

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
OPERATIONS COMMITTEE MEETING

Videoconference

MINUTES OF
June 17, 2020

Wednesday, June 17, 2020

ATTENDANCE

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

Committee Absent: Commissioner Tshibaka

Other Trustees Present: Allen Hippler

IAC Members Present: Dr. William Jennings

Department of Revenue Staff Present:

Bob Mitchell, Chief Investment Officer
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
Grant Ficek

Department of Administration Staff Present:

Kevin Worley, CFO, DRB
Ajay Desai, Director, DRB
James Puckett, Retirement Operations Manager, DRB

Others Present:

Stuart Goering, Assistant Attorney General, Department of Law

I. CALL TO ORDER

CHAIR TOM BRICE called the meeting of the ARM Board Operations Committee to order at 3:00 p.m.

II. ROLL CALL

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

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

MS. HARBO moved to approve the agenda. MR. WEST 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: April 30, 2020

MS. HARBO moved to approve the minutes of the April 30, 2020 meeting. MR. WEST seconded the motion.

MR. MITCHELL noted that DR. JENNINGS should be listed as an Investment Advisory Committee member instead of a Trustee under “Attendance.”

CHAIR BRICE said that he had received an e-mail from COMMISSIONER TSHIBAKA that she asked him to read. He quoted COMMISSIONER TSHIBAKA: “I cannot attend this committee meeting in person today, but if I could, I would not vote to approve the minutes because they have omitted the substantial discussion we had last meeting about honorarium, what is legally allowed, etc., under Section XI. I think it’s important to capture our thinking, intent, and the Trustees’ concerns in the minutes, especially as we move forward with deciding what solution to pursue.”

MR. JOHNSON said he thinks COMMISSIONER TSHIBAKA’s commentary is appropriate, and there should be some recognition in the minutes of that discussion. MR. BRETZ agreed that the content of that conversation should be added, and he would not approve the minutes as currently written.

The motions to approve the minutes were withdrawn, and approval of the minutes was postponed, to be taken up at the next Operations Committee meeting after a synopsis of the conversation has been added.

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

VII. MIDDLE OFFICE UPDATE

SCOTT JONES said that the ISO 27001/27002 review work has begun with the contractor, Worldwide Technology. He said they have given the contractor the state security policies, and started helping them identify people that they will need to interview in the OIT and DOR. MR. JONES said the project is on track to be completed around the end of August.

MR. JONES also provided an information memo in the meeting packet about the pros and cons of lagging of alternative investment asset values in the ARMB's performance reporting. He said that since then, staff has discussed the issue internally and with Callan, and they concluded that the benefits of lagging outweigh the detriments; thus, they will be working with Callan to review and create a process for implementing a lag.

MR. JOHNSON asked if the conclusion that the benefits of lagging outweigh the detriments was a product of the unique experiences of this past March, or whether it was a long-term goal; MR. JONES replied that they had been looking at this issue long before COVID hit, and it is not driven by what has happened. He said one of the biggest benefits is simply making ARMB's returns comparable to peers.

VIII. ARMB COMMITTEE SIZE, COMPOSITION, AND CURRENT SCOPE DISCUSSION

CHAIR BRICE explained that they want to continue a conversation that went on to the full Board at the last meeting about the committee structure of the Board and appropriate responsibilities, focus, and attention of the full Board versus committees.

MR. JOHNSON said it is regrettable that COMMISSIONER TSHIBAKA wasn't able to attend, as the idea of an Investment Committee was raised with an eye toward the convenience of the different commissioners and their ability to meaningfully participate in the meetings. He said the Investment Committee idea was considered but not moved forward, but it did bring up the question of the size and participation rates in the various committees.

MR. JOHNSON stated that obviously, any Trustee can attend any meeting he or she wants to, and if theoretically there were large membership in committees, the only problem would be having enough attendees to make a quorum. He noted that if the size of committees were limited, then they would have the problem of deciding who could be on a committee or not. He said the purpose of this item is to afford an opportunity for the Trustees to revisit this issue and consider whether the status quo is fine, or if they should change the structure and size of committees, or add or delete any committees. He asked MR. MITCHELL for comments.

MR. MITCHELL echoed MR. JOHNSON's comments, saying he agrees with his characterization of the reasons for proposing an Investment Committee, and the same motivation was behind considering a consent agenda at the last meeting. CHAIR BRICE gave his perspective that the ARM Board's committee structure is not established by any regulation, and it is solely and wholly a function of the

Trustees to decide how to organize to do their due diligence and meet their fiduciary responsibilities. He said that committees come and go according to issues they need to focus on, and as for the Actuarial Committee being a committee of the whole, if the same business were done at the full Board meeting it would not get the same level of oversight. CHAIR BRICE suggested that maybe it should be the responsibility of the Operations Committee to ask every year or two whether the committee structure is meeting the needs of Trustees to meet their fiduciary responsibilities. He said he supports keeping everybody on the Actuarial Committee because it is so intrinsic to the Board's operations, but he thinks the committee setting invites better engagement and discussion.

MS. HARBO commented that prior to this Board, the Actuarial Committee didn't include every Trustee, and one of the reasons it was formed is because the actuaries used to take up so much Board time with their presentations. Also, she said the Actuarial Committee helped the two actuaries work together much better. She added that former Commissioner of Administration Sheldon Fisher helped start the Actuarial Committee and was very involved with it, at the time when Governor Parnell presented to the legislature to address some of the unfunded liability with the \$3 billion appropriation. CHAIR BRICE said that was important because it stirred a lot of discussion about making sure everything is on the table about the assumptions, how they were developed, and their impacts, and he thinks it has driven a lot of healthy debate.

MS. HARBO said that she thinks that any Trustee who wants to be on any committee, who wants to spend the time and energy, should be allowed, with no limit to committee size. She pointed out that the committee chart shows that most people are only on two or three committees. CHAIR BRICE added that he thinks people should be on committees that interest them or are in their field. MR. JOHNSON added that he proposes staying with the status quo, and noted that each committee has a reason for existing. He said the Audit Committee exists because it is best practices to have an Audit Committee; the DC Plan Committee exists because the world has changed, and they need to pay a lot more attention to the defined contribution side of their responsibility; the Actuarial Committee, as discussed, is a critical element of setting the contribution rates; and the Operations Committee takes care of miscellaneous things. He went on to say that unless the Board is fixed on creating an Investment Committee, he is in favor of staying with the status quo, though he thinks the Board should have the discussion. MS. HARBO noted that the Operations Committee took the place of the Budget and Salary Committees that the Board used to have.

MR. WILLIAMS commented that he noticed a difference between being on a committee and attending a meeting of a committee that he isn't on; he feels the responsibility and obligation when he is on the committee versus being a spectator. Thus, he thinks having everyone or as many as possible expected to be part of the Actuarial Committee is helpful, because it is such an important part of Trustees' responsibilities to be aware of the information from the actuaries.

CHAIR BRICE said that for posterity, this conversation should be ongoing. He emphasized that the committee structure that the Board has is theirs, and if they need to change it to meet changing times, they should do so, but there are some things they will always keep an eye on.

MR. WEST agreed with MR. JOHNSON about the reasons for the different committees, though he said he had never been around a plan that had an Actuarial Committee, maybe because he kind of was

the Actuarial Committee himself. He said he knows that heavy discussions are carried on between the Actuarial Committee and the chief financial officer in the DRB, and MR. WEST also talks to the CFO independently. He said there is a lot of stuff to understand and a lot of numbers to go through, but it's an educational opportunity for those who don't have the background in this area, and he likes to hear everyone's questions, because it helps him consider whether information is clear and thorough. He said that numbers discussions with actuaries are a real part of managing any defined benefit plan, and with the state having had problems with previous actuaries, it's very important that Trustees play a big role in those discussions.

MR. WEST said that he thinks that the ARM Board as it exists now really is the Investment Committee, since that is a major part of what they deal with in their meeting time, and he doesn't see anything wrong with that. He said he doesn't see the reason to have a separate committee.

CHAIR BRICE said he appreciated everyone's thoughts and insights in this discussion.

IX. SCOPING FOR FUTURE MEETINGS

A. CALENDAR DISCUSSION – None.

B. POTENTIAL TOPICS

CHAIR BRICE said that at the next meeting, they would have budget discussions, and as the Operations Committee is a conglomeration of the Budget Committee and the Salary Committee, they will probably have to look at pay issues as well. Also, he noted that at the next meeting, they would vote on adopting the expanded April 30 meeting minutes.

MR. WEST asked if there had been any actual direction from the Board's legal counsel on the honorarium topic, or whether they were supposed to be getting any; MR. GOERING answered that he has given advice in the past on specific questions related to honoraria, and the discussion at the last meeting included a fair amount of his input, but if there is a desire to have a broader discussion of that subject matter, it could be put on a future agenda and he could prepare a presentation.

MR. JOHNSON said he is a little perplexed with this generalized conversation about the honorarium, and he asked if there is some issue flying around. He said that if somebody has questions, they need to be framed specifically as to what the issue is, or the committee would be giving the legal counsel a research assignment with no particular end result in mind.

MR. WEST asked MR. GOERING whether they actually solved any of those issues at that meeting; MR. WEST recalled various points of the discussion and that there were differences of opinion, but said he didn't have the impression that any questions were solved. MS. HARBO noted that the full Board did adopt the clarifying language regarding honoraria in the Policies and Procedures Manual. She said there was lots of discussion at the committee meeting that was missing from the minutes; CHAIR BRICE concurred that the minutes should reflect the discussion in greater detail, but said there wasn't a legal issue. MR. GOERING clarified that the committee was not asking him to do

anything at this time; CHAIR BRICE said that is correct, they are not.

X. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE – None.

XI. PUBLIC/MEMBER COMMENTS – None.

XII. ADJOURNMENT

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

The meeting was adjourned at 3:51 p.m.

ATTEST:

Corporate Secretary

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.