

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
OPERATIONS COMMITTEE MEETING

Location:

Alaska State Museum, Lecture Hall
395 Whittier Street
Juneau, Alaska

April 3, 2019

ATTENDANCE

Committee Present: Robert Johnson, *chair*
Commissioner Kelly Tshibaka (*arrived late*)
Gayle Harbo
Norm West
Bob Williams
Tom Brice

Committee Absent: None

Other Trustees Present: Lorne Bretz
Allen Hippler
Commissioner Bruce Tangeman

Department of Revenue Staff Present:

Greg Samorajski (deputy commissioner)
Bob Mitchell (chief investment officer)
Pamela Leary (director, Treasury Division)
Scott Jones (comptroller)
Zach Hanna (deputy chief investment officer)
Stephanie Alexander (board liaison)
Coltin Lanz (office assistant II)

Department of Administration Staff Present:

Ajay Desai (director, Division of Retirement & Benefits)
Kevin Worley (CFO, Division of Retirement & Benefits)

Others Present:

Stuart Goering (assistant attorney general, Department of Law)

I. CALL TO ORDER

ROBERT JOHNSON, as CHAIR of the ARM Board, called the meeting to order at 1:48 p.m.

II. ROLL CALL

Five committee members were present at roll call to form a quorum.

III. PUBLIC MEETING NOTICE

Board liaison STEPHANIE ALEXANDER confirmed public meeting notice had been met.

IV. ELECTION OF CHAIR

MS. HARBO moved to nominate and approve MR. BRICE to serve in the position of Chair of the Operations Committee.

A roll call vote was taken, and the motion passed unanimously.

V. A. Approval of the Operations Committee Agenda

MR. WEST moved to approve the agenda. MR. WILLIAMS seconded the motion. The motion passed without objection.

B. Approval of the Combined Budget and Salary Committee Minutes - September 19, 2018

MS. HARBO moved to approve the combined Budget and Salary Committee minutes of the September 19, 2018 meeting. MR. WEST seconded the motion.

PAMELA LEARY, Director, Treasury Division, noted corrections to the minutes as follows:

- On page three, the use of (sp) for spelling after DOR ASD is unnecessary, as the spelling is correct.
- On page five, the sentence beginning “MS. LEARY stated the intention is to develop a computation plan” should read “compensation” rather than “computation”.

There were no objections to the corrections.

The minutes were approved with the above two corrections.

VI. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES

None

VII. REVIEW OF OPERATIONS COMMITTEE CHARTER

CHAIR BRICE requested MR. JOHNSON review the Operations Committee Charter. MR. JOHNSON explained the nature of the Charter is the combination of the previous Budget Committee and Salary Committee, as well as other elements. MR. JOHNSON believes the concerns have been addressed regarding previous references to the Budget and Salary Committees and would be incorporated by reference into the Operations Committee Charter. Additionally, any future ARM Board resolutions that made reference to the Budget or Salary Committee would be presumed to be referring to the Operations Committee.

MR. JOHNSON moved to accept the Operations Committee Charter and make the recommendation to the ARM Board to adopt the Charter. MR. WEST seconded the motion. The motion passed without objection.

VIII. ARMB LEGISLATIVE ACTIONS / IMPACTS

CHAIR BRICE requested COMMISSIONER TANGEMAN provide an update on legislative actions and impacts. COMMISSIONER TANGEMAN informed the session has been action-packed with the proposed budget process occupying much of the focus. There are significant recommended cuts to many departments. DOR has fared well compared to other areas of the government. Travel has been cut across all areas. The Permanent Fund is expected to decrease. The House continues to work on amendments. COMMISSIONER TANGEMAN does not see traction with any of the legislation that has been introduced regarding appropriating fees, salary caps, salary increases, exempt employees, and tax bills. He believes the Legislature recognizes the importance of the expertise of employees with the ARM Board, the Treasury, and the Permanent Fund. The Senate has not released their proposed budget.

MR. JOHNSON inquired as to the possibility of the ARM Board satisfying the request of transparency of fees through cumulative statistics. He noted the ARM Board has applicable legal confidentiality requirements. Chief Investment Officer BOB MITCHELL explained the discussion to address the confidentiality concerns includes aggregating fees. He believes the constraint is the access to the full breadth of the underlying information. The nuances of investment fees and carry are varied and evolving. The intent is to increase the level of disclosure and to provide the information in a more consistent and comparable fashion to the Permanent Fund.

MS. LEARY informed the issue of best practices regarding disclosure of fees is a national debate. Staff fully discloses as much information available to the ARM Board and within the CAFR.

MR. WILLIAMS asked if there is a way to proportionately compare the fees paid by the ARMB systems to the fees paid by the Permanent Fund. MR. MITCHELL believes a comparison of the stated fees would be unfair because the reporting of fees is not standardized. He suspects the fee loads could be commensurate.

CHAIR BRICE offered COMMISSIONER TSHIBAKA an opportunity to comment. COMMISSIONER TSHIBAKA apologized for arriving late due to a lengthy meeting with a legislator. She reiterated the proposed bills discussed earlier by COMMISSIONER TANGEMAN and noted the proposed bill which moves to a biweekly pay structure from the semimonthly pay structure. COMMISSIONER TSHIBAKA believes this will provide a cost savings for the State and will be easier for accounting systems to process every two weeks on Friday. The effect would begin calendar year 2020.

COMMISSIONER TSHIBAKA informed she may be called before a legislative hearing next week to review discussions and decisions by the ARM Board. COMMISSIONER TANGEMAN noted he will apprise the ARM Board of any information discussed with the Legislature.

IX. ARMB TRAVEL AND BUDGET DISCUSSION

MS. LEARY reviewed the provided information on the remaining FY19 and FY20 Treasury travel and ARMB travel. It includes items for travel to the ARM Board meetings for both staff and Trustees. MS. LEARY noted conducting meetings in Juneau presents the least

travel cost. The Juneau meeting location for FY19 and FY20 provides an opportunity for more staff to be present, as well as the additional benefit of managers meeting with staff for due diligence purposes. The current compromise is the recommendation for the September 2019 ARMB meeting and Committee meetings to be conducted via videoconference, with the ARMB CHAIR traveling to Juneau and the remaining members meeting in the Atwood building in Anchorage. Staff believes these recommendations facilitate the sufficient due diligence to meet its requirements and assist the ARMB in its fiduciary role. Staff is expected to continue to maximize travel opportunities through multi-purpose scheduling.

MS. HARBO believes it is important for the ARMB Trustees to travel to Juneau for the September meeting to participate in-person, rather than the Trustees participating by videoconference. MS. HARBO noted staff not traveling to Anchorage provides the biggest cost savings. She is in favor of Trustees attending all ARMB and Committee meetings in-person. MS. HARBO expressed the difficulty in conducting meetings by video-conference, especially for the Actuarial Committee.

MS. LEARY expressed understanding for MS. HARBO's concerns. MS. LEARY commented the mandate is for a smaller travel budget of \$117,000 for FY19, which does not include any travel in April through June.

MR. WORLEY commented on the Actuarial Committee scheduled for next month and the request by the consultant DAVID KERSHNER to attend in-person. The benefits of physically attending a meeting include additional discussion time before the meeting, after the meeting, and during the breaks. MR. WORLEY understands the travel constraints.

MS. HARBO inquired if the CFA Exam travel costs have always been paid out of the pension funds. MS. LEARY answered in the affirmative. The cost is split between ARMB and Treasury. The amount is capped and only in-state travel is allowed.

CHAIR BRICE requested additional insight regarding exceptions to the Governor's mandate on travel concerning the ARM Board. An explanation was given that some entities were explicitly directed to follow the mandates on travel and some entities were requested to follow the mandates on travel. ARM Board was one of the entities who must follow the travel mandate process.

MR. JOHNSON commented on his reading of the Governor's directive and appreciates the reasoning for the directive. MR. JOHNSON noted one of the exceptions was with respect to the quasi-independent agencies like the Permanent Fund and AIDEA, who have a single unitary construct. He believes ARM Board should be considered and included as a similar exception, given the third-party trustee aspect of the responsibilities. Additionally, another exception is provided for travel related to State monetary gains and increases in funds.

MR. JOHNSON submits good decision-making by the ARM Board is highly likely to lead to significant gains greater than the approximately \$4,500 in savings by having a videoconference in September. MR. JOHNSON expressed his hope these appropriate exceptions contained in the Governor's directive would be advanced on behalf of the ARM Board. MR.

JOHNSON further acknowledged the specific statutory provision whereby the ARM Board is to have significant input in setting its own budget. MR. JOHNSON reminded members of the ARM Board statutory provision that calls for education of Trustees. He feels the education conference attended this year was valuable and believes an argument should be made to attend in New York again next year. MR. JOHNSON agreed it may be bad timing to argue for the education conference travel, but he does not believe it is an inappropriate expenditure on behalf of the ARM Board.

MR. JOHNSON noted the Legislature specifically created ARM Board and called for collective decision-making by a defined group of Trustees. The restriction of travel for the specific efforts of Board members does not seem to serve the legislative instructions.

MS. HARBO inquired as to IAC travel costs. MS. LEARY advised the IAC travel is under separate contract funded by the pension plan and is not included in this travel budget. The IAC members are expected to attend the September June meeting in person.

COMMISSIONER TSHIBAKA believes there is a shared commitment to uphold the ARM Board's fiduciary responsibility. She and COMMISSIONER TANGEMAN also are entrusted with a legitimate responsibility to the budget of the State. COMMISSIONER TSHIBAKA agreed in-person meetings are better, more productive, and more efficient. However, the travel standard has changed and the in-person meetings now have to be measured by whether or not the meeting is mission critical. COMMISSIONER TSHIBAKA believes all of the ARM Board meetings using the mission critical standard should be conducted via video-conference. She feels the three in-person meetings is a generous exercise of the travel authority.

COMMISSIONER TSHIBAKA explained the exceptions to the travel policy refer to law enforcement sensitive topics, mission critical topics, and instances that would substantially cost the State additional funds by not traveling. She noted trips by some divisions in Department of Administration that add money to the general fund when they travel have been cancelled. COMMISSIONER TSHIBAKA noted she has unsuccessfully argued the benefit of spending \$3,000 for travel that would add \$50,000 to the general fund. She does not believe it is mission critical for ARM Board Trustees to attend training in New York. The training is valuable, but needs to occur in Alaska, at least in the short-term.

MR. MITCHELL expressed one of the benefits of having the educational conference in New York is the greater access to resources. He noted the ARM Board has the ability to invite presenters to educate at ARMB meetings and has maintained a pattern of education during its meeting. The educational elements are highlighted on the agendas in blue and are expected to continue and evolve. Part of the training referenced in the policy and procedures manual will be tasked to STUART GOERING, Assistant attorney general, Department of Law, during the upcoming June ARMB meeting.

MS. LEARY continued the discussion focusing on the budget portion of the agenda item. She reviewed the ARMB operations budget and the ARMB custody and management fees budget. The FY20 Governor-amended budget looks very similar to the FY19 budget. The only

difference is the reduction in travel from \$143,000 down to \$50,000. The two suggestions in September that were not contemplated in the budget were the addition of an Accountant V to staff and the \$250,000 for equity analytics software. Staff will continue to search for ways to be efficient, while offering full support to the ARM Board.

MR. HIPPLER inquired as to why the staffing cost is almost double what it was two years ago. MS. LEARY explained the addition of six new investment officers and staff compensation increases are the reasons for the budget changes. She believes the expansion of investment staff levels is offset in management fees. MR. HIPPLER noted the management fees have increased since FY16. MR. MITCHELL expounded the management fees would have been higher if the staffing changes had not occurred. MR. HIPPLER asked if the projected FY20 savings of one million dollars in the management and custody fees is correlated with the new investment officers. MS. LEARY explained the answer is both yes and no. The one million dollars in potential savings no longer exists. The proposed custody fees plus the external public investment fees were \$49 million. It has since been updated to \$50 million. MS. LEARY believes the actual budget number will come in lower than the proposed \$50 million.

COMMISSIONER TSHIBAKA inquired as to the reasons the FY18 actual budget amount for non-employee travel came in at approximately 50% lower than the FY18 budgeted amount. MS. LEARY believes there was no out of state education conference in FY18 and not every Board member attended every meeting in FY18. There was a decrease in non-employee travel in FY17 compared to FY16 for similar reasons.

X. POLICIES AND PROCEDURES REVIEW

MR. MITCHELL described the 12-page letter from Callan included in the Committee packet as a culmination of a Board directed study to review investment guidelines and the ARMB's policy and procedures manual. The first category of findings relate to technical suggestions and minor edits to clarify language. MR. MITCHELL asked the Committee to allow staff to present a red-lined version of the affected guidelines or policies at a future meeting. The second category of findings relate to open-ended suggestions, such as the mission of the organization. MR. MITCHELL asked the Committee to allow staff to present one or more alternatives for discussion at a future meeting. The third category of findings relate to the consideration of the current governance structure with respect to the investment responsibilities and authorities retained by both the Board and investment staff. MR. MITCHELL requested Committee direction on how staff should proceed and address the suggestion.

There was no objection from the Committee allowing staff to present at the next meeting a red-lined version of the technical edits, clarifying language, and suggestions to the open-ended issues. CHAIR BRICE recommended the topic of governance structures be included under potential future meeting topics.

CHAIR BRICE asked MR. GOERING if he has reviewed the findings letter from Callan. MR. GOERING noted he read the letter in advance of today's meeting and did not find any glaring inconsistencies between the findings and the current statutes. MR. GOERING

requested to work with staff to develop the recommended language changes. There was no objection.

XI. SCOPING FOR FUTURE MEETINGS

A. Calendar Discussion

MR. DESAI requested the calendar schedule be revisited to achieve the actuarial results and review earlier in order to present the final numbers to the Senate Finance Committee by the end of December, instead of waiting until the March meeting. CHAIR BRICE informed the issue is more appropriately under the purview of the Actuarial Committee and should be addressed at their next meeting in May.

B. Potential Topics

CHAIR BRICE noted staff will present their recommendations regarding Callan's October 8, 2018 letter of findings. CHAIR BRICE suggested the Committee discuss governance structures, as is referenced in Callan's same letter of findings.

XII. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

None

XIII. PUBLIC / MEMBER COMMENTS

None

XIV. ADJOURNMENT

MS. HARBO moved to adjourn the meeting. MR. WILLIAMS seconded the motion. The motion passed without objection.

The meeting was adjourned at 3:12 p.m.

Note: An outside contractor recorded the meeting and prepared the summary minutes. For in-depth discussion and presentation details, please refer to the recording, staff reports, and written presentation materials on file at the ARMB office.