

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
OPERATIONS COMMITTEE MEETING

Videoconference

MINUTES OF
September 22, 2021

Wednesday, September 22, 2021

ATTENDANCE

Committee Present: Rob Johnson, *Chair*
Lorne Bretz
Gayle Harbo
Commissioner Lucinda Mahoney (Late)
Bob Williams
Dennis Moen
Donald Krohn

Committee Absent: None

ARM Board Trustees Present: None

Investment Advisory Council Present: Dr. William Jennings

Department of Revenue Staff Present:
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Scott Jones, Head of Investment Operations, Performance & Analytics
Michelle Prebula, State Investment Officer
Hunter Romberg, Investment Data Analyst
Grant Ficek, Business Analyst
Alysia Jones, Board Liaison

Department of Administration Staff Present:
Ajay Desai, Director, Division of Retirement and Benefits

ARMB Legal Counsel Present:
Benjamin Hofmeister, Assistant Attorney General, Department of Law

I. CALL TO ORDER

CHAIR JOHNSON called the meeting of the ARM Board Operations Committee to order at 3:31 p.m.

II. ROLL CALL

MR. BRETZ, MS. HARBO, MR. KROHN, MR. MOEN, MR. WILLIAMS, and CHAIR JOHNSON were present at roll call.

III. PUBLIC MEETING NOTICE

ALYSIA JONES confirmed that public meeting notice requirements had been met.

IV. A. Approval of Agenda

MR. BRETZ moved to approve the agenda. MR. KROHN seconded the motion. The agenda was approved without objection.

B. Approval of Minutes: March 17, 2021

MS. HARBO moved to approve the minutes of the March 17, 2021 meeting. MR. KROHN seconded the motion.

MS. HARBO noted a correction in Section VII, second paragraph that states: “Ms. Harbo,” and at the end of the sentence states “attend the meetings.” She said that it should read “they should participate.”

CHAIR JOHNSON asked if there were any objections to MS. HARBO’s proposed amendment and changes.

The proposed amendment was approved and the minutes were approved without objection.

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

VI. TREASURE OPERATIONS UPDATE

A. ARMB FY2023 Budget

MS. LEARY directed the Trustees to the packet that contained an action memo, a budget spreadsheet, and a management fee schedule. She began her presentation with a description of the budget process, noting that the ARM Board was an entity within the Department of Revenue budget structure that the Treasury Division guides. She stated that the Treasury provided staff and services to the ARM Board funds, as well as to other state funds. She said the ARM Board assets funded a portion of the Treasury staff and the cost based on the allocation plan that identified what they do and who they do it for. She said the ARM Board had its own operating cost allocation and a separate investment management and custody allocation which then gets combined, along with the budget system of the state, into one budget spreadsheet. The budget is then sent to the OMB and the Legislature and is subject to their approval. She said that the meeting was to discuss the budget, and unless the Trustees felt that changes needed to be made, they would recommend the Board to adopt the FY2023 proposed budget with the

understanding that it was subject to appropriation by the Legislature and OMB.

MS. LEARY noted that the budget spreadsheet included some unbudgeted amounts for investment fees for private and commingled investments. She said the amounts were not budgeted in the state system as they were paid directly from the funds, but were included, for transparency purposes, for the Trustees and Legislature's information.

MS. LEARY then explained that the first three columns shown were for FY2018 to FY2020, that the blue column was for the actuals for FY2021 and the green column was the authorized FY2021. She noted the light salmon-colored column was the FY2022 authorized amount from the previous year that had been adopted by the Legislature. The dark orange column was FY2023 which they were proposing to include in the budget going forward.

MS. LEARY said the difference between FY2023 and FY2020 was increases in personal services to accommodate potential salary increases. She noted changes in the categories for the professional services costs that did not net a significant difference. She stated that the management fee budget remained at \$85 million and was to accommodate changes to future fees even though there was a decrease in management fees in the previous years.

MS. HARBO asked if the IAC costs for travel and honorarium were in the budget; MS LEARY confirmed they were listed under "Other Professional Services" as "Investment Advisory Council" and was budgeted at \$130,000.

MS. LEARY referenced the next slide showing the historic manager fees for FY2012 to FY2021 and noted a decrease in the fees since FY2017. She also noted the percentage of the total year-end assets that gave the basis points and what was actually paid as percentage of the assets. She pointed out that the total fees were at the upper \$60 million mark, but the basis points had decreased from 26 to 20.

MS. LEARY said within the action memo the recommendation was for the Operations Committee to recommend the full Board adopt the FY2023 proposed budget as presented with the understanding that components would be subject to appropriation by the OMB and the Legislature.

MS. HARBO so moved. MR. KROHN seconded the motion.

CHAIR JOHNSON asked if anyone wanted a discussion on the proposed recommendations of the items on page 7; MR. WILLIAMS asked if the meeting expenses were made under the assumption of continued virtual meetings; MS LEARY stated it was for in-person meetings going forward; MR. WILLIAMS then asked if the section listed as "Other Professional Services, Actuarial Services," was fees to be connected into those systems, and not all actuarial work; MS. LEARY stated that "Other Professional Services" was a the category that included actuarial services.

MR. BRETZ noted the difference in actuals versus authorized and said that he found it refreshing that they were not compelled to use all the funds that were authorized; that they were only using what was needed; MS. LEARY stated that they were very cost conscious within Treasury and that the team did a tremendous amount of work particularly in reducing the amount of management fees that have been paid to external managers as well as paying close attention as to how they do business. She noted

that they would continue to find ways to improve and had a big push using technology and would continue to find ways to work smarter.

MS. HARBO asked if the funds in legal was to pay for MR. HOFMEISTER and MR. GOERING or was it other legal; MS. LEARY said it was for the legal budget for both the Department of Law and any costs that they had which could include external counsel.

CHAIR JOHNSON then called for a roll call vote.

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

B. Trustee Travel and Honorarium

MS. LEARY noted that the chart displayed FY2021 travel and honorarium costs with a tally at the bottom for the fiscal year totals and an estimate for FY2022.

MR. BRETZ asked if MS. LEARY could put the report into the policy manual so the committee could review the report annually, as opposed to per a request; CHAIR JOHNSON suggested that MS. LEARY present to both the Committee and the Board a draft of the change in the Policy and Procedures Manual for consideration at the next meeting; MS. LEARY stated that she would be happy to do so.

C. Meeting Costs

MS. LEARY noted that the chart displayed was a breakdown of the FY2021 ARM Board meeting costs for each quarter as well as a historic actual account of those costs and an estimate for FY2022.

VII. TREASURY MIDDLE OFFICE UPDATE

MR. JONES said the Middle Office had begun work on a SWIFT customer security control framework assessment which he described as a documentation effort of the design and implementation of mandatory controls that had been identified by SWIFT. He further explained that SWIFT was a product that some of the traders used that was accessible through their Bloomberg accounts. He stated that it helped them trade products electronically, where previously it was done manually.

MR. JONES explained that SWIFT was a large network that transfers cash between different places. He stated that there was overlap of it with the ISO 27000 work performed last year, so they are familiar with it and the process of getting the work done.

MR. JONES mentioned that the state was working towards implementing a multifactor authentication, or MFA across all office products. He noted that there was not a start date, but that it would affect the login of the state-provided e-mail addresses which would require a multifactor authentication.

CHAIR JOHNSON stated that he was distressed that the Alaska.gov website was going to become even more complicated and asked if they could use their own cell phones or own personal computers; MR. JONES said that it would be for access only and he thought they could still use their own computers to access the state's web mail, but the login would require additional verification. He noted

that it was something that would protect from someone else getting the password and attempting to log in.

CHAIR JOHNSON suggested that at a later date, MR. JONES would explain to them as to why there would be pressure on the civilians who were not state employees having to use the Alaska.gov e-mail address and not being able to rely on their own computer and e-mail address. He noted that he found the Alaska.gov e-mail process annoying and by adding another form of authentication it would make it more annoying. He then asked why the civilian trustees would need that; MR. JONES guessed that it had to do with discoverability but was not sure and said he would get back to CHAIR JOHNSON with an answer.

MR. HOFMEISTER stated that MR. JONES was correct, that it was for discovery purposes through the Public Records Act requests; that it would be more difficult to obtain e-mails that could be subject to Public Records Act requests from personal e-mail accounts. He noted that in terms of liability, if there was further litigation that would involve a Trustee's personal e-mail account, their entire personal e-mail account could be subject to review. He said the Department of Law's perspective is that Trustee business should be done using the Alaska e-mail.

MR. WILLIAMS said that he remembered when they had a public records request that was part of the reason for the transition. He suggested that there could be consideration as to the burden placed on the Trustees as to how many times they need to go through cybersecurity trainings. He noted that when he attempted to place the e-mail on his phone, it insisted that he delete all of his other email accounts for Outlook and he was not willing to do that. He also noted that of his five e-mail accounts, it was the one he checked the least, and that he would appreciate it if there was a way to reduce the burden.

CHAIR JOHNSON agreed that it would be great if there was a way to lift the burden of the civilian Trustees.

MR. JONES noted that when it was implemented, they would do all they could to make the transition as painless as possible for the Trustees.

COMMISSIONER MAHONEY agreed that the security process could be difficult, but as they had been subject to two major cybersecurity attacks, one with the health department and the other with the elections department, that it was really critical that they ensure everyone who is in the system to be operating within a secure environment.

VIII. PERIODIC SELF-ASSESSMENT FOR COMMITTEES

CHAIR JOHNSON noted that as the Actuarial Committee was a committee of the whole and had previously heard the presentation of the four-question analysis for self-assessment, that he thought it appropriate that the Board vet it's concerns or to not have it used by each of the other committees. He asked if there were any objections from the Operations Committee that the self-assessment process be employed by other committees, including the Operations Committee. He stated that since there were no objections, they would go forward using it as a means to accomplish the self-assessment directive and each committee could adjust the questions to make them more appropriate as needed.

IX. REVIEW COMMITTEE CHARTER

CHAIR JOHNSON asked if there were any questions regarding compliance with the charter; MS. HARBO asked that as there was a budget committee and a separate salary committee that meets every September, if the topic of salaries should be removed; CHAIR JOHNSON stated that he thought it would be the appropriate committee if that subject were to come up. He said that if the staff or any Trustee had an issue related to those topics, that the Operations Committee would be the appropriate venue.

MS. HARBO stated that in the past, it had been a two-person committee that met annually with staff, but that had not happened for several years and she wondered if it should still be in the charter.

CHAIR JOHNSON stated that it could be taken out if the committee felt it was inappropriate, but that the Operations Committee was the best place for it.

X. FUTURE MEETINGS

A. Calendar Review

MS. JONES stated that she had changed the December 1st meeting as “TO BE DETERMINED,” and she would mention it again at the full board meeting when they discussed the calendar.

CHAIR JOHNSON asked if that were dependent upon whether there would be an Operations Committee meeting at the December meeting; MS. JONES clarified that it was related to location; the December meeting was scheduled for Anchorage, but there had been discussion of whether or not to shift the location to Juneau, based on the cancellation of the in-person meetings for this Board meeting.

B. Agenda Items - None

C. Requests/Follow-Ups

MR. BRETZ noted to remember the follow-up procedure; CHAIR JOHNSON suggested that it would be good to get a draft proposal in the policy and procedures manual regarding the annual review which could be discussed at the December meeting, or earliest convenience..

XI. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE - None.

XII. PUBLIC/MEMBER COMMENTS - None.

XIII. ADJOURNMENT

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

The meeting was adjourned at 4:04 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.