

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

December 6, 2023
10:00 a.m.

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

Trustees Present:

Bob Williams, Chair
Sandra Ryan
Dennis Moen

Mike Williams
Donald Krohn
Spencer Moore

Additional Trustees Present:

Lorne Bretz

Commissioner Paula Vrana

Department of Revenue Staff Present:

Zachary Hanna, Chief Investment Officer
Ryan Kauzlarich, Assistant Comptroller
Hunter Romberg, Senior Compliance Officer
Stephanie Pham, State Investment Officer
Cahal Morehouse, State Investment Officer
Benjamin Garrett, State Investment Officer
Chris Madsen, Administrative Operations Manager
Grant Ficek, Business Analyst

Pamela Leary, Director, Treasury Division
Scott Jones, Head of Investment Operations,
Performance & Analytics
Jesyca Ellenbecker, Accountant 5
Shane Carson, State Investment Officer
Kevin Elliot, State Investment Officer
Emily Bowman, Administrative Assistant 2
Alysia Jones, Board Liaison

Department of Administration, Division of Retirement & Benefits Present:

Ajay Desai, Director, DRB
Kathy Lea, Chief Pension Officer
Robert Aceveda, Counseling & Education Manager
Nimeri Denis, Audit & Review Analyst 2
Traci Walther, Accountant 5

Kevin Worley, Chief Financial Officer
Brandon Roomsburg, Audit
& Review Analyst II
Christopher Novell, Accountant 5

Department of Law Staff Present:

Ben Hofmeister, Assistant Attorney General

Department of Administration Staff:

Dave Donley, Deputy Commissioner

Amanda Pillifant, Executive Assistant

Investment Advisory Council Present:

Dr. William W. Jennings
Josh Rabuck

Ruth Traylor

Empower:

Dan Morrison, Senior Vice President, Head of Government Markets

Marybeth Daubenspeck, Vice President, Government Markets
Liz Davidsen, Managing Director, Government Markets
Ashleigh Kester, Senior Segment Manager, Advisory Services
Robin Loftin, AVP Advisory Services Strategic Delivery

Callan:

Steve Center, Senior Vice President

T. Rowe Price:

Chris Dyer, Institutional Business Development Executive
Charles Shriver, Portfolio Manager, Multi-Asset
Andrew Jacobs Van Merlen, Portfolio Manager, Multi-Asset
Christina Noonan, Associate Portfolio Manager, Multi-Asset
Antonio Luna, Portfolio Manager, Head of Stable Asset Management
Benjamin Gugliotta, Portfolio Manager, Stable Asset Management
Meredith Empie, Vice President, Client Services Executive

Public:

Randall Burns, RPEA; Wendy Woolf, RPEA; Joshua Hartman; Jordan Shilling.

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 roll and stated that the members of the committee were present.

PUBLIC MEETING NOTICE

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

MS. JONES replied, yes, it had.

APPROVAL OF AGENDA

CHAIR BOB WILLIAMS asked for any changes to the agenda. There being none, the agenda was approved.

APPROVAL OF MINUTES

CHAIR BOB WILLIAMS moved to the minutes from September 13, 2023, and asked for any changes or corrections.

MOTION: A motion to accept the minutes of September 13, 2023, was made by TRUSTEE KROHN; seconded by TRUSTEE RYAN.

There being no objection, the MOTION was APPROVED.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

CHAIR BOB WILLIAMS moved to Public/Member Participation on the agenda, and asked if there was anyone in the room or online that would like to speak.

MR. HARTMAN stated that he was Joshua Hartman. He stated that, as a DCR plan participant, he was reaching out with concerns regarding recent decisions that had been made by the ARM Board with regard to the DCR plan and managed accounts. He continued that he recently went to have a financial readiness review done with an Empower representative and found that they were not able to provide the guidance; and the tools that he had previously were closed by the board in a previous meeting. He stated concern because the DCR plan was a participant-directed plan, and he felt that the plan had been handicapped. A concern was about the fees he pays as a participant that help cover the cost of periodic statements, recordkeeping, education seminars, and individual investment counseling. He is no longer able to receive that, and he felt that he now had a diminishment in the benefit that he was provided when he hired on with the State and became a member of the defined contribution plan. He recommended that the committee not move forward with shutting down managed accounts and advisory services for those that were participating in the plan.

CHAIR BOB WILLIAMS asked Mr. Hartman to communicate with ARM Board Liaison Alysia Jones to share what services had changed since this Board's decision. He added that the Board's decision was only relating to new members coming into managed accounts, and there should not have been any other changes. He asked for anyone else in the room or online that would like to

speak. Hearing no one, he closed the Public/Member Participation, Communications, and Appearances section of the meeting. He continued to the update on managed accounts, and welcomed Director Ajay Desai and Chief Pension Officer Kathy Lea.

UPDATE ON MANAGED ACCOUNTS DIVISION OF RETIREMENT & BENEFITS (DRB)

DIRECTOR DESAI provided an update on managed accounts since the October meeting. He stated that the Division took significant steps working closely with Empower and had internally taken some measures to fulfill the recommendation that came from the Board. He introduced Kathy Lea who had been with the Division for about 31 years before retiring in 2020. Mr. Jim Puckett assumed those duties, but, unfortunately, retired due to a family health situation. Ms. Lea is back with the Division as the Chief Pension Officer until the position is filled permanently. She has been diving deeper into working with Empower and the internal team to shut down the managed accounts for new participants. He asked her to continue.

MS. LEA stated that after the resolution passed, the Division immediately met with Empower. Empower very quickly performed several things that shut down enrollment in managed accounts. The website enrollment was shut down, and their representatives and call center folks were educated about the closure. There is no way for a participant to enroll in managed accounts now. She added that we are very appreciative of Empower's quick response in implementing this resolution. She stated that informational letters had been drafted that will be going out to the participants after Department of Law review, and we are working on the procurement process for those letters. She continued that the point of the letter is to make sure that those participants currently enrolled in managed accounts have the best options presented to them. She stated that what they need from the Board right now is time to educate the participants, get feedback from them, and to bring that information back to the Board for decision-making. She noted that part of the reason for urging time to educate is because of the liability it presents to the plans. Because this is a participant-directed plan, if an aggressive education and outreach with participants is not done, there may be legal liability.

CHAIR BOB WILLIAMS thanked the Division for acting on the Board's resolution and for seeing that the changes aligned with that resolution. Being united on those steps so far is important.

DIRECTOR DESAI commented that the Division had been working very closely with the Department of Revenue (DOR), and he was very thankful to Director Pam Leary and Chief Investment Officer Zach Hanna. We continue to have discussion as needed, and will work together with DOR and Empower to make sure that communication and consistent messages go out to members.

CHAIR BOB WILLIAMS moved on to Empower, and recognized Senior Vice President, Head of Government Markets Dan Morrison, for an update.

EMPOWER

MR. MORRISON shared that Alaska is an important partner to Empower and has been for decades. We have done good work together, and we are there, ultimately, to serve the ARM Board and the public employees across Alaska. We are committed to the contract. He continued that Empower is a directed recordkeeper, and we operate at the direction of DRB and, through

extension, the ARM Board. As a directed recordkeeper, we do not have discretion to make any of the decisions. The State directs Empower to add or, in this case, remove services. He added that that is the case here on the topic of closing managed accounts to new users. As Ms. Lea has mentioned, very good progress has been made since the last board meeting. It was done a lot faster than we ever thought possible. He talked through the timeline stating the board passed the resolution (2023-18) to close managed accounts to new enrollees on October 12th, then on October 26th, Empower received direction from the Division of Retirement and Benefits to close managed accounts to new enrollments, and on November 2nd, Empower reported that enrollment was closed through all avenues. He explained the recordkeeping system had been reworked so that no individuals who had not previously been utilizing the service could use the service going forward. They could not enter or enroll. He stated that they went through an extensive training process and changed the procedures with the retirement plan advisors that support individuals across the state to put that in place. They also removed the managed account as a new option for employees on the enrollment forms or any paperwork. He noted that, since November 2nd, he confirmed that there had not been any new additions or new enrollments into the managed accounts service, per the direction of DRB and the resolution of the ARM Board.

CHAIR BOB WILLIAMS thanked all for the communication and relationship, and for having those changes happen that were responsive to the board resolution in a timely fashion. He asked for any questions or comments. There being none, he moved to education and responses to member questions and recognized Alysia Jones, board liaison, and Roberto Aceveda, benefits and counseling manager.

EDUCATION AND RESPONSE TO MEMBER QUESTIONS AS TO MANAGED ACCOUNTS

MR. ACEVEDA stated that a number of calls and questions concerning the shutdown of managed accounts were fielded and directed to Empower and Ms. Jones. He continued that the concerns mainly addressed were the education component. Received were 24 calls; 23 from members, and one was from an employer. Nineteen of them expressed concerns about their managed accounts and investments and how they were to proceed. One expressed concern about the performance of managed accounts. One also expressed concerns about the validity of the Callan report. He reiterated that DRB is the educational component, and we do not provide financial advice. We purely provide education to the members on what is provided and how things work. He talked about a call from the Anchorage School District, and they wanted to know how DRB was going to respond. They were informed that we are working on a decision with the ARM Board and Revenue and DRB to get to a conclusion on how to proceed and how to educate the employers, as well as the members. That is all that was received at the Division to date.

MS. JONES shared an excerpt of her quarterly report that is included in the board meeting packet. She continued that, following the October 12th meeting, she posted a meeting summary with the signed resolution and the attachments. That information was up by the 13th. She added that most requests were for additional information and more explanation. She stated appreciation for the collaborative effort in fielding questions.

CHAIR BOB WILLIAMS asked for any trustee comments or questions. There being none, he recognized CIO Zach Hanna.

TREASURY

CIO HANNA stated that the ARM Board directed staff, after the action taken in October, to work on additional recommendations for managed accounts. He updated the ARM Board on where they were for potential feedback and further directions. There had been a number of meetings on managed accounts which involved Department of Revenue, Division of Retirement & Benefits, Department of Law, Callan, Empower, and others. He stated that this next step is a challenge since it involves close to over 10,000 existing participants, all with differing circumstances, and \$1.6 billion in managed assets. We are making progress, and we expect to have a fuller set of recommendations by the March meeting. He continued that he put together a flowchart of options for the ARM Board to consider, which he went through and provided some of his perspectives. He noted that the ARM Board's general recommendation that age-appropriate target date funds are the best option for many participants likely applies to both of these issues to varying degrees. He added that the Department of Revenue and Callan had spent a lot of time exploring what options might be available for those assets if managed accounts were closed. He went through some of those options, adding that managed accounts are really challenging to monitor. He continued to Decision 2 on the chart where the Board would have to decide whether to recommend a new enrollment or re-enrollment of existing managed accounts participants. Decision No. 3, perhaps the largest decision in a new enrollment, is what to do if participants do not respond to re-enrollment since this is often the most likely outcome. He handed it back to the Committee to further engage staff, the IAC, and Callan on these issues who can potentially provide room for direction.

TRUSTEE BRETZ asked if online advice is still a feature that is available to the participants.

CIO HANNA replied that it was, but he did not know the degree at which it is currently available.

MS. LEA replied that there is information on the website about advice and how it works. That is a point-in-time allocation.

MR. MORRISON replied that online advice is still on the website.

MR. MICHAEL WILLIAMS asked when the Board recommended closing managed accounts to new enrollments if the service was not completely turned off; if those participating in managed accounts were still receiving that service from Empower.

MR. MORRISON replied that there are components that are still available. He added that they would be happy to put together an education of the various levels of advice that are available and what is tied to the managed accounts decision, and what is not.

MR. HOFMEISTER stated that DRB needs to be binary. He did not think that the methodology in terms of how to respond should be very complex. He stated that anything recommended by this Board or ultimately implemented by DRB should go through a legal review before being acted upon and made public. He continued that the initial response to cut off the program was a good one in terms of meeting the fiduciary obligations of the Board, and of the Division, as well. That put a pause on the program to determine whether or not that program could be rehabilitated in the future or improved upon; however, the Board, Division, and Empower want to look at it. He asked for some information from the people that make the decisions, and to have that reviewed before making a public statement about it.

CHAIR BOB WILLIAMS stated that this was a good discussion, and there will be more information in the next few months. There are decisions to be made in terms of a recommendation, and he personally sees those decisions happening in March.

TRUSTEE RYAN stated that there are three distinct groups, and she thought they should look at those currently in the managed accounts; how to make sure to keep them as whole as possible; and that they move forward knowing that it is a participant-directed fund, and it is their responsibility.

CHAIR BOB WILLIAMS asked for any IAC comments.

MS. TRAYLOR stated that the big concern is the member who seems to really understand managed accounts saying that already he had something turned off to him. There is a service that needs to be considered if people are allowed to stay opted in, and that they are not paying for something that they are no longer receiving.

CHAIR BOB WILLIAMS voiced his concerns about having something that was really murky and could be phrased as aspirational. Having something that is fairly difficult to see how it is doing and expensive to monitor is a concern with this strategy. He recognized CFO Hanna for the T. Rowe Price update.

T. ROWE PRICE UPDATE TARGET DATE FUNDS

CIO HANNA stated that T. Rowe Price was online with quite a few individuals to review the investments they manage for the DC plans. They have managed participant-direct investments for Alaska for over 30 years. The team will cover the balance and target date funds that form the core of the DC investment options. They finished upgrading the underlying investment building blocks for those funds, and both the short-term and long-term performance has been good. The T. Rowe Stable Value team will cover that fund. He asked Chris Dyer to introduce the team and to take them through both presentations.

MR. DYER recognized Meredith Empie, his colleague responsible for the day-to-day management of the Alaska relationship.

MS. EMPIE began with the target date review and stated, on behalf of the team and the firm, their pride in all of the accomplishments they've had over the years, and she thanked the Board again. She recognized Andrew Jacobs Van Merlen, one of the portfolio managers dedicated to their accounts.

MR. VAN MERLEN stated that this has been a long-term partnership spanning over 30 years, and we are focused on helping Alaska retirement plan participants reach their retirement objectives by delivering value the entire time. This growth was \$5 billion across the long-term balance and target date portfolios, and has evolved with them over the years. We are always looking for ways to enhance the portfolios and improve the value proposition. He talked about some of the enhancements proposed in the products, and increasing the diversification of the target date products. He noted that these enhancements were already beginning to provide value for the participants.

MR. SHRIVER stated that he manages the portfolio with Mr. Van Merlen and the associate portfolio manager, Christina Noonan. He highlighted the asset class and sub-asset class exposure across the full suite of the target date, as well as the balance and long-term balance portfolios. The strategy is sector-neutral and reflects the best ideas of T. Rowe Price's fundamental analysts.

CHAIR BOB WILLIAMS stated his appreciation for the quality that went into the formation of the target-date funds.

STABLE VALUE FUNDS

MS. EMPIE recognized Tony Luna, the head of the Stable Asset Management Team at T. Rowe. He is a portfolio manager and has been involved with the State of Alaska for quite a long time. She also introduced Ben Gugliotta, also a portfolio manager on this mandate.

MR. LUNA stated that stable value is a low-risk plan investment option and is like any other capital preservation fund that focuses on principal preservation, liquidity, and delivering competitive yields over time. This is the safe-harbor option, and is only in qualified plans which are defined contribution plans. He recognized Ben Gugliotta.

MR. GUGLIOTTA went over the portfolio construction of the Stable Value Fund for Alaska and stated that it is important to note that they had been able to achieve the fund's long-term investment object of principal preservation, liquidity, and strong long-term performance. He added that, even in this challenging time for bond funds, the Alaska Stable Value Fund has performed exactly as expected. There have been no surprises in the fund's performance. He explained that it was constructed by taking the Alaska Stable Value Fund's investment objectives and factored in cash flows, the fund's demographic, and setting the target duration at the investment objective given which was plus or minus 10 percent of the Bloomberg U.S. intermediate aggregate index. From there they invest in fixed-income assets, which is benchmarked to the intermediate aggregate bond fund. That is the market value fixed-income portfolio which is an enhanced index portfolio.

CHAIR BOB WILLIAMS asked for any questions or comments. He thanked T. Rowe for the presentations on target-date funds and stable value and added that it is a very strong, positive relationship between the Board, and he appreciated the collaboration with the Department of Revenue and CIO Hanna.

MR. DYER echoed that comment and stated that they are very proud to have partnered with Alaska all these years. They are very pleased with the results of the target date funds. They are confident that the stable value portfolio will right itself; and lastly, they are going through a challenging time. He added that all of T. Rowe will help the Board and Department navigate, and continue to be the kind of provider they had been over the years.

CHAIR BOB WILLIAMS thanked them for the presentation and moved forward to the Treasury Defined Contribution update with State Investment Officer Stephanie Pham and Chief Investment Officer Zach Hanna.

TREASURY DC UPDATE

CIO HANNA introduced Stephanie Pham to cover the Treasury update and the action memo in the committee packet.

MS. PHAM stated that she had two items to discuss today and began with the action item and some background context. During the March 2023 investment structure evaluation of the participant-direct plans, Callan recommended adding a passive U.S. small mid-cap equity option, also known as SMID. Currently, this option is not in the plan, and is an asset class that participants should have an option to invest in. Staff concluded that providing two options, such as the S&P 600 and the S&P 400, is most attractive for participants. This will allow participants to select how much they want in each fund; whatever is appropriate for the participant. She continued that they concluded that BlackRock provides a good option, providing both funds and the lowest fees. She recommended BlackRock as the investment manager for the Board to take into consideration. They provide a high-quality institutional index management, and have the lowest fees of all the funds that have been analyzed.

CHAIR BOB WILLIAMS asked if there was a motion from the committee.

MOTION: The Defined Contribution Plan Committee recommends the Alaska Retirement Management Board direct the staff to hire BlackRock Institutional Trust Company to manage a passive S&P 400 index fund and passive S&P 600 index fund for the deferred compensation plan, supplemental annuity plan, and PERS/TRS defined contribution retirement plan, subject to successful contract negotiations. The motion was made by TRUSTEE RYAN; seconded by TRUSTEE MIKE WILLIAMS.

TRUSTEE RYAN asked about the fees.

MS. PHAM replied that the fees for the S&P 400 is a total of 1.67 basis points; and the fee for the S&P 600 is at 2.45 basis points.

CHAIR BOB WILLIAMS stated that those fees are impressive, and he was excited about the two options coming into the lineup. He added that this is a response to a prior Callan recommendation. He continued that the work done bringing this forward was very well done.

CIO HANNA stated that staff wants to understand how the Board would like this to be executed with respect to managed accounts. He continued that adding more funds to the managed accounts platform is probably not something staff would advise. He recommended not adding new funds to that platform until the go-forward plan for managed accounts is firmed up, and it will not be difficult to exclude them.

CHAIR BOB WILLIAMS stated that it makes sense to go ahead and move forward with this as it often takes several months to implement, and we might have a decision about managed accounts in March and he was hesitant to delay this further.

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 Moore, yes; Trustee Ryan, yes; Trustee Mike Williams, yes; Chair Bob Williams, yes.)

CIO HANNA concluded his update.

PERIODIC SELF-ASSESSMENT

CHAIR BOB WILLIAMS continued to the periodic self-assessment. He stated that a lot of different issues had been addressed, and anyone can add a comment or thought. There was also the review of the committee charter and future meetings with the calendar review. He asked for any future agenda items and any other matters to properly come before the committee. He recognized Joshua Hartman.

PUBLIC / MEMBERS COMMENT

MR. HARTMAN thanked them for the opportunity to comment based on what he listened to today. He clarified that his earlier comment was not a result of a miscommunication, but the result of a recent, personal experience that he had within the last two weeks. He had a financial readiness review previously and stated, for the record, that what is now available is a skeleton of what he received previously. He is a member of what he believed is a majority of DCR plan participants, those not enrolled in managed accounts. Some of the comments that he heard were concerning because they had been focused on a subset of participants which he believed to be the minority. Those are actually enrolled in managed accounts. He continued that the decisions that are currently being made or reviewed impact the entire participation pool, not just those enrolled in managed accounts. That was confirmed by the representative from Empower retirement today. There were services provided that were intertwined with managed accounts that are no longer available to him. He quoted from a letter sent to participants in May, 2009, by DRB and the ARM Board referencing defaulting people in the target fund that stated: "As a participant, I pay fees to cover the costs of periodic statements, recordkeeping, education seminars, and individual investment counseling." He emphasized "individual investment counseling." Those services he received were not those services that he was paying for through managed services. He is paying for a service that had actually been removed. He stated this clearly, for the record, that he officially is not getting what he paid for. Removal of financial guidance available to defined contribution members is not a minor detail. He is responsible for his retirement and does not have any guarantees. Now, he has lost a very valuable tool. This is not the same as adding or removing a choice in a fund in which I can elect. That is something I was allowing the board to do when necessary. He continued that, in this case, a component or service tied to his retirement was removed, and an alternative of equal or better value has not been provided. He asked the board to reconsider the path they headed down and asked that the actions of the voting taken place be reversed, and that the services that he was paying for be reinstated. He added that he is not in managed accounts and is still impacted by this decision to do away with it. The Empower representative confirmed the fact that there were services provided that were intertwined that he was no longer receiving, but is paying for.

CHAIR BOB WILLIAMS thanked Mr. Hartman, and recognized the next person to speak.

MR. BURNS stated that he is the president of the RPEA, the Retired Public Employees of Alaska. He continued that we represent mostly people in defined benefits, not defined contribution, but we are very concerned. Our concern is that it happened so precipitously. He was not under the impression that the Division had begun actions to change the policy. He thought that people felt that maybe it had not been thought through thoroughly in terms of the repercussions on people who were in defined contribution accounts. He added that more

communication and more information would answer a lot of the questions out there. He thanked them for the opportunity to speak.

CHAIR BOB WILLIAMS asked for anything further. There being none, he closed the public/member comment section and asked for a motion for adjournment.

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

There being no objection, the MOTION was APPROVED.

(The Defined Contribution Plan Committee Meeting was adjourned at 12:14 p.m.)