State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Videoconference

MINUTES OF
September 17-18, 2020

Thursday, September 17, 2020

CALL TO ORDER

CHAIR ROB JOHNSON called the videoconference of the Alaska Retirement Management Board (ARMB) to order at 9:00 a.m.

ROLL CALL

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

Board Members Present
Rob Johnson, *Chair*
Norm West, *Vice-Chair*
Gayle Harbo, *Secretary*
Lorne Bretz
Commissioner Lucinda Mahoney
Commissioner Kelly Tshibaka
Bob Williams

Board Members Absent
None

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

Department of Revenue Staff Present
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Mike Barnhill, Deputy Commissioner
Kayla Wisner, State Comptroller

Scott Jones, Investment Operation and Analytics Head
Stephanie Alexander, Board Liaison
Steve Sikes
Michelle Prebula
Grant Ficek
Sean Howard
Shane Carson
Victor Djalalie
Ryan Kauzlarich
Hunter Romberg
Tina Martin

Department of Administration Staff Present
Kevin Worley, Chief Financial Officer, Division of Retirement & Benefits
Ajay Desai, Director, Division of Retirement & Benefits
James Puckett, Deputy Director, Division of Retirement & Benefits
Christina Maiquis

Consultants, Invited Participants, and Others Present
Stuart Goering, Department of Law, Assistant Attorney General
Paul Erlendson, Callan LLC
Steve Center, Callan LLC
Avery Robinson, Callan LLC
Jonathan Gould, Callan LLC
Jeff Shields, J.P. Morgan
James McCandless, UBS
Jeff Maguire, UBS
Daniel Murray, UBS
Scott Young, Buck
David Kershner, Buck
Ric Ford, Buck
Paul Wood, GRS
Ken Mehlman, KKR
Dan McLaughlin, KKR
Sanjay Gupte, Sagitec
Kimm Nasser-Fenn, Linea Solutions
Lawrence Taylor, Brandes
Brent Woods, Brandes
Rob Gillam, McKinley Capital
John Reynolds McKinley Capital
Sonya Park, State Street Global Advisors
Heather Apperson, State Street Global Advisors
Alysia Jones, Public
Robert Schroeder, Public
Richard Farnell, Public

Nils Andreassen, Public
Bob Mitchell, Public
Tom Brice, Public
Rose Foley, Public

PUBLIC MEETING NOTICE

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

APPROVAL OF AGENDA

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

CHAIR JOHNSON requested the inclusion of a section called "Election and Announcements" that would be discussed after the approval of the agenda, as well as adding action items regarding delegation of authority for the CIO, after Item 19.

With those add-on's, the agenda was approved.

ELECTION AND ANNOUCEMENTS

COMMISSIONER MAHONEY announced MR. HANNA has been appointed as the CIO for the Division of Treasury, which is responsible for managing the ARMB assets. CHAIR JOHNSON suggested an agenda modification to remove the word "acting" as it appears throughout the agenda regarding the CIO. He also welcomed MR. MOEN, who replaces MR. BRICE as trustee.

CHAIR JOHNSON announced the departure of former CIO MR. MITCHELL and read a letter sent to MR. MITCHELL thanking him for his 22 plus years of service to the ARMB.

CHAIR JOHNSON also announced the pending departure of MS. ALEXANDER and read a letter sent to MS. ALEXANDER thanking her for her service as liaison to the ARMB and her careful, diligent, and patient work with the Board.

CHAIR JOHNSON also read a letter sent to MR. BRICE thanking him for his eight years of service as a two-term Trustee for the ARMB.

CHAIR JOHNSON thanked MS. HARBO for her diligent service on the Retiree Health Plan Advisory Board; she was replaced earlier in the year by MR. BRETZ.

CHAIR JOHNSON announced the need to elect a Vice Chair which was vacated by MR. BRICE.

MS. HARBO nominated MR. WEST. MR. WILLIAMS seconded the motion. With no objection, MR. WEST was elected Vice Chair.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

CHAIR JOHNSON stated that it is now time for members of the public who wish to make a presentation to the Board to participate and provide their thoughts. There is a three minute limit on all comments.

MR. ANDREASSEN introduced himself as the executive director of the Alaska Municipal League. He is working with and on behalf of 165 cities and boroughs across the state, 64 of which are PERS employers. He recognized the good work of the ARMB in fulfilling its statutory obligations. He wanted to encourage the Board, legislature, and state to fully fund additional state contributions and work together toward improving the past service debt.

MS. ALEXANDER introduced MR. SCHROEDER.

MR. SCHROEDER, who has been a Juneau resident for about 40 years and a PERS recipient stated that 350Juneau has asked the Board to perform a climate risk assessment for all its investments and to divest from its fossil fuel holdings. He found that the Board was not transparent regarding the information they provided about fossil fuel holdings earlier in the year. He stated that they identified seven areas of risk which are as follows: Transition risk which happens when governments institute a carbon tax or cap and trade which would lower asset values; Stranded asset risks where about two-thirds of proven fossil fuel reserves will never be brought into production; Litigation risk which targets companies responsible for high levels of greenhouse gas emissions; Divestment risk which drives down asset price values; Product pricing risk where renewable energy sources become less expensive than burning carbon for power generation; Fiduciary neglect risk – where, as Board members, you may be found individually culpable if investment decisions are politically based on loyalty to the oil industry; and Climate change denier risk where fiduciary responsibility does not allow the Board to act on their personal beliefs in making investment decisions. He asked that the Board come clean and start to wash the oil off their hands.

CHAIR JOHNSON asked MR. SCHROEDER if he was aware of the discussion on ESG and investments at the last Board meeting. MR. SCHROEDER stated that he was familiar with it but did not listen to the full report.

MR. FARNELL, a resident of Juneau who receives a pension from PERS, and is also on the board of 350Juneau stated that he had a fiduciary message for the Board. He stated that one of the primary fiduciary arguments for staying invested in fossil fuels has been the historical performance of the companies which provide balance in the portfolios and that they hold their value over long market cycles due to the world's dependence on carbon for energy. Due to companies experiencing increased pressures with lower renewable energy costs, race to develop new energy technologies, and dozens of climate change lawsuits against major oil companies, it's unlikely the fossil fuel industry will return to the performance of the past. He stated that should the Board move to divest from the energy sector, future pension recipients of these funds will see the leadership and foresight exercised by the Board in protecting the value of their investments.

APPROVAL OF MINUTES

MR. HIPPLER moved to approve the minutes of the June 20-21, 2020 meeting of the ARM Board. MS. HARBO seconded the motion.

With no objections, the minutes were approved.

STAFF REPORTS

1. RETIREMENT & BENEFITS DIVISION REPORT

A. Buck Consulting Invoices

KEVIN WORLEY, CFO, presented the Buck Consulting invoices and briefly explained the June 30th quarterly report showing items conducted and amounts paid.

B. Membership Statistics

C. DRB UPDATE/Legislation Summary

MR. WORLEY stated that there is a decrease in the amount of active membership in PERS and TRS due to the end of the school year. He reported that there is a slight increase in the retirement counts for PERS and a little decrease in TRS.

D. Modernization Update

MR. DESAI stated that since the introduction of the project management team from Linea Solutions they have continued to work on the RFP for an enterprise-wide system development company. DRB signed an agreement with Sagitec Solutions, a global technology solutions company. The total price of the agreement is about $24.9 million for implementation plus one year of the warranty period. In July a contest was held among the DRB staff to choose the name of the project which is ultimately the name of the new system. The winning name is BEARS, which stands for Benefits and Retirement Systems. The project is taking shape and is expected to be complete by October of 2023.

MR. GUPTE, Director of Sagitec Solutions explained that Sagitec is a U.S. based software solutions company founded in 2004. They mainly focus on public sector implementation projects and have 13 offices across four countries, nine of which are in the U.S. They have had 26 successful pension projects in the U.S. and focus on providing software solutions that are mainly for benefits administration, including pensions and unemployment insurance. He stated that as other technology features become available, their solutions make it very easy for their clients to integrate those new features into their solution.

MR. WILLIAMS asked in reference to Empower, as the new system is being implemented, should they expect a reduction in the 17-basis-point recordkeeping fee. MR. DESAI said that they are two completely different systems. Empower is managing the DC Plans' benefit administration, the enterprise-wide system is basically for the operational needs mainly for the DB Plans as well as help lines administration, health eligibility and recordkeeping for the employees.

2. TREASURY DIVISION REPORT
A. ARMB FY22 Budget
Action: FY22 ARMB Budget Proposal

MS. LEARY stated the action memo regarding budget was presented to the Operations Committee and recommends the Board adopt the FY2022 proposed budget with the understanding that components will be subject to appropriation by the OMB and the legislature. CHAIR JOHNSON suggested that this be moved forward following the conclusion of the Operations Committee report.

3. CALENDAR/DISCLOSURE

MS. ALEXANDER stated the disclosure memo is in the packet, along with a new communications memo which documents the emails and hard-copy letters received that are addressed to the Trustees. The attached calendars includes the remainder of the 2020 calendar and the 2021 calendar.

4. CIO REPORT

MR. HANNA stated that the current market will present some challenges, most significantly thinking through forward earnings in our asset allocation. He said that COVID almost immediately resulted in U.S. government bonds falling below 100 basis points and all indications are the yields will remain low for some time. Equity rebound with tech stocks accounting for most of the gains. This will all likely result in earnings challenges and a wider than normal dispersion of potential outcomes. He said that the investment team will work hard to sort through these issues and present the Board with their best advice being mindful of the ARMB's portfolio structure and cost focus. He turned to the CIO report in the Board packet on page 82 and directed the Board to the request of a precious metals option to the DC Plans. He stated that the DC Committee will be recommending a brokerage window for DC Plans. He turned to the watch list and stated there are currently no managers on the watch list and staff does not recommend any additions. With respect to transactions made with delegations of authority to the CIO, he stated the first transaction was a private equity funding and was completed in July with a $50 million commitment to Resolute Fund V. The Jordan Company, the general partner for this fund is a manger in good standing with the ARMB and this is the ARMB's third direct investment with the group. The next transaction was a contract amendment made in August with Crestline to allow for $225 million of additional opportunistic investments. MR. HANNA stated between June and August they executed a rebalance at year end, the increase in the equity target resulted in selling $210 million in core fixed income versus domestic equities. On July 8th the annual state assistance payment of $343.7 million was received into the system and was invested with $65 million in core fixed income, $147 million in domestic equity, and $132 million in international equity. On July 17th they rebalanced the international equity allocations and in late August raised $92 million from domestic and international equities to cover the outflow of the monthly pension payments. Overall, just under $400 million was liquidated from fixed income and invested into equities during this period. He stated four internal rebalance transactions were conducted over this period to equalize relative allocations across the various plans.

5. FUND FINANCIAL PRESENTATION

MS. WISNER stated that as of September 16 the total for nonparticipant-directed assets was $28.3 billion with fiscal year-to-date income of $1.7 billion and a net contribution of $113.8 million. She also stated that as of September 16 the internally managed assets totaled approximately $14.2 billion.

MR. HIPPLER stated that during public comment it was suggested that at any given time we did not have a good idea of the amount of equities that we have. He asked how accurate that information would be.

MS. WISNER stated that she believed that was in regard to alternative investments, meaning oil, energy - those types of investments. The public equities and fixed income securities are valued every day.

MR. HANNA added that most of the exposure to fossil fuels is through public market investments and those updates come in daily. The alternative investment information is available quarterly.

MR WORLEY directed Board members to his report in the meeting packet, and said the additional state contributions including $203.6 million for PERS, $134.9 million for TRS, and $5.1 million for JRS were received in July. He also stated that they continue to report the participant-directed disbursements and have taken into account the CARES Act distributions.

TRUSTEE REPORTS

6. CHAIR REPORT

CHAIR JOHNSON said that he was involved in the advisory selection committee regarding the CIO and appreciated the process and commends the decision that was made. He stated he would report on other matters that he has been involved in during the various committee reports.

7. COMMITTEE AND LEGAL REPORTS

A. AUDIT COMMITTEE

CHAIR JOHNSON stated that the Audit Committee met yesterday morning and heard reports from KPMG. The one takeaway was a discussion on what action, if any, should be taken regarding gains reported since March, to address the lag issue that has been discussed a number of times. The question to KPMG was whether there should be a modification to the report regarding this or whether it reaches the level of materiality. If next time around there’s a reduction, do they need to make that change in the report. He stated that the matter, along with auditing standards and best practices is being discussed at the leadership level. He stated the committee also heard reports from MR. WORLEY and MS. HELMICK regarding DRB audits of some of the employers and noted COVID restrictions have impacted field audits.

B. ACTUARIAL COMMITTEE

MR. WEST said the purpose of the meeting was to review, adopt, and approve the calculation of the additional contribution rate to be made by the state for each plan. He explained that an employer participating in the plans pay a percentage of total payroll that is specified by statute, but that amount is not necessarily the percentage required to meet the benefits promised to participants, so the state, through the legislature, funds the differences in what's known as an additional contribution.. He also said they reviewed the expected or possible impacts COVID would have on the health plan. The healthcare actuary told the committee that a lot of expenses did not occur because a lot of discretionary medical expenses or procedures were postponed by government action, which appears to have driven down healthcare costs. He stated that there is a potential for additional costs including both immediate costs of dealing with COVID, as well as longer-term costs of care of individuals who were affected. He said they will have more of an idea of what actual expenses are going to be at the next meeting. He also said that a resolution was passed concerning hiring of an auditor of the actuaries.
<u>On behalf of the Actuarial Committee, MR. WEST moved to adopt the resolution to direct staff to procure an actuarial audit of the actuaries as required by law. No second was required.</u>

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

C. DEFINED CONTRIBUTION PLAN COMMITTEE

MR. WILLIAMS said the DC Committee held a meeting yesterday and discussed health reimbursement accounts. The slide presentation showed a slide that said members had to retire directly into the plan, members were then worried about having to take health insurance and pay full premiums if they were under 65. MR. PUCKETT stated at the meeting that they have to retire directly into the plan, but they can defer until they reach 65. MR. WORLEY and MR. DILG gave an overview of how DC members' HRA accounts gain interest. MR. WILLIAMS said that 3 percent of the average of all plan employees goes in every year, but it also earns interest. The interest that it earns, which is at the overall ARMB rate, was recently calculated and will be calculated on annual basis.

MR. WILLIAMS stated there was also an update from Empower that included a discussion on members' interest in pulling money from a particular fund within their Empower account. Currently, the money comes out of all of the funds. He stated an update regarding Empower's timeline for making those withdrawals from a particular fund is planned for the next meeting.

MR. WILLIAMS stated there was also an action item for a cash investment for the Stable Value fund. He also reported that the committee looked at three different entities that could offer a brokerage option and the recommendation from staff and Callan was to go with the Empower brokerage account. MR. WILLIAMS explained the two recommendation coming from the DC Committee that will be presented to the Board through MR. HANNA during Agenda Item 20. Investment Actions/ Information Items.

D. OPERATIONS COMMITTEE

CHAIR JOHNSON stated that an election was held for a new Chair and he was elected as Chair of the Operations committee. He also said that MR. JONES updated them on Middle Office issues with cyber security which will be discussed more in-depth at the December meeting. He said MS. LEARY led a discussion regarding the final budget for FY2020 and the FY2021 budget approved by legislature. Ultimately the committee unanimously approved forwarding an action to the Board regarding the adoption of the FY2022 ARMB budget proposal and the committee recommends to the Board that they adopt the budget proposal advanced.

MR. BRETZ asked why there is such an increase in the projected external public investment fees for 2021. MS. LEARY stated there is actually a decrease in the amount that is being requested for authorization for the budget for OMB purposes but that is not the intention as you can see from the management fee report.

CHAIR JOHNSON suggested they go back to the motion that was made on behalf of the Operations Committee to adopt the FY2022 ARMB budget proposal as advanced by that committee.

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

CHAIR JOHNSON also stated that there was a discussion led by MR. GOERING regarding indemnity and defense of Trustees in actions relating to the Board. He said that the discussion was a reminder that they are all fiduciaries and have obligations to exercise those relations appropriately, that the state stands by statutorily to indemnify them for those kinds of actions. He also spoke of how letters come in from the public and suggested a further discussion on how the ideas and thoughts that are presented to the Board should be handled.

E. RETIREE HEALTH PLAN ADVISORY BOARD

MR. BRETZ had nothing to add to his written report on the RHPA board meeting. He did remind the Board about the open enrollment period for retirees with the Dental/Vision/Audio plan, which begins on Tuesday, October 20 and closes Wednesday November 25th. He stated that it will be a passive enrollment meaning if no action is taken their plan will remain the same.

8. LEGAL REPORT

MR. GOERING stated that all the litigation matters he has been tracking and reporting on are only tangential to their work and none of them have particular status. He also noted that a public participant mentioned a case involving the Tax Credit Bond Corporation, which is not directly applicable to the Board's work, but that it will likely have an impact on the Pension Obligation Bond Corporation. He said the state is considering whether or not to request a rehearing on that decision. He also mentioned the changes in the management of the Department of Law, but added that those changes will not affect the quality of representation the Board gets.

9. ACTUARIAL RESOLUTIONS - FY22 CONTRIBUTION RATE SETTING

CHAIR JOHNSON stated there are a series of resolutions for motion, Resolutions 2020-07 through 09 relating to PERS, Resolutions 2020-10 through 12 relating to TRS and 2020-13 relating to the

National Guard. MR. WEST directed the Board to a summary letter from Buck dated August 20th to Ajay Desai, Director of DRB that lays out the percentages.

INFORMATION: HISTORY OF PERS/TRS EMPLOYER CONTRIBUTION RATES

ACTION: Relating to FY22 PERS Contribution Rate - Resolution 2020-07
CHAIR JOHNSON stated:2020-07 states that the fiscal year 2022 actuarially determined contribution rate attributable to employers participating in the PERS is set at 30.11 percent, composed of the contribution rate for defined benefit pension 20.89 percent, the contribution rate for post- employment healthcare of 3.12 percent, and the contribution rate for defined contribution pension of 6.10 percent.

ACTION: Relating to FY22 PERS RMMI Contribution Rate Resolution 2020-08 Relating to FY22 PERS ODD Contribution Rate Resolution 2020-09

CHAIR JOHNSON said for 2020-08, also relating to PERS, the resolution states: for fiscal year 2022 employer contribution rate for the retiree major medical insurance for the Public Employee's Defined Contribution Retirement Plan is set at 1.07 percent. And under 2020-09 the resolution calls for the fiscal year 2022 employer contribution rate for public employees' occupational death and disability benefit rate is set as 0.68 percent for peace officers/firefighters, and at .31 percent for all of the Public Employee's Defined Contribution Retirement Plan employees.

A roll call vote was taken, and Resolutions 2020-07, 08, and 09 were unanimously adopted.

ACTION: Relating to FY22 TRS contribution Rate - Resolution 2020-10; Relating to FY22 TRS RMMI contribution Rate Resolution 2020-11 Relating to FY22 TRS ODD Contribution Rate Resolution 2020-12

CHAIR JOHNSON stated that the next motion that will be advanced by the committee is the consideration for adoption of Resolutions 2020-10, 11, and 12 relating to TERS and asked MR. WEST if he would make the motion.

MR. WEST so moved the motion.

CHAIR JOHNSON explained that 2020-10 calls for fiscal year 2022 actuarially determined contribution rate attributable to employers participating in the TRS is set at 31.85 percent, which is composed of the contribution rate for the defined benefit pension of 22.51 percent, contribution rate post-employment healthcare of 2.98 percent, and the contribution rate for defined contribution pension of 6.36 percent. He further explained that Resolution 2020-11 for fiscal year 2022 employer contribution rate for the retiree major medical insurance for the Teachers' Defined Contribution Retirement Plan is set for 0.83 percent, and Resolution 2020-12 calls for the fiscal year 2022 employer contribution rate for teachers' occupational death and disability benefit rate is set as 0.08 percent for all Teachers' Defined Contribution Retirement Plan employees.

A roll call vote was taken, and Resolutions 2020-10, 11, and 12 were unanimously adopted.

ACTION: Relating to FY22 NGNMRS Contribution Amount Resolution 2020-13

MR. WEST stated that there is a resolution concerning the contribution rate to the Alaska National Guard and Naval Militia Retirement System and that they are calculated in a different way. He explained it is a dollar amount contribution rather than a percentage of total payroll type contribution.

MR. WEST read Resolution 2020-13, stating that the fiscal year 2022 contribution amount for the State of Alaska, Department of Military and Veterans Affairs to the Alaska National Guard and Naval Militia Retirement system is set at $737,551.

A roll call vote was taken, and Resolution 2020-13 was unanimously adopted.

INFORMATION: JRS CONTRIBUTION

MR. WEST stated that in the packet is information regarding the JRS contribution amount which has another set of rules. He explained that it does not require any action by the Board because it works differently than the others. Their rates are established by the Commissioner of Administration based on some of the same processes.

10. "IS VALUE DEAD?"

MR. HANNA introduced Brandes Investment Partners by explaining that the value investment style has underperformed the growth investment style of the past decade with significant additional underperformance in 2020 with the tech-dominated stock market rebound. He went on to introduce MR. TAYLOR, client portfolio manager and MR. WOODS, CEO to give an update on the performance.

MR. WOODS explained that he was going to focus on the style of value investing. He said that this past year has been a train wreck for value as a style. Referring to Slide two he pointed out that there are a number of periods in which value has done better and periods where growth has done better. Referring to Slide 3 he said that over the past five years, value has dramatically underperformed in every geography and across capitalization and has been undermined for the past five to 10 years regardless of where they are investing. He also stated that value has lagged growth across all geographies in the year ending in June, anywhere from 19 to over 30 percent. He said that the driving factor for this has been businesses and industries changing as a result of technology which has been an important fundamental factor that has driven the performance of the various portions of the benchmark over the last 10 years. He also said that looking at Slide 6 it shows that there has been a big shift in money from active to passive over the past 10 years or so. He said that there has been positive earnings growth outside the U.S. where economic conditions have not been as robust as in the U.S., but there has been growth in earnings of value companies over the last decade. He stated the P/E multiple has gone down on value stocks, and has gone up on growth stocks. He said that the key reason has to do with interest rates. He digressed into valuation saying that fundamental investors in the market care about how companies generate cash flow. A key component of the way market thinks about business is to put a price on current earnings and as investors, they are trying to come up with what the appropriate price-to-earnings ratio. They look at what the current clean earnings of the business or market they are looking at, they look at discount rates which has two components, one is a risk-free rate, then the risk premium for the company or the asset class. He stated that there is no question that the global economy has changed over the past decade and will continue to change going forward. He said that a lower risk-free rate means the lower discount rate for value in companies, and that lower discount rate means a higher P/E and a lower earnings yield. He said that he personally thinks that rates will remain low for a long time but if an uptick in rates occur and move from the 6 percent discount back up to 8 percent, there would be a reversal of what has taken place over the last decade and it could be very beneficial to value.

MR WILLIAMS stated that the Feds are saying they are going to keep the rates near zero through roughly 2023, that they are concerned about the economy, and that's going to do it. He said it is an indication that value is going to struggle at least through 2023 and asked if there was an upside to value possible.

MR. WOODS stated that the drop in interest rates has changed the way the market prices the various equities. He also said that it makes sense to maintain exposure to value and that to some degree maintaining exposure to value is probably prudent because there is a chance that interest rates will rise.

MR. WILLIAMS told MR. WOODS that if he were to summarize his presentation he would ask "Is value a dead horse" "No, but it's a sick horse that maybe has pneumonia, that can't stand up, but it may get better and may stand up again. Maybe it's not going to gallop, but it might get to a trot. Is that kind of accurate?"

MR. TAYLOR stated that he would go for a mule analogy in that he thinks we are a sturdy, slow mule that has a good footing, and we are currently walking through a very uncharted path that does not have good footing. He also suggested it may be more of a sturdy, surefooted mule that had not gone very fast in the last decade, but has the chance to keep going forward.

MR. HIPPLER asked MR. WOODS if he thought value is fairly priced right now or was he contrarian and more bullish on value than he thinks the market is, and does he disagree with the market.

MR. WOODS stated that he thinks the value portion of it looks quite attractive, that there are numerous equities that are very expensive, and they are not interested in owning. He said he thinks that the market is a bit too pessimistic about the value of the benchmark. It has been underperforming and people don't want to own it, but he believes that markets are generally efficient with pockets of volatility that provide great opportunities.

MR. TAYLOR stated that over the last 300 years there have been a number of these growth structural changes including the 1700's with the industrial revolution in factories, the early 1800's with steam, the late 1800's with steel, and the early 1900's with oil and mass production. He stated in all of these periods' growth has dramatically outperformed value, but all that value tends to outperform growth over those long periods of time as those structural shocks are absorbed into businesses and economies.

11. INTERNATIONAL EQUITY MANDATES UPDATE

MR. TAYLOR stated that value has lagged the growth a bit, but noted several updates since the report was submitted. He said the portfolio has returned 5.2 percent versus 4.3 percent for ACWI ex-U.S., and 4.5 for ACWI ex-U.S. value in August. September is up 1.2 percent versus .4 and .1, so year-to-date the portfolio is down about 13.8 percent versus 13.9 percent for value, with an account value of about $282 million. He said concerns over Brexit over time has allowed them to find companies that were undervalue to them, but some of those have bounced back such as Kingfisher, which is a European version of Home Depot. Kingfisher was up almost 20 percent so far in the third quarter. He stated that the portfolio top 10, meaning those with the largest allocation in the portfolio, are names that probably do not come to mind in terms of value. He said it is comprised of several pharmaceuticals, building products, some food, staples and a little bit of oil and gas and consumable fuels, which are integrated oil companies.

MR. TAYLOR explained that we are in a similar area as we were in the tech bubble when value has been down that it can be spring-loaded for a relatively good performance and then value does well. He then turned the presentation over to MR. WOODS.

MR. WOODS said that they rotated the portfolio adding to things that they liked and some new things. He said that when they aggregate all of the investments and look at them on a combined basis, the portfolio is very attractive. He went on to say that they appreciated the opportunity to speak with the Board today and hope that they can be of assistance going forward.

MR. HANNA said Brandes is part of a style-neutral pair with growth manager Baillie Gifford and pointed out that both managers have materially outperformed their respective style indices. He also made several observations regarding the dynamic between growth and value being different than it has been historically, and growth faces some additional headwinds with regulation and deglobalization impacting tech and growth more than they do value. He said growth is very expensive, while value is quite cheap and has high yields and more consistent earnings. In response to MR. WILLIAMS' question about Fed impact on growth and value, MR. HANNA said both markets were down broadly today, noting the percentages of the Russell 3000 growth index versus the Russell 3000 value index. He said that's just one day, but that it does point towards how both sides are priced at some level.

12. UBS REALTY INVESTORS LLC & UBS FARMLAND INVESTORS LLC

MR. HANNA introduced this presentation by explaining that there are two things to keep in mind, the first being the need to make each asset class work harder during a time when both earnings and yields are likely to be lower and diversification more important than ever. The second is an increased risk of higher inflation per an announcement from the Feds explicitly targeting higher inflation. He stated that the next presenter, UBS, manages two investment mandates for the ARMB, a private real estate separate account of $628 million and a private farmland separate account of $596 million. They are also in the process of integrating the ARMB's other farmland separate account of $286 million. He then introduced MR. MAGUIRE and MR. McCANDLESS.

MR. MAGUIRE reported that in over 28 years of actively investing in real estate on behalf of ARMB they have produced a gross return of 9.6 percent which comes to an 8.91 percent annualized net total return since 1998. He also stated that at the end of the second quarter the account consisted of 12 assets totaling just under $628 million in value and an average property of $52 million which includes apartment complexes, industrial, office, and retail. He said that the account they manage on behalf of ARMB is diversified with heavy emphasis in the industrial sector which is the real strength of the portfolio. There is room within the apartment side to deploy additional capital. Geographically the account has more emphasis in the West, strong exposure in the East, lighter in the South which have had somewhat volatile growth markets. There is relatively light exposure in the Midwest which is typically a challenging NCREIF region to invest. As far as the retail sector, it is underweight compared to ODCE. He also stated that the highlights of the separate account performance for the fiscal year that closed on June 30th shows a 6.24 percent net total return for that period. There were value gains driven by the industrial and apartment assets and we were able to reduce commercial lease rollover exposure by 30 percent. The focus for the current year is to maximize rent collections. He stated that because it wasn't easy for tenants to find another place to live due to COVID-19, keeping tenants was easy as well as increasing the rents in a very prudent and careful way to not attract adverse publicity. Attracting new tenants was a different story. They had to cut the asking rent to get people to come to the property.

CHAIR JOHNSON asked if there was a way to extend the scope of owner liability for COVID compliance issues.

MR. MAGUIRE stated that he was sure that would come, but that they are doing the best they can to be a responsible landlord. If there are plaintiff attorneys looking around for clients and potential cases, they will have to prove where the COVID was caught. That is why they make sure people coming in and out, visitors or employees, follow the rules which are clearly posted and enforced as necessary with either building security and/or building ambassadors. As far as the retail account with grocery-anchored centers, where retailers have their own entrance for customers, it is simpler than an enclosed mall or other enclosed building. The grocer anchors did unbelievable business due to COVID stocking. There are two very solid grocer anchors, Publix in Florida, the dominant grocer in that area, and Whole Foods in a suburban Boston shopping center.

MS. HARBO commended MR. MAGUIRE on renewing the leases on the two properties, one in California and one in Virginia for the office space, but asked if he was anticipating any problems in the future as people were getting used to working from home.

MR. MAGUIRE stated that there is a lot of uncertainty in the office sector due to people working from home and not knowing if people will return to the office space. However, they have seen a real change in the amount of square footage per employee, so offices are becoming increasingly densely packed, which is not the best situation in the age of COVID and people are going to be hesitant to be in that situation. Employers are going to have to provide employees with more square footage per employee. He feels that CBD office buildings will be more deeply impacted than suburban office locations due to public transportation issues, including elevators with a four-people-max per elevator. While suburban office buildings have maybe four to five floors and at the end of the day a person can take the stairs to get to the parking lot.

MR. WEST asked if it was correct that there were only two retail properties - one in Massachusetts and one in Florida. He also asked if there are any properties in central business districts in major areas that might end up being involved in some sort of rioting or looting event -- is there insurance in place to protect these properties?

MR. MAGUIRE stated that there are no true CBD office buildings in the separate account. The closed one is a building in northern Virginia that was acquired on January 1st and is kind of a transit node area. The other asset is in Glendale, California and in both cases no problems with any sort of protests, rioting or vandalism at either location. Should there be a problem, they are adequately insured.

MR HIPPLER asked if there were currently any federal laws that impact the ability in the residential sector to evict tenants?

MR. MAGUIRE stated the CDC issued some guidelines that impact evictions and they have to follow any state law mandates. They are careful about evictions, preferring to work with the tenants instead. He also stated that the collection rates from the residential tenants is in the 90th percentile in terms of tenants being billed.

MR. HIPPLER also asked how often the market value of the separate account properties are evaluated.

MR. MAGUIRE stated that they are appraised each quarter for each property.

MR. MAGUIRE introduced MR. McCANDLESS from AgriVest.

MR. McCANDLESS stated that he heads up the Farmland Investment unit for UBS. He said that the Midnight Sun portfolio, which is the name of the entity that holds title to the farmland properties has a current gross asset value of all the properties in that fund and in that portfolio is a little over $600 million, the farmland value is $593 million, and the cost of those properties is $366 million. There is a little over 97,000 acres, or 152 square miles in 113 different states and 67 of those properties grow over 25 major crops. The investment strategy for this portfolio is core diversification, which means the holdings in the property reflect the investment universe of farmland in the U.S. This portfolio is currently underweight in permanent crops and in vegetable crops - the target is 60-20-20 so there is room to grow. The efforts going forward this year are to emphasize acquisitions in the permanent crop space as they have a tendency to generate more cash returns than they do appreciation and bolster the cash return segment of this portfolio. These holdings are primarily in California, Idaho, Colorado and Arizona. One other point he made was that they distribute cash out of this portfolio every quarter, and since inception they distributed back a little under $200 million. Another thing they do with the portfolio is to renovate properties. Last year they renovated the apple orchards by changing the varieties to some of the newer, more popular varieties. They don't cut down the entire orchard, they do it in pieces - 38 acres here, 18 acres, 44, 14, 28 and so on, they focus on planting a higher price apple which takes about four years for the trees to produce, so there is some lag time between when the trees are planted or grated, and when they actually start to produce income. The leases on these properties are all participating leases so income is generated off the percentage of gross income from the sales of the produce. He also stated that a property in Texas sold for $9.9 million that was originally purchased for $3.3 million. The same thing happened with a property in Idaho, both sales were an unsolicited offer.

MR. WILLIAMS asked how the two properties were sold for the same amount - if it was just a coincidence. He also asked if any of the properties in the portfolio have been affected by the fires or hurricanes.

MR. McCANDLESS stated that both offers for the property were unsolicited, which they generally turn down, but in both cases, they kept coming back with higher offers and UBS felt it was a good opportunity to redeploy the money in other properties. As for the hurricanes and fires -- there is a grove in Florida that went through a hurricane which took down several trees in a 1,000-acre grove and is in the process of replanting those trees, most of which are back in the ground. As for the fires, there was a vineyard in the Carneros region of the Napa Valley that was affected by the fires, but the grapes had been harvested prior to the fires. Another problem with fires is smoke taint the grapes which affects their taste, and would be rejected for wine. This would impact the tenant which would then impact the return because those properties are leased on a percentage of gross income basis.

MR. ERLENDSON asked to what extent is access to water changing.

MR. McCANDLESS said new regulations were established in California that have favorably influenced the holdings in the portfolio because they are in excellent areas where there is excellent water which is reflected in some of the valuations in some of those irrigation districts. During the California drought, the California portfolio was one of the best performing segments of the entire portfolio due to the fact that the water is really good.

13. CONSULTANT EVALUATION OF REAL ASSETS PLAN

MR. HANNA introduced MR. ROBINSON and MR. GOULD of the Callan Group.

MR. ROBINSON said when Callan took over the consultant responsibilities, they went through an extensive portfolio structure review and strategic plan which resulted in several recommendations which they are in the process of implementing. He reminded the Board of the role of real assets and that they are in the portfolio for competitive returns, diversification benefits, and the income component. He stated that there are four main categories going up the spectrum from core, core-plus, value-added, and opportunistic, with most of the allocation focused on the core and core-plus. At this point he turned the floor to over to MR. GOULD.

MR. GOULD stated that the markets were in good shape at the end of 2019 aside from some issues in the retail sector, but overall, the market was strong. He said that COVID-19 has had a massive impact on real estate with the shelter-in-place and other economic shutdowns that have changed our lives and the way we go to work and shop. The two primary impacts of the real estate market have been rent collection and almost a complete halt of transaction activity. It makes valuations very challenging; appraisers don’t have a lot of comparable sales to work off of which impacts the entire market, but also, liquidity has dried up. However, with people shopping more and more from homes, industrial logistics is performing very well. He stated that the return impact so far has been not as significant. During the first quarter when the shelter-in-place started it was too early to know in terms of valuations, but in the second quarter we started to see some depreciation. As more transactions start to bounce back and people get a bit more clarity on what the overall impacts are towards the future and what the new normal is going to look like, we hope to see more clarity on how those returns will shake out. It really varies a lot by property type, with retail driving the negative returns in the second quarter. He said that vacancy has had a long-term decline coming out of the Global Financial Crisis and they have not quite up-ticked yet as a result of COVID, but it is expected to increase in the coming quarters. As far as NOI growth, it has been a cash hurt so far in the numbers, again, retail leading the way. There is a significant decline that occurred, but others have dropped as well, indicating that with lower rent collections in income, the ability to generate NOI is decelerating significantly. Transactions are starting to occur and a lot of them are driven on industrial and high-credit-quality tenants in place. A lot of buyers and sellers remain far apart with a wide bid/ask spread. Buyers are expecting a discount, given the pandemic and uncertainty, whereas sellers are still thinking of pricing back at the end of 2019 so there remains a sort of gulf between the two. He said that there is a lot more public market volatility that is attached to the REIT market, it dropped quite a bit at the beginning of the pandemic as the public equity markets fell. They have recovered, but have lagged the broader indices, indicating there is a lot of uncertainty regarding real estate. There still remains a discount from public market valuation compared to the implied NAV of the underlying assets. There is a trend of longer periods of a discount that vary by market and property type. He stated that in looking at the ODCE to see where the entry and exit queues are, he found that the exit queues were starting to tick up a little towards the end of last year which had to do with concerns of over pricing and the headwinds in retail. He also said a lot of investors were getting fully allocated to real estate and are now rebalancing.

MR. ROBINSON stated that the impact of COVID has not yet resonated through real estate, but that we know it is coming. He said in looking at the actual returns, while there is a timeframe where there was some underperformance, the portfolio has outperformed. He stated that diversification has certainly helped with this. He said that the portfolio has been outperforming the comparative NCREIF Total Index, which is something they like to see.

MR. WILLIAMS stated that he was surprised to see that it seemed more positive than what he expected due to everything with COVID. He asked what are the peers, are they comparing different things, or are they the same things?

MR. ROBINSON stated that the impact has not been felt. The values for the quarter for private real estate had already been established, so returns were positive for the private real estate market for the first quarter. The second quarter did not show a decline either. The core products were able to have a better sense of where they thought they should mark down their assets, because they have more occupancy and know their tenants better, and can make better assumptions. The non-core side has a lot more uncertainty because they are in the process of constructing buildings or leasing or re-tenanting. He said they anticipate that the broader market will catch up, and they will start to see the actual returns for the entire database go down a bit more.

MR. WILLIAMS asked if it was accurate to say that the portfolio is not in the lowest 25 percent of performers, and our returns may reflect the impact of COVID more so than some of the others in the database.

MR. ROBINSON stated that that was correct. He said there was a wide variance within the core space for the second quarter of 2020 and that the non-core space was even wider.

MR. WILLIAMS asked if it would be accurate to say that there will be above-median returns for one quarter and can we get an idea of how we are doing in terms of real assets by looking at the longer-term ones and seeing we are at or usually above the median in a lot of cases?

MR. ROBINSON responded yes, even in times of non-COVID, they prefer to focus more on the longer term because of the way the assets are valued. He moved on to infrastructure, explaining similar to real estate these assets are valued quarterly. He highlighted that the Board has two infrastructure managers and while there was consideration of consolidating due to the fact one was outperforming the other, they decided to stick with two and both are contributing, just at different times. Moving on to timberland, he said this has been somewhat of a disappointing asset class, within the market as a whole.

MR. ROBINSON reminded the board that they did a lot of work last year establishing a new plan and reviewed the strategic plan objectives. He said there is one mild recommendation – allowing your core separate account managers to utilize some leverage. The intent is that it will increase diversification and enhance returns, particularly in a low-interest-rate environment.

MR. HIPPLER asked if they are able to measure the theoretical decrease in risk form diversification versus the theoretical increase in risk from increasing leverage?

MR ROBINSON stated that it is hard to quantify the benefits of the diversification versus the use of the leverage metrically.

MR. HIPPLER then asked when the real asset portfolio returns are lagging below the index, is it because the index includes leverage, or is part of that because the index includes leveraged returns?

MR. ROBINSON stated that it is because almost all of the index or your peer groups includes leverage. He also stated that the exception is the NCREIF index, which does not include leverage, but added most benchmarks do. He said the peer group includes leverage, and not using leverage makes you more of an outlier.

MR. HIPPLER asked what enhancements would a 20 or 30 percent leverage have provided, if you could look back over the last three, five and seven years?

MR. ROBINSON said he did not have that information, but that they could definitely get back to you on that.

CHAIR JOHNSON asked if enhanced benefit from leverage exists until you get above 30 percent.

MR. ROBINSON stated No, there is consistent benefit from leverage below that with respect to core real estate.

MR. HIPPLER stated that slides on pages 20 and 21 are compared to non-leveraged funds, so leverage is not a key difference on those slides and that the portfolio is lagging for reasons other than leverage. MR. ROBINSON said that was correct, but also slides 20 and 21 reflect timber and farmland and we are recommending you consider leverage for the core real estate and not for farmland and timber.

MR. HIPPLER asked if it was possible for a portfolio of this size to invest in an index such as

NCREIF and if there was an index fund that they can invest passively, or do they need to be active to make the index?

MR. ROBINSON said there is not an index option for these on the private side.

MR. WILLIAMS asked if they were actually seeing different strategies between the two managers and whether a negative correlation exists.

MR. ROBINSON said the consideration to consolidate was driven by a variety of factors, including fees, but that both staff and Callan concluded that for infrastructure it's best to keep that diversification broad and use two managers. It was less about true inverse correlation and more about broad diversification.

14. REAL ASSETS FY21 ANNUAL PLAN

CHAIR JOHNSON introduced MR. SIKES.

MR. SIKES stated that he will be recommending some changes to the portfolio, but the FY 2021 plan is a stay-the-course approach. The portfolio is performing consistent with expectations since the COVID pandemic began. He stated that it was not a surprise given the primarily core nature of the portfolio which should provide protection against higher-risk market conditions. He said that as of June 30, the real asset portfolio made up 13.6 percent or ARMB's portfolio with investments in real estate, farmland, timberland, infrastructure and energy. The role of the portfolio is to diversify, provide current income to help pay benefits, provide inflation hedge, and to provide attractive total returns. The return expectation is to have net returns between stocks and bonds over rolling six-year periods. He stated that if the economy recovers and REITS will remain low, the real assets portfolio should do relatively well going forward. He said the Board approved a number of changes at the June meeting that are expected to improve the cost and fee structure of the portfolio and also refine the strategic focus. He summarized the changes as follows: ARMB's open-end real estate fund position is being consolidated with the BlackRock Core Property Fund; the Sentinel Real Estate separate account was allocated an additional $125 million; ARMB's two farmland separate accounts are being consolidated with UBS; and ARMB's two timberland separate accounts are being consolidated with TIR. He said that value of the portfolio was just under $1.3 billion as of June 30 with approximately 50 percent of the portfolio in core separate accounts representing 15 properties. An additional 27 percent is in core open-end funds, 6 percent is in non-core funds and 18 percent is in domestic publicly traded REITs. He said that the UBS and Sentinel separate accounts have consistently outperformed the NCREIF ODCE Index over longer time periods and the BlackRock Core open-end fund has also had a good track record inside of 10 years. These portfolios are the foundation of the real estate portfolio and create a well-diversified exposure to core real estate built around current income. He stated that for the fiscal year 2021 plan for real estate he has two recommendations. The first is to add $20 million to the UBS allocation to address capital expenditure items for the current properties in FY 2021 budget. The second is to allow separate account managers to employ prudent amounts of leverage in the management of the portfolios, specifically a maximum of 30 percent leverage at the portfolio level and 65 percent leverage at the property level. This is due to the dramatic decline in interest rates and expectations that leverage will increase returns and add diversification to the portfolio. He said ARMB

currently employs leverage as part of its open-end fund investments, non-core investments, and REIT investments and this recommendation is to add leverage to the separate account portfolios managed by UBS and Sentinel.

CHAIR JOHNSON asked for a reminder of what the current allowances are regarding debt, the use of leverage in the separate account section.

MR. SIKES stated that the current guidelines do allow leverage in the separate accounts in a fairly unique form that has never been used. He said it allows debt on pools of assets which requires additional Board approval. In the past there was talk about not doing single mortgages, which is what he is proposing, but rather issuing debt on a pool of account assets.

CHAIR JOHNSON stated that in his recollection with ASPIB is that there was opposition to it - the Board based it on hypothetical problems.

MR. SIKES said that every year he would ask the managers what improvements they would recommend and every year they have wanted to put leverage on the properties. This year with the move in interest rates, there is a decent spread between where he thinks the Board can borrow and where he thinks they can invest.

MR. SIKES explained that for FY 2021, the plan is to focus on a smooth transition from moving the Hancock Farmland portfolio to UBS, which has an additional $100 million in allocation that it will be able to invest. The only change being recommended is to adjust the crop type weights back to 80 percent row, 20 percent permanent target from the current 60/40 weight. The portfolio is currently 86 percent row, 14 percent permanent, so the 80/20 is more consistent with the current profile. There are no changes recommended in either timberland or infrastructure.

CHAIR JOHNSON asked if there were any questions for MR. SIKES before moving to the action item.

MR. HIPPLER asked if any members of the Investment Advisory Council had any comments on leverage of the real estate portfolio.

DR. MITCHELL said leverage depends on the person or the institution using the leverage and that the managers that the ARMB has know what they are doing. He stated that it would be a good idea to approve the recommendation.

MS. RYERSON said she agreed with the previous comments and it will help improve our returns.

CHAIR JOHNSON asked if MR. SIKES recommendations have the full support of Callan, as real estate advisors.

MR. SIKES said they do.

MS. ALEXANDER said DR. JENNINGS wrote in the comments that he supports the recommendation

and former IAC member GEORGE WILSON long thought it's something the ARMB would benefit from.

MR. HIPPLER asked if the Board should consider leverage in other areas and where do the benefits of leverage end.

MR. SIKES said he did consider including leverage in timberland and farmland, but given the somewhat low returns for timberland and lack of a tangible kind of contractual cash flow yield, it did not have the appeal as it does with real estate. He said he is thinking about leverage on the overall farmland portfolio, but that he is not ready to recommend that to the Board at this time.

Adoption: Real Assets FY21 Plan & Policies Discussion

ACTION: Real Assets FY21 Annual Plan Resolution 2020-14
MR. SIKES recommended the ARMB approve Resolution 2020-14, which adopts the real assets annual investment plan for fiscal year 2021. MS. HARBO moved to adopt the Resolution. MR. WEST seconded the motion.

A roll call vote was taken, Resolution 2020-14 was adopted unanimously.

ACTION: Revised Investment Guideline Resolution 2020-15 - Real Estate
CHAIR JOHNSON stated that they have the Revised Investment Guideline, Resolution 2020-15 regarding real estate and asked for a motion on that. MS. HARBO moved to adopt the Resolution. MR. WEST seconded the motion.

MR. WEST asked that they review Section D, Prudent Leverage, on page 6. It still has language that says, "With the authorization by the ARMB, the Chief Investment Officer may place leverage on a pool." He said he thought that language was going to be eliminated.

MR. SIKES stated that language will remain but will need to come back to the Board to get approval.

MR. HANNA stated that he is in support of leverage, as MR. SIKES has proposed and that he has no trouble with the removal of the pool leverage sentence.

CHAIR JOHNSON asked what could go wrong by keeping at least the Chief Investment Officer approval process in place. He stated that there is a motion on the floor which takes into account the document presented prior to removal of that and asks if there is a motion to amend the previous motion.

MR. WEST moved to remove the last sentence in the first paragraph under "Prudent Leverage." MS. HARBO seconded the motion.

A roll call vote was taken, and Resolution 2020-15 as amended was adopted with one opposition (CHAIR JOHNSON), and with two trustees not present (MR. MOEN and COMMISSIONER TSHIBAKA).

ACTION: Revised Investment Guideline Resolution 2020-16 - Farmland
MR. SIKES stated that 2020-16 relates to revising the target crop rates from 60 percent row, 40 percent permanent to 80 percent row, 20 percent permanent. The plus or minus 10 percent bond will stay. He said a cleanup item is the removal of the reference at the bottom to the inflation index used to calculate the actual real rate of return. The sentence containing "CPI All Urban" is being removed as it is not relevant.

MS. HARBO moved 2020-16. MR. WEST seconded the motion.

A roll call vote was taken, and Resolution 2020-16 was adopted unanimously.

15. PERFORMANCE MEASUREMENT, 2ND QTR

MR. ERLENDSON explained the market overview regarding the capital markets in the broader economy. The initial report was that the U.S. GDP contracted by almost a third at the end of the first quarter and the COVID affect started to take off towards the end of February through March. It was adjusted slightly so that the second revision has GDP shrinking by 31.7 percent. 70 percent of GDP is consumer spending which during February through April, U.S. consumers quit spending and started saving money. The savings rate jumped from 9 percent to 13 percent and when the stimulus checks came out it jumped to almost 34 percent, the retail and hospitality sectors where hit the hardest. He said the inflation rate was less than 1 percent and the Federal Reserve has said that they have a target rate of 2 percent and with interest rates down the expectation is for longer-term returns. The International Monetary Fund projection that was established in April and updated in June, shows that expectations for economic growth have declined. In the Euro area it is down by about 10 percent negative growth for the entire calendar year. For the U.S. it's about negative 6-plus percent. Two of the largest emerging economies in the world, China and India are positive. The Gross government debt as a percent of GDP, the U.S. has been above 100 percent of GDP for about a year. The U.S. is at its highest amount of debt relative to the underlying economy since WWII. He said that Corporate America believes that whoever is sitting in the Oval Office is going to have to take a look at the raising business taxes to pay the extraordinary amounts of debt that have been issued by government. He said that the Federal Reserve, in an effort to keep investors interested, purchased Treasury bonds, government-backed mortgages, and went so far as to purchase investment-grade corporate bonds including Apple, Home Depot, and Microsoft. The balance sheet for the Federal Reserve is around $7 billion and they purchased about $7 billion of corporate securities. The bond market in the U.S. is

$10 trillion so although the activity is almost negligible, the impact of that agency of government getting involved in support of the corporate debt markets is notable. He said when there is more concentration in the market about what's doing well, as opposed to all parts of the economy doing well, it means that active managers are going to underperform and that the risks of being in that asset class are concentrated and are greater risk and less participation in the favored parts of the market. From a valuation perspective, the simple P/E calculation suggests that no matter where you go in the equity markets, the expected return going forward is lower. He said there is also an interesting phenomenon that not only is there concentration about opportunity and risk in the domestic economic sectors of our stock market, but when you look at opportunities outside the U.S., there's quite a range of outcomes that take place here. He stated that they are seeing equity valuations are relatively high, but the return on them is the best of the available asset classes. Fixed income yields have been declining. He urged caution in terms of having good managers that are as mindful of long- term risk as they are of short-term gain.

16. HEALTHCARE TRANSFORMATION STRATEGY

MR. HANNA introduced MR. GILLAM, CEO and CIO of McKinley Capital and also explained that McKinley Capital is an Alaska-based investment firm with a longstanding relationship with the ARMB that focuses on selecting equities in companies whose growth rates are accelerating above market expectations. In March of 2019, the ARMB incepted a thematic equity mandate with McKinley known as McKinley Global Healthcare Transformation which seeks to invest in innovative solutions focused on driving down healthcare costs.

MR. GILLAM stated that McKinley Capital is a global firm based in Anchorage with offices in Juneau, Abu Dhabi, Chicago, and New York. They use a data driven methodology and have a partnership with the university system for artificial intelligence and data science. MR. GILLAM'S father founded the business 30 years ago and it is still controlled and owned by the employees. He also said they acquired the McDowell Group earlier this year. MR. GILLAM went on to explain that they have created a search algorithm that identifies companies that are considered healthcare transformation. It does not matter what country or what sector they are defined in, if their business is levered towards better, faster, cheaper delivery of healthcare, then it counts. He said they have about 2,700 securities is this category and they go through the normal McKinley process of identifying companies that have the risk-adjusted return and acceleration we like. They perform qualitative reviews to ensure that they get positive earnings surprise.

MR. HIPPLER stated that McKinley's underweight to Japan seems consistent and asked if that was intentional.

MR. GILLAM stated that everything they do is bottom-up-driven, that not as much transformation is going on there. The strategy that they use was designed to go after those that have the highest amount of innovation and transformation and there is not a lot of that in Japan at the moment.

CHAIR JOHNSON asked with respect to the significant investment in China, what problems are they anticipating with respect to the trade war issues between China and the U.S.?

MR. GILLAM explained that all of the growth from China is coming from their population, so their companies are serving the Chinese population, the trade war is not going to impact the generation of earnings from those companies. He also stated that they do not own ADRs in any retirement plan, so that is a risk mitigator. He also mentioned that the U.S. dollar is weakening and has been substantially weakening in the last couple of months, maybe the last couple of quarters.

(CHAIR JOHNSON recessed the meeting at 4:45p.m.)

Friday, September 18, 2020

CALL BACK TO ORDER

CHAIR JOHNSON reconvened the meeting at 9:00 a.m. All Board members were present.

17. UPDATE ON THE U.S. POLITICAL LANDSCAPE

MR. HANNA introduced MR. MEHLMAN from KKR as the next presenter who will be speaking about the current political climate, upcoming elections and implications for investments.

MR. MEHLMAN started out by explaining that he wears two hats. He is head of global public affairs and public policy which allows him to look around the world to identify important geopolitical, public policy, and societal trends that will affect how they invest. He is also co-head of a global impact fund. They have invested half of their $1.3 billion with 10 investments in companies that are achieving private equity returns by investing in lower and lower-middle private equity companies, or companies with a private equity lens and private equity strategy. He said that a good macro bet would be one that is adapting and mitigating the impacts of climate change, so investing in companies that help with energy efficiency, that convert waste to energy, and reduce the amount of energy that a particular operator uses, that reimagines the supply chain of buildings, and that deal with the impact of extreme weather. He said another one is workforce development. The majority of our workforce is being displaced because of technology, even before COVID, and suggested figuring out hybrid ways to teach people throughout their lives, using a combination of online and coaching. He stated the third area of focus is how do you manage waste in a differentiated way? They essentially identified four or five very large macro trends and try to invest around it.

MR. MEHLMAN changed his focus to the upcoming elections and stated that in his opinion if the election was held today Vice-President Biden would win the election. The polls show he is up about 7.7 percent. The electoral college today favors Republicans over Democrats, this is due to President Trump, he has an affinity of winning the votes of non-college-educated white voters that are a plurality, if not a majority of the electorate in states like Michigan, Pennsylvania, Wisconsin, Minnesota and the upper Midwest. In order for Biden to win, he has to win the popular vote by about 4 percentage points, anything less and the same thing could happen to him as what happened to Secretary Clinton in 2016. He also said in history the economic performance of the election year and the prior year is the most important thing to a president’s likelihood of getting reelected. However, people vote based on attributes, not issues. He said that the three things that matter most to voters is the economy, the attributes of the candidate, not issues, and vice-presidents usually lose. One other point he made was that establishment Democrats usually lose while insurgent Democrats usually win. He also stated that the stock market performance does not indicate who is going to win or lose, they are not correlated. MR. MEHLMAN encouraged the Board to pay attention to who does not vote. He said that for years people said that if everyone voted, the Democrats would always win elections, however in the electoral college that's not true because in the states of Michigan, Minnesota, New Hampshire, Pennsylvania, Wisconsin eligible citizens who did not vote were among non-college-educated citizens. So demographically the non-voters looked more like the Trump voters than the non-voters look like Biden voters. He stated that there is a real chance that the announcement of the winner of the election will be delayed due to approximately 50 percent of the country voting by mail in ballots due to the pandemic.

MR. MEHLMAN said in some ways, the Senate matters more than the White House in terms of policy changes we are going to see and encouraged the Board to pay attention to that. COMMISSIONER MAHONEY asked what MR. MEHLMAN'S outlook for the Senate was.

MR. MEHLMAN stated that he thought it was going to be really close, that most of the competitive elections for the Senate are in Republican states. As of now, there are 46 Democrat seats that are safe and 46 Republican seats that are safe and eight toss- ups. He stated according to the polling, Republicans, as of today, are holding six of those eight.

CHAIR JOHNSON asked what entities such as KKR are doing by way of hedging or considering those circumstances.

MR. MEHLMAN stated that they are systematically looking by industry and by business unit at what is the likely outcome potentially of a Democrat sweep -- keeping the house, winning the Senate, and winning the White House. Under the Biden administration and a Democratic Senate there would be more antitrust enforcement -- Obama-era rules around climate change that were not put in place such as the Clear Skies rule. There would be enforcement of leverage lending limits, tax increases, capital gains differential to be eliminated, an attempt to pass an Affordable Care Act, and a change in prescription drug prices in that environment. The biggest differences in rules would be seen in taxes, energy, and labor rules. There would likely be a large infrastructure bill and the definition of "infrastructure" will be broadly defined. He said they are currently working with their global macro team to study previous periods when uncertainty existed to determine what it means. He said they developed three models. The first model would be what happened on election night; the second model is they will not know what happened on election night but know by the middle of November and; third would be what is each of the two likely to mean around market impact and how companies behave to prepare for that.

MR. HANNA asked from a pure investment perspective, how they think about the kind of headline risk of making China investments, when on their merits are very attractive investments, and how would KKR potentially think about that if they were in our seats running a public fund?

MR. MEHLMAN stated that they had a different idea about China than many people have had in the United States. They look at areas that are less controversial, like food safety or environmental services. He said that state funds will be under more scrutiny from all stakeholders, that legislators and Congress will look at where American pension funds, state funds, are investing in China and pay a lot more attention to it. That any company that supports the Chinese surveillance state is going to be an area to watch.

MR. WILLIAMS asked depending on how the election goes, how much difference is there in China policy, whether it is a Biden administration or a Trump administration?

MR. MEHLMAN stated that he thinks there will be less noise in a Biden administration. During the Obama administration there was a skeptical view of Chinese foreign direct investment through CFIUS, so as a general rule, we are in a period of rivalry regardless of who is in office.

MR. WILLIAMS asked if MR. MEHLMAN sees cases where there would be more opportunity and less risk, or does he see it pretty much the same and it probably will continue no matter what?

MR. MEHLMAN said he thought it would continue.

MR. HIPPLER asked if MR. MEHLMAN sees long-term inflation risks, and do those risks change with the outcome of the election?

MR. MAHLMAN said that he did not think the outcome of the election affects that.

MR. ERLENDSON asked if MR. MEHLMAN was looking at deploying additional capital outside of the U.S. - would he be more concerned about the currency effect, or less?

MR. MEHLMAN stated that he thought that it is definitely worth looking at whether to hedge that in how to structure an investment, and how to anticipate what could happen.

MS. HARBO asked about the impact of the pandemic on New York City and the office building space and the tourism?

MR. MEHLMAN stated that the impacts are good and bad. New York did a really good job keeping the infection rate down to 1 percent for more than a month. However, the office occupancy and building occupancy is very low which is a real problem for commercial real estate and hotels.

MR. WILLIAMS asked how MR. MEHLMAN felt about how the markets have come down overall in terms of adjusting to all the risks?

MR. MEHLMAN stated that he thinks the market is most interested in monetary policy -- the distinction between the big tech companies and everybody else.

18. STATE STREET GLOBAL ADVISORS MANDATES UPDATE

MR. HANNA introduced MS. PARK and MS. APPERSON from State Street Global to update the Board on the status of the money market fund and several passive equity mandates totaling $3.7 billion for both the DB and the DC Plans they manage.

MS. PARK stated that she manages the SSGA State of Alaska relationship for SSGA and that MS. APPERSON is the equity index investment strategist. She said that they manage roughly $1.1 billion for the Defined Contribution Plans and for the Defined Benefit Plan they manage about $2.5 billion. She pointed out that on page 4, the Defined Contribution side, the S&P 500, the Russell 3000, as well as a global equity ex-U.S., which would be the MSCI ACWI ex-U.S. index ended in $1.1 billion for fiscal year-end. As far as MSCI Word ex U.S., and State Street MSCI Emerging Markets index, yearend was $2.5 billion. Page six shows the performance differentials which MS. APPERSON will discuss later in more detail. She said the global equity ex-U.S. index is the third portfolio managed for the DC Plan. She said the reason for such a large difference in the index is because of the way dividends are taxed. The index uses a very high and the most onerous tax rate, where the portfolio is, as a U.S. investor, the Board is not subject to that, so the majority of this outperformance is due to this tax treatment differential. She said one of the benefits of working with a large asset manager is the sheer volume of trading that they do, is that they are able to often transact at zero transaction costs. She said from 2012 to June of 2020 the ARMB has experienced an estimated cost savings of about $7.4 million which translates into about 16 basis points. She stated that the second component in savings comes from their ability to do a securities cross. She explained that if the portfolio wants to buy Apple, but another portfolio wants to sell Apple, they could cross that transaction which is a benefit by being invested in commingled funds.

MS. APPERSON pointed the Board's attention to Slide 6 which includes the performance of the Alaska DC Plans investments in which she referenced the fund total growth performance relative for each index for the last 12 months. The Russell 3000 Index Fund is covering all U.S. securities which had a performance of 6.46 percent. This fund had some modest underperformance, but it is in line with long-term performance. The S&P 500 Fund also underperformed by 2 basis points. Slide 7 shows the return of the global equity ex-U.S. strategy which is also within the Defined Contribution Plans. It is essentially all international markets as defined by MSCI and focuses on large and mid - cap stocks. The fund has outperformed by 45 basis points during the last 12 months. She stated that the fund will have a positive contribution in performance and that is largely driven by dividend withholding taxes. U.S. based investors are able to reclaim a portion of taxes and that was about 34 basis points of that 45 basis points. She said another thing common with DC funds is that they can also experience fair value pricing, so when there are more volatile markets, funds can be fair-valued and that protects investors. So, in addition to the dividends withholding tax reclaims there is impact from fair value pricing.

MR. ERLENDSON asked if MS. APPERSON has any perspective on the utility of an organization like ARMB using a third party as opposed to a custodian as a tax reclaim agent?

MS. APPERSON stated that the ARMB would not have to use a third party as they handle all of that for them because they are invested in pooled funds.

MS. PARK added that typically clients still use their custodian for separately managed accounts to do the reclaims on their behalf.

MS. APPERSON pointed the Boards attention to Slide 8 - World ex-U.S. IMI fund which is all developed markets with the exception of the U.S., but includes large, mid cap and small cap stocks.

The performance was negative 5.14 percent versus the index, which was negative 5.11 percent, so an underperformance of 3 basis points which is primarily fees as well as 1 basis point in security misweights, and in line with what they've seen in the past. The next slide showed emerging markets non-lending strategy with a performance of 3.35 percent for the funds and the index of 3.39. The outperformance within this strategy of about 4 basis points is largely attributed to trading strategies utilized around the index reconstitution as well as the rebalances. There was also income from an India cap gain. MS. APPERSON went on to explain the team shown in the Slides 11 and 12. She said that Slide 13 gives an overview of the AUM which ended the quarter at about $1.8 trillion in assets.

MS. PARK interjected by saying that the total SSGA ending the second quarter was at a little over $3 trillion, two-thirds was from the equity index business.

MS. APPERSON said Slide 15 shows their investment process. She stated that the funds are reviewed daily and the portfolio managers may have to actually make a change to a portfolio even if there are no flows into every fund. Once they do that, they look at the risk/return of the portfolio relative to its index and then make that decision. If they are investing cash or satisfying a redemption, they might utilize futures or look at the internal crossing capabilities. Finally, senior management will look at the entire set of portfolios on a global basis, discuss some of those deviations, and make a plan of action in order to adjust the process or adjust the bands if needed. MS. APPERSON then asked if there were any questions.

CHAIR JOHNSON asked as well. As there were none, he told MS. APPERSON to continue.

MS. APPERSON reminded the Board that the MSCI typically has four rebalances with the November and May rebalances being the most significant because that's when there are actual adds and deletes within the index. She said that the turnover doubled, there was about 90,000 different trades compared to the November rebalance from the prior year was about 30,000 trades. She also mentioned that they were initially going to add Kuwait into emerging markets but with the COVID environment and government closures, they will make that change in November. She went on to say that they do not invest in stocks outside the index but might have things like an ADR or rights to warrants that come up as an actual holding but are not out of benchmark exposure. The S&P fund is very much in line with the index in terms of security misweights as well as the sector. They are holding about 4,000 names relative to the index, which is close to 3,500, despite removing almost 500 names of the index so the portfolio looks pretty much like the index. The emerging markets portfolio is holding a larger number of stocks so despite the fact that there were not any material changes to the index methodology within the Russell suite, this year's was pretty tremendous in terms of rebalance activity.

PERFORMANCE MEASUREMENT - 2ND QUARTER CONTINUED

CHAIR JOHNSON invited MR. ERLENDSON and MR. CENTER of Callan to complete their report.

MR. CENTER stated as a reminder to the Board that standard deviation is a measure of overall volatility of the plans and that it is better to rank lower on the standard deviation chart. The Sharpe Ratio is a measure of a return per unit of risk, or how well risk is being implemented within the plan to improve performance. He stated that the defined benefit plans over the long periods of time have done fairly well relative to the benchmark on a risk-adjusted basis, that over the last year the Defined Benefit Plans have trailed their policy targets. He said that the healthcare plans long-term performance has held up very well relative to the benchmarks and the military plan has historically had a different asset allocation than the other pension plans - it also has its own policy target. The military plan has trailed its benchmark just slightly on a risk-adjusted basis over the long term.

MR. CENTER stated that the performance that they are seeing for the Defined Benefit Plans only reflects about 30 percent of the private equity performance because in Alaska plans do not present lagged performance and instead present actual performance through June 30th. He said about 70 percent of the private equity portfolio has yet to report their actual performance, so there is some missing data in the private portfolio and the private equity portfolio in particular. All of the domestic equity, international equity, and fixed equity portfolio - only 30 percent of those net asset values have been reported as of the data seen today. He stated that PERS, as of June 30th, was slightly overweight to domestic equity and global equity. There was a drastic rebound in the equity markets that resulted in a slight overweight to domestic equity as of quarter end, slightly underweight to the opportunistic asset classes and fixed income, and very minor overweight to real assets and private equity, but overall they were very close to targets. He also pointed out that the asset allocation of the Alaska retirement plans compare to other public funds, particularly, the domestic equity and domestic fixed income asset allocations are very similar to other public funds, but PERS is slightly overweight to real assets and other alternatives relative to other public funds. Overall, the PERS plan is slightly ahead of its target.

MR. CENTER said the PERS plan and TRS plan underperformed the target for the last quarter and the last one year, but has marginally outperformed over the three-year period. He pointed to some of the drivers of the performance including the shift of the domestic equity portfolio to be a blend of passive and factor-based investing or "smart beta", growth in the large cap space, and a slight benchmark mismatch.

MR. WILLIAMS asked how long the Board has to wait before they know exactly where they sit. He also asked MR. CENTER to talk about the bullet regarding current quarter underperformance that was driven by the manager effect within private equity.

MR. CENTER explained that there is no perfect private equity proxy to compare this program against, and historically is has been compared against a blended group of public equity benchmarks. He said currently the ARMB is reporting on their performance "in real time", and the problem with that is much of the private equity performance takes approximately 90 to 120 days to actually report their performance, so a good portion of the private equity portfolio has not yet reported their performance as of June 30. He also said that they prefer to use comparisons over longer time periods rather than short time periods. Over the last year, the private equity program is positive.

MR. HANNA said that one issue is whether to lag the private equity returns or not and there is no lagging at this time, but he noted that they are moving back to lagging them with the June quarter because it makes returns more comparable to the peer set which does lag the private equity returns. With respect to what benchmark used for private equity, it is tricky. He said that over the long term they have adopted a public fund proxy of third/third/third construct. Over the shorter term, on a one-quarter basis, that number is noisy and his own personal point of view is that they spend a lot of time at the Board level discussing that specific issue, and it is not really a relevant comparison on the short-term and doesn't deserve a lot of consideration and discussion.

MR. RYERSON stated that MR. HANNA covered the comparison issue very well.

MR. WILLIAMS said as a Trustee, he sees the bullet that says "underperformance was driven by the manager effect" as a red flag but what he's hearing is that the bullet should have said "The benchmarks for private equity are a little clumsy and aren't perfect, and when you're looking at first-quarter results they're really noisy."

MR. CENTER stated that he agrees with MR. WILLIAMS, but he does not think that the reason the plan is underperforming the benchmark over a single quarter should ever be the reason for believing that a manager is bad, as a singly quarter is a very short window to be making a decision. He agreed the bullet should have been a little clearer to that point.

MR. HANNA said they do an annual review of private equity that will occur at the next meeting in December where they will sync up the returns for various time periods. For the December report they will be comparing the ARMB's private equity performance through June to the Cambridge Private Equity Benchmark and to the public market equivalent to show either premium or deficit in terms of comparison to other actively managed private equity portfolios.

MR. CENTER stated that the five, seven, and 10-year performance of PERS and TRS is at or above the target median, and the long-term period, which is just under 29 years, is ahead of the benchmark by about 7 basis points. As far as domestic equity performance it has trailed the Russell 3000 which is its target benchmark and has trailed it by about 4 percent, the large cap portfolio trails by about 3 percent, and the small cap portfolio by about 5 percent. He reminded the Board that the U.S. large cap equity program is a blend of the S&P 900, passive investment in the S&P 900, and smart beta programs managed against Scientific Beta provided factor benchmarks. He proposed that when they begin the process of going through the asset allocation study in December, they do what Callan calls an equity structure analysis where they look at the overall equity program and either reconfirm the allocation to factor-based portfolios or make the decision to move from factor-based portfolios back towards more traditional cap-weighted benchmarks.

MR. HANNA commented that this year has been particularly difficult for factors, both small and value specifically, and quality as well. That he thinks that it is always important to re-underwrite these things and to have eyes wide open in terms of structural changes in the market.

MR. WILLIAMS agreed that this year has been very unusual, and some things make sense and some things do not. He stated that he likes the idea of sticking with a strategy for a length of time and being consistent.

MR. CENTER stated that he does not think that Callan is going to recommend drastic changes to the equity program, but it is important that the Board understands the existing structure and why that near-term performance has occurred. He said that the Global equity program has done fairly well relative to its target over the last year and is ahead of the benchmark by about 1.5 percent, five years ahead by half a percent and about 70 basis points over the last 10 years - overall it has done fairly well. He stated that Arrowstreet and Cap Guardian, which are two core managers, are both doing very well in relationship to the benchmark. Baillie Gifford and Brandes are both complementing each other very well as they both have divergent performance where Baillie Gifford on the growth side, is outperforming the growth benchmark, and Brandes on the value side, is outperforming the value benchmark. This portfolio is also 40 percent passive with an allocation to the State Street World ex-U.S. CIT and has about a 15 percent allocation to the Legal & General Scientific Beta program as well. He also pointed out that the fixed income for the retirement plan includes internally managed aggregate portfolio which is about 70 percent of the fixed income program, along with some portfolios managed by Fidelity and some alternative fixed income portfolios primarily managed by Crestline. The Alaska U.S. Aggregate portfolio returned 3.5 percent over the last quarter and is about 60 basis points ahead of the Bloomberg Aggregate. The opportunistic fixed income portfolio was also up about 6.7 percent. The opportunistic portfolio includes the tactical asset allocation strategies managed by PineBridge and Fidelity and is about 60 percent of the opportunistic portfolio. The DC Plan shows that about 60 percent of participants are invested in the target date funds with the remainder split between the passive and active investment options. The TRS DC Plan has about 60 percent invested in the target date funds, about $18 million flowed into the plan during the second quarter. The Deferred compensation Plan has only about 20 percent participants invested in the asset allocation funds, with the remainder split amongst the various active and passive investment options. The Deferred Comp Plan is slightly cash flow negative where about $2 million flowed out of the plan on a net basis during the quarter. The SBS Fund has about 60 percent invested in the target date funds and is slightly cash flow negative where about $3 million flowed out of the fund during the quarter.

MR. CENTER moved on to discuss the money market options within the DC Plans. He said the BlackRock Strategic Completion Fund is the new multi-strategy inflation-focused investment option which returned about 7 percent during the quarter, but has performed in line with its custom benchmark. The Stable Value Fund continues to be a top decile performer, the International Equity Fund, which is a multi-manager white label fund with Baillie Gifford and Brandes, has performed very well over the last three years. And the Northern Trust ESG Fund, a new passive ESG option, is also performing in line with its benchmark over time. The only real active U.S. equity option is the T. Rowe Price small cap fund which has performed above median over the long term.

MR. WILLIAMS asked if all of the passives are 100 percent pure passive, or is there things where it is mostly passive, but with a little bit of a tilt on it - either passive or active?

MR. CENTER said that everything here is passive. For some benchmarks the only way an index provider is able to offer something that is similar is by using stratified sampling. They created a system to mimic the performance of the benchmark by buying securities as close to the benchmark as possible in a cost effective manner.

MR. HIPPLER asked if other funds examining and lowering their targets for what fixed income can generate going forward because interest rates have come down so far and have given robust returns on fixed income as interest rates have fallen?

MR. CENTER stated that when they perform the next asset allocation study in early 2021, they will be using Callan's new capital market expectations. He said they revise their capital market expectations every year and because of the movement seen in interest rates, there will be a lower expected return for fixed income over the next 10 years embedded into Callan's capital market expectations. He stated that they are definitely lowering their expected return of traditional fixed income in the new capital market expectations.

MR. ERLENDSON referred to the BEER Ratio and commented that with interest rates being so low that people are looking for ways to enhance the yield that they achieve from their fixed income portfolios.

CHAIR JOHNSON asked if there any final comments, questions for MR. ERLENDSON and MR. CENTER before moving on. As there were none, CHAIR JOHNSON suggested to MR. HANNA that they take the investment actions requiring votes first and then deal with the ARMB delegations to staff as a report afterwards.

MR. HANNA stated that one of the actions is the actual delegation to staff and the brokerage option is going to be a DRB action item.

1. INVESTMENT ACTIONS/INFORMATION ITEMS

MR. PUCKETT said that the criteria that Treasury and DRB used in investigating the different options that were available were cost effective compared with other possible platforms, smooth integration with the participants' accounts and investments, participant ease to utilize and discontinue, and also robust research and information resources. The recommendation is that the ARMB direct staff to work with Empower Retirement in implementing a brokerage platform to members of the Alaska Supplemental Annuity Plan, the Defined Contribution Retirement Plans, and the Deferred Compensation Plan.

CHAIR JOHNSON asked MR. WILLIAMS if he was making a motion to take this action on behalf of the committee. MR. WILLIAMS moved that the ARMB work with Empower Retirement in implementing a brokerage platform to members of the Alaska Supplemental Annuity Plan, the Defined Contribution Retirement Plans, and the Deferred Compensation Plan. CHAIR JOHNSON stated that no second is necessary because it has been forwarded by a committee.

A roll call vote was taken, and the resolution was adopted unanimously.

MR. HANNA then proceeded with the action item relating to the change in the Stable Value Fund. He stated that he believed that the Board should hear directly from the in-house expert MS. PREBULA.

MS PREBULA stated that the DC Committee approved the recommendation that the staff recommends the ARMB to direct staff to modify the existing contract for the Stable Value Fund to reflect authorization to invest cash reserves in the T. Row Price Cash Reserves Trust.

CHAIR JOHNSON asked MR. WILLIAMS to confirm that the motion is being made by the DC Committee.

MR. WILLIAMS stated that the motion that was unanimously approved by the DC Committee is being brought before the Board.

CHAIR JOHNSON stated that the motion is before the Trustees and no second is necessary because it has been forwarded by the DC Committee.

A roll call vote was taken, and the resolution was adopted unanimously.

2. ARMB DELEGATIONS TO STAFF

CHAIR JOHNSON asked MR. HANNA if he would like to go forward with any other investment actions on the specific delegation to him as CIO and have a broader discussion about that.

MR. HANNA agreed and stated that the staff recommendation is a continuation of the same delegated responsibilities which also included ratification of CHAIR JOHNSON'S interim delegation to him as acting CIO. He said that the only actions he took for the ARMB were to transfer roughly $1 million of redemption proceeds from five accounts in the stages of closure as well as to ratify the set of sub-delegations that CIO MITCHELL had in place. He stated that the full recommendation is that the ARMB adopt Resolution 2020-17, delegating certain responsibilities to the Chief Investment Officer and further execute the Second Addendum to Resolution 2017-05 from September 12, 2020 through the effective date of Resolution 2020-17.

CHAIR WEST moved 2020-17. MS. HARBO seconded the motion.

A roll call vote was taken, and Resolution 2020-17 was adopted unanimously.

MR. HANNA began his summary of the various forms of delegation that have been passed on to CIO and staff. He said that most are related to governance, asset allocation, manager selection, and weighting. MR. HANNA further explained that most of the resolution just passed deals with delegating authority to conduct the basic investment business of the Board allowing the CIO to contract, open accounts, execute, and settle transactions. Lastly the resolution allows the CIO to let managers name the ARMB as a client and to further subdelegate portions of these responsibilities to other investment officers. MR. HANNA went on to explain that there is a specific rebalancing policy in Resolution 2012-17 which is to review the asset allocation at least monthly. The next portion is the one that allows the CIO to adjust asset class weights and manager weights within the ARMB approved bands. He said that there is a requirement that the CIO must inform the ARMB of any asset allocation changes and any exercise of the authority from the CIO. The CIO may further delegate these responsibilities when the CIO is out of the office and someone else is in his stead. He said the last set of delegations that the Board makes are delegated authority to make investments contained within the asset class policies for all the alternatives such as private equity, real estate, farmland, timberland, and infrastructure and the CIO may invest up to $100 million per investment subject to due diligence.

MR. WILLIAMS asked what constitutes a prior notification?

MR. HANNA said that he would like to allow 5 days to get a response from the ARMB Chair, but it isn't practical in some cases. CHAIR JOHNSON suggested he and MR. HANNA work up a protocol on that.

MR. HANNA hit on the subject of fixed income and its place on the Board's asset allocation. He said he expects it to be a major source of discussion for the next year. He said Fixed income has served three roles historically. First to provide liquidity for the system, especially in crisis. The other two roles are a source of yield, which has been historically a good source of yield, and a source of real diversification to the portfolio in an equity crisis. He said that it is really those last two pieces where it really is called into question now with rates as low as they are.

UNFINISHED BUSINESS

None.

NEW BUSINESS

None.

OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD

None.

PUBLIC/MEMBER COMMENTS

None.

INVESTMENT ADVISORY COUNCIL COMMENTS

DR. MITCHELL shared thoughts on the Brandes presentation, "Is Value Dead?" He thought the content of the presentation was excellent and their approach quite different. He also discussed the bull market versus the bear market, noting that bull markets last longer, and the returns on a bull market are far greater than the declines in a bear market, but bear markets are normal, and the Board should prepare for bear markets.

DR. JENNINGS commented on the discussion regarding leverage. He said that the theory in academic finance is that if one can borrow and lend at the same rate, than one is actually able to enhance portfolio risk/reward tradeoffs by moving beyond the blue line of efficient frontier and leverage up or down a portfolio that has a higher risk/reward tradeoff. He stated that at their Education Conference in New York the Chief Investment Officer of Mann Investments discussed how a hedge fund person would build a public pension portfolio, his solution was to lever up and lever down various factors. He said the action the Board took yesterday regarding real estate portfolio is a step in the right direction of exploring ways that leverage can enhance the overall portfolio risk/reward tradeoff.

MS. RYERSON complimented Sagitec whom she was familiar with from when she was with Colorado Fire and Police which had a very complicated plan. She stated that going forward the system will work well, and it will no longer become an issue every 10 years needing to find a new pension administration system. She also complimented the DC Committee for moving slowly on the brokerage window.

TRUSTEE COMMENTS

MS. HARBO congratulated MR. HANNA on his appointment as CIO and wished the best of luck to MS. ALEXANDER in her new teaching endeavor.

MR. WILLIAMS stated that he appreciated the Brandes presentation on "Is Value Dead?" He thought it was refreshing and thoughtful. He said that he had a lot of concerns about COVID and its impact financially, but the strategies used make sense to him. He said that he is interested in leverage and that it is something that he is warming up to. He too wished MS. ALEXANDER well.

MR. MOEN appreciated the welcome and stated that in light of COVID he would be happy to text a photo of a fresh King salmon dinner with fresh Dungeness crab on it to all the Board members.

FUTURE AGENDA ITEMS

MR. HIPPLER stated that he thinks the CIO is planning on addressing fixed income and that he thinks the Board could use even more discussion on leverage.

ADJOURNMENT

There being no objection and no further business to come before the board, the meeting was adjourned at 12:00 p.m. on September 18, 2020, on a motion made by MR. WEST and seconded by MS. HARBO.

Chair of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

Gayle Harbo

____
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.