ALASKA RETIREMENT MANAGEMENT BOARD
FULL BOARD OF TRUSTEES MEETING
HYBRID/TEAMS

December 7&8, 2023
9:00 a.m.

Originating at:
Alaska Housing Finance Corporation Meeting Room
4300 Boniface Parkway
Anchorage, Alaska 99504

Trustees Present:

Bob Williams, Chair
Sandra Ryan
Mike Williams
Spencer Moore
Donald Krohn
Dennis Moen
Lorne Bretz
Commissioner Paula Vrana

Department of Revenue Staff Present:

Zach Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Scott Jones, Investment Operations, Performance & Analytics
Stephanie Pham, State Investment Officer
Ryan Kauzlarich, Assistant Comptroller
Jesyca Ellenbecker, Accountant 5
Cahal Morehouse, State Investment Officer
Hunter Romberg, Senior Compliance Officer
Shane Carson, State Investment Officer
Emily Bowman, Administrative Assistant 2
Grant Ficek, Business Analyst
Chris Madsen, Administrative Operations Manager
Alysia Jones, Board Liaison
Sean Howard, State Investment Officer
Steve Sikes, State Investment Officer
Casey Colton, State Investment Officer
James Chen, State Investment Officer

Department of Administration – Division of Retirement & Benefits Staff Present:

Ajay Desai, Director
Kevin Worley, Chief Financial Officer
Kathy Lea, Chief Pension Officer
Kris Humbert, Business Integration Officer
Brandon Roomsburg, Audit & Review Analyst II
Nimeri Denis, Audit & Review Analyst
Christopher Novell, Accountant 5
Mindy Voigt, Retirement & Benefits Manager
Christina Maiquis, Accountant 5
Roberto Aceveda, Education & Counseling Manager
Teri Rasmussen, Acting Chief Health Administrator

Department of Law Staff Present:

Ben Hofmeister, Assistant Attorney General

Department of Administration Staff:

Dave Donley, Deputy Commissioner
Amanda Pillifant, Executive Assistant

Investment Advisory Council Present:

Josh Rabuck
Ruth Traylor
Dr. William Jennings

Empower:

Dan Morrison, Senior Vice President, Government Markets
Liz Davidsen, Managing Director, Government Markets

KPMG:
Beth Stuart, Audit Partner
Melissa Beedle, Audit Managing Director

Callan:
Steve Center, Senior Vice President
Ashley Kahn, Vice President
Ivan "Butch" Cliff, Executive Vice President, Director of Research

Buck:
David Kershner, Principal, Consulting Actuary
Robert Besenhofer, Principal, Health Actuary

GRS:
Paul Wood, Senior Consultant & Team Leader
Bill Detweiler, Consultant

Guest Presenters:
Matthew Smith, Abbott Capital Management
Young Lee, Abbott Capital Management
Ganesh Bell, Insight Partners
Caitlin Dipasquale, Insight Partners
David Lobel, Sentinel Capital Partners
James Chambliss, Pathway Capital Management
Canyon Lew, Pathway Capital Management
Wyatt Geiger, Pathway Capital Management
Sean Bailey, State Street Global Advisors
William Collins, State Street Global Advisors

Public Participants: Wendy Woolf; Randall Burns; Doug Woodby; James Simard; John Hudson; Joshua Hartman; Kevin Balaod; Jordan Shilling; Joe Ebisa; Lauren Albanese; Aurora Hauke; Fred Traber; Laura Kreutzer; Bob Smith; Hugh Short; Kekama Tuiofu.

PROCEEDINGS

CALL TO ORDER

CHAIR BOB WILLIAMS called the Alaska Retirement Management Board meeting to order and asked for a roll call.

MS. JONES called the roll.

PUBLIC MEETING NOTICE

CHAIR BOB WILLIAMS asked if the public notice requirements were met for this meeting.

MS. JONES replied, yes, it had.

APPROVAL OF AGENDA

CHAIR BOB WILLIAMS moved to the agenda and asked for any corrections or additions. Seeing and hearing none, the agenda was approved.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES

CHAIR BOB WILLIAMS moved to the public/member participation and asked if there was anyone online or in the room that would like to speak. He stated that there was a three-minute time limit, and there were two people signed up for public comments. He recognized Josh Hartman. Not hearing from Josh Hartman, he recognized Doug Woodby.

MR. WOODBY thanked the Chair and the Board for the opportunity to speak. He stated that he was Doug Woodby, lived in Juneau, and was a member of 350Juneau. He continued and summarized a report published this past July regarding climate risk as evaluated by pension funds. The report was published by an outfit in the United Kingdom called Carbon Tracker. He sent a PDF copy to Ms. Jones and requested that she provide it to the board. It was titled "Loading the Dice Against Pension Funds," and examines the basis for the assessment of risk through climate change. It specifically looked at the economic modeling that was the basis for the advice given by consultants to major financial funds. It is advice that apparently cost thousands of dollars to clients and was passed on to pension managers. The gist is that the economic modeling upon which climate risk was assessed was seriously flawed, and it grossly underestimated the actual risk. According to the report, the problem was that the peer review of the economic model was by economists, without the benefit of scientific peer review. That was a problem because so much of what is understood about climate change is in the realm of science. As a result, published information on the topic was taken as gospel despite being flawed. This is a huge disconnect between what scientists expect from global warming and what pensioners, investors, and financial systems are prepared for. His request was to ask Callan and other contracted consultants to take a serious look at the claims of this report. He suggested that the pension funds have a fiduciary duty to understand and correct the erroneous conclusions, if the claims of this report are true. He thanked all for the opportunity to speak.

CHAIR BOB WILLIAMS thanked Mr. Woodby and asked for anyone else online or in the room that would like to speak.

MS. WOOLF stated that she was Wendy Woolf with RPEA. She thanked the ARMB for making the meeting available on Teams. She was able to listen yesterday and follow along very easily. She thanked the ARM Board for making this tool available for the public to participate.

CHAIR BOB WILLIAMS thanked Ms. Woolf and recognized Josh Hartman.

MR. HARTMAN stated that he had presented his testimony to the committee yesterday and followed up on that so the whole board could hear his concerns regarding recent actions taken by the board in the past meeting, back in October, regarding the removal of managed assets. He explained that he was part of the 80-plus percent not currently enrolled in managed assets [My Total Retirement]. He continued that, even though he was not in managed accounts, he has been impacted by this decision to either suspend or remove managed accounts. It impacts certain aspects of that financial readiness review. He personally went through that process and what is now available is a skeleton of what was previously available. He stated concerns because even within the scope of the contract, it was acknowledged that financial planning advice is an important design component for a core-defined contribution plan; that members receive investment and planning advice. He continued that as a member of the defined contribution plan, he does not have the ability to select a pension. He has no guarantees, and he needs to rely on the tools that are available to him; and those had been removed. This is a service he paid for as some of the fees, and now he is paying for a service he is no longer able to receive. He requested that the board change the direction they are headed and reverse the actions that had been taken, so he could receive the services for which he is paying; not as a managed account, but as a person not participating in managed accounts [My Total Retirement] that is impacted by those intertwined services no longer available.

CHAIR BOB WILLIAMS thanked Mr. Hartman and asked for anyone else online or in the room that would like to speak.

MR. SIMARD stated that he was Jim Simard and lived in Juneau. He was a retired librarian, a board member of 350Juneau, and a grandfather. He talked about children being the most vulnerable among us to the violence of war. They are also the most vulnerable to the violence of climate chaos. He continued that young people worldwide have taken the climate issue to the courts, and he introduced two of the child human rights defenders, the first being Kelsey Rose Juliana, from Eugene, Oregon, the lead plaintiff in the case of Juliana v. United States. This case was originally filed on behalf of 21 young people in 2015 when Kelsey was 14 years old. The plaintiffs argued that by promoting the production and the export of fossil fuels, and failing to mitigate climate change, the Government violated their rights under the Public Trust Doctrine under the 5th and 9th Amendments. The suit was opposed by the Obama and Trump administrations and has continued to be contested by the Biden Administration. This suit was reauthorized and is very much active. The second is Summer Sagoonick, an Inupiat girl from Unalakleet. She is the lead plaintiff, with 15 other Alaskans, in the case of Sagoonick v. State of Alaska. He explained the lawsuit and stated that Alaskans are all aware of the climate-driven environmental crises that are being faced. The most visible is the collapse of salmon in the river systems. He talked about the responsibility of caring for future generations, and he believes that the Board has the opportunity to exercise that care by divesting the funds from damaging fossil-fuel interests and expanding investments into renewable energy resources. He thanked them for their time and for their service to Alaskan retirees.

CHAIR BOB WILLIAMS asked for anyone else.

MR. HUDSON stated that he is John Hudson, a member of 350Juneau. He continued that 2023 had been a rough climate year for North America and the rest of the planet. July was the warmest month since records began. He talked about more than a century of burning coal, oil and natural gas rapidly warming the planet, with excess heat causing more frequent and more severe weather. Climate-change-driven droughts, floods, wildfires, and hurricanes are breaking records for loss of life and damages. The external costs of burning fossil fuel, lives lost, and money spent is staggering. These disasters make it clear that most coal, oil, and gas will have to remain stranded in the ground. He continued that it is time to divest from fossil fuels and invest in the clean network future. It is the financially prudent thing to do and will help ensure that the planet remains livable. He thanked all for the opportunity to testify.

CHAIR BOB WILLIAMS thanked Mr. Hudson and stated that was all he had on his list. He closed Public/Member Participation, Communications, and Appearances. Next on the agenda was the approval of minutes.

APPROVAL OF MINUTES

CHAIR BOB WILLIAMS moved to the minutes from July 26, 2023, and asked for a motion to approve them.

> **MOTION:** A motion to approve the minutes of the July 26, 2023, meeting was made by TRUSTEE KROHN; seconded by TRUSTEE RYAN.
>
> *There being no objection, the MOTION was APPROVED.*

ELECTION OF OFFICERS

CHAIR BOB WILLIAMS stated that this was the December meeting, and it was the time for the election of the offices of chair, vice chair, and secretary. He asked for a motion for a slate of officers.

> **MOTION:** A motion for the current slate of officers was made by TRUSTEE MIKE WILLIAMS; seconded by TRUSTEE KROHN.

CHAIR BOB WILLIAMS asked for any discussion. He then asked for any other nominations. Hearing none, he asked for any discussion, and recognized Trustee Bretz.

TRUSTEE BRETZ stated that he thought that everyone had been doing well in their positions, and they should serve another year.

CHAIR BOB WILLIAMS asked for a roll-call vote.

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

CHAIR BOB WILLIAMS expressed gratitude and humility for the role, and also thanks for having a great secretary and vice chair in support. He thanked all and moved to staff reports.

STAFF REPORTS

LIAISON REPORT

MS. JONES stated that in the third quarter financial disclosure memorandum, no disclosure transactions required additional review or discussion. The communications memorandum listed communications directed to and sent on behalf of the Board since the last quarterly meeting in September. It also included a summary of public records requests received between September 1st and November 15th, and summary of communications regarding managed accounts following the October 12th meeting. A notice was sent out to PERS and TRS bargaining units regarding announcement instructions for submission of PERS and TRS nominees for the upcoming vacancies. The deadline for the bargaining units to submit their lists is December 19th. She moved to the 2024 meeting calendar and reminded the Board that the quarterly meetings were transitioning to a Tuesday, Wednesday, Thursday schedule, with the March 2024 meetings in Juneau at Centennial Hall. She shared a copy of the timeline showing contract and review deadlines for FY24 through FY29.

FUND FINANCIAL PRESENTATION
CHAIR BOB WILLIAMS moved to the fund financial presentation with Assistant Comptroller Ryan Kauzlarich and CFO Kevin Worley.

MR. KAUZLARICH went through the assets as of October 31st and updated the figures as of November 30th.

CFO WORLEY went through the Division's report of the contributions and expenditures for the four months ending October 31. He continued that the legislative appropriation to the General Fund for PERS, TRS, and the Judicial Retirement System was received in July. He gave his presentation regarding the fund financials.

RETIREMENT & BENEFITS DIVISION REPORT
CHAIR BOB WILLIAMS moved to the Retirement and Benefits Division report with Director Desai, Chief Pension Officer Kathy Lea, CFO Kevin Worley, and Business Integration Officer Kris Humbert.

CFO WORLEY began with the legislative update and Senate Bill 88, which impacts the Division. Senate Bill 88 would basically reopen the defined benefit plan. At the end of the last legislative session, we were asked to meet with the bill sponsor, Senator Giessel, her staff, and the Senate Finance Committee. We met with the group last month and provided requested information from the Division; the analysis done by Buck; and the data that was used. We continue working with that group and their actuaries to provide data requests as they continue to try and move this bill through the Legislature. He continued to the Buck Consulting invoices, including the request for the summary quarter billings that were done. The data was shown in regard to the different systems that Buck works on for the Division. He continued to the member statistics and went through the membership data as of September 30th. There was a net increase in the defined benefit and defined contribution membership in PERS. There was a decrease in defined benefit, and an increase in defined contribution. The same is true for TRS. He asked Kris Humbert to report on the BEARS project update.

MS. HUMBERT stated that the BEARS IT modernization project was on track for the November 18, 2024, implementation of the program. The pilot 3 testing held at the end of October was successfully completed, and they received some corrections and changes out of the demonstration and participation by the subject-matter experts. Those are being reviewed to see of those changes are critical. It was a very successful pilot 3 test, and we are looking forward to the implementation in November of 2024.

TREASURY DIVISION REPORT
CHAIR BOB WILLIAMS recognized Director Pam Leary with the Treasury Division report.

DIRECTOR LEARY stated that November and December were busy for the Treasury Division. Information was contributed for the revenue sources book, and we are preparing for the legislative session coming up in January. We are working with the internal department for developing items for the budget. She continued that the FY25 Governor's budget will be released mid-December, and we are hopeful for continued progress for salaries for the exempt staff as supported by the resolution approved in September. After the initial Governor budget release, trustees will be able to review it and possibly put forward other questions to the Commissioner of the Department of Revenue for consideration in the Governor's amended budget in February.

CIO REPORT
CHAIR BOB WILLIAMS moved to the CIO report with Chief Investment Officer Zach Hanna.

CIO HANNA stated that the investment focus of this meeting is on the private equity portfolio. It is an interesting time for private equity from deal flow, from evaluation, and from a rate exposure perspective. It was a good opportunity for the board to get an update on the program. Markets, generally, were quite volatile, and performance for the calendar year was strong. He moved to the watchlist and stated that included only one manager. Baillie Gifford still trails their benchmark by roughly 100 basis points, and we recommend leaving Baillie Gifford on the watchlist for performance issues. He talked about three recommended additions to the watchlist and requested separate motions for each. First was the JP Morgan Strategic Property Fund; the ARMB has $160 million invested in this $41 billion fund. The main portfolio manager for that fund left for another opportunity with fairly limited notice. Subsequently, the fund appointed three co-portfolio managers to run that fund. In general, staff is not a fan of that structure, and it was a departure for this fund. As a result of these personnel changes, a higher level of monitoring and placement of JP Morgan on the manager watchlist was recommended.

> **MOTION:** <u>A motion to add the JP Morgan Strategic Property Fund to the ARM Board manager watchlist was made by TRUSTEE RYAN; seconded by TRUSTEE BRETZ.</u>
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Vrana, yes; Trustee Ryan, yes; Trustee Moore, yes; Trustee Krohn, yes; Trustee Bretz, yes; Chair Bob Williams, yes.)*

CIO HANNA stated that the second recommendation was McKinley Capital. The ARMB has $270 million invested in the McKinley Capital global healthcare fund. Recently, McKinley agreed to sell 51 percent of their public markets business to Denali Advisors. He explained the businesses would be combined under the Denali name. Staff does not think there will be any material changes to how the fund will be managed, but changes in control such as this merit a higher degree of monitoring.

> **MOTION:** A motion to add McKinley Capital to the ARM Board manager watch list was made by TRUSTEE MOORE; seconded by TRUSTEE KROHN.

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

CIO HANNA moved to the last recommended addition, which was the Man Group Alternative Risk Strategy for performance reasons. The ARMB has $310 million invested in this fund, and we last covered the strategy at the June meeting. This fund takes positions largely in risk premia like value quality and momentum. It was designed to provide a diversifying and kind of market-neutral performance. One aspect of this is that it is fairly difficult to benchmark since it does not track any index. The Man strategy over the six-year period had returns of 3.37 percent versus T-Bills of 6.7 percent over the same time period, trailing that benchmark by over 300 basis points. Overall, the manager is highly thought of, and they are in the process of reviewing this strategy. There may be some recommended changes to this strategy, and it will be reviewed again in June. He recommended that the manager be placed on a watchlist for performance.

MOTION: A motion to add the Man Group Alternative Risk Premia to the ARM Board manager watchlist was made by TRUSTEE MIKE WILLIAMS; seconded by TRUSTEE RYAN.

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

CIO HANNA moved to the areas where he exercises CIO delegation for contracting. Item A is the addition of a new passive plus international equity run by Legal & General. This was approved at the March 2023 ARM Board meeting and has been implemented. Item B is a contract with First Eagle Investment Management and is the last of two active international equity managers approved by the ARM Board, also at the March 2023 meeting. They are now part of the portfolio. Item C is continuing private equity investment with $50 million committed to Clearlake Capital Partners VIII. This fund makes middle market private equity investments and special situation investments in technology, industrials, and consumer sectors. Those were the contractual items entered into with Board delegation. He stated that Item 4 was about Fidelity Signals who presented their investment mandate to the Board in June. There were tactical aspects about how that mandate takes risk in their portfolio, and they express their investment ideas through underlying Fidelity funds. Some funds were added to the portfolio in June through Board action, and Fidelity wants to add some additional funds to the mandate. He explained this fully and wanted the Board to know of their intentions.

CHAIR BOB WILLIAMS stated that he and CIO Hanna had discussed this extensively, and the original mandate had a very specific list. He continued that the list needed to evolve over time. This was a very reasonable delegation within the spirit of what was approved, and it does not add rigidity to it that is cumbersome.

CIO HANNA moved to Item 5 and stated that it was a summary of the portfolio rebalancing that took place between September and October; a fairly short period. He continued that a rebalancing activity focuses on risk management, and this portfolio was brought back toward the ARM Board's established asset allocation risk profile. Overall, there is $260 million in domestic equity; $45 million in international equity; and $30 million in real assets to invest in fixed income.

CHAIR BOB WILLIAMS moved to the legal report from ARM Board counsel, Assistant Attorney General Ben Hofmeister.

LEGAL REPORT
MR. HOFMEISTER stated that he had nothing to report.

TRUSTEE REPORTS
CHAIR REPORT
CHAIR BOB WILLIAMS thanked staff for making time for numerous meetings and also thanked Buck and CFO Worley for the preparation meetings for the Actuarial Committee with Trustee Ryan. He stated that those preparation meetings were very helpful in making sure that it was a thoughtful, coherent, and well-understood actuarial meeting, and they were very beneficial. He continued to the committee reports.

AUDIT COMMITTEE
TRUSTEE MIKE WILLIAMS stated that the Audit Committee met December 6 and received KPMG's preliminary review of the audit report for FY23. They were in regular communication with KPMG throughout the audit process. The Division of Retirement & Benefits and Treasury Division were very cooperative in providing the auditors with necessary information to do their work. An unmodified opinion on the PERS, TRS, JRS, DCP, and SBS accounts was expected. There was an expected qualified opinion on the National Guard (NGNMRS) account which relates to an ongoing issue that was well known and documented. He continued that the Division of Retirement & Benefits has been working diligently to improve the data reporting situation there. He thanked KPMG, Division of Retirement & Benefits, and Treasury staff for all their hard work and efforts in getting a timely audit report for fiscal year 2023.

DEFINED CONTRIBUTION COMMITTEE
CHAIR BOB WILLIAMS stated that they had a report from T. Rowe Price giving an overview of the target date funds and the stable value funds that was very informational. The bulk of the meeting was talking about getting an update on managed accounts since the Board's October 12th meeting. He noted there would be a summary of that later. He continued that there was one action item from the Defined Contribution Committee which has no need for a second.

> **MOTION:** <u>The Defined Contribution Plan Committee recommends that the Alaska Retirement Management Board direct staff to hire BlackRock Institutional Trust Company to manage a passive S&P 400 index fund and a passive S&P 600 index fund for the Deferred Compensation Plan, Supplemental Annuity Plan, and PERS/TRS Defined Contribution Retirement Plans, subject to successful contract negotiations. This was a response to a recommendation from Callan last March, and the recommendation of the Defined Contribution Plan Committee.</u>
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Moore, yes; Trustee Krohn, yes; Trustee Moen, yes; Trustee Ryan, yes; Trustee Mike Williams, yes; Trustee Vrana, yes; Chair Bob Williams, yes.)*

CHAIR BOB WILLIAMS concluded his report and continued to the Actuarial Committee report.

ACTUARIAL COMMITTEE
TRUSTEE RYAN thanked CFO Worley and the staff at Buck for all the work in preparing the valuation reports. She went through a few highlights and stated that these reports will be instrumental in determining the fiscal year 2026 contribution rates. The PERS and TRS funds did very well. However, coupled with inflation rates and additions of added bodies to the two funds because of the Metcalfe decision, there was an overall increase in the unfunded liability. One piece that caught the attention of the trustees was the salary increases and narrowing of the healthcare overfunding. She talked about some of the takeaways. She said they asked Buck to gather information for the upcoming reports in March. She asked Mr. Worley to give some deadlines and guidelines on how to submit that information.

CFO WORLEY stated that, as discussed at the Actuarial Committee, they wished to set some timelines and deadlines for the receiving questions and scenarios for the sensitivity analysis and getting those to Buck to work on to have answers for the March meeting.

MR. KERSHNER stated that they had identified some alternative scenarios to show the sensitivity of future contributions and future funded ratios to activities that differ from expectations. He requested scenarios that the Board would like illustrated be received by mid-January. The scenarios would provide the Board with some insights into how future contributions and future funded ratios could be affected by those scenarios.

TRUSTEE RYAN noted that January 19th was the date which was agreed to.

OPERATIONS COMMITTEE
CHAIR BOB WILLIAMS stated that Trustee Moen was the chair and asked him to chair that meeting and give the report, as he was attending remotely. He continued that Director Leary had several different issues she brought before the committee and there were some action memos coming from Operations. The first was the asset liability study listed in the general consultant contract. Staff had preliminary discussions with Callan regarding the scope of such a study.

> **MOTION:** <u>The Operations Committee recommends that the Alaska Retirement Management Board authorize an asset liability study to be conducted by Callan.</u>
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Mike Williams, yes; Trustee Vrana, yes; Trustee Ryan, yes; Trustee Moore, yes; Trustee Moen, yes; Trustee Krohn, yes; Trustee Bretz, yes; Chair Bob Williams, yes.)*

CHAIR BOB WILLIAMS stated that the second action item concerned an RFP for the proxy voting of ARM Board assets. The current contract expires in April of 2024, and it is appropriate to have an RFP prepared and issued for proxy voting services.

> **MOTION:** <u>The Operations Committee recommends that the Board directs staff to prepare an RFP for proxy voting services as provided by Alaska Statute 37.10.220 Section (b) (3).</u>
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Bretz, yes; Trustee Krohn, yes; Trustee Moen, yes; Trustee Moore, yes; Trustee Ryan, yes; Trustee Vrana, yes; Trustee Mike Williams, yes; Chair Bob Williams, yes.)*

CHAIR BOB WILLIAMS then appointed Trustees Lorne Bretz and Bob Williams, Mark Moon from Treasury, and CIO Zach Hanna to the proxy voting RFP evaluation committee. He continued to the last motion and stated that there was a four-year statutory requirement for the performance consultant audit, and it was appropriate to have an RFP prepared and issued for the audit to be completed and reported to the Board at its September 2024 meeting.

MOTION: The recommendation from the Operations Committee is that the Board direct staff to prepare an RFP for an independent audit of the State's performance consultant, as required by Alaska Statute 37.10.220 (a) (11).

TRUSTEE BRETZ stated that there was a lot of redundancy in the prior audits that were rejected, and he understood the hesitancy about changing the code. He continued that he would like to change the code to an "as-needed basis" rather than mandatory every four years. He asked that that be kept in mind and noted that he would support the proposal.

CHAIR BOB WILLIAMS thanked Trustee Bretz for his remarks, and he believed that they would do that, depending on the vote. He asked for any further discussion. There being none, he asked for a roll-call vote.

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

CHAIR BOB WILLIAMS appointed Scott Jones from the Department of Revenue, Trustees Ryan and Moore to the RFP evaluation committee. He asked if any other trustee was interested in being added to the committee. There being no one, he concluded the Operations Committee report.

ALASKA RETIREE HEALTH PLAN ADVISORY BOARD
TRUSTEE BRETZ stated that the advisory board, along with the Division, has accomplished a lot of changes for the improvement of retirees' healthcare and the benefits that they receive. Most recent was the lifetime limit change, and the addition of non-supplemental, non-emergent surgery, virtual physical therapy, and musculoskeletal care. Since the changes were made, there has been some leadership change within the Division. At the last meeting, the board had been reevaluating their priorities for the modernization list of benefits. He stated that they would appreciate further input from the retirees as to what was important to them or what they see as a supplement that should be looked at. Comments could be submitted by going to the Division's website. The next meeting is scheduled for February 8th.

MANAGED ACCOUNTS UPDATE
CHAIR BOB WILLIAMS stated that there was a special board meeting in October that focused on managed accounts. The meeting resulted in the Board passing a resolution which stated that, "(1) The ARM Board expects the current managed account structure to continue to have lower investment performance due to combined effective asset allocations, higher fees, and low participant engagement; (2) the ARM Board recommends that the Department of Administration closes managed accounts to new participants; (3) the ARM Board directs staff to work with the Department of Administration and others to provide the board with additional recommendations with respect to managed accounts." There were extensive conversations in the Defined

Contribution Plan Committee meeting yesterday. He asked for a brief summary from Director Ajay Desai and Chief Pension Officer Kathy Lea.

MS. LEA stated that immediately after passage of the resolution, the Division contacted Empower, and they took the following actions: They barred new enrollment into managed accounts; they shut down the enrollment website; they educated their representatives and their call center staff regarding the closure; they removed all enrollment forms for managed accounts. The Division was also drafting a notice to the participants which was currently at the Department of Law for review. Their own contact center and representatives were educated about the closure. She added that once the letter was approved by Law, the plan was to send them out to all participants to educate them on what is going on with managed accounts. She added that they also asked Empower to do an aggressive outreach to those participants who do not appear to have personalized their accounts; then participants will be given an opportunity to give some input about managed accounts and its effectiveness or non-effectiveness for their retirement goals.

CHAIR BOB WILLIAMS recognized Dan Morrison.

MR. MORRISON stated that they have made very good progress since the last board meeting. Empower has never turned off a managed account service to a subset of the population and was pleased to share that they did prioritize that work. He walked through the timeline and explained the process. He ended his brief update on the events since the last board meeting.

CHAIR BOB WILLIAMS thanked Mr. Morrison for making those changes. He also thanked the Division of Retirement & Benefits and the Department of Administration for following the Board's recommendation of the resolution. He stated appreciation for the positive partnership and the actions taken in moving forward with this. He recognized Chief Investment Officer Zach Hanna.

CIO HANNA stated that there were quite a number of meetings working to provide the board with additional recommendations on managed accounts. He continued that the next step was a challenge involving roughly 10,000 existing participants, all of whom have different circumstances and material assets; $1.5 billion in managed assets. He provided a brief summary of what was covered yesterday in more detail and went through a flow chart that he put together. He stated that DRB, Department of Revenue, Department of Law, and Callan will continue working through the details, and expect to provide further input at the March 2024 meeting, and potentially at subsequent meetings.

CHAIR BOB WILLIAMS stated that the Board made its recommendation based on the statutory responsibilities and fiduciary duties and based on what was received from the Callan report. He continued that this time was made to inform everyone in a public board meeting of the progress, and the decisions that were made since the October meeting. Updates will continue to be provided moving forward. He asked for any further comments or discussion. He called a ten-minute break.

(Break.)

CHAIR BOB WILLIAMS called the meeting back to order and moved into the KPMG audit report with Elizabeth Stuart and Melissa Beedle.

PRESENTATIONS
KPMG AUDIT REPORT
MS. BEEDLE stated that this report was presented to the Audit Committee in full yesterday, and the plan was to go over the first summary slide to talk about the results of the audit of the retirement systems and the invested assets. She began with the overview of the audit. Retirement systems have been completed, aside from the National Guard. Also completed was the audit of the invested assets under the ARM Board. KPMG has issued unmodified opinions on all of those audits so far. They expect to issue a qualified opinion on the National Guard related to the ongoing census data issues that they have had over the last several years. She noted that CFO Worley was currently working with the Department of Military and Veterans Affairs to try to alleviate that control deficiency, and to figure out the best way to get that census data accurate and the records completed for them. As part of the audit of the invested assets report, they have an uncorrected misstatement. It was a difference related to the timing of when the valuations of the alternative investments are reported to the Treasury Division based upon closing dates to get financial statements prepared. She stated that there were no illegal acts or suspected fraud with management or related to the accounting for any of the systems for the invested assets. There were some communications that were considered to be material communications. Those are the representations from management that would be provided with the summary letter, which is everything that they have been talking about in a letter form. Also, there were no issues of independence relation to the audit or any suspected independence violations.

MS. STUART stated that they did cover the details as they relate to each of these summary items with the Audit Committee, and were not planning to cover those again, but were glad to answer any questions.

CHAIR BOB WILLIAMS asked for any questions, and he noted there were none.

MS. STUART extended KPMG's appreciation to the staff of both the Treasury Division and Division of Retirement and Benefits. They continually find the staff to be very cooperative, diligent, responsive, and commented that they take the audit process seriously. She added that she had just learned that the assistant comptroller, Ryan Kauzlarich, had resigned, which leaves both the comptroller and assistant comptroller positions vacant at the Treasury Division with a heavy lift for the remaining team members there. She suggested that, as trustees, they make sure that the Division was staffed adequately to be able to fulfill its mandates. She thanked the Board and added that they were glad to be there and appreciated serving the State of Alaska.

CHAIR BOB WILLIAMS thanked them for their report and moved to the summary of preliminary 2023 valuation results with David Kershner and Robert Besenhofer from Buck.

SUMMARY OF PRELIMINARY 2023 VALUATION RESULTS
MR. KERSHNER stated that they met yesterday to go over the preliminary June 30, 2023, valuation results for PERS and TRS. He presented a very high-level overview of those results. He continued that those valuations were based on a set of assumptions as to what future experience would be regarding the plan assets, the invested assets, salaries of participants, inflation, as well as behavior of plan participants. Those assumptions were made knowing that in any given year they were not going to be accurate as to actual experience. Over the long term, those were the best estimates of future experience. Every year they evaluate what actually

happened versus what was assumed would happen and what the impact was on the assets and liabilities.

MR. BESENHOFER gave an overview of the key factors that drove the health claims experience. The health plans for Alaska Care had an unprecedented run of very good years. Four years prior to the current year, they were running about a 2.5 percent trend, but for fiscal year 2023 that flipped. There were experienced losses due to the claims experience. He said that they do expect the healthcare plans to remain overfunded, even with the adjustment to the EGWP subsidy for the IRS coming up. Those results will be included in the results that will be presented in March.

MR. KERSHNER said they will also have a forward-looking projection where the latest results will be taken, and project forward the expected future contributions and funded ratios to be for June 30, 2039. They also asked the trustees to identify some alternative scenarios.

MR. BESENHOFER stated that they were projecting a large decrease in 2025. The EGWP subsidy will drop, and then, over time, based on the government's ability to negotiate with the pharmaceutical companies moving forward, that will lower that future cost trend in the future.

PERFORMANCE MEASUREMENT – 3rd QUARTER

CHAIR BOB WILLIAMS moved to the performance measurement with Steve Center and Butch Cliff from Callan.

MR. CLIFF quickly opened with the economy and markets and explained that the third quarter was not all that pleasant. He talked about period that ended 9/30/23.

CHAIR BOB WILLIAMS asked if the market pricing was optimistic for the future, and if this negative atmosphere was predicted with the pricing.

MR. CLIFF stated that one of the charts showed dry powder, which was cash that real estate managers across the board have raised and were sitting on waiting to deploy for various reasons. The biggest areas of dry powder were in the more aggressive funds – value add and opportunistic. He clarified they are not core open-ended funds, they closed end, more aggressive, high return, high risk funds. He explained that when the pricing is thought to be right, they will probably act accordingly, and will do well going forward.

MR. CENTER talked about the participant-directed plans and began with the PERS DC plan and the quarterly flows. There were three components to the quarter flows: the contributions; the withdrawals or outflows; and the market impact. That was thought of as the unrealized gains or loss that comes from the underlying investments going up or down as the market moves over the course of a quarter. He continued through the passive funds and noted that the specialty funds were not clearly delineated from the active funds. He stated that above-median performance is important, and he believed that shooting for top quartile is not the best investment decision long term. A strategy performing at the top quartile over the long term could be doing that because it is a very risky strategy. Above median makes more sense, particularly on defined contribution plans. He added that a higher-risk strategy is not necessarily the best decision for offering as an option to participants. He stated that there was a participant inquiry about the S&P 500 index fund, which is in all of the participant-directed plans, therein they noticed that the S&P 500 fund was not paying dividends. He continued that it is commonplace for passive index funds to not actually pay out a distribution when dividends were paying by the underlying stocks. The dividends are retained by the fund and reinvested into those securities whenever a dividend was paid. He clarified that dividends were being received by the underlying stocks and were just not being distributed back to participants within the plan.

CHAIR BOB WILLIAMS thanked Mr. Center for the clarification.

MR. CENTER moved to the pension plans and went through the dashboard pages. He moved to the real assets portfolio and talked about the positive benchmark because of the allocations to farmland and timberland. Natural resources are still highly utilized. The infrastructure portfolio also did very well; it was benchmarked against an absolute CPI+4 benchmark and is why the real estate target was positive over the last year. He reminded all that the Callan National Conference was coming up in April in San Francisco.

CHAIR BOB WILLIAMS asked for questions. There being none, he called the lunch break.

(Lunch break.)

CHAIR BOB WILLIAMS called the meeting back to order. He stated that he had multiple trustees ask for a description of exactly what had been turned off related to managed accounts and the rationale for those changes since the resolution in October. He asked Ms. Jones to reach out to Dan Morrison of Empower and Director Desai to have a response that could be shared with the Board before the end of the Board meeting tomorrow. He moved to the private equity annual plan, and recognized Sean Howard and Cahal Morehouse, state investment officers with the Treasury Division.

PRIVATE EQUITY ANNUAL PLAN

MR. HOWARD walked through the private equity agenda beginning with the annual plan, a top-level review of the private equity program. He stated that the goal was that these presentations will give a deeper understanding of the portfolio, market activity, and the investment landscape. He began with an overview of the asset class and how the program was structured.

MR. MOREHOUSE walked through the market environment and stated that last year was quite eventful with private equity. Increased rates and turbulent public markets led to some valuations being stagnant. He stated that last year was an exceptionally strong fundraising environment, with the current year being more challenging. The combination of overweight private equity and the influx of funds on the market resulted in LPs being able to access previously inaccessible funds. He continued, explaining the portfolio's performance, cash flows, diversification, and commitments.

MR. HOWARD stated that they approach private equity performance management from several angles to address the strength of the ARMB's portfolio and relative returns. The first way is to compare the portfolio against the private equity composite. Second is measuring performance against public equities through time-weighted returns and through public market equivalent IRRs. The private equity allocation had grown over the past decade, and he noted that each year had positive net cash flows. This was significant because it meant that new commitments were being funded with capital coming back from past investments. The portfolio has been a significant cash generator over the past five years generating net cash inflows of $814 million, driven by the record distributions received in 2021.

MR. MOREHOUSE stated that the portfolio is well diversified and targets a 25 percent venture; 45 percent buyout; and 30 percent special situations.

MR. HOWARD stated that, in order to help guide commitment recommendations, a pacing model is used. The purpose of this model is to project for commitments needed to achieve ARMB's targeted allocation to private equity. He continued that this model incorporated several data points, such as the current portfolio, actuarial projects, return assumptions, and historical Cambridge cash flow data. The data is then input into a pacing model which produces an annual commitment schedule needed to achieve the targeted allocation over time. The cash flow characteristics of private equity require longer-term planning and execution than investing in public markets. It is much easier to under- or over-allocate with a limited ability to quickly change course. He said they seek to maintain vintage-year diversification by smoothing out commitment changes over time. He continued that, for 2023, staff recommended a commitment target for next year of $700 million, split equally between Abbott, Pathway, and staff. This recommendation is unchanged from the past couple years due to the current overweight, which stands at about 2 percent over target. He stated that continuing commitments at a similar pacing was projected to be needed to maintain the Board's private equity target of 14 percent over the long term. He summarized that following a year of historic private equity activity, deal-making declined from record highs back to recent averages, while portfolio cash flows remain positive. The current portfolio and the strategy to deploy future commitments was well positioned to capitalize on the opportunities. In the coming year, they will be working with partners to review and potentially modernize the investment policy, revisiting the targets, and so forth. He concluded the presentation and stated that there will be an action item for the Board's consideration tomorrow to adopt the public equity plan as presented.

CHAIR BOB WILLIAMS thanked them for their presentation. He asked Sean Howard to give an introduction for the private equity manager review with Ashley Kahn from Callan.

PRIVATE EQUITY MANAGER REVIEW

MR. HOWARD stated that Callan does an annual review of the private equity program, and he noted that they do a great job of breaking down the three components of the portfolio. He introduced Ashley Kahn.

MS. KAHN stated that she is a private equity consultant with Callan. She walked through Callan's annual review of their program, and the profiles of each of the managers: Abbott, Pathway, and the in-house direct portfolio within the Treasury Division. She continued that it was a very mature, well-diversified program. It has a very successful history going back 25 years. It had very consistent second quartile performance. All three of the managers had contributed to that performance. In terms of cash flows, this year distributions normalized after experiencing a pretty dramatic surge last year. The net cash flow still remains positive, which was good. She moved to diversification by strategy types: Buyout, which represents 50 percent of the portfolio; 25 percent for venture capital; and 25 percent for special situations. Special situations have a few different strategies included in it and is a little more diversified. She then discussed the profiles of each of the three managers. She began with Abbott, which was founded in 1986 and is a smaller fund-of-funds manager. They have a long-standing client base across both commingled funds and separate accounts. They are based in New York City. She compared them to Pathway, which was founded in 1991 and are based in Irvine, Southern California. They are a larger fund-of-funds manager with a long-standing client base across commingled funds and separate accounts. They have been managing a separate account since 2001, which represents 4 percent of their private equity AUM. Pathway is a larger firm with more of a global presence, and they also have more experience with co-investments but fewer venture capital relationships. The Treasury portfolio has committed $1.8 billion since 2007. 70 percent of that has been paid in and resulted in a NAV of $1.1 billion. Portfolio construction over the last five years focused on those blue-chip managers, particularly within large buyouts and growth-oriented strategies. The portfolio continues to mature, and just under half of the commitments have been made in the last five years. This portfolio is much more concentrated than Abbott and Pathway. The average commitment size was $43 million across an average of 3.8 commitments per year. The vast majority of the commitments were in primary and commingled funds, with an 11 percent exposure to secondary funds within that.

CHAIR BOB WILLIAMS called a ten-minute break.

(Break.)

CHAIR BOB WILLIAMS called the meeting back to order and continued with a presentation by Abbott Capital Management. He asked Sean Howard to do the introduction.

ABBOTT CAPITAL MANAGEMENT

MR. HOWARD stated that this year marked 25 years that Abbott has been investing on behalf of ARMB; private equity being the original partner in that space. Abbott manages a discretionary portfolio on ARMB's behalf, making primary, secondary, and co-investments. He introduced Matthew Smith and Young Lee from Abbott.

MR. SMITH stated that he is one of the senior managing directors at Abbott, and was joined by his colleague, Young Lee, who is also a senior managing director. He thanked all for the opportunity to present and stated appreciation for the trust and confidence put in with Abbott over the years. He began with a quick update on Abbott. He continued that they have been asked by staff to address the current environment and how that could affect the posture going forward, and to offer some analysis around that.

MR. LEE stated that he was pleased to join Mr. Smith to cover the ARMB portfolio, which is central to Abbott's investment efforts. They are up to about 62 people, the largest team they have ever had, and continue to invest in the team. The investment professionals constantly hunt for the next great investment and work across all of the strategies. With each member having that kind of broad investment exposure, it provides for even better cross-fertilization across strategies, and a stronger overall investment judgment for each of the members of the team. Each strategy depends on all 20 people on the investment team. Everyone has responsibilities in different subsectors. He then walked through the annual snapshot.

MR. SMITH stated that the program has been self-funding for some time. There was a big spike in distributions in 2021 due to the robust market environment at the time. They expect calls and distributions to remain muted, maybe even a little soft in early 2024.

MR. LEE stated that Alaska's performance exceeded that of the public markets and accelerated over the past 5- and 10-year periods as the robust monetary environment during COVID really bolstered Abbott's manager selection. The overall portfolio internal rate of return is hard to change, and the performance on the cash-on-cash basis has continued to grow and is expected to continue growing.

MR. SMITH stated that, in Europe, the year was similar but slightly more active than in the United States. Fundraising in Europe softened in 2022, ahead of the slowdown in the U.S., and they were seeing signs of recovery earlier than in the U.S.

MR. RABUCK asked about the strategic partnership with the ARMB and staff. He asked about some of the elements of the strategic relationship in terms of knowledge flow, deal flow between the firm and the organization.

MR. SMITH replied that they had a pretty tight relationship with staff. It has been a long relationship with the opportunity to get to know each other over the years. They do not have monthly calls; it is more ad hoc. They exchange information, notes, and emails probably at least once a week, and some of those are more process oriented.

A brief discussion ensued.

CHAIR BOB WILLIAMS thanked them for their presentation and moved to the Investment Advisory Council.

INVESTMENT ADVISORY COUNCIL PERSPECTIVES

CHAIR BOB WILLIAMS asked the IAC members to share experiences where they see a result that might be counterintuitive, or something a little different, that would get to the point of making good decisions, and what was learned from the experiences.

MS. TRAYLOR stated that her counterintuitive or unintended consequence story had to do with plan design, and she gave some background. She continued that all fire and police plans were local, and every city and town had their own pension plan for their fire and police. They had their own pension board and their own assets for the entire state, and all were separate. If a member died or became disabled, those benefits were paid out of that plan. There was no time limit on when you could get disability. What happened was that most of the members would get to retirement age, decide they had been hurt over their career, and would apply for disability, which was tax free. It turned out that about 97 percent of all the members who retired were disabled. The State and the plans were very generous, and the plans were very underfunded. The State came in and created a new statewide plan because the old one was not working. Everyone hired after a certain date had to be in it. They also created a new statewide death and disability plan. And if they were retirement-eligible, they could not get a disability. Neither plan was extremely generous, but they were well funded from the beginning. About five years into that, markets were going really well. The Legislature had the departments pull back out into defined contribution and have those guys manage their own money. They could set up their own plans and money, and they would keep paying the death and disability benefits. With the defined benefit members, they would forfeit their money if they got a disability. The assumption was that the cost to cover would be way less. The State put in one lump sum at the beginning of this plan and assumed it would pay for everything because they had cheaper members. The unexpected consequences: a couple of market corrections. DC members were not turning into the millionaires, and they did not have account balances big enough to retire. She added that this plan turned into a backstop for the DC plan. The number of disability applications was significantly higher for defined contribution members than defined benefit members. This was supposed to be a relatively inexpensive plan. The bottom line was: More defined contribution than defined benefit members applied for and received disability benefits, which was unexpected. The defined contribution members did not have a large enough account balance to significantly offset the disability benefit. The D&D plan effectively changed from emergency coverage for catastrophic events, to a backstop for underfunded individual defined contributions accounts. It was a completely unexpected result for the State.

CHAIR BOB WILLIAMS thanked her for sharing, and recognized Dr. Jennings.

DR. JENNINGS shared a particular hand combination that he characterizes as the finance gang sign in his classes. It was supposed to represent the inverse pricing relationship between yields and prices. He brought it forward as the counterintuitive example because it is persistently something that students and market participants struggle with. The idea is that if interest rates rise, bond prices fall; if interest rates fall, bond prices rise. It works the other way around: if prices have fallen, rates have risen and vice versa. He teaches this in Lesson One, and he repeats it throughout his courses. The data supports that two-thirds of bond fund investors do not know that relationship. He then asked where the counterintuition played out today. First, the most obvious one was the base case of bonds. Terrible, horrible, no good, bad year, wrecks the historical evidence, but it makes them dramatically more attractive now. Similarly, there are other asset classes which are candidates for where this counterintuition plays out. He said the punchline is that even the accumulation of evidence counterintuitively is not a point against diversification. Again, diversification is a strongly valuable thing. That was the counterintuition.

CHAIR BOB WILLIAMS thanked him for sharing, and asked Mr. Rabuck to wrap this up.

MR. RABUCK stated that this led him down a lot of different paths of thought from intuition being something that changes over time to intuition that gets cloudy when confidence is low. He shared two examples. One related to making decisions leading an investment office, and the other related to transparency in governance. When someone asks, “What is intuition?” he goes and finds the definition. Webster would say that intuition is the ability to understand something immediately without the need for conscious reasoning. He would add that it is obtained through one’s unique experiences. He did think that intuition changes over time based upon experiences. In his first example, he summarized with the phrase that past success often leads to future failures. Failures today sow the seeds for success tomorrow. Early in his career, the example was that he had the privilege of leading and starting the hedge fund allocation at the state pension fund in Indiana. A really great program was put together that was anchored with some great strategic advisors, similar to what was heard today with Abbott and Pathway on the private equity side. There was thoughtful portfolio construction between strategies where there was awareness of the sweet spot in the marketplace as a large institutional investor with the staffing model. It actually brought some pretty good statistical results for the plan. When he left the State and began at Indiana University Health 13 years ago, his intuition was that he could just do a repeat and rinse in some ways. He could take those learnings, those successes, and simply apply a similar playbook, which seemed logical. That was his intuition, which proved to be imperfect. It was not a disaster; just imperfect. He and the team really struggled the first couple of years to allocate capital effectively in a new context. He pointed out two specific things: One was that they did not accurately identify the competitive advantage in the allocating ecosystem; second, was the mistake of stretching that resourcing model beyond what he thought was needed and what could be brought to bear for the portfolio. This did not lead to disastrous results, but it took a bit of humility, curiosity, and some new perspective to do a little post-trade and course correct. That led to the second part where the failures led to success where they had enjoyed some pretty amazing results for the organization. The second one was related to the less-is-more intuition. This related to governance and transparency. He pushed the team to produce comprehensive packets that covered all sorts of nuances. There was always a ton of data. The page count of what was turned in to these boards was what we thought was a demonstration of thoroughness. Over time, this led to the idea of having comprehensive but really long packets, and other folks within the organization were doing the same thing. Then they had a board chair that challenged all of the groups to the need to embrace precision and brevity. This was a difficult adjustment because it was harder and more time consuming to be targeted and precise. They embraced a quote from Blaise Pascal, a French philosopher: "I would have written a shorter letter, but I did not have the time." This actually turned into a richer dialogue, which helped the organization. Those were his two examples, and he thanked all for the chance to speak on this.

CHAIR BOB WILLIAMS thanked all for sharing their stories. He recessed for the day.

(Alaska Retirement Management Board Trustees meeting recessed at 3:57 p.m.)

December 8, 2023

CALL TO ORDER

CHAIR BOB WILLIAMS called the Alaska Retirement Management Board meeting to order and began the morning with aa presentation on artificial intelligence. He asked Sean Howard to do the introduction.

ARTIFICIAL INTELLIGENCE PRESENTATION

MR. HOWARD stated that Insight Partners focuses on growth investments in software, software-enabled services, and Internet businesses. He and Mr. Hanna talked about potentially bringing a presentation about artificial intelligence to the Board. He continued that the ARMB first heard from Insight back in 2005 and, over time, had committed $188 million to Insight over the years. He introduced Ganesh Bell from Insight.

MR. BELL stated that he was a career-long operator, entrepreneur turned investor. He is a founder of startups and operator of scale across various software companies and has been with Insight for more than two years. He thanked everyone for taking the time, and for being partners and investors with Insight. He talked about the state of artificial intelligence, what has transpired, and where the opportunity for investing has been seen. His goal was to share the some of the opportunities and challenges; and also share why, as investors, they were excited about the opportunities, and are optimistic about many of the industry segments in the future. He explained that in the world of AI, a model is created. Those are statistical neural network models, and they mimic how humans behave. One of the latest breakthroughs is this idea of a neural network. In the models, they are taught what is and is not fraud. When a model is taught to identify something based on parameters, it can now predict a potential transaction or behavior. He continued that this has been used for several things over the last decade and a half. They had been building software for more than a decade. That is called discriminative AI, where AI is actually able to predict things. He explained more fully and noted that AI has applied to many different industries, and those models continue to learn. Initially, this was primarily done on text data, numerical data, or statistical data, and then it started applying to all forms and modalities of data from text to natural language to images to video. In the last few years, the systems that had been predicting all kinds of data became able to now create data. The idea of a generative AI model has been used to generate lots of new content which created a lot of excitement and some concerns. He talked about the benefits and the big societal impacts which fundamentally reimagines every category of business, industry, and software. He also explained the transformation in every industry that when the economics go down in value, other economic complements go up in value. This has been seen in every single transition. Every industrial revolution in the past had some notion of fear associated with it where it was about disruption, massive automation, leading to job loss. Every one of the past industrial revolutions has actually grown the economic pie. He continued that there is a lot of fear around AI and about what it does. He added that the overall pie still appears to grow bigger because there are so many industries that are untouched, underserved by software. He explained ChatGPT and stated that underneath is a model called a foundation model which mimics neural networks or how humans think. They are made up of billions of parameters which have been getting bigger and bigger over the last several years. Initially, they were created to solve natural language problems. He noted that there are many companies that are building these foundation models, and he talked about a few of them. Some of the models are increasingly powerful and can generate a marketing copy or have a conversation. These models can actually generate an outline of a presentation very quickly. That capability is increasing with training data. He went through a few examples of complex multiple models that run in a virtual world and simulate clinical care. He explained that the models are getting very powerful. He added that the AI infrastructure category is a big category that they continue to invest in. The applications that sit on the AI infrastructure category are also attractive options for investing.

MR. RABUCK was curious about how they discerned the winners and losers from an investment perspective; what would be taking off and being a profitable company versus just a good idea.

MR. BELL replied that they look at four layers: foundational technology, domain-specific models, AI infrastructure, application, and explained in greater detail. He stated that AI is just an accelerant; an architectural shift and a technology shift that fundamentally helps reimagine various industries. He added that there are a lot of companies that get positioned as AI when it comes to investments across partners, and they are easy to detect. He added that they want to make sure that those startup founders are surrounding themselves with people who have actually built good software in the past and know what a systems software model looks like. He continued that he is working on the most important thing in the history of the world, and the scenario of AI escapes is overplayed. He noted that fear happens when people discuss artificial *general* intelligence. The cases he talked about narrow AI, which are controlled scenarios.

CHAIR BOB WILLIAMS thanked Mr. Bell for his outstanding, thoughtful, and impressive presentation, which brought forward a lot of really new information to trustees.

MR. BELL thanked them for the opportunity and stated that there are links and articles on their website which makes these things accessible, and that many of the concepts he shared are more visually digestible.

TRUSTEE MOEN stated that was a great presentation and requested that Ms. Jones email those links that the presenter talked about to all the board members.

CHAIR BOB WILLIAMS moved to the Pathway Capital Management Presentation, and recognized Sean Howard to do the introduction.

PATHWAY CAPITAL MANAGEMENT
MR. HOWARD stated that Pathway has been a long partner with the ARM Board in managing private equity investment dating back to 2002. He explained that they manage a discretionary portfolio and make primary, secondary, and co-investments on the ARMB's behalf. He introduced Jim Chambliss, Canyon Lew, and Wyatt Geiger.

MR. CHAMBLISS stated they were from the Southern California office, and that he is a partner and managing director. Canyon Lew is also a partner and managing director; and Wyatt Geiger is a principal in the firm. He began with a quick update and overview of Pathway. Pathway is a large private market investment management firm, with offices, clients, and investments around the world. They are stable, experienced, and 100 percent owned by the 22 partners. Staff has grown to 246, part-time and full-time; almost a 10 percent increase since the last time they presented. Inclusive of that number are 80 investment professionals who focus on nothing but private-market investments on behalf of clients and investors. In the 33-plus years of its existence at the investment partner level, there have been only six departures, and every single one was a planned retirement. He explained how they invest in the private market asset class and noted that they are quite proud of the length of their relationship.

MR. GEIGER spent a few minutes discussing the environment and how it impacts private equity specifically. Over the course of the year, there had been more stability, a steadier pace in terms of both performance and the cadence of that deal activity, which was a function of the market beginning to internalize many of the core concepts that had been top of mind for most of the past 24 months. He added that they continue seeing uncertainty, particularly around valuations. They hear GPs discuss the differential between what buyers want to be paying in today's market and what sellers are willing to accept, which has created a very selective market. The companies that are transacting are largely very high-quality assets, resilient business models, both in the buyout and venture capital industries. One of the interesting factors of 2023 was a larger impact of the prolonged higher-rate environment, specifically on buyout markets. That was reflected in lower deal volume, and also in how GPs were operating and structuring their investments in today's environment. The higher rates presented a certain degree of operational risk for companies, particularly for highly levered businesses. From a Pathway perspective, these new dynamics impact what was being looked for in deals and fund investments. At a high level, it does not change the overall focus, which has always been identifying the best, strongest, most experienced managers, groups that have proven track records in varying market environments. They spend a lot of time trying to understand this during diligence: how GPs underwrite their investments, and how they had driven value in the past. They are very pleased with the way the ARMB portfolio weathered the current environment. It is a well-diversified portfolio, invested along a very strong set of managers. They continue to be optimistic about the outlook moving forward.

MR. LEW began with the theme for this year's portfolio update: a return to stability. The market has been quieter, but not less busy. They worked especially hard to take advantage of the current market conditions to add new manager relationships to the portfolio. They were able to add three new manager relationships this past year. They had been opportunistically targeting secondary transactions and are going to do eight secondaries for the portfolio this year. They continue to feel really good about the portfolio in terms of the quality of managers that are represented. All the managers in the portfolio are proven; have multi-cycle experience; and have navigated current market conditions successfully in the past. They also think the portfolio is well positioned to manage through what is considered to be a still uncertain macroeconomic environment. They feel good about the portfolio's ability to continue to deliver strong absolute and relative returns for the ARMB. He provided a current snapshot of some of the key portfolio statistics that were tracked. The portfolio started in 2002, and through June 30th of this year a total of $3.5 billion had been committed to 87 different managers spanning 24 vintage years, including 385 individual investments. Those investments are comprised of 271 primaries, 20 secondaries, and 94 co-investments; collectively including over 5,000 active underlying holdings. He then provided a summary of this year's investment activity and compared it with the 2023 tactical plan. He continued with an update on the portfolio's current diversification, which they felt very good about.

MR. GEIGER noted that on a since-inception basis, the portfolio's 15.1 percent, net IRR, outperformed the public benchmark by about 640 basis points.

MR. CHAMBLISS thanked the Board for the confidence shown through the years and continues to show to Pathway, which recognizes the importance of what they do on behalf of the ARMB. Pathway will continue working hard on the ARMB's behalf to continue to produce industry-leading returns.

CHAIR BOB WILLIAMS thanked them and called a break.

(Break.)

CHAIR BOB WILLIAMS called the meeting back to order and moved to the presentation with Sentinel Capital Partners. He asked Sean Howard for an introduction.

SENTINEL CAPITAL PARTNERS

MR. HOWARD stated that Sentinel is a value-oriented, middle-market-buyout group that focuses on companies in business services, industrials, consumer, and healthcare. The ARMB first invested in Sentinel IV back in 2009 and has committed just over $100 million to Sentinel funds in recent years. He introduced David Lobel from Sentinel.

MR. LOBEL stated that it was an honor to have this opportunity and noted that they had a long relationship with Alaska that spans four funds and 15 years. The relationship began indirectly through Abbott and Pathway, and it evolved into a direct relationship, which they are very pleased about. They are tremendously grateful for the support, confidence, and trust placed in them. He stated they had been in business for 28 years and have produced very strong returns. They are also very active with their portfolio companies with a team of 86. It is a long-tenured team which operates out of one office in New York City. He then explained their strategy which works in good, bad, and ugly times. They try to make money by improving the businesses, growing the EBITDA, paying down debt, and, at the end of the day, they try to enjoy some multiple expansion. One of the things done to supplement the strategy is building their own dedicated forensic accounting expertise. Every buyout firm employs outside accountants to do due diligence on the numbers. Instead of using third parties, they decided to build it because they can trust their own people much more than trusting third parties to do this work. He added that, in looking at new businesses, sellers protect the unhappy aspects of their numbers, and it is their job to figure it out. Their forensic accounting capability gives an enormous advantage in this regard. They have many LPs from all over the world and have been told that there is no other private equity firm anywhere that has this kind of internal capability. They are very proud of it, and they think it has a lot to do with their success. He stated that the ability to exit companies has recently become very difficult, and he went through how their exit path looked over a long period of time. He explained that their philosophy when it comes to exits is that when they go into a deal, they always establish an investment thesis in which they are going to try to accomplish A, B, and C over the next five years. When that is accomplished, they sell it. What they found historically is that their best investments often reach their destination early. The most important ingredient to their success is the culture and how the people side of their business works on the inside. They are also highly committed to transparency in the way they run the business, which enables everyone to have an opinion. The final thing he shared is their belief in the apprentice method, which involves taking on very young people, showing them the ropes, taking them everywhere, and having them learn by observation.

CHAIR BOB WILLIAMS stated appreciation for the presentation and continued to the investment actions with Sean Howard.

INVESTMENT ACTIONS

MR. HOWARD moved to an action item to adopt Resolution 2023-19, which approves the private equity annual plan that staff presented yesterday. The main component of this plan is to set forward commitment targets, which start at $700 million next year, and will grow over time to achieve ARMB's private equity allocation of 14 percent. He noted that this will be revisited annually.

> **MOTION:** The Alaska Retirement Management Board adopt Resolution 2023-19, approving the 2023 private equity annual tactical plan. The motion was made by TRUSTEE RYAN; seconded by TRUSTEE KROHN.
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> *After the roll-call vote, the MOTION was APPROVED. (Trustee Bretz, yes; Trustee Moen; Trustee Moore, yes; Trustee Ryan, yes; Trustee Vrana, yes; Trustee Mike Williams, yes; Chair Bob Williams, yes.)*

MS. JONES noted that Hunter Romberg would do the introduction for the next presentation.

STATE STREET GLOBAL CYBERSECURITY (GCS) OVERVIEW

MS. ROMBERG stated that they were pleased to have Sean Bailey here to present. Mr. Bailey is a certified information security manager, a certified data privacy solutions engineer, and serves as State Street's vice president of cyber client security. Among his other duties is the responsibility for assisting State Street's legal team with defining contractual security terms and providing due diligence support for client requests. Before his current position, he led the global cybersecurity transformation efforts for State Street's third-party risk management program. He also conducted cyber due diligence for State Street's vendor population. He has a background in the State Street global technical operations team where he gained experience in monitoring the global network. She welcomed Sean Bailey.

MR. BAILEY stated appreciation for the introduction and noted that he is with the State Street Global Cybersecurity Department. He began his presentation with some of the high-level principles and the mission statement upon which the cyber program was built. It is all fairly straightforward and important to note. The cybersecurity program is at the enterprise-wide level and governs all of State Street's services, functions, and business units. They employ industry best practices when it comes to cybersecurity and aligned the program to widely recognize industry frameworks; specifically, the NIST cybersecurity framework and the NIST 853 control framework. Additionally, they have vast oversight and governance over the cyber program from a high number of external regulators on a multiple scale, as well as from various different levels of internal risk committees. Lastly, they have an internal in-house security operations function which provides monitoring, detection, and response capabilities on a 24/7/365 basis. They had undergone a bit of a transformation over the past year that related to the security operations function and monitoring detection response capabilities. He gave an overview of State Street's global cybersecurity organization. Liz Joyce is the chief information security officer, and she joined State Street in August 2020 from Hewlett Packard where she was the chief security officer. She came in at the executive vice president level, the most senior level at the company. One of her mandates was to ensure that the cyber organization was growing from both a size and capability perspective. A significant investment was made into the cyber team from a personnel perspective over the past couple years. The senior leadership team has also grown. The goal is to have a diverse and well-rounded senior leadership team overseeing the 900 people within the global cybersecurity organization. He fully explained the five pillars of the NIST cybersecurity framework. He stated that the goal is to have a fully staffed security operations center that provides monitoring, detection, and response capabilities within normal business hours within each of the regions in which they operate. He again stressed the 24/7/365 monitoring, detection, and response capabilities. They need to ensure documented, tested recovery plans in place to deal with a variety of different cyber events and scenarios. They partner closely with the business continuity teams and perform quarterly table-top exercises, testing out various different cybersecurity incident response playbooks. They are involved in all the cyber exercises and continuity exercises. It is a continuous partnership. He stated that State Street is a financial service, not a cybersecurity firm, and it needs to ensure the proper governance and oversight over the cyber program to ensure that the program is aligning to meet the needs of the business, while also staying within the risk appetite of the company. He highlighted the modernization of identity management and then talked about the evolution of cyber operations in greater detail.

UNFINISHED BUSINESS

CHAIR BOB WILLIAMS thanked Mr. Bailey for his presentation and moved to unfinished business. One item was the request from Empower and Division of Retirement & Benefits about the changes to advisement after the Board's action, and he wanted a description of that. He asked Ms. Jones for an update.

MS. JONES stated that Mr. Morrison responded a few minutes ago, stating that they rushed the request internally last night and expect a grid with details to share with DRB shortly.

CHAIR BOB WILLIAMS asked for any other unfinished business. There being none, he asked for any new business to come before the Board. He asked for any other matters to properly come before the board. He asked for any public/member comments online or in the room. There being no response, he moved to the IAC member comments.

INVESTMENT ADVISORY COUNCIL COMMENTS

MS. TRAYLOR went back to deferred comp and stated that she had participated and run a re-enrollment before. She noted that 70 to 80 percent of the people do not do anything. She suggested that if they want re-enrollment in managed accounts, that providing personal information be required before moving to the next step. If they want re-enrollment, she suggested having people provide personal information before being able to move to the next step in the process. She continued that she knew there was a concern about the stable value fund, and that they may want to consider starting with one fund at a time. Her other comment was kudos to the staff for such an informative couple of days. It was great. She was still amazed at what Zach and his team do with such a small staff for the amount of assets under management. They are doing an amazing job.

IAC RABUCK stated that his comments center around the private equity presentations over the last couple of days. He observed that the total portfolio was in that second quartile, above median, was not highlighted enough. Even the sub portfolios were above median. That is a testament to the thoroughness of how well the portfolio is doing at multiple levels. He observed that part of that is because of the strategic partnerships that had been developed over long periods of time. He pointed out two things to consider: One would be a continued encouragement to stay concentrated, and not to have this proliferation of relationships over time that become unmanageable. His second point was that the resourcing model that exists would be under extreme stress as they move into venture capital direct investments, and it may be really challenging to maintain the quality that has been delivered to the Board and participants over time.

DR. JENNINGS stated that there is a solid private equity program. He thought that the how consistently the vintage years were in the high end of that second quartile was underemphasized. He found that impressive. The one caution he issued to both staff and trustees is the need to remember that the internal program was designed as a completion program, and it was intended to complement the other two. Nonetheless, designing a program to be a completion program to complement what other folks are doing is an additional burden that staff is being asked to work towards. He added that they are doing a great job but cautioned that it changed the calculus a little bit. He then shared an AI generated limerick that talked about cybersecurity: “The training was quite a bore. I couldn’t take it anymore. Safety in the digital sphere brings contentment, if not cheer. I’d rather go do a household chore.”

CHAIR BOB WILLIAMS thanked the IAC for their comments.

MS. JONES stated that she received a response from Empower and asked if she could share it. She described a table showing a listing of participant education and advisory services. Based on the chart, prior to November 2023, all participants received all services listed. Currently, those not in My Total Retirement are no longer receiving Retirement Plan Advisor point-in-time advice, Retirement Readiness Reviews, and MRT – professionally managed accounts. She noted that she forwarded the response to the trustees.

CHAIR BOB WILLIAMS stated that, unless there was a strong feeling differently, the Board was interested in an explanation for why those last three things had been removed. He understood the last service, was closed to new participant. That was the Board resolution, and it was a good thing. He asked for a more detailed description as to why the other two were turned off.

TRUSTEE COMMENTS

TRUSTEE BRETZ went back to the performance consultant review and thanked those preparing the RFP to hire the performance consultant. He thanked them in advance for the efforts that were being made to standardize the report to make things clear and concise, and to reduce the amount of staff time required to review and respond to the recommendations. He continued that they know that the reports had been getting thinner because there has been less to respond to. If it could be more of a simplified process to go through the steps, then every four years the expense could be reduced and get staff back to doing things that are valuable to the program.

TRUSTEE MOEN commented that on the managed accounts, it was supposed to have a lot of value if people filled in all the blanks and gave all the information. He continued that it was hard to get people, if they are not willing, to give the information necessary to make that a valuable product.

TRUSTEE RYAN stated that she liked the meeting facility, except for no garage. She liked the facility and not feeling crowded at one end. She did not know if it was feasible but would like to try it out for future meetings.

TRUSTEE KROHN agreed and stated that the acoustics were really good.

CHAIR BOB WILLIAMS asked for any other trustee comments. He thanked all of the IAC members for playing along with "story time" at the last several meetings. The expertise shared was really valuable and helpful. He also thanked the trustees for their generous investment of time on different evaluation committees. He thanked staff, and for the conversations with Callan. He appreciated being elected chair again at this meeting. This is the end of his second term, and he is grateful. He felt humility, and a fiduciary responsibility. He hoped to serve another term and added that it has been a great experience to be a part of this and work with everybody. This is important work.

CHAIR BOB WILLIAMS asked for any other comments and any future agenda items.

TRUSTEE RYAN said she assumed they would be examining Empower's response and any response staff receives. She wanted to make sure that is on their radar.

CHAIR BOB WILLIAMS replied that it is, and then asked for a motion to adjourn.

> **MOTION:** A motion was made to adjourn the meeting by TRUSTEE RYAN; seconded by TRUSTEE KROHN.
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> *There being no objection, the MOTION was APPROVED.*

(Alaska Retirement Management Board Trustees meeting adjourned at 12:07 p.m.)

Bob Williams

Bob Williams, Chair

ATTEST:

Michael Williams

Michael Williams, Secretary