

**ALASKA RETIREMENT MANAGEMENT BOARD
OPERATIONS COMMITTEE MEETING
HYBRID/TEAMS**

**September 13, 2023
11:05 a.m.**

**Originating at:
Robert B. Atwood Building
350 West 7th Avenue, Rooms 102/104
Anchorage, Alaska 99501**

Trustees Present:

Dennis Moen, Chair
Sandra Ryan
Bob William

Donald Krohn
Lorne Bretz

Trustees Also Present:

Commissioner Adam Crum

Department of Revenue Staff Present:

Zachary Hanna, Chief Investment Officer
Ryan Kauzlarich, Assistant Comptroller
Scott Jones, Head of Investment Operations, Performance & Analytics
Shane Carson, State Investment Officer
Kevin Elliott, State Investment Officer
Hunter Romberg, Senior Compliance Officer
Alysia Jones, Board Liaison
Chris Madsen, Administrative Operations Manager

Pamela Leary, Director, Treasury Division
Jesyca Ellenbecker, Accountant V
Benjamin Garrett, State Investment Officer
Mark Moon, State Investment Officer
Grant Ficek, Business Analyst
Robert Vicario, Administrative Assistant II

Division of Retirement & Benefits:

Ajay Desai, Director
Mindy Voigt, Assistant Chief Pension Officer
Christopher Novell, Accountant V
Brandon Roomsberg, Audit & Review Analyst II

Kevin Worley, Chief Financial Officer
Traci Walther, Accountant V
Nimeri Denis, Audit & Review Analyst II
Betsy Wood, Chief Health Administrator

Department of Revenue:

Fadil Limani, Deputy Commissioner
Eric DeMoulin, Administrative Services Director

Leighan Gonzales, Executive Assistant
Adam Bryan, Division Operations Manager

Department of Law Staff Present:

Ben Hofmeister, Assistant Attorney General

Investment Advisory Council Present:

Dr. William W. Jennings
Josh Rabuck

Ruth Ryerson

Public:

Wendy Woolf, RPEA

PROCEEDINGS

CALL TO ORDER

CHAIR MOEN called the Operations Committee Meeting to order. He asked for a roll call.

MS. JONES called the roll.

PUBLIC MEETING NOTICE

CHAIR MOEN asked if the public meeting notice requirements had been met.

MS. JONES replied, yes, that they had.

APPROVE THE AGENDA

CHAIR MOEN moved to the approval of the agenda and noted a correction under item 6C, changing, Resolution 2017-18; to 2023-17. The agenda, with this amendment, was approved without opposition.

APPROVAL OF MINUTES

CHAIR MOEN asked for approval of the minutes of the June 14, 2023, meeting.

MOTION: A motion to accept the minutes of June 14, 2023, was made by TRUSTEE BOB WILLIAMS; seconded by TRUSTEE RYAN.

There being no objection, the MOTION was APPROVED.

TREASURY OPERATIONS UPDATE

TRUSTEE TRAVEL AND HONORARIUM

DIRECTOR LEARY stated that there were three items under the Treasury Operations update. The first had to do with trustee travel and honorarium. Ms. Jones had put together the schedule of all travel and honorarium costs for FY2023. She noted fiscal year totals from 2018 to 2023 and the estimate for 2024 were provided.

MEETING COSTS

MS. LEARY moved to the meeting costs and showed all quarters for 2023 and recapped the expenses for meetings that had been held since 2018. She talked about the decrease in costs in 2020, mostly due to COVID.

STAFF RECRUITMENT AND RETENTION

DIRECTOR LEARY moved to staff recruitment and retention. She stated that they had recently lost Accountant V, Sam Hobbs, and had recruited and hired his replacement. The work on the audit continued, and staff have been getting the auditors what they need. She then moved to the presentation included in the packet on exempt compensation for staff not in unions. She explained the discussion emanates from the last Operations Committee meeting where the question of salaries and whether they were effective or not was raised. She began with a background of the Treasury Division, highlighting the complexity of its work. She stated that they had 40 experienced professionals in portfolio management, accounting, operations compliance, and cash management. Many of the staff have CFAs, CPAs, and other advanced degrees and designations. There is an average tenure of 10 years, and some of the lead exempt

staff's longevity is even higher. \$50 billion in assets are managed for hundreds of State entities on behalf of five fiduciaries, and that includes the Alaska Retirement Management Board. She emphasized the staff's role in achieving strong results and preventing errors and added that it is important to take the time to acknowledge the work that staff does because it is mission critical.

CIO HANNA continued the presentation saying that it was in Treasury's DNA to do good work and let the results speak for themselves. He continued that the overall intent was to clearly lay out the value proposition of the Treasury Division and present quantifiable benefits, such as exceeding benchmark performance and additional fund value. He noted that the funds' performance was better than 160 out of 196 public fund peers, as measured by Callan. He highlighted the complexity of the retirement systems, emphasizing the need for experienced staff with a unique skill set. He described the transition towards more internal management and the cost benefit of that transition, which resulted in saving over \$30 million per year. He explained that many of the external equity managers were terminated, and a team of investment professionals was hired to do that. Overall, the results have been very strong, with the ARM Board now having most of its investment management services provided at a much cheaper level, with better results than what was previously in place. He explained that hiring for the transition coincided with the start of a two- to three-year period with no compensation adjustments. The results were predictable. Of the five people brought in, three of them left to competitors, and all got material increases in compensation. He added that over the past two years they have had strong compensation support from the Commissioner's office, which is essential to retaining the high-quality team.

DIRECTOR LEARY presented an organizational chart of the Treasury Division staff. She noted there were 26 exempt investment officers: 16 in portfolio management and 10 focused on management analytics, debt cash management, and compliance within the Treasury. She explained that they have been very successful in building an experienced staff with long tenure, but believed that they had underinvested in succession planning, with recruitment and retention being key risks. She continued addressing the compensation needs so there can be succession in who leads the investment staff and Treasury Division in the coming years. She said a compensation plan was developed many years ago, and part of it was based on a market-based approach. She acknowledged that many of the exempt staff salaries were high compared to other positions in state government but were well below the median in the public fund peer group, as well as at the Alaska Permanent Fund Corporation. She stated that it is important to note that they only looked at public fund data.

CIO HANNA went through the results of the McLagan comparison this year. He explained that, annually, they match up Treasury staff with relevant McLagan positions to assess the competitive position and this view was a highly relevant comparison. He also stated that the Alaska Permanent Fund Corporation (APFC) is considered a relevant peer due to local presence, similar investments, and competition for talent both locally and nationally. He pointed out that Treasury's compensation is 27 percent less than APFC's base pay, and 58 percent less when including incentive compensation. He continued that the compensation deficit was not created overnight, and noted they are under no illusions that it will be solved overnight. The recommendations are pragmatic, market-based, and tied to achievement, increase in responsibility, and increasing skill development. He said goal is to make annual progress towards the median, to enhance competitiveness. This year the recommendation is in rough terms, and we are still finalizing things and are still in discussion. He continued that there would

be a lot of Treasury senior leaders turning over in the next five to 15 years. Staff is aware of this, and they are well aware of the value proposition. He commented that compensation was not the only thing to retain good employees. The staff is very dedicated, and he and Director Leary always work to make sure Treasury is a fulfilling place to work. A lot of thought goes into how things are structured and how we work with staff members. He continued that compensation and paying people fairly is also critically important.

TRUSTEE BOB WILLIAMS stated that it would be good to have the discussion with the motion on the table.

MOTION: A motion that the Operations Committee recommend that the Alaska Retirement Management Board adopt Resolution 2023-17, Support Competitive Treasury Exempt Staff Compensations. Therefore, be it resolved the Alaska Retirement Management Board makes the following continuing recommendations to the Commissioner of Revenue: One, that the pay levels for all exempt staff from the Department of Revenue providing key services to the Alaska Retirement Management Board be elevated over time and keep equitable with comparable salaries, including bonuses, at peer public funds; two, that compensation policy levels of the Alaska Permanent Fund Corporation also be taken into consideration when setting exempt staff compensation; three, that the board will work with the Commissioner of Revenue and State Legislature to ensure that funding is available to implement annual pay increases that make progress toward offering compensation competitive with peers; four, that the Commissioner of Revenue actively work with the appropriate State agencies to implement the foregoing. The motion was made by TRUSTEE BOB WILLIAMS; seconded by TRUSTEE RYAN.

CHAIR MOEN recognized the motion and stated his appreciation for the great job saving and making money. He then responded to a comment regarding the cost of doing business. He looked at this as an investment in the continued and future success. It is an investment that needs to be made. He asked for any comments before going to a vote.

MS. TRAYLOR commented that she was in this exact some position six years ago in Wyoming. In 2018, they passed an incentive comp plan through the Legislature, which was extremely difficult. She stated that if there was a decent base and added the incentive piece on it, the cost was very little. She explained that they added in a piece to incentivize people to stay, as well. She continued that it had worked extremely well recruiting people to come to Cheyenne, Wyoming noting that they had not lost a single person since that plan was put in place and were building up a great analyst team. She recommended getting a decent base salary and adding in that incentive piece that was different from the rest of the State.

MR. RABUCK commented that he was in a leadership position at the Indiana Public Retirement System, which was one of the peer groups here and it was a very similar story. A history of having these conversations and seeing some of the thesis that Mr. Hanna presented playing out over time. He did not think that this would eliminate turnover, but it really slows it down to the point where people are no longer being trained to go to another organization, which was painful when investing in your team and seeing them go and take those skills somewhere else. He continued that there was an interesting dynamic where performance was not matching what you

see under the hood and warned that would amplify over time. He commented that outperformance would probably degrade if something was not done, because there are long-lived assets with short-lived staff, which creates a real problem.

TRUSTEE BOB WILLIAMS stated that he was a little slow jumping on board with this and then met with Mr. Hanna and Ms. Leary. He stated the importance of getting the peer group right in this discussion and felt that they had. He continued that an upper quartile performance cannot continue with very close to lower quartile compensation. He added that his enthusiasm for this resolution would be conditional in that it would be viewed as supportive of things to advocate for and would be a friendly, helpful way for the board to help in that work.

COMMISSIONER CRUM stated that it was difficult to speak on a resolution that seems very self-serving. Incentive compensation for true State government employees is a very difficult thing. He thought that the only way to really address this was with full transparency across the board. If this is something that the ARM Board truly wants to pursue, the ARM Board would have to advocate for this on various levels.

DIRECTOR LEARY pointed out that 80 percent of the Treasury Division's work goes to the ARM Board. The salaries and other expenses explicitly come from the earnings of the investments they have. She stated that it is important the board acknowledges they understand what those expenses are and where they come from. She said the belief is that those earnings have a direct correlation between putting money into the staff that perform the excellent work. That connection needs to be made.

CHAIR MOEN stated that it is an investment in continued success, and staff is doing a great job.

TRUSTEE BOB WILLIAMS stated appreciation for the modesty in the resolution and commented that this will take some steady work with the need of getting to the median of the peers.

TRUSTEE RYAN stated that she had heard for a long time that those who entered public service cannot compare themselves to the private sector; that it was apples to oranges. However, in looking at what used to separate them it was not necessarily all there anymore. There is no longer an ability to have a secure retirement outside of the 401(k). She stated that it is important to not add extra value to being a public employee and suggested looking at a comparison of what is going on inside of the unions to see if there would be a model that we can go with that people would know that it was not only looked at annually but was also being considered in other organizations around them, as well.

TRUSTEE BRETZ loved the resolution and stated that it was worded right. He stated that if there is something more that the Administration or the Division needs from the trustees, to let them know. He added that he is available if there is someone needed to speak to it.

CIO HANNA thanked Trustee Bretz.

CHAIR MOEN stated that they had a motion and a second for Resolution 2023-17 and asked for a roll-call vote.

After the roll-call vote, the MOTION was APPROVED. (Trustee Krohn, yes; Trustee Bretz, yes; Trustee Ryan, yes; Trustee Bob Williams, yes; Chair Moen, yes.)

CHAIR MOEN stated that the resolution passed and moved to the middle office update.

MIDDLE OFFICE UPDATE

MR. JONES welcomed Trustee Moore and Mr. Rabuck. He began with a high-level overview of some of the bigger things that the middle office does before his normal update. He continued that the middle office is responsible for a number of things: Time-weighted as well as money-weighted returns and calculating both gross and net of external management fee performance for each manager pool asset class and plan under the Treasury's purviews. He explained that was both the Commissioner's assets, as well as the ARM Board's assets. They are the IT interface for Treasury with the State's centralized IT function, OIT, or Office of Internet Technology. He continued through his overview of the middle office duties. He moved to current ongoing projects and stated that the SWIFT assessment was underway. He reminded everybody that that was required by SWIFT to be done between July 1st and December 31st, with a final result being due to SWIFT by December 31st. He noted that the compliance function was moved into the middle office just over a year ago, and the senior compliance officer retired. He explained that Hunter Romberg was moved into the position, and is a great candidate, having a strong background in accounting, as well as an aptitude for technology. She started off with 140 Bloomberg compliance rules and got rid of over 100 of them and built up 25 brand-new ones. She consolidated seven individual daily workbooks down to two, moving manual Excel workbooks being done by staff into Bloomberg compliance so they could be handled automatically each day by the system. She also redesigned and simplified other work products and expanded the scope of the work done by the group by moving work previously done on a period basis to a daily basis.

ACTION ITEMS

REQUEST FOR PROPOSALS (RFP) FOR REAL ASSETS CONSULTANT

CHAIR MOEN moved to the action items and began with the RFP for a real assets consultant.

MOTION: A motion that the Operations Committee recommend that the Alaska Retirement Management Board directs staff to prepare and issue an RFP for a real asset consultant for the board in a timeframe that would result in a real asset consultant contract being in place for July 1, 2024. The performance period of the contract will be for seven years in total; initial period of three, followed by two optional two-year extensions. The motion was made by TRUSTEE RYAN; seconded by TRUSTEE BOB WILLIAMS.

TRUSTEE BOB WILLIAMS clarified that this is the real assets RFP. There were two different action items.

CIO HANNA stated that his comments apply to both motions. This was a change to the length of the contract, and it was noted for the board's consideration. He explained that prior contracts always had an initial three-year period, followed by two one-year extensions. They recommended shifting that to an initial three-year term, plus two two-year extensions. He continued that the one-year extensions tend to go very quickly, and we thought a longer contract made sense. They were both recommended to be pushed forward.

CHAIR MOEN asked for any other questions or comments. There being none, he asked for the roll-call vote for the real assets.

After the roll-call vote, the MOTION was APPROVED. (Trustee Bob Williams, yes; Trustee Ryan, yes; Trustee Krohn, yes; Trustee Bretz, yes; Trustee Bretz, yes; Chair Moen, yes.)

CHAIR MOEN stated that the motion passed and moved to the next one.

RFP for GENERAL CONSULTANT

MOTION: A motion that the Operations Committee recommends that the Alaska Retirement Management Board direct staff to issue an RFP for a general consultant in the timeframe that will result in a general consultant contract being in place July 1, 2024. The performance period of the contract will be for seven years in total; an initial period for three years, followed by two two-year optional extension periods. The motion was made by TRUSTEE RYAN; seconded by TRUSTEE BOB WILLIAMS.

TRUSTEE BOB WILLIAMS commented that this was something that had to be done because there was a contract that was expiring, and a new consultant is needed.

CHAIR MOEN asked for further comments. There being none, he asked for a roll-call vote.

After the roll-call vote, the MOTION was APPROVED. (Trustee Bretz, yes; Trustee Krohn, yes; Trustee Ryan, yes; Trustee Bob Williams, yes; Chair Moen, yes.)

FUTURE MEETINGS CALENDAR REVIEW

CHAIR MOEN moved to future meetings and talked about the calendar review. He asked for any questions or comments on the calendar, other than going to Fairbanks. There was also a review of the charter of the Operations Committee in the packet.

TRUSTEE RYAN asked if it would be possible, come March, to get a midyear update from Treasury to see if there was anything that should be done regarding hiring and retention.

DIRECTOR LEARY replied that they would be happy to give an update.

CHAIR MOEN asked about any questions on the charter for the Operations Committee. He asked for anything else to come before the committee. He moved to a second chance for public/member comments. Hearing none, he entertained a motion for adjournment.

MOTION: A motion to adjourn the meeting was made by TRUSTEE KROHN; seconded by TRUSTEE BOB WILLIAMS.

CHAIR MOEN stated that they were adjourned.

(The ARMB Operations Committee meeting was adjourned at 12:13 p.m.)