State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Location:
Dena'ina Convention Center
600 West Seventh Avenue
Anchorage, Alaska

MINUTES OF
April 21-22, 2016

Thursday, April 21, 2016

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

Seven ARMB trustees were present at roll call to form a quorum. Mr. Brice arrived late.

Board Members Present
Gail Schubert, *Chair*
Robert Johnson, *Vice Chair*
Gayle Harbo, *Secretary*
Kristin Erchinger
Commissioner Sheldon Fisher
Tom Brice
Edward Wesley
Bob Williams

Investment Advisory Council Members Present
Dr. William Jennings
Dr. Jerrold Mitchell
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
Kevin Worley, Chief Financial Officer, Division of Retirement & Benefits (DRB)
John Boucher, Deputy Commissioner, Office of Management & Budget

Consultants, Invited Participants, and Others Present
Craig Altshuler, Advent Capital Management
Paul Latronica, Advent Capital Management
Ray Edelman, Allianz Global Investors U.S.
Melody McDonald, Allianz Global Investors U.S.
Melissa Bissett, Buck Consultants
David Kershner, Buck Consultants
Larry Langer, Buck Consultants
Steven Center, Callan Associates, Inc.
Paul Erlendson, Callan Associates, Inc.
Stuart Goering, Department of Law, Assistant Attorney General
Leslie Thompson, Gabriel Roeder Smith
Debra Goundrey, Hancock Agricultural Investment Group
Oliver Williams, Hancock Agricultural Investment Group
Jim Chambliss, Pathway Capital Management
Canyon Lew, Pathway Capital Management
Tom Johnson, Timberland Investment Resources
Chris Mathis, Timberland Investment Resources
Mark Seaman, Timberland Investment Resources
Mike Wick, Timberland Investment Resources

PUBLIC MEETING NOTICE

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

APPROVAL OF AGENDA

MRS. HARBO moved to approve the agenda. MS. ERCHINGER seconded the motion.

GARY M. BADER, Chief Investment Officer, requested to add Item 17E. Authorize Callan to Review BMO Small Cap Core.

The Maker of the Motion and the Second to the Motion agreed to the friendly amendment to the agenda.

The agenda was approved as amended.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES

SHARON HOFFBECK, President of Retired Public Employees Association of Alaska (RPEA), stated RPEA monitors benefits and advocates for its retiree members. RPEA follows the work of the Board and applauds their excellent job in managing the trust funds. RPEA expressed appreciation to MR. JOHNSON for replacing MR. TRIVETTE after he retired.

APPROVAL OF MINUTES: February 18, 2016

MRS. HARBO moved to approve the minutes of the February 18, 2016 meeting. MS. ERCHINGER seconded the motion.

The minutes were approved.

ELECTION OF VICE-CHAIR

MRS. HARBO moved to elect MR. JOHNSON as Vice-Chair. MS. ERCHINGER seconded the motion.

The motion passed unanimously.

REPORTS

1. CHAIR REPORT

CHAIR SCHUBERT welcomed the new Trustees to the Board and individuals around the table introduced themselves and stated their affiliation.

2. COMMITTEE REPORTS

A. Actuarial Committee

MS. ERCHINGER reported the Actuarial Committee met the day before the Board meeting and covered three primary activities. The first activity was a presentation by the review actuary of the FY 2015 Valuation Report. The second activity was a review by Buck Consultants of the FY 2015 Valuation Report.

The third activity was the development of three motions to be brought before the Board later in this meeting. The first recommendation is to accept the resolution of the audit findings as presented. The second recommendation is to accept the Buck report of medical costs and include in an adoption letter to be integrated into a cover page to be distributed with the valuation report the language of; "Portions of the analysis are based on proxy data and input occurring during a time of transition between third-party administrator reporting systems, and as such, may change as we move to actual data during the next valuation."

The third recommendation is to endorse the motion to direct the actuary Buck Consultants and the Department of Administration to move forward with an analysis of the medical report data of concern to the Committee and present as much current actual data as possible.

3. DRB REPORT

A. Legislative Update

JOHN BOUCHER, Deputy Commissioner, Office of Management & Budget, provided the legislative update. HB47 is an active legislation that would modify the 2008 salary floor for certain PERS employers who had a 25% decrease in population between the 2000 and 2010 census, and reduce the delinquent contributions penalty rate from 12% to 8% for those particular employers. HB47 is currently in House Rules and poised to go the House floor.

DEPUTY COMMISSIONER BOUCHER reported SB91 is a recent addition to legislation. A portion of a bill that was formerly HB66 was rolled in whole to the Omnibus Crime Bill. This bill is currently in House Finance and the Department is expected to testify on it today. The bill would amend the PERS plan to provide spouses and children of peace officers and firefighter employees who have been killed in the line of duty with long-term health coverage from the Retirement System.

DEPUTY COMMISSIONER BOUCHER stated that HB90, companion bill SB83, and HB211 are currently in committee and no additional activity is expected for these during the session. SB79 is currently in the Senate Community Regional Affairs Committee and is unlikely to make it through the session. SB88/HB280 is also in Senate Community Regional Affairs Committee and no additional hearings are expected.

DEPUTY COMMISSIONER BOUCHER reviewed HB299, which excludes certain persons and contractors from participating in PERS. It is currently in the House Labor and Commerce Committee and appears it may not get a hearing. SB207 and SB209 would change the uniform contribution rate for the TRS and PERS system over a multi-year period. These bills are in Senate Finance and are not expected to move during this session. The operating budget is currently in Conference Committee and staff is monitoring this closely.

4. TREASURY DIVISION REPORT

Treasury Division Director PAMELA LEARY recommended the Board approve Resolution 2016-02, which delegates to the Department of Revenue Deputy Commissioner, Treasury Division Director, Chief Investment Officer, and Board Liaison Officer certain powers noted in the Delegation of Procurement-Related Authority provided to the Board. This action memo will replace the existing Resolution 2010-15 due to the change in MS. LEARY'S position and replace the title in the resolution.

<u>MRS. HARBO moved to adopt Resolution 2016-02. VICE-CHAIR JOHNSON seconded the motion.</u>

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

5. CIO REPORT

MR. BADER reviewed the CIO Report provided to the Board. He reported on various transactions, including the rebalancing of the defined benefit portfolios on March 8, March 10, March 17, March 29, March 30, and April 1, to become in line with the Board's strategic asset allocation. MR. BADER reported T.RowePrice has lowered their fees on the US Aggregate Bond account in the DC plans, which will provide an approximate annual savings of $223,000.

6. FUND FINANCIAL REPORT

State Comptroller SCOTT JONES and Chief Financial Officer of the Division of Retirement and Benefits KEVIN WORLEY presented the Fund Financial Report. MR. JONES reviewed the financial statements for the year-to-date ending February 29th, 2016. The approximate numbers are: the PERS system ended with $15.2 billion, the TRS system with $7.5 billion, the JRS with $163 million, the National Guard and Naval Militia (NGNMRS) with $34.7 million, SBS with $3.2 billion, and Deferred Comp with $767 million, for a total of $26.9 billion, of which $22.1 billion is non-participant directed assets and $4.8 billion is participant-directed assets. This is a year-to-date change of about 7% and just under 6% was related to investment income or losses. All of the funds are close to targets and within the asset allocation bands.

MR. JONES reviewed the updated financial statements as of the end of March. The non-participant directed assets were approximately $22.9 billion and participant-directed assets were approximately $5.1 billion, for a total of $28 billion. Year-to-date as of April 15th, the non-participant directed assets increased to $23.2 billion.

MRS. HARBO requested an explanation of the transition account line item. MR. JONES explained the transition account is used as a holding account when securities are moved from one manager to another during hiring, firing, or rebalancing. MR. BADER noted this is an efficient business practice because securities currently held under a previous manager may be transferred to a new manager, rather than being sold and then repurchased by the new manager.

MR. WORLEY directed Board members to the Financial Report Supplement to the Treasury Division Report. He pointed out the differences between benefits being paid out monthly and contributions coming in for each plan. MR. WORLEY informed a report will be provided at the June meeting showing the annual breakdown of total refunds for DCR participant withdrawals.

7. PRIVATE EQUITY TACTICAL PLAN

Action: Resolution 2016-03 - Private Equity Plan

State Investment Officer ZACHARY HANNA reported on the summary of the detailed written plan included in the Board packet. MR. HANNA noted Abbott, Pathway and Callan have all reviewed the plan and recommendations. MR. HANNA gave an overview of the private equity asset class, which generally makes illiquid, long-term investments in private companies.

MR. HANNA explained the appeal of the private equity market is driven by several factors, including the large universe of investment opportunities, low company valuations, and operational inefficiencies. The less than positive characteristics of private equity are illiquidity, high fees, potential for high leverage, portfolio transparency and valuation issues, and incomplete data and benchmarks. Private equity investments are made through limited partnerships (LPs) and often use advisors General Partners (GPs) like Abbott and Pathway. The GPs provide private investment expertise, share in the profits, and have full discretion and liability.

MR. HANNA described the three primary private equity strategies; venture capital funds, buyout funds, and special situation funds. Manager selection is critical and diversification is important. The private equity market has been strong for the last six years in exits and liquidity. The three sources of liquidity in order of size include the mergers and acquisitions (M&A) market, initial public offerings, and recapitalizations. There was a modest decrease in the fundraising in 2015 and the terms are relatively balanced. The access to top managers is becoming more challenging and quick closes and allocation issue are more common. Pricing reached an all-time high in 2015, but ticked back down in the fourth quarter.

MR. HANNA stated that the market has been volatile since the fund first invested in 1998. The ARM Board and its advisors have built a high quality, well-diversified portfolio with relatively strong returns in the middle of the second quartile. The portfolio's return expectation is 350 basis points over the Russell 3000 Index, and since inception, the portfolio has returned 460 basis points above the index for an 11.2% IRR. This has generated an additional $1 billion in fund value compared with investing in the public markets alone.

MR. HANNA reviewed the cash flow chart for private equity and described the diversified portfolio by strategy and by sector. The 2016 outlook has stable fundraising expectations and a less certain exit environment. Access to quality groups will continue to be a challenge. The current market volatility may lead to a further decrease in deal pricing and better buying opportunities.

COMMISSIONER FISHER requested explanation regarding the larger size of the direct investments compared to Abbott and Pathway. MR. HANNA discussed the direct investments made to Lexington Partners, a successful secondary investment firm, and to Warburg Pincus, a global multi-strategy fund, are inherently well-diversified and staff is comfortable making larger investments in strong conviction names.

MR. HANNA described the 2016 tactical plan. Staff is recommending increasing the long-term private equity allocation to 12% from 10%. The program has performed very well and private equity is expected to continue to provide a meaningful premium over the public markets. The recommended commitment target for 2016 is a total $530 million, which is $200 million for both Abbott and Pathway, and $130 million for direct partnership investments with a gradual annual increase. With this projected commitment pacing, private equity should move to its recommended allocation target of 12% over the 10-year planning horizon. Staff recommends adoption of Resolution 2016-03, approving the 2016 annual tactical plan.

MS. ERCHINGER moved to adopt Resolution 2016-03. MR. WILLIAMS seconded the motion.

VICE-CHAIR JOHNSON requested additional information regarding current trends and adverse effects on the ability to exit. MR. HANNA explained during 2009 through 2012, there was a trough in fundraising and limited partners were able to negotiate better terms with general partners. The in-demand funds are closing very quickly now, within six months or less. MR. HANNA believes the exit alignment is good between the general partner and the limited partner. The general partner will exit as soon as they feel like they have harvested a meaningful return from the investment and will move to the next opportunity.

DR. MITCHELL requested comments regarding the amount invested in venture capital and the risk/return measurement. MR. HANNA replied the current target for venture capital is 25%. This is down from the original target of 33%. MR. HANNA is comfortable with the exposure and believes it provides the ability and access to high quality groups.

MR. ERLENDSON expressed his appreciation for the incredibly successful program. He requested additional information regarding debt, either as favorable terms for leverage or as investment opportunities, as it relates to the private equity program going forward. MR. HANNA believes the availability of reasonably termed debt to general partners largely for buyout investments is here to stay. The Fed has placed a constraint on the debt market, restricting the banks from lending beyond six times without incurring draconian-like capital rules. There are direct private lending providers who are structuring favorable loans to companies that are not able to access the public syndicated debt market. MR. HANNA stated some of the private debt opportunities are very good strategies for the Board going forward. They are lower return and lower risk and are at the edge of the private equity return spectrum.

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

8. PATHWAY CAPITAL MANAGEMENT

CHAIR SCHUBERT welcomed JIM CHAMBLISS, Managing Director, and CANYON LEW, Director, from Pathway Capital Management. MR. CHAMBLISS informed Pathway Capital is celebrating its 25th year anniversary and its 15th year anniversary in partnership with the ARM Board. MR. CHAMBLISS provided an organizational update and advised Pathway Capital manages approximately $30.4 billion in assets.

MR. CHAMBLISS commented on the global markets during 2015 and noted most asset classes were either flat or negative during 2015. Pathway Capital's private equity portion of the ARM Board portfolio outperformed during 2015, generating almost an 8% return. The global M&A activity remained strong during the year and the managers were able to take advantage of the active market. MR. CHAMBLISS stated the private equity market continues to grow and purchase price multiples continue to increase as the asset class becomes more efficient. However, fundraising in 2015 for private equity was down 8% compared to 2014. MR. CHAMBLISS advised Pathway's strategy in this long-term asset class of remaining with tried and true managers in established sectors and geographies continues to make sense in this market environment.

DR. MITCHELL asked for comments regarding the presidential candidates' focus on compensation and taxation for private equity general partners and remarks that private equity decreases jobs. MR. CHAMBLISS explained the taxation of carried interest continues to be a topic of discussion and he does not know what the final outcome will be. He does not believe this has an impact on the asset class. MR. CHAMBLISS believes the private equity market has changed from 15 years ago when the model was to buy companies cheap in an inefficient market, lever them up, reduce costs, pay off debts, and sell them five years later at a profit. The market today has changed and is more efficient. The way to be successful in the private equity space today is by growing companies. The existing companies are expanded, adding new jobs, to make the company more efficient. The venture space builds companies from the ground up, creating jobs.

MR. CHAMBLISS reviewed the 2016 tactical plan to invest up to $200 million. This plan is very similar to the tactical plan of 2015. MR. CHAMBLISS explained in detail the new proposed item that will be presented as an action item from staff later in the meeting. The proposal enables Pathway Capital and the ARM Board staff to make coinvestments alongside the private equity managers without adding undo risk associated with the extra capital. The coinvestments will reduce the ARM Board's private equity fees and expenses because Pathway's coinvestment program is offered to limited partners the majority of the time at no fee and no carry. The coinvestment program will focus almost solely on the diversified buyout portion of the ARM Board's portfolio and will not engage in venture capital. The proposal is for up to 15% or $30 million of annual commitments be associated with coinvestments.

DR. JENNINGS requested additional information about the incentive alignment between GPs and LPs. MR. CHAMBLISS gave examples of a variety of reasons for coinvestment alignment, including building a closer relationship with LPs, providing additional investment above the prescribed cap placed by either the GP or the LP, increasing the amount of capital to be invested in a 12-month period, and providing a stronger control position in larger deals.

MR. CANYON provided the update on the current portfolio and noted the 7.8% positive performance and $63.8 million of gains was particularly impressive in 2015 because of the significant headwinds that impacted the portfolio. The energy related funds have been affected by the steep decline in oil prices. European funds have been affected by currency depreciation. Credit spreads have widened, impacting the distressed debt portfolio, and public markets were flat last year. MR. CANYON expressed the managers feel good about the portfolio and how it is positioned for the future.

MR. CANYON reported there are $1.9 billion in commitments, 149 partnerships, and 69 managers. The long-term strategy is well-diversified with 44% acquisitions, 29% venture, 27% special situations, and 15% non-U.S. There have been 12 consecutive quarters of gains and an IRR of about 13.5% for the last six quarters. The annual cash flow activity was virtually identical to 2014, totaling $156 million in 2015. Distribution activity was very strong in 2015 at $238 million. The portfolio has been cash flow positive for the last five years, meaning distributions have outpaced contributions.

COMMISSIONER FISHER requested the amount of the fee structure. MR. CHAMBLISS did not have the dollar amounts with him. The fees are reported to staff on a regular basis. MR. BADER suggested he and MR. HANNA could provide the direct answer to COMMISSIONER FISHER later on in the meeting.

CHAIR SCHUBERT recessed the meeting from 10:54 a.m. to 11:04 a.m.

9. ALLIANZ GLOBAL INVESTORS U.S.

CHAIR SCHUBERT welcomed MELODY MCDONALD, Managing Director, and RAY EDELMAN, Director, from Allianz Global Investors. MS. MCDONALD informed she has been on the account since inception in 1994, and MR. EDELMAN has been managing the core account for 12 years and the Environmental, Social, and Governance (ESG) account for three years. MR. EDELMAN provided an organizational update. The large cap core growth portfolio contains approximately 60 names across a diversified sector exposure and the ESG portfolio contains approximately 80 names. The minimum initial purchase is 1% of the portfolio. MR. EDELMAN described the ESG movement as investing in companies that have best practices in the environmental, social, and governance categories, which is approximately 344 out of the 500 companies within the S&P 500. ESG is a true core bottom-up portfolio. MR. EDELMAN reviewed the portfolio allocation for ESG.

MR. EDELMAN reported the large cap portfolio outperformed the S&P 500 by about 400 basis points in 2015. He provided an in-depth market overview, including near-term expectations. MR. EDELMAN believes the U.S. economy will continue to move at a stable, low-growth pace, and will provide a good environment for the portfolio to focus on the best earnings growth and quality managers in the marketplace. MR. EDELMAN commented the results of the presidential and congressional elections will be monitored for effects on different sectors in the portfolio.

MR. SHAW requested additional information regarding the market cap sector averages. MR. EDELMAN explained the quantitative staff who monitor the risk assessments prepare the charts to determine risk compared with the benchmark. The different charts show the portfolio's active overweights and underweights and are followed on a monthly basis.

10. APPROVE UPDATED BOARD REGULATIONS

MS. LEARY stated that the annotated red-line draft of proposed amendments to the regulations are included in the member binders. The proposed amendments were suggested and drafted by former Board counsel VICE-CHAIR JOHNSON, reviewed and edited by staff, and reviewed by current legal counsel STUART GOERING, Department of Law, Assistant

Attorney General. Staff recommends the Board adopt the attached amended procurement regulations for publication in the Alaska Administrative Code with the understanding that non-substantive changes could be made by the regulations attorney following submission for review.

MR. BRICE moved to adopt the amended procurement regulations as presented for publication in the AAC, with the understanding that non-substantive changes could be made by the regulations attorney following submission for review. MS. HARBO seconded the motion.

VICE-CHAIR JOHNSON noted procedurally this is the time for testimony regarding the regulations. CHAIR SCHUBERT inquired as to anyone wishing to provide testimony. No testimony was given.

MS. ERCHINGER commented she was surprised the proposed regulations were advertised before Board adoption. She informed the Board's right to retain legal counsel has been eliminated on page two of the proposed regulations. MS. ERCHINGER asked about the process of notifying bidders of the notice of intent. MS. HALL stated the notice of intent is issued to all parties involved and is also published online, at which time the protest period begins. MS. ERCHINGER noted another addition to the regulation is the provisions of this chapter do not apply to the appointments of members of the IAC.

VICE-CHAIR JOHNSON commented the initial ARM Board statutes specifically provide the attorney for the Board is the Attorney General and to the extent an attorney is selected, it is through the Offices of the Attorney General. VICE-CHAIR JOHNSON stated certain elements are not involved in the procurement process, including the appointment of the IAC members and investment managers. These are considered to be specific appointments and delegations by the Board. VICE-CHAIR JOHNSON is in favor of the resolution.

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

CHAIR SCHUBERT recessed the meeting from 11:52 a.m. to 1:34 p.m.

11. ACTUARY REPORTS

A. 2015 Actuarial Valuation Review DB and DCR Plans
Public Employees' Retirement System (PERS)
Teachers' Retirement System (TRS)

CHAIR SCHUBERT introduced LESLIE THOMPSON of Gabriel Roeder Smith (GRS), who presented the results of the review of the 2015 actuarial valuations performed by Buck Consulting. MS. THOMPSON provided the members with a handout containing the 45 issues found. She informed none of the issues prevent the release of the reports. Ten of the issues still need to be resolved. They are: 1) the reports are to be released with a disclosure that proxy data was used in the valuation of the retiree medical liabilities; 2) Buck will work with the Board on setting an explicit rehire liability assumption on both PERS and TRS DB plans; 3) Buck and GRS need to resolve a valuation method issue on a small piece of a disability benefit; 4) spousal coverage in the retiree medical plan needs to be reviewed when the actual data is available; 5) the reason for the large gain on mortality for the year needs to be determined; 6) Item 39 has been resolved; 7) Buck needs to review and explain why there are persistent losses on the termination decrement in pension; 8) Buck needs to further investigate why there are persistent gains on the claim costs for retiree medical; 9) work on data quality needs to be continued on the National Guard Naval Militia Retirement System; and 10) retiree medical plan provisions need to be recorded in a plan document.

VICE-CHAIR JOHNSON reported that seven of the Board members were present at the Actuarial Committee meeting yesterday and a significant amount of time was spent talking with MS. THOMPSON and Buck representatives analyzing and debating the issues. The Actuarial Committee report will be distributed at the next meeting.

B. 2015 Actuarial Valuation DB and DCR: PERS and TRS Plans

CHAIR SCHUBERT introduced LARRY LANGER, DAVID KERSHNER and MELISSA BISSETT of Buck Consultants, who presented the actuarial valuation results for PERS and TRS as of June 30th, 2015. MR. LANGER stated that the entire slide presentation was presented and reviewed in depth to the Actuarial Committee in yesterday's meeting. The primary purpose of the annual valuation of the retirement systems is to determine the amount of contributions needed during the fiscal year to sufficiently fund retirement benefits. The actuarial valuation monitors and compares the actual accrued liability versus the actual assets in the fund, discloses healthcare accounting measures, reviews the funded status, provides updated estimates, and analyzes trends within the retirement system.

MR. LANGER informed there were two very significant impacts within the plan over the last year. The first impact was the large State assistance contribution during fiscal year ended 2015 is reflected in the funded status valuation. The second impact was the retiree medical claims being less than expected with a significant reduction in the cost of the plan. MR. LANGER explained the three main known components for the valuation are member information, asset information and benefit provisions. The estimates about what will happen in the future are called actuarial assumptions and are reviewed each year as actuarial gains and losses. The results include the actuarial accrued liability, how much money should be in the fund, State assistance and employer contributions. The healthcare side is close to being fully funded. The pension side is approximately 80% funded. The main contributor on the asset side to the funded status was the large State assistance contribution. The average funded ratio according to the National Association of State Retirement Administrators is above 75%.

MR. KERSHNER explained the actuarial value of assets is utilized to help smooth out the volatility of contribution rates due to fluctuating market values. The actuarial value of assets recognizes 20% of the investment gains or losses each year compared to the assumed 8% annual investment rate of return. MR. KERSHNER reviewed the most significant item on the liability side was the gain on the medical claims experience. This means the actual liability data was lower than what was expected and produced a gain to the system.

MS. BISSETT informed there was a change in the claims third-party administrator (TPA) effective January 1st, 2014, and more credible experience is now coming from the new claims payer, which are lower than expected. She believes approximately 75% of the gains is due to the completion factor and that claims are being paid faster by the new administrator. MS. BISSETT supposes the new TPA may have a stricter adherence to claims methodology than the previous TPA. The per capita cost from the last year of the prior TPA was trending about $9,200, and the new TPA per capita cost is trending in the range of $7,000 to $7,500. This trend will be further investigated to ensure it is a continued pattern. MS. BISSETT cautioned there is a potential the shift in costs could come back up. The assumptions are currently staying the same and additional in-depth examination will occur. The remainder of the gains is due to a variety of reasons including, rebates showing up in a premium recovery line on the asset side and the margin for adverse deviation.

MS. ERCHINGER indicated the Actuarial Committee encouraged the actuaries to conduct further review because the significant gain in PERS and TRS equals more than a billion dollars amortized over the remaining period. She believes the actuaries are doing their best to get answers to this important conversation.

MR. BADER asked if the data the actuaries receive include medical codes. MS. BISSETT indicated the actuaries do not receive that level of detail. The information exists within the payer and she suggested the payer be audited to ensure the way they are administering is adherent to the plan provisions.

COMMISSIONER FISHER suggested the TPA be invited to discuss this situation with the Actuarial Committee or full Board in order to better understand the data drivers of these significant medical cost gains.

MR. LANGER continued the presentation reviewing the normal cost rate and past service rate. The PERS contribution rate decreased from 29.98% of payroll to 26.88%, and TRS contribution rate decreased from 33.07% of payroll to 28.84%. The majority of this reduction is due to the lower healthcare costs of the plan and the revised projected implementation for the valuation. The three primary sources of contributions are from members, employers, and the State assistance contribution. MR. LANGER expressed his appreciation to staff for working together to complete the valuation report and to MS. THOMPSON for providing thoughtful commentary.

C. Audit Findings Recap

Action: Board Approval of Resolved Findings

MS. ERCHINGER, as Actuarial Committee Chair, moved to accept the resolved items on the audit findings list as prepared by the Actuarial Committee. No second needed.

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

MS. ERCHINGER, as Actuarial Committee Chair, moved to accept the Buck report of medical costs and include an adoption letter with the valuation report noting the data underlying these results is based on the best data available to the actuaries and the Committee. Portions of the analysis are based on proxy data and input occurring during a time of transition between TPA reporting systems and may change as we move to actual data during the next valuation. No second needed.

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

MS. ERCHINGER, as Actuarial Committee Chair, moved to request Buck and the Department of Administration analyze the medical report data of concern and present to the Actuarial Committee as much current actual data as possible. No second needed.

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

CHAIR SCHUBERT recessed the meeting from 2:33 p.m. to 2:50 p.m.

12. HANCOCK AGRICULTURAL INVESTMENT GROUP

CHAIR SCHUBERT welcomed OLIVER WILLIAMS, President, and DEBRA GOUNDREY, Director of Client Account Management of Hancock Agricultural Investment Group, to provide an update on the Northern Agriculture portfolio. MR. WILLIAMS has been with Hancock since 1997 and MS. GOUNDREY joined the team in August of last year. MR. WILLIAMS reported the current weakness in the general farm economy. He described the main macro demand drivers for agriculture, including growth in population, growth in income, and growth in worldwide mandates around biofuels. These are important underlying fundamentals that help drive agricultural demand.

MR. WILLIAMS discussed farmland, as an asset class, has a negative correlation to other asset classes, including government bonds and corporate bonds. This is illustrated in a chart showing total return indices of asset classes from 2002 to 2014.

MS. GOUNDREY informed the portfolio was established in 2005. The total allocation is $245.3 million. The key investment objective is to obtain a return on the portfolio that is consistent with prudent risk and the safety of principal. The portfolio is expected to generate a total real rate of return of appreciation, net of fees, of 5%. The portfolio is expected to generate an income return of 4% over a five-year rolling period, with a minimum of 3% distributed cash for individual properties after fees. The investment guidelines mandated for the portfolio include an 80% exposure to row crops and a 20% exposure to permanent crops, plus or minus 10%. No more than 40% of the total allocation shall be invested within the same NCREIF region and no more than 30% of the total allocation shall be invested within the same commodity.

MS. GOUNDREY informed the portfolio is in-build and as of December 31, 2015, the commitment of capital invested was $165.8 million across 23 highly diversified properties in the U.S. The remaining allocation to invest is $79.2 million. The total return for three-year, five-year and since inception are all above the 5% benchmark. The total return for one-year is 3.93%, due to lower appreciation rates across the portfolio. This is consistent with the NCREIF Index. The income return from the since-inception level is 21 basis points above the target of 4%. The income return for one-year is at 3.47%. MS. GOUNDREY informed over the last three years, there has been active repositioning of the portfolio. The sale of five properties should help move the portfolio forward more effectively on the income side.

Since inception, the portfolio has achieved an 8.62% combined return after fees, of which 4.21% was income and 4.28% was appreciation. Since inception, the portfolio has achieved 9.9% return before fees, behind the Customized NCREIF Index of 13.01%. This is due to the different weighting of the portfolio compared to the index, in terms of the remaining $79 million of build-out. MS. GOUNDREY believes the underperformance gap will close as the portfolio becomes fully invested.

MS. GOUNDREY reviewed the current diversification of the portfolio being tilted 93% to row crops and 7% to permanent crops. The continued build-out of the portfolio will improve the diversification. Crops are diversified into nine commodities and 11 states are covered in the nine NCREIF regions.

MR. WESLEY asked if any of the properties receive federal subsidies. MR. WILLIAMS explained the properties are cash leased and so the portfolio does not participate directly in any of the farm programs. In some cases, the tenants of the properties participate in programs as local producers.

MS. GOUNDREY continued the presentation noting appreciation has softened and is reflecting the downward pressure of farm real estate value across the portfolio and the index. There is also current downward pressure on the actual return at the income level. Within the last 12 months, seven leases have been renegotiated and have been down an average of $47 per acre. The weakness in corn and soybean prices over the last 18 months is beginning to be reflected in the portfolio.

MR. BRICE asked if the weakness will create an opportunity to acquire new properties. MR. WILLIAMS agreed conditions are being created now to begin to deploy capital.

DR. MITCHELL asked if the demand for biofuels has been affected by the change in the price of oil. MR. WILLIAMS noted the issue has been studied extensively and Hancock believes lower oil prices is leading to higher consumption of gasoline, thus increasing the demand for ethanol, because each gallon of gas goes along with 10% ethanol. With lower corn prices, the margin prospects for ethanol producers are improved from 24 months ago.

MRS. HARBO asked if the drop in corn prices is due to an increase in imported corn. MR. WILLIAMS agreed there has been a robust global production of corn. Three years ago, the Midwest was having a drought and South America was having a drought, which created a lack of global production of corn and caused the price to elevate. Inventories have rebuilt with the last two years of bumper crops and impacted competitiveness. In addition, the U.S. dollar has been strengthening, which makes the U.S. corn products less competitive abroad.

DR. JENNINGS requested more information regarding the credit quality of tenants and requested a description of a disaster. MR. WILLIAMS informed the requirements and details of audited financial quality statements is based on the complexity of the overall deal. The income statement coverage ratios have to be able to cover the rent, fixed charges, and margin. MR. WILLIAMS stated in his experience since 1997, he has seen a handful of situations, including a bad futures investment leading to bankruptcy and a collections scenario. If a replacement tenant has to be found, it usually requires a discount in year one, but will quickly move to a longer-term average. He noted disasters tend to be contained to a one to two-year period.

MR. WILLIAMS discussed the U.S. water issues and informed drought coverage has declined 14%. The El Nino has had positive effects in Washington, Oregon, and Northern California. The Southern California drought conversation will actively continue. The portfolio is well-positioned from a drought perspective. The walnut property in California relies on its own wells and has not had any issues with respect to quantity or quality of water for that orchard.

13. TIMBERLAND INVESTMENT RESOURCES [EXECUTIVE SESSION]

CHAIR SCHUBERT introduced TOM JOHNSON, CHRIS MATHIS, MARK SEAMAN, and MIKE WICK of Timberland Investment Resources.

VICE-CHAIR JOHNSON moved to go into executive session to discuss matters, the revelation of which may have an adverse effect upon the finances of the Board. The motion was seconded.

The motion passed unanimously.

3:34 p.m.

RECESS FOR THE DAY

CHAIR SCHUBERT recessed the meeting after the executive session.

Friday, April 22, 2016

CALL BACK TO ORDER

VICE-CHAIR JOHNSON reconvened the meeting at 9:03 a.m.

Trustees Brice, Fisher, Harbo, Erchinger, Wesley, and Williams were also present. Chair Schubert arrived after 9:00 a.m.

14. ADVENT CAPITAL MANAGEMENT

MR. BADER introduced CRAIG ALTSHULER, Investor Relations, and PAUL LATRONICA, Portfolio Manager, of Advent Capital Management, who provided a detailed presentation reviewing Advent Capital Management, convertible dynamics, the portfolio, and the convertible market. MR. ALTSHULER informed the portfolio started in 2009 with $50 million and $100 million has been added. The current portfolio has approximately $195 million. Advent was founded in 1995 and continues to grow steadily, with roughly $8.6 billion in assets under management. Advent focuses on bottom-up fundamental credit research in the convertible asset class and has 60 employees, including 24 investment professionals in New York and London. The emphasis on capital preservation has led to strong performance.

MR. ALTSHULER explained Advent uses three strategies, but 80% of their assets are focused in the long only strategy. The Alaska portfolio is a long only strategy called the Phoenix Investment Strategy. This strategy focuses on defensive bond-like convertibles. MR. ALTSHULER informed a convertible is either a corporate bond or a preferred stock that includes an embedded option. The benefit of a convertible is if the stock does well, the convertible behaves more like an equity and if the stock does not perform well, the bond portion pays a coupon and pays back at maturity. MR. ALTSHULER described this as the winning by not losing approach that convertibles provide. Convertible securities can usually sell into the market at a premium and do not get converted often.

MR. ALTSHULER discussed one of the unique features of convertibles is its positive asymmetry, which is more participation in the upside of an investment and more protection on the downside of an investment. The broader convertible market index is the VXAO Index. It captures about 87% of the upside of the equity markets, and about 73% of the downside of the equity markets. The value of the active management in the Phoenix strategy is on the downside. The defensive Phoenix strategy captures about 65% of the upside of the equity markets and provides downside protection of minus 14%, which means the strategy actually makes money in the down years of the S&P 500.

DR. MITCHELL requested additional information regarding the size, issuance and trading of the convertible market. MR. ALTSHULER stated the global convertible market is about $400 billion in size. Issuance over the last three years has been between $80 billion to $100 billion. Issuance has been down this year due to the volatility in the market. MR. LATRONICA informed there has been good liquidity in the marketplace for convertibles.

High yield and other over-the-counter fixed income markets are less liquid than they were in the past, primarily due to governmental regulations placed on counterparties and different banks.

MR. LATRONICA explained all convertible bond portfolio managers approach the market in different ways. The Alaska portfolio is a fixed income approach to the marketplace, viewing the equity part of the instrument as an additional way to unlock value for the total return. This strategy has had only three down years in performance during its 19 years; 2008, 2011, and 2015. Last year, the portfolio was down .93% gross of fees and the benchmark was down 8.78%. The since inception return for the portfolio is 7% versus the benchmark of 4.46%. Year-to-date as of March, the portfolio is up 23 basis points versus the benchmark of 1.48%.

MR. LATRONICA provided a detailed review of the Phoenix strategy defensive discipline regarding buying and selling convertibles. The key to the strategy's long-term success has been sticking to the discipline, regardless of what the market does. The focus is on investment value premium and not on conversion value.

MR. LATRONICA reiterated the importance of the portfolio's dedicated nine credit analysts. The current yield of the portfolio is 2.2% versus the benchmark of 2.8%. The delta of the portfolio is 25, and is the correlation of the bond to the underlying security. If a stock goes up 1%, the convertible should go up 25% of that move. The convertible gets more equity sensitive as the stock goes up and less equity sensitive as the stock goes down. The portfolio has an 86% conversion value premium.

MR. LATRONICA reviewed the portfolio diversification and weighting of the 82 positions. There is currently no energy exposure. The technology classification is highly diversified through companies such as Priceline, Twitter, LinkedIn, and Intel. MR. LATRONICA stated convertibles will benefit from a rising interest rate environment. Convertibles are a very nuanced asset class needing a specialist active manager. Advent's longer track record of 20 years has seen a full market cycle and has illustrated the winning by not losing approach to performance.

15. PERFORMANCE MEASUREMENT - 4TH QUARTER

CHAIR SCHUBERT introduced PAUL ERLENDSON, Senior Vice President, and STEVE CENTER, Vice President, of Callan, who provided the review of the performance measurement for the fourth quarter 2015. MR. ERLENDSON indicated this review will include a long-term analysis of the portfolio to help identify systemic problems that need to be addressed. MR. ERLENDSON commented each manager has to approach opportunities within the different economic environments. The last seven years has been a bull market in equities providing positive returns for the S&P 500. This is the first time the S&P 500 has been positive seven years in a row. The end of 2015 was a rough time, but the S&P was still up about 1.4% for the year. MR. ERLENDSON is not concerned about the rough patch over the last couple of quarters.

MR. ERLENDSON provided an overview of the macro environment, noting the real growth in gross domestic product over the last 20 years. The way the economy collapsed in 2008/2009 was of historical precedent. The bond market seized up and transactions were difficult to effect. The only asset class that did well in that environment was high quality government bonds. In the current environment, high quality government bonds are the lowest yielding securities. The desire is to capture growth in the economy while not being subject to the effects of a collapse, such as occurred in 2008/2009.

MR. ERLENDSON addressed inflation as another concern to investors because it decreases the value of wealth in the future, taking more dollars to buy the same amount of goods and services. In 2015, core inflation, which excludes food and energy, was up 2.1%, headline inflation, which includes energy, was almost flat. The commodity index has been in a downward trend since about 2012. Wage growth in 2015 was below the average of the last 15 years. The unemployment rate and the Consumer Price Index were both historically low in 2015.

MR. ERLENDSON discussed the indication by the Fed there could be four or five interest rate increases. The first one took place late in 2015, and because of the recent economic prospects, the idea of raising rates has lessened. He explained lower interest rates are good for debtors making it cheap to borrow money. On the other side, a low interest rate environment is horrible for people who are prudent and want to save wealth. Higher interest rates benefit people that are fixed-income oriented and are also used for discounting liabilities.

MR. ERLENDSON reviewed asset class performance. He reiterated the importance of following the strategic asset allocation targets. The targets are both an expression of the expected return and an expression of the risk tolerance. MR. ERLENDSON stated the overall portfolio has benefitted from staying close to targets over the long-term. Over the last seven years, growth has done significantly better than value regarding equity style returns. One of the managers staff has been watching for a while is DePrince, Race & Zollo, a microcap value-oriented manager. Small cap value has been the worst performing asset class over the last seven years. Interestingly, through the middle of April 2016, DePrince, Race & Zollo's portfolio is up almost 7%. The hope is this will continue.

MR. ERLENDSON continued with a discussion regarding sectors of the U.S. stock market. MR. CENTER commented 2015 was a very difficult period for active managers to outperform the benchmark because of the wide dispersion of performance from individual stocks. MR. ERLENDSON informed the dollar has been strengthening over the last two years. This is beneficial when converting dollars to foreign currency because of the increased purchasing power, but conversely, when the foreign currency assets are converted to dollars, it reduces the return because it takes more foreign currency units for that conversion.

MR. ERLENDSON reviewed the U.S. interest rates over different periods of time. This is called the yield curve. Interest rates are very low and creates a challenge for investors. A 20-year bond in 1994 was yielding around 8%. In 2015, a 20-year bond was yielding below 3%. Liabilities are affected because they are discounted at a low interest rate and the value of the liability is much higher. Corporations have been issuing large amounts of fixed rate debt to take advantage of the low interest rates. The maturity of the corporate debt is lengthening and in 2015, the average maturity was 17 years. MR. ERLENDSON informed most non-U.S. interest rates in developed markets have decreased. Interest rates in emerging markets have increased, but are challenged to get investors to lend them money. The Real Estate sector was generally strong in 2015, and the NCREIF Property Index was up 13% in 2015.

MR. ERLENDSON reported the actual allocation for PERS versus the target asset allocation are all within 1% of the targets. Compared to the Callan Public Fund Database, which shows allocations of peer public funds, PERS has a lower domestic equity allocation and a higher non-U.S. equity allocation. MR. ERLENDSON applauds the strategy of 26% of overall assets in U.S. equities and 25% in non-U.S. equities because it is aligned with the capitalization distribution around the world. The portfolio is positioned to take advantage of opportunities globally. PERS has a lower than average allocation to fixed income and a higher than average allocation to real assets and alternatives.

MR. ERLENDSON explained the five-year annualized relative attribution analysis and noted the fund returned 46 basis points higher than the target each of those years. This was primarily from the manager effect of two asset classes; private equity and global equity. The remaining manager effect had a slight negative impact.

MR. ERLENDSON reviewed the long-term performance as of December 2015. The actual results were ahead of the strategic target and actuarial expected return in 2007 before the financial crisis in 2008, which eroded 20% in that one-year period and dropped the actual results below the actuarial expected return. The actual results have been steadily increasing and remain below the actuarial return assumption line.

MR. CENTER reported both PERS and TRS have outperformed their target over the last one, two, three, and five years, ranking within the second quartile and above the median. The seven-year performance lags the target and the 10-year performance is very much in line with the benchmark. Total domestic equity for the quarter returned 5.78% versus the Russell 3000 at 6.27%. Long-term performance compares favorably versus the median of the peer group and the benchmarks. Both the large cap active and the small cap active portfolios trailed their respective benchmarks last quarter. Over the year, it was a good period for active management of large cap and small cap. The alternative equity allocation continues to help mute the overall volatility of the equity portfolio over time.

MR. CENTER informed the microcap value portfolio run by DePrince, Race & Zollo had a dramatic turnaround so far in 2016, outperforming their benchmark by 6%. Their style has been out of favor in the equity market. Emerging markets have struggled over the year. Developed market performance was positive and has done well relative to the benchmark, despite struggling performance from Allianz and Capital Guardian.

MR. CENTER stated comparisons of the fixed income performance to the benchmark are more important than comparisons versus the peer group because the focus of the fixed income pool is different from the other public funds in the database. The fixed income performance of the fund has been strong over time versus the benchmark.

MR. CENTER advised the word preliminary on the title of page 37 should have been removed and presented the performance of the real assets through 12/31/15. It was a very difficult year for MLPs because the oil and gas prices plummeted. In the last quarter, the MLPs have snapped back significantly.

The Balanced Funds and Target Date Funds compare well to both the peer group and the benchmark. Three of the Target Date Funds exhibited more risk than their peers likely due to a higher equity allocation. The Stable Value Fund and Interest Income Fund both continue to beat benchmarks. The Allianz Socially Responsible Fund presented yesterday and the near-term performance has come back quite well. The AK International Equity is a newly launched blend of Allianz and Brandes within one pool. There is no long-term performance to compare that blend. There are no concerns with the passive options.

MR. ERLENDSON suggested "The Devil's Financial Dictionary" as an interesting book on investing.

CHAIR SCHUBERT recessed the meeting from 10:34 a.m. to 10:47 a.m.

16. ADOPT ASSET ALLOCATION:

Action: Resolution 2016-04:
DB PERS/TRS/JRS
PERS/TRS/JRS Retiree Health Trusts
Retiree Major Medical HRAP/ODD

Action: Resolution 2016-05: DB NGNMRS

MR. ERLENDSON provided a brief review of modern portfolio theory and explained the process for setting the strategic asset allocation. MR. ERLENDSON believes asset allocation is the single most important tool and decision fiduciaries have. Asset allocation is divided into public markets and private markets, equity ownership and debt/fixed income, and a hybrid of these. Staff creates model proxies for the major asset classes within the 10-year forward-looking market expectations and blends the allocation to achieve the highest expected return with the least variability.

MR. BADER informed Callan presented the annual capital market assumptions to the Board in February. Staff also reviews market assumptions produced by other providers. MR. BADER reported he, MR. MITCHELL, members from the IAC and representatives from Callan met telephonically. The discussion topics were capital market assumptions and the advisability of compressing some of the asset classes in the asset allocation structure. Domestic equity, international equity, and alternative public equity would be structured together as one asset class of global equity. Absolute return and private equity would be combined with alternatives.

MR. BADER reported all persons who attended the telephonic meeting were in agreement, and recommend the Board adopt the proposed combination of asset classes as an improvement to the modeling process and portfolio monitoring. Resolution 2016-04 includes the recommended combined asset classes; global equity, global fixed income, real assets, alternatives, and cash equivalents. MR. BADER explained this asset allocation does not become effective until July 1st, and there is time at the June meeting to revert to the old asset classes if the Board wishes. MR. BADER invited members of the IAC to add comments.

MR. BADER advised the risk element brought before the Board today is very similar to the risk element the Board has adopted in the past several years. The recommendation for all the ARMB Board defined benefit portfolios, except the National Guard, is a standard deviation of 15%. The current year has a standard deviation of 15.2%. Using that risk parameter, the expected 10-year geometric return of the portfolio is 7.1%. The arithmetic return is 8%. The recommended asset allocation is 53% global equity, 13% global fixed income, 17% real assets, 16% alternative assets, and 1% cash equivalents. The current cash equivalent allocation is 3%.

The recommendation found in Resolution 2016-05 for the National Guard portfolio is a standard deviation of 9.5%, producing an expected 10-year geometric return of 5.6%. The arithmetic return is 5.9%. The recommended asset allocation for National Guard is 48% global equity and 52% global fixed income.

<u>MRS. HARBO moved to adopt Resolution 2016-04 and Resolution 2016-05. VICE-CHAIR JOHNSON seconded the motion.</u>

DR. JENNINGS commented global allocations have been best practices for a few years. He believes it is a good move to consolidate asset classes. The optimizing tool used for modeling works more efficiently with a smaller set of inputs and fewer asset classes will accommodate this. DR. JENNINGS noted the broader global allocations on fixed income and equity give staff more discretion. He believes the communication between staff and the ARM Board is transparent and he has no concerns.

VICE-CHAIR JOHNSON expressed a concern to changing the allocation and noted the reviewing beneficiaries may want to see how the portfolio is allocated in terms of domestic versus international. He asked if there is a comparison of the effects of retaining the existing set of criteria and the effects of adopting the proposed allocations to ensure the design reflects better business practices, rather than achieving a certain result. MR. BADER advised the return and standard deviation of the resolution are very similar to the current return and standard deviation. There are target asset allocations constraints for each of the subcomponents that will be brought before the Board at the June meeting.

MRS. HARBO expressed concern of combining private equity with absolute return and alternatives. COMMISSIONER FISHER requested additional information regarding the benefits of combining the asset classes into a single asset class and maintaining individual targets. MR. BADER described the value is in terms of having fewer inputs for the initial modeling of the expected returns, resulting in a more likely success of the model. MR. SHAW shared this approach is very similar to what is used in San Francisco. Underneath the asset classes is a detailed structure of the subcategories.

MR. ERLENDSON commented the current conventional model with narrowly defined categories was useful back in the 1980s when U.S. stocks were different from non-U.S. stocks. The lines of distinction have faded and a global equity portfolio effectively captures all the opportunities.

MR. WESLEY asked if there was a way to transition with the subcategories until plan participants and stakeholders are knowledgeable of the changes. He believes this would alleviate questions. MR. BADER restated this recommendation is a better practice, but there is no reason to have discomfort on the part of the Board. The same level of detail for the subclasses will continue to be provided.

MS. ERCHINGER commented asset allocation is the most important decision the Board makes and she does not have a problem with the change. For the comfort of the Board, MS. ERCHINGER recommended staff postpone the action to the next meeting and come back with an analysis presentation of the subcategories. MR. BADER noted the initial discomfort of the Board regarding this suggested change was anticipated. MR. BADER agreed staff will bring forward both the existing structure and the complete proposed structure, including benchmarks, in June.

<u>VICE-CHAIR JOHNSON moved to table Resolution 2016-04 and Resolution 2016-05 until the next meeting. MRS. HARBO seconded the motion.</u>

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

17. INVESTMENT ACTIONS

A. Investment Advisory Council Position

MR. BADER advised MR. SHAW's Investment Advisory Council position expires on June 20, 2016. The Board has the option of advertising this position and allowing a search either to renew MR. SHAW or appoint someone else. Staff recommends the reappointment of MR. SHAW to a three-year term.

<u>MR. BRICE moved to reappoint MR. SHAW to a three-year term on the IAC beginning on July 1, 2016 and ending on June 30, 2019. MRS. HARBO seconded the motion.</u>

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

B. Private Equity Guidelines - Update
Resolution 2016-06

MR. BADER explained Resolution 2016-06 relates to a public equity policy revision allowing the coinvestment opportunities in private equity. This requires a change in the Board's policy. The amending language is provided in the packet and permits coinvestment opportunities. Staff recommends the Board adopt Resolution 2016-06.

MRS. HARBO moved to adopt Resolution 2016-06, revising the private equity partnership's portfolio policies and procedures to allow for coinvestments, and directing staff to negotiate a contract amendment with Pathway Capital to implement a coinvestment program. VICE-CHAIR JOHNSON seconded the motion.

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

C. Equity Guidelines - Update
Resolution 2016-07

MR. BADER informed Resolution 2016-07 relates to a proposed change in investment guidelines for domestic, international, and alternative equities. MR. BADER provided an overview the Commission Recapture Program that is monitored by State Street. The policy directive is 30% of all listed large cap domestic equity trades will be executed with a brokerage firm participating in the Commission Recapture Program. Staff believes this is an incentive that is not in the best interest of the ARM Board and should be removed. The incentive should always be best execution at the lowest cost. Staff recommends adding the language to the guidelines to encourage managers to direct execution-only transactions and to remove the quantitative targets from the Commission Recapture Program.

MR. WILLIAMS moved to adopt Resolution 2016-07. MRS. HARBO seconded the motion.

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

D. Futures Swaps

MR. BADER reported this item relates to the February meeting when the Board authorized staff to engage in futures and swaps for purposes of transition management and cash equitization in the Portable Alpha Program. At that time, COMMISSIONER HOFFBECK had a desire to more closely define the motion with limitations. MR. BADER clarified to engage in Russell 1000 futures. The Portable Alpha Program has not begun because the Russell 1000 does not provide sufficient liquidity. Staff is coming before the Board to request authorization for staff to engage in the Portable Alpha Program in futures and swaps that reference the S&P 500, Russell 1000, and Russell 2000 Indexes. The notational value of the swaps and futures is constrained to a total of $750 million long exposure and $750 million short exposure.

MRS. HARBO moved to authorize staff to engage in the Portable Alpha Program in futures and swaps that reference the S&P 500, Russell 1000, and Russell 2000 Indexes. The notational value of the swaps and futures is constrained to a total of $750 million long exposure and $750 million short exposure. MRS. ERCHINGER seconded the motion.

MR. WILLIAMS requested additional information on how this program will improve the portfolio. MR. BADER summarized the presentation from the last meeting outlining the return enhancing strategy.

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

E. Due Diligence Review of BMO Small Cap Core Strategy

MR. BADER informed this action item authorizes Callan to perform a due diligence review of BMO manager and their small cap core strategy that could added to the small cap pool being used for the portable alpha strategy.

MR. BRICE moved to authorize Callan to conduct due diligence on BMO Global Asset Management's discipline small cap core strategy. MRS. HARBO seconded the motion.

The motion passed unanimously.

UNFINISHED BUSINESS

1. Disclosure Reports

MS. HALL indicated the Disclosure Report was included in the Board's packet. There was nothing unusual to report.

2. Meeting Schedule

MS. HALL stated the 2016 calendar of meetings was included in the Board's packet and no additions have been made.

3. Legal Report

MR. GOERING reported the action against Petrobras is pending in the United States District Court for the Southern District of New York. The discovery phase is underway and is expected to go to trial in September. The hope was the case would settle, but due largely to the complicated political situation in Brazil, MR. GOERING anticipates the case will go to trial. The case is being handled on a contingent fee basis.

MR. GOERING advised outside counsel has been contracted in the pursuit of litigation in Germany against Volkswagen related to their emissions fraud scandal. MR. GOERING believes it is likely the case will settle and will keep the Board apprised of any developments.

NEW BUSINESS

None

OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD

None

PUBLIC/MEMBER COMMENTS

None

INVESTMENT ADVISORY COUNCIL COMMENTS

DR. JENNINGS was pleased this was a two-day meeting and believes there are important compounding effects from longer meetings.

DR. MITCHELL informed it is currently annual report and proxy season for publically listed companies. His firm divides up the reading and then comes together to discuss commonalities and themes that may give a hint about the economy in the coming year. The six commonalities found were: 1) low revenue growth; 2) high debt; 3) share buy-backs; 4) non-GAAP earnings; 5) high salaries with no correlation to company success; and 6) extreme self-congratulatory reports of the year with projections of higher success next year.

TRUSTEE COMMENTS

MR. WESLEY expressed appreciation for his appointment to the Board.

MS. ERCHINGER noted the recent Actuarial Committee meeting was six hours long and hopefully makes this Board meeting more efficient by reducing the amount of time spent of actuarial issues. MS. ERCHINGER stated the Trustees are interested in the complicated actuarial issues. She believes Commissioner Fisher's offer to coordinate his staff and the TPA to provide a follow-up presentation with regard to the medical claims experience would be beneficial and encouraged a meeting be scheduled.

MR. WILLIAMS expressed appreciation to the Board members for being welcoming and patient.

FUTURE AGENDA ITEMS

None

ADJOURNMENT

There being no objection and no further business to come before the Board, the meeting was adjourned at 11:51 a.m. On April 22, 2016, on a motion made by MRS. HARBO and seconded by MS. ERCHINGER.

Chair of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

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Corporate Secretary