

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
OPERATIONS COMMITTEE MEETING

Location:

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

December 11, 2019

ATTENDANCE

Committee Present: Tom Brice, *chair*
Commissioner Kelly Tshibaka
Robert Johnson
Gayle Harbo (*arrived 3:21 p.m.*)
Norm West
Bob Williams (*arrived 3:20 p.m.*)
Lorne Bretz

Department of Revenue Staff Present:

Bob Mitchell (chief investment officer)
Pamela Leary (director, Treasury Division)
Scott Jones
Michelle Prebula (investment officer, external public equity and defined contribution investments)
Kayla Wisner
Stephanie Alexander (board liaison)

Department of Administration Staff Present:

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

Others Present:

Stuart Goering (assistant attorney general, Department of Law)

I. CALL TO ORDER

CHAIR TOM BRICE called the meeting to order at 3:18 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. A. Approval of the Operations Committee Agenda

MR. JOHNSON moved to approve the agenda. MR. WEST seconded the motion.

The motion to approve the agenda passed without objection.

B. Approval of the Operations Committee Minutes - September 18, 2019

MR. WEST moved to approve the Operations Committee Minutes of the September 18, 2019 meeting. MR. JOHNSON seconded the motion.

The motion passed without objection.

**V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS,
AND APPEARANCES - None**

VI. POLICIES AND PROCEDURES EDITS DISCUSSION

Action: ARMB Policy & Procedures Manual & Investment Guidelines

BOB MITCHELL, Chief Investment Officer, characterized the proposed changes to the ARMB Policy & Procedures Manual & Investment Guidelines as largely the result of recommendations made by Callan during their review. A few other changes were proposed to reflect current practices and names of service providers.

CHAIR BRICE indicated this action is within the due diligence responsibility of the ARMB.

MR. JOHNSON expressed appreciation for the effort in updating the manual. He has additional amendments to present for approval at the appropriate time.

MR. WEST moved that the Operations Committee recommend the Alaska Retirement Management Board approve the Board of Trustees Investment Policy and Procedures Manual as revised with edits as indicated in the attached red-line version. MR. WILLIAMS seconded the motion.

MR. JOHNSON moved to amend the proposed Board of Trustees Investment Policy and Procedures Manual as revised with edits as indicated in the attached red-line version to include on page 11 under Investment Advisory Council - Summary of Responsibilities, an additional bullet point stating "Engage in education of Trustees." MS. HARBO seconded the motion.

The motion to amend the proposed revised Manual to include on page 11 under Investment Advisory Council - Summary of Responsibilities, an additional bullet point stating "Engage in education of Trustees" passed with no objection.

MR. JOHNSON moved to amend the proposed Board of Trustees Investment Policy and Procedures Manual as revised with edits as indicated in the attached red-line version to include on page 12 under Liaison Officer to ARMB, the sentence to read, "Under the direction of the Treasury Division Director and in consultation with ARMB or the ARMB Chair, the Liaison Officer to ARMB is responsible for coordinating general administrative functions for ARMB members." MS. HARBO seconded the motion.

The motion to amend the proposed revised Manual to include on page 12 under Liaison Officer to ARMB, the sentence to read, “Under the direction of the Treasury Division Director and in consultation with ARMB or the ARMB Chair, the Liaison Officer to ARMB is responsible for coordinating general administrative functions for ARMB members” passed with no objection.

MR. JOHNSON moved to amend the proposed Board of Trustees Investment Policy and Procedures Manual as revised with edits as indicated in the attached red-line version to include on page 23, under Education, Training, Travel and Reimbursements, an additional Item 5. stating, “In the event that travel costs are not approved or not available for Trustee travel, and an honorarium is appropriate and consistent with the law for the event requiring such travel, a Trustee may seek and be entitled to that honorarium. This provision shall not be read as a means of circumventing the reasonable consideration and approval of travel costs.”
MS. HARBO seconded the motion.

MR. JOHNSON explained there is an understanding of the issues regarding the cost of travel. There may be circumstances, such as the Callan conference, where travel costs would not be authorized under the current process, but the honorarium the Trustees are entitled for under law for events related to ARM Board would be provided. MR. JOHNSON noted this practice has occurred in the past and was deemed consistent with administrative practice.

MR. MITCHELL asked if the amendment included per diem. MR. JOHNSON expressed his understanding that travel costs include per diem.

STUART GOERING, Assistant Attorney General, Department of Law, believes he understands the intent of the amendment. He expressed caution because the same statute giving an entitlement to an honorarium also gives an entitlement to per diem and travel. MR. GOERING is unclear how to divide the statute if travel is not approved.

CHAIR BRICE asked MR. GOERING if it is his opinion the Trustees would not necessarily need approval for travel for those ARM Board activities, such as the Callan conference. MR. GOERING disagreed, due to the regulations on how transportation and per diem expenses are approved for boards and commissions. The implication is if travel is not approved, the person does not go, rather than the travel is not approved and the person goes and receives honorarium. MR. GOERING does not know how the Department of Administration has interpreted this scenario for other boards and commissions. He is unaware of any precedent for dividing up travel, per diem, and honorarium.

MR. BRETZ believes the budget process allows for full travel, per diem, and honorarium or none at all. He disagrees the honorarium could be split from travel and per diem.

MR. JOHNSON respectfully disagreed with MR. GOERING’s assessment of the statute. MR. JOHNSON believes each entitlement has different provisions. He noted there is a precedent of receiving the honorarium and not the travel cost, if there is a travel cost issue. Budgeting for honoraria is a separate line item from the travel cost line item. MR. JOHNSON

believes this is a very reasonable approach to accommodate interests of different kinds, specifically the education conference, and has been implemented in that fashion on a number of occasions. He understands the desire not to split travel, per diem, and honorarium is an appropriate policy opinion, but since honorarium and travel are identified in two separate sentences of the statutes, they can be treated separately.

MR. BRETZ asked if the process of approval for the amendment would be different or the same as is currently conducted. MR. JOHNSON understands the approval process for ARM Board representatives is through the Commissioner of Revenue. He noted the Commissioner of Revenue has agreed in the past to an honorarium presentment and not for the cost of travel.

MR. JOHNSON requested PAMELA LEARY, Director, Treasury Division, comment. MS. LEARY informed the policy and procedures do state, "Subject to approval by the Chair." There is an extra layer that goes to the approval from the Commissioner because of the limited travel plan and budget. She noted discussions occurred regarding the FY 21 budget for the ARM Board funds moved from the services line item to the travel line item for additional travel funding. MS. LEARY believes the primary effect of the funds movement was to give staff more travel to conduct due diligence. She thinks there is room in the travel line item for Trustee educational purposes. MS. LEARY believes discussions can continue once a more permanent Commissioner is identified.

MS. HARBO commented during the Walker Administration's cutback on travel, several Trustees attended the Callan education conference at their own travel expense and an honorarium was paid to Trustees. MS. HARBO informed she is now retired and does not have a salary.

MR. WILLIAMS commented he feels responsible as a Trustee to become as educated as he possibly can. He sees the amendment as splitting the cost difference. MR. WILLIAMS believes the optimum scenario would be to have the total educational expense covered, including travel and hotel. He feels the amendment is a middle ground when budgets are tight and the scrutiny of travel expenses is high. MR. WILLIAMS supports the continued availability of that option.

COMMISSIONER TSHIBAKA expressed concern the middle ground is synonymous with a lack of process integrity. She supports the idea of flexibility, but believes flexibility sends a mixed message to insiders and outsiders. COMMISSIONER TSHIBAKA expressed concern the practice would set up internal and external conflict.

CHAIR BRICE informed he did not travel for this meeting, but he still receives his honorarium. COMMISSIONER TSHIBAKA indicated the statute covers that specific example.

MR. WEST asked if the statute requires members of the ARM Board to have education. A response was given that the statute requires ARM Board education, but travel is not mandated for education. Trustees who are not employed by the State get an honorarium, but travel is not a requisite for receipt of the honorarium, if serving on the Board. However, if travel is not

approved, honorarium is not approved. MR. GOERING reiterated the statute provides for an honorarium for every day or part of the day that a non-employee of the State, political subdivision, or school district is engaged in a meeting of the Board or a subcommittee of the Board or at a public meeting as a representative of the Board. The same statute says Trustees are entitled to per diem and travel expenses authorized for Boards and Commissions, which applies to MR. BRICE, who does not get travel and per diem in his community of residence. MR. GOERING believes there is a logical inconsistency in denying travel, while allowing honorarium. He has not seen instances when travel was denied and honorarium was allowed. MR. GOERING advised against separating the honorarium and travel/per diem entitlements. He stated the Trustees are free to disregard his advice. He hopes the Trustees will disregard his advice if he is wrong and hopes the Trustees will take his advice if he is right.

COMMISSIONER TSHIBAKA asked if the State has to be aware of liability, Workman's Comp, when sanctioning travel for the State's purposes. MR. GOERING agreed liability is part of the travel authorization process because authorized travel is essentially an order for the person to act on behalf of the State and the State takes responsibility.

A roll call was taken, and the motion to amend the proposed Board of Trustees Investment Policy and Procedures Manual as revised with edits as indicated in the attached red-line version to include on page 23, under Education, Training, Travel and Reimbursements, an additional Item 5. stating, "In the event that travel costs are not approved or not available for Trustee travel, and an honorarium is appropriate and consistent with the law for the event requiring such travel, a Trustee may seek and be entitled to that honorarium. This provision shall not be read as a means of circumventing the reasonable consideration and approval of travel costs" failed, with MS. HARBO, MR. JOHNSON, and CHAIR BRICE voting yes, MR. BRETZ, COMMISSIONER TSHIBAKA, and MR. WILLIAMS voting no, and MR. WEST abstaining.

A roll call was taken, and the motion for the Operations Committee to recommend the Alaska Retirement Management Board approve the Board of Trustees Investment Policy and Procedures Manual as revised with edits as indicated in the attached red-line version and amended as follows; on page 11 under Investment Advisory Council - Summary of Responsibilities, an additional bullet point stating "Engage in education of Trustees," and on page 12 under Liaison Officer to ARMB, the sentence to read, "Under the direction of the Treasury Division Director and in consultation with ARMB or the ARMB Chair, the Liaison Officer to ARMB is responsible for coordinating general administrative functions for ARMB members" passed unanimously.

VII. ARMB ANNUAL MANAGER REVIEW REPORT

CHAIR BRICE requested MR. MITCHELL provide the report on the annual manager review. MR. MITCHELL advised each year the IAC, Callan, and staff meet for the sole purpose of discussing the existing roster of managers. Staff and Callan continue to monitor managers and report to the Board, in addition to the specific manager review meeting. Following the September Board meeting in Juneau, the manager review meeting occurred. MR. MITCHELL relayed comments from the meeting. One comment related to the passive REIT investment within the defined benefit plan. Consideration may be given to the possibility of

active investment within REITs or to relaxing the tracking error constraint to less tightly manage against the underlying index. MR. MITCHELL informed the discussion occurred, but no recommendation was presented.

MR. MITCHELL relayed the two comments from Callan. The first comment regarded the suggestion the Board collapse the two balanced options into the suite of target date funds in the DC plan. According to Callan, it is increasingly uncommon to see a balanced fund in an investment line up. Callan's second comment related to monitoring of internal investment activity. Callan's confidence in existing staff was expressed with respect to internal investment. Callan highlighted the importance for the level of scrutiny for internal investment programs remain the same as it is for external investment programs.

MR. MITCHELL informed a number of potential education topics were discussed at the meeting. The education topic regarding negative interest rates will be presented at tomorrow's full Board meeting. Other education topics included the potential uses and manifestations of leverage; exploration of risk management; factor based investments; the future of money management; and differences and similarities of index managers.

VIII. INVESTMENT MANDATE ON-BOARDING and DUE DILIGENCE

CHAIR BRICE requested MICHELLE PREBULA, Investment Officer, External Public Equity and Defined Contribution Investments, present on investment mandate on-boarding and due diligence. MS. PREBULA reviewed the PowerPoint presentation and gave a description and detailed explanation of each of the mandate implementations steps;

- Notification
- Account setup
- Contract administration
- Funding
- Reporting
- Monitoring

MS. PREBULA described the additional follow-up procedure, including tracking and reviewing annual meetings.

MR. WILLIAMS requested clarification regarding the use of manager's standard trust agreement for comingled funds. MS. PREBULA noted staff reviews the trust agreement to ensure it is agreeable.

CHAIR BRICE expressed appreciation to MS. PREBULA for the presentation. He commented on the significance of having a high level understanding of the process. CHAIR BRICE suggested this topic be revisited when more time is available.

CHAIR BRICE requested MR. MITCHELL present on the Military Trust Fixed Income action item. MR. MITCHELL explained staff recommends the Committee bring the action item before the full ARM Board to terminate BlackRock's passive fixed income strategy in the NGNMRS and the transfer of existing assets of approximately \$13 million into the internally managed Barclays Aggregate fund, benchmarked against the Bloomberg Barclays

US Aggregate Bond Index. The motivation for the termination is not related to the performance of the manager. It is a reflection of the changes made within the internally managed portfolio that is now managed against the same Aggregate Index. The consolidation will simplify the structure of the portfolio.

MR. WILLIAMS asked if the affected members will see lower fees and equal returns from the consolidation. MR. MITCHELL noted the internally managed strategy returns have exceeded that of the passive returns. He expects the transferred assets would generate a slightly higher return. The fee savings would be marginal. The current strategy cost is three basis points and the internal staff cost is about 1.8 basis points. The simplification of the portfolio would make ongoing management easier.

MS. HARBO moved the Committee recommend to the full ARM Board the termination of BlackRock's Passive Fixed Income Strategy, and transfer the existing assets into the Internally Managed Barclays Aggregate Fund, benchmarked against the Bloomberg Barclays US Aggregate Bond Index. MR. WEST seconded the motion.

The motion passed with no objection.

IX. TREASURY OPERATIONS UPDATE

MS. LEARY reviewed the updated Treasury Division organizational chart. The Investment Operations & Performance column is an expansion to the investment middle office that has been in development for a couple of years. The purpose is to create a focused centralized resource within Treasury to maximize revenue outcomes. The team efficiently analyzes data to ensure the assets are adequately protected. This structure allows the accounting group to focus on pure asset accounting. MS. LEARY discussed the promotions and newly hired positions. She reported on the reorganization of responsibilities on the investment staff side to better serve the new external manager structure.

MS. LEARY noted she and MR. MITCHELL have been working on the exempt compensation plan for a couple of years. It was approved by former COMMISSIONER TANGEMAN and sent to the OMB. MS. LEARY understands OMB is supportive of the exempt compensation plan, as long as there is sufficient authorization within the personal services line. Additional authorization will have to be provided each year for the exempt compensation plan. MS. LEARY informed the FY20 exempt compensation plan contains a 3% increased allocation awarded to exempt staff, who have not received an increase in the last three or four years.

MS. LEARY discussed a movement in the budget from the services line item to the travel line item of about \$85,000. This was discussed and approved at the ARM Board meeting. The ARM Board custody and management fee authorization decreased from \$50 million to \$45 million. MS. LEARY believes there is sufficient authorization due to the changes and restructuring of external managers to accommodate the decrease.

X. LEGISLATIVE UPDATE

CHAIR BRICE requested MR. WORLEY review any additional legislative information that was not previously discussed in any of today's committee meetings. MR. WORLEY advised MS. LEA discussed four pension items during the Defined Contribution Committee meeting. MR. WORLEY noted staff is following three other bills related to health care;

- House Bill 5, prohibiting State funded sex change operations
- House Bill 21, contraceptive coverage
- House Bill 156, public school university health insurance

XI. ARMB MEETING EXPENSES

CHAIR BRICE requested MS. LEARY and MR. DESAI review the ARMB estimated meeting costs for 2020. The analysis is in response to a request from COMMISSIONER TSHIBAKA. The total cost for staff, Trustees, travel and logistics for 2020 is estimated at \$326,000. MS. LEARY identified the travel and honorarium estimates per Trustee and the logistical meeting costs per meeting. She reviewed the assumptions used to estimate the costs and highlighted measures previously taken to reduce costs. MS. LEARY discussed the estimated annual staff time for ARMB meetings. She requested Trustees provide feedback regarding the format and content of the analysis.

COMMISSIONER TSHIBAKA expressed appreciation for the information presented in the analysis. She requested the information that was presented in September, which included the travel costs for Callan, Buck, and others, be combined and reported with today's new information. She also requested the meeting preparation costs charged by Callan, Buck, and others for each of the meetings is provided in the analysis. MS. LEARY indicated most of the consultants do not specify preparations costs in their contracts. The two exceptions not included in today's report are GRS' contract, which has a limit of two meetings per year with expenses of up to \$2,000 per for a maximum of two people, and Buck's contract. MS. LEARY will provide the specific information.

COMMISSIONER TSHIBAKA described her ultimate goal is to determine the total costs of the meetings and then evaluate the return on investment of the information being provided during the meeting times. Decisions can then be made regarding the content and the structure of the meetings. As fiduciaries of the fund, COMMISSIONER TSHIBAKA noted the Trustees are ultimately responsible for the monies spent out of the fund to inform Trustees.

MS. HARBO requested the cost of IAC travel and expenses is included in the analysis. MS. LEARY agreed.

CHAIR BRICE informed the low estimate of \$326,000 in total meeting costs equates to .0000102% of the total fund. He believes the process for the returns for the beneficiaries and the overhead associated with the operation of the Board is efficient. He does not believe the Board is overspending on meeting costs.

COMMISSIONER TSHIBAKA noted the per-meeting estimate may be closer to \$100,000 for each of the five meetings. She expressed concern a journalistic headline could read, "ARM Board meetings average \$100,000 a meeting." COMMISSIONER TSHIBAKA does not believe anybody will care about the total trust amount or the percentage spent per

meeting, but will rather focus on questioning the justification of the meeting expenses. She wants to be able to provide a value-based answer.

MR. WEST explained the reported estimated staff costs are allocations that were determined internally. There are no incremental costs incurred by the State that are associated with the ARMB, unless the State terminates employees as a result of not supporting the ARMB function. MR. WEST noted if there is a concern the public perception of the internally determined allocated costs will be misinterpreted, then the reporting and presentation should be changed.

MR. JOHNSON feels there is unanimous support for the review of expenditures to ensure monies are spent prudently and reasonably. Ultimately, the cost for the Board to act is effectively the price of diligence. He believes the monies spent are fair, reasonable, and in a prudent fashion for a \$32 billion-plus fund. MR. JOHNSON hopes the focus on saving “pennies” does not distract from the “pounds” that are at issue.

COMMISSIONER TSHIBAKA asked if it is possible to more efficiently exercise diligence. Her salary is contained in an appropriation and there is a tremendous opportunity cost for her and her staff to attend meetings, rather than completing other work at the Department. COMMISSIONER TSHIBAKA explained there is also a cost for her and her staff to prepare for three-and-a-half days of meetings, six times a year. She expressed it would be preferential to perform the fiduciary diligence more efficiently.

CHAIR BRICE recommended the conversation be continued at the next meeting. COMMISSIONER TSHIBAKA noted additional information is still required from staff.

XII. SCOPING for FUTURE MEETINGS - None

- A. Calendar Discussion**
- B. Potential Topics**

XIII. OTHER MATERS to PROPERLY COME BEFORE the COMMITTEE - None

XIV. PUBLIC / MEMBER COMMENTS - None

XV. ADJOURNMENT

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

The meeting was adjourned at 4:32 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.