ALASKA RETIREMENT MANAGEMENT BOARD
BOARD OF TRUSTEES MEETING
HYBRID/TEAMS
March 6&7, 2024
9:00 a.m.

Originating at:
Centennial Hall
Juneau, Alaska 99601

Trustees Present:

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

Department of Revenue Staff Present:

Zach Hanna, Chief Investment Officer
Scott Jones, Head of Investment Operations
Shane Carson, State Investment Officer
Emily Howard, State Investment Officer
Chris Madsen, Administrative Operations Manager
Robyn Mesdag, State Investment Officer
Mark Moon, State Investment Officer
Cahal Morehouse, State Investment Officer
Grant Ficek, Business Analyst
Sean Howard, State Investment Officer
Benjamin Garrett, State Investment Officer
Steve Sikes, State Investment Officer
Tina Martin, Accountant IV
Keith Moniz, Systems Programmer II
Pamela Leary, Director, Treasury Division
Victor Djajalie, State Investment Officer
Casey Colton, State Investment Officer
James Cheng, State Investment Officer
Hunter Romberg, Senior Compliance
Nichols Orr, State Investment Officer
Stephanie Pham, State Investment Officer
Alysia Jones, Board Liaison
Jesyca Ellenbecker, Asset Accounting
Keira Kelly, Accountant V
Emily Bowman, Administrative Assistant II

Department of Law Staff Present:

William Milks, Chief Assistant Attorney General
Ben Hofmeister, Assistant Attorney General

Investment Advisory Council Present:

Ruth Traylor
Josh Rabuck
Dr. William W. Jennings

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

Ajay Desai, Director
Kevin Worley, Chief Financial Officer
Kathy Lea, Chief Pension Officer
Christopher Novell, Accountant V
Roberto Aceveda, Education & Counseling Manager
Brandon Roomsburg, Audit & Review Analyst II
Jennifer Hayes-Tyson, Accountant III
Nimeri Denis, Audit & Review Analyst II
Jared Pigue, Retirement & Benefits Specialist II
Traci Walther, Accountant V
Christina Maiquis, Accountant V
Shannon Whistler, Administrative Officer II

Christina Marquis, Accountant V
Amanda Beebe-Bay, Retirement & Benefits Specialist II
Mark Rosier, Retirement & Benefits Specialist II

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

Callan:
Ivan "Butch" Cliff, Executive Vice President, Director of Research
Steve Center, Senior Vice President
Jay Kloepfer, Executive Vice President and Director, Capital Market Research
Ben Taylor, Senior Vice President, Head of Tax-Exempt DC Research

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

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

Empower:
Marybeth Daubenspeck, Vice President Government Markets
Liz Davidsen, Managing Director, Government Markets
Ashleigh Kester, Senior Segment Manager, Advisory Services Group
Benjamin Sia, Senior Manager, Plan Sponsor Analytics, Empower Advisory Group

Guests/Presenters:
Michael Plage, Portfolio Manager, Fidelity
Beau Coash, Institutional Portfolio Manager, Fidelity
Kristin Shofner, Senior Vice President, Business Development
Joe Faraday, Investment Manager, Baillie Gifford
Eoin Anderson, Client Relationship Director, Baillie Gifford
Joe Young, Regional Director and Vice President, Dimensional Fund Advisors
Joel Schneider, Deputy Head of Portfolio Management, North America, Dimensional Fund Advisors

Public:
Doug Woodby, 350Juneau
Elaine Schroeder, 350Juneau
James Simard, 350Juneau
Jen Lium
Allen Hippler
Tom Klaaymeyer, NEA Alaska
Dan Maclean, AEA NEA-Alaska
Rianne Aster, AEA NEA-Alaska
Natasha Graham, AEA NEA-Alaska
Sam Trivette
Aurora Hauke
Cindy Spanyers
David Mitchel
Joe Ebisa, With.Intelligence
Lauren Albanese
Tom Brice
Retired Public Employees of Alaska
Kevin Balaod, With.Intelligence
Bennett Griesmer, Dimensional Fund Advisors
Daniel Luque, Dimensional Fund Advisors
Griffin Watkins, Dimensional Fund Advisors
Scott Olguin, Dimensional Fund Advisors
Cindy Spanyers
Greg Best

PROCEEDINGS

CALL TO ORDER
CHAIR BOB WILLIAMS called the meeting to order, began with a roll call, and asked for any announcements. Hearing none, he continued to public meeting notice.

PUBLIC MEETING NOTICE
CHAIR BOB WILLIAMS asked if the public notice requirements were met for this meeting. MS. JONES confirmed they had been met.

APPROVAL OF THE AGENDA
CHAIR BOB WILLIAMS asked for any corrections or additions to the agenda. Hearing none, the agenda was approved. He continued to the portion of the meeting for public/member participation, communications, and appearances.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATION, AND APPEARANCES
(Doug Woodby, Elaine Schroeder, James Simard, Allen Hippler, Jen Lium, Tom Klaameyer, and Dan Maclean presented public presentations to the Board.)

CHAIR BOB WILLIAMS concluded Public/Member Participation, Communication, and Appearances. He stated that there were three sets of minutes in the packet for approval: September 13 and 14; December 7 through 8; and February 27th. He asked for a motion to approve.

APPROVAL OF THE MINUTES

> **MOTION:** A motion to approve the minutes of September 13 and 14, December 7 through 8, 2023, and February 27th, 2024, was made by TRUSTEE KROHN; seconded by TRUSTEE RYAN.
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Krohn, yes; Trustee Moore, yes; Trustee Moen, yes; Trustee Ryan, yes; Trustee Bretz, yes; Trustee Mike Williams, yes; Trustee Vrana, yes; Chair Bob Williams, yes).*

CHAIR BOB WILLIAMS turned the floor over to Alysia Jones for the ARM Board Liaison Report.

LIAISON REPORT
MS. JONES noted that her report included the fourth quarter financial disclosure memorandum; the communications memorandum; 2024 meeting calendar; and the proposed calendar for 2025. She brought attention to two RFPs that are currently out: one for the ARM Board's general consultant, and one for the ARM Board's real assets consultant. The deadline for these is March 13th, and so the Proposal Evaluation Committee will be scheduled following that deadline.

CHAIR BOB WILLIAMS noted that since the last meeting, a communication was sent out about managed accounts that had Ms. Jones' direct work phone number and e-mail address which generated quite a bit of interest. He asked her to share how much that impacted her work.

MS. JONES highlighted that there were 214 communications received regarding managed accounts requesting clarification of the notice that was sent out and next steps.

CHAIR BOB WILLIAMS noted that the recording of the October 12th meeting was online, along with the packet, and resolution, so that discussion could be heard. He stated that he wanted the opportunity to review any communication that has Ms. Jones' information attached as a representative of the ARM Board. He continued that the particular things about what people should do with their funds should not be going to the ARM Board liaison. He turned the meeting to Director Leary.

FUND FINANCIAL PRESENTATION

DIRECTOR LEARY introduced Jesyca Ellenbecker. She graduated with a Bachelor's degree in business administration with an emphasis in accounting, and she joined the Treasury Division in July of 2023 after working for nine years in various departments of the State, including Commerce, Labor, and Fish and Game.

MS. ELLENBECKER introduced herself as the asset accounting manager. She continued through the assets as of January 2024, and updated the figures as of February 2024.

CFO WORLEY noted that on Page 105 is the supplement to the Treasury report that shows contributions from employers; employees; the State of Alaska; other sources such as rebates; benefits that were paid out monthly and weekly for defined benefit members; contribution distributions from the defined contribution funds; and investment and administrator costs. Page 107 of the packet shows the defined contribution plan paying out from PERS, TRS, SBS, and the deferred comp in regard to the separation service for different types of distributions, as well as the investing schedules, payouts. He introduced new and current staff within the division. He turned things over to Chief Pension Officer Kathy Lea for the town hall update.

RETIREMENT & BENEFITS DIVISION REPORT – TOWN HALL UPDATE

MS. LEA stated that on February 21st a town hall meeting was held. It was advertised extensively prior to the meeting and asked participants to provide questions they had in advance. Very similar questions were combined into seven common responses. One of our goals was to clear up the misinformation that is circulating about accusations of fraud and mismanagement by Empower because there has been no evidence submitted that that is the case. Those statements have seriously eroded participant trust in the representatives from Empower that our participants pay and get their advice from. We explained that Empower representatives have a fiduciary responsibility to provide advice that is in the best interest of the participants, and if they fail to do that, they can lose their license. Through monitored calls and reportings, we have found no evidence of coercion on their part. We had 268 participants register prior to the meeting. On the day of the town hall, 136 participants answered the call to connect to the town hall; 126 calls reached an answering machine; and six calls reached a busy signal.

CHAIR BOB WILLIAMS moved to the legislative update.

LEGISLATIVE UPDATE

CFO WORLEY stated that Page 112 of the packet is the legislative update, which includes the bills that are impacting the Division. The most important one is in Senate Bill 88, which is basically creating a new tier within PERS and TRS for the defined benefits system that was passed out of the Senate and is currently in the House.

CHAIR BOB WILLIAMS continued to consulting invoices.

BUCK CONSULTING INVOICES
CFO WORLEY stated that Page 117 contains the summary of the monthly billings which were requested from the Board, quarterly. It also contains what occurred in the prior fiscal year. Page 121 shows retirement system membership activity for the most recent quarter ending December 31. Page 122 identifies the increase and the decrease within the DB and DC tiers, as well as the paying in for retirees. After that, there are the specifics by quarter end for September and December. He stated that Kris Humbert will present the BEARS project update.

BEARS PROJECT UPDATE
MS. HUMBERT noted that the BEARS project is moving along. We are scheduling the user acceptance testing to begin in June. A brief training class for our subject-matter experts will show them how to go through the user acceptance testing and what to look for when looking for any defects or issues in the system. User acceptance testing is going to be taking place from the beginning of June through end of October, first part of November, at which point we will then start preparing for implementation, which will occur Thanksgiving Day weekend of 2024. She acknowledged that the project is on budget.

CHAIR BOB WILLIAMS recognized Directory Leary for the Treasury Division report.

TREASURY DIVISION REPORT
DIRECTOR LEARY reported on some of the bills that Treasury has been tracking that may impact the ARM Board: SB 135 is the Alaska Work & Save Program, known in other states as Secure Choice or Auto IRA. It creates a mandatory retirement program for employers that do not have a qualified retirement plan and have at least one or more employee. HB 174 is a bill sponsored by Representative McKay on state fund fiduciary duties and it does apply to all fiduciary statutes for State funds, ARM Board funds, and the APFC by restricting fiduciary actions that have the purpose of furthering social, political, or ideological interests, ESG-type interests. HB 303 titled "Retirement Plan and Permanent Fund Investment Policy," sponsored by Representative Carpenter, was introduced this year but has had no hearings so far.

CHAIR BOB WILLIAMS turned the floor over to CIO Zach Hanna for the CIO report.

CIO REPORT
CIO HANNA noted that this meeting focuses on some of the largest and impactful portions of the portfolio and most of our internal investments; roughly, $13 billion in internally managed investments. Overall, all performance for the fourth quarter and for the calendar year 2023 was quite strong. The stock market rebound has continued into 2024, thus far.

He continued to item 2 in the CIO report which is the watch list. He stated that there are four managers currently on the watch list, with Baillie Gifford being first. They still trail their main benchmark by 90 basis points. He stated that we still think highly of this manager and recommend continuing to leave them on the watch list. He noted that they will be presenting first thing tomorrow morning, and encouraged the trustees to ask some challenging questions, both about their portfolio and their performance. He continued that the next three managers on the watch list were all added in December and are fresh additions to the list. Managers usually stay on the watch list for 12 to 18 months. He then brought up four manager items to make the Board aware of, but with no recommendations to the watch list. The first is BlackRock US Core Property Fund because portfolio manager Lizzy Kurz is leaving for another opportunity. BlackRock is promoting Jeff Brown into that role, who has been with BlackRock in real estate for 19 years. Staff is also comfortable with other senior staff members in the organization. The second is the T. Rowe Price Small Cap Fund in the DC plans because long-time Portfolio Manager Frank Alonso is stepping into a new role-mentoring equity analysts; the prior Co-portfolio Manager Alex Roy will now be the sole PM effective at the turn of the calendar year. The third manager is PineBridge which was levered roughly 8 percent for three days in December. Their manager made a decision to increase equity exposure. They did that using futures and did not raise enough cash to cover those futures positions. That is not a high degree of leverage, but that is not part of their strategy. It is concerning that the managers' own internal controls did not prevent the error, nor did they discover the error. Our compliance group really did a nice job protecting this. Part of the reason PineBridge did not detect this error was they had some outdated compliance rules and oversight in our portfolios with a lot of moving pieces. They did fix some internal controls; and they made the ARM Board whole for roughly $20,000 in losses and trade costs. He stated that he was not recommending watch-listing the manager at this point, partially because staff were in close contact with the manager; but we are also doing a very full review of this mandate. He stated that while this is a more significant error than typical, the expectation isn't that mangers have zero errors. Unfortunately, vacancy is a fact of life for most of our managers and custodian banks and it has left less experienced folks dealing with moving our transactions. He continued that the last of the four managers is Capital Group, because Portfolio Manager Mike Lacone is retiring. Capital has a multi-portfolio manager structure, so they generally have four to six portfolio managers. With this departure, the rest of the team will pick up that portion of the portfolio. We do not recommend a watch list on Capital Group as a result of that change.

He then moved to item 3, noting items exercised through the CIO delegation for contracting. Item A was a contract amendment which was discussed with the Board in the December meeting to assess the Fidelity Signals portfolio to add more underlying funds to that opportunity set. Staff will be making those changes periodically after evaluating whether those are expected to be bigger changes. This is the first of those amendments, which the Board may see every 12 to 18 months. Item B is a $50 million investment in KKR Real Estate Partners IV, the latest in a series of successful value-added real estate investments that the ARM Board has made with KKR.

He continued to item 4, a summary of the portfolio rebounds that took place between November and January, which is a fairly short period of time, but at times with a significant rebalance. Overall, we sold $80 million in domestic equities; $100 million in international equities; $45 million in real assets; and $225 million was invested in real estate. Predictably, you should expect to be selling things that have done relatively well and buying into things that have done relatively less well. We also completed four internal rebalances between the various retirement systems.

CHAIR BOB WILLIAMS turned the floor over to Ben Hofmeister for the legal report.

LEGAL REPORT

MR. HOFMEISTER noted that since he gave a three-hour presentation last week to all the trustees, he has little to talk about today. He has spoken quite a bit with the Treasury Director about legislation that has gone forward, as well as some interesting questions about Danish tax law. In December, the Board made decisions on how much private equity it is going to be spending for this year, so spent a lot of time doing legal review with Sean Howard and Cahal Morehouse, who run the private equity division, and CIO Hanna. He is also working with the fixed-income and public equity staff, so that is what he will be spending the majority of his legal review time on after these meetings are over. There is one case that he and Andrew Bocanumenth worked on, on behalf of DRB, which ended up with an administrative appeal that we were successful in defending at the Superior Court. We have been told that that case might be going to the Supreme Court, and he will notify the Board about that as it comes. He continued that in June, he will be doing annual fiduciary training.

TRUSTEE REPORTS
CHAIR REPORT
CHAIR BOB WILLIAMS moved to the Chair report. He thanked the Governor for reappointing Trustees Dennis Moen, Donald Krohn, and himself. It is great to have consistency on this board. He stated that there are a lot of issues that we are wrestling with and looking at. He had several meetings coming up to this meeting preparing for the Actuarial Committee meeting; meetings with CIO Hanna and ARM Board Counsel Hofmeister on preparing the two resolutions that are in the Board packet that we will be looking at tomorrow. He noted meetings with Director Desai and Ms. Lea at DRB. He had a conversation with Trustee Ryan who expressed interest in being on the Audit Committee, and so he appointed Trustee Ryan to the Audit Committee. After concluding his report, he recognized Audit Committee Chair Mike Williams.

AUDIT COMMITTEE
TRUSTEE MIKE WILLIAMS noted that the Audit Committee met on March 5th, 2024. The management representation letters were reviewed from DRB through KPMG for its work on the fiscal year '23 audit report. Prior to that discussion, the committee talked about internal controls, as well as the net pension liability, deferred cash outs, benefit expenses, and cost allocations. The Division of Retirement and Benefits provided an update on its progress with improving data submission issues with the National Guard and its militia system, as well as the status of employer audits and reported contributions, and what the next steps it is taking in the process to resolve those matters. We heard from CIO Hanna on the internal control issue on PineBridge. He continued that the Audit Committee will receive an update at our June meeting with next steps, and the status of that issue.

DEFINED CONTRIBUTION COMMITTEE
CHAIR BOB WILLIAMS moved to the Defined Contribution Committee. He noted that he is the chair, and that they met yesterday. Chief Pension Officer Kathy Lea shared Empower results from January 25th to February 25th. She mentioned that 1,339 participants were reached by phone; 2,896 e-mails were delivered successfully; 2,481 were sent to defaulted members; 210 retirement readiness reviews were performed; 1,581 accounts were added or had confirmed data. She mentioned that there were 1,154 participants representing $130 million in assets that were unenrolled from managed accounts. She also shared that there were 1,559 retired participants aged 65 or older in managed accounts, with an asset value of 230 million. Dan Morrison, head of government markets at Empower, shared Empower's perspective at the meeting. He stressed that Empower operated as a directed service provider by the State; that it does not operate on its own and without the input and direction of the State. He continued that they operate within a system, with a set of factors that the State has defined. Managed accounts known as My Total Retirement is a service Empower set up under the purview and at the direction of the State. Mr.

Morrison's second point was that there have been some statements, not by the ARM Board, that Empower is doing something illegal, and that they want the Attorney General to take action against Empower. Mr. Morrision wanted to stress that he believed that these were an incorrect set of facts that are wrong and misleading; and accusing Empower of crimes could be nothing further from the truth. Mr. Morrision continued that Empower administers the plans to the bylaws provided by the State and operates in the best interest of public workers across Alaska and Empower has supported the Alaska retirement system from a legislative and regulatory perspective, and wanted to make sure participants of Alaska have every opportunity to access the financial professionals they need to deliver financial guidance. Chair Williams continued that the committee had a very nice presentation of the specifics about the DC health plan, outlining some of the specific requirements in order to participate in the defined contribution medical portion of the retirement. There was some discussion about delinquent, late-filing employers. He continued that Brandon Roomsburg provided a detailed presentation on the Metcalfe conversion process and how it is implemented. There was also a summary of the defined contribution system that CIO Hanna and state investment officer Stephanie Pham shared. He then recognized Actuarial Committee Chair Ryan.

ACTUARIAL COMMITTEE

TRUSTEE RYAN stated that the committee received actuarial reports from both Buck and GRS. We were reminded that although we were able to surpass our 7.25 percent expected returns, due to liabilities, we had an ample loss last year. Inflation impacts us as consumers, but it also impacts our post-pension retirement adjustment; and the fund was impacted because of the PPRA. Even though our healthcare is overfunded, we saw roughly a 5 percent drop in that overfunding for both PERS and TRS healthcare. Buck was able to take our input on the sensitivity analysis and give us five basic scenarios of the baseline. The initial model assumed no impact on healthcare. What we saw is that the main player in all of this is actually our expected returns, which impacted a greater deal than any other combination. We were also able to review the JRS and National Guard data, which CFO Worley has doggedly pursued for years. He reported that he is making progress with senior officials and, hopefully, we will see the necessary data in a more timely fashion. Buck also included the funding levels from other states and what we look like compared to the big picture in the world. CFO Worley commented that during his testimony to both the Senate and House, that they were curious what eliminating factors might cause us to move back to normal costs from the zero that we have had for the last three years. Her opinion is that this committee needs to start putting some guidelines on that idea so that CFO Worley can answer that question if asked again. The meeting wrapped up with eight key findings that GRS found and discussed at length.

CHAIR BOB WILLIAMS turned the floor over to Operations Committee Chair Dennis Moen.

OPERATIONS COMMITTEE

TRUSTEE MOEN stated that the Operations Committee met yesterday, March 5th, and had no public comment or participation. There was a Treasury update from Director Leary beginning with a personnel update, their successful hires, and how they are still looking for more folks. The budget update seemed to be moving forward rather smoothly. There was also a middle office update from Scott Jones. The committee had two action items: the first was an ARM Board action that passed out of the committee for an independent audit of performance consultant; a sole-source procurement maximum of $80,000.

CHAIR BOB WILLIAMS stated that it is coming from the Operations Committee, and there is no need for a second.

> **MOTION:** <u>A motion that the Alaska Retirement Management Board directs staff to pursue a sole-source contract to provide services to conduct the required audit of the State's performance consultants and, pending successful terms and approval of legal counsel, enter into contract for services so long as services do not exceed $80,000.</u>
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Moore, yes; Trustee Ryan, yes; Trustee Vrana, yes; Trustee Krohn, yes; Trustee Bretz, yes; Trustee Mike Williams, yes; Trustee Moen, yes; Chair Bob Williams, yes.)*

TRUSTEE MOEN stated that the next action item that passed out of the committee was an IAC contract extension for Dr. William Jennings, our most senior IAC member, whose reappointment would cover from July 1st, 2024, to June 30th, 2027.

CHAIR BOB WILLIAMS noted, again, that a motion coming from the committee does not require a second.

> **MOTION:** <u>A motion that the Alaska Retirement Management Board reappoint Dr. Jennings to the Investment Advisory Council for a three-year term effective July 1, 2024, through June 30, 2027.</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 moved forward to the Alaska Retiree Health Plan Advisory Board with ARM Board Representative Trustee Bretz.

ALASKA RETIREE HEALTH PLAN ADVISORY BOARD

TRUSTEE BRETZ stated that the Advisory Board is looking at four priorities for this upcoming year, and one of them is senior health coalition membership. Part of that would be endeavoring to have health fairs for the retirees and possible health clinics. The other three priorities would be rehabilitative care, so a new coverage, specifically acupuncture; and then preventative first coverage for standard DVA; and, also, possibly raising the annual lifetime maximum for the Dental, Vision, and Audio Plan.

PROPOSAL EVALUATION COMMITTEE

CHAIR BOB WILLIAMS continued that we also had a Proposal Evaluation Committee from our RFP 2024-004, ARM Board Proxy Services. We met, evaluated the proposals, and had discussion. We came out with a recommendation, and one action item.

> **MOTION:** <u>A motion that the Alaska Retirement Management Board direct staff to issue a Notice of Intent to award the contract and, following the expiration of the 10-day protest period, a contact be entered into with Institutional Shareholders Services, Incorporated.</u>

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

CHAIR BOB WILLIAMS called for a 10-minute break.

(Break.)

PRESENTATIONS
CHAIR BOB WILLIAMS moved into presentations and stated that we have presentations with David Kershner and Bob Besenhofer from Buck.

MR. KERSHNER noted that the presentation starts on Page 133 of the meeting packet, and contains the full results of the June 30, 2023, valuations for each retirement system: PERS, TRS, PERS DCR, TRS DCR, JRS, and National Guard. There are roll forward valuations in odd years for JRS and the National Guard, so we will not have full valuations with updated data for those funds. He continued that this packet contains 30-year projections for the contributions and funding ratios under both what we call baseline projections, which is assuming all future experience matches our assumptions. And then we have some sensitivity analysis based on some of the scenarios that committee members and trustees asked us to look at. He noted that Slide 34 defines the various scenarios of sensitivity analysis, and he explained four alternatives. He noted that Slide 35 is the state of employer contributions for PERS. Under Senate Bill 55, that became effective in FY22, the State, as an employer, now pays the full actuarial contribution rate based on the payroll of its employees; whereas other PERS employers pay a fixed 22 percent, and then the State picks up the actual rate over the 22 percent. He concluded that future contributions are sensitive to what is experienced in the plan. The investment risk is the biggest risk to future contributions. Because all of our actuarial rates are currently above 22 percent, if our asset returns are less than what we expect, the deficiency caused by the lower asset returns are made up entirely by the State contributions. He then turned the presentation over to Bob Besenhofer.

MR. BESENHOFER stated that due to the Inflation Reduction Act of 2022, there are some changes to EGWP plans. Our pharmaceutical manufacturers must pay rebates that drive prices much faster than inflation that began in 2023. He noted that what may end up being the most tolerable to help curb costs is the right to negotiate prices. The major change which will affect our EGWP plan starting in 2025, is a loss of some funding of the EGWP subsidy. We know that will drop significantly, from 80 percent to 40 percent. We put together the same type of scenarios that we did in our other sensitivity analysis, and he explained in detail multiple possible scenarios regarding EGWP subsidies.

CHAIR BOB WILLIAMS asked, just for clarification, regarding the baseline, there has been no reduction in EGWP, and it is just kind of kept humming along.

MR. BESENHOFER answered that is correct.

CHAIR BOB WILLIAMS continued that we know the baseline is not going to happen because the reductions have already been baked in. So, Scenario 1 is what we think the reduction impact is going to be. Scenario 2 is possibly what we are looking at down the road when there might be some benefits with prescriptions.

MR. BESENHOFER answered that is correct.

CHAIR BOB WILLIAMS stated, but there is no scenario where baseline is going to happen. because it's been changed.

ACTUARIAL REVIEW OF JUNE 30, 2023, VALUATIONS
CHAIR BOB WILLIAMS moved to the actuarial review for the June 2023 valuations with Senior Consultant and Team Leader Paul Wood, and Consultant Bill Detweiler from GRS.

MR. WOOD stated that the ASOP has a new standard of practice that is in effect as of this valuation. First, the amortization methods that are used in the calculation are meeting the standard, so that is good news. Second, the actuarially determined contribution is reasonable under the standard; so, again, a great thing that we are seeing. As was mentioned earlier, we would recommend that Buck make that affirmative statement as a matter of fact so there is no ambiguity when someone picks up and reads through the report. In terms of other significant changes, Buck is certainly doing a fine job satisfying the rest of the standards. We do recommend that they state that they considered incorporating an adjustment for the lag in contributions for JRS pension. The standard does not say it has to be done; it says you have to consider doing it. Slide 6 shows the Low Default Risk Obligation Measure (LDROM) which calculates the liabilities at a lower discount rate, commensurate with investments in lower risk, fixed income securities. The intent is to show the value to the plan sponsor of taking on additional risk within the portfolio. Slide 7 shows what Buck was calculating as the LDROM. They used a discount rate of 5.35 percent to calculate that amount, and for every percent reduction in discount rate, the liability is getting around 10 to 12 percent, right in line with what we expect to see. Slides 8 and 9 deal with the claims and enrollment information. GRS reviewed the development of the per capita claims costs. We did see unfavorable experience for pretty much all the buckets except for pre-Medicare prescription drug where there is a slight gain; overall, we saw a loss of liabilities. As part of our review, looking at the gains and losses that are disclosed in the valuation report, this is the first year of the valuation results under the new assumptions; something that is going to take a few years for us to keep an eye on. When we get to the end of that four- or five-year period, we will be able look back and say, okay, here are the assumptions that we think may need to change from the experience that we processed. We have had six years of really great claims experience, so we are expecting at some point that was going to turn around, and that did happen this year; some of those losses and some liabilities on the healthcare side. We did see what we expected to see in terms of the PRPA loss. Finally, we noted the Metcalfe transfers. This was a small liability gain on the DCR side, and a liability loss on the DB side. There was a corresponding asset transfer that happened, which is just showing up in the valuation report as a liability loss. Keep in mind that there were some assets that were brought along with that. He continued to the peer test review process. Looking at these individual test lives, they get new test lives every single year, and the replication that we performed last year served independently on our own to validate the new assumption sets and helped us dictate which test lives to choose this year. When we compare what GRS came up with versus what Buck came up with, we are matching on a vast majority of them as we are starting to choose some test lives that are a little further out in the gap. There are some more outliers to help tighten up our model a little too, so keep that in mind when we walk through these findings.

MR. DETWEILER noted that GRS had eight findings related to data assumptions, methods, and some calculations that Buck was completing. Finding No. 1, certain period calculation issues were discovered; one of them did not appear to be correct in the test site we got. That was updated with a small impact of $145,000. Duplicate spouse records were previously valuing some members twice for retiree medical benefits. This was discovered this year as a data process, an item that could be cleaned up on Buck's end and resulted in about $100 million between the two plans.

MR. WOOD explained that this was a combined $100 million gain on the liability side, which means the liabilities went down a little bit. That did not impact the ultimate contribution rate that is being recommended to the Board by Buck.

MR. DETWEILER continued through the test lives presentation. In summary, the recommendation is that Buck continue to track medical claims and the impacts from legislative changes, especially EGWP that recently came up; continue to disclose programming changes; explain them all and put them all in their reports, particularly the spouse item that came up. And finally, we recommend implementing any of our findings that we found, making sure those are updated in the future, and making any incorporated modifications to their reports and disclosures.

PERFORMANCE MEASUREMENT

CHAIR BOB WILLIAMS moved to the performance measurement with Senior Vice President Steve Center and Executive Vice President and Director of Research Butch Cliff.

MR. CLIFF stated that the good news is, unlike some past quarters, capital markets were very friendly in the 4th quarter. In capital markets, what we are trending in the 4th quarter is that all of the equity markets were up double digits except for emerging markets, which still had a pretty healthy return. The first three quarters of 2022 were down about 24 percent; but after five quarters of increases, we are net positive over two years. In fixed income, in the 4th quarter, 6.82 was one of the best returns ever for the Bloomberg Aggregate. We would have to go back to the '80s to match that. That saved the day because, as of September, we were on par for two negative calendar years in U.S. bonds in a row, which is totally unprecedented. The bonds came through for us. CPI-U is declining; and GDP continues to be healthy at 3.3 percent. The yield curve wildly flipped around. From 12/31/2022 to 12/31/2023, we have a roundtrip of up and back down again. The range in the 10-year yield from the highest to the lowest in the last year is 170 basis points. The periodic tables of investment turned over the last year; U.S. equity large cap, 26 percent. The capital markets are really friendly for the whole year across all of the asset classes. The only exceptions are private real estate and commodities, which are both down about 8 percent for the year. U.S. equity performance had a big rebound in the last two months of the year. As the Fed got softer talking about rates, the markets started to discount more rate cuts in the following year. He continued his presentation, explaining the gold markets, emerging markets, energy, the dollar, credit, private real estate, interest rates. Finishing up with private markets, he noted that in the past, even though the public markets have come down, the private equity market had not come down nearly as rapidly. Now we are seeing the flip side of that. Public equity shoots straight up; private equity lags significantly because they do not have that mark to market mechanism.

MR. CENTER stated that the good-news slide is the participant-directed plans. PERS DC ended the year with 2.3 billion in assets, about 67 percent of it allocated to the target date funds or the balance funds, with the remainder split between active, passive, and specialty options. Slide 16 shows a breakdown of the asset growth for each individual quarter. There is a bar for each quarter: mustard yellow represents contributions; green is the increase or decrease from market movements, and the blue bar represents outflow. The PERS DC plan has about $30 million of net inflows each quarter. TRS ended the year with about $950 million in assets; also, about 70 percent in the target date funds or the balanced funds. Slide 18 shows good asset growth for the quarter, but the TRS plan does have about $10 million of net inflow each quarter. On Slide 19, the deferred comp plan ended the year at about $1.17 billion in total assets, about a quarter invested in the balance or target date funds, and the remainder pretty evenly split between the active and passive options. Slide 20 shows how this plan does have about $10 million in net outflows each quarter. Finally, SBS on Slide 21 ended the year just under $5 billion in assets with about 60 percent allocated to the balanced or target date funds. And on Slide 22, you can see about $35 million in net outflows each quarter, but it is growing pretty steadily. Slides 23 through 25 show our performance measurement for each of the investment options. The ARMB investment options have been performing very well, above the median and ahead of the benchmarks over those time periods. The balanced funds and target date funds on Slides 23 and 24 are performing very well. As a reminder, the T. Rowe Price target date funds tend to have a little more in equity than some of their peers. Over the long term, performance is not only above the median, but it is really in the top quartile over that last 7-year period for every one of the options; the top decile for a lot of the options. Target date funds are looking very strong.

CHAIR BOB WILLIAMS stated that he was very impressed that in the 3-, 5-, and 7-year, everything is green, which is pretty remarkable. He asked if that is an unusual performance event for most target date funds.

MR. CENTER continued that there have to be funds that land above the median and in the top quartile. That is the way a peer group works. It is where you want to be, and that is where you are with the options from T. Rowe Price. T. Rowe is a very strong target date fund manager. With custom-built solutions just for Alaska, which have been implemented extremely well from both return and risk standpoints. He continued with the ARMB performance review in great detail.

CHAIR BOB WILLIAMS thanked Callan for the presentation and recessed for lunch.

(Lunch break.)

CHAIR BOB WILLIAMS called the meeting back to order and moved to the Tactical Bond presentation.

TACTICAL BOND REPORT
CIO HANNA introduced Fidelity.

MR. COASH stated that we are very excited about fixed income at Fidelity. Bart Grenier, who is the head of asset management, is calling the next ten years the "decade for fixed income." But that comes with some more investment. We are going to be adding four portfolio managers to the fixed income teams. We are excited to be at roughly just under $600 billion in bonds. We have about $1.3 trillion in money markets. He then turned the meeting to Mike Plage to talk about
some of the assets.

MR. PLAGE stated his team manages over $200 billion in assets across core, core-plus, and tactical. Tactical is a $15 billion strategy that we launched in 2006. There is about $3 billion in the Tactical Bond pool, which is our most flexible bond offering.

MR. COASH noted that we have a team-based approach. We have four portfolio managers, soon to be five, that are making all the decisions and are the fiduciaries in our lineup. They continued into a deep dive on Tactical Bonds.

FIXED INCOME

CHAIR BOB WILLIAMS moved to the Fixed Income presentation.

CIO HANNA noted that on the Fidelity presentation that same team will be managing a DC fund for DC participants likely starting sometime in the fall. It will be a core-plus fund; both core investment grade assets, plus non-investment grade assets. He noted that they think pretty highly of the team.

CHAIR BOB WILLIAMS expressed the appreciation of the Board for the strong fee negotiation for DC, just like we have for DB.

CIO HANNA stated that we will cover core investment-grade investments that make up the bulk of our fixed income portfolio. Victor Djajalie heads up the internal fixed income team; and Emily Howard is the PM for our large cash equivalent portfolio. Collectively, this team manages over $12 billion in assets for the ARM Board in-state funds. They have excellent performance and have just finished navigating through a really extremely volatile interest rate environment, while providing a high level of liquidity to the State. They are by far our first source for liquidity for ARM Board investments, and for the State.

MR. DJAJALIE stated that he heads the group and covers the credit sector; the short-term fund and asset-backed sector; Government and mortgage-backed securities; as well as mortgage-backed and CMBS. The team manages assets for both the State and the ARM Board. We manage one $5 billion portfolio for the ARM Board; the domestic fixed income. We manage three asset pools for the State; the short-term, intermediate, and long-term income pools. We manage about $12.4 billion. Alaska had a good year last year. The short-term fund outperformed the index by 38 basis points. The bond fund outperformed by 43 basis points. As a team, we have consistently delivered constant excess returns over multiple periods of time. On the State side, the picture is very similar. 2023 turned out to be better than expected. We started the year with no expectation for growth and allocated for a period of recession. There was no recession, and in the last two months of the year, the rates rallied significantly.

MS. HOWARD described AY70's investment strategy and profile, which invests funds for both the State of Alaska and ARM Board accounts. Its current AUM is approximately $5.9 billion. Its investment objectives are to return the highest possible return while meeting significant liquidity requirements and taking very low principal risk. Liquidity requirements can be $500 million or more on short notice. AY70's regular cash flows can easily be plus or minus $100 million. Those cash flows include retirement payments, school funding payments, oil tax receivables, and transfers from APFC. She went into further detail on credit enhancement, increased yield, and the main risks of ABS.

CHAIR BOB WILLIAMS thanked Mr. Djajalie and Ms. Howard for their presentation, and called a break until 2:30 p.m.

(Break)

CHAIR BOB WILLIAMS called the meeting back to order and continued to Capital Market Assumptions.

CAPITAL MARKET ASSUMPTIONS
CIO HANNA stated that liquidity is very important for the State of Alaska and the ARM Board. Liquidity must be provided when it is needed, and it is difficult to predict when that liquidity might be needed. Secondly, we have learned over a long period of time that taking a fairly low tracking error approach and generating those excess returns in a very consistent way is very important to the State and to our stakeholders. He turned the meeting over to Jay Kloepfer to go through Callan's 2024 Capital Market Assumptions.

MR. KLOEPFER began by stating that they are looking at a 10-year forward-looking outlook, with a long-term time horizon forecast in the background. Then they link this very long-term horizon to the 10-year numbers so that they have 10- and 20-year numbers. He noted that they are trying to show the midpoint of a range, and then how much variance is around that range, as opposed to a specific number. They try to develop results that are defensible, both for individual asset classes and for total portfolios; and then they are conscious of the level of change that these changes and numbers would suggest. As a quick reminder, two years ago, we had bond returns at 1.75; now we have bond returns at 5.25. It is a big change in what has happened in the capital markets as a result. A starting yield matters a lot, and rising rates matter a lot to all the different asset classes. They tend to bias toward long-term averages because there are risk premiums to be had. The presumption is that markets will ultimately clear, and they will be rational; but they can go through a long period where they do not clear and are not rational. The belief is that there is an equilibrium relationship between capital markets and lasting trends in global growth. They focus on forecast long-term beta; thinking that you will get compensated for taking risk in beta. He emphasized that models are just tools. The belief is that we will get to an average of 2.5 of inflation over the next ten years, including the 3, 4 that we experienced at the start of this period. Many of the forecasts seen, including the Fed's, have inflation below 2 at the end of a 10-year period. He continued, going over cash, fixed income, the yield of the Agg., and equity. He explained how 2023 was better than anyone expected, with strong growth in the first half, and even stronger growth in the second half of 2023. Real wage growth started showing up in May of the year. We have this strong job market, generational low unemployment, and rising real wages. There is pressure from the job market, which may be trouble for the Fed for the next year or so and will delay their ability to pull rates down further. There will be a recession, but when is not known. Although REITs are doing really well, commodities have come back down, as energy prices have fallen. Private equity numbers are lagged through September. Fixed income is still down 4 percent. If you look out over 10 years, it is a pretty glorious decade to be an equity investor. He then went over equity returns and continued into his report with great detail.

CHAIR BOB WILLIAMS thanked Mr. Kloepfer and moved to Risk Management with CIO Hanna.

RISK MANAGEMENT

CIO HANNA stated that part of the objective of the retirement system is to pay benefits when they are due. It is a risk, at its broadest, because anything that impacts that affects both assets and liabilities. Overall, setting and monitoring investment risks is one of the primary roles of this Board and the ARM Board's staff's work to identify and understand the implications of the significant risks to the plans. The most significant risk management action that we take is setting actuarial assumptions and, ultimately, the asset allocation. That process is fed by a lot of market information, economic data, and capital market assumptions. Over 20 different investment policies, most of which are asset-class-specific investment policies are approved. For analytics, we use State Street's truView risk system, which builds up risk information based on daily holdings for two thirds of our portfolio. It provides fairly useful information for those two thirds of the portfolio, but we are forced to proxy all the alternative investments. This information really is not used to make daily investment or trading decisions. truView provides after-the-fact risk reporting, and we do it twice per year. What we are talking about today is 12/31 performance. No risk presentation is complete without some reference to VaR, which is the minimum return that can be expected a certain percentage of the time. He noted that over 50 percent of the value-at-risk comes from public equities. He drew attention to the diversification benefit, showing that the asset mix reduced the VaR from what would have been 6.5 percent to 5.5 percent. Comparing Callan's capital market assumptions and our asset allocation, it is what should be expected. He continued through his presentation, explaining benchmarks, stress tests, and some hypothetical scenarios used.

CHAIR BOB WILLIAMS thanked CIO Hanna and continued to IAC members' perspectives about fiduciary duties.

INVESTMENT COUNCIL PERSPECTIVES

IAC TRAYLOR stated that trustees must act in good faith and with the best interests of plan participants and beneficiaries. One of the rules is that trustees should know what they do not know and should delegate to skilled professionals that have special expertise and experience needed; and then monitor the professionals.

IAC JENNINGS characterized fiduciary responsibility as lesson zero in all of our finance classes, which is agency, theory, or principal agent delegation. The idea is that if there is a principal, like a board, that delegates to staff or to outside managers, you should expect the incentives of the agent to not always line up with the incentives of what the board wants. Being a good fiduciary is about trying to get those incentives back in alignment.

IAC RABUCK stated that one of the things he found in trying to build a legacy of what he would call high decision quality in the seat of a fiduciary, is that the key measure is in building that conviction of decision, which lies in the depth of the deliberations and the courage, really, to embrace discomfort with wrestling with the issue from all of the angles that are being presented. If you feel good about the process of the conversation, that is where the conviction comes from.

CHAIR BOB WILLIAMS recessed the meeting until tomorrow morning.

(Alaska Retirement Management Board of Trustees meeting recessed at 4:30 p.m.)

March 7, 2024

CALL TO ORDER

CHAIR BOB WILLIAMS called the meeting back to order, and recognized CIO Zach Hanna.

BAILLIE GIFFORD
CIO HANNA introduced Joe Faraday and Eoin Anderson from Baillie Gifford to go through international equity markets in their portfolio. He noted that Baillie Gifford is on the Board's manager watch list for performance reasons.

MR. ANDERSON stated that they really wanted to provide reassurance that they remain present and connected to the approach and strategy for which they were hired, with the goal of handling funds for clients and to build long-term strategic partnerships with valued clients. Baillie Gifford is an investment management firm based in Edinburgh, Scotland.

CHAIR BOB WILLIAMS noted that he looks at three years, five years, and six years; and Baillie Gifford is struggling at the three- and six-years mark. The net for six years is 2.59 percent; and he stated that he can practically double that just with a six-month T-bill right now. He asked why to stay this course with Baillie Gifford.

MR. FARADAY stated that Baillie Gifford's investment philosophy is three-pronged. In terms of growth, we are looking for companies that will be significantly larger in years and decades to come. In looking three, five, ten years out, we have seen that 10 percent is not a bad number. If we can find companies that will compound their profits or cash flows earnings at that type of rate, we think that will deliver demonstrable performance over time. The second key component is about stocks. We want to invest in companies on your behalf because we think fundamentally, they are very attractive individual businesses that will go on to prosper and grow. The third component is long-term. We think in years and decades. We start at three to five years, and then extend the time frame from then. Those are our core beliefs that are tried and tested. That is consistent in terms of how we go about investing on the ARM Board's behalf. The performance for the ARM Board has been marginally ahead for the defined benefit plan; somewhat behind for the defined contribution plan. In the history that we have had you as a client, this has been the most volatile period of performance that the strategy has actually seen. There were the good times in the pre-COVID and the run-up where certain growth stocks did exceptionally well; but the last three years has been a tougher prolonged period of performance. We did not foresee the rate hikes and inflation that came through. We did not preempt war, the uncertainty, the unrest, what has happened in geopolitics around the world. Pulling up the last two or three years in terms of headwinds, when we go through attribution on stocks, sectors, countries, et cetera, there are three particular notes. There has been a most rapid growth in stocks that have seen a severe sell-off. There has been a lot going on in Japan. There has been a big market rotation in that market towards value. The high-quality growth stocks have been firmly left behind relative to the standard and the growth index in that market. There are some good stocks that have done well, but not enough to offset the degree of underperformance or the headwinds from those large, sizeable, top-down factors that have led to the degree of underperformance over a three-, four-, five-, six-year rolling timeframe now. But when we calibrate against how companies appear against our expectations, about a quarter of the companies are vastly exceeding what we expect in terms of delivering growth, cash-flow conversion. When it comes to operational progress, we are very upbeat and encouraged. We expect to see an earnings growth of double digits, so 10-plus percent. We are really pleased with what we are seeing across the holdings. And if that holds true, we think performance should rectify itself and come through and prove significantly over the course of the long term.

CHAIR BOB WILLIAMS stated that it sounds like you are sticking with your strategy, you believe in your strategy; and that you have had two years where you haven't had double-digit performance, but you expect to have double-digit performance in the future.

MR. FARADAY explained that it is about consistency, and that is what you get from Baillie Giffords, the team, the approach. It is about growth; it is stocks; it is the long-term; it is that combination of growth, quality, and resilience. The companies in this portfolio are world class; they are world leaders; they are amazing businesses; they happen to be international. That is what gives us the confidence.

CHAIR BOB WILLIAMS noted that Baillie Gifford has the lowest performing six-year returns where he is still positive about the organization. He recognized CIO Zach Hanna for the Equity Portfolio.

EQUITY PORTFOLIO

CIO HANNA introduced Mark Moon, noting that he heads a team of folks that manage both the ARM Board internal equity investments and external equity investments, and managers like Baillie Gifford.

MR. MOON stated that the current structure of the public equities is split between the internal equity effort and the external equity effort. Internal equity efforts are strategies that we run in-house. Externally are mandates executed by external managers that we oversee. He stated that he presented a little less than a year ago to the ARM Board, and since that time, we have implemented the three mandates totaling about $1.5 billion, which the ARM Board approved at the time. Those were mandates with Acadian, which has a very quantitative orientation; First Eagle, with a disciplined value approach; and then a mandate with Legal & General America, which is an enhanced index. On the domestic side, we have seen an extreme concentration of returns among the mega cap stocks with the so-called Magic 7 driving an amazing proportion of returns. Last year, the regular S&P 500 outperformed its equal-weighted index version by over 12 percent. Deviations from market cap weighting generally were not rewarded because of the extreme behavior of those larger stocks. Looking outside of the U.S. at the global ex-U.S. portfolios, is somewhat market-specific, but generally, the value we found paid off; factor strategies worked reasonably; and active management in general was working. The group has been spending a lot of time thinking about vendor-provided strategies, whereby a vendor computes weights for individual stocks and then the investor, like us, licenses those weights from the vendor. The vendor is not a fiduciary but are more like a research arm for the investor. He continued through his presentation, giving examples and explaining median market cap versus a benchmark; factor-tilting investing; vendor-provided strategies; replacing scientific beta with cap-core strategies.

CHAIR BOB WILLIAMS called for a 10-minute break.

(Break.)

CHAIR BOB WILLIAMS welcomed everyone back from the break and turned the meeting over to Dimensional.

DIMENSIONAL
MR. YOUNG explained that Dimensional really pioneered factor investing, managing portfolios, live strategies, consideration of all implementation costs, for over 42 years. We have nearly $700 billion in AUM, including $3 billion with the Alaska Permanent Fund. At the end of the day, if we do not beat our benchmark net of fees, we do not have a business. We have done a very good job of outperforming commercial benchmarks, factor benchmarks. We are a global investment management company headquartered in Austin. In addition, we have a strong research effort with over 120 researchers. We continually evolve to incorporate new information about higher expected returns of the portfolio, and we create a great trust with our clients in being able to deliver on those promises.

MR. SCHNEIDER noted three key considerations around implementation: fully integrated, better design, and implementation advantage. There is a recipe that Dimensional has in-house that we calculate every day. The presentation continued covering portfolios and fees.

CHAIR BOB WILLIAMS thanked Dimensional for the presentation, noting that the strategy makes a lot of sense, and their net of fee performance was also very encouraging. He then moved to action items.

> **MOTION:** <u>A motion that the Alaska Retirement Management Board directs staff to discontinue all Scientific Beta strategies by the end of calendar 2024. The motion was made by TRUSTEE BRETZ; seconded by TRUSTEE MOEN.</u>
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Krohn, yes; Trustee Moore, yes; Trustee Vrana, yes; Trustee Ryan, yes; Trustee Mike Williams, yes; Trustee Moen, yes; Trustee Bretz, yes; Chair Bob Williams, yes).*
>
> **MOTION:** <u>A motion that the Alaska Retirement Management Board directs staff to contract with Dimensional to manage All Cap Core investment strategies in developed ex-U.S. and emerging markets to manage initial investments of up to $700 million and $350 million, respectively, subject to successful contract and fee negotiations. The motion was made by TRUSTEE BRETZ; seconded by TRUSTEE KROHN.</u>
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Ryan, yes; Trustee Mike Williams, yes; Trustee Moen, yes; Trustee Bretz, yes; Trustee Krohn, yes; Trustee Moore, yes; Trustee Vrana, yes; Chair Bob Williams, yes).*

CHAIR BOB WILLIAMS stated that next on the agenda is the tour of the offices. He asked everyone to return to the meetings at 1:30 p.m.

(Trustees' office tour and lunch break.)

CHAIR BOB WILLIAMS stated that next on the agenda is Managed Accounts, and he turned the meeting over to Trustee Bretz.

MANAGED ACCOUNTS
TRUSTEE BRETZ stated that he would like to make a motion to move Resolution 24-1, Option 1A, to close managed accounts. He asked for somebody more eloquent in reading to go ahead and read the resolution into the record, and then he will speak to the motion.

MOTION: A motion that Resolution 2024-1, Option 1A, closed managed accounts:

WHEREAS, the Alaska Retirement Management Board was established under Alaska statute 37.10.21 -- 210(a), to serve as trustee of the assets of the State's retirement systems;

WHEREAS, under Alaska statute 37.10.220, the ARM Board is to establish to determine the investment objectives and policy for each of the funds entrusted to it;

WHEREAS, under Alaska statute 37.10.220(a)(5), the ARM Board is to provide a range of investment options and establish the rules by which participants can direct their investments among those options with respect to the accounts established under the Defined Contribution plans, the Supplemental Annuity Plan (SBS-AP), and the public employees' Deferred Compensation Plan; and

WHEREAS, the Alaska Department of Administration has contracted with Empower to be the recordkeeper for the Defined Contribution, Deferred Compensation, and Supplemental Annuity Plans and has included a Managed Account Service (My Total Retirement, formerly Reality Investing) that takes discretionary control of a participant's account and implements investment advice for a fee that is based on a percentage of assets under management.

WHEREAS, in a 2023 analysis of defined contribution providers, the ARM Board's investment consultant, Callan, found that fee-based managed account services were common and present in 67 percent of defined contribution plans with assets greater than $5 billion (Exhibit 1, page 4);

WHEREAS, at the September 14th, 2022, ARM Board Defined Contribution Plan Committee meeting, Empower provided an overview of its Managed Account Service. During that meeting, the committee asked Empower for more information related to the performance of the service; and

WHEREAS, during the November '22 and March '23 Defined Contribution Plan Committee meetings, Empower presented additional information regarding the performance of its Managed Account Service that was incorrect; and WHEREAS, on March 16, 2023, the ARM Board directed staff to engage with Callan to conduct a thorough analysis of the Empower Managed Account Service, including the performance of the services; and

WHEREAS, the Callan ARM Board Managed Account Analysis (Exhibit 2) provided an analysis of the Empower Managed Account Services and focuses on the level of participant engagement, asset allocation, account performance, and fund selection. The report uses information and data provided by Empower and their Independent Financial Expert, Morningstar; and

WHEREAS, the Callan ARM Board Managed Account Analysis focused on unique participants enrolled in the Managed Account Service. As of March 31, 2023, there were 10 ,337 unique ARM Board participants enrolled in the Managed Account Services, and those accounts had nearly $1.6 billion in assets. Of these, 7,347 (71 percent) had 100 percent of their Alaska plans enrolled in the Empower Managed Account Service (page 3); and

WHEREAS, the Callan ARM Board Managed Account Analysis showed that the majority of Managed Accounts had low levels of participant engagement (pages 6-7), a significant underweight to equity investments compared to 70 target date fund peers (pages 8-9 and 13-14), and average fees that were over five times higher than the Alaska Target Date Funds (page 18), the current default option for participants; and

WHEREAS, the Callan ARM Board Managed Account Analysis found that across the unique participants enrolled in Managed Account Service, 2,851 (28 percent) had the level of portfolio equity exposure reduced due to the Managed Account Service Funding Ratio methodology (pages 15-17), even though most participants did not provide meaningful additional account information or personalization. This resulted in the median Managed Account participant having materially lower equity exposure in the portfolio when compared to the Alaska Target Date Glide Path pages 10-14) or to the Morningstar Moderate Glide Path, which is similar; and

WHEREAS, in the Callan ARM Board Managed Account Analysis the dollar-weighted returns for Managed Accounts were calculated compared to Alaska's corresponding Target Date Funds. The median Managed Account Service account underperformed the median Target Date Fund across almost all age groups and time periods (pages 22-34). The underperformance of the median participant in the Managed Account Service was the result of a combination of factors including a higher level of fees and lower level of average equity exposure; and WHEREAS, on October 12, 2023, the ARM Board passed Resolution 2023-18 which recommended that the Department of Administration close Managed Accounts to all new participants in any Alaska retirement plan since the ARM Board expects the current managed account structure to continue to have lower investment performance due to the combined effects of its asset allocation, higher fees, and low participant engagement. The ARM Board has also directed staff to work with the Department of Administration and others to provide the Board with additional recommendations with respect to Managed Accounts;

WHEREAS, at the December 2023 and March 2024 board meetings, the ARM Board considered additional recommendations from staff and others on managed accounts; and

WHEREAS, Alaska statute 37.10.071(c) and Alaska statute 37.10.210(a) require the ARM Board to apply the prudent investor rule and exercise its fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality.

Now, therefore, be it resolved by the Alaska Retirement Management Board, that

1. the ARM Board recommends the Department of Administration discontinue the Managed Account service for all participants as soon as practicable;

2.the ARM Board recommends that the Department of Administration set the default for future contributions for those participants being removed from the Managed Account services to an age-appropriate Target Date Fund.

3. the ARM Board recommends that the Department of Administration takes no action to change the existing asset holdings of the participants being removed from the Managed Accounts program.

4. the ARM Board recommends that all participants-directed plan members use the investment options most appropriate to their needs for both new contributions and existing investments. Exhibit 1 is Callan best practices for evaluating managed accounts. Exhibit 2 is Callan ARM Board managed account analysis. The motion was made by TRUSTEE BRETZ; seconded by TRUSTEE MOORE.

TRUSTEE BRETZ stated that it has been a long project and that he appreciated all the work that has been done on everybody's part for getting the information as requested. It is important for oversight to continue to have these reports as to how the management is performing. It is our fiduciary responsibility to have these reports and only provide services that are meaningful to the retirees; that actually enhance their retirement. He continued that he knows there have been some requests for further delay and maybe further information gathered from different perspectives, but what we do know is that all of the investments that are available in the fund will continue to be available in the fund, and there is free advice available. He noted that he does not see the need for this service.

MS. LEA interjected about the free advice feature stating that when managed accounts is officially closed, advice will no longer be available either.

CHAIR BOB WILLIAMS asked what that will entail.

MS. LEA answered that it will just have the information on the different funds like it used to.

TRUSTEE MIKE WILLIAMS stated that he can appreciate the fact that what we have are people who are in managed accounts actively enrolled in that service, and he can't discount that. That was their choice. He has heard from people who have said that they do not like to make those kinds of decisions for themselves and would rather somebody else do it. He would like to make the information available and allow them to make the asset allocation choices, and that is fine, that their eyes were wide open when choosing to be in managed accounts. He stated that he is more in favor of a re-enrollment process as opposed to an outright closure, simply because he does not like the idea of taking away choices where there were affirmative actions to being in that account service in the first place. He stated his opposition to the motion.

TRUSTEE RYAN stated that she is in favor of re-enrollment. She noted that we have a group of growing retirees or members that are possibly in our retirement ranks that already feel that much has been removed from them by being in a plan that many refer to as the “death” tier, whether it is IV, III, depending on which one you are in. She thinks of the people who may have no idea what they are supposed to be doing and wants and has elected, to have that advice. She stated her opposition to the motion.

TRUSTEE MOEN asked if managed account services go away, if their insured contributions will go into an age-appropriate target date fund, and would they still have access to their managed account to see exactly what their allocations were.

CHAIR BOB WILLIAMS explained that they are still going to see all of their things. What Empower is doing in managed account services, we have 12 non-target date funds, and it does the asset allocation for the member and puts in different proportions which are adjusted over time. If we close managed accounts, members still have all of their money in the funds; new contributions will go to an age-appropriate target date fund; and members can now decide to put more money into a target date fund or distribute it. Nothing will change with their funds. What will change is the managed account fee that they are paying, that 45 basis points; or if they have a lot of money, it would be a little lower than some of the higher sums.

TRUSTEE MOEN followed that if somebody was completely happy with managed account services and they move into a target date fund, could they change it and match exactly what was in the managed account.

TRUSTEE MIKE WILLIAMS stated that member would have the asset allocation as it was frozen in time. It would not automatically rebalance over time. Empower was rebalancing for them; they were not having to go in and do that themselves.

(The discussion about the mechanics of managed accounts continued.)

CHAIR BOB WILLIAMS stated that Ben Taylor from Callan is on the line. This first slide is one of the conclusions. It would look even stronger if this was over a 20-year period or a 30-year period, but we are just looking over a 10-year period. His expectation going into this was that performance was going to be somewhat of a push, but the fees were going to be a drag. This is showing that the fees were a 4 percent drag over 10 years, but the asset allocation was a 10 percent drag; the asset allocation had a bigger drag than the fees.

MR. TAYLOR confirmed that is correct.

CHAIR BOB WILLIAMS continued that when he first saw phase 1 last June, that if it is accurate, he had seen enough. It changed slightly by the time it got to phase 2. The bottom line is it is underweight in equities. One of the things that he heard is that if people just put in a little more information, that will correct everything. He had been spending a lot of time on this, and there are a lot of things in the algorithm that he found odd and not intuitive at different times. He asked Mr. Taylor to speak to whether just adding information will allow it to fix itself.

MR. TAYLOR answered that he is not sure if the question is one of simplicity so much as probability in practice. When one uses this model, particularly if you join an eligible plan in middle age, which is the most common time, the model will fail to see initially much of, but not all of, the accumulations that were had earlier in your working career. The model is going to sum up basically all of the financial and human capital, and then ascertain whether or not it is above or below a threshold, and then allocate it differently based upon the outcome of that question. The inability to see those critical pieces in the model will really determine the outcomes. Most people are not supplying the information likely to be cast by the model, whether or not that is ultimately correct. The model will have insufficient assets to support a retirement at the threshold specified by the model. Once one falls beneath that threshold, the results are a lower equity allocation, which then causes the outcome.

CHAIR BOB WILLIAMS asked Mr. Taylor if he is talking about having to have a fairly high level of sophistication to override certain features and get things from different places. Another thing he had heard is that if people just put in their outside accounts, then this will be all fixed. When he looked at Mr. Taylor's report, there is a 15 percent underweight to equities by people that had a managed account; a 17 percent underweight to equities for people that had all of their assets shown in managed accounts without any external accounts. He heard that if people put in their outside accounts, that this will all be fixed. But looking at their outside account, it looks like that is reducing their equity exposure further.

MR. TAYLOR stated that the Chair is accurate.

CHAIR BOB WILLIAMS continued that he had heard some descriptions of this managed account fee probably being an okay fee or maybe a low fee. He continued that we have seen a Callan survey that showed that for a fund of our size that the median account fee was around 22 or 23 basis points, with a lot of our people paying 45 basis points or maybe a little lower.

MR. TAYLOR stated that the fees for this service are, to his knowledge, the standard fee; equivalent to an MSRP for buying a car. That fee schedule becomes tiered lower if you negotiate a different fee schedule, or if the weighted balance that you have is sufficiently high enough that you take advantage of those tiered fee reductions. He stated that he would not describe this as low.

CHAIR BOB WILLIAMS stated that one of the most damning things for him was seeing the performance when compared to the target date fund. It was underperforming at almost every age, every target - three, five, seven, ten years, and by a significant amount; sometimes 250 basis points, 190 basis points, 160 basis points, severe underperformance pretty much throughout.

CIO HANNA responded that over the period of time that Callan looked at this, which was up to a 10-year period of time, in a black-and-white world where you have an appropriate benchmark, that level would be unlikely something that could remain in the defined benefit portfolio. As we know, benchmark is difficult. The Callan analysis is highly credible, and they had to do a lot of work to try to assemble an apples-to-apples performance.

TRUSTEE MIKE WILLIAMS stated his appreciation for the analysis as far as comparing performance of target date versus managed accounts. We gave people choices, and it is just like there was a population out there that wanted ESG options; we gave them an ESG option, which arguably underperformed most of the time. People wanted that choice, and it was within our scope and authority to do that. He views this as the same thing: People want a choice, and he thinks that ought to remain the case. He stated that it is not our responsibility to take that away from them.

TRUSTEE BRETZ stated that advertising is such a hit-the-easy button, do managed accounts. There is no discussion about what a target date fund is. Even today, we heard about the inappropriateness of target date funds, which were misrepresented. Our target date funds are a good option that many of the people that pushed the button for managed accounts that thought that they were getting what was advertised aren't getting what was advertised to them. He stated that he does not see a need for this service.

COMMISSIONER VRANA stated that she shares the Board's concerns with regard to managed accounts. The Division of Retirement and Benefits has been positive and very aggressive and proactive in carrying out the Board's recommendations to close managed accounts to new entrants, and we are continuing to work diligently to meet the recommendations put forth in the Callan reports. The Division has worked with Empower to close managed accounts quickly. We provided information and education to participants regarding the resolution. The issues surrounding managed accounts, we believe, present very complex and serious legal questions regarding moving participant assets from one account to another without the participant's expressed consent. The Commissioner of the Department of Administration has a fiduciary duty to participants in the plans to take actions that are in their best interests; and there are many unanswered legal questions at this time. In performing our due diligence, we have contracted for a second opinion with Buck Gallagher to perform another analysis into managed accounts from a participant retirement readiness perspective, rather than a strictly investment perspective.

As of this time, the Department of Administration is not prepared to go forward without further legal analysis at this time. She continued that she understands and supports the Board's concern on behalf of our members. At the end of the day, we all had a responsibility to do what is in their best interests. She stated a responsibility to gather more information before making such significant financial decisions on behalf of these 10,000 individuals without their expressed input or consent.

CHAIR BOB WILLIAMS asked if Morningstar and Empower were sharing with Buck all the data that they shared with Callan. He noted that Callan has a particular reputation in this area, and that Buck has a strong actuarial reputation, but not in this kind of analysis.

DIRECTOR DESAI stated that we would probably entertain another consultant to take a look and give us an opinion. As an administrator, we cannot just rely on this one absolutely accurate report; we have to do the due diligence to go with a second and third opinion. The target date fund is a strategy. A managed account is also a strategy. When you compare strategy versus strategy, that does not necessarily bring the right result. From an administrator's perspective, a user's perspective, a member's perspective, investor's perspective, the real number speaks at the end of the day. The managed account is a day-to-day change, the allocations are depending on the market drops; and a target date fund does not. Callan's report did help us a lot. We learned that there is a huge gap where the managed account is not working. The managed account is where you provide all the sufficient information in order to work. Since Empower is not looking at the buckets anymore, it now becomes the member's responsibility to go back and check it. 5,000 people have been negligent for 15 years, and they will not go back and check. He stated that the decision that we are about to make will change the course of the administration and take us in a different direction and tangent based on a one-sided decision that will be made today.

TRUSTEE BRETZ reminded the trustees that at one point in time Empower did a comparison with the target date fund, and now they do not want to be compared to a target date fund.

TRUSTEE MOEN stated that it is a decision to take away choices, but if somebody has been in there for 10 years and they haven't looked at their managed account, haven't provided the information or things such as Social Security, inheritance, or anything else, it is hard to believe that they are going to all of a sudden jump in and do that.

CHAIR BOB WILLIAMS stated that the biggest decision we make as an ARM Board for the defined benefit is setting the asset allocation. It has the biggest impact on the returns. Managed accounts sets the asset allocation for everyone in there.

TRUSTEE RYAN stated that people in this room are not indicative of the people that are in this fund. Many of them seldom turn on a computer. We are simply saying turn on the computer, and you can go here, and you can do that. A trustee in this room told me that they can't even get theirs registered because they tried. It is not as easy as it sounds, and we are making a decision on people's lives and where they are putting their money without giving them the option of saying keep me in it or do not keep me in it. Can we say if you are not involved with your administrator or your manager three times a year or twice a year and these things have to be answered, that we will now start looking at moving you to a default option because you no longer need our services. She stated that she is terrified for the decision that it looks like we might be making today.

TRUSTEE MOEN appreciated Trustee Ryan’s comments, but back in October we made that decision that anybody coming in is not going to go into managed accounts; they are going to go into target date fund.

CHAIR BOB WIILLIAMS called the question.

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

CHAIR BOB WILLIAMS asked if there were any other matters to properly come before the board. Hearing none, he moved to the portion of the meeting for any public member comments. Hearing none, he continued that we are now ready for IAC Council comments.

IAC TRAYLOR stated her agreement to work with ARM Board's counsel on a fiduciary presentation for the next meeting. She has many examples on why he goes over all these rules with the Board all the time, because not everybody follows them.

IAC JENNINGS stated that yesterday CIO Hanna offered some questions on the truView risk reporting, and thinking overnight about the risk to the portfolio, there are some themes that bear repeating. The downside is large. Dollar amount is probably a number that is needed to be heard with some regularity, like how big of a loss could reasonably happen? However as diversified and complex the portfolio is, most of the risk is stock risk. There is also some value to the named historical and hypothetical risk scenarios; what kind of scenarios could lead to these big losses. He encouraged continued risk presentations, but the frequency and complexity doesn't have to be down to each stock.

IAC RABUCK stated that he was looking at Callan's expected returns and the discussion around pairing that with sort of the actuarial conversation on the importance of asset allocation and the importance of the returns in those downside scenarios, and the expected return that Callan had has historically been higher than what has been achieved. We all know that is just an estimate. It is more to have a thoughtful conversation and understanding around that return expectation and asset allocation. The return that has been achieved historically has been above the policy as we know, which is staff's execution, and that is what has tipped it over, that sort of actuarial return over the last ten years. His point on the execution going forward is super important, obviously, in achieving the policy that is being set. Making sure that that is properly resourced is always something that is important in the asset allocation conversations.

TRUSTEE RYAN stated her concern about staffing in general. We heard that retirement paperwork is 70 days out. She believes that we are going to find that we may not be able to always be able to get the information or be able to do the things that we want to do.

CHAIR BOB WILLIAMS stated his confidence that every trustee, on any issues that we voted on, is focused on our fiduciary responsibilities. As a board, we can have different opinions, but we are professional. He stated his appreciation for the commitment that trustees bring to this work. He stated that it is his honor to work with trustees. He asked for a motion for adjournment.

MOTION: <u>A motion to adjourn the Alaska Retirement Management Board of Trustees meeting was made by TRUSTEE RYAN; seconded by TRUSTEE KROHN.</u>

CHAIR BOB WILLIAMS stated that the meeting was adjourned.

(Alaska Retirement Management Board of Trustees meeting adjourned at 3:00 p.m.)

Bob Williams

Bob Williams, Chair

ATTEST:

Michael Williams

Michael Williams, Secretary