ALASKA RETIREMENT MANAGEMENT BOBOARD OF TRUSTEES MEETING

HYBRID/TEAMS

September 14-15, 2023
9:00 a.m.

Originating at:
Atwood Conference Center
550 West 7th Avenue, 1st Floor
Anchorage, Alaska 99501

Trustees Present:
Bob Williams, Chair
Sandra Ryan
Mike Williams
Spencer Moore
Commissioner Paula Vrana
Donald Krohn
Dennis Moen
Lorne Bretz
Commissioner Adam Crum

Department of Revenue Staff Present:
Zach Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Scott Jones, Investment Operations, Performance & Analytics
Ryan Kauzlarich, Assistant Comptroller
Shane Carson, State Investment Officer
Casey Colson, State Investment Officer
Emily Howard, State Investment Officer
Cahal Morehouse, State Investment Officer
Hunter Romberg, Investment Data Analyst
Chris Madsen, Administrative Operations Manager
Robyn Mesdag, State Investment Officer
Keith Moniz, Systems Programmer
Mark Moon, State Investment Officer
Stephanie Pham, State Investment Officer
Rosa Sanchez, Assistant Compliance Officer
Robert Vicario, Administrative Assistant II
Grant Ficek, Business Analyst
Alysia Jones, Board Liaison
Steve Sikes, State Investment Officer
Sean Howard, State Investment Officer
Jesyca Ellenbecker, Accountant V
Benjamin Garrett, State Investment Officer
Kevin Elliott, State Investment Officer
James Cheng, State Investment Officer
Leighan Gonzales, Executive Assistant

Department of Law Staff Present:
Ben Hofmeister, Assistant Attorney General

Investment Advisory Council Present:
Dr. William W. Jennings
Ruth Traylor
Josh Rabuck

Department of Administration – Division of Retirement & Benefits Staff Present:
Ajay Desai, Director
Jim Puckett, Chief Pension Officer
Kevin Worley, Chief Financial Officer
Kris Humbert, Business Integration Officer
Melinda Voigt, Acting Chief Pension Officer
Traci Walther, Accountant 5
Roberto Aceveda, Education & Counseling Manager
Brandon Roomsburg, Retirement & Benefits Specialist
Nimeri Denis, Audit & Review Analyst 2
Christina Maiquis, Accountant 5
Betsy Wood, Chief Health Administrator

Department of Administration (DOA) Staff:
Dave Donley, Deputy Commissioner
Amanda Pillifant, Executive Assistant
Kathy O'Leary

Callan:
Steve Center, Senior Vice President
Ivan "Butch" Cliff, Executive Vice President, Director of Research
Jonathan Gould, Senior Vice President Real Assets Consulting
Avery Robinson, Senior Vice President Real Assets Consulting
Jay Kloepfer, Executive Vice President and Director, Capital Markets Research.

GRS:
Bill Detweiler, Consultant
Campbell Holden, IFM
Julio Garcia, Head of Infrastructure, North America IFM
Jim McCandless, Managing Director, Co-CIO Senior Portfolio Manager, UBS Farmland
Dan Murray, Executive Director, Co-CIO, CFP and Head of Asset Management, UBS Farmland
Thomas O'Shea, Head of Portfolio and Client Services Unit, UBS Farmland
Justin Pattner, Head of Real Estate Equity, Americas, KKR
Lawrence Ou, Director, Client and Partner Group, KKR
Bill Maclay, Portfolio Manager, Fidelity
Mathew Torchia, Portfolio Manager, Fidelity
Kristin Shofner, Senior Vice President, Business Development, Fidelity

Public Present:

Wendy Wolfe, RPEA
Leila Wise, RPEA
Siddhartha Jain
Sanjay Gupte
Kimm Nasser-Fenn

PROCEEDINGS

CALL TO ORDER
CHAIR BOB WILLIAMS called the Alaska Retirement Management Board meeting to order and asked for a roll call. He welcomed Trustee Moore to his first full board meeting.

MS. JONES called the roll.

PUBLIC MEETING NOTICE
CHAIR BOB WILLIAMS asked if the public meeting notice had been met.

MS. JONES replied, yes.

APPROVAL OF AGENDA
CHAIR BOB WILLIAMS moved to the agenda and asked for any changes or additions. He asked if anyone was opposed to the agenda as shown. Seeing none, the agenda was approved.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES
CHAIR BOB WILLIAMS moved to Public/Member Participation and stated that he had two names before him: Doug Woodby and James Simard. He asked if there was anyone else online or in the room that would like to speak. He acknowledged Wendy Woolf, who was in the room and invited her to speak.

MS. WOOLF stated that she was with the Retired Public Employees of Alaska and serves as the treasurer on the executive board. She stated appreciation for the meeting. She continued that she was glad the ARMB used Microsoft Teams. She had attended past meetings through audio and stated that it is really hard to follow. She encouraged, if possible, to allow public members to attend via Teams; then they would be able to track what was going on and participate a bit easier than just listening to the audio. She added that the retiree health plan budget board does it that way, and it seems to work well for those members.

CHAIR BOB WILLIAMS thanked Ms. Woolf and stated that that was a very good suggestion. He was interested and noted that there is a possibility to have them on Teams for the October 12th meeting. He added that if there was a barrier to have it for that meeting, then, at least, by the December meeting. He recognized Doug Woodby.

MR. WOODBY stated that he is from Juneau and was a member of 350Juneau, Climate Action for Alaska. Yesterday he sent Ms. Jones an electronic copy of a report to pass on to the Board. He explained that the report is about research from the University of Waterloo in Ontario, Canada, that looked at the performance of eight different funds over the past ten years, including Alaska's pension funds. Six of the other funds were also public pension funds. The report was 22 pages long, mostly graphs, with about six pages of text. The purpose of the analysis was to see where these eight funds would be if they had not been invested in fossil fuels from the ten years ending June of 2022. He went through some of the results and stated that it was time to move out of fossil fuel equities and grow the fund faster. He added that this is a fiduciary issue, a long-term responsibility issue, and not just a matter of achieving annual financial goals. He concluded and thanked all for listening.

CHAIR BOB WILLIAMS thanked him for his comments and recognized James Simard.

MR. SIMARD stated that he lives in Juneau, is a librarian, retired from the State of Alaska, a member of 350Juneau, and a grandfather. He continued that in the past he had spoken about the investment risk posed by litigation against major oil producers. He went through some of the interesting updates beginning with the U.S. Supreme Court declining to hear the case of Boulder, Colorado versus Sunco and Exxon. This refusal also applied to some other suits leaving those cases under the jurisdiction of the State courts. He went through what some of the suits said and talked about another cluster of lawsuits which were children's lawsuits filed against their governments. These assert that the Federal Government's fossil fuel energy system actions that cause climate change violate the youngest generation's constitutional rights to life, liberty, and property, as well as their rights to essential public trust resources, like air and water. He also talked about the Held versus Montana case that ruled in favor of the 16 youth plaintiffs. He stated that Sagoonick versus the State of Alaska is a related youth lawsuit, which is being refiled and is expected to go to trial in Alaska. He encouraged all to look at it. Those are Alaskan children asking for protection from the worst of the coming chaos in climate. He asked them to remember that their fiduciary responsibility extends to all generations of Alaskans. He thanked them for their time and their service.

CHAIR BOB WILLIAMS thanked Mr. Simard for his testimony and asked for anyone else online or in the room that wished to speak. Seeing and hearing none, he closed the Public/Member Participation, Communications, and Appearances portion of the meeting.

APPROVAL OF MINUTES – JUNE 15-16, 2023

CHAIR BOB WILLIAMS moved to the June 15-16, 2023, Alaska Retirement Management Board minutes in the packet. He asked for a motion to approve.

> **MOTION:** <u>A motion to approve the minutes of the June 15-16, 2023, Alaska Retirement Management Board meeting was made by TRUSTEE MIKE WILLIAMS; seconded by TRUSTEE KROHN.</u>
>
> *There being no objection, the MOTION was APPROVED.*

STAFF REPORTS

CHAIR BOB WILLIAMS moved to staff reports, and recognized Alysia Jones for the ARM Board Liaison Report.

LIAISON REPORT

MS. JONES began with the quarterly disclosure memorandum and stated that there were no disclosure transactions that required additional review or discussion. She moved to the communications memorandum which listed communications received and sent on behalf of the Board since the June 2023 meeting. There was also a summary of public records requests received between June 1st and August 31st of this year. She continued with the 2023 and 2024 meeting calendars. She reminded all that beginning with the March 2024 meetings, the Board would be transitioning to a Tuesday through Thursday schedule. The other item in her report, for reference, was the timeline showing contract and review deadlines for FY24 through FY29. She noted that the December 2023 meetings would be held at a different location, not at the Atwood, and that she would have more information in the coming weeks.

FUND FINANCIAL PRESENTATION
MR. KAUZLARICH went through the financial report covering the period ending July 2023. As of September 12th, PERS assets were $23.3 billion; TRS assets were $10.7 billion; JRS assets were $282.5 million; MRS assets were $44 million. Non-participant-directed assets totaled $31.3 billion. Fiscal year-to-date investment income for non-participant-directed funds totaled a negative $48.3 million; fiscal year-to-date withdrawals totaled $179.4 million; and investments internally managed were $15.6 billion.

CFO WORLEY presented the supplemental report, which included the one-month reports starting the fiscal year July 1st through the end of the month, July 31st. Key items were the legislative appropriations to the public employees, teachers, and judicial retirement systems for the past service costs portion of the amounts due to the plans: $37.9 million in PERS; 98.8 for TRS; and 2.6 for the Judicial Retirement System. He moved to the breakdown of the participant-directed disbursements by plan, showing the different types of disbursements from the members' defined contribution accounts for PERS, TRS, SBS, and deferred comp plans. He then discussed the vested percentages, which the Board had previously requested.

RETIREMENT & BENEFITS DIVISION REPORT
CHAIR BOB WILLIAMS moved forward to the Retirement and Benefits Division Report with Director Desai, CFO Worley, and Business Integration Officer Kris Humbert.

CFO WORLEY stated that there was not a legislative update for this section but recalled that Senate Bill 88 was the introduction of the unifying benefit tier for PERS and TRS. He continued that they would be available for discussion with the bill sponsors' actuary. He moved to the Buck Consulting invoices. Included, at the request of the Board, was a breakdown by quarter of the invoices and topics that were worked on during each quarter, which breaks down into September, December, March, and through the fiscal year ending June 30th. He added that the summary of all the main services were provided for the plans that are administered here. He stated that the next item was Member Statistics which would be the fiscal year ending June 30th statistics broken down by quarter. During the last quarter, there were decreases in PERS and TRS to the end of the fiscal year. He noted that retirees also decreased a little. At the request of Chair Williams, also included were the statistics for managed accounts. The number of folks in the programs and the dollar amounts were included for the three quarters starting December 31, 2022.

CHAIR BOB WILLIAMS thanked him for adding those in and thought it was very helpful. He added that it was nice to see that it was a standardized quarterly report.

CFO WORLEY thanked him and stated the last item under the Division's report was the BEARS project update. He recognized Kris Humbert, business integration officer.

MS. HUMBERT stated that she would be providing an update regarding the major project to modernize the Retirement & Benefits system. She introduced Sanjay Gupte and Sid Jain from Sagitec, and Kimm Nasser-Fenn from Linea, who were available to provide additional input, or respond to questions that may arise during the briefing. She continued that DRB began an active design and development of the BEARS system in 2019. This included mapping requirements for the system and progressed to reviewing each facet of DRB's work to ensure all the necessary nuances were captured and to ensure BEARS was as complete and streamlined as possible. While the process was comprehensive, there had been challenges and changes identified, both internally and externally, that resulted in the need to reevaluate the project timeline, scope, and path forward, to ensure it met DRB's and member needs now and in the future. She stated that the project team identified some key challenges to the project timeline and created a plan to address those challenges to mitigate any risks and ensure that BEARS was fully functional. The project team worked hard to accommodate staffing vacancies while incorporating scope changes that were identified during the intensive design, development, and review sessions. These solutions were described more fully in the Division staff report and included a secondary phase of the project focused on capturing changes required by the Metcalfe decision and those items identified during design as improvements to the system to further streamline DRB operations. DRB will be pursuing funding for a secondary phase of the project. She added that BEARS is designed to be a living system and, in order to be future proof, the work needs to be done proactively to ensure that DRB's needs in a changing technological environment could withstand changes to statute and regulation, vendors, and software and programming.

CHAIR BOB WILLIAMS had a question about the length of time it took to process retirement allocations and was interested in seeing a breakdown of the impact, and the plan to get that caught up. He added that it could be in writing or e-mail within the next few weeks. He moved to the Treasury Division Report and recognized Director Leary.

TREASURY DIVISION REPORT

DIRECTOR LEARY stated that this is the meeting where the actual expenditures in the immediately preceding fiscal year, FY 2023 are reviewed, as well as the current projected fiscal year budget, and proposed budget for the next fiscal year, which will be adopted by the Board. She continued that the ARMB budget is presented in the budget system as two separate components: one is the operations component; and the other is the custody and management component. For presentation purposes, the working budget combined all of the components into one schedule with greater detail for the Board to better understand the total actual expenses for FY20 through FY23, and the projected and proposed amounts for FY 24 and FY25. She explained that all of the costs within Treasury are allocated to individual funds based on the Federally approved cost allocation plan. She explained the costs in detail. She summarized that the Treasury Division's work had resulted in excess returns, external cost savings, and error prevention. The reduction in external management fees resulted in incremental increases in the internal operations that require adequate budget authority to continue to provide strong investment results. She stated that the recommendation is that the Alaska Retirement Management Board support an increase of $980,000, which is less than 3 percent of its overall budget, by adopting the attached 2025 proposed budget, with the understanding that the budget components will be subject to appropriation by OMB and then the Legislature.

CHAIR BOB WILLIAMS stated that there had been a recommendation brought by Director Leary and asked for a motion.

> **MOTION:** <u>A motion that the Alaska Retirement Management Board support an increase of $980,000, which is less than 3 percent of its overall budget, by adopting the attached 2025 proposed budget, with the understanding that the budget components would be subject to appropriation by OMB and then the Legislature, was made by TRUSTEE BRETZ; seconded by TRUSTEE RYAN.</u>

CHAIR BOB WILLIAMS stated that there had not been a real change to the operations budget since 2018, and 3 percent is being requested. He continued that inflation had not been 3 percent the last few years. He asked how that was managed.

DIRECTOR LEARY replied that they are and continue to be very conscientious about costs, renegotiating contracts, concentrating on what could be done more internally that may have been done externally. That was what caused this kind of imbalance between the components in the budget world. They carefully go through the things that are really necessary and provide the tools staff need to perform.

CHAIR BOB WILLIAMS asked for any other questions or discussions. There being none, he asked for a roll-call vote.

> *After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes; Chair Bob Williams, yes.)*

CHAIR BOB WILLIAMS stated that the motion was approved.

CIO REPORT

CIO HANNA stated that the focus of much of this meeting will be on the real assets portfolio, an interesting asset class. He added that investment officers Steve Sikes and Robyn Mesdag are here and would take the Board through the various aspects of the portfolio. There will also be quite a few presentations from some of the ARMB's real assets investments managers. He moved to Item 2 of the CIO report, which was the watchlist with two managers on it, both for underperformance. He began with Baillie Gifford, an international equity manager, growth orientation. He stated that their performance had continued to improve, but they still trailed their benchmark by 35 basis points, and they do have a bit more ground to make up. He continued that staff was not recommending a removal from the watchlist at this point since they do not qualify. It is a fairly qualitative criteria, and we also are not recommending any additional actions. He expected that the performance will have improvement at some point, and for now the recommendation is that they remain on the watchlist. He continued that the other manager was Fidelity Real Estate High Income. This manager invests in real estate debt, with largely commercial mortgage-backed investments. These investments are less liquid than the rest of the fixed income portfolio. He stated that Fidelity would be presenting tomorrow, and staff would be recommending that this investment be moved from the fixed income asset class over to the real assets portfolio. It will be a better fit both from a liquidity perspective and from an underlying real estate exposure perspective. From the watchlist perspective, their performance has improved to the point that exceeds their benchmark. Staff recommended that they be removed from the manager watchlist. He requested a motion to remove Fidelity Real Estate High Income from the ARMB watchlist since they no longer qualify for inclusion.

CHAIR BOB WILLIAMS asked for a motion.

> **MOTION:** A motion to remove Fidelity Real Estate High Income from the ARM Board watchlist was made by TRUSTEE RYAN; seconded by TRUSTEE KROHN.

After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, no response; Chair Bob Williams, yes.)

CIO HANNA stated that the items in 3 were all areas where they exercise CIO delegation for contracting. Item A was a $50 million private equity commitment to Resolute Fund VII. Item B was the first of two new active international equity managers that were approved at the March meeting. Acadian was hired to initially manage a $350 million portfolio that staff funded last week. The second manager was expected to be coming on board prior to the December meeting. They were in the process of finalizing contracting with First Eagle. Item C, $100 million to Crestline Direct Lending Fund. They presented at the last board meeting and would be making direct loans to the listed mortgage companies in a fashion similar to the first three successful funds invested by the ARM Board. Item D was a formal notification of JP Morgan for the termination and pending litigation of the JP Morgan SmartSpending investment options. He moved to Item 4, which was a summary of the quarterly rebalancing that took place between May and August. With that, he concluded the CIO report.

CHAIR BOB WILLIAMS asked, for the record, if the changes were just general rebalances to fit the asset allocation, or whether there were some things with more confidence than others and they just wanted to shift within the asset class.

CIO HANNA replied, from an asset allocation perspective, 1 percent came out of domestic equity and 1 percent came out of international equities. That is what kind of sits underneath.

CHAIR BOB WILLIAMS moved to the ARMB legal counsel report and recognized Assistant Attorney General Ben Hofmeister.

LEGAL REPORT

MR. HOFMEISTER stated that he did not have anything new to report to the Board. He provided an update on the annual presentation on fiduciary powers and duties to trustees. He noted that during his presentation he had discussed a lot of the statutes and rules under Alaska state law that apply to the trustees. He stated that each one of the trustees now has a document that includes all of the statutes and regulations that he had talked about at the last meeting.

TRUSTEE REPORTS

CHAIR REPORT

CHAIR BOB WILLIAMS thanked staff for being very generous with their time. There were a lot of meetings in preparation for the Actuarial Committee meeting, along with several other meetings. The meetings and discussions all helped lead to a more productive board meeting. He thanked staff for their availability and for those discussions. He concluded the Chair Report, and recognized Audit Chair Mike Williams for his report.

AUDIT COMMITTEE REPORT

TRUSTEE MIKE WILLIAMS stated that the Audit Committee met with Beth Stuart and Melissa Beedle from KPMG. They are conducting the audit of the annual financial statements of the retirement plan. There has been no modification to the audit plan, and about 75 percent of those reports so far are on track, with the remainder of those due by the October 9th deadline. He stated that they heard an update from the Division of Retirement and Benefits on their audit and staff. They welcomed Christopher and Brandon to the Division of Retirement and Benefits who are working on the employer audits, as well as the Social Security compliance.

DEFINED CONTRIBUTIONS COMMITTEE

CHAIR BOB WILLIAMS stated that he was the chair of the Defined Contributions Committee, and that they had set a record with a 4-hour and 15-minute meeting, the bulk of which was in executive session. The chief pension officer's report was given by Director Desai and CFO Worley, since the CPO position is vacant. Brandon Roomsburg, audit and review analyst, gave a presentation on the Metcalfe conversion process. Empower gave an update on a few different items and shared their quarterly call center field reports. Stephanie Pham, public equity and defined contribution investment officer, and CIO Hanna gave their Treasury update. There was progress being made to adding the Core-Plus. The rest of the meeting was an executive session regarding phase 2 of an analysis of managed accounts. He added that there would be more about that in the public meeting on October 12th at 10:00 a.m. in Anchorage. He recognized Actuarial Chair Ryan.

ACTUARIAL COMMITTEE

TRUSTEE RYAN stated that the September Actuarial Committee meeting was exciting. She thanked everyone involved, in particular CFO Worley for his continued support and for continuing to answer his telephone. She asked that he explain the first two action items.

CFO WORLEY explained that the Judicial Retirement System and National Guard valuation reports were typically adopted in June, but there were issues that caused delays in preparation and review. He said this year there were a couple changes that occurred in the Judicial Retirement System. He continued that JRS was nearly finalized, and then a pay increase that came through the legislation. That was incorporated into the valuation formula and did some updating of the salary assumption. Regarding the National Guard there was a delay in one of the bigger groups, the Air Guard, and we were unable to secure their June 30, 2022, increase. After a lot of trying to get that, it was decided to move forward with the June 30, 2021, increase. We rolled that forward one year so that the National Guard report could be developed, just in time for the annual audits that they are currently undergoing with KPMG.

TRUSTEE RYAN moved to the first two action items. The committee recommended approval of these and entertained that motion at this time.

> **MOTION:** <u>The Actuarial Committee recommended that the ARM Board accept the GRS certification for fiscal year 2022 of NGNMRS and JRS valuations.</u>
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes; Chair Bob Williams, yes.)*

TRUSTEE RYAN stated that in that same meeting, GRS went over and discussed that particular certification. The second action item from the group was a Board acceptance of that valuation for fiscal year 2022 NGNMRS and JRS valuations.

MOTION: The Actuarial Committee recommended that the ARM Board accept that valuation for fiscal year 2022 NGNMRS and JRS valuations.

After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes; Chair Bob Williams, yes.)

TRUSTEE RYAN stated that they looked at several scenarios of what could be contributed, some of which legal counsel told us we should not try. As a committee, we decided to recommend No. 3.

MOTION: The Actuarial Committee recommended that the ARMB accept Resolution 2023-05. The Alaska Retirement Management Board set the fiscal year 2025 PERS actuarial determination contribution rate attributed to employees, consistent with its fiduciary duties, as set out in the attached form, Resolution 2023-05.

After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes; Chair Bob Williams, yes.)

TRUSTEE RYAN moved to two resolutions grouped together as 2023-06 and 2023-07. Those are contribution rates being set for RMMI and ODD, respectfully, and are attached.

MOTION: The Actuarial Committee recommended that the ARMB accept two resolutions grouped together. They are Resolution 2023-06 and Resolution 2023-07. They are contribution rates being set for RMMI and ODD, respectively, and are attached.

After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes; Chair Bob Williams, yes.)

TRUSTEE RYAN stated that the next action item was Resolution 2023-08. This was a similar discussion to that of Resolution 2023-05. The committee decided on the third option.

MOTION: The Actuarial Committee recommended that the ARMB accept this choice that was included. The Alaska Retirement Management Board sets the fiscal year 2025, TRS actuarially determined contribution rate attributable to employees consistent with its fiduciary duties and set out in attached form No. 3 of Resolution 2023-08.

After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes; Chair Bob Williams, yes.)

TRUSTEE RYAN stated that the next two resolutions, 2023-09 and 2023-10, were grouped together. These are for TRS RMMI and ODD contribution rates respectively. It comes as a recommendation from the committee.

> **MOTION:** The Actuarial Committee recommended that the ARMB accept Resolution 2023-09 and Resolution 2023-10. This is the TRS RMMI, and ODD contribution rates.
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes; Chair Bob Williams, yes.)*

TRUSTEE RYAN moved to the final action item, Resolution 2023-11.

> **MOTION:** The Actuarial Committee recommended that the ARMB accept Resolution 2023-11 which is that fiscal year 2025 NGNMRS contribution amounts found on Page 130.
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, no response; Chair Bob Williams, yes.)*

TRUSTEE RYAN thanked everyone that participated. She also thanked Chief Financial Officer Worley for all the help in getting these contribution rates to the Board in a timely manner.

OPERATIONS COMMITTEE

TRUSTEE MOEN stated that the Operations Committee met yesterday and discussed the Treasury operations update. He said they spent a lot of time on staff recruitment and retention. They do a fantastic job, save us millions of dollars, and make millions. There is a need to make sure they are compensated accurately. There was also an update from the middle office. He continued that the committee had three action items and presented them.

> **MOTION:** The Operations Committee recommended that the ARMB accept Resolution 2023-17, which is staff compensation.
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, no response; Chair Bob Williams, yes.)*

TRUSTEE MOEN moved to the second action item.

> **MOTION:** The Operations Committee recommended that the ARMB accept an RFP (request for proposal) for a general investment consultant.

After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, no response; Chair Bob Williams, yes.)

TRUSTEE MOEN moved to the last action item.

MOTION: <u>The Operations Committee recommended that the ARMB accept an RFP (request for proposals) for a real assets consultant.</u>

After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Krohn, yes; Commissioner Crum, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, no response; Chair Bob Williams, yes.)

CHAIR BOB WILLIAMS thanked Trustee Moen for his report and commented on the two RFPs. He looked at past RFPs where there was a lot of work done with staff. The Board of Trustees also has a big role, and there is a combination of staff and trustees to share their perspectives on the review committees. He appointed Trustee Krohn, CIO Hanna, Investment Officer Shane Carson, and himself to the general consultant RFP evaluation committee. For the real assets RFP evaluation committee, he appointed Trustee Spencer Moore, Investment Officer Steve Sikes, CIO Hanna, and himself for the evaluation committee. He recognized Trustee Bretz, who represents the ARMB on the Alaska Retirement Health Plan Advisory Board, for his report.

ALASKA RETIREE HEALTH PLAN ADVISORY BOARD

TRUSTEE BRETZ stated that the Advisory Board had met a few times since the last time he reported. The main topic has been the lifetime maximum on the health plan which has been discussed for quite some time. The public comment period was finished with all the feedback from the actual users, people that would have Alaska CARES. None of them objected to the limits being increased or removed. The Advisory Board recommended to the Division to remove the lifetime limit on Alaska CARES Health Plan. It is currently with the Division, for a decision. The limit has not been changed since 1999, and before that an inflationary adjustment had been made. One of the recommendations that the Advisory Board is considering is a proposal to do an inflation adjustment and gain, which would have brought it to $4 million, then doubling it to get ahead of it. It would be good for another 10 to 20 years. He added that all the decision-makers are contemplating now, and we should have some version of a change before the end of the year.

CHAIR BOB WILLIAMS called a 10-minute break.

(Break.)

PRESENTATIONS

PERFORMANCE MEASUREMENT – 2ND QUARTER

MR. CLIFF, from Callan, began with the capital markets, the economy, and the environment they are operating in, and he noted that Mr. Center would talk about the funds and performance in this environment. He stated that the good news was that the equity markets continued to rebound; two good quarters in a row. He then talked about the quarter numbers. On fixed income there was still a way to go. He continued that inflation had eased dramatically, which has helped. Inflation is getting under control. He continued with more detail on the economy. He talked about the huge COVID dip and then the dramatic recovery. The economy proved that it is remarkably resilient, which surprised a lot of people.

CHAIR BOB WILLIAMS asked what the thing was that kept them going.

MR. CLIFF replied that the reasons were really low unemployment, wage growth; the employer/employee power struggle that tilted more toward the wage earners to get people to come back to work. To get people to come back to work, wages had to be raised, and that created income. That created a demand, and the Fed did not seem to have broken that. Everyone was afraid with the dramatic rise in rates that they would crush that, and that did not happen. He added that the why is a mystery, and it just seemed to be this resilient feedback loop between wage gain, income, spending and demand for goods. In non-U.S. equity, positive returns continued market rally. He added that emerging markets were a disappointment, and most of that was China. China was a big positive story for a long time, but over the last year, China was down almost 17 percent, which is very different from the rest of his chart.

MR. CENTER stated that the emerging market value actually outperformed growth over the last year. This trickled into the performance of the emerging-market portfolio that the Alaska Retirement Plan has. He talked about bonds and then real estate. He continued that the net income and the net profit that the buildings generated were still positive. Everything other than hotels were being marked down in price because of the big interest rate increases. That affected all sorts of metrics, valuing properties.

MR. CLIFF then talked about fundraising, private equity, and transactions in real estate.

MR. CENTER then talked about performance for both the self-directed plans and the pension plan. He began looking at the participant-directed plans, beginning with the PERS DC plan and continued looking at the trends and growth in each quarter. He moved to the Stable Value Fund. T. Rowe Price and Stable Value as a whole faced a bit of a headwind as interest rates went up so rapidly. Stable Value is underperforming money markets, and we do expect it to ultimately close that gap. It was designed by utilizing insurance wrap providers to create a stable return stream over time. He then moved to the pension plan and began with what they call the Performance Dashboard pages. They looked at the various plans under four different lenses: The first being returns; the second was risk, that was standard deviation over time; maximum drawdown; and Sharpe Ratio. Those pages are designed to help get a single snapshot to look at the various plans to see if there are any areas that should be focused on where things are not comparing well relative to peers. He then talked about the unique structure of the peer group that they were being compared against. Callan's public fund peer group includes both large public funds and smaller public funds. Most of the smaller public funds have invested far less in real estate, private equity, and other private markets, and more invested in the public markets. He added that they had a snapback in public markets. The best performing areas in the market were large cap U.S. equities and developed market non-U.S. equities. He talked about the way the Alaska plans were structured with a bit more invested in private markets, in real estate and public equity. He stated that active management had been very difficult. The public equity portfolio was a blend of asset- and factor-based strategies which overweight things that tended to drive out performance. However, performance was not out of line with peers. He added that performance had lagged its benchmark over all time periods. He then looked at the small cap portfolio relative to its index. He continued through the non-U.S. equity stocks, including both developed and emerging markets strategies. The last 12 months was a period of outperformance. He stated that the developed market portfolio was a blend of passive, factor-based, and active non-U.S. equity strategies. He continued that the fixed income portfolio was a blend of the internally managed aggregate portfolio, along with two portfolios managed by Fidelity. He then stated that the performance from the real assets portfolio had done very well. He moved to the McKinley healthcare transformation strategy, which is a dedicated single-sector equity fund managed by McKinley, focused on healthcare transformation on a global basis, up about 90 basis points over the last year, and 3.5 percent over the last three years. He added that there would be more discussion about private equity at the next meeting.

CHAIR BOB WILLIAMS asked for any questions. He commented that what was covered was really important and valuable. He thanked them very much.

RISK REPORT

CHAIR BOB WILLIAMS moved to State Investment Officer Shane Carson to share the risk report.

MR. CARSON stated that most of the trustees knew him as the director, overseeing the multi-asset, asset class. He added that twice a year he put together the risk report. He began with "Risk and the Retirement Systems" which showed that the retirement systems were faced with a plethora of different risks. Some are identifiable; some are expected; and as much as possible, some were mitigated, monitored, and then even potentially profited on. There are potentially other risks that are unknown, or we are unable to completely resolve or mitigate. Risks do exist on both the asset side and the liability side. He stated that the focus of this particular report is on investment risk. He explained that the investment risk is the probability that the plans will suffer investment losses and not be able to accomplish the ultimate objective, which is to pay benefits to participants. He added that the report effectively uses modeling and is effectively a snapshot of the portfolio as of June 30. He moved to "Risk Monitoring Tool: TruView." In order to measure investment risk, the Board employed a risk platform called TruView. The platform answered several questions. One was how risk was positioned versus asset allocation forecast; the estimate of potential losses; were there any areas that drive risk more than anticipated. Then TruView provided a set of scenarios. The portfolio was looked at in how it would react given certain scenarios. "Volatility Decomposition," the risk metrics presented here were not the plan's actual experiences. It was an output of a model that TruView used which took the actual asset allocation as of June 30 and then created a distribution of returns, a distribution of profit and losses, and then used that to derive certain risk metrics. "Asset Class Risk and Diversification," monthly value-at-risk was reported at 6.2 percent in June, almost unchanged from December. Translating that particular number into dollars, considering total assets of about 29.7 billion with a 5 percent chance the aggregate plans would experience a loss of about $1.8 billion in one month. He clarified that the worst 5 percent of losses would average about $3.1 billion in a month. He stated that the value-at-risk is the value at a given risk level. He then spent some time looking at equities. He noted that the domestic equity portfolio was mostly passive with some factor strategies. There were no active managers in that space. He stated, in summary, that little had changed from the last reporting period. Risk measures were all within expectations. As expected, public equity and equities, in general, are the largest drivers of volatility. The ARMB does invest in the diversified asset of international equity. In aggregate, country weights did not deviate significantly from the asset class benchmark. That included, and was similar to, sector weights that did not deviate from the benchmarks.

CIO HANNA observed that there are levels of how risk management is thought about in the portfolio. Mr. Carson was addressing the overall broad asset allocation level and clearly managed a lot of internal securities, as well, particularly in fixed income.

CHAIR BOB WILLIAMS stated that this was a great discussion, thanked Mr. Carson for an excellent presentation, and broke for lunch.

(Lunch break.)

CHAIR BOB WILLIAMS welcomed all back and continued to a presentation by JP Morgan's Strategic Property Fund with an introduction by Steve Sikes.

JP MORGAN STRATEGIC PROPERTY FUND

MR. SIKES stated that over the next two days there will be a number of presentations covering the real assets class. Seven managers will be making presentations covering real estate, timberland, infrastructure, and farmland investments. These presentations will provide an opportunity for the Board to receive a status report and interact directly with the investment managers. Their presentations will also serve as a springboard to the recommendations we will be making tomorrow in the annual plan. He defined real assets by return objectives that were expected in the asset class performance cycle to provide a rich return experience between stocks and bonds, providing both income and a source of equity growth. This is illustrated by real estate where leases provide current income. The value of the asset could also grow through appreciation. Physical assets have an intrinsic value tied to their utility or productivity potential. Farmland and good water rights have its attributes, as these qualities can be used to grow crops and generate cashflow and profit. As defined by their purpose, some of the assets are essential to everyday life. As defined by their role in the overall portfolio, these assets are expected to diversify our portfolio and provide an inflation hedge. He introduced the first presentation: JP Morgan Strategic Property. As of June 30, ARMB had 173 million invested in the JP Morgan Strategic Property Fund and had invested in the fund for over 25 years. The Strategic Property Fund is an open-end commingled fund that invests in core U.S. real estate across multiple property types. It is a perpetual life vehicle for institutional investors to pool the capital to achieve scale and better diversification strategy execution. He asked JP Morgan to start by providing a fundamental backdrop of their real estate asset class. He recognized Jeff Shields, client advisor at JP Morgan.

MR. SHIELDS stated that he is a client advisor at JP Morgan Asset Management, focused on institutional clients. He was joined by his three colleagues, which have all been part of the Real Estate Americas business, which is a $70 billion business with about 220 members. He introduced his colleague, Tom Klugherz, who sits in San Francisco with him and also works on the Alaska Retirement Management Board. Jason Curran and Sean Kan sit in the Los Angeles office. He added that it is always important to say thanks. He continued that it was a real honor and privilege to manage assets on behalf of the Alaska Retirement Management Board. Today they manage over $300 million in two strategies. He recognized Mr. Klugherz.

MR. KLUGHERZ stated appreciation for the opportunity to be there to present and provide an update on the real estate market, as well as the Strategic Property Fund. During the two years since their last opportunity to meet, there had been significant changes to the real estate debt market, the overall economy, and the funds. They looked forward to providing an update on those areas. He continued that, in 2022, there had been a rapid rise in the interest rates that began in the first half of the year and impacted the real estate market. Then a repricing phase began, which continues today. He asked Mr. Kane to continue.

MR. KANE stated that when he talks about "transaction volumes," he is basically adding up all of the prices of real estate assets sold. Liquidity or transaction activity was down significantly as a result of the Fed's rate hikes. He stated that, right now, relationships matter more than ever in terms of getting loans. The Strategic Property Fund had refinanced some major office assets in the last 12 months that were an anomaly in the market. It was very difficult to get office loans on major properties. Because of their longstanding relationships with lenders, they were able to secure refinancing on those.

MR. CURRAN stated that industrial is a sector that performed much better during the pandemic, arguably the biggest beneficiary of the pandemic, as everyone was stuck at home ordering online. That drove demand for warehouse space, and there was a significant rise during the pandemic. It moderated, but is still positive, and then it blew up the percentage of space that was vacant. That is a little different than availability, but a similar concept. It is actually going up, even though net absorption was positive. The reason for that is a lot of construction. The demand during the pandemic drove a lot of the development of industrial property. He continued that each market historically tends to outperform from a rent growth perspective, and they continue to believe that would be so moving forward. There were three reasons for that outperformance in their conviction. One is that the ports of Los Angeles and Long Beach, and the ports of New York and Northern New Jersey are the two largest seaports from a containerized trade standpoint. They are the most important places for people to bring in containers to seaports. Second is that they are also the two largest population centers. Last is that these markets tend to be more built out on what they call infill, meaning there is not a whole lot of land to build new industrial products, particularly in going closer to ports. If product is wanted there, there is a risk for additional supply coming online near you and competing for the tenants because it is relatively low compared to other markets where they may not be as landlocked and are more developable. He quickly touched on multifamily retail which is very similar to industrial. Performance did well after the pandemic. It came down a little during the pandemic, but then really took off. He talked about construction which happened largely in the South.

MR. KANE added that they partner with AMH, which is the single-family REIT and were recently able to expand the joint venture with them and will continue growing that out. It was the highest conviction strategy this year, and we are very fortunate to be able to grow that.

MR. CURRAN stated that June was their highest conviction strategy this year. He moved to performance and continued that there were three main themes that he hoped would be taken away: What were the high conviction strategies and how were they executed within those sectors? Two, how were the themes they have playing out in terms of the allocations within the fund? And three, why do we think the moves that were made to position the fund during this repricing that we are undergoing now, as well as coming out on the other side of that, and end the period where they have repriced core at an attractive entry? The other thing he noted on the allocations was that on the industrial side, while long term, there was a strategic view or a favorable view of the industrial space, especially the Tier-1 markets. There have been supply issues that bubble up in some of the less supply-constrained markets. He talked about the top three sectors: retail, residential, and industrial, which were starting to bottom out. He commented that we are starting to find stabilization in terms of the comps that have been seen versus where the assets are carried. The office side was the one sector with less clarity today.

MR. SHIELDS stated that, on residential, the strategy for the fund has been affordability. Positioning the residential portfolio to be at a second quartile from a rent standpoint, meaning being a step below a luxury product, with a classic standard. High-quality renters also have growing and high incomes and are able to continue to absorb rent increases. But the product is not the top-level product in the market. If the product was the most expensive luxury high-rise project in a market, it is difficult to continue to grow rents because it is already the most expensive.

CHAIR BOB WILLIAMS thanked them for the presentation and for keeping their time. He moved to the next presentation and asked Mr. Sikes to do the introductions.

SENTINEL REAL ESTATE SEPARATE ACCOUNT

MR. SIKES stated that Sentinel manages a real estate separate account that focuses exclusively on apartment properties. The portfolio is 100 percent owned by the ARMB and under its control. Sentinel is also a long-term relationship, going back to 20 years. He continued that it is important to distinguish that they are not an investment manager. Their business model is vertically integrated, which means that they handle not only investment selection and management, but also operating properties at the end of the day. They have combined expertise, with the alignment of ownership and management, creating a depth of the knowledge that is valuable to the investment underwriting portfolio management process. The ARMB has over $284 million invested with Sentinel. Performance of the account compared to the NCREIF ODCE index has been strong. Staff has no concerns with the mandate, and the annual plan will continue to support the strategic tilt toward apartment assets through the Sentinel separate account. To learn more about this portfolio he recognized George Tietjen.

MR. TIETJEN stated that he is the portfolio manager for the separate account. He has been with the firm for almost 35 years. He recognized Greg Macchia, who has been with Sentinel for three years. He is an associate in the portfolio management department. He extended thanks for the invitation to present and for the long-term relationship with this system. He gave a brief history of the separate account. He also thanked Mr. Sikes and Ms. Mesdag for graciously extending time twice a month on a phone call and talking about all the things about the apartment market and the real estate market. He began with a focus on what Sentinel was all about and talked about the firm. He discussed the apartment market and some of the experiences they are dealing with at this time. He then talked about the portfolio and about some of the properties within the portfolio and gave a summary of what they hoped to do in 2024. He noted that they are independent and privately owned with a lot of stability and the ability to work and maneuver within the property and portfolio management because they are independent. He continued through his presentation, moving to the portfolio and the account performance page. He noted that they had a very good staff with a very strong focus and were starting to see improvement in the occupancy.

MR. MACCHIA went through Lansdale Station, ABQ, and Preserve. He stated that Lansdale was the most recent acquisition in the portfolio and is a 186-unit mid-rise apartment community with about 12,000 square feet of commercial space located in Lansdale, Pennsylvania. It is a very high-quality suburb of Philadelphia. The property was one year old when it was acquired. It is a pure, core-style investment with age-generated strong income, and it enhanced the portfolio's geographic diversification. He moved on to ABQ Uptown Apartments, which is in Albuquerque, New Mexico. This is a 198-unit, garden-style apartment and has performed very well since the acquisition in 2018. It is a cornerstone of the current portfolio. It is very well located within both the Uptown submarket and the Albuquerque market overall. That, in combination with a very experienced on-site team at the property, had generated strong demand, and they weathered the tricky economic conditions over the past few years. From a location standpoint, its proximity to ABQ Uptown shopping center, a Simon-owned open-air mall concept, sets this property apart from everything else in the market. It is expected that this property will be a long-term hold for the portfolio. He moved to the Preserve at Blue Ravine which is a 260-unit garden-style apartment community in Folsom, a suburb of Sacramento. The community was acquired in 2018. The investment piece was to get into a market without high barriers to entry, a very strong public school system, diverse private-sector employment, and plenty of local dining and entertainment destinations for residents. That rationale has proven true all the way through until today, and it has strengthened because of the unattainability of single-family homes, particularly in that California market that really skyrocketed the last few years, which is forcing people to stay in the rental pool for longer. There were steady revenue increases which were offset by a little bit lower occupancy and higher operating expenses.

MR. TIETJEN talked about Versant Place Apartments located in a suburb of Tampa called Brandon, which is the longest-held property in the portfolio. It was acquired in 2000 and generated, over its holding period, a very strong income and total return. They were very happy with the property's positioning despite some slight underperformance, mainly due to operating expenses last year. The property is a very strong proposition in the market because it benefits from a broad unit mix with 1-, 2-, and 3-bedroom apartments, large apartment sizes that are appealing to residents migrating from gateway markets with smaller apartments. He added that it also has a nice amenity package with two swimming pools, a tennis court that will be converted into two pickle ball courts. He added that they were also going to accelerate an upgrade program and work on controlling operating expenses. He concluded his presentation and asked for any questions.

TRUSTEE MOEN asked if the property by Tampa was impacted by the hurricane and was there an increase or decrease in rentals after the hurricane.

MR. TIETJEN replied that they saw no impact from the hurricane. It moved mainly to the north. He continued that a significant increase in rent or demand at the property was not seen at the property as a result of the hurricane. Most of the damage that occurred happened much further to the north of Tampa. He added that they are well prepared for those situations and focus on resident and staff safety.

CHAIR BOB WILLIAMS thanked them for their presentation and called a short break.

(Break.)

CHAIR BOB WILLIAMS called the meeting to order and moved to the next presentation by Timberland Investment Resources. He recognized Mr. Sikes for the introduction.

TIMBERLAND INVESTMENT RESOURCES

MR. SIKES stated that Timberland has been an investment manager for ARMB since 2008. They are exclusively focused on timber and land management, with no market transactions. They manage a separate account for ARMB valued at just under $400 million. Performance in the separate account has been below initial underwriting. Over the past three years, it has really demonstrated its portfolio diversification benefits to produce improved results. He continued that while real estate returns were negative last year, the Timberland portfolio returned a positive 8.74 percent net. He added that staff does not have any concerns with the TIR strategy.

MR. JOHNSON stated that he is the head of client relations but has also been the contact for ARMB since the inception of the relationship, going back to 2008. He introduced Chris Mathis, chief investment officer, and Hong Fu, the forest economist. The three of them did a quick background overview, reviewed the asset class, and then dove into performance and some of the things they did that added value going forward based on changes seen in that economic landscape.

MR. JOHNSON noted that all of their operations were certified under SFI, the Standard Forestry Initiative. He also pointed out that they are completely employee-owned and are independent. Eight of the partners own the firm, with three of them standing in front of the Board. There is a lot of consistency with the team, and they feel like the ownership aligns interests with their clients because that is all that they do. If they do well by their clients, then the firm does well. He continued through his presentation and highlighted the history.

MR. FU provided a macroeconomic overview of the markets and where they were last year, this year, and then where they are going forward. He talked about economic and market trends for timberland which will have a potential impact on the timberland portfolio going forward over this year, as well as in future years. For this year, he identified three things: First, the good news is that consumers are still spending. The bad news is that they are spending more on services and less on goods. Another factor is the higher interest rates that affect the real estate market. The third theme was that higher interest rates mean higher mortgage rates, which means fewer single-family housing starts.

MR. JOHNSON did a quick overview of the Board's holdings, from a diversification standpoint. He mentioned all the different regions, which includes 11 states, and then highlighted the 346 separate tracts. Timberland is thought about in terms of highest and best use. The highest and best use historically has been growing timber. Demographic pressures, technology changes open up the door to opportunities that add value to the portfolio.

MR. MATHIS stated that when land is owned, a lot of interesting things are run into; optional things that really need to be thought about. He continued that since the founding of the firm, they were big proponents of what they call the wholesale-to-retail strategy where they buy in bulk and sell individual tracts off to individual buyers who pay somewhere between 30 and 75 percent over the value as a retail tract. He then talked about solar, noting that there are only so many places that significant amounts of solar energy can be put in the United States. Timberland has become an attractive place where solar farms can go. As a firm, they have been very proactive in working with solar developers to try to attract solar development to their clients' properties. He added that they had an opportunity for them, if it works out, in Wisconsin; 250 megawatts of solar power with a company called NextEra, and it would be a lease. He shared some more information and moved to carbon markets. He added that there are a lot of interesting things going on, and they are very focused on maximizing value retail.

MR. JOHNSON again thanked the ARM Board for their business.

TRUSTEE MOEN asked about the selling of the parcels, and if they were selling the timber, or were they selling the real estate land itself.

MR. JOHNSON replied that they did a little bit of all of the above. In some instances, they just sell the timber; but in recreational land sales they would typically sell the land and timber on it. Sometimes the timber will be used as currency to make a deal.

CHAIR BOB WILLIAMS asked for any other questions. There being none, he thanked them for their presentation.

INVESTMENT ADVISORY COUNCIL PERSPECTIVES
CHAIR BOB WILLIAMS stated that it was story time and stated that they had three incredible storytellers and a wealth of wisdom from the IAC members here today. They will be sharing some stories to illustrate a point that will help impress upon them as a Board. He recognized Ruth Traylor.

IAC MEMBER TRAYLOR stated that she was the executive director of the Wyoming retirement system which, unfortunately, had no sort of cost of living built into it at all. It had to be well funded. The Board had to go to the Legislature, request permission to do a one-time COLA. It was not good for the members. She continued that they tried to explain to the members the importance of investing in a deferred comp so they could sort of fund their own cost-of-living position for when they retired. Participation, even though encouraged, was only in the mid-20 percent range. She added that this was even with the State matching the first $50 anyone would put into their account every month. People were effectively leaving $600 per year on the table, and not paying any attention. She added that they came up with the idea of auto-enrollment; 3 percent of every new employee's pay would immediately go into the deferred comp plan. Paperwork explained that they did not have to do anything, but they could. She explained the process of automatic enrollment and discovered in the process that people tended to choose the path of least resistance. It was called the Wyoming "stick rate," which was what the not-opting-out was called, and it was at 97 percent when she left. She stated that she called last week to verify how the plan was working, and for the most recent report, there were 15 opt-outs of 740 auto-enrollments, which meant a stick rate of 98 percent. She added that the moral of the story is that if you can get something automatically done for people, it is good for them. If they have to take action to get out of it, they just do not do it. That was her success rate, and she was pretty happy about Wyoming State employees having a more appreciative retirement.

CHAIR BOB WILLIAMS thanked Ms. Traylor and moved to Story No. 2.

IAC MEMBER RABUCK stated that there is no investor, investment manager, investment office of governance structure that excels in everything. The point was to be ruthless and refreshingly honest in discerning where there was any advantage and where you are at a disadvantage, and then invest accordingly and plan around it. He shared two stories to demonstrate his point, one was personal, and the other professional. The first story comes from a source where he had learned a lot of lessons, which were his kids. He continued that he has three kids: A senior in high school; a freshman; and one that just started middle school. The middle schooler is the most competitive out of the bunch, and she got it from his father-in-law, who played college football. He stated that they were on the beach and there was a game called spike ball. The object of the game is to hit the ball to the other person, and then the other person has to hit it back. The object is to figure out a way to not let that happen. His father-in-law was one month away from a knee replacement. His youngest learned there was a weakness. She was going to go to that right side. His father-in-law was getting more and more frustrated. Two things happened. One, his daughter loved it and thought it was the greatest thing. His father-in-law said they had to play another game because he could not win at this. This is that idea of figuring out where you have an advantage and where there is a disadvantage and trying to figure out how to plan around it. In the case of investing importantly, this was the second story: He started his institutional investing career at the State of Indiana's public plan. He was there for six years, and then transitioned to the CIO role at Indiana University Health, which is where he is now and had been for a little over 12 years. He was given the task of building an institutional investment office for a hospital system. It was an interesting moment when, as a CIO or an allocator of capital, he had investment managers come into the office, and they would ask all sorts of questions to try to discern what their advantage was; why they should care about them; you are one in a thousand managers out there. It was an interesting moment when one of the general partners flipped the table on him and started asking him a ton of questions on how he was going to have an advantage over anyone else in the institutional investment world with what he was doing. That was one of those moments for him. He had always allocated capital because it had to be this diversified portfolio, and he could succeed in just about every area. That led to a very different self-reflective sort of moment when he first started out and had to determine what really was an advantage that we could compete in the marketplace. He identified some of the limitations which was in some ways similar to what he experienced and heard over the last two days. He had to learn, given these limitations, where they could take risk and where they could not. He added that, from day one to this day, he had been 100 percent passive, and that allowed staff, with its limited bandwidth, to really focus on the higher value-add areas in private markets and some other alternatives. He stated that he had thought about this assignment and wanted to have a point that he could plant with a high probability of adding value over the next ten years, which is really discerning and embracing the edge that you have been able to see in the staff and the governance structure and in the team that supports the retirement benefits.

CHAIR BOB WILLIAMS thanked Mr. Rabuck, and recognized Dr. Jennings.

IAC MEMBER JENNINGS stated that they were asked to convey a story that shared an investment lesson. He continued that his was not structured as parallel stories, but more of inner and outer stories, and he hoped it was more in the neighborhood of "Princess Bride" than "1984" in that respect. The question he was thinking about answering was: What was his most memorable investment, good or bad? This came from a particular investment podcast host that he had listened to a few times, and one of his closing questions tries to tease out investment insights from a range of different folks. He shared a list of podcasts that he recommended to the

Board. He said he found things on Morningstar's "The Long View" which tended to be a money manager interview or a financial planner interview. Then, "Bogleheads" on investing is a bit of getting that old time religion about indexing and passive. Those had been consistently good in his experience. He also recommended two others as resources, but he suggested exercising a bit more selectivity. "The Meb Faber Show" created the prompt for the story he was about to tell. "Capital Allocators" was sort of an institutional investment podcast. Ted Seides was the guy that bet a million dollars against Warren Buffett about whether hedge funds were going to outperform over a decade. He lost, and Warren Buffett got a billion dollars. This was an interesting guy, and he knows a lot of interesting people to interview. He added a few more resources available on podcasts. He continued to his story, stating that it was 1986 and they were halfway through the bull market in stocks in the '80s. An amazing, roaring time. That decade started with very high interest rates, and then they dropped, and they have consistently dropped since then. He was a young college student taking his first finance classes, and he thought that he had great insights. In particular, they were going to talk about an interest rate yield curve shift that occurred over a six-month period. If you know your bonds, lower rates lead to a whole lot of increase in value. He had learned about zero coupon bonds in strips but had not learned about diversification. He put 80 percent of his money into this one investment. 1.5 percent move. It should have been an amazing thing. The rates dropped 1.5 percent. The duration of a strip was the maturity of a strip, and he had 80 percent of his money in there. He continued that he was feeling pretty good and was seeing statements that were showing brilliance. This finance thing was easy. He made 30 percent returns. He paused for dramatic effect and asked what the Board thought he had actually made on this investment at the end of the day. The answer was ZERO. There was a market microstructure lesson that "trading costs matter." There was a massive bid/ask spread. He did not know about limit orders at the time and learned all those lessons. He has not forgotten them a long, long time later. That was one set of lessons, the kind of paying attention to the operational detail, which staff here is great at. He suggested not confusing a bull market with smarts. ARMB has been consistently good about costs. The point about the last trade and focusing on the money in and out may be something to watch. Avoiding rookie mistakes is an obvious takeaway and having an experienced staff could help with that. Lastly, is that if you don't approach investing with humility; the market is very capable of teaching that.

CHAIR BOB WILLIAMS thanked all three of the IAC members very much for telling the story to illustrate a point. This concluded the story time session of the Alaska Retirement Management Board meeting, and he recessed the meeting until tomorrow morning.

(ARMB Full Board of Trustees meeting recessed at 4:24 p.m.)

September 15, 2023

CALL TO ORDER

CHAIR BOB WILLIAMS called the Alaska Retirement Management Board meeting to order and welcomed all back. He began with an exciting presentation with IFM, and recognized Steve Sikes.

IFM

MR. SIKES stated that IFM is an investment manager with the ARMB since 2015, prior to the JP Strategic Property fund. IFM manages an open-end perpetual life commingled fund in which the ARMB invests. ARMB has over $700 million invested in the IFM, and the performance has been outstanding. While real estate struggled last year, the IFM returned a positive 9.58 percent net, producing strong results in diversification benefits for the real assets portfolio. Staff does not have concerns with the IFM fund. He noted that he would be recommending increasing the exposure to the infrastructure sector 15 to 20 percent in the real assets portfolio. He asked Julio Garcia, head of infrastructure, to go through this strategy.

MR. GARCIA stated that he is the head of the infrastructure team in North America for IFM and has been with the firm for 16 years. He spent about seven years in the Melbourne office before transferring to New York in 2014. He continued that Campbell Holman was joining him and asked her to introduce herself.

MS. HOLMAN stated that she is on the investor relations team at IFM. She has been with the firm for about 4.5 years, focusing on overseeing strategic relationships with investors like the ARMB. She continued that IFM Investors was established a little over three decades ago through the collaboration of Australia pension funds. They were inspired by the potential of collective action and what that could mean. They came together and established an institutional investment manager, such as IFM, with the same collaborative spirit. Today they are still owned by those pension funds. She noted that Alaska came into the fund about a decade ago. In North America, they focus on infrastructure equity and infrastructure debt. In Australia, they manage both traditional and alternative asset classes. They have 11 global locations and manage three funds: the first being the global infrastructure fund, in which the ARMB has exposure; the second is the Australian-only infrastructure fund; and third is the net zero infrastructure fund. They manage $73 billion directly into private infrastructure assets, with over 28 years of experience investing in that space.

MR. GARCIA stated that the most important stakeholders are their clients. The IFM client base has grown considerably with investing through open-ended structures. The reason for that is investing in assets such as airports and electricity networks that should have useful lives in 50, 70 and more years if adequately maintained. The view when the fund started was to create a structure that aligned with the types of assets that were invested in. He then talked about their team which is very stable and large; one of the largest global teams within the infrastructure asset class. He stated that infrastructure is meant to have a level of predictability of the cash flows due to the nature of the services provided and then move to inflation protection. He continued to the risk side and added that infrastructure is meant to be a defensive asset class that should have low levels of volatility. A big part of that is applying the right level of debt, not over-levering the assets to try to eke out extra returns and increasing the volatility, and also having a team that thinks about what could go wrong and how to mitigate those risks.

MS. HOLMAN provided a brief overview of Alaska's investment with IFM. The initial commitment in 2014 was for $200 million. A year later, an additional commitment of $50 million was made, and then in 2016 there was a transfer from the unhedged feeder to the hedged feeder. There were two additional commitments, bringing the total commitment with IFM to $352 million. She added that, as of July 31st, the total net asset value was just north of $700 million. She noted that Alaska currently elects to receive distributions in cash.

CHAIR BOB WILLIAMS stated that he was very impressed and added that this had a flair about it with inflation protection built in when inflation was low, and it may not have seemed that important. A lot of people get hit by inflation and have 0 percent protection, and these contracts have that built in. For a portfolio to have 70 percent protection is incredible, and the returns are very impressive. He thanked them for a very, very impressive presentation.

MR. GARCIA thanked them for the opportunity and for the long-term partnership.

UBS FARMLAND

CHAIR BOB WILLIAMS moved to UBS Farmland, and recognized Steve Sikes.

MR. SIKES stated that the ARMB invested in Farmland in 2004, over 18 years ago. It was a relatively central strategy, trying to get farmland and rent it out to good farmers. The rents had enjoyed modest appreciation alone. He continued that the ARMB's position has grown just over a billion dollars. It has delivered on its original performance schedules. Farmland also proved to be resilient last year, returning a positive 10.88 percent of net return based on negative real estate. We do not have any concerns with the UBS Farmland portfolio. He added that, in his report, he would be recommending reducing the portfolio target weight 25 percent to 20 percent as part of the refresh portfolio optimization and cap. He introduced Tom O'Shea, head of portfolio and client services, to introduce the Farmland team and review the portfolio.

MR. O'SHEA stated that he is the head of the portfolio client service group and thanked all for the opportunity to visit. He continued that they are very appreciative of the relationship with the State of Alaska, and they are very proud of what they have been able to deliver to the system beneficiaries. He added that the State of Alaska started with them back in 1980 with an investment in what now is the Trumbell Property Fund, and they have a long history. A separate real estate account was started in 1988, producing a 35-year relationship with a return of 9.66 percent since inception. He explained that the farmland business is headed by Jim McCandless and Dan Murray. Both are co-CIOs of the business, and their team really runs separately from the real estate team with a separate set of investment professionals set up as a kind of separate business. He asked Mr. McCandless to continue.

MR. McCANDLESS stated that they really appreciate their relationship with ARMB, a very important client for them. He continued that Steve Sikes is a great guy to work with, who is very transparent and open, making the job a lot easier. The staff respects him a great deal. He stated that they continue to work hard today and into the future to improve upon and enhance the returns for ARMB on this portfolio. They are very proud of this portfolio in terms of property types and its performance. He asked Dan Murray to start the presentation.

MR. MURRAY reviewed the team quickly and stated that the teams are very stable with a lot of long-tenured folks on the team. He moved to an overview of the portfolio and noted that it was a little over $1 billion in gross asset value. The farm value was over $1 billion at a cost of $666 million; quite a bit of appreciation over the 18 years. He stated that the northern agriculture entities were transferred to them in October 2020, and the strategies utilized since inception have been returned, just shy of $260 million in cash dividends. He continued that their world was divided into three different parts with investments in commodity crops, vegetables, and permanent crops. He explained what each were and then showed how they were spread out geographically with most of the concentration in the mountain region. This was an investment in three states: Idaho, Colorado, and Arizona. Those states are totally different, with separate agricultural economies, creating quite a bit of diversification. He then stated that the Pacific West was below that and included just California. It has all three of the property types and is the largest and most diverse agricultural state in the United States. He went through the fund level net-of-fees performance. He added that it is also a very stable portfolio that has continued delivering over time. He noted that the benchmark was exceeded by 34 basis points.

CHAIR BOB WILLIAMS summarized the presentation as pretty steady returns, with a nice diversification aspect to it, and a wicked hard benchmark to meet if it did not include fees.

MR. O'SHEA then gave a quick update on what the portfolio had been up to over the past year and talked about two acquisitions and one disposition. There was also a pending sale of a Corn Belt farm which was 330 acres, a partial sale from 1200 acres. He showed where the farms were located. He stated that the portfolio was constructed to reflect an investment universe of the United States, and that is what it is doing. Corn and soybeans are the largest commodities produced in the U.S., and that is what the portfolio shows, as well, followed by vegetables and permanent crops. He added that there is also a diversification in how the farms are leased to the tenants on the farms. There are 113 active farm leases, which excludes anything that may come with the farm that are relatively inconsequential, like mineral leases. He explained that there is a state law in California called the Sustainable Groundwater Management Act. Effectively, this is trying to bring the groundwater basins back into balance by 2040 by either adding water or reducing the amount taken out. If the amount taken out is reduced, it will be a challenge to anyone that is trying to grow food there, considering that irrigation takes a lot of water. He continued that this portfolio is very well insulated against this legislation which is reflected in the performance of the Pacific West/California portfolio over time.

CHAIR BOB WILLIAMS thanked them for their presentation.

(Break.)

KKR REAL ESTATE PARTNERS AMERICA

CHAIR BOB WILLIAMS brought the meeting back to order, and asked Mr. Sikes to introduce KKR Real Estate Partners.

MR. SIKES noted that ARMB's prior real estate portfolio had been invested in U.S. core real estate and pursued a number of higher return non-core strategies over time to enhance portfolio returns. He continued that KKR has a long history of traditional private equity with a significant portfolio of traditional private equity and integrated company investments with industry relationships as a result. The real estate business was able to create an information flow advantage by leveraging the integrated platform with industry relationships to identify and enhance strategy themes and then execute them. The KKR funds have also been consistent with the target objectives. One of the recommendations he planned to make in the annual plan was to adopt a formal allocation of 5 percent non-core real estate funds and a formal pacing model. He added that the KKR presentation will provide a performance update on the existing investment and help the Board understand the term "non-core real estate." He introduced Lawrence Ou, director of the Client and Partner Group at KKR.

MR. OU thanked the board for the opportunity to present and, most importantly, thanked them for the partnership which has spanned over 16 years. He stated that he is based in Los Angeles and is responsible for managing West Coast real estate relationships, including ARMB. He continued that KKR is a global investment firm founded over 47 years ago, and he gave a short history of the company, which is mostly known for private equity. He recognized Justin Pattner.

MR. PATTNER stated that he oversees the U.S. real estate private equity business at KKR. He continued that he joined KKR over 12 years ago and spent his first years in the New York office, and now lives in San Francisco. He talked about the mandate from the co-founders to build a differentiated business that mattered, and to do that with good, honest people and companies. That mandate has been their North Star as their vision was crafted and executed. He began with explaining what the real estate platform looked like today and how it was designed that way. Then he explained the REPA Fund series and the opportunities. He added that their understanding of capital flows is very strong, as well as their ability to make relative value decisions across borders. He also talked about their core-plus strategy which helps assess risk/reward in a better way. He stated that they now have 16 offices across the world, and the reason why it all works is that each one of the business lending businesses, debt businesses, the regional businesses, all report to the same management. They create a culture that rewards working together, sharing information, which is fairly unusual for firms that look like theirs. He moved to their flagship series strategy, which is an opportunistic strategy, that is classified technically as non-core. The key differentiators are the targeting of higher returns in the core strategy, which is 10 percent. He stated that the REPA strategy has generated about a 17-percent gross return. He explained the realized returns of REPA 1 and REPA 2. He stated that, relative to the strategy, the key characteristics and focus right now is industrial space, rental housing space, and self-storage space. He noted that they constantly evaluate and reevaluate where the investing is because cycles change, demands change, and fees change. He walked through one of the case studies and talked about how they were seeing the opportunity in today's market.

CHAIR BOB WILLIAMS thanked them for the presentation and moved to the Fidelity Real Estate High Income Fund. He recognized Steve Sikes.

FIDELITY REAL ESTATE HIGH INCOME FUND

MR. SIKES stated that one of the ways to simplify the work is to buy investment approaches in two ways: Either as a lender or an owner. In the real assets portfolio, ARMB is primarily an owner. Given the dislocation occurring in the real estate lending markets, there will be a proposition for real estate lending as a new component to the real assets portfolio. He continued that ARMB had invested in the REHI strategy since 2015 but had mixed results over time as an absolute business and relative to the benchmark. This was largely due to a low-interest-rate environment and the short duration nature of the portfolio. He believed that going forward, this portfolio is well positioned to produce attractive returns given the much higher yields. He introduced Kristin Shofner, senior vice president of business development, to talk about this strategy.

MS. SHOFNER gave a brief background of herself and noted that she had worked her whole career in investment management with her old firm, and then was lucky enough to join Fidelity ten years ago. She added that Matt Torchia and Bill Maclay are co-portfolio managers on the strategy, and she thought it was important for them to be here in person as this new change to the real assets was being made so it was heard from them directly. She asked them to continue.

MR. TORCHIA stated that he is the co-portfolio manager on the strategy with Mr. Maclay and has been with Fidelity just over two years. Prior to that, he spent seven years at BlackStone Real

Estate on the debt strategies team where he focused on liquid real estate securities. He started his career at Bank of America where he held various roles. He added that he was excited to be there and to speak about the strategy.

MR. MACLAY stated that he has been at Fidelity for 22 years. Prior to that he was a co-manager at a real estate firm. He began the presentation with some background on the group and then talked a bit about the CMBS market. He stated that Fidelity's real estate group started in 1994 right after the S&L crisis, which jump-started the commercial mortgage-backed securities market. Real estate debt is an asset class that Fidelity uses as a fluid opportunity area. That means that Fidelity is willing to invest and give a lot of resources. There is a dedicated team of 14 real estate professionals with deep experience in real estate lending, in real estate securities analysis, as well as trading risk management. He reminded all that CMBS means commercial mortgage-backed securities, which is comprised of mortgages on commercial real estate. He talked about commercial real estate and the cushion it has, and how that came about. He added that mortgages are the building blocks for CMBS. He talked about single-borrower CMBS and multi-borrower CMBS, which is called "conduit CMBS." He added that the process for constructing a CMBS is the same for both, and he explained the process. He also explained the investment process, which includes a deep, fundamental research at the property level. He also pointed out that they do site visits. The team is constantly traveling across the U.S. looking at properties, and are there in person, which is quite valuable. He added that the portfolio is very diversified and very granular. All of this is an iterative process where all the credits are re-underwritten. He asked Mr. Torchia to continue.

MR. TORCHIA began by spending a few minutes highlighting the current conditions that are being seen within the lending market, in particular, and the effects on the CMBS market. He stated that the office market faces some challenges, and we started seeing some yielding as it relates to markets and the repricing of office risks within the public market side. He continued that the remaining property types with access are seeing rental growth, in high-level areas with low vacancies. Those property types include industrial warehouse buildings, multi-family or apartment buildings, and self-storage properties. He continued to the portfolio and the investment themes that were present. The largest percent of the portfolio is the single-borrower market, which makes up 54 percent of the portfolio that is comprised of 108 different transactions. He stated that the next segment is conduits, which makes up to 14 percent of the portfolio, and represents deals that were issued in 2014 or later. It is here where they are up in credit, which is best evidenced by the strong investment-grade rating of this segment of the portfolio. Another focus this year was adding to the segment of bonds rated single A, and in some cases higher, with really attractive total returns while taking less risk. The last segment is referred to as seasoned conduit, which are deals issued in or before 2013. It makes up 14 percent of the portfolio. He added that this segment is really compelling, unique, and almost irreplaceable, because the properties underlying these deals ultimately benefited from over a decade of price appreciation and income growth; and, in some instances, amortization of the loan balances, as well. He stated that, overall, it is a granular portfolio which is always evolving with some modifications made over the past year given the changing market condition.

CHAIR BOB WILLIAMS stated he was interested but would like to get more excited about this. His concern was $200 million invested with a 1.32 percent return over 7.75 years. The mark is 7.25 percent that has to be made, and there is a need to find some other $200 million to make 13.18 percent to average that out. He asked for a compelling reason to stay in this.

MR. TORCHIA talked about positioning the modest leverage points and explained what it meant for return. He stated that they are looking at double-digit yield to maturity. There is a potential upside from there, they also have a nice, discounted dollar price of 82 percent of par that is an attractive opportunity for price appreciation. From that perspective, less risk was taken with more yield than could have been produced even a few years ago.

CHAIR BOB WILLIAMS asked if higher returns should be expected.

MR. TORCHIA replied that he would be disappointed if that return was less than 2 percent.

MR. MACLAY noted that the yield on the portfolio was 11 percent. He went through the return history of 2009, 2011 and 2012, and added that the healing path is the path expected.

MR. TORCHIA stated that it is very similar to the verticals that were shown. He then continued through investment performance in the chart. He also pointed to the CMBS index which was down almost 6.5 percent over the past year. Given the volatility of the commercial real estate seen over the past year, they were not immune to it.

MR. SIKES commented that this strategy did not exist in a vacuum compared to the overall bond market. The interest rate environment over the past decade has been very complicated. It can be seen where interest rates had been a very accommodative, monetary policy. The short-term rates over the ten-year yield had been very low. The results had been low in the past, but in the future better results are expected because the interest environment is much higher over the short-term.

MS. SHOFNER hoped that next time they would not be trying to defend and make excuses but more celebrating some of the outperformance that the team is expecting, going through their process. She stated appreciation for their business.

CHAIR BOB WILLIAMS thanked them for their presentation and called a lunch break.

(Lunch break.)

CHAIR BOB WILLIAMS recognized Steve Sikes to introduce the next presenter.

REAL ASSETS ANNUAL PLAN

MR. SIKES stated that he is excited to introduce the new team member in real assets, Robyn Mesdag. She had been with them years ago in portfolio management and has rejoined the team.

MS. MESDAG began with a brief background and stated that she was born and raised in Juneau. She graduated from Juneau Douglas High School and went away to college and got a degree in finance. After college she worked on Mr. Sikes' portfolio, helped manage the fixed income portfolio. She then moved to Oregon and worked for a number of years for a consulting company called RBK. She moved back to Juneau and worked for a nonprofit until the beginning of this year. She was very happy to be back.

MR. SIKES stated that he would be talking about portfolio performance and would look at fiscal year 2024 for target allocation and then go through each sector, thinking what would need to be done or undone to improve the risk profile and risk tolerance. He stated that the role of the portfolio is to produce attractive returns in stocks and bonds, provide diversification, inflation hedge, and create current income to pay employees. He added that the portfolio construction, is similar to how the Board builds the overall investment portfolio. Overall, the Board set the portfolio weight at 14 percent, and it is a bit overweighted at 14.4. The targets established for each of the components are mostly illiquid sectors. Managing the portfolio to these targets is challenging, so tolerance is required in some instances. He continued through his presentation hitting on some significant highlights. The core strategies were about where they should be. He showed a slide that provided a sense of how the real asset components performed versus the broad market going back to COVID. He stated that COVID was significant in the sense that it triggered volatility, and also sparked some significant monetary policy. He noted that they were chugging along with positive returns. GFC was the turning point, and since GFC, the whole thing drops. He moved into the planned target allocation goals and touched on non-core real estate. He discussed KKR's strategy, noting they had been investing in that strategy for some time. He then talked about the real estate cap and the changes in those markets that created the portfolio that added that. He added that non-core real estate debt had the highest yield, which was the cash flow redemption, the appreciation. High yield had the lowest risk, and non-core real estate had the highest return. He stated that he wanted to improve the process and proposed doing something new. There were two pieces to that: They will establish by specific weight for exposure, which will benefit everyone in managing the portfolio. The other piece was a pacing model and will not be anywhere close to private equity. He asked Ms. Mesdag to go over infrastructure.

MS. MESDAG stated that infrastructure investments provided for essential services like the Indiana Toll Road. She continued that infrastructure investments included roads, airports and things like water, electricity, and things that are essential to people's everyday lives. She added that infrastructure was about 2.7 percent of the total ARM Board portfolio, about $860 million. She went through a chart that showed the evolution of the real assets portfolio over time. She stated that, currently, the infrastructure sat at about 19 percent of the real assets portfolio, with a target of 15 percent. Infrastructure investing offers access to long-lived assets and are hard to replicate. She talked about how investing in these funds were offering the ARM Board access to assets and diversification that the ARM Board would not otherwise have access to. She continued with examples of inflation investing and moved to the structure of the ARM Board infrastructure investment. She explained the benefits from the diversification and differences in investing. She summarized the changes suggested to the infrastructure portfolio which included a recommendation to increase target weight from 15 to 20 percent. Staff also planned to rebalance between IFM and JP Morgan. IFM was over 80 percent of infrastructure portfolio, and it made sense to weight the funds a bit more evenly to improve diversification within the portfolio. They also believed that increasing diversification would improve by adding higher risk and return strategy.

MR. SIKES reiterated and summarized the changes suggested to the infrastructure portfolio. He stated that Callan would now present their plan and review, and then he would be back at the end.

CHAIR BOB WILLIAMS thanked him for the presentation and asked for the introductions for the next presenter.

CALLAN REAL ASSETS PLAN/PERFORMANCE REVIEW
MR. SIKES stated that there is a general consulting contract with Callan, and also a separate contract to provide advisory services for the real assets portfolio. They would talk about strategic advisory services, long-term planning, and performance. He introduced Jon Gould, co-head of the real assets consulting group for Callan who has been there since 2016.

MR. GOULD introduced himself and stated that Avery Robinson, Jay Kloepfer, head of capital markets group communication, were both on the line. He went through some of the slides to start review of the portfolio and performance and then got into some strategic plan recommendations that were introduced earlier. He stated that the private real estate portfolio is positioned very well and is diversified relating to the ODCE. The benchmark of open-ended funds is well positioned and well diversified by region. He moved along to the target asset allocation proposal that was being put forward. He stated that Jay Kloepfer heavily assisted in developing a new target allocation to some components within real assets. He explained a bit of the process. The idea is to improve the risk-adjusted returns of the overall portfolio, and not just the real assets portfolio in isolation.

MR. KLOEPFER stated that he was very comfortable with how this ended up.

MR. GOULD shared how they wanted to think about building the portfolio which would be layered in over time. He concluded his presentation and asked for any questions.

CHAIR BOB WILLIAMS thanked him for his presentation and called a break.

(Break.)

REAL ASSETS ACTION ITEMS – PLANS & GUIDELINES
CHAIR BOB WILLIAMS welcomed all back and moved to the Real Asset Action Items.

MR. SIKES stated that he had presented the plan and that they heard from Callan regarding the plan, and now have an action item. He continued that the action item was exactly what was seen in the plan. He recommended that ARMB approve Resolution 2023-12, to adopt the "Real Assets Annual Investment Plan for Fiscal Year 2024."

CHAIR BOB WILLIAMS asked for a motion.

> **MOTION**: <u>A motion that ARMB approve Resolution 2023-12, to adopt the "Real Assets Annual Investment Plan for Fiscal Year 2024," was made by TRUSTEE MOEN; seconded by TRUSTEE KROHN.</u>

CHAIR BOB WILLIAMS moved to discussion. He had a question about moving Fidelity from fixed income to real assets and was it going to go into the real estate debt. He asked if they were sure that Fidelity was the foundation they wanted to build off.

MR. SIKES replied that the idea was that they would be adding the additional to get to a blend that will be better calibrated to the long-term.

CHAIR BOB WILLIAMS stated he got it and asked for any further discussion. There being none, he asked for the roll-call vote.

After the roll-call vote, the MOTION was APPROVED. (Trustee Bretz, yes; Commissioner Crum, no response; Trustee Krohn, yes; Trustee Moen, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes; Trustee Michael Williams, yes; Chair Bob Williams, yes.)

MR. SIKES stated there was one action item with four resolutions, on for each of the guidelines: real estate, farmland, timberland, and infrastructure. He continued that the only change in the guidelines was to real estate. They would calibrate the guidelines for the real estate weight in the ODCE and the NAREIT to the new weights that were just approved. He recommended that the ARMB approve Resolution 2023-13, which adopts the revised Real Estate Investment Guidelines.

CHAIR BOB WILLIAMS asked for a motion.

MOTION: <u>A motion that ARMB approve Resolution 2023-13, which adopts the revised Real Estate Investment Guidelines, was made by TRUSTEE MOORE; seconded by TRUSTEE KROHN.</u>

After the roll-call vote, the MOTION was APPROVED. (Trustee Bretz, yes; Commissioner Crum, no response; Trustee Krohn, yes; Trustee Moen, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes; Trustee Michael Williams, yes; Chair Bob Williams, yes.)

MR. SIKES recommended that the ARMB approve Resolution 2023-14, which adopts the revised the Farmland Investment Guidelines.

MOTION: <u>A motion that the ARMB approve Resolution 2023-14, which adopts the revised Farmland Investment Guidelines, was made by TRUSTEE KROHN; seconded by TRUSTEE MOORE.</u>

After the roll-call vote, the MOTION was APPROVED. (Trustee Bretz, yes; Commissioner Crum, no response; Trustee Krohn, yes; Trustee Moen, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes; Trustee Michael Williams, yes; Chair Bob Williams, yes.)

MR. SIKES recommended that the ARMB approve Resolution 2023-15, which adopts the revised Timberland Investment Guidelines.

MOTION: <u>A motion that the ARMB approve Resolution 2023-15, which adopts the revised Timberland Investment Guidelines, was made by TRUSTEE MIKE WILLIAMS; seconded by TRUSTEE KROHN.</u>

After the roll-call vote, the MOTION was APPROVED. (Trustee Bretz, yes; Commissioner Crum, no response; Trustee Krohn, yes; Trustee Moen, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes;

Trustee Michael Williams, yes; Chair Bob Williams, yes.)

MR. SIKES recommended that the ARMB approve Resolution 2023-16, which adopts the revised Infrastructure Guidelines.

MOTION: A motion that the ARMB approve Resolution 2023-16, which adopts the Revised Infrastructure Guidelines, was made by TRUSTEE RYAN; seconded by TRUSTEE MOEN.

After the roll-call vote, the MOTION was APPROVED. (Trustee Bretz, yes; Commissioner Crum, no response; Trustee Krohn, yes; Trustee Moen, yes; Trustee Moore, yes; Trustee Ryan, yes; Commissioner Vrana, yes; Trustee Michael Williams, yes; Chair Bob Williams, yes.)

UNFINISHED BUSINESS

CHAIR BOB WILLIAMS moved to unfinished business and asked for any issues around unfinished business. He stated that he had one item. For the last couple of days, in a discussion, ARMB Counsel Hofmeister mentioned the possibility of a working group around managed accounts. He had multiple trustees express interest in being included on that. He stated that he would like to appoint a working group on managed accounts. The following people confirmed a willingness to be on the working group: Commissioner Vrana, Commissioner Crum, Trustee Ryan, Trustee Bretz, Trustee Bob Williams, and IAC member Dr. Jennings. He continued that this will probably involve staff, but in terms of trustees, those are the trustees willing to be on it, and one IAC member. He then asked for any new business and any other matters to come before the Board. He continued that this was the time for public-member comments and communications. He asked for anyone online or in the room to speak for up to three minutes. Hearing none, he moved to IAC member comments.

IAC MEMBER TRAYLOR wanted to say a little more about the staff compensation that was previously discussed. She got more information from Wyoming and would be happy to pass it on. Commissioner Crum had asked her for them, and Director Leary may like it. She also talked about the McLagan study, which has component pieces: One was base salary; one was total compensation, and that included any kind of a bonus that may be there. She added that when they had put their incentive compensation plan into place, "bonus" or "incentive" were not good words with legislators. "Performance" seemed to go over better. She stated that the other thing that worked very well was the vesting in it. It was 25 percent, so once the incentive or the performance amount was calculated, 25 percent was available the first year, 25 percent for the second year, and 50 percent the third year. That gives staff the incentive to stay because the pieces roll. None of the performance compensation bonuses were pensionable, which also made a big difference. The other difference was it was based on the total fund performance. She added that it has worked extremely well so far, and she was happy to pass along any information. She was also glad that the Board is behind this. It is critical to be able to keep the staff you have and if you have to replace someone, to be able to get the best and brightest.

IAC MEMBER RABUCK stated that his comments were in response to the real assets discussion and weighed in on a couple of thoughts he had as he listened. In thinking of the real assets portfolio as a diversifier to the existing big Betas in the portfolio, meaning equities and interest-rate sensitivity, as being one pillar that it was trying to accomplish; another being something where there was a Beta or kicker to inflation; and the third being something that creates total return, which are businesses that could make money with or without inflation. That is the kind of lens he views the real assets portfolio in. He liked seeing directionally things like financial assets becoming smaller. He also liked seeing value-added real estate going higher, and infrastructure checks all three boxes. He continued that the recommendations brought up were very good and well thought out. One of the points of business related to core real estate moving from separate account to open-end is staff management intensity. Those were some of the tradeoffs that, maybe, over time could have negative consequences.

IAC MEMBER JENNINGS gave his perspective on the real assets presentations and thought the flexibilities and the current structure were well aligned for that. He thought they would be in good stead with what was just adopted.

CHAIR BOB WILLIAMS commented on the work done with the resolution on compensation. He continued that it is clear that is a commitment that needs to be stuck to. The overall goal is the need to take the $30 billion in assets, and over time, earn another $30 billion in assets. That would not be done by having top quartile performance and compensation that was close to the bottom quartile. He welcomed Trustee Moore to the ARMB again and noted that it was great to see everyone in person. He added that it had been a very productive meeting, and he thanked everybody. He asked for any other trustee comments or any future agenda items, and then asked for any opposition to adjournment. Hearing none, he adjourned the meeting.

(Alaska Retirement Management Board Trustees meeting adjourned at 3:07 p.m.)

Bob L Williams

Bob Williams, Chair

ATTEST:

Michael Williams

Michael Williams, Secretary