

**ALASKA RETIREMENT MANAGEMENT BOARD
DEFINED CONTRIBUTION PLAN COMMITTEE MEETING
HYBRID/TEAMS**

**September 14, 2022
10:00 a.m.**

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

Committee Members Present:

Bob Williams, Chair
Allen Hippler
Dennis Moen

Donald Krohn
Michael Williams
Sandra Ryan

Other Trustees Present:

Commissioner Deven Mitchell

Department of Revenue Staff Present:

Zach Hanna, Chief Investment Officer
Scott Jones, Head of Investment Operations,
Performance & Analytics
Chris Madsen, Administrative Operations Manager
Mark Moon, State Investment Officer
Hunter Romberg, Investment Data Analyst
Alysia Jones, Board Liaison

Pamela Leary, Director, Treasury Division
Ryan Kauzlarich, Assistant Comptroller
Michelle Prebula, State Investment Officer
Stephanie Pham, State Investment Officer
Kevin Elliott, State Investment Officer
Grant Ficek, Business Analyst

Department of Law Staff Present:

Ben Hofmeister, Assistant Attorney General

Department of Administration Staff Present:

Hans Zigmund, Deputy Commissioner

Department of Administration, Division of Retirement & Benefits Present:

Ajay Desai, Director
Jim Puckett, Chief Pension Officer
Roberto Aceveda, Counseling & Education Manager

Kevin Worley, Chief Financial Officer
Traci Walther, Accountant 5

Empower:

Marybeth Daubenspeck, Vice President

Liz Davidsen, State Director

T. Rowe Price:

Chris Dyer, Institutional Business
Anne Fader, Director, Client Implementation Development Director
Andrew Jacobs Van Merlen, Director, Client Implementation
Charles Shriver, Portfolio Manager, Multi-Asset

Victoria Fung, Vice President, Senior Defined Contribution Specialist
Eric Cheskin, Institutional Client Services, Global Distribution
Dawn Knox
Meredith Empie

Investment Advisory Council Present:

Ruth Ryerson

Public Present:

Tom Klaameyer, NEA Alaska President

PROCEEDINGS

CALL TO ORDER

CHAIR BOB WILLIAMS called the Defined Contribution Plan Committee Meeting to order and asked for a roll call.

MS. JONES called the roll and acknowledged the Department of Revenue staff, Department of Administration staff, IAC members and others in the room.

PUBLIC MEETING NOTICE

CHAIR BOB WILLIAMS asked to confirm that the public meeting notice was met.

MS. JONES replied, yes, it had.

APPROVE THE AGENDA

CHAIR BOB WILLIAMS asked for a motion to approve the agenda.

MOTION: A motion to approve the agenda was made by TRUSTEE MIKE WILLIAMS; seconded by TRUSTEE RYAN.

There being no objection, the MOTION was APPROVED.

APPROVAL OF MINUTES

CHAIR BOB WILLIAMS moved to the committee minutes of June 15, 2022, and entertained a motion.

MOTION: A motion to accept the minutes of June 15, 2022, was made by TRUSTEE MOEN; seconded by TRUSTEE KROHN.

There being no objection, the MOTION was APPROVED.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

CHAIR BOB WILLIAMS asked if there was anyone in the room or online present who wished to address the committee. There being none, he moved forward with the agenda.

T. ROWE PRICE TARGET DATE FUND RESTRUCTURING

CHAIR BOB WILLIAMS asked CIO Hanna to introduce T. Rowe Price

CIO HANNA stated that it was great to have Chris Dyer from the T. Rowe Price team here to talk about the target date and balance fund transition. He continued that this was a big project, and the team worked to improve the set of investment options for the target date and balance funds at the same or lower cost to all participants. He added that it was managed very well, on time, and on budget. He asked Chris Dyer to continue.

MR. DYER stated that it was great to report that the transitions from the previous structure to the current targeted date balance structure was a success. He believed that it would provide better outcomes for the participants, which was the whole goal of the exercise. He introduced himself and stated that he was responsible for the Alaska relationship since its inception in 1991. He continued that Charles Shriver was the lead portfolio manager for the Alaska portfolios; Andrew Jacobs Van Merlen, the senior member of the asset allocation team and target date teams; Victoria Fung, senior defined contribution specialist that partners with him and was based in San Francisco. He also introduced staff members online. He added that the goal was to update the committee on the transition and the enhancements, and to review the new structure as a reminder of what the balance funds and target date funds will look like going forward. He moved to the timeline of the partnership with the State of Alaska, and continued with a brief history of the relationship. He then went over the objectives of the transition, with the sole goal being to provide a cost-effective, best-thinking portfolio for now and into the future. He invited Mr. Shriver and Andrew Jacobs Van Merlen to talk specifically about the structural changes and the enhancements in the portfolios going forward.

MR. SHRIVER focused on the portfolio enhancements which they believed will add or create long-term value for Alaska participants, and to be more closely aligned to these portfolios with T. Rowe Price's best thinking as reflected in their target and retirement strategies. He talked about the three areas where value was added with these enhancements: through strategic design; through tactical allocation, with a broader palette of underlying strategies to express views; and through active management with the ability to add value through security selection informed by the fundamental research.

MR. JACOBS VAN MERLEN spoke on the implementation in more detail. The expectations going in were minimizing costs which included removing assets in kind where possible. He added that there was the flexibility to adjust course as needed.

MR. DYER concluded the formal remarks, and noted that Michelle Prebula represented the State and partnered on this very complex transition over the past two years with 147 people from the firm working on the different pieces.

CHAIR BOB WILLIAMS commented that this was really important work and thanked them. He appreciated seeing the pricing.

MR. DYER thanked all for the partnerships, and added that long-term relationships like this are rare.

TRS DCR/SBS DISCUSSION

CHAIR BOB WILLIAMS moved forward with the agenda and referenced the Monte Carlo simulation from 2019 that looked at paying in for 25 or 30 years for the different plan members. There were different rates going towards that security. There was a direct linkage between the percentage of income that was being set aside and the overall success rate.

MR. HOFMEISTER stated that he has had the privilege of being the general counsel for the ARM Board. Part of his goal was to come to meetings and give a legal report. The Monte Carlo situation brought about the request to look at what the legal barriers to utilizing existing statutory mechanisms to increase retiree savings rates were. It did include a study of TRS DCR employees and the SBS plan. Specifically, he discussed the SBS, the TRS employees and the defined contribution plan. He moved to the important statutes that dictated what the ARM Board was supposed to be doing. The mission was encapsulated in 37.10.210(a), which is to serve as the trustee of assets for the State retirement system. He continued that there were specific statutes that talk about the obligations for ARM Board with respect to the plans in both PERS and TRS. The Board shall provide a range of investment options and permit a participant to exercise investment control over the participant's assets in the member's individual account. He added that he and CIO Hanna would be talking about fiduciary duties that go along with those investment options in the next agenda item. He continued to the important question for the fiduciary, which is: is the management sufficient for success? He added that funding is a question of policymakers, and that is legislation. He explained that SBS was an acronym used a lot in the context of retirement that means something different to everyone. It comes from AS 39.30, which is the insurance and supplemental benefits title and chapter. Generally, when talking about SBS, the talk is about the Supplemental Annuity Plan. He clarified and recapped that the Supplemental Annuity Plan is under the SBS and is not voluntary for individual PERS employees. The choice to participate must be made by the employer, and they have to qualify under those elements under 39.30.170. Once the choice is made, it is mandatory. He also talked about deferred compensation which also addresses the overall savings rate as seen in the Monte Carlo situation. He added that the impact on retiree savings rate depends on what the match is, what is used, and what they want to contribute.

The Committee discussed social security and staff research the number of teachers with social security. Mr. Worley commented that the Division would need to reach out to districts directly for that information and suggested staff provide an update at the March 2023 meeting.

CHAIR BOB WILLIAMS thanked Mr. Hofmeister for his presentation. He continued to the next agenda item, the Self-Directed Brokerage Window Discussion.

CIO HANNA asked Mr. Hofmeister to summarize the Self-Directed Brokerage Window Agreement.

SELF-DIRECTED BROKERAGE WINDOW DISCUSSION

MR. HOFMEISTER replied that he was part of a group that provided a memo that was transferred to the Commissioner of Administration and then to the Board. It explained why there were some issues with the self-directed brokerage account. At first it dealt with the diminishment clause and the concerns about creating parameters that would satisfy the diminishment clause. While trying to provide advice, another case came out which was Hughes versus Northwestern University, a college in Chicago. Their employees filed a case in the 7th

Circuit and maintained that the trustees of their particular retirement plan, defined as a contribution plan, violated the ERISA's duty of prudence, which was required of all plan fiduciaries, by doing the following: failing to monitor or control recordkeeping fees, resulting in unreasonable high costs to plan participants; offering mutual funds and annuities in the "retail" share classes that carried higher fees than those charged by otherwise identical share classes of the same investments; and offering options that were likely to confuse investors. The 7th Circuit did not apply the guidance of a prior case, Tibbles, by focusing solely on the presentation of the menu of options to basically satisfy the duty of prudence. It did not outlaw self-directed brokerage accounts, but clearly explained the role of the fiduciary.

CIO HANNA stated that in his perspective the legal opinion clarified a couple of things and summarized that any option offered to participants is subject to the same high fiduciary standard whether it is offered through the main lineup or through a brokerage window. Any investment option that the ARM Board offers was subject to the prudent investment rule.

TRUSTEE HIPPLER suggested, as a next step, engaging Callan to evaluate some additions, and to contact the chairman of the DC Committee for specific requests or questions from the trustees that Callan can investigate.

CHAIR BOB WILLIAMS was very enthusiastic about that and felt that would be the prudent next step. He entertained a motion that would be an action item coming from this Committee to the Board to engage with Callan for the investment structure analysis.

MOTION: A motion that the ARMB Defined Contribution Plan Committee recommended that the ARM Board engage with Callan for the investment structure analysis was made by TRUSTEE RYAN; seconded by TRUSTEE KROHN.

TRUSTEE MIKE WILLIAMS stated that asking Callan to undertake an analysis will be a special project cost and asked if that was within the budget.

CIO HANNA replied that he had been in conversation with Steve Center of Callan and considered this piece to be a pretty reasonable cost; less than \$30,000. We should be able to accommodate it. He recommended that the analysis be done every five years and said that it could be added into future consultant contracts. Generally, this would take eight to ten weeks. He asked the trustees about sharing any issues they would like to see explored.

CHAIR BOB WILLIAMS asked for a roll-call vote.

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

CHAIR BOB WILLIAMS said the motion passed, and moved to Mr. Puckett for the update.

DIVISION OF RETIREMENT AND BENEFITS UPDATE CHIEF PENSION OFFICER REPORT

MR. PUCKETT stated that he was from DRB and began with the subject of the RFP. The Division had received approval from procurement to extend the recordkeeping contract, which

includes a 4.5 percent decrease from the current recordkeeping fee. The extension will allow the Division to exercise two one-year extensions with Empower. He also spoke about the project to replace the current platform and said they would be rolling parts of the new platform out in the middle of 2023. He provided an update on addressing the Alaska Supreme Court decision on the Metcalfe case, which involved distribution of 87,000 letters with thousands of inquiries from people wanting information; a good part of them qualified.

CHAIR BOB WILLIAMS moved to the Empower Update with State Director of Empower, Liz Davidsen, and Vice President Marybeth Daubenspeck.

EMPOWER UPDATE

MS. DAUBENSPECK began with a quick update on quality and then did a follow-up from last quarter's fee transparency discussion. She then updated managed accounts and stated that a series of questions were received, and an update was provided on the due diligence, as well as a review of the managed accounts.

CHAIR BOB WILLIAMS moved back to Slide 10 and under "Assets Under Management," there was \$10,000, \$20,000. He stated that he felt those were artificially low numbers. What people need to see is that if there was \$100,000 under management, they would be paying \$4450 a year.

MS. DAUBENSPECK stated that they could use any threshold the Board wanted on those, and it could be changed to an annual fee. TRUSTEE MIKE WILLIAMS commented on the value of having multiple examples, including lower thresholds, since you have a number of new employees each year. CHAIR BOB WILLIAMS requested a range that included both lower examples as well as some with higher sums, that make the annual fee more apparent.

A discussion about the site continued.

MS. DAUBENSPECK continued that Empower is now Empower Advisory Service, EAG. The name was just changed from Advise Assets Group to Empower Assets Group. Their responsibility is managing a comprehensive oversight program, and they do an annual assessment of the discretionary management investment advice, as well as self-advisory.

CHAIR BOB WILLIAMS thanked Ms. Daubenspeck and moved to the Treasury update, CIO Hanna, and Public Equity and DC Investment's Investment Officer Michelle Prebula.

TREASURY DC UPDATE

CIO HANNA informed the committee that Michelle Prebula was moving on to a much-deserved retirement in October. He stated that she has done an excellent job helping to shepherd the DC investments during her tenure. The latest example was heard from T. Rowe earlier today, the restructuring coming to a conclusion. She was a huge part of that. He continued that she would certainly be missed. She set a great example by giving plenty of notice, which will allow for a good transition; and the benefits should accrue to the system. He introduced the committee to Stephanie Pham, who is joining from Juneau on Teams. Ms. Pham is a senior portfolio manager in the equity group, manages the S&P 900, and the scientific Beta portfolios for the ARM Board. He continued that she has been with Portfolio for five years and brings a wealth of experience to the position, including managing the multi-asset, participant-directed portfolios in her past. He

looked forward to the Committee meeting her in person at an upcoming meeting. He continued with the updates. He would be recommending that Baillie Gifford be added to the managed watchlist for performance reasons and would go into detail at the Board meeting. There are also two contracts to be updated with stable value funds, increasing fees to both of those. The contract with T. Rowe was signed last month, and we are almost through with the restructuring transition.

CHAIR BOB WILLIAMS congratulated Ms. Prebula on her retirement and thanked her for her service to the State of Alaska, and to the Department of Revenue, on behalf of the ARM Board. She had been a fierce advocate for DC members, and she completely reassured him when he had questions. He thanked her for everything she had done. He warmly welcomed Ms. Pham and looked forward to working with her.

MS. PREBULA thanked Chair Williams.

FUTURE MEETINGS

CHAIR BOB WILLIAMS moved to future meetings and looked at the calendar review. He asked for any future agenda items; any requests for follow-ups; any other matters to properly come before the committee. He asked if there were any public member comments online or in the room. There being none, he asked for a motion to adjourn.

MOTION: A motion to adjourn the meeting was made by TRUSTEE RYAN; seconded by TRUSTEE MIKE WILLIAMS.

There being no objection, the MOTION was APPROVED.

(Defined Contribution Plan Committee Meeting adjourned at 12:19 p.m.)