & BENEFITS DIVISION REPORT

MR. BARNHILL reported a management change that was implemented in the Retirement & Benefits Division, the adoption of a Chief Officer model, which is very common in pension systems throughout the country. The positions created are, Chief Pension Officer, KATHY LEA, Chief Health Official, MICHELE MICHAUD, Chief Operating Officer, JIM PUCKETT, and Chief Financial Officer, KEVIN WORLEY. He hopes the change produces significant dividends for the future.

MR. BARNHILL stated MS. LEA is the primary official responsible for administering 10 different pension systems, consisting of 42,000 retirees, almost 50,000 actives. The expectation is to increase to 52,000 retirees in next 10 years. There is an incredible amount of subject matter complexity in operating one pension system. MS. LEA will also manage the optional benefits, including life insurance, accidental death and dismemberment, with 16 participating municipalities.

MR. BARNHILL commented that MS. MICHAUD oversees three different plans, including the retiree health plan, consisting of 67,000 covered lives, the active employee plan, consisting of 17,000 covered lives, and long-term care plan, consisting of 21,000 subscribers and a handful of beneficiaries. Under all of the subject matter complexity is a DRB infrastructure, which requires a weekly flow of data to and from employers and vendors addressing all of the covered lives. MR. PUCKETT is responsible for the management level attention which is being given to IT infrastructure, call center infrastructure, and data flow infrastructure.

MR. BARNHILL noted MR. WORLEY is responsible for accurate accounting for the $1.5 billion in cash flow in the form of benefits and health claims every year. Over the next 10 years, that will increase to $2.5 billion. There are accounting and data flows with over 200 employers in the system. MR. BARNHILL is very pleased to have a complete management team who report directly to him at their weekly team meeting. MR. BARNHILL would like to have these team members take an active part in the ARMB meetings.

A. HRA Update

MR. PUCKETT stated an information memo is included in members' packets for the Health Reimbursement Account (HRA) in the Defined Contribution Retirement (DCR) Plans. These amounts have already been shared with the employers for the FY15 rate. A rate of 3% is applied to the average annual compensation of all employees of all the employers in the PERS and TRS.

MS. HARBO asked if the employees get an annual statement of the amount in their account and if employees receive HRA education as part of the financial education when they become DC members. MR. PUCKETT advised there is not an annual statement provided to the members yet for the HRA, but it is being worked on. MR. PUCKETT noted these are not participant-directed funds. The information regarding the HRA is shared during the defined contribution seminar provided to the members.

MS. HARBO asked what happens to the HRA funds when a member terminates. MR. BARNHILL explained when a DCR member terminates, the HRA monies is not available for distribution to the terminating employee. MR. BARNHILL believes the Legislature intended for the money to stay in the trust, which is the strong policy preference of the Division. There is some ambiguity in the language and that question is pending with the Department of Law.

MS. HARBO asked if a member terminates and leaves their money in and then the individual is rehired, would the HRA account be reactivated. MR. BARNHILL believes that is accurate.

B. Aetna Transition Update

MR. BARNHILL requested MS. MICHAUD's assistance in answering questions. He noted there has been a huge amount of work completed before and after January 1st. The retiree health plan has been self-insured since 1998. Under procurement law, a third-party claims administrator is selected and administers the retiree claims, which totals close to 30,000 claims filed weekly. Aetna was selected to the be the third-party medical claims administrator, as well as the discount network provider for medical, and Moda Dental/Delta Dental of Alaska was selected to be the third-party administrator for dental, as well as the discount network provider.

MR. BARNHILL stated the first eligibility file for the retirees was sent to Aetna in December and contained over 4,000 errors regarding eligible dependents. This was the Division's fault and not Aetna's fault. That file had to be cancelled, which caused a delay and ultimately resulted in a delay in sending the retiree ID cards. Many, if not all, of the retirees did not have their ID cards on January 1st. The immediate impact was a huge influx of 50,000 calls to the three call centers of DRB, Aetna, and Moda, in January.

MR. BARNHILL noted, also in January, there were many unexpected changes with respect to how items that had been covered before were suddenly not covered. This is Aetna's responsibility and the Division had no prior discussion regarding these items, particularly in the pharmacy area. Compound medications and over-the-counter (OTC) equivalents were suddenly not covered on January 2nd. About 1% of the approximately one million claims a year of the pharmacy volume is related to compound medications. The call centers were not staffed to handle all of the calls. MR. BARNHILL stated that Aetna also did not have a way to coordinate benefits at the point of service for pharmacy. This was unexpected and contributed to the onslaught of calls to the call centers.

MR. BARNHILL stated January, February, and March were spent diagnosing and resolving these issues. It has been a very rocky transition. Aetna was instructed to begin covering compound medications and OTC equivalents. Aetna has just implemented a coordination of benefits software update. Results are still pending. MR. BARNHILL is optimistic Aetna will be able to successfully execute the plan administration. The Division is working daily with Aetna to ensure this happens. MR. BARNHILL believes Aetna has done a very good job in building out its network, including Bartlett Hospital in Juneau.

MR. BARNHILL noted there were changes in the dental plan. Buck Consultants advised there could be some savings for the state and the members by utilizing a dental network. In the employee plan, the state pays most of the cost of dental coverage. In the retiree plan, the state pays none of the cost of dental coverage. The impact of having a dental network could be important for retirees living on a fixed income, who are paying 100% of the cost of that plan. MR. BARNHILL stated Moda has instituted a dental network that covers over 60% of dentists in Alaska. Since the beginning of the year, dental network utilization is 69% of claims.

MR. BARNHILL believes over time, the efforts on focusing on network are going to help everyone. He stated retirees still have choice in the selection of providers. The 80% coinsurance amount for medical in-network and out-of-network remain exactly the same for retirees, which he believes has directly led to the medical network utilization being unusually low. Moda lowered the UCR coverage for out-of-network dental, which has created concerns within the retiree community. MR. BARNHILL believes part of the concern is due to not effectively communicating those changes prior to January 1st. Notice has since been provided to all retirees on those changes. MR. BARNHILL noted one lesson learned is all communication with the retiree community needs to be substantially upgraded.

MS. MICHAUD agreed communication with retirees needs work. She commented a lot of the retirees are not computer savvy or do not take well to email or website postings, which leaves the Division to having to mail communications to retirees. In addition, the Division does not have very good contact information, other than the mailing address. Phone numbers and email addresses for retirees are not retained. Several newsletters have been mailed regarding the transition and a series of town hall meetings have been scheduled. The first town hall meeting occurred in March. With the transition, a draft document was introduced and the town hall meetings have served a dual purpose, as far as soliciting comments on the draft document and addressing transitional issues. However, MS. MICHAUD reported the retiree draft document has been postponed for this year in the effort to focus on addressing all of the Aetna transitional issues. The town hall meetings have been exceedingly helpful in revealing members' concerns.

MR. TRIVETTE stated one of the biggest issues he received from many retirees was why didn't the administration ask the retirees' opinion regarding the dental changes, since the retirees fund 100% of that plan. MR. TRIVETTE believes it was a fundamental mistake to make changes in the dental plan without retirees at the table. He hoped before changes are made in the future to any system retirees pay 100% for, including the long-term care plan, retirees would be consulted.

MR. TRIVETTE expressed his concern there still was not a contract signed with Moda and/or Aetna at one of the meetings in March. He asked if a contract has been signed with Moda and/or Aetna. MR. BARNHILL stated he has not signed either one of those contracts until the problems are fixed. MR. TRIVETTE asked if there was a memorandum of agreement (MOA) still in place. MR. BARNHILL agreed and stated both MOA's have been extended once and they do have periodic sunsets. The MOA's are public documents.

MR. TRIVETTE asked if DRB have the staff they need to complete the necessary work. MR. BARNHILL stated he could address a number of points MR. TRIVETTE mentioned.

CHAIR SCHUBERT requested his response be brief because these are internal DRB matters and could probably be discussed offline with MR. TRIVETTE. MR. BARNHILL agreed.

C. Legislative Update

MR. BARNHILL stated the biggest issue this session was the Governor's proposal to address the unfunded liability. The Governor introduced, as part of his budget proposal in December, a proposal to appropriate three billion dollars from the Constitutional Budget Reserve to the PERS and TRS trusts, allocating $1.88 billion to PERS and $1.12 billion to TRS, with a fixed dollar contribution from FY16 to FY36 of $500 million a year. The proposal has been put into bill form and presented a few weeks ago.

MR. BARNHILL advised a committee substitute was adopted by the Senate Finance Committee adopting a variation of the Governor's proposal. It still had an appropriation of three billion dollars, but the allocation was two billion into TRS and one billion into PERS. Instead of a fixed contribution methodology for amortization, the Legislature adopted a level percentage of pay methodology. In addition, the amortization was reinitialized and adopted a 25-year closed term amortization starting in FY15. That bill passed the Senate, 20 to zero, and passed the House, 40 to zero, which was quite impressive. The funding for that bill is in the capital budget on the House Floor.

MR. BARNHILL recognized the amazing efforts of MR. SLISHINSKY in running scenarios and preparing letters at all hours of the day and night during this legislative process. MR. BARNHILL stated it was very important to have an actuarial review of a plan before it was brought before a committee. Without the reviews from the actuary, MR. BARNHILL does not believe these results could have been reached.

MR. BARNHILL recognized the efforts of Legislative Finance staff and Legislative Finance Director, David Teal, James Armstrong, and Pete Ecklund. MR. BARNHILL stated they were absolutely critical in the final days in creating a proposal that would work for the body. MR. BARNHILL expressed his gratitude to everyone in this room for all of the work completed, particularly to MR. BADER, JOHN BOUCHER, COMMISSIONER RODELL, and COMMISSIONER THAYER.

MR. BARNHILL reviewed the bills that passed that are of interest to the Board.

- HB 116 provided peace officer and firefighters with the opportunity to use five years of military service as credit to get access to healthcare benefits five years earlier than they normally would.

- SB145 addressed requirements that were passed by Congress through the HEART Act.

- SB169 was an immunization plan that was strongly supported by the Department of Health and Social Services. It gives participants in the plan the ability to buy immunizations in bulk to reduce cost and encourage immunizations for Alaskans.

- SB159 declared the provision of air ambulance services were not a form of insurance and could be restored to the rural communities from which they were eliminated.

MR. BARNHILL noted the Legislature enacted into law what amounts to a fee schedule for Worker's Compensation medical care that is based on a Medicaid/Medicare fee schedule. MR. BARNHILL believes this development is potentially significant to how healthcare costs are computed in Alaska. The retiree plan does not provide preventive care, which is a concern of retirees. The DRB would like to have the discussion with retirees regarding providing access to preventive care and providing a way to pay for it.

CHAIR SCHUBERT thanked the Governor, on behalf of the Retirement Board, for his action in seeking to assure the financial strength of the retirement systems and to assure the state's credit rating. CHAIR SCHUBERT believes the Governor's actions show his leadership on these two issues and will really benefit the state. CHAIR SCHUBERT expressed her appreciation to MR. PIHL for beginning this process five years ago to address the unfunded liability issues. She thanked all of the trustees for their roles during this legislative process and specifically thanked MR. BRICE, MS. ERCHINGER, COMMISSIONER RODELL, COMMISSIONER THAYER, MR. BARNHILL, MR. BADER, and the actuaries for their participation.

4. TREASURY DIVISION REPORT

MS. LEARY acknowledged JENNIFER GIBSON, from State Street, who has come up to the Anchorage offices to interact with staff. MS. LEARY gave recognition to SHARON GILL, Asset Accounting Department, and JERRY BURNETT, Department of Revenue, for their service to the ARM Board. Both will be retiring soon. MS. LEARY acknowledged the unanimous confirmation of COMMISSIONER RODELL and COMMISSIONER THAYER.

5. CHIEF INVESTMENT OFFICER REPORT

MR. BADER referred to his report, in which Item No. 1 shows rebalancing of the fund six times. Guggenheim is now fully funded and is in line with the Board's approved mandate. There has been a reduction of small cap investments with Jennison of $55 million. MR. BADER stated the report is in error and all of the notations for "k", thousand, should be million. All of the reductions funded Brookfield and Lazard at $75 million each. The cash overlay program was reauthorized of $11 million in small cap and $11 million in large cap.

The buy-write mandate was terminated with RCM Allianz due to a change in staffing at the firm. The money has been refunded. MR. BADER informed the Board of his intent to invest the money refunded with Analytic Investors who have an index buy-write strategy. The current fee from Analytic is 15 basis points on amounts over $20 million. Analytic has made an offer to charge a fee of 10 basis points for investment amounts over $135 million. Analytic currently invests $130 million for the portfolio.

MR. BADER's report included notification of the transfer of $2.9 million from cash to the Blue Glacier Fund, an absolute return mandate, managed by Crestline Investors. MR. BADER authorized MacKay Shields to continue holding the stock of a non-publically traded company, because forcing them to sell the company would be considered selling in a distressed situation.

EIG announced the sale of a minority interest in EIG. MR. BADER stated he and MR. HANNA discussed this with the CEO of EIG, and determined this event is not troubling to the fund.

MR. BADER provided information to the members regarding the legislative report and the pending receipt of $3 billion into the pension fund addressing the PERS/TRS liability. This is an awesome responsibility and the Governor, all 60 legislators, the press, and the general public will be focused upon how these funds are managed in this challenging investment environment. MR. BADER believes the Board needs to remain nimble and thoughtful regarding investing in the current market environment. MR. BADER stated there are a few requests in the Board packet for additional authority for staff. He believes these requests remain inside the general mandate of the Board.

MR. TRIVETTE requested an update on the investigation of WAMCO issue. MR. BADER advised one staff member and MR. JOHNSON went to WAMCO and a briefing has not yet occurred regarding findings.

MR. TRIVETTE asked about the status of the due diligence on Everest Capital. MR. BADER noted the due diligence and contract negotiations are ongoing.

6. FUND FINANCIAL REPORT

State Comptroller SCOTT JONES reviewed the financial statements for the eight months ending February 2014. The ending assets were $25.1 billion, with a change of invested assets of about 13%. The total comprises the PERS system with about $14.8 billion, the TRS system with about $6.1 billion, the JRS with $160 million, the military with $37 million, SBS with $3.2 billion, and Deferred Comp with $758 million. The plan has had $2.8 billion worth of income year-to-date.

MR. JONES stated that since February, the non-participant directed plans went from $20.47 billion to $20.54 billion, fairly flat, and as of yesterday, they were at $20.7 billion. The plans had roughly a 7% increase in their overall assets on a fiscal year-to-date change through yesterday.

KEVIN WORLEY, CFO of the Division of Retirement and Benefits, discussed the supplement to the Treasury Report, which shows contributions and withdrawals from the different funds and expenditures for payments, refunds, and administrative and investment expenses. MR. WORLEY noted separation of service represents 77% of the distributions out of the DCR and SBS Deferred Comp plans.

MR. BRICE asked if there is any way to determine and track whether the REIT funds are being rolled over into other retirement type accounts or savings accounts. MR. WORLEY stated there is an additional layer from which information can be provided. In looking at the SBS, 37% of that total dollar amount represents amount rolled over to an IRA, and 3.7% to another qualifying plan. In looking at the Deferred Comp plan, 42% of the funds coming out is rolled over to another IRA.

MS. HARBO asked if a person totally withdraws their funds from the plan, are there statistics showing how many years that person has been employed. MR. WORLEY stated he does not have that answer now, but will research and provide her the answer at a later date.

7. PRIVATE EQUITY TACTICAL PLAN
ACTION: Resolution 2014-06 - Private Equity Plan

State Investment Officer ZACHARY HANNA explained this staff presentation is part of the annual review and planning cycle for the ARM Board's investments in private equity. There is a detailed written plan provided in the Board's packet. This plan and recommendations have been reviewed by Abbott, Pathway, and Callan. MR. HANNA provided an overview of private equities as an asset class, a market review, a discussion of the ARM Board portfolio, and the recommended 2014 tactical plan.

MR. HANNA noted the ARM Board's return expectation for private equity is 350 basis points over the Russell 3000 Index. He provided background on private equity structure and explained the dynamics of the private equity cash flow. The goal is to build a well-diversified portfolio of high quality partnerships. During 2013, there was a modest increase in fund raising. Levels are still well below the peak fund-raising years and terms remain more rational and limited partnership (LP) friendly. The overall level of investing activity decreased in 2013, as firms maintained pricing discipline in the face of strong competition among private equity firms and from strategic corporation acquirers. Both price and leverage remain relatively high and they both ticked up in 2013.

MR. HANNA stated the market has been volatile since the ARM Board first invested in private equity in 1998, but the Board and its advisers have built a high quality, well-diversified portfolio. Relative performance has been good, with seven out of the past 12 vintage years through 2009 were top quartile, and five years were second quartile. Overall, the program is in the top quartile. Returns have been strong, with the internal rate of return (IRR) since inception of 10.2% through 2013. Staff calculates public market equivalent returns using the actual ARM Board private equity cash flows to simulate buying and selling public market indices. The 10.2% IRR for the private equity portfolio is double the public market equivalent return of 5.1% for the Russell 3000 Index.

The private equity portfolio provides a tangible example of the power of compounding. Since inception, the program has generated $800 million in additional fund value compared with investing in the public equity markets alone. MR. HANNA explained the private equity cash flows on Slide 12. He noted distributions in the private equity portfolio have increased at a pace of roughly $100 million a year over the past five years. The investment activity has been fairly low and stayed roughly flat over the last four years, because it has been a strong seller's market.

The private equity portfolio is well-diversified by strategy. The targets are 20% to venture capital, 40% to buyout, and 35% to special situations, and the portfolio is close to these guidelines. MR. HANNA showed graphs illustrating the portfolio's diversification by industry, geographic region, and investment stage. The commitment target for 2013 was $355 million and during the year, $311 million was committed to 24 partnerships, with the commitments diversified by strategy.

Continued progress in the exit environment is expected in 2014. Corporations have healthy balance sheets, record cash levels, which should translate into increased acquisitions in a slower growth environment. The IPO market should continue to provide significant exits and credit markets should remain open. Fund raising is expected to increase this year, as general partners have been returning capital and many strong groups are returning to the market. Higher deal pricing is the downside risk, as funds have more capital to put to work. Staff and the Board’s investment managers are particularly focused on investing with managers who have demonstrated pricing and leverage discipline during past cycles.

MR. HANNA stated in the 2014 tactical plan, staff is recommending an increase in the commitment pacing to target a long-term asset allocation of 10% for private equity. The recommended commitment target for 2014 is $450 million, of which $175 million for Abbott, $175 million for Pathway, and $100 million for direct partnership investments with a gradual annual increase. The staff recommends the Board adopt Resolution 2014-06, approving the 2014 Private Equity Annual Tactical Plan.

<u>MR. PIHL moved to adopt Resolution 2014-06.</u> <u>MS. HARBO seconded the motion.</u>
A roll call vote was taken, and <u>the motion passed unanimously.</u>

MR. TRIVETTE asked who conducts the internal investment for this fund. MR. HANNA stated he and MR. BADER conduct the internal investment for this fund. MR. TRIVETTE noted the presentation was easy to read and provided good information for new Trustees and expressed his appreciation for the effort in creating this plan each year.

MR. BRICE asked if MR. HANNA and MR. BADER are taking advantage of conditions the business cycle provides. MR. BADER stated the pacing target is clear and the investment managers are also mindful of the current cycles.

MR. PIHL commented the plan forward provides an equal amount to Abbott and Pathway each year. He asked whether performance may favor one more than the other. MR. HANNA noted in prior plans, Pathway has been contractually constrained to their level of pacing. A successful series of discussions has occurred with Pathway in terms of renewing their contract and removing those constraints. This is a pretty significant increase in their pacing. They were capped out at $125 million a year and have been at that level for the past four to five years. Pathway's performance has been quite strong.

MR. HANNA noted that Pathway and Abbott have different styles of investing and believes their styles are complementary and it is in the Board's interest to maintain them at a relatively equal pacing. He does not favor one over the other.

CHAIR SCHUBERT recessed the meeting from 10:51 a.m. to 11:09 a.m.

8. PERFORMANCE MEASUREMENT - 4TH QUARTER

MICHAEL O'LEARY of Callan Associates explained the fourth quarter GDP was reported at 3.2, which was down from 4.1 in the third quarter, and subsequently revised twice, ending at 2.6. MR. O'LEARY noted this is very common with all of the statistics and a great illustration of the first numbers reported being revised. The quarterly real GDP growth was positive, but not a robust recovery. The first quarter of the year was legitimately, significantly affected by the extreme weather. The second quarter of the year was also affected by the difficulty and challenges of the first quarter.

MR. O'LEARY explained the graphic depicting bond indices for the quarter and the year. He noted 2013 was not a good year for bonds. MR. O'LEARY discussed tables of global equity market indices, and what individual countries' governments are doing to gain some advantage for their local economies. He noted Japan has taken extraordinary action in monetary ease and expected the value of their currency to decline, which was increasing their competitive position. The United States has been accused of doing something similarly by many in Europe and now we are seeing more willingness to ease monetary policy further in Europe than the U.S. for competitive advantage.

MR. O'LEARY discussed the treasury yield curves and noted the 10-year Treasury has declined to 2.7. He showed multiple tables comparing returns from various indexes and explained the calender period graphic for real estate.

MR. O'LEARY stated the asset allocation relative to the target, as of the end of the calendar year, had little change relative to the third quarter, with an overweight in domestic equity. He noted almost all of the investments in the portfolio did well relative to their targets and showed tables illustrating those numbers. The relative performance for TRS was 18.79% and PERS was 18.74%, both ranking in the top quartile. The two-year number ranked high in the second quartile. The three-year number was almost in the first quartile. The five-year number is still distorted by the real estate weakness. The seven-year number is close to the target return. The 10-year number is right at median.

MR. O'LEARY discussed the components and performance of the fixed income portfolio compared to the indices. The Mondrian manager has had a rough time over the last couple of years, but over the longer time periods, their performance is above their target and comparatively strong. The MacKay Shields manager has had performance close to, but below, the market benchmark.

MR. O'LEARY reported domestic equity returned 34.47% for the year, which is better than the Russell and S&P indices. He discussed the returns of various domestic equity asset classes. MR. O'LEARY reminded the Board that Alternative Equity was redefined and became effective the middle of the year. MR. O'LEARY reported the international equity exposure was up 18.94% and was a strong comparative performance. The emerging markets pool for the year was down 12 basis points and the index was down 2.27%. The sole global manager, Lazard, was up 25.29% for the year versus the ACWI Index of 23.44%.

MR. O'LEARY stated the real estate portfolio slightly trailed the real estate target. Private real estate returned 11.35% for the year and the NCREIF Index returned 10.98%. REITs did not do well for the full year. The internally managed portfolio had a more positive return. Farmland is producing very attractive returns. Timber is much more cyclically sensitive than farmland and is related heavily to the business cycle. Timber returns are not much below target. TIPS did not produce a real rate of return and the driver of the negative result is having long duration bonds in a rising rate environment. The MLP's had a very positive contribution to the real assets. MR. O'LEARY strongly believes a diversified real assets portfolio, such as the ARM Board's portfolio, is a great insurance policy in accelerating inflation environments.

MR. O'LEARY noted there was an error in creating one of the tables and the corrected table has been provided to the members.

MR. PIHL asked for performance information on value versus growth investments. MR. O'LEARY stated it was a very strong year for both and the Russell 1000 Growth Index for the year was up 32.48% and the Russell 1000 Value Index was up 32.53%

PAUL ERLENDSON of Callan Associates explained the tables describing the strategies within the SBS and deferred comp programs. These strategies are meeting or exceeding their objectives and have been doing very well on an absolute basis. MR. ERLENDSON stated an error on Slide 43, the red box for the interest income fund, has been corrected in a handout. The correction significantly changes the ranking for that fund. MR. ERLENDSON reported Brandes remains volatile and members need to be aware of this volatility when choosing Brandes in their plan. Brandes has relatively strong results for their three-year return.

MR. ERLENDSON explained all of the passive options have been meeting their performance benchmarks. The ranking system for the passive options is different than the actively managed funds, because an index fund is supposed to match the index and not do better or worse. The rankings are within 10 ranking points of the peer group and as long as they are tracking relatively closely, they will show green.

MR. O'LEARY commented he has really enjoyed working with the Board for many, many years. He stated he has been impressed with the level of discussion and debate regarding what is beneficial for the program. MR. O'LEARY commented he has watched the Board address civilly the pension funding challenge, having a dialog while educating the Board on the alternatives available to you and then acting upon those alternatives. MR. O'LEARY applauded the Board for their efforts.

CHAIR SCHUBERT stated she has been on both Boards the whole time MR. O'LEARY has been working with the Boards. She expressed her appreciation for his work in presenting information in a really concise and understandable fashion. CHAIR SCHUBERT believes the growth in the Board has been facilitated by staff and the counsel provided by MR. O'LEARY over the years. CHAIR SCHUBERT noted it is MR. O'LEARY's last Performance Measurement Report. She thanked him very much for a job well done and wished him well in retirement.

CHAIR SCHUBERT recessed the meeting from 11:58 a.m. to 1:20 p.m.

9. ACTUARIAL VALUATION REVIEW - FY13

A. Certification of Draft FY13 Actuarial Valuation
Public Employees Retirement System (PERS)
Teachers Retirement System (TRS)
Update: Claims Cost Supplement
PERS Defined Contribution Plan
TRS Defined Contribution Plan
JRS/NGNMRS Roll-Forward

LESLIE THOMPSON of Gabriel Roeder Smith (GRS), the auditing actuary, presented review items of interest to the Board. The first was the Judges and the National Guard Roll-Forward in which the roll-forward valuation that Buck Consultants completed was reviewed. There were no findings and GRS concurred with Buck Consultants' work.

The second item is the review of the Pension and Post-Employment Healthcare Plans for PERS and TRS. MS. THOMPSON believes this is a perfect time to engage in a dialog with Buck Consultants during the experience study about some patterns that have emerged in the gains and losses as shown on the chart on page three of the history of gains and losses by source. MS. THOMPSON stated the source entitled "Termination" reveals large losses every year. Whenever there is an assumption that persistently lands on one side, the question needs to be asked if that assumption is being set properly, because assumptions should land half the time one way, and half the time the other way if the expected value is zero on the gains or losses.

MS. THOMPSON stated one of the reasons this causes her concern is that over the last four years, the COLA and PRPA have all been gains, meaning there was not granted as much of a COLA as what was assumed, which is expected because these have been periods of low inflation. However, if those gains were not included, there would be much more significant losses and therefore, increases in the contribution rate. So those gains are, in a sense, masking the losses from the other sources.

The third item is the review of the "Other" category. MS. THOMPSON believes "Other" should be pretty small miscellaneous items, but in these plans, it is as big and sometimes the biggest of all the sources. MS. THOMPSON recommended working with Buck Consultants to break out what big item is included to ensure there is not a bias in something that is creating a loss.

The fourth item is under Healthcare on page four and the concern is the awesomely large gains from medical claims. GRS provided an extra report that went audited the actual development of the claim costs. The persistent gains on medical claims are large and it is possible a reader could ask if these gains are from overcharging for this plan. MS. THOMPSON recommended working with Buck Consulting to understand why the claims are this large. The Board needs to be in agreement that the method is right and is aware there is margin built into these claim costs.

The fifth item is on page five showing two bullet items about discrepancies in method in which GRS has agreed to disagree with Buck Consulting. On test life pages, there is included a column marked as "GRS Best Estimate," which is the percent change of those discrepancies in method. MS. THOMPSON encouraged discussing those changes with Buck Consulting.

Finally, the Cadillac tax is a tax for what is deemed to be certain generous medical plans and Buck Consulting's analysis determined the Cadillac tax does not come into effect until so far out in the future that it is de minimis. MS. THOMPSON believes the Cadillac tax is coming into effect sooner than anticipated because the thresholds amounts for the cost for the Cadillac tax grow at a slow rate, while medical inflation grows at a higher rate and tax has to be paid on that gap. She recommended discussing this Buck Consulting to get ahead on the curve.

MR. BADER asked if a Cadillac expense is borne by the participant or by the plan. MS. THOMPSON noted CHRIS HULLA of Buck Consulting could best answer that question. MR. BADER stated he will ask the question later in the meeting.

MS. HARBO clarified COLA is granted every year to those who retire and live in Alaska. COLA would change if there were more retirees moving out of Alaska and not living in Alaska. MS. THOMPSON stated the PRPA and COLA were combined in the analysis she discussed.

MS. THOMPSON noted her main finding on DCR was that she does not have documentation on the policy changes and therefore, if appropriations were recommended, there would be no basis for that in writing.

MS. HARBO requested clarification and notation regarding the reason the contribution rates for PERS retiree medical under DCR changed from .48% in 2011 to 1.66% in 2012, and the similar changes in TRS. MR. BARNHILL stated those rates were presented to the Board last year through the Buck valuations and they reflect a change in policy approach beginning with the enactment of SB141. MS. HARBO requested again that a notation with the explanation be included in the document. MR. BARNHILL believes a notation is already included and suggested DAVID SLISHINSKY of Buck Consultants address that issue during his presentation.

MR. TRIVETTE noted last year there was not a plan, and asked if there is still no plan this year that GRS can actually use to evaluate. MS. THOMPSON agreed.

MR. BARNHILL asked what other factor is contributing to the decrease in medical gains for PERS from 2012 to 2013 besides the adoption of the Society of Actuaries new long-term trend line. MS. THOMPSON recommended speaking to Buck Consulting about isolating the participation rate factor and believes this is embedded in the medical gains. There is a big difference in liability for participating and non-participation and would be beneficial to review.

B. FY13 Draft Actuarial Valuation Reports
Defined Benefit and Defined Contribution Plan
Public Employees Retirement System (PERS)
Teachers Retirement System (TRS)
PERS Defined Contribution Plan
TRS Defined Contribution Plan
JRS/NGNMRS Roll-Forward

MR. SLISHINSKY noted his presentation of the actuarial results for the beginning of the fiscal year, June 30th, 2013, is already outdated due to the recent legislative change of the costs for FY15 and beyond. MR. SLISHINSKY noted there were no changes in benefit provisions, actuarial assumptions or actuarial methodologies. There were changed in "Experience," which is the measurement of the difference between the actual experience of the plan and the actuarial assumptions from year to the next. This causes changes in the measurements of the expected liabilities and expected contributions.

There are three highlighted areas on page four worth noting. The first area is the investment return, which was 12.1% for FY14. This is above the long-term investment assumption return of 8%. That 4% difference creates an investment gain, which is smoothed using a five-year asset valuation method. As a result, the PERS contribution rate increased 1.76%. MR. SLISHINSKY explained the gain is being smoothed in addition to the four previous years of gains and losses, which were net losses. The investment return rate of 12.1% this year, combined with prior years' losses in the five-year period of smoothing, the rate of return on assets for actuarial purposes is actually 4%. The TRS contribution rate increased 2.44% and is due primarily to the smoothing of the prior years' losses.

The second highlighted area is regarding healthcare claims and MR. HULLA reported the PERS contribution rate decreased about 1.5% and TRS contribution rate decreased 1.2% due to continued favorable emerging claims experience, whereby a method is used to develop a base year claim cost, which is analogous to asset smoothing.

The third highlighted area is regarding the impact of the two-year lag on applying the contribution rates. MR. SLISHINSKY explained that process and noted a loss is created if the normal cost and amortization calculated for that year is higher than the received contribution. These three highlighted areas are the biggest drivers of the change in the contribution rates.

MR. TRIVETTE asked how much impact would the increase in interest payments each year have on the change in contribution rates. MR. SLISHINSKY stated the interest payments should be made in the contribution and is already factored in the rate. MR. TRIVETTE believes the Legislature has intent in the capital bill to eliminate the two-year delay. He suggested Buck Consulting clearly review options because that conversation will take place within the next few months. MR. SLISHINSKY agreed.

MR. BARNHILL reported in the bill that passed the Legislature, there is legislative direction through the amendment ARM Board statute 3710.220, requiring the use of a level percentage of pay methodology under a 25-year closed term amortization. That bill is retroactive to April 21, 2014, once it is signed into law, with the purpose of the Board providing direction to the actuary at this meeting. MR. BARNHILL stated because the bill has not been enacted into law yet, in lieu of giving direction, time will be taken to determine how that legislation will be implemented and a proposal will be brought before the Board probably at the June meeting.

MR. SLISHINSKY explained the graphs showing the asset smoothing methodology over five years. The ratio of the actuarial value to the fair value of assets was about 97% and in 2009, that same ratio was up over 120%. This is the first year that the actuarial value is less than the market value since the financial crisis, which is good news. There have been gains, or at least lower losses, in the healthcare funded ratio as compared to the pension funded ratio. After the calculations of the cost of the accruing benefits, less member contributions, and amortization of the unfunded liability, the contribution rate for PERS is up from 39.85% to 40.28%.

MR. TRIVETTE requested a definition of "retirement experience" for purposes of this report. MR. SLISHINSKY stated from the 2012 valuation, retirement rates are used. Depending upon the age and the amount of service people have, there is a certain probability at different varying ages and service combinations that people are going to retire. The data is analyzed and it provides retirement patterns of the plan. The rates are set based upon the retirement patterns seen in an experience analysis.

MR. HULLA explained the methodology behind the graph showing the gains due to claims cost experience. In the current trend and blend valuation, which is similar to the smoothing process, the weighted value for the data in 2013 is 30%, 2012 is 40%, 2011 is 20% and 2010 is 10%. Buck Consultants does not recommend basing a contribution rate for any given year on the most immediate year's experience. It is too volatile, due to favorable experience, incidents and magnitude of large claims, changes in third-party administrators and the network discounts they deliver. Part of the gain this year is anticipated to reflect improved discounts through Aetna as compared to Heath Smart.

MR. TRIVETTE asked if the trend and blend methodology is accepted actuarial science. MR. HULLA agreed. MR. TRIVETTE asked what percentage of actuaries actually use the trend and blend methodology. MR. HULLA believes every Buck Consultants' valuation include a trend and blend process, unless it is an insured plan. MR. TRIVETTE stated one of the issues with a previous actuary was they were using a different methodology than most other actuaries were using. He asked if the trend and blend methodology is pretty common practice among actuaries. MR. HULLA believes it is a predominant practice and thinks it is the example used in FASB and GASB guides to implementation. This is a deliberate conservative element in the valuation.

MR. PIHL asked what the total claim cost was and what the percentage of trend and blend is to that total. He expressed his gratitude these numbers are showing a gain. MR. HULLA stated he agrees with GRS it is important to understand and support the process. He noted when there are actual losses emerging in the claims experience, this process will delay those losses in the contribution rate. MR. BARNHILL reported there was a total of just over 500 million in claims for PERS and TRS. MR. SLISHINSKY stated in looking at these total numbers, it is important to relate them to the accrued liability. The expected accrued liability for the year is a little over $20 billion for both pension and healthcare added together. The claims cost is at 1.1% of total and 2.7% of other post-employment benefits (OPEB). The claims can vary from year to the next. MR. SLISHINSKY presented the PERS valuations for the roll forward of the unfunded liability.

MR. SLISHINSKY reviewed the valuations for TRS and noted overall, the same patterns existed with TRS as they did with PERS. The amount of the actuarial value of assets is now less than the fair value of assets and the future recognition will be gains, as long as there are no large losses in the near-term to counteract that. TRS has a similar pattern to PERS in the funded ratio of pension versus healthcare. There was an increase in the contribution rate from 66.31% to 69.24%. The roll forward of the unfunded liability for the TRS from last year increased.

MR. BARNHILL noted the summary for PERS is on page 8 and the summary for TRS is on page 15. Line four shows the funded ratios and there are markedly different funded ratios for pension versus healthcare. There is a 15% spread in PERS and a 12% spread in TRS in the funded ratios. MR. BARNHILL recommended this be addressed going forward and one way could be to direct the state assistance, when received, entirely into pension. He believes this would even out the spread and would make a dollar-for-dollar impact to municipal employers for GASB 68 purposes.

MR. TRIVETTE asked if there were any statutory or legal reasons that would prevent the suggestion by MR. BARNHILL. MR. BARNILL noted that is a legal question for the lawyers, but as far as he knows, there is nothing to prevent that option.

MR. SLISHINSKY walked the Board through the DCR valuation results. There was not much change this year from last year. The overall rate last year was 1.96% and this year it is 1.98%. The funded ratios and assumptions used were explained. MR. SLISHINSKY stated part of the calculated numbers in the presentation will have to be revised once the transfer of the $3 billion. However, the caps on the employer rates are not changing. It is still 22% for PERS and 12.56% for TRS.

MR. SLISHINSKY explained the roll forward process of the accrued liability for the JRS. The actuarial value of assets is calculated using the real accounting of the funds assets. The unfunded liability increased from $65 million to $72 million. The historical graph of the employer contribution rate was reviewed and the increase is primarily due to the smoothing of the previous asset losses. With increasing rates and the losses on the assets, there has been a slight decline in the funded ratio from 73% in 2010 to 65% in 2013.

MR. SLISHINSKY explained the roll forward process of the accrued liability and the actuarial value calculation for the NGNMRS plan. The funded ratio has declined from 102.8% to about 101% due to the recognition of those losses from 2009, which resulted in an increase in the contribution from $627,000 last year to $735,000 this year. There was the same general pattern over the last four years for NGNMRS as was seen in JRS.

MR. SLISHINSKY reviewed the 30-year deterministic projections, assuming all of the actuarial assumptions are met and all of the contributions are actually made. The unfunded liability will be fully funded by 2031, and from that point forward, the majority of the contributions will be for DCR members.

MR. PIHL commented the graph shows the contributions basically stop in 2029, and there were never any expectations under the 25-year fixed period that those contributions would not run through 2031. Therefore, the employers' contributions of about a billion dollars should be included in this graph. By not including those numbers, state assistance is overstated. MR. PIHL reported the overstatement of state assistance is in all of the base cases that have been used. He realizes these graphs are academic.

MR. SLISHINSKY discussed the sensitivity analysis and graphs regarding what the measurements would look like if the rate of return was different than expected. This information has always been included in the reports, but is not usually discussed during the Board presentation.

MR. TRIVETTE asked when the recent significant layoffs in the school districts will be reflected on the actuarial evaluations. MR. SLISHINSKY noted an experience analysis is currently occurring and the 1% assumption of employee growth is being reviewed. A report will be given in June and whether or not that assumption number should be changed.

MR. BARNHILL expressed his appreciation again to Buck Consulting and GRS for their great assistance with the pending legislation during the legislative session.

CHAIR SCHUBERT recessed the meeting from 3:12 p.m. to 3:27 p.m.

10. ADOPT ASSET ALLOCATION:
Resolution 2014-07:
DB PERS/TRS/JRS
PERS/TRS/JRS Retiree Health Trusts
Retiree Major Medical HRAP/ODD
Resolution 2014-08: DB NGNMRS

Resolution 2014-09: DC PERS/TRS Holding Account

MR. BADER invited MR. O'LEARY to explain Callan's capital market assumptions and how they are used in determining an asset allocation recommendation. MR. O'LEARY stated each year, Callan develops a 10-year projection of return, risk, and correlation estimates for all of the major asset classes. There were only very minor changes in the 10-year projection of last year and this year. The biggest difference was the expected return for bonds was raised and the expected return for most equity classes was reduced slightly. The expected inflation rate was also lowered to 2.25% from 2.5%.

MR. BADER informed he and MR. O'LEARY, MR. ERLENDSON, and the members of the IAC met by teleconference to discuss the efficient frontier and the recommendations to the Board for the asset allocation for the coming fiscal year. MR. BADER does not believe there are any changes in the actual asset allocation recommendation and asked if any members of the IAC would like to comment on the process.

DR. JENNINGS emphasized inaction of a change to the asset allocation does not mean analysis did not take place. He noted the standard deviation of the new proposal did change to 15%, which reflects a very stock-oriented asset mix.

MR. BADER reported the IAC also discussed the recommended private equity allocation. It was agreed the long-term private equity allocation should be 10%, but since this is unrealistic to accomplish this year, the allocation was unchanged. The private equity allocation is expected to increase in the future. MR. BADER recommended the Board adopt Resolutions 2014-07, 2014-08, and 2014-09 to provide asset allocations for the PERS, TRS, JRS, and health trusts, along with the military retirement system and investment of cash.

<u>MR. BRICE moved to adopt Resolutions 2014-07, 2014-08, and 2014-09. MS. HARBO seconded the motion.</u>

MR. TRIVETTE asked if any of the other IOC members want to comment on these resolutions. MR. SHAW believes the major changes of adding asset classes to the asset allocation have already occurred and the changes will be at the margin. MR. ERLENDSON commented the targets establish asset classes, but there is a question of implementation and accessing those markets. He believes there is a lot of work at the margin to try to mitigate some of the alternative equity category risks that are worth considering.

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

11. INVESTMENT ACTIONS

A. Pyramis Global Advisors Tactical Bond Strategy

MR. BADER explained Pyramis Global Advisors is a subsidiary of Fidelity Investments Company. It is a well-resourced fixed income manager with 223 professionals, including 113 in research, 40 in trading, and 39 in portfolio management, currently managing over $358 billion of fixed income investments. The tactical bond strategy was incepted in 2006 and the management team is comprised of two portfolio managers, each with over 20 years of experience. The tactical bond strategy had $251 million of assets under management in January of 2014. The objective is to achieve high risk-adjusted returns with bond-like volatility, which includes the entire global bond market as a potential investment universe. MR. BADER informed he and MR. MITCHELL have visited with Pyramis and are impressed with their investment team. Pyramis has strong fixed income returns since inception relative to the Barclays AG Index. It is expected to be a good complement to the current strategy in fixed income. MR. BADER is recommending the Board authorize staff to engage Callan Associates to evaluate the Pyramis Tactical Bond Strategy team and subject to a favorable evaluation by Callan, to authorize staff to engage Pyramis Global Advisors to invest $100 million in the Tactical Bond Strategy in a separate account, subject to successful contract and fee negotiations.

<u>MR. PIHL moved to authorize staff to engage Callan Associates to evaluate the Pyramis Tactical Bond Strategy team and subject to a favorable evaluation by Callan, to authorize staff to engage Pyramis Global Advisors to invest $100 million in the Tactical Bond Strategy in a separate account, subject to successful contract and fee negotiations.</u> <u>MS. RYAN seconded the motion.</u>

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

B. Allianz Buy-Write Fund

MR. BADER noted, as he reported in his Chief Investment Officer Report, due to staff turnover Allianz RCM to liquidate the buy-write portfolio. There are no assets under management at the present time. Staff is recommending the ARM Board direct staff to terminate Allianz Global Investors as a buy-write manager.

<u>MS. RYAN moved to direct staff to terminate Allianz Global Investors as a buy-write manager.</u> <u>MS. HARBO seconded the motion.</u>

MR. TRIVETTE asked if Allianz ever met the target benchmark. MR. BADER stated there were times they met the benchmark and there were times they did not meet the benchmark. He believes they did not meet their benchmark most recently, but would have to verify the records.

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

C. Absolute Return Policy - Res 2014-10

MR. BADER advised the overall goal of the absolute return allocation is to produce strong returns with lower volatility and correlation to other asset classes. In 2013, the ARMB adopted a more opportunistic and less constrained approach to absolute return and the managers have selected a more concentrated portfolio of investment styles and underlying investments. The early results have been good. The returns were 10.2% in 2013.

A tool that currently is not available to the absolute return investment managers is the ability to make co-investments, which are investment opportunities that are offered to the ARMB investment managers on a fee advantage basis by underlying hedge fund managers or other managers. Some of the ARMB's investment managers have demonstrated the ability to source and execute co-investment opportunities and expect that adding this capability to the investment portfolio will increase risk-adjusted returns.

Staff recommends the Board adopts Resolution 2014-10, revising the absolute return policies and procedures to allow the Chief Investment Officer to approve co-investments by the ARMB's absolute return investment managers.

MS. HARBO moved to adopt Resolution 2014-10, revising the absolute return policies and procedures to allow the Chief Investment Officer to approve co-investments by the ARMB's absolute return investment managers. MR. TRIVETTE seconded the motion.

MR. TRIVETTE supported the motion on the basis that MR. BADER stated this was risk-adjusted.

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

D. Authority to Contract

MR. BADER commented the authority to contract is a delegation that provides the CIO discretion and latitude to act on behalf of the Board, including entering into contracts, limited partnerships, commingled funds, as well as entering into joint venture investment relationships with current investment managers in all asset classes consistent with the guideline the Board has adopted for those asset classes. The CIO would report to the Board at the next meeting whenever action was taken under this authority.

Investment management firms with which the ARMB contracts will typically offer more than one single investment style, strategy or fund. Granting the authority to the CIO to contract, when prudent, with a current manager in good standing with the ARM would allow for a more timely investment of the ARMB assets. Currently, it takes up to six months for the process of the Board approving the direction for Callan to do a review of a manager, Callan performing the analysis, the managers presenting at a Board meeting, and then several months of contract negotiation with the manager. This timeline needs to be shortened when prudent and when Callan has previously advised and vetted a large firm.

MR. BADER stated staff is asking the ARMB to grant the Chief Investment Officer discretion to contract with current investment managers in good standing with the ARMB.

COMMISSIONER THAYER moved to grant the Chief Investment Officer discretion to contract with current investment managers in good standing with the ARMB, in amounts up to $200 million. MS. HARBO seconded the motion.

MR. O'LEARY advised the Alaska Permanent Fund was confronted with the same challenge and as part of their policy, they have a requirement there be an independent search process when there has been no relationship with a manager, but the exception is if there is already an existing relationship with a manager, then the process can be expedited and there is no requirement there be a third-party search. He believes the policy has worked well and believes it has never been abused. MR. O'LEARY has a high degree of confidence this would serve the ARM Board well.

MR. TRIVETTE asked if there is an actual resolution attached to this motion. MR. BADER stated there is no resolution attached and this suggestion was created after the passage of HB 385 to be able to act more nimbly. It was discussed and agreed to bring this action forward in this fashion, at least until such time a clean resolution can be brought to the Board. MR. BADER noted if no resolution is brought to the Board within a year, that this action memo should expire at that point.

MR. JOHNSON reminded the Board they do have the statutory provision to delegate investment custodial depository authorities. He suggested adding a dollar limit on this motion to grant authority.

MR. BADER noted the asset allocation that was just approved has bands on it, which are limitations on the ability of staff to invest. He stated if the ARMB would like to put a limitation on the motion, he suggested it be $200 million for a single investment.

<u>MR. BRICE moved to amend the motion to include a limitation in amounts up to $200 million.</u> <u>The motion to amend was seconded.</u>

CHAIR SCHUBERT believes it makes sense to delegate this authority because the members are not the experts and rely on the CIO's abilities to bring suggestions and proposed changes to the Board for action. CHAIR SCHUBERT requested clarification on how this motion would affect joint venture decisions.

MR. BADER stated he is using the terms "coinvest" and "joint venture" interchangeably. He gave an example of a manager who will not take down more than a certain percentage of an investment, but the limited partner is offering a greater amount of that investment through a joint venture or coinvestment.

MR. O'LEARY commented it is not uncommon in other areas of investment, including infrastructure closed end funds, to invest in a project, but there is an opportunity to invest more than the fund can prudently allocate to that one investment. So they would fairly routinely ask the major investors in the closed end fund if they would have any interest in investing. The advantage to the investor is they do not have to pay the infrastructure fund fee on top of the actual investment.

CHAIR SCHUBERT asked if this would be a direct investment in an investment opportunity or is it an investment in a joint venture that then goes out and makes investments. MR. BADER stated, in many cases, the scenario would be as described by MR. O'LEARY. There is also the possibility there could be an investment which teams up with other investors in a joint venture. This would be very rare and has never been utilized before.

DR. JENNINGS continued to advocate for fewer, larger positions and while this may be appropriate for this motion, when it comes back as an actual resolution and very formal, he encourages the Board to be open to larger amounts than the $200 million. He also encouraged the discussion about fixing the amount as a percentage of assets and providing an upper limit allocation of 2% to 3% to an individual manager.

MR. PIHL commented he assumes MR. BADER has thought deeply about this and believes it can be accomplished by adding the words, "in amounts up to $200 million."

CHAIR SCHUBERT asked if the maker and the second of the amendment to the main motion consider that a friendly amendment. CHAIR SCHUBERT stated the maker and the second of the amendment were nodding their heads in agreement.

MR. BRICE appreciated DR. JENNINGS' comments and noted there will be another ARMB meeting prior to the actual implementation of $3 billion infusion, if it happens. He encouraged having further conversation regarding this concept in June.

COMMISSIONER THAYER asked if this motion needs to be addressed at this particular meeting or can it be addressed at the June meeting. MR. BADER commented he wants to start getting ready to act and believes the appropriation is in excess of 90% likely to occur. MR. BADER committed to the Board, he will not use this authority if for some reason the appropriation falls through in the next 48 hours. He believes it is important to begin the planning in advance. There is currently no specific investment reserved and staff wants to be able to act if an opportunity arises.

MR. SHAW commented this would allow the CIO to advance the contracting discussions, get the funds to work, and have an after-the-fact discussion as to the investment recommendation with the Board, at which time staff and the CIO may be directed to allocate more money to that manager, as necessary.

CHAIR SCHUBERT requested a confirmation there are no UBIT issues with the joint venture. MR. BADER believes with the Board's adoption of an investment plan for master limited partnerships, the UBIT issue has been set aside.

A roll call vote was taken on the amendment to the motion and <u>the motion to amend passed, with Commissioner Thayer voting against.</u>

A roll call vote was taken on the amended motion and <u>the motion passed, with Commissioner Thayer voting against.</u>

RECESS FOR THE DAY

MR. BADER invited everyone to the farewell gathering to MR. O'LEARY this evening.

CHAIR SCHUBERT noted Item 12 will be taken up tomorrow and recessed the meeting at 4:05 p.m.

Friday, April 25, 2014

CALL BACK TO ORDER

MR. TRIVETTE reconvened the meeting at 9:05 a.m.

Trustees Harbo, Erchinger, Brice, Ryan, Pihl, and Thayer were also present. CHAIR SCHUBERT arrived after the beginning of the meeting.

MR. TRIVETTE noted Item 12 will be addressed later in the meeting.

REPORTS (Continued)

13. INTRODUCTION TO ALASKA BRANDED FUNDS

MR. BADER explained the Alaska Balance Fund is an example of a branded fund. It is unique to Alaska and only available to plan participants. It has an asset allocation that has been determined by the ARM Board. Many 401(k) plans use the branded approach and advantages include providing a structure, which allows for a more diversified suite of investment managers in each asset class, maintaining a manageable investment line up while increasing diversity, mitigating the impacts on participants of manager termination and hire decisions, offering participants the ability to create portfolios which more closely resemble the ARMB's defined benefit portfolio.

MR. TRIVETTE asked if there are any additional fees the ARMB or individual participants pay. MR. BADER stated a participant could end up in a situation where they are paying greater fees because they are not getting the total assets under the management fee schedule. MR. BADER believes staff does a good job of negotiating fees and would be a priority if other managers are considered.

A brief at ease was taken to set up for the next presenter.

Defined Contribution Plans: Alaska Branded Funds

PERRY CHRISTIE of Great West began by giving a background of Great West and the markets they serve. He gave examples of other large plans utilizing branded funds and stated this is a very popular trend. MR. CHRISTIE noted the plan or the plan consultant determines what the allocations will be for the underlying blended mutual funds. Then the record keeper or the custodian blends the mutual funds together to create a fund. The participant gets a choice of investing in the established branded fund and are not investing in all of the individual underlying funds.

MR. CHRISTIE continued to explain if one of the underlying funds was not performing very well in the evaluation of the funds, the fund can be taken out and replaced with another fund manager without having to have a blackout, without having to close down the fund, without having to send notifications to participants. All of the underlying funds' diversification and holdings are disclosed to participants, but on the website and fund fact sheets, the branded funds are listed as one fund. In cases where only one index fund is utilized for the branded funds, the daily share value is unitized. If that index fund ever has to be replaced because lower fees are available, for instance, the fund can easily be replaced without disrupting the plan or the participants.

MR. CHRISTIE gave examples of other large plans utilizing branded funds that are based on separate account managers rather than mutual funds. The custodian values the portfolio every day and monitors compliance of the fund managers. The custodian strikes a daily unit value and conducts the investment guideline compliance. The daily unit value is provided to the record keeper.

MR. BARNHILL stated the example combined the investment fee with the administration fee, which is something ARMB does not do, and he asked if that was standard or considered a best practice. MR. CHRISTIE commented the fee outlays vary and the disclosure is important to communicate the breakdown of fees.

MR. CHRISTIE explained the plan determines the composition of the branded fund. The custodian or record keeper takes the underlying share values and blends them together into a daily unit value that the participants will see on their statements or the website. The branded funds are typically rebalanced on a quarterly basis, but the frequency can be more or less depending on the plan sponsor. Branded funds can combine mutual funds, collective trust funds, separate accounts, specialized managers. If it is a collective trust or specialized manager, the underlying pool of assets has to be valued by the custodian.

MR. BADER asked if the branded funds are a combination of separate accounts, how is it determined where the contributions and distributions from the fund are made. MR. CHRISTIE stated the contributions received on a daily basis with a net positive trade will follow the current allocation. Any net distributions for the day, transfers out of the fund, are done at market value, which is built into the trading system.

MR. ERLENDSON asked if the original target for the two funds inside the blended fund is 40/60, but the funds get to a point where it is 25/75 at market value, will 25% be taken from the first fund and 75% from the other fund. MR. CHRISTIE agreed the percentages taken are at market value and will be rebalanced according the rebalancing schedule.

MR. CHRISTIE noted some of the advantages of branded funds are the reduction of the fund line up in the plan, lower costs, and easy replacement of poor investment performers in the portfolio. Some of the disadvantages include; no listing of branded funds in the newspaper, the website is the only public source of fund information, there is no historical return, hypothetical returns are possible based on the underlying funds being used, marketing materials have to be customized, and sometimes a little more client service activity is generated to explain how branded funds are structured. MR. CHRISTIE believes there are considerably more advantages than disadvantages.

MR. CHRISTIE informed there is a nominal annual cost per branded fund of $5,000. This includes services like all fund changes and reconciliations, all fund allocation changes, website maintenance, voice-response system, daily valuations, and underlying trading with fund companies.

MS. HARBO asked if there is a reduction in fees for an individual investor depending upon the dollar amount invested. MR. CHRISTIE stated that would be determined by the fee structure of the individual plan. MS. HARBO asked if that was available in the examples MR. CHRISTIE provided. MR. CHRISTIE noted New York charges the same fee for all investment amounts and Louisiana has a step-down structure based on the balance of assets.

MR. O'LEARY commented Callan has seen quite a bit of activity in the branded fund area, even in their own 401(k) plan. He noted the fee per option is dependent on the expense of the underlying investments that are utilized to build the branded fund. The mega-plans can have separate accounts where the fees may be negotiated and scaled by the assets under management.

MR. TRIVETTE asked if it would be possible to provide the Board a comparison of the costs for participants and the costs of the funds of the current system and the likely costs if the system was changed to branded funds. MR. BADER said he could confer with State Street and see what, if any, the additional costs would be. The nominal cost for Great West has already been provided. MR. BADER stated investment manager fees would be hypothetical because currently there are no areas comprised of multiple investment managers. MR. BADER said he will be prepared to provide a hypothetical comparison of costs at the next Board meeting. MR. BADER stated there is a recommendation the ARMB authorize staff to further research and work with Great West in the development of optimal branded fund options with the goal of returning to the Board with an implementation recommendation.

MR. TRIVETTE asked if there has been any vetting outside of Great West as the record keeper. MR. BADER noted Great West is presenting today because they are a record keeper and they are the second largest in the nation. MR. BADER noted he is aware of other plans that utilize the branded funds, including the two presented today, LA County and New York City. He believes this direction will improve the plans, even though implementation issues will occur.

Action: Branded Funds

MS. RYAN moved to authorize the staff to further research the work with Great West in the development of optimal branded fund options with the goal of returning to the Board with an implementation recommendation. MS. HARBO seconded the motion.

MR. PIHL commented the Division of Retirement and Benefits needs to be working with MR. BADER on this process. MR. PIHL requested comment on this research from the Division. MR. BARNHILL believes KATHY LEA, Chief Pension Officer, Division of Retirement & Benefits, has been involved in this discussion to-date and is available for comment. MR. BARNHILL stated the most important and beneficial characteristic of the branded funds is the ability to replace an underperforming defined contribution manager in a manner that is transparent to the member. MS. LEA stated simplicity for the member is a key factor.

A roll call vote was taken on the amended motion and the motion passed unanimously.

14. INTERNATIONAL EQUITY MANAGER SEARCH

MR. BADER requested MR. O'LEARY provide a brief review of Callan's process in determining the short list of managers, followed by a brief description of the actions by staff.

MR. O'LEARY explained Callan begins their process by defining manager style, orientation, potential size, and any specific requests from the client. In this case, Callan was looking for a broad category of good, established, international managers. MR. O'LEARY noted this search resulted in 14 or 15 documented and advanced managers for consideration by staff. MR. BADER stated the performance attributes of this narrow list of managers was then reviewed by staff. The objective was how to blend these managers into making a portfolio of international managers that would best suit the Board's needs. It was determined SHANE CARSON would visit two of the managers and MR. BADER visited one of the managers. These managers were selected because staff believes they are the best fit into the existing portfolio.

A. Allianz Global Investors

MELODY MCDONALD, Allianz Global Investors, introduced BEN FISCHER, BURNS MCKINNEY and JIM ROBERTSON, all of Allianz Global Investors. MR. ROBERTSON provided an overview of the presentations today. MR. MCKINNEY will discuss the investment process of NFJ. MR. FISCHER is the CIO, founder and the "F" in NFJ Investment Group. MR. FISCHER will give a presentation on the history, the team, and the philosophy of NFJ. NFJ is a value shop to the point of being contrarian. Every stock that NFJ purchases has to pay a dividend because this instills financial discipline in a company. NFJ has been managing money for 25 years and became part of Allianz in 2000. Today, NFJ manages $43 billion in assets under management in 11 different value strategies.

MR. FISCHER stated NFJ was founded in 1989 in Dallas. Currently, Allianz is the 100% manager and owner, but NFJ is a separate LLC, a separate RIA, and have a separate brand. He believes this is important to keep the culture of an investment boutique even though NFJ is part of Allianz. The expertise of NFJ is stock selection and investment research. Their investment philosophy is a rules-based structured approach to stock selection. The investment team has had very little turnover in the past 25 years. They have a revenue sharing program, which is an incentive for doing a good job for clients and the company. There have been challenges over the years during the times their value style has gone out of favor and staying with their investment philosophy has enabled them to generate their long-term rate of return of beating the MSCI ACWI ex-U.S. Index.

MR. MCKINNEY stated the NFJ investment philosophy is contrarian, buying what is out of favor, and grounded in behavioral finance. The NFJ investment strategy is simple, easily definable, and follows a rules-based process. The discipline focuses on dividends, valuations, and price momentum.

MR. TRIVETTE commented the slide presentation was very good and the information was very easy to read.

CHAIR SCHUBERT recessed the meeting from 10:18 a.m. to 10:30 a.m.

B. Arrowstreet Capital Limited Partnership

MANOLIS LIODAKIS and NEIL TREMBLAY of Arrowstreet Capital Limited Partnership gave a presentation on the Arrowstreet Active International Equity Strategy. The goal of the strategy is to return roughly 3% above the benchmark per annum, while taking roughly 3% to 7% active risk. Arrowstreet was founded in 1999, with the goal of creating a focused investment management firm investing in international equities and to properly align the incentives of the firm with those of the clients via a partnership mode.

Arrowstreet remains a private partnership today with roughly 150 employees, including the three founding partners. The portfolio management team has only lost two partner level portfolio management members, one of whom retired. All of the portfolios are managed in a team manner. The research group is tasked with creating the alpha insights in conjunction with the portfolio management team. The investment processes group is tasked with codifying the alpha insights into the models, which are used by the portfolio management team to construct portfolios. Arrowstreet is specialist investment manager focussing on international and global equities in the developed and emerging markets. They only work for institutional investors. There is roughly $50 billion of assets under management. The same investment process, management team, and alpha engine is utilized for each strategy managed.

MR. LIODAKIS provided a detailed presentation on the Arrowstreet investment philosophy and clarified how they use quantitative models and tools. This allows them to exploit diagnostics and provides precise measurements. The quantitative tools allows for a systematic and unemotional process of investing. It also allows for investing in a breadth of company characteristics and styles at a large scale with a well-diversified and risk-managed portfolio. Despite the use of quantitative models, there is a significant amount of human insight and judgement throughout the investment process.

MR. BADER requested further explanation of what is meant by human insight in the investment process. MR. LIODAKIS noted investment insights are also referred to as investment signals, including valuations, earnings quality, management strength, and share buy-backs. The portfolio contains about 300 to 400 stocks, is actively managed, and is generally style-neutral.

MR. TRIVETTE asked what the annualized value added numbers net of fees are. MR. TREMBLAY noted the value added since inception is 3.47% as of 12/31 and is on a gross basis. On a net basis, it would be roughly 3%, which is the target value added amount.

C. Baillie Gifford

LARYSA BEMKO and GERARD CALLAHAN of Baillie Gifford gave a presentation on the ACWI ex U.S. Focus Strategy. MR. CALLAHAN has been with Baillie Gifford for 23 years, 14 of those as a partner, and he is also the chairman of the strategy portfolio construction group. MS. BEMKO commented Baillie Gifford is an incredibly stable organization, consisting of experienced long-term investors with a track record of excellence in both up and down markets, and has an overwhelming commitment to the clients and clients' needs. Baillie Gifford has been an investment manager since 1908 and is privately owned by 39 partners who run the business on a day-to-day basis.

The sole focus is on generating excellent long-term returns for clients. The investment strategy utilizes a bottom-up fundamental research analysis process. All, except for four employees, are located in Edinburgh, Scotland, which MS. BEMKO believes is a differentiating feature. There are two directors for each client relationship and the two directors handle 12 to 15 clients to provide excellent client service. The length of investment professional tenure is high, as shown on Slide 3, and staff turnover is low, at under 5%.

MR. CALLAHAN gave a detailed presentation of the investment style, approach, and philosophy, which includes a bottom-up selection process, a long-term approach, with a minimum five-year investment timeframe for company selection, and a pronounced growth bias in the style of stock selection.

MR. TRIVETTE asked who is on the risk team and have they chosen to be there. MS. BEMKO explained the risk team is a separate team from the investment team or the client service department. It is a bespoke team comprised of six individuals whose responsibilities are to look at risk across all the strategies. The risk team reports to a governance team, which is headed by a partner.

MR. O'LEARY requested a breakdown of the North American client assets. He noted this particular product has assets of $7.5 billion and the total firm assets as $174 billion. MS. BEMKO stated the total number of clients at the firm is 362. The total of North American clients is 201, which includes 169 clients in the U.S., totaling $64 billion. In the U.S., 48 of those clients are public pension plans. The investment strategies include four international strategies, an emerging markets strategy, a global strategy, and special strategies.

MR. O'LEARY asked for the distinction between International Focus Assets and ACWI ex U.S. Focus Assets. MS. BEMKO explained the International Focus Assets is the strategy MR. CALLAHAN and his three colleagues are responsible for. There are four strategies of International Focus, which are effectively the differences in the benchmark and are client-driven.

MR. O'LEARY commented Vanguard is a well-known entity and Baillie Gifford has had a long and expanded relationship with them. He requested further information. MS. BEMKO stated Baillie Gifford has been a sub-advisor for Vanguard since 2003. The initial relationship started with the Vanguard International Growth Fund and the mandate is called the EAFE Plus Alpha Strategy, which is managed by a separate portfolio construction group. Since 2003, two more mandates, sub-advisory relationships, with Vanguard have occurred, the Vanguard Global Growth Strategy and the Vanguard U.S. Growth Strategy.

MR. O'LEARY asked if these are multiple sub-advisor vehicles. MS. BEMKO agreed and noted in each of those cases, Baillie Gifford is one of three managers who are sub-advising.

MR. JOHNSON asked if the Scottish devolution issues have any effect on the ability of Baillie Gifford to perform for its clients. MR. CALLAHAN stated the honest answer is he does not know what the outcome is going to be from the referendum scheduled in October of this year. There is some degree of uncertainty with regards to regulatory arrangements within the U.K. MR. CALLAHAN stated the firm feels quite relaxed working under any reasonable arrangements. The vast majority of Baillie Gifford's clients are outside of Scotland and outside of the U.K.

MR. PIHL requested an explanation of the difference in stated performance between the one and five-year numbers on Slide 10, period ending February 28, 2014, compared with the same numbers on Slide 15, period ending December 31, 2013. MR. CALLAHAN stated in any short period of time, the performance can swing from favorable to unfavorable and he would not read too much into the short-term swings. The five-year numbers are reflective of the impact of volatility in that year when markets were falling very quickly and then bouncing very quickly. MR. PIHL noted the 5-year number has almost a 5% change in just a two-month chart difference. MR. CALLAHAN agreed and explained that indicates a particularly volatile time for markets.

D. Manager Diversification

MR. BADER noted the action memo asks the Board to appoint all three managers who presented today and gave a short presentation explaining the reasons for the action. The portfolio has been underweight in the global equity component for quite some time. Staff ran a simulation to analyze the performance impact of additional managers and the simulation was run on a small cap portfolio. The results included the probability of beating the index increased with the number of managers, the magnitude of improvement decreased with the number of managers, and the ideal situation is a group of active managers that can generate excess returns that are uncorrelated or negatively correlated. MR. BADER believes having active managers in the international asset class is warranted.

ACTION: Board Discussion/Selection

<u>MS. HARBO moved the ARMB hire Allianz, Arrowstreet, and Baillie Gifford to each manage $200 million Global ex U.S. portfolio, subject to successful contract and fee negotiations. MR. BRICE seconded the motion.</u>

MR. TRIVETTE believes staff has chosen three good firms for recommendation and strongly supports the motion.

DR. JENNINGS commented January 2009 was a minus 10% return month and believes Baillie Gifford's data is consistent and would shift their long-term numbers quite a bit. DR. JENNINGS emphasized the staff simulation used only outstanding investment managers in the simulation and even then, there is a 1/3 to 1/4 chance of underperforming the benchmark. He agrees that adding too many managers has declining benefits. DR. JENNINGS stated part of this process of creating an intelligent blend of asset managers on the front end, is knowing that one of the managers will look bad in three to five years. DR. JENNINGS noted he normally would be arguing for larger than the $200 million in this action, but believes that will come over time with the potential of a large contribution and the potential of resizing some of the existing managers. He supports the motion.

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

UNFINISHED BUSINESS

1. Disclosure Reports
2. Meeting Schedule

CHAIR SCHUBERT stated the disclosure reports and the meeting schedule are included in the meeting packet.

MR. BADER asked if CHAIR SCHUBERT wanted to review the Procurement Actions at this point in the agenda.

12. PROCUREMENT ACTIONS

A. RFP General Consultant 14-010

MR. BADER reported the Committee met to score the RFPs for the General Consultant and that he was appointed Chair of the Committee. The Committee did not reach a conclusion but would be scheduling another meeting and plans on bringing its recommendation to the Board at the June meeting.

CHAIR SCHUBERT stated this action item for the Board will be scheduled for the next meeting.

B. RFP Real Estate Consultant 14-012

MR. BADER informed the Real Estate Committee met and the Chair was MS. ERCHINGER. She is online and asked that MR. BADER provide an in-person report. The Evaluation Committee recommends the Board direct staff to publish a notice of intent to award the real estate consulting services contract to Townsend Group, and upon expiration of a 10-day notice period if there are no protests, that a contract be entered into with Townsend.

MS. BRICE moved to direct staff to publish a notice of intent to award the real estate consulting services contract to Townsend Group and, upon expiration of a 10-day notice period if there are no protests, that a contract be entered into with Townsend. MS. RYAN seconded the motion.

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

C. RFS IAC Appointment 14-011

CHAIR SCHUBERT is the Chair of the IAC Committee. She noted the Committee met and recommended DR. JENNINGS be appointed to a three-year term to the ARM Board Investment Advisory Council. CHAIR SCHUBERT moved, as Chair, to appoint DR. JENNINGS to a three-year term to the ARM Board Investment Advisory Council. No second is needed.

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

UNFINISHED BUSINESS (CONTINUED)

3. Legal Report

MR. JOHNSON indicated he has spent a fair amount of time working with Mr. Carson and MR. HANNA on various contractual matters. MR. JOHNSON reported he participated in a due diligence review of a particular matter and has been quite busy outside the constraints and framework of these particular board meetings. CHAIR SCHUBERT asked if MR. JOHNSON will be in attendance at the next meeting. MR. JOHNSON agreed.

NEW BUSINESS

MR. BRICE directed staff to send a letter to Representative Cathy Munoz and to Senator Anna Fairclough thanking them for their support of the PERS and TRS systems, and their efforts this past legislative session.

CHAIR SCHUBERT recommended the Governor be included in receiving a thank you letter.

COMMISSIONER THAYER suggested a thank you letter be sent to all 60 of the legislators, considering the passage was unanimous. He noted Senator Kelly carried the bill. MR. BRICE appreciated the comment and appreciates Senator Kelly's role and believes Representative Munoz was the major lead in the House in terms of killing the PAYGO program. COMMISSIONER THAYER stated Representative Munoz was asked to do that and had great talking points. MR. BRICE reminded it was Senator Fairclough who engaged the Administration early in the session to bring in the actuaries to provide reviews. MR. BRICE stated he is supportive of the ARMB sending a few letters or 60 letters.

COMMISSIONER THAYER believes all 60 legislators who voted in favor should be thanked.

CHAIR SCHUBERT stated she could put a personal phone call in to Representative Cathy Munoz and to Senator Anna Fairclough. CHAIR SCHUBERT requested MS. HALL draft a letter to that effect and also include the Governor.

OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD

None

PUBLIC/MEMBER COMMENTS

None

INVESTMENT ADVISORY COUNCIL COMMENTS

CHAIR SCHUBERT welcomed DR. JENNINGS to his three-year IAC appointment.

TRUSTEE COMMENTS

MR. PIHL hopes this is the last time he has to make the point and he wants the record to be clear that he very much applauds the Governor and the successful effort to address the unfunded liability with the $3 billion infusion. MR. PIHL expressed his deep regret over what he feels is the unnecessary extension of the amortization period bringing huge additional costs, more than $2.5 billion, to the people across Alaska and forcing an even greater number into the state budgets in the future. On the one hand, the snowball has been stemmed, but on the other hand, it has gone wild.

MR. TRIVETTE wanted to put MR. JOHNSON on notice that, once the infusion is all settled and is in the capital budget, he is requested to spend time educating the Board on the different options within the requirements of the bill and discussing legislative intent and effects. MR. TRIVETTE stated information from the actuaries will likewise be sought before the meeting in June regarding options so the Board can have a responsible and reasonable discussion at that time.

MR. PIHL complemented DEPUTY COMMISSIONER BARNHILL for his good work in reorganizing his team.

FUTURE AGENDA ITEMS

None

ADJOURNMENT

There being no objection and no further business to come before the Board, the meeting was adjourned at 11:53 a.m. on April 25, 2014, on a motion made by MS. HARBO and seconded by COMMISSIONER THAYER.

Chair of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

Gayle W Harbo

Corporate Secretary