

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
OPERATIONS COMMITTEE MEETING

Teleconference/Videoconference

MINUTES OF
April 30, 2020

Thursday, April 30, 2020

ATTENDANCE

Committee Present: Tom Brice, *chair*
Lorne Bretz
Gayle Harbo
Rob Johnson
Commissioner Tshibaka
Bob Williams
Norman West

Committee Absent: None

Department of Revenue Staff Present:

Bob Mitchell, Chief Investment Officer
Kayla Wisner, State Comptroller
Pamela Leary, Director, Treasury Division
Zachary Hanna, Deputy Chief Investment Officer
Scott Jones, State Investment Officer
Stephanie Alexander, Board Liaison
Mike Barnhill, Deputy Commissioner
Michelle Prebula
Sean Howard
Shane Carson
Anna MacKinnon
Grant Ficek

Department of Administration Staff Present:

Kevin Worley, CFO, DRB
Ajay Desai, Director, DRB
James Puckett, Retirement Operations Manager, DRB
Kathy Lea, Chief Pension Officer, DRB
Emily Ricci, Chief Health Administrator, DRB
Nimeri Denis, DRB

Others Present:

Dr. William Jennings, Investment Advisory Council, ARMB
Stuart Goering, Assistant Attorney General, Department of Law
Paul Erlendson, Callan LLC
Steve Center, Callan LLC
Liz Davidsen, Empower
Marybeth Daubespeck, Empower
Doug Preston, Empower
David Kershner, Buck
Scott Young, Buck
Paul Wood, Gabriel Roeder Smith
Richard Ward, Segal Consulting

I. CALL TO ORDER

CHAIR ROBERT JOHNSON called the meeting of the ARM Board Operations Committee to order at 1:00 p.m.

II. ROLL CALL

CHAIR BRICE, MR. BRETZ, MS. HARBO, MR. JOHNSON, MR. WILLIAMS, and MR. WEST were present at roll call. COMMISSIONER TSHIBAKA joined later.

III. PUBLIC MEETING NOTICE

STEPHANIE ALEXANDER confirmed that public meeting notice requirements had been met.

IV. ELECTION OF CHAIR – Deleted from agenda.

V. A. APPROVAL OF AGENDA

MR. WILLIAMS moved to approve the agenda. MS. HARBO seconded the motion. CHAIR BRICE noted for the record that Item IV, Election of Chair, was cut. With that amendment, the agenda was approved without objection.

B. APPROVAL OF MINUTES: December 11, 2019

MS. HARBO moved to approve the minutes of the December 11, 2019 meeting. MR. WEST seconded the motion. The minutes were approved without objection.

VI. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES – None.

VII. ARMB LEGISLATIVE ACTIONS/IMPACTS

AJAY DESAI listed the bills that were presented during the legislative session, broken down by health and pension plans. Only two bills have been heard, and since the legislative session was

discontinued, they are not scheduled to move.

VIII. UPDATE – ARMB BUDGET DISCUSSION

MR. DESAI said that for the first quarter to date, the cost for ARM Board meetings and preparation is estimated at about \$57,000.

MS. LEARY said that in the packet is a meeting expense analysis that was updated to include meetings, travel, and stipends for the IAC, as well as travel costs for GRS and Buck. The total annual cost is anticipated to be about \$404,000.

MR. JOHNSON asked whether there had been any impact on the budget from gubernatorial vetoes; MS. LEARY replied that the ARM Board budget was passed as submitted. CHAIR BRICE asked whether the state assistance was fully funded, and MS. LEARY said yes.

CHAIR BRICE commented that the Board runs a lean operation, even more so now with the COVID-19 precautions; however, it wouldn't be good to think videoconferencing is the optimal way to deal with a \$26 to \$32 billion fund.

IX. TREASURY MIDDLE OFFICE UPDATE

MS. LEARY said that at the December meeting, they had discussed the creation of the Middle Office. She invited SCOTT JONES to give an update on three projects he's been working on.

MR. JONES explained that they are working toward having an ISO 27001/27002 review done, which pertains to a bringing information security under management control. They hope to get a project that evaluates the current level of security control maturity and effectiveness, with a focus on security best practices and policies. He said they started the procurement process in mid-February and are in the process of selecting a firm. When it is completed, they will be working with Treasury staff and OIT to come up with a schedule for what works. The review is a 12-week process, and the end result will be a report on maturity assessment that details any critical findings and strategic recommendations.

MR. JONES gave an update on total management fees under the ARM Board, showing costs in various areas like asset classes and specific mandates. His presentation also included all the costs of Treasury, such as salaries and benefits for staff, and indirect costs like phones, internet, building space, HR support, IT support, and so on. MR. JONES said they hope to start posting this to their website to provide more transparency.

MR. JONES then talked about the Middle Office, which has been doing a lot of work on performance, such as the delagging of investment returns. He said that delagging returns is not that common, so they looked at the pros and cons of lagging versus delagging for private investments; MS. HARBO requested a page at the next meeting showing the pros and cons that he talked about. MR. JONES said that lagging returns would make the ARM Board's returns more comparable to others and more easily reviewable by staff. MR. CENTER from Callan concurred that the common practice for any sizeable institutional investment plan that has a significant alternatives program is to go through a process of reporting on those private investments on a lagged basis, because it takes about three months after a quarter ends to have an accurate picture. He said the benchmarks for alternative

investments should also be lagged by a quarter. MR. JONES said that if they decided to move to a lagged reporting basis, they probably wouldn't do so until September's quarter end, to avoid any possible perception that they were trying to time anything to manipulate the returns. He said they have discussed it with their CIO, who supports this potential change.

BOB MITCHELL commented that returns from illiquid assets tend to be inaccurate in general, and particularly between this and next quarter there will probably be big divergences between what is being carried on the books and what is actually seen. He said that for illiquid assets, instead of focusing on that quarter's numbers, it's important to look at multiple years, and though the contemporaneous reporting achieved by delagging is helpful, it is still imperfect.

MS. LEARY gave a cheer for the Middle Office for getting everyone up and running on Teams, and she thanked GRANT FICEK and STEPHANIE ALEXANDER for organizing everything so well. CHAIR BRICE thanked MS. LEARY as well.

X. EMPOWER CYBER SECURITY PRESENTATION

DOUG PETERSON, chief information security officer for Empower Retirement, said he has spent his whole 27-year career doing cyber security in the financial services industry. He described Empower's cyber security program, which has grown from 6 to 67 workers in five years. He said they had good disaster recovery plans, so 99 percent of their people are now working from home without compromising security control.

MR. PETERSON explained that when Empower integrated three companies onto a single record-keeping platform, they wrote their own platform, and he described the benefits of that. He said it is all backed with their Verizon Cybertrust certification, and they hire cybersecurity experts to attempt to hack them every quarter, and they also test employees with phishing campaigns, and simply seeing if they can get someone to let them in the building. Verizon also has credentials as an employee of the company and as a plan participant to test whether they can breach Empower from the inside.

MR. PETERSON discussed scenarios for fraud directed against retirement plans and participants. He explained some of their fraud detection methods and how their system tracks things like bad IP addresses, bad phone numbers, and fraudster voices. He said they are constantly investing in security. He gave some recommendations for better security, including forced e-mail encryption, security awareness training, and letting Empower know if there are any compromises of security, because they can help. He also showed some recommendations for participants, like claiming their accounts, giving Empower current contact information, and having a password for the retirement account that the person doesn't use for anything else.

MR. PETERSON concluded by emphasizing Empower's security guarantee, which says that if a participant has money taken from their account through no fault of their own, Empower will make them whole.

XI. REVISION TO POLICY MANUAL PROPOSAL

MR. MITCHELL went through three action items, the first of which related to language in the ARM Board's Policies and Procedures Manual that covers the payment of honorariums. An edit proposed

clarifies when the payment of honoraria would occur.

MR. MITCHELL said staff recommends the Alaska Retirement Management Board approve the changes to the Alaska Retirement Management Board of Trustees Investment Policy and Procedures Manual, as indicated in the red-line edits in the action memo.

MS. HARBO moved that the Operations Committee forward this to the Board. MR. JOHNSON seconded the motion. After some discussion, a roll call vote was taken, and the motion passed unanimously.

XII. INVESTMENT COMMITTEE PROPOSAL

MR. MITCHELL explained that the second and third action items are an effort to use Trustees' time more efficiently. The first recommendation is to stand up an investment committee, the purpose of which would be to effectively utilize Trustee meeting time by segmenting the monitoring of performance between the Investment Committee and the Board. It would also serve as a dedicated resource to the Board for broader questions and to receive ad hoc investment-related requests from the Board.

The Investment Committee would monitor investment performance, focusing more on the individual mandates, and receive external manager presentations. They would also evaluate manager structure and plans. It would have no discretionary ability; all decision-making authority would be retained by the Board. The proposed composition of the Investment Committee would be comprised of the ARM Board Chair, who would also chair the committee, and four appointed Trustees. Non-voting participants would include the CIO, the IAC, and the general consultant.

MR. MITCHELL said that staff recommends the Operations Committee recommends the Alaska Retirement Management Board create a standing investment Committee to assist the Board with monitoring and due diligence on investment-related matters.

MS. HARBO so moved. MR. WEST seconded the motion. Discussion ensued about what that leaves as the critical work of the full Board, and how an investment committee could save time in the full Board meeting. For the purpose of discussing the proposal in the full Board meeting, six Trustees voted yes and one voted no. The motion passed.

XIII. BOARD OF TRUSTEES CONSENT AGENDA PROPOSAL

MR. MITCHELL explained that a consent agenda is a board meeting practice that groups routine business items into one agenda item so they can be approved in one action rather than being addressed separately. Staff has identified routine items that could be placed into a consent agenda, including fund financial presentations, the investment transaction summary, reports from the divisions of R&B and Treasury, and other information reports.

MR. MITCHELL said staff requests the adoption of a policy, which reads: A consent agenda may be presented by the Chair at the beginning of a meeting. Items may be removed from the consent agenda on the request of any one Trustee. Items not removed may be adopted by general consent without debate. Removed items may be taken up either immediately after the consent agenda or placed later

on the agenda at the discretion of the Board. Staff recommends the Operations Committee recommends to the Alaska Retirement Management Board that they adopt the consent agenda policy contained in this memo.

MR. BRETZ so moved. COMMISSIONER TSHIBAKA seconded the motion.

MR. JOHNSON commented that they need to be cognizant of the fact that the public listens in on Board meetings, so they need to balance efficiency with maintaining a record of various points and having the public be able to hear what they say. MR. WILLIAMS said that for this to work, all Trustees would have to do their due diligence and make sure they have read all the materials; he added that otherwise, boards tend to get more disconnected from things going on than they should be.

A roll call vote was taken. With three yes votes and four no votes, the motion failed.

XIV. SCOPING FOR FUTURE MEETINGS

A. CALENDAR DISCUSSION

MS. ALEXANDER noted that the June 17 meeting may be held telephonically or by videoconference again. MR. JOHNSON suggested that maybe there could be a couple of hub places where people in Anchorage and those in Juneau, for example, could gather around a table using social distancing to attend the videoconference together.

B. POTENTIAL TOPICS – None.

XV. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

None.

XVI. PUBLIC/MEMBER COMMENTS – None.

XVII. ADJOURNMENT

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

The meeting was adjourned at 3:10 p.m.

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