State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Teleconference

MINUTES OF
March 19, 2020

Thursday, March 19, 2020

CALL TO ORDER

CHAIR ROBERT JOHNSON called the teleconference of the Alaska Retirement Management Board (ARMB) to order at 9:00 a.m., noting that a shorter teleconference was being held instead of a full meeting because of the current coronavirus pandemic. He thanked BOB MITCHELL and STEPHANIE ALEXANDER for their work in reassembling the meeting materials to accommodate the changes, and he welcomed COMMISSIONER MAHONEY to the Board.

ROLL CALL

Nine ARMB trustees were present at roll call to form a quorum.

Board Members Present
Robert Johnson, *Chair*
Tom Brice, *Vice-Chair*
Gayle Harbo, *Secretary*
Lorne Bretz
Allen Hippler
Commissioner Lucinda Mahoney
Commissioner Kelly Tshibaka
Norman West
Bob Williams

Board Members Absent
None

Investment Advisory Council Members Present
Dr. William Jennings
Dr. Jerry Mitchell
Ruth Ryerson

Department of Revenue Staff Present
Bob Mitchell, Chief Investment Officer
Kayla Wisner, State Comptroller
Zachary Hanna, Deputy Chief Investment Officer
Pamela Leary, Director, Treasury Division
Scott Jones, State Investment Officer
Stephanie Alexander, Board Liaison
Steve Sikes
Sean Howard
Mark Moon
Ryan Kauzlarich

Department of Administration Staff Present
Kevin Worley, Chief Financial Officer, Division of Retirement & Benefits
Ajay Desai, Director, Division of Retirement & Benefits

Consultants, Invited Participants, and Others Present
Stuart Goering, Department of Law, Assistant Attorney General
Paul Erlendson, Callan Associates, Inc.
Steve Center, Callan Associates, Inc.
David Kershner, Buck
Scott Young, Buck
Tonya Manning, Buck
Ric Ford, Buck
Paul Wood, Gabriel Roeder Smith
Bill Detweiler, Gabriel Roeder Smith
Elaine Schroeder
Robert Schroeder
Katie McKenna
Michael Tobin
Doug Woodby

PUBLIC MEETING NOTICE

Board Liaison STEPHANIE ALEXANDER confirmed that public meeting notice requirements had been met.

APPROVAL OF AGENDA

MS. HARBO moved to approve the agenda. MR. WILLIAMS seconded the motion.

With no objections, the agenda was approved.

INTRODUCTORY COMMENTS FROM CIO

CIO BOB MITCHELL thanked the Trustees for their patience as the meeting was retooled, explaining that they were strongly advised by the Commissioner of Health and Human Services on Monday the 16th to curtail in-person meetings, and they were not prepared to shift the entire two and a half days to an online format on such short notice. Thus it was decided to hold an abbreviated meeting in March and try to follow up around late April or the 1st of May, by which time they can be better prepared for teleconferencing.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

ELAINE SCHROEDER said that she has lived in Alaska for almost 40 years. She has worked in private practice as a psychotherapist, and her husband's career has been with ADF&G. They both depend on his pension in retirement. Directing her question to Chair Rob Johnson, she asked what the ARM Board's plans are to respond to the worldwide trend among pension funds and investment institutions to divest from fossil fuels, which she said are rapidly losing value and are among the riskiest of investments. She asked whether the ARM Board has a climate risk assessment process in place, and if they would say what that assessment is.

CHAIR JOHNSON responded that he comments on this issue in the forthcoming Chair Report.

KATIE MCKENNA, a high school senior from Juneau, stated that she is from a family of educators who have spent their entire careers in Alaska; her father, who relies on TRS benefits, supports her testimony, she said. She encouraged the Board to divest from fossil fuels. She stated that she understands that Alaska's economy is highly dependent on oil, but in Standard & Poor's 2018 assessment of 500 different sectors, fossil fuel energy finished dead last. MS. MCKENNA said that fossil fuel companies are misguided and unsustainable long-term investments. She said that her generation wants to come back to Alaska as adults and join a system that supports them, but with an unrelenting focus on fossil fuels, and repeated failures to diversify the economy, their fates seem to be ignored. She thanked the Board for their work supporting her dad and other educators, and urged them to move forward with transparency about their fossil fuel investments. She said investments in fossil fuels ignore the fiscal and environmental realities that her generation is saddled with, and she hopes that inspired by recent events, people will shift toward a long-term perspective for the benefit of all, especially the more vulnerable.

DOUG WOODBY yielded his time to MIKE TOBIN.

MICHAEL TOBIN, a retired emergency room physician from Juneau, commented on the changing meaning of fiduciary responsibility in this era of climate instability. He said that the Board's fiduciary duty demands prudence, no self-dealing, and treating all of the beneficiaries equally, including beneficiaries decades from now whose world will be experiencing the ravages of climate change destabilization if the fossil fuel industry continues to be propped up by investment. He pointed out that big institutional investors are pulling back rapidly from the fossil fuel sector, because it does not best serve a careful investor. He concluded that investments in the fossil fuel sector, which produces the CO2 that drives global heating and climate instability, discriminate against the younger beneficiaries who will survive deeper into the crisis than Board members, and he asked as fiduciaries, how they will adjust portfolios to protect younger beneficiaries.

CHAIR REPORT

CHAIR JOHNSON said his report would be truncated because some issues which he would have discussed at length are postponed, particularly discussions about creating an Investment Committee. Also, he was going to discuss the idea of using a consent agenda to streamline meetings, which will be taken up by the Operations Committee so the Board can consider it.

As to the fossil fuel investment issues that were raised by the three public testimony presenters, CHAIR JOHNSON noted that the Board has received public comments at the December meeting and written communications from concerned citizens advocating for the exclusion of oil- and gas-related investments from the plan's overall portfolio, and it is obviously of importance to beneficiaries. CHAIR JOHNSON cited the statutory mandate that the Board is to concentrate on diversifying investments as the fiduciary considers appropriate to increase the probable total rate of return or to decrease the overall exposure to potentially adverse market value risks. He said that to have a sole exclusion on a particular social or environmental issue would probably be inappropriate, but they do need to take into account the issues raised by today's speakers. The discussion would have been taken up at greater length today, but the Board will explore it in the future.

CHAIR JOHNSON said that the question is how to go about doing it while seeking to broadly diversify investments and not limit their ability to invest. He said they have considered the issue and are exploring in depth the delivery of an ESG (environmental and social governance) component of overlay in how they make investment decisions. As ESG considerations are before a number of other public trusts, they are looking at those for precedent, and the Board has directed staff to address the issue of whether and how to incorporate these into the structure of the decision-making process while advancing the portfolio for the benefit of beneficiaries.

CHAIR JOHNSON noted that the following items 1 – 6 are things that in the future could be under a consent agenda.

MINUTES, CALENDAR/DISCLOSURES, AND STAFF REPORTS

1. APPROVAL OF MINUTES: December 12 - 13, 2019

MS. HARBO moved to approve the minutes of the December 12 - 13, 2019 meeting of the ARM Board. MR. WEST seconded the motion.

With no objections, the minutes were approved.

2. CALENDAR/DISCLOSURES

MS. ALEXANDER stated that the disclosure attachment and calendar for this year are in the packet, though the calendar would be discussed and may be modified near the end of the meeting.

3. FUND FINANCIAL PRESENTATION AND CASH FLOW UPDATE

KAYLA WISNER, Comptroller at DOR, stated that as of March 18, 2020, total nonparticipant-directed assets were $23.6 billion, year-to-date losses were $2.6 billion, and the plans experienced net withdrawals of $563.7 million. Year-to-date assets were down about 11.71 percent fiscal year-to-date, with 9.71 percent due to investment loss.

KEVIN WORLEY, CFO, said that his report as of the end of January doesn't show any impacts from the last month, but any questions could probably be answered in the attachment at the end with the explanations.

MR. WILLIAMS commented that considering what the markets have been doing, to have only a 9.7 percent loss as of March 18th seems outstanding. MS. WISNER noted that that was just nonparticipant-directed assets.

4. INVESTMENT TRANSACTION SUMMARY

CIO BOB MITCHELL said that if the Board goes to a consent agenda, he expects that he would present the information on investment transactions in the packet and then report on any salient features in his CIO Report. Highlights of this report from November 2019 through February 2020 include two transitions that were completed, from the intermediate treasury mandate within fixed income to the broader-based investment grade mandate that is benchmarked against the Bloomberg Barclays aggregate index, and the transition of manager structure with the international equity program to streamline the number of mandates and simplify the structure. Also, they liquidated $292 million in domestic equities versus fixed income to rebalance the asset allocation to target, then an additional $250 million in March in global equities versus cash, which he will expand on in a later presentation. CIO MITCHELL also stated that they committed $30 million to a private equity mandate, a limited partner Clearlake Capital Partners VI.

5. RETIREMENT & BENEFITS DIVISION REPORT

A. Membership Statistics

MR. WORLEY reported that the decrease in the defined benefit membership continues, with a loss of 93 in PERS and 6 in TRS, and defined contribution membership is increasing, with 127 additional retirees for PERS but a decrease of 19 for TRS.

B. Buck Invoices

MR. WORLEY said that the summary of monthly billings for the six months through December 31 is attached.

MR. WORLEY added that the Division recently issued RFPs for actuarial services, and they are starting to process questions from respondents. The new contract will start July 1.

6. TREASURY DIVISION REPORT

DIRECTOR PAM LEARY said that the Continuity of Operations Plan, or COOP, which has been discussed with the Board in the past, is up to date and is working. Treasury staff has conducted remote testing in small groups over the past couple of weeks, and now the entire team is deployed at home for a group test. Staff are using laptops that are docked at their desks, and they are communicating very well using various formats including e-mail, calls, Skype, a Microsoft product called Teams, and other means. MS. LEARY thanked SCOTT JONES and GRANT FICEK for their efforts in making sure the Treasury team is functioning, and thanked MS. ALEXANDER for keeping up with all the last-minute changes for this meeting.

CHAIR JOHNSON asked whether they are confident in the cybersecurity; MS. LEARY replied that everyone is channeling directly into the state system, using state access and a protocol called VPN, so it is as if they were working at their desks. They are working on confidentiality protocols to make sure people are working in secure areas that are free from others' views, not using printers, and so on.

7. INFORMATION REPORT – RESPONSE TO TRUSTEE INQUIRY

CIO MITCHELL said that at the December meeting, during a presentation by Legal & General, JASON SHOUP, one of the presenters, commented that in a low and falling rate environment, low vol equities would tend to have stronger performance, and someone asked if the experience in Japan confirms that. The presenters followed up with additional information, which is included in a memo in the meeting packet. MR. MITCHELL said the response looked at periods of relatively low interest rates in Japan, and they point out a couple of years where a low vol, factor-based portfolio outperformed the market cap benchmark, but he noted there were also a couple of years where it underperformed. He apologized that the information may be hard to see because he tried to get it all on one page, and summarized that over the five-year period ending at the end of December, the Low Vol strategy within Japan outperformed the market-cap-based index by about 1.77 percent, and over 10 years outperformed by about 2.04 percent.

8. PERFORMANCE MEASUREMENT 4TH QUARTER

MR. ERLENDSON acknowledged that things have changed since the end of the 4th quarter, and said he would include market updates as of March 18th.

MR. ERLENDSON said that quarterly GDP growth had been consistent, if not unusually strong, since the global financial crisis, and with relatively little inflation. He mentioned the financial stimulus that is being planned in response to the coronavirus, which dwarfs what was done during the global financial crisis, and said inflation could pick up as a result. He explained that the lower yields from Treasury bonds means future payments are getting more expensive, and that people going into retirement with a focus on preserving capital will get lower returns on their investments. He said that global growth will be affected by the interruption of economic activity due to the virus.

MR. ERLENDSON reviewed performance through the end of 2019, when the capital markets had been performing well, noting that the U.S. stock market has been the best performer over five and ten years, though emerging markets was the best over the last three months of 2019. He briefly reviewed the most recent data. MR. WILLIAMS asked if he was accurate in feeling that with the S&P 500 down 25 percent but the nonparticipant funds down less than 10 percent, that's very good; MR. CENTER replied that it's important to remember that PERS and TRS have a public equity allocation of about 45 percent and about 24 percent fixed income, which makes CIO MITCHELL look like a genius and helps the relative performance.

MR. CENTER said that this year's first quarter performance of Alaska's funds should look good compared to peers, because of the lower allocation to public equities. He noted also that the private investments held by the plans are not valued frequently, so the impact of their performance may not be seen right away; those are about 20 percent of the portfolio.

MR. CENTER reviewed performance for the 4th quarter of 2019, using the PERS portfolio to illustrate. He showed performance versus the actuarial expected return and the total fund target, noting that next quarter's chart will not look good. However, both PERS and TRS have outperformed their targets over the last 2- and 3-year periods. MR. CENTER reviewed the performance of various asset classes.

MR. CENTER then discussed the participant-directed plans. The PERS DC plan ended the year with about 60 percent of its assets invested in the target date funds, with the remaining split between active core options and passive core options. The PERS plan is net cash flow positive, and grew in assets by about $130 million. TRS is also net cash flow positive, with about $50 million coming in during the quarter, and also about 60 percent invested in target date funds. The Deferred Compensation Plan is cash flow negative with about $11 million coming in during the quarter about $17 million going out. SBS was also cash flow negative, with about $40 million coming in and about $60 million going out. MR. CENTER reviewed the performance of the investment options within the participant-directed plans, with fairly strong performance from the target date funds and the balanced funds.

CHAIR JOHNSON asked about the performance of these in the current quarter; MR. CENTER replied that T. Rowe Price's glide path for their target date funds tends to have a higher allocation to public equity than their peers, which led to high rankings as of December 31st, but does not bode well for relative performance in the first quarter of 2020. CIO MITCHELL added that he had been informed by MICHELLE PREBULA, who oversees the participant-directed investments, that the market value of all of them has declined from about $6.9 billion at the end of December to about $5.9 billion. MR. WILLIAMS inquired about the size of the peer group; MR. ERLENDSON replied that Morningstar data uses peer groups of more than 50, so it is robust.

MR. CENTER briefly went over the passive options, other active options, Stable Value, and the money market fund, noting no concerns.

CHAIR JOHNSON recessed the meeting from 10:24 a.m. to 10:35 a.m.

9. MARKET AND PORTFOLIO UPDATE

CIO BOB MITCHELL explained that he would discuss issues, impacts, and policy responses relating to the coronavirus pandemic, then review the current portfolio positioning. He cited the most recent data of 220,000 people diagnosed and 9,100 deaths worldwide, numbers which had risen significantly since the previous day. He said that the steps various countries are taking to contain and mitigate the impact of the virus will have significant economic and market implications for businesses and individuals. He showed graphs of the progression of the virus in various countries, and the effects of more or less aggressive containment measures. MR. MITCHELL reviewed some data coming out of China showing that industrial output fell by 13.5 percent there in January and February, and retail sales dropped by over 20 percent compared to the previous year; yet, it appears to be bouncing back, with consumption now back to 75 percent, and blast furnaces operating at about 65 percent. There were some disruptions in supply chains as container ship volume declined precipitously, but that now appears to be normalizing, he said, though there will be more disruptions in other parts of the world.

MR. MITCHELL said that U.S. growth is expected to undergo a rapid deceleration, but forecasts at this time are guesses, and markets don't like uncertainty. The interruption of manufacturing and decline in consumption will have significant impacts, and the magnitude will not be known until the crisis has passed. MR. MITCHELL discussed the impacts on markets, with some of the worst trading days ever over the past couple of weeks, and liquidity becoming more dear. He noted that unlike the global financial crisis, when the market makers had no capital and were close to being insolvent, there are now more regulations and more capital. However, risk management systems combined with regulations lead market makers to be less willing to participate. That is a difference that can be addressed through policy, and he said he hopes to see some normalization soon.

MR. MITCHELL said there are big moves in the bond market, and there has been a significant sell-off in a short time period; also, a couple of weeks ago a large private equity firm advised the firms that it owns to draw on their lines of credit. It is clear that there are needs for liquidity as companies face cash flow issues as a result of supply chain disruption and the drop in economic activity.

MR. MITCHELL discussed what can be done in response. Two key issues are liquidity, which the Fed can help by buying corporate bonds and encouraging banks to lend to small businesses and individuals, and fiscal relief, such as direct payments to people, paid sick leave, foreclosure moratoriums, and so on. He said the markets will continue to struggle until there is a sufficient policy response and we won't know what is sufficient until we find out in real time; however, it is clear that governments around the world are going to do whatever it takes to provide the resources necessary to combat both the virus and the economic and market impacts.

MR. MITCHELL repeated that they have liquidated about $250 million in equities to bolster their cash position from about 1 to 2 percent. They now have about $450 million to $500 million in cash, and they estimate cash flows from the portfolio at about half a billion dollars per year. Combined with the fact that they've gone from a 10 percent cash allocation to a 24 percent cash allocation, their ability to sell fixed income is significantly higher than it was last year. He said they are mindful of their liquidity issues, and at the end of each quarter a decision has to be made how to reset the strategic asset allocation; starting April 1st they will be significantly underweight on equities and overweight on fixed income. Believing that this will pass, their view is that it makes sense to continue to manage the portfolio against the strategic asset allocation. He explained that his intent is to harvest the gains they've had as liquidity allows in fixed income and reinvest assets into the equity market.

MR. HIPPLER asked whether they are still in the process of increasing the fixed income allocation; MR. MITCHELL replied that they substantially achieved the 24 percent target at the end of 2019, but they are still underweight fixed income because they are overweight real assets. He expressed that as an underweight to fixed income relative to the long-term allocation, but they are still slightly underweight the 24 percent target. He explained that the benchmark weight resets to the strategic target on a quarterly basis, and in between those resets, it drifts. If they did nothing, it would be crystallized on the 1st of April, so they are increasing equity allocation through the rest of March.

10. USE OF EQUITY FUTURES IN INTERNALLY MANAGED PORTFOLIOS

MARK MOON, Director of Internal Public Equity, said that staff anticipates utilizing indexed futures as portfolio management tools in the near future in some of the internal equity portfolios, which is allowed within the existing guidelines. MR. MOON explained that they use tracking error as a primary indicator of how close portfolios are to their benchmarks. Tracking errors are usually in the range of zero to 10 basis points, generally close to zero since most of these portfolios are passive. Cash building up in a portfolio adds to tracking error, because the benchmarks assume there is zero cash, but in the real world there are dividends from companies and cash generated from corporate actions, increasing tracking error and making them want to trade to bring the underlying portfolios closer in line with their benchmarks. However, they cannot always trade when they want to, and there are a lot of questions related to timing and cash to consider first. MR. MOON stated that index futures offers a solution to many of these temporal frictions.

MR. MOON explained how index futures work, and pointed out that futures contracts have expiration dates, typically quarterly. Also, he said that in some markets, like U.S. equities, futures are extremely liquid, with billions of dollars' worth traded each day, and the daily marked-to-market clearinghouse structure helps mitigate some party risk issues.

MR. MOON showed three equity futures contracts in which they have the most interest, and said he would expect the most trading would be in the first one, the S&P 500 E-mini, which is by far the most liquid. He explained the anticipated uses of index futures within the internal equity portfolios, saying that maintaining a small exposure to a futures contract would allow them to maintain a larger cash position than would otherwise be possible without creating cash drag and higher tracking error. Also, it would reduce some of the delayed trading frictions, and they think it will facilitate increased use of market-on-close trading, which is potentially important because all of the index portfolio benchmarks assume that is happening. Additionally, they think it can be an efficient way to reinvest dividend cash, and could help with reallocation actions because it allows for efficient changes in broad market exposures to be made quickly and cheaply.

MR. MOON pointed out that although equity futures have not been used within internal equities, other areas of the portfolio have been using them for a number of years, so staff is familiar with it. He reviewed what they see as the costs and benefits of implementing index futures: it offers them greater flexibility in time and in trades; it allows them to effectively run lower cash positions in the portfolios; it allows for quicker and more precise transitions of economic exposures; it should help them run a lower tracking error; and it will facilitate an increased use of market-on-close trading. As for cost, the only cost they see is needing personnel who understand it, which they believe they have, and some minor operational requirements around the daily marked-to-market cash flows, which they have dealt with successfully in the past.

MR. MITCHELL clarified that they are not seeking specific action, but just to notify the Board that they have the ability in their investment guidelines to engage in derivatives, including futures, and although they have not done so before, they now intend to.

MR. WILLIAMS asked what the downside is, commenting that he tends to want to run for the exit when he hears the word "derivatives"; he asked what is the worst that could possibly happen if things go bad. MR. MOON replied that if someone didn't understand, it could lead to exposures that are higher or lower than they intended, but if people know what they are doing, these can be effective, useful tools.

11. BUCK UPDATES

DAVID KERSHNER said that SCOTT YOUNG and TONYA MANNING were with him, as well as RIC FORD, who has not yet met the Board. MR. FORD introduced himself as the leader of the Atlanta Wealth Practice in Atlanta; he joined Buck last April, and covers the southeastern part of the U.S. along with MR. KERSHNER.

MR. KERSHNER said he would focus mostly on the new information; he showed the June 30, 2019 actuarial valuations which will be used to set the FY 22 contribution rates. Asset returns were slightly less than expected, creating losses, but the liability side was favorable, mostly due to medical and prescription drugs claims experience, and those gains were larger than the losses, resulting in a higher funded status as of June 30, 2019 than the previous year.

SCOTT YOUNG discussed the repeal of the Cadillac tax, which reduced the liability for the total plans by about $52 million. However, he said that given the size of the plans, those impacts were relatively immaterial. He explained that since this change occurred right after the December meeting and before the contribution rates were finalized, they have updated the results to reflect the repeal of this tax.

MR. HIPPLER asked if something had gone wrong with the estimates; MR. KERSHNER explained that the state had negotiated a new contract which resulted in significantly higher discounts which are reflected for the first time this year, and they had a bigger gain than expected. MR. WILLIAMS asked, with close to a billion dollars' change in liability, which would have caused a lot of heartburn if it had changed in the other direction, is there something they don't know that keeps changing, or are they just really bad at knowing what the liability is? MR. KERSHNER responded that there have been some significant changes in the last couple of years of external factors that they don't anticipate in projections of future benefits. They don't typically expect to see such significant increases, but they try to reflect the recent experience by using an average of two years of actual claims to set projected claims expenditures.

MR. WEST commented that in his experience as an executive of the Teamsters health plan and as CFO of a self-funded health plan for about 10,000 participants, he got to the point where he disbelieved medical actuarial assumptions, because every year it was better than projected because medical markets change. However, nobody gets it exactly right. It's a mathematical guess at best, he said. MS. MANNING concurred, saying that they base assumptions on the market that they know, not the market that has evolved in the meantime. MR. HIPPLER requested to see the projected expenses for 2019 and actual expenses, and the net present value calculation through the Actuarial Committee.

MR. KERSHNER went over the 20-year projections, which they ran with two different scenarios, one with the 7.38 return assumption every year, and an alternative scenario which was prepared before these recent events began, so may look unrealistically rosy. For the alternative scenario they assumed a 5.75 percent return for the five years starting in FY 21 and then 7.38 percent after that. He showed three sets of projections, including the projected additional state contributions for FY 22 through FY 39. He said the actual FY 22 additional state contributions will be calculated in September of this year, and will reflect the actual return for the year ending 6-30-20. Given recent events, unless markets rebound over the next three months, these projected numbers will ultimately be much higher because actual asset returns for the year ending 6-30-21 are expected to be much lower than the 7.38 that was included in these projections. MS. HARBO pointed out that even including the declines in 2003 and 2008, the average annual return since 1992 for PERS has been 7.79 percent, and for TRS, 7.83 percent. MR. KERSHNER explained that the 5.75 was the nominal return, before subtracting inflation, not the real return.

MR. KERSHNER said they have considered how they might be able to access the overfunding in the healthcare trust to help offset some of the additional state contributions. It appears that a change in the statutes would be required, but they may have further discussions with DRB and DOR, and will keep the Board updated.

TONYA MANNING attended the meeting to follow up on the discussion of ASOP (Actuarial Standard of Practice) No. 51 from December. She said they've given some additional information for the Board, not just to meet the standard requirements but to give the Board some thoughts about the different risks inherent in the plans that they might want to explore in future presentations. MS. MANNING said they hope to go into it more in a future presentation, at the discretion of the Chair.

MR. FORD discussed a recent development related to ASOP No. 4, which is going to require actuaries to disclose to clients a market-value-type liability number. That means they will continue to state liability for Alaska's 7.38 percent discount rate, but they will also have to state what the liability would be at a much lower interest rate, like the 3-point-something of right now. As it stands, this requirement is effective in 2021, and they will bring more details as it unfolds. MR. KERSHNER added that the additional measure of liability has no impact on how the plans are funded or reported on the financial statements; it is just a matter of disclosing in the valuation report an additional informational liability, which does not affect any decisions the Board has to make.

MR. KERSHNER added that they also included some survey information relating to other state and local government pension funds, and some information related to the funding of healthcare liabilities. He noted that everything is on schedule for the Board to adopt the final reports at the June meeting.

12. GRS REPORT

PAUL WOOD said that as the review actuary, their job is to perform a test life review of the valuation results every year. They sift through Buck's information and put a lot of work into it. He said that the test lives that they received this year were slightly different than some of those received in the past, which allowed them to dig deeper into some of the benefit features that are part of the plans offered by the State of Alaska. They came up with four findings:

1. There was a slight inconsistency in the way the mortality assumption was being applied.
2. The second finding related to PRPA for disability, which should be applied immediately and not at conversion to normal retirement.
3. There is a question on the time conversion from a disability benefit to a normal retirement benefit, but the administration of the benefit is consistent with the valuation, so it was dropped.
4. The fourth finding related to the participation rate for retiree medical. Their particular test life for this year had different values for credited service versus eligibility service, and the valuation was using the improper service. This doesn't happen much, but for this member it had a large impact.

He said that as part of their monthly calls with Buck, they discussed these issues. Buck reran their valuation applying these changes, and the impact was very minor. He said that if the Board or the Actuarial Committee were looking for a recommendation, he would be comfortable taking up these changes in valuation in future years.

MR. WOOD added that on the healthcare issue with the large gain, they know that a majority of that massive claims gain came from a new contract. So is there a risk that the company in a sense purchased the work and will go back to higher claims in the future? He suggested they could look at the risks associated with that. MR. WILLIAMS expressed that he would appreciate that, as the Actuarial Committee did question whether that gain was real.

13. INVESTMENT ACTIONS

CIO BOB MITCHELL said that he had three action items for the Board's attention.

The first item MR. MITCHELL raised was the expiring term of DR. WILLIAM JENNINGS, the IAC member who fills the position of academic experience. His term expires in June, and he is willing to serve another term. MR. MITCHELL recommended that the Board reappoint DR. JENNINGS to a three-year term on the Investment Advisory Council beginning July 1, 2020, and ending June 30, 2023.

<u>MS. HARBO so moved. MR. BRICE seconded the motion.</u>

A roll call vote was taken, and the motion to reappoint DR. JENNINGS carried. MR. MITCHELL said congratulations to DR. JENNINGS.

Resolution 2020-01 required a bit of explanation. MR. MITCHELL explained that Resolution 2020-01 requests that the Board adopt a new asset allocation for the existing fiscal year, in order to address an inadvertent change in the underlying benchmark for the real assets component. He said that in June they passed an asset allocation, then in September staff recommended a revised set of benchmarks for the real assets portfolio, which were adopted and implemented last October 1st. Then in December, MR. HANNA and MR. CARSON gave a risk presentation to the Board, in which it was observed that the bands surrounding the fixed income asset class appeared to be low. A resolution to expand those bands that was brought before the Board inadvertently reused the language from June, and this resolution intends to correct that oversight. He said that it should not impact the integrity of the benchmark because it would apply starting in January, and this quarter hasn't been completed yet so Callan hasn't begun calculating the performance.

MR. MITCHELL said that staff recommends the ARM Board adopt Resolution 2020-01, incorporating the real assets policy benchmark changes into the approved asset allocation effective January 1st of 2020.

MS. HARBO so moved. MR. WILLIAMS seconded the motion.

A roll call vote was taken, and Resolution 2020-01 passed unanimously.

MR. MITCHELL then discussed an action memo relating to a recommendation to terminate the J.P. Morgan Systematic Alpha strategy, one of two alternative beta strategies that were implemented in 2017, funded in December of that year. The fund invests in a combination of risk factors and strategies that are intended to provide diversification from traditional market betas. MR. MITCHELL said it has been their experience since investing that this particular implementation has not satisfied that. Many of the risk factors have had negative returns, and the various strategies haven't provided expected diversification, both within the fund and to the ARM Board's broader portfolio. Performance since inception has been negative 11.7 percent annualized through February and has fallen further in March, which has prompted MR. MITCHELL to instruct J.P. Morgan to liquidate the entire balance at the end of March, which is within his authority. Therefore, he requested the Board to adopt the recommendation to direct staff to terminate J.P. Morgan Systematic Alpha.

MS. HARBO so moved. MR. WEST seconded the motion.

MR. WILLIAMS asked what is the main criteria that made him think he wanted to get rid of this; MR. MITCHELL answered that the decision is centered around forward-looking return expectations, and they think they are likely to have better risk-adjusted performance in traditional assets and equities and fixed income, and this portfolio is not satisfying the objectives that it behave differently than other market betas that they already have exposure to. DR. JERRY MITCHELL said he would agree with staff.

A roll call vote was taken, and the motion to terminate J.P. Morgan Systematic Alpha was approved unanimously.

UNFINISHED BUSINESS

CHAIR JOHNSON said that there is a lot of unfinished business that was originally on the agenda for this meeting and will have to be taken up in the future, such as discussions of the Anodos recommendations pursuant to inquiries from MR. BRETZ, discussion of committee sizes, and consideration of consent agendas and an Investment Committee. Other Trustees had no items to add.

NEW BUSINESS

None.

OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD

Legal Counsel STUART GOERING said there is nothing new to report in the status of the court cases pending, and the wait will now be longer than expected.

MR. HIPPLER asked about a FOIA request that was addressed to Board members; MS. ALEXANDER replied that those go through her, and she would answer any questions by e-mail.

PUBLIC/MEMBER COMMENTS

DOUG WOODBY said he hopes Trustees will read his written testimony submitted two days prior. CHAIR JOHNSON said that MR. SCHROEDER also has sent an e-mail which will be part of the record, which will be sent to Trustees for their consideration.

MS. HARBO said she wanted to read for the record some important statistics regarding the amount of money in pension funds that comes from interest earnings, which came up in the last meeting. She contacted NASRA, the National Association of State Retirement Administrators, and NCTR (National Council on Teacher Retirement), and they confirmed that for the last 30 years, since 1989 to 2018, 63 percent of the funds to pay pension benefits come from investment earnings, 11 percent from employee contributions, and the remaining 26 percent comes from employer contributions.

INVESTMENT ADVISORY COUNCIL COMMENTS

DR. JERRY MITCHELL said that he was heartened by the tenor of the investment discussion today, being fact-based and unemotional, as one hopes to see at a time of crisis.

MS. RYERSON commented that she appreciated participating today, and she looks forward to meeting everybody in June.

TRUSTEE COMMENTS

MS. HARBO thanked the DOR and DOA staff for their extraordinary work at this time.

FUTURE AGENDA ITEMS

CHAIR JOHNSON said that the Actuarial Committee needs to meet soon to take up some critical issues, including relating to cost changes on the healthcare side, and other things that were on the agenda for this meeting. He said he will work with MS. ALEXANDER to schedule that.

MR. WILLIAMS said he gets a constant stream of questions about the HR interest, when it will be calculated, and how members can access that information, and he thought they would address it in the DC Committee, but since they didn't meet, he wondered about how they could remedy that soon.

MR. MITCHELL said that they had an as-needed meeting on the calendar for May 1st, and he would like to schedule a meeting around the end of April or May 1st, which will give staff time to improve their ability to do videoconferencing. MS. ALEXANDER added that they do have a meeting tentatively scheduled for April 30 and May 1, and she will be in touch with Trustees to finalize plans.

ADJOURNMENT

There being no objection and no further business to come before the board, the meeting was adjourned at 12:24 p.m. on March 19, 2020, on a motion made by MS. HARBO and seconded by MR. WILLIAMS.

Chair of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

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Corporate Secretary

Note: An outside contractor recorded the meeting and prepared the summary minutes. For in-depth discussion and more presentation details, please refer to the recording of the meeting and presentation materials on file at the ARMB office.