# Investment
# Policies and Procedures

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## State of Alaska
## Department of Revenue
## Treasury Division

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# I. Introduction and Overview

The Alaska Department of Revenue (Department), Treasury Division is responsible for the financial management functions the Alaska Legislature (Legislature) has delegated to the Commissioner of Revenue (Commissioner) or to the Department. These functions include:

- Duties pursuant to AS 37.10.070;
- Managing and accounting;
- Providing safe custody of the state funds placed under'
- Managing the state's day-to-day cash flows;
- Insuring there are adequate state funds available to honor all warrants drawn by the Department of Administration; and
- Managing state debt.

The basic statutes assigning these duties to the Department are set forth in Appendix A.

In addition, Treasury is responsible for carrying out the instructions of and implementing the policies adopted by the Alaska Retirement management Board (ARMB) with respect to the investment and management of the funds for which the Legislature has assigned the fiduciary responsibility to ARMB. Those funds include:

- Public Employees' Retirement Trust Fund;
- Teachers' Retirement Trust Fund;
- Judicial Retirement Trust Fund;
- National Guard and Naval Militia Retirement Trust Fund;
- State Deferred Compensation Plan;
- State Supplemental Benefits System;
- Defined Contribution Retirement Funds;
- Health Reimbursement Arrangement Plan Funds;
- DCR Retiree Medical Funds; and
- Occupational Death & Disability Funds

This publication sets forth the policies and procedures pertinent to the financial management functions that the Legislature has directly assigned to the Department or the Commissioner. This publication also contains the written Investment Policy Statements (IPS) that the ARMB has adopted with respect to the funds for which that board acts as the fiduciary. A complete set of ARMB's Policies and Procedures are maintained by Treasury as a separate document. This publication does not contain the investment policies pertaining to the funds under the control of the quasi-independent state corporations. These quasi-independent state entities operate independently and cannot be monitored by Treasury to ensure the accuracy of their investment-related information.

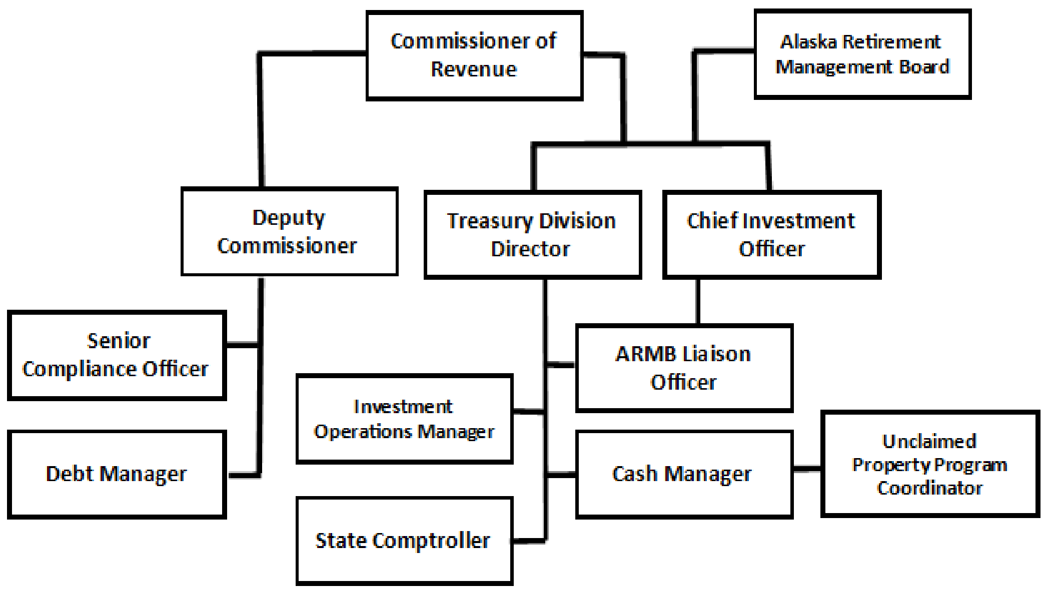
Finally, this publication includes a voluminous set of appendices containing:

- Annotated complications of the statutes governing each of Treasury's responsibilities and many of the funds Treasury manages;
- Pertinent historical and other background material relating to many of the funds Treasury manages; and
- Key decision documents relating to the Commissioner's, the Department's and Treasury's fiduciary responsibilities.

# II. Organization, Duties, and Qualifications

## A. *Organization*

The following chart reflects the functional organization of Treasury and the dual reporting relationship under which Treasury functions:




The specific administrative arrangements by which Treasury fulfills its responsibilities to the ARMB are spelled out in the Reimbursable Services Agreement (RSA) between the ARMB and the Department which are renewed each year. A copy of the agreements for the current and prior fiscal years is on file in the Department's fiscal office.

The principal financial management duties of the individuals reflected on the organization chart depicted above are:

### 1. Commissioner of Revenue

- Manage and account for the collection and deposit of most state revenue including general revenue, federal receipts and miscellaneous revenue;
- Manage and account for the state funds placed under the stewardship of the Commissioner or the Department;

- Provide safe custody for the state funds placed under the stewardship of the Commissioner or the Department
- Establish investment policies for the state funds placed under the stewardship of the Commissioner or the Department;
- Review the performance of each state fund placed under the stewardship of the Commissioner or the Department;
- Manage the state's day-to-day cash flows;
- Ensure there are adequate state funds available to honor all warrants drawn by the Department of Administration;
- Establish state debt policy;
- Serve as trustee on the ARMB; and
- Provide staff to the ARMB and the State Bond Committee

### 2. Alaska Retirement Management Board

- Exercise fiduciary responsibility for the invested assets of the Public Employees', Teachers', Judicial, and Military Retirement Systems (retirement funds), Supplement Benefits Systems (SBS), Deferred Compensation Plan (DCP), the Defined Contribution Retirement Plan (DCR), the Health Reimbursement Arrangement Plan, the DCR Retiree Medical Fund, the Occupational Death & Disability Fund, and the SBS Cash Transition Fund;
- Establish investment policies for the retirement funds;
- Establish investment options for the SBS, DCP, and the DCR participants
- Review the performance of each of the retirement funds, SBS, DCP, the DCR plan, the Health Reimbursement Arrangement Plan, the DCR Retiree Medical Fund, and the Occupational Death & Disability Fund;
- Review the actuarial assumptions and adopt asset allocation for the retirement funds, SBS, DCP, the DCR plan, the Health Reimbursement Arrangement Plan, the DCR Retiree Medical Fund, the Occupational Death & Disability Fund, and the SBS Cash Transition Fund;
- Select pertinent consultants, external investment managers, legal counsel, and custodian;

- Develop annual budget for managing the assets of the retirement funds, SBS, DCP, and DCR;
- Coordinate an annual actuarial valuation of system assets, liabilities, and funding ratios;
- Adopt actuarial valuation assumptions and certify to employers an appropriate contribution rate;
- Establish rate of interest credited annually to each member's retirement account and the rate of interest credited to each member's health reimbursement arrangement account;
- Establish occupational death and disability contribution rate;
- Contract for independent audit of state's actuary not less than once every four years;
- Contract for second actuary to review and certify all actuarial assumptions before presentation to board;
- Obtain external performance review to evaluate investment policies;
- Engage independent certified public accountant to perform an annual audit;
- Adopt and implement investment education policy for trustees;
- Report financial and investment policies and performance of the retirement funds to the Governor and participating employers; and
- Submit quarterly and long-range investment reports to the Legislative Budget and Audit Committee.

### 3. Treasury Division Director

Under the policy and executive direction of the Commissioner of Revenue, and acting as state treasurer:

- Exercise responsibility for the administration and management of the Treasury Division, including cash management, asset accounting, unclaimed property, and investment functions;
- Ensure Treasury and ARMB compliance with Alaska statutes, Alaska Administrative Code, policies and guidelines;
- Recommend budget strategies and proposals to the Commissioner of Revenue and the ARMB, and present approved proposals to the Legislature;

- Act as designee for the Commissioner of Revenue on various boards and commissions when otherwise directed; and
- Present ARMB-approved proposals to the Legislature

### 4. Liaison Officer to the ARMB

Under the direction of the Treasury Division Director and, in conjunction with the ARMB or ARMB Chair, the Liaison Officer is responsible for coordinating general administrative functions for the ARMB members. Duties include:

- Prepare and distribute agenda packets for Board members;
- Provide administrative astatine as necessary to Board members;
- Act as procurement officer for the Board per written delegation;
- Update ARMB website as necessary;
- Coordinate and distribute newsletters, annual reports, and other types of informational materials to the Legislature, beneficiaries, and employees of the various retirement systems;
- Coordinate trustee nominations for the PERS and TRS designated seats with the appropriate bargaining units, ensuring notification and publications in accordance with regulations;
- Review completions of valuations and presentation to the Board in coordination with state and review actuary; and
- Other duties as assigned.

### 5. Chief Investment Officer

- Act as "prudent expert" on behalf of the Commissioner of Revenue and the ARMB;
- Develop and recommend investment policy and strategy for the Commissioner of Revenue and the ARMB;
- Implement investment policy and strategy for the Commissioner of Revenue and the ARMB;
- Manage specific portfolios within guidelines set by the Commissioner of Revenue and the ARMB;
- Evaluate the results of the investment policies and performance of the portfolios;

- Manage investment officers with responsibilities for State and ARMB portfolios; and
- Manage and coordinate the services provided to the ARMB by consultants, external investment managers, Investment Advisory Council (IAC) members, legal counsel, and custodian.

### 6. State Comptroller

- Develop, recommend, and implement internal control systems and procedures to ensure all investment assets are safeguarded;
- Account for and report on the investment activity of all funds under the investment responsibility of the Commissioner of Revenue and the ARMB at the custodial bank;
- In conjunction with the Treasury Division Director and Treasury staff, assist in the maintenance of this document;
- In conjunction with Treasury Division Director and Treasury staff, assist in the preparation of the annual Treasury Division and ARMB budgets;
- Prepare fiscal notes and other related reports for the Legislature on proposed legislation affecting Treasury;
- Coordinate with the Board of Education's secretary to schedule at least one annual meeting of the Public School Advisory Board to be held in conjunction with a Board of Education meeting. Review minutes prepared by Education and keep a set of minutes for Treasury records; and
- Coordinate the annual audit of all funds in accordance with statutory requirements.

### 7. Senior Compliance Officer

- Overall responsibility for the pension and non-pension investment compliance programs;
- Develop, implement, and update the compliance mission statement, goals, and objectives;
- Develop and implement procedures and processes to monitor investments for compliance with policies, guidelines, laws, regulations, contracts, agreements, and best practices;

- Develop and enhance exception-based reporting systems that timely identify policy violations using systematized methods;
- Develop and report compliance monitoring results to fund fiduciaries; and
- As part of the investment compliance program , report and/or compile proxy reports, State bank collateral percentage, commission recapture participation, class action exposure, FOIA requests, personal financial disclosures, and watch list/divested assets exposure.

### 8. Investment Operations Manager

- Provide staff business intelligence relating to data and analytics to make better decisions that impact revenue by identifying data, organizing data, automating data, and reporting data;
- Ensure technology used is the best fit for intended purposes;
- Develop, implement, and maintain a system of time-weighted investment performance and attribution reporting for the assets invested under the investment authority of the Commissioner of Revenue;
- Develop, implement, and maintain a system for money-weighted investment performance reporting and data feeds to consultants for the private equity investments;
- Monitor and coordinate information security reporting to the ARMB;
- Maintain and test the Division's disaster recovery plan; and
- Develop and maintain a system for the compilation, analysis, and reporting of the costs of investing incurred by the Treasury Division.

### 9. Cash Manager

- Develop, recommend, and implement cash management control systems and procedures to ensure cost effective cash management and safekeeping of cash;
- Provide the State with the administrative and financial arrangements to collect revenues;
- Recommend and manage a contract with a financial institution for redemption of all State warrants presented for payment;
- Provide the necessary capabilities for electronic transmission of funds for the state;

- Recommend and implement the necessary collateralization agreements to safe keep all State funds on deposit;
- Maintain and oversee the U.S. Treasury/State of Alaska's Cash Management Improvement Act agreement governing the timely transfer of federal funds due to and from the state;
- Develop projections of the state's cash flow needs;
- Determine the amount of cash available for investment in excess of amounts necessary for operations; and
- Reconcile Treasury bank accounts with the statewide accounting system and with the treasury's management system's records.

### 10. Debt Manager

- Serve as staff to the State Bond Committee;
- Serve as staff to the Alaska Municipal Bond Bank Authority;
- Develop, recommend and implement plans of the State Bond Committee to issue and refund general obligation bonds and International Airport System revenue bonds and to enter into lease financing transactions;
- Serve as principal state contact with the bond rating services and the national financial community;
- Prepare fiscal notes and other related analyses on proposed legislation affecting state debt or affecting national bond ratings of the state, agencies, or municipalities;
- Compile and produce the annual Alaska Public Debt publication; and
- Recommend selection and coordinate contracts with the state's bond counsel, financial advisor, and bond trustees.

### 11. Unclaimed Property Program Coordinator

- Develop, recommend and implement internal control systems and procedures to ensure the safe custody of unclaimed property held by the Department;
- Serve as the state's expert in unclaimed property operations and administration;
- Inform the Treasury Division Director of critical issues and changes that have significant impact, or statewide implications relating to unclaimed property;

- Plan, administer, and direct the operational functions of the Unclaimed Property Program;
- Analyze program need for new legislation. Develop legislative proposals and prepare fiscal notes. Review legislation affecting the Uniform Unclaimed Property Act proposed by others for program and fiscal impact. Testify before legislative committees on related bills; and
- Serve as a representative for the agency and the Treasury Division Director in meetings with state officials, national organizations, other state unclaimed property programs, and the public.

## C. *Qualifications*

The Commissioner depends on the staff of the Treasury Division in fulfilling collection, investment and control responsibilities. The following minimum requirements have been established to ensure qualified people are hired to fulfill those responsibilities:

- Investment officers within the Portfolio Management Section are required to have a college degree and 21 semester units of finance, accounting, economics, or computer technology. Alternatively, investment officers may satisfy this requirement by successfully passing Level 1 of the Chartered Financial Analyst (CFA) exam. If the investment officer does not satisfy this requirement upon hire, the investment officer must, within one year, enroll in a program to meet this requirement. The investment officer must satisfy this requirement within three years of the hiring date.
- Portfolio management staff are strongly encouraged to complete the CFA program and obtain the CFA designation under the following guidelines:
    - Considerable weight will be given to achievement in the CFA program when determining promotions and salary increases.
    - If a staff member decides to discontinue pursuit of the CFA designation, he/she will immediately bring this to the attention of his or her supervisor.
    - Two consecutive unsuccessful attempts at taking the CFA exam will prompt a review by the CIO and supervisor. An individual who has demonstrated competence and who has consistently made valuable contributions during his/her employment may no longer be expected to take the CFA exam. Alternatively, absent extenuating circumstances, an individual may be encouraged to pursue other job opportunities.

  - Costs incurred by staff members for taking the CFA program will be reimbursed upon successful completion of each level of the CFA program. Up front assistance for the costs of registration, textbooks and study aids (courses, workbooks, etc.) will be made at the discretion of the CIO. If staff leaves employment in less than one year after taking the CFA exam, the employee will reimburse the Department of Revenue the total amount of tuition.
- The Cash Manager is required to be a Certified Cash Manager (CCM) or Certified Treasury Professional (CTP) within 24 months of date of hire.
- The State Comptroller is required to be a Certified Public Accountant at the time of hire.

## D. *General Responsibilities of External Parties*

### 1. Auditors

Audits are based upon independent review consistent with the standards prescribed by the American Institute of Certified Public Accountants and its statement on auditing standards, and in conformance with generally accepted accounting principles and Government Accounting Standards Board guidelines.

- Measure and validate financial statements and management of the funds; and
- Work with Treasury accounting staff to outline an annual audit plan, provide updates and answer any concerns expressed by the Commissioner of Revenue, the Director, and other Treasury staff.

### 2. Investment Advisory Council (IAC)

The IAC is appointed by the ARMB to advise on investment policies, strategy, and procedure, and to perform such other actions as are specified by law or are requested by ARMB, including providing advisory services to other state fiduciaries approved by the ARMB. The IAC currently advises the Commissioner of Revenue as fiduciary of certain state funds.

- Review investments;
- Make recommendations concerning investment policies, investment strategy, and investment procedures;
- Advise on selection of performance consultants;
- Make recommendations on external investment managers and custodians;
- Make educational presentations upon request; and

- Provide other advice as requested.

### 3. Investment Consultants

The ARMB selects and appoints investment consultants to provide objective, independent third-party advice on specific investment areas including real estate, alternative investments, and other areas where focused attention is needed. Investment consultants' function in a research, evaluation, education and due diligence capacity for ARMB and other state fiduciaries. Investment consultants have fiduciary responsibilities for the quality of the service delivered.

Due to overlapping nature of investment staff between the State of Alaska and the ARMB, the State of Alaska benefits from the use of the investment consultants.

- Investment Consultants are identified and hired by and provide advice and services to investment staff. However, the investment consultants make no decisions on behalf of ARMB or the State of Alaska;
- Recommend strategic procedures and process;
- Identify problems, issues and opportunities and makes recommendations;
- Upon request, prepare an asset allocation study together with alternatives;
- Assist with manager structure, selection, monitoring and evaluation;
- Monitor and evaluate the overall performance of the portfolio; and
- Carry out special projects at the request of ARMB.

### 4. Bank Custodian

Custodians are hired by, and responsible to, the State of Alaska and/or the ARMB.

- Provide safekeeping and custody of all securities purchased by managers on behalf of the state;
- Provide for timely settlement of securities transactions;
- Maintain short-term investment vehicles for investment of cash not invested by managers;
- Check all manager accounts daily to make sure that all available cash is invested;
- Collect interest, dividend and principal payments on a timely basis;
- Process corporate actions;

- Price all securities at least on a monthly basis, preferably daily, contingent on asset class and types of securities;
- Provide monthly, quarterly and annual reports;
- Value and monitor derivatives and the trades from which they emanate; and
- The custodians generally are asked to provide data and reports directly to the State and service providers on a regular basis.

### 5. Investment Managers

Investment managers are hired by, and responsible to, the State of Alaska and/or the ARMB.

- Act as "prudent expert" on behalf of the State of Alaska;
- Develop a portfolio strategy within the specific mandate and asset sized determined by the Commissioner of Revenue;
- Manage, purchase and sell assets for the portfolio;
- The specific relationship (including fees, investment restriction, etc.) between each manager and the State of Alaska are outlined in the agreement between the manger and the State of Alaska; and
- Act as co-fiduciary for assets under its management.

# III. Ethics and Financial Disclosure

## A. *Ethics*

To ensure appropriate standards of conduct are met and maintained, all employees of the Treasury Division, as a condition of employment, and annually thereafter, must acknowledge and abide by the rules of conduct set forth in the Mandatory Agreement for All Treasury Personnel included in Appendix B. This agreement includes addenda that pertain to certain investment officers and to the State Comptroller.

Further:

- All Treasury staff members are subject to the Alaska Executive Branch Ethics Act, AS 39.52 (Act);
- All state investment officers in the Portfolio Management Section are required to conform to the applicable provisions of the Code of Ethics and Standards of Professional Conduct (Code) of the CFA Institute (see Appendix C). To the extent that any provisions of the Code are contradicted by or less restrictive than the Act, the provisions of the Act apply;
- The state investment officers in the Cash Management Section are subject to the Association for Financial Professionals Standards of Ethical Conduct (see Appendix C). To the extent that any provisions of these standards are contradicted by or less restrictive than the Act, the provisions of the Act apply;
- The State Comptroller and all other CPAs in Treasury are subject to the Principles of the Code of Professional Conduct established by the American Institute of Certified Public Accountants and to Rule 102 – Integrity and Objectivity – and to Rule 501 – Acts Discreditable – of that same code (see Appendix C). To the extent that any provisions of these principles and rules are contradicted by or less restrictive than the Act, the provisions of the Act apply; and
- All Treasury staff members are subject to the Treasury Division Insider Trading Policy (see Appendix C).

## B. *Financial Disclosure*

The Alaska Conflict of Interest Law, AS 39.50, applies to the Commissioner of Revenue, the Deputy Commissioner, the Director of the Treasury, the State Comptroller and all of Treasury's investment officers. Within 30 days of initial hire, annually no later than March 15th (for the prior calendar year), and on or before the 90th day after leaving office (for any period not already covered), those subject to this Act must file a comprehensive financial disclosure statement with the Alaska Public Offices Commission. The disclosure statement requires a detailed list of the pertinent official's financial assets.

In addition, all members of the ARMB (including the Commissioner), members of the Board's Investment Advisory Council, the ARMB Liaison, the Deputy Commissioner, the Director of Treasury, Treasury employees in the Portfolio Management and Compliance Sections, and the State Comptroller must file a Personal Account Post-trade Disclosure Statement (see Appendix C) within 30 days after the end of the quarter in which purchases or sales of equities, marketable debt securities or real estate for personal investment purposes have occurred. In addition, Treasury portfolio staff are required to receive approval from Compliance and the Chief Investment Officer prior to purchasing or selling securities (see Appendix C Personal Account Pre-trade Approval Form). The disclosure statement and the Pre-trade Approval Form do not apply to the purchase or sale of a personal residence, mutual fund, ETF, and investment options in participatory pension and savings plans sponsored by the State of Alaska. AS 37.10.230(b) and the Board of Trustees Investment Policy and Procedures Manual requires disclosure by members of the ARMB. The requirement that some staff members similarly disclose has been imposed by Treasury.

## IV. Responsibility of Department of Revenue to Assure Proper Amounts of Revenue are Collected, and Proper Amounts of Funds are Expended

### A. *Revenue Collected*

Treasury's responsibilities with respect to revenue collection are focused on providing efficient, cost-effective means for depositing money in the state treasury. Treasury is responsible for carrying out the Department's obligation to:

- Collect all state revenue except certain program receipts (AS 44.25.020;
- Provide a means by which the fees charged by various state agencies are to be remitted to the state treasury (AS 37.10.050); and
- Apply for and receive money due the state from the federal government (AS 43.05.200).

These responsibilities are carried out by Treasury's Cash Management Section. Policies and procedures pertinent to Treasury's cash management function may be found in Section XVIII of this publication.

The Treasury is not responsible for ensuring that the proper amount of public revenue is collected. Other units within the Department have those responsibilities (AS 43.05.150) as do divisions in other departments. The Tax audit divisions has the responsibility to enforce the tax laws. The Division of Oil and Gas Audit in the Department of Natural Resources (DNR) is responsible for auditing oil and gas royalty payments (AS 38.05.036). DNR uses these audits to ensure that the state receives the oil and gas royalties to which it is entitled.

The Department has the legal responsibility to ensure that the proper amount of money is collected and deposited into the Public School Trust Fund (AS 37.14.150). Finally, the Department is also required to ensure the proper amount of miscellaneous revenue is collected where that responsibility has not been vested in some other state agency.

All of these statutes pertinent to the state's revenue collection responsibility may be found in Appendix D.

## B. *Funds Expended*

The Department of Administration has the overall responsibility for ensuring that state funds are properly expended (AS 37.10.010). The Department of Revenue is responsible for maintaining the integrity of its own expenditures under the applicable provisions of the Fiscal Procedures Act (AS 37.05.010-995).

# V. Brief History of Treasury's Role in the Management of Alaska's Public Funds

## A. *The Alaska Treasury*

Prior to Congress's enactment of the Alaska Territorial Organic Act (Act of August 24, 1912, Ch. 387, 37 Stat. 512), the federal government was responsible for providing all government services in the Territory of Alaska. The 1912 Organic Act authorized the establishment of a legislative assembly in the Territory of Alaska and, as a consequence, a Territorial Government with the responsibility for providing many government services.

In 1913, the first Territorial Legislature established the office of the Treasurer of the Territory of Alaska. Ch. 77 SLA 1913. From 1913 to 1930, the Territorial Treasurer was appointed by the Territorial Governor who was, in turn, appointed by the United States Secretary of the Interior. The Territorial Treasurer was responsible for collecting and managing the funds of the territorial government. The Territory's funds were to be deposited in three or more banks in the Territory and "reasonably divided and apportioned" among the banks. § 7 Ch. 77 SLA 1913.

The 1913 Act required the following:

> *[T]he Treasurer of the Territory of Alaska shall have a Great Seal of Office, which shall be two and one-half (2 1/2) inches in diameter and bear just within the perimeter of the seal the words, "Great Seal of the Treasurer of the Territory of Alaska," and within the words, a star at the top of the seal, representing the North Star, beneath which is a key. § 8 Ch. 77 SLA 1913.*

The first trust the Territorial Treasurer was required to administer involved Benny Benson, the winner of the contest to design an Alaska flag. In 1927, the American Legion conducted a contest for the design for an Alaska flag. The Territorial Legislature appropriated $1,000 to send the winning designer to Washington D.C., together with an escort, to present the flag. The escort was to be selected by the Governor from the American Legion or it's auxiliary (Ch. 76 SLA 1927). The young man who submitted the winning design, Benny Benson, apparently did not make the trip, and two years later, the Territorial Legislature directed the Territorial Treasurer to deposit the $1,000 in a trust to pay for Benny Benson's costs at the Alaska Agricultural College and School of Mines. The Legislature authorized the investment of the funds in the trust in “United States Bonds or other obligations of the United States” (Ch. 51 SLA 1929). Since Mr. Benson did not attend the University, the Territorial Legislature appropriated the money directly to him in 1939 (Ch. 52 SLA 1939).

The Territorial Legislature extensively reorganized the executive departments of the Territorial Government in 1929 (Ch. 118 SLA 1929). Prior to this reorganization act, the Attorney General was the only Territorial executive chosen by election. The 1929 Act provided for an elected Territorial Treasurer and an elected Territorial Auditor beginning in 1930. This legislation modified slightly the requirement that the Treasurer deposit the Territory’s money in three or more of the Territory’s banks. The amounts deposited in each bank were to “be apportioned between such banks in proportion to the amount of funds in the Treasury of the Territory and the size of the bank as measured by its capitalization...” (§ 16 Ch. 118 SLA 1929). The 1929 Reorganization Act reaffirmed the requirement for a Great Seal of Office for the Territorial Treasurer (§ 17 Ch. 118 SLA 1929).

The Territorial Legislature had, in 1923, assigned the Territorial Treasurer the responsibility to be the treasurer of the Alaska Agricultural College and School of Mines (Ch. 88 SLA 1923). Then in 1935, when the University of Alaska was organized to take the place of the Agricultural College and School of Mines, the Legislature transferred that responsibility to the Treasurer of the newly established Board of Regents (Ch. 49 SLA 1935).

In 1945, the Legislature gave the Territorial Treasurer the authority to invest certain Territorial funds in United States bonds:

> *Whenever there is in excess of one million dollars in unappropriated funds in the Territorial Treasury, the Treasurer is authorized and empowered to invest in interest bearing bonds of the United States of America (Ch. 51 SLA 1945).*

This authority was expanded in 1953 to permit the investment of excess funds in the Territorial Treasury in veterans’ mortgages.

> *Whenever there is in excess of one million dollars in unappropriated funds in the Territorial Treasury, the Treasurer is authorized and empowered to invest in interest bearing bonds of the United States of America and to negotiate with and purchase from the Veterans’ Affairs Commission preferred commercial paper held by it under the Alaska*

*World War II Veterans' Act and may sell such bonds and sell or transfer back to the Veterans' Affairs Commission such preferred commercial paper that is in his possession or may come into his possession... [T]he Treasurer may likewise invest in said preferred commercial paper any other Territorial funds he is authorized by law to invest(Ch. 140 SLA 1953).*

This enactment initiated the investment program by which, over the next twenty-five years, the Territory (and later as the State of Alaska) made substantial investments of its General Fund in Alaska mortgages.

When Alaska achieved statehood in 1959, the state's executive operations were consolidated under the newly elected Governor pursuant to the Alaska Constitution. The office of Treasurer was abolished (along with its Great Seal of Office) and the Treasurer's responsibilities were assigned to the newly created Department of Revenue. §§ 10, 27 Ch. 64 SLA 1959. Following the recodification of Alaska law in 1962, the statute governing general investment authority of the Commissioner of Revenue with respect to the state treasury, AS 37.10.070, read as follows:

*(a) whenever there is in excess of $1,000,000 in unappropriated funds in the state treasury, the Department of Revenue may (1) invest the excess in interest-bearing bonds of the United States; (2) negotiate with and purchase from the Department of Commerce of the state preferred commercial paper held by it under the Alaska World War II Veterans' Act (AS 26.15); (3) may sell the bonds and sell or transfer back to the Department of Commerce the preferred commercial paper that is in its possession or may come into its possession.*

*(b) The Department of Revenue may invest in this preferred commercial paper any other state funds it is authorized by law to invest.*

In January 1964, pursuant to the land grant provisions of the Alaska Statehood Act, the State of Alaska selected 1,600,000 acres of federally owned land on the North Slope bordering on the Beaufort Sea. The state held three competitive oil and gas lease sales in December 1964, July 1965 and January 1967 in which it offered portions of this North Slope land selection; the three lease sales combined covered all of the selected land. About seventy percent of the offered land was leased for bonus bids totaling $12 million; there were no bids on the lands comprising the other thirty percent.

In January 1968, two of the state's North Slope lessees – Atlantic Richfield Company and Humble Oil and Refining Company – announced that they had discovered the Prudhoe Bay oil and gas reservoir. In September 1969, the state reoffered the North Slope lands for which it had received no bids in the three earlier lease sales. It received slightly more than $900 million in bonus payments to lease this reoffered land. When this unexpected bonanza arrived, state officials concluded that the statutes governing the investment of funds in the state treasury were inadequate. In 1970, the investment authority of the Commissioner of Revenue was repealed and replaced with a set of lengthy, detailed standards (§ 1 Ch. 206 SLA 1970).

The new investment standards were clearly the product of a political compromise between advocates of "prudent investing" and advocates of "Alaska investing." The major features of the 1970 Investment Act were:

- Investments limited to a legal list;
- Investment in equities permitted;
- Investment policy was to be based on "considerations" of "maximum income and safety as governed by the Prudent Man Rule and the benefit to the private and public sectors of the economy in terms of increased housing and commercial credit, stimulated business activity, increased employment, support of the market for state and local bonds, increased revenue together with the possible inflationary effect of the investment..."
- Investment preference was given to Farmers Home, FHA, VA, State Veterans, and conventional residential mortgages and "other secured loans, if the originating financial institution retain[ed] at least 33 1/3 percent of the mortgage;" and
- Notes and mortgages were to be purchased "at a rate conducive to develop and benefit Alaska and Alaska residents and such rate may be less than the market rate."

The resulting investment of the state General Fund in mortgages and other Alaska loans is discussed briefly in Section XII(M).

In 1976, just before oil began to flow to market from the Alaska North Slope, the voters of Alaska amended the Alaska Constitution to create the Alaska Permanent Fund. In the legislative session immediately following the 1976 election, the Legislature enacted interim arrangements for investing and managing the newly created Alaska Permanent Fund. Ch. 6 SLA 1977. This legislation placed the investment responsibility for the Alaska Permanent Fund with the Commissioner of Revenue and limited the fund's investments to fixed income securities.

From 1977 to 1980, a vigorous debate took place concerning the management of the Alaska Permanent Fund. Some legislators advocated investing the Fund primarily as a trust, taking advantage of the best investment opportunities available in the nation's major financial markets. Other legislators believed the Fund should be primarily invested in Alaska to foster the economic development of the state. In the course of the legislative examination of the issue on how best to invest the Permanent Fund, the Legislature also examined the investment standards and practices pertinent to the state's General Fund and to the state's two major retirement funds – the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). By 1980, the state had invested $750 million of its General Fund in Alaska investments - $700 million in mortgage and business loans, $40 million in loans to various quasi-public state corporations, and $9 million in direct loans to Alaskan communities. The picture was much the same for the investment of the money in the two state-managed retirement funds. In 1980, $263 million (36%) of the $724 million in the two retirement funds was invested in Alaska mortgages. The percentage of the two retirement funds invested in Alaska mortgages had been even higher two years earlier – 38.5%.

The legislative proponents of a "trust" approach for the Alaska Permanent Fund finally prevailed over the proponents of a "development bank" in 1980. The Fund was placed under the management of a newly established quasi-public corporation headed by a six-member Board of Trustees. § 5 Ch. 18 SLA 1980. By law, the Commissioner of Revenue must be one of the six trustees. The investment standard established for the Permanent Fund was:

> *The Prudent Investor Rule shall be applied by the board in the management and investment of fund assets. The Prudent Investor Rule as applied to investments of the Fund means that in making investments, the Board shall exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of*

> *funds, considering probable safety of capital as well as probable income.* AS 37.13.120(a)[1].

The Legislature established a detailed "legal list" of permitted investments for the Permanent Fund; the initial list included certain kinds of mortgage and business loans and very high-quality public and corporate debt. No investment in corporate equity securities or real estate was permitted. The Legislature instructed the Board of Trustees to give a modest preference to certain Alaska investments:

> *The board shall invest the assets of the fund in in-state investments to the extent in-state investments are available if the in-state investments:*
>
> - *Have a risk level and expected yield comparable to alternate investment opportunities; and*
> - *Are included in the list of permissible investments in this section. AS 37.13.120 (l)*

In that same 1980 legislative session, the Legislature completely revised the law governing the Commissioner of Revenue's authority to invest the General Fund and the two retirement trust funds. Ch. 122 SLA 1980. This major revision of the Commissioner of Revenue's investment authority came about as a consequence of two factors: (1) the Legislature's examination of the investment issues relating to the Permanent Fund; and (2) the Legislature's reaction to its learning of the concentration of General Fund and retirement fund investments in Alaska mortgages.

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[1] This standard of prudence was an adaptation of the standard then separately applicable to the Public Employees' Retirement System (PERS) Fund under AS 39.35.110(c) and to the Teachers' Retirement System (TRS) Fund under AS 14.25.180(c). The first sentence of the standard - the explicit application of the Prudent Investor Rule - was new. The remainder of the standard follows word for word the same as the amended language adopted later in the same legislative session with respect to the PERS and TRS funds. The following quote reflects the 1980 amendment to the standard applicable to the PERS Fund in § 8 Ch. 122 SLA 1980. In that bill, AS 39.35.110(c) was amended to read (underline indicates addition):

> *(c) In making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor [A MAN] of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it [HIS OWN AFFAIRS] not in regard to speculation but in regard to the permanent disposition of [HIS] funds, considering [THE] probable safety of capital as well as probable income [FROM THEM AS WELL AS THE PROBABLE SAFETY OF HIS CAPITAL].*

The standard of prudence made applicable to the Commissioner's investment of the General Fund and the PERS and TRS Funds was virtually identical to the standard adopted with respect to the Alaska Permanent Fund.

The "legal lists" of permitted investments for the General Fund and the two retirement funds were substantially modified in the 1980 legislation. The authority of the General Fund to invest in mortgages was all but eliminated (following the 1980 revisions, the Commissioner could only invest in certain mortgages of the Alaska Rural Rehabilitation Corporation). The authority of the Commissioner to invest the two retirement funds in Alaska mortgages was substantially reduced. The General Fund investment preference for Alaska investments was eliminated, and the authority to invest in Alaska investments at "less than market rate" was also eliminated.

The 1980 legislation required the Commissioner of Revenue invest the General Fund and the TRS and PERS Funds "at competitive national market rates." §§ 1, 6 and 7 Ch. 122 SLA 1980. This legislation also authorized the Commissioner of Revenue to invest a portion of the two retirement funds in gold bullion.

In 1988, the Legislature once again revised completely the provisions of Alaska law governing the Commissioner of Revenue's authority to invest the General Fund, the PERS and TRS Funds and all the other smaller funds committed to the Commissioner's stewardship (e.g. the Public School Trust Fund, the University of Alaska Endowment Trust Fund, etc.). This legislation similarly modified the investment standards pertaining to the University of Alaska. This 1988 legislation, Ch. 141 SLA 1988, significantly changed the manner in which the Department was obligated to invest the state's money. Until 1988, the investment practices for each of the funds for which the Department was responsible were governed by separate "legal lists" of permitted investments. The 1988 act, HB 547 initially introduced by the House Finance Committee, rewrote and made consistent the investment standards governing all of the investment responsibilities of the Department and of the University of Alaska. The legislation explicitly eliminated the legal lists that pertained to the various funds for which the Commissioner and the University were responsible and modified slightly the articulation of the Prudent Investor Rule adopted with respect to the General Fund and the two major retirement funds eight years earlier.

The bill the House Finance Committee introduced was the work product of the Treasury Division. The bill, as amended in the final enactment, eliminated the legal lists and established the Prudent Investor Rule for funds entrusted to the Commissioner and to the University. Appendix E contains key documents relating to the legislative history of this important change in the standards governing the investment of state funds.

In 1992, following the difficulties the state encountered in 1991 with respect to the investment of state Supplemental Benefits System funds in guaranteed investment contracts with Executive Life Insurance Company, the Legislature created the Alaska State Pension Investment Board to assume fiduciary responsibility with respect to the state's various retirement funds. Ch. 31 SLA 1992. In that legislation, AS 37.10.071(c), the investment standard applicable to almost all of Treasury's investments established in the 1988 major rewrite was amended as follows (underline indicates addition and capitalized and bracketed indicates deletion):

> *In exercising investment, custodial, or depository powers or duties under this section, the fiduciary of a state fund shall apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the fund entrusted to the fiduciary. Among beneficiaries of a fund, the fiduciaries shall treat beneficiaries with impartiality. [COMMISSIONER SHALL EXERCISE THE JUDGMENT AND CARE UNDER THE CIRCUMSTANCES THEN PREVAILING THAT AN INSTITUTIONAL INVESTOR OF ORDINARY PROFESSIONAL PRUDENCE, DISCRETION, AND INTELLIGENCE EXERCISES IN MANAGING LARGE INVESTMENTS WITH CONSIDERATION FOR THE PURPOSE OF THE FUND, THE INVESTMENT OBJECTIVES, THE CONTINUING DISPOSITION OF THE FUND'S INVESTMENTS, AND THE PROBABLE SAFETY OF THE CAPITAL AS WELL AS THE PROBABLE INVESTMENT RETURNS].*

The 1992 changes in AS 37.10.071(c) substituted a general reference to the Prudent Investor Rule for the 1980 Legislature's and the 1988 Legislature's attempt to spell out a detailed articulation of that same rule.

Three distinguishing elements of the 1988 standard were that prudence be that of:

- An institutional investor;

- A professional; and
- An investor managing large investments

These elements are not explicitly stated in the 1992 revision, but Treasury believes these elements continue to be incorporated in the prudent investor standard applicable to Treasury. AS 14.25.180(c)'s continuing reference to the "large investments" element of the 1988 standard compels this conclusion. (See the memorandum from Willkie Farr & Gallagher in Appendix E, and Appendix G.)

## B. *The Two Major Retirement Funds*

### 1. Teachers' Retirement System

The Territorial Legislature established the Teachers' Retirement System (TRS) in 1929 under the supervision of a Teachers' Pension Board consisting of the Territorial Governor, the Territorial Commissioner of Education and the Territorial Treasurer. The system provided a retirement of $800 per year payable in four quarterly payments to retired teachers fifty-five years or older who had taught for twenty-five or more years of which at least fifteen had to have been in Alaska (Ch. 83 SLA 1929). The Territorial Treasurer was responsible for investing excess TRS assets in one or more of the "Territorial Depositories," United States Government bonds or other government securities.

The Territorial legislature modified the Territorial Treasurer's investment authority pertinent to the TRS Fund in 1945 to make that investment authority parallel to the investment authority pertinent to the Territorial General Fund. §14 Ch. 17 SLA 1945 and § 19 Ch. 145 SLA 1955. This legislation authorized the investment of the TRS Fund in Alaska veterans' mortgages.

In 1960, the state Legislature revised the investment standards pertinent to the TRS Fund. The revised standards provided for a "legal list" of permitted investments that included corporate stocks and bonds. The revision also imposed the following standard of care on the Commissioner:

> *In making each and all of such investments the Commissioner of Revenue shall exercise the judgment and care under the circumstances then prevailing which men of ordinary prudence, discretion, and intelligence exercise in the*

> *management of their own affairs not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital...* § 15 Ch. 89 SLA 1960.

The Alaska Legislature revised the applicable "legal list" twelve times between 1960 and 1980. By 1980, Treasury had invested 38% of the TRS Fund in Alaska mortgages.

As discussed in detail above, the Legislature passed important major revisions of the laws relating to the investment of the TRS Fund in 1980, 1988 and 1992. These changes resulted in (1) the elimination of the investment restrictions imposed by a "legal list"; (2) the substitution of the "Prudent Investor Rule" for the "Prudent Person Rule"; and (3) the shift of fiduciary responsibility for the TRS Fund to the Alaska State Pension Investment Board. In 2005, the Legislature passed legislation creating a defined contribution retirement plan, which included a retiree health care component and a health reimbursement arrangement plan for public employees and teachers hired after June 30, 2006. The legislation dissolved ASPIB and created the Alaska Retirement Management Board, which accepted fiduciary responsibility for the retirement system assets as of October 1, 2005. The Treasury Division provides staff for the ARMB, and the Commissioner of Revenue is a member of that Board.

### 2. Public Employees’ Retirement System

Various legislatures had several false starts before finally establishing the Alaska Public Employees' Retirement System in 1960. In the summer of 1948, Ralph Rivers, the Territory's elected Attorney General, hired Thomas B. Stewart[2], then a student between his first and second years at the Yale Law School, to draft legislation creating a public employees' retirement system in Alaska. In 1949, the Territorial Legislature passed the legislation drafted by Mr. Stewart. Ch. 41 SLA 1949.

The System covered Territorial employees and the employees of municipalities in the Territory if the pertinent municipality elected to participate in the System. The System

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[2] Thomas Stewart served as (1) the Secretary of the Alaska Constitutional Convention eight years later in 1956; (2) a Territorial and State Legislator in the late 1950's and early 1960's; and (3) as a Superior Court Judge in Juneau from 1966 until 1981.

and the investment of its funds were under the control of a seven-member board that included the Territorial Attorney General, Auditor, Commissioner of Labor, Welfare Director and the Treasurer together with two public members - an employee representative and a representative of a participating municipality. § 15 Ch. 41 SLA 1949. The Legislature restricted the Fund's investments to a "legal list" of only government-issued, fixed income obligations. § 16 Ch. 41 SLA 1949.

The Territorial Government never fully implemented the System created in the 1949 legislation. In 1951, the Territorial Legislature enacted an alternative arrangement providing for special coverage of employees of Alaska territorial and local governments under Title II of the Federal Social Security Act. Ch. 95 SLA 1951.

Contemporaneously, the Legislature repealed the 1949 Act, and the system returned both the employees' and municipalities' contributions. § 2 & 9 Ch. 102 SLA 1951. The same legislation provided for monthly stipends for six retired beneficiaries of the 1949 Act[3]. §1 Ch. 102 SLA 1951.

In 1960, the Legislature established the current Public Employees' Retirement System and vested the investment responsibility for the System in the Commissioner of Revenue. Ch. 143 SLA 1960. The legislator principally responsible for this new legislation was Senate State Affairs Committee Chair Thomas B. Stewart. The governing investment standard, the "Prudent Man Rule," was identical to the standard established for the TRS; the "legal list" of permitted investments was virtually the same. Much as the Legislature modified the TRS Fund "legal list" over the next two decades, it amended the PERS "legal list" eleven times between 1960 and 1980. By 1980, Treasury had invested 35% of the Fund in Alaska mortgages.

[3] The beneficiaries and their monthly stipends were:

| | |
|---|---|
| Norman Cook | $152.90 |
| G.W. Gasser | $198.50 |
| Nils G. Johansson | $93.67 |
| B.D. Stewart | $136.58 |
| Ray Stevens | $66.91 |
| Josie White | $124.30 |

The 1980, 1988, 1992, and 2005 legislative changes discussed with respect to the TRS Fund, were identical in their effect on the PERS Fund.

## C. *Enterprise Funds and the State's Quasi-independent Public Corporations*

The Legislature made the Department of Revenue responsible for the investment of funds pertinent to one of the state's first major enterprise operations, the state International Airports. Ch. 88 SLA 1961 (now codified as AS 37.15.410-550).

Since 1970, the Legislature has established a large number of quasi-independent corporations that issue revenue bonds to support and promote various activities. For the most part, these quasi-independent corporations manage their own funds in accordance with policies adopted by their boards of directors and pertinent covenants in the bonds that they issue. Today these corporations include:

- The Alaska Housing Finance Corporation (AS 18.56.010-900);
- The Alaska Industrial Development and Export Authority (AS 44.88.010-900);
- The Alaska Energy Authority (AS 44.83.020-995);
- The Alaska Municipal Bond Bank Authority (AS 44.85.005-.420);
- The Alaska Student Loan Corporation (AS 14.42.100-390); and
- The Alaska Aerospace Development Corporation (AS 14.40.821-990)

The Commissioner of Revenue serves on the boards of all these corporations except the Aerospace Development Corporation.

Two additional independent quasi-public corporations enjoy even more independence than the seven listed above. They too manage their own investments, but the Commissioner of Revenue does not serve on their boards. These corporations are:

- The Alaska Railroad Corporation (AS 42.40.010-990); and
- The Commercial Fishing and Agriculture Bank (CFAB) (AS 44.81.010-350)[4]

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[4] While CFAB was expressly created by state statute in 1979 and was originally capitalized with state funds, it is now treated as an entity wholly separate from the state. Since it is not fiscally dependent upon the state, CFAB's financial affairs are not reflected in the state's Comprehensive Annual Financial Report. The Alaska Railroad's financial affairs are included in the state's Comprehensive Annual Financial Report.

The Alaska Legislature has committed the management of three large trusts and one relatively small trust to the Alaska Permanent Fund Corporation. The trusts and their respective historical 1998 fiscal year end balances were:

| | | |
|---|---|---|
| **The Alaska Permanent Fund** (AS 37.13.010-900) | $ | 25 billion |
| **The Alaska Science and Technology Fund** (AS 37.17.010-1101, Repealed SLA 2004) | $ | 130 million |
| **The International Trade and Business Endowment** (AS 37.17.440, Repealed SLA 2004) | $ | 5 million |
| **The Mental Health Trust Fund** (AS 37.14.001-099 and AS 47.30.056) | $ | 300 million |

The Alaska Permanent Fund Board of Trustees is the fiduciary for the Alaska Permanent Fund. The Mental Health Trust fund is governed by an independent board that is responsible for spending the annual income attributable to that trust in accordance with the purposes of the trust. Precisely how the fiduciary responsibility for investing the assets of the trust is divided among the Permanent Fund Board of Trustees on the one hand, and the governing boards of the Mental Health Trust on the other, is not entirely clear. The Science and Technology Fund, and the International Trade and Business Endowment have since been closed but have been retained in this document for institutional memory. The International Trade and Business Endowment (historical), was previously commingled with the assets of the Permanent Fund, and the Mental Health Trust is currently commingled. Consequently, the asset allocations for the investment of this fund is identical to those of the Permanent Fund.

The Commissioner of Revenue serves on the Board of Trustees for the Alaska Permanent Fund but does not serve on the board of the Mental Health Trust. However, pursuant to AS 47.30.041, the Commissioner of Revenue, along with the Commissioners of Health and Social Services and Natural Resources, serves as an advisor to the Alaska Mental Health Trust Authority Board.

The statutes governing the general investment authority of the Department are in Appendix F.

# VI. Standards of Care and Loyalty Applicable to the Investment of State Funds

## A. *Care*

This publication documents the framework in which the Department undertakes to fulfill its fiduciary responsibilities for the management of state funds. Most of the funds placed under the care of the Department are trust funds. Several of the funds entrusted to the Commissioner are expressly denominated as "trust funds," including:

- The Public School Trust Fund;
- The Investment Loss Trust Fund;
- The Illinois Creek Mine Reclamation Trust Fund; and
- The Alaska Heritage Trust Fund.

For several funds entrusted to the Commissioner, the Legislature has specified that the Commissioner is the "fiduciary" for those funds. Where the caretaker of a fund is characterized as a "fiduciary," the fund is a trust. These funds include:

- The General Fund and Other Non-segregated Investments (GeFONSI I and GeFONSI II) (includes the state General Fund together with a long list of other state sub-funds);
- The Retiree Health Insurance Fund;
- The Power Cost Equalization Endowment Fund; and
- The Education Endowment Fund

Treasury is also the agent for managing several funds for which other entities are specified as the fiduciaries including:

- Retirement plans for which ARMB is fiduciary;
- The Exxon Valdez Oil Spill Investment Fund; and
- The Alaska Mental Health Trust Reserve.

There are also several funds placed with the Commissioner that have neither the trust label nor an express fiduciary relationship with the Commissioner. These funds include:

- The Constitutional Budget Reserve Fund (CBRF);
- The International Airport Funds;
- The Alaska Higher Education Investment Fund; and
- The General Obligation Bond Funds.

Treasury employs a single fiduciary investment process and standard for all the funds entrusted to the Department whether or not the fund is technically denominated as a trust.

The Prudent Investor Rule

The prudent investor rule stipulates fiduciaries to invest in trust assets as if they were his or her own and avoid excessively risky assets that may result in a steep drop in values. A fiduciary meets the prudent investor standard by establishing, following, and frequently reexamining the process by which it manages risk, chooses managers, supervises managers, and monitors manager performance.

Following the American Law Institute's adoption of the Restatement (Third) of Trusts in 1990, the members of the fiduciary community, including the trustees of foundations, endowments, and public and private pension funds (as well as legal scholars) agreed that the following catalogs the fiduciary duties of the significant participants in the investment process for a group of funds similar to those entrusted to the Department of Revenue:

1. Fiduciary Responsibilities of The Primary Fiduciary (Commissioner and staff)
    - Prepare written investment policies and document the investment process in writing. In doing so, the fiduciary ought to:
        - Determine the missions and objectives of each fund;
        - Choose an appropriate asset allocation strategy for each fund;
        - Establish specific investment policies consistent with each fund's objective; and
        - Select investment managers for each fund to implement the investment policy.
    - Diversify assets considering the risk/return objectives pertinent to the purpose of the fund;
    - Use “prudent experts” to make investment decisions;
    - Control investment expense;
    - Rigorously monitor the activities of all investment managers and investment consultants;
    - Avoid conflicts of interest; and

- For assets held in trust, take actions with respect to those assets for the sole benefit of the trust beneficiaries.

2. Fiduciary Responsibilities of Investment Managers
    - Investment Managers are fiduciarily responsible for the assets placed under their discretion.
3. Fiduciary Responsibilities of Consultants
    - Consultants (investment consultants, attorneys, outside auditors and other service providers) have a fiduciary responsibility for the services they are contracted to provide with respect to any fund's assets. They are consequently fiduciarily responsible for the quality and accuracy of any service, report information, or recommendations made to the Commissioner or Department.
4. Fiduciary Responsibilities of Custodian Banks
    - A master custodian is fiduciarily responsible for the proper safekeeping, valuation, pricing, accounting and reporting of fund assets.

To fulfill its obligations under the modern Prudent Investor Rule, it is extremely important for the Department to carefully follow a well-articulated, written investment process with respect to each fund that it manages and to adopt and maintain up-to-date written investment policy statements for each fund. This publication - and the periodic revision of this publication - are intended to fulfill that obligation.

Following is a summary of the five-step prudent investor process the Department currently employs:

1. Analyze the current situation pertinent to each fund each February and March and more often when prudence so requires.
    - Conduct a fiduciary audit of each fund;
    - Review the legal and administrative constraints pertinent to each fund;
    - Review the assumptions pertinent to contributions and disbursements from each fund;
    - Review the current investment strategies and policies;
    - Conduct an analysis of the current asset allocation and investment activities; and

- Review the costs of managing the portfolio.

2. Design the optimal portfolio.
    - Propose various optimal asset allocation strategies;
    - Address strategic (long-term) and tactical (short-term) investment strategies against the backdrop of capital markets; and
    - Analyze the investment alternatives based upon the concepts of modern portfolio theory.
3. Formalize the investment policy.
    - Set or modify investment policy and implementation guidelines in the written Investment Policy Statement (IPS);
    - Once the IPS is prepared, follow it rigorously;
    - Reanalyze the pertinent options any time that the Commissioner contemplates allocating assets to an asset class not specified in the IPS; and
    - Rewrite the IPS if the Commissioner decides to invest in a new asset class.
4. Implement the investment policy.
    - Where appropriate, consider several alternative investment manager structures, focusing on styles or strategies within each broad asset class;
    - For Non-Routine Investments, document processes;
    - Select investment managers; Negotiate account size minimums and fees with appropriate investment managers; and
    - Coordinate custodial and brokerage services;
5. Monitor and supervise the portfolio.
    - Provide ongoing supervision of the investment program;
    - Prepare a detailed monthly appraisal of consolidated holdings and portfolio transactions;
    - Prepare periodic performance attribution reports comparing the performance of the portfolio against appropriate benchmarks, stated investment objectives and investment managers of similar style;
    - Check the asset allocation to make sure it conforms to the limits specified in the IPS and rebalance the portfolio if necessary; and
    - Monitor and control investment expenses and costs.

A detailed articulation of this five-step process is set forth in Appendix G.

The five-step process and the investment policies and procedures articulated in this publication differ in several substantial ways from an earlier effort by the Department to articulate a clearly defined investment process and a set of written investment policies pertinent to the funds managed by the Department. This earlier effort, a set of regulations together with a set of companion investment policies, occurred in 1990, before the Legislature created ASPIB and at a time when the Commissioner of Revenue was the sole fiduciary for the state's retirement funds. Although the regulations took effect in January 1991, the department repealed the regulations in late 1991. A brief overview of the regulations together with a copy of the regulations may be found in and a copy of the companion investment policies may be found in Appendix HD.

## B. *Loyalty*

A trustee, when investing funds or otherwise acting on behalf of a trust, must act in the sole best interest of the beneficiaries of that trust. In most instances, this duty of loyalty requires that investment decisions be directed solely toward the goal of earning income for expenditure to further the objective(s) of the trust. A trustee may not invest trust assets to achieve alternative social goals. This general rule is greatly strengthened with respect to most public trusts in Alaska. AS 37.10.071(c) applicable to all the funds placed under the fiduciary responsibility of the Commissioner or the ARMB, requires that all investments for the pertinent funds be made in the "sole financial best interest of the fund…" (See August 12, 1998 Memorandum of Advice from the Attorney General in Appendix HA.1.2.)

Appendix G contains pertinent material relating to the obligation of loyalty required of the fiduciaries of the public trust funds created by the Legislature.

## VII. Upkeep and Compliance with this Publication

Assuring that the Department follows the policies and procedures set forth in this publication and modifies those policies and procedures when appropriate are key elements in guaranteeing that the Department fulfills its fiduciary responsibilities. The Commissioner assigned responsibility for ensuring that the Department follows these policies and procedures, and for modifying them as necessary, jointly to the Chief Investment Officer, Treasury Director, and the State Comptroller. See the annual memo to the Director of the Treasury Division here.

## VIII. Delegation of the Commissioner's Responsibility for State Funds

The Prudent Investor Rule as articulated in the Restatement (Third) of Trusts provides that a fiduciary ought to delegate some or all of the specific investment and control responsibilities to "prudent experts."

Appendix H contains the provision of the Restatement (Third) of Trusts that both mandates and sets the standards for delegation of fiduciary responsibility as well as  the statute governing the Commissioner's delegation of fiduciary responsibility.

Appendix I contains the Commissioner's current delegations of:

- Investment authority for state funds;
- Monitoring and control responsibility for escheated accounts; and
- Cash Manager functions.

# IX. Building Blocks for Treasury's Investment Policies

The Commissioner of Revenue, acting through the Treasury Division, approves investment policies for the funds the Commissioner is the fiduciary. Treasury develops policies pertinent to each of these funds designed to balance fund investment objectives, risk tolerances, and other attributes including:

- Asset Allocation and the Efficient Frontier
- Expected Return
- Risk
- Correlations
- Time and Time Horizon
- Risk Tolerance
- Cash flows, liquidity, and income needs

## A. *Asset Allocation and the Efficient Frontier*

With a few minor exceptions, Treasury invests the funds entrusted to the Commissioner in some combination of six investment pools - three of which are fixed income investment pools and two of which are equity investment pools and one REITs pool. (See Section X for detailed descriptions of these investment pools.) How does Treasury go about deciding on an investment policy for any fund? How does it decide what proportion of any fund to invest in each of the available investment pools?

The following paragraphs are copied verbatim from Yale University's 1995 description of The Yale Endowment and provide some insight into the process of developing an asset allocation:

> *Investment returns are generated by decisions regarding asset allocation, market timing, and security selection. Portfolio construction must reflect the relative importance of the expected contribution of each source of return.*
>
> *The most important source of portfolio return stems from policy asset allocation. The process of selecting policy targets involves defining the asset classes that will constitute the portfolio and determining the proportion of funds to be invested in each class. The weights and market returns of a portfolio's various asset classes are the prime determinants of a portfolio's returns.*

*The second source of return is market timing, defined as deviation from long-term policy targets. For example, assume that the fund's long-term targets are 50 percent stocks and 50 percent bonds. A fund manager who believes stocks are cheap and bonds are expensive might weight the portfolio 60 percent stocks and 40 percent bonds. The return resulting from the overweighting of stocks and underweighting of bonds relative to long-term targets would be the return attributable to market timing.*

*The third source of return, security selection, is the return generated by active management of the portfolio. If a manager created portfolios that faithfully replicated the markets (i.e., passive portfolios), that manager would be making no active bets. To the extent that a portfolio differs from the composition of the overall market, that portfolio has an active management component. The difference between the returns of the overall market and the active portfolio would be the return attributable to security selection.*

*Research by Yale School of Management Professor Roger Ibbotson and Brinson Partners' Gary Brinson indicates that more than 90 percent of the variability of institutional fund returns is attributable to asset allocation decisions and less than 10 percent is attributable to market timing and security selection. Significantly, the overwhelming portion of positive contribution to returns stems from asset allocation. Market timing and security selection make marginal, and generally negative, contributions to portfolio returns.*

*Yale Investment Committee member Charles Ellis argues that market timing is a loser's game, essentially impossible to do on a consistent basis. Ironically, by failing to rebalance to long-term policy targets, many institutional investors engage in market timing, allowing portfolio risk and return characteristics to drift with the markets. An example comes from experience during the October 1987 crash in world equity markets. In the first nine months of 1987 most institutional investors simply watched their U.S. equity exposure increase as U.S. equity prices rose and bond prices fell. Of course, by October 1987, equity allocations peaked, just in time to experience a traumatic, more* *than 20 percent decline. After the crash, not only did institutional investors fail to buy equities, which were now cheaper on a relative basis, but they were net sellers in November and December. By failing to rebalance portfolios to long-term targets, most institutional investors ended up buying high and selling low.*

Treasury employs a modeling process based on a statistical technique called, "mean variance analysis," an approach developed by UCLA Professor Harry Markowitz. Using this statistical technique to combine -- with respect to different investment classes -- expected returns, variances of returns and correlations of returns, one can estimate the expected return profiles and standard deviation of various asset allocation alternatives. Treasury utilizes long-term capital market Assumptions generated by investment consultants in the modeling proccess (see Appendix K).

To make the required asset allocation policy decisions, the Commissioner uses the output of this modeling process - namely a series of alternative asset allocations, each of which is the allocation that is projected to achieve the highest return for each of the various levels of projected portfolio volatility (risk) reflected in the series. The series of alternative asset allocations with the highest returns at each level of risk is known as the "efficient frontier." The Commissioner then uses the output of the model in conjunction with the following considerations to make the final asset allocation judgment: (1) the risk tolerance of the pertinent fund; (2) the fund's need for protection from inflation; (3) the fund's need for liquidity; and (4) the fund's current income requirements.

Once the Commissioner selects the appropriate asset allocation on the efficient frontier, Treasury defines parameters for the portfolio that will keep the fund within the original risk and return profile. For example, if the allocation to the United States equity market is 60%, Treasury will establish a range around the target to limit the deviation from that U.S. equity exposure target - e.g., plus or minus 5%. In this example, if exposure to U.S. equities exceeded 65% or dropped below 55% of the total portfolio, Treasury would rebalance the portfolio (see Appendix AI).

Treasury carefully considers the impact of trading costs and interim market volatility when establishing the ranges that trigger asset allocation adjustments. Treasury reviews and adjusts the asset allocation of a fund at the beginning of each day. If, at that time, it is determined that a fund has assets that exceed stated parameters, Treasury will adjust the asset allocation to the targeted allocation. Treasury also adjusts asset allocations quarterly to the pre-determined targets.

## B. *Expected Return*

As explained above, the expected return for each asset class in which Treasury plans to invest some portion of a fund is a key ingredient in determining the optimal asset allocation for that fund. Expected returns are not a mysterious concept; "expected returns" are precisely what their name suggests. The matrix set forth in Appendix K explains the base of derivation for Treasury's current return expectations.

## C. *Risk*

### 1. Definitions of Risk

There are many ways to define the term "risk." Before turning to the very specific definition used by Treasury, here are several definitions of "risk" from financial management manuals and glossaries:

- *Any chance of loss.* Gertner, Trustees Handbook, International Foundation of Employee Benefit Plans
- *The variability of returns from an investment. The greater the variability (i.e., of dividend fluctuation or of security price), the greater the risk. Since investors are generally averse to risk, investments with greater inherent risk must promise higher expected yields.* Scott, Wall Street Words
- *Measurable possibility of losing or not gaining value. Risk is differentiated from uncertainty, which is not measurable.* Downes and Goodman, Barron's Dictionary of Finance and Investment Terms
- *Refers to the probability and magnitude of a loss. In the investment arena, the volatility of an investment return, measured by standard deviation... becomes a well-accepted measurement of risk...* Rieve and Lummer, Pension Investment Handbook

### 2. Treasury's Definition and Measurement of Risk when Making Investment Decisions for the Funds it Manages

Risk has four major sources, not all of which may apply to every asset class or portfolio:

- **Credit Risk**

  Credit risk arises from a debt issuer's willingness and ability to pay the interest and principal of a fixed income instrument as it becomes due. Credit risk varies greatly from issuer to issuer and usually reflects the relative certainty of the issuer's ability to pay. Low credit risk implies a high degree of certainty that the issuer will make all payments in full and on time.

- **Residual or Equity Risk**

  Equity investments are not investments with set cash flows or terminal values. Equity investments are a percentage ownership in a company. These investments are the residual interest in the net income, after corporate taxes, and the residual value of the company's assets after the creditors are paid. Uncertainty about the future profitability of a company and/or to its current or future liquidation value creates the risk in equity investments.

- **Exchange Rate Risk**

  Exchange rate risk arises from fluctuations in the relative exchange rates between foreign currencies and the U.S. dollar. These risks arise only on investments payable or valued in foreign currencies. Exchange rates vary daily and reflect several factors including economic productivity, relative inflation rates and trade balances.

- **Market Risk**

  Market risk arises from the market's valuation of a fixed income investment at any time prior to its maturity or at any time for all other investments. This valuation reflects the market participants' consensus judgments about several factors needed to value any particular investment. These judgments may or may not turn out to be correct; they may change suddenly; and they may be different from the judgments used to make the investment. The valuation of a fixed income investment reflects the market participants' perception of the credit risk, the remaining time to maturity of the investment, the coupon rate, and the interest rate similar securities currently earn. The value of an equity security reflects the market participants' perception of the current and future profitability of the company, the dividend payment rate, the liquidation value of the company, and the future expected price of the security. The current valuation also reflects the probable return on the security relative to alternative investment options. Finally, in some instances, the current valuation of an equity security reflects current perceptions of exchange rate risks.

Treasury uses the following operational definition of risk: risk is the variability of returns on a particular "set" of investments. That "set" may be a particular asset, a particular asset class or a portfolio of investments. Returns include income (interest and dividends) as well as net appreciation (realized and unrealized capital gains and losses).

When risk is defined as the "variability of returns," it is measured in statistical terms. That measure is most often expressed in terms of an estimated standard deviation. What does it mean when we say that we expect a particular asset class (e.g., short-term fixed income instruments) to have a "return of 4% and a risk of 3% over the next year?" It means that based upon the statistical analysis of the historical performance of the asset class and current market expectations we expect that the standard deviation (variability) of the return on that investment class over the next year will be plus or minus 3% from the expected return of 4%. Stated more simply, two-thirds of the time, we expect a return from this asset class over the next year to be between 1% (4% minus 3%) and 7% (4% plus 3%). The applicable statistical analysis also tells us to expect that one-sixth of the time, the return over the next year will be over 7%, and one-sixth of the time, the return will be less than 1%.

In the previous example, an investment had an expected return of 4%. Statistically, the possibility of a 7% return represented the same amount of "risk" as the possibility of a 1% return. In a practical sense, however, the 7% return is not a risk that bothers us. The "risk" that concerns us is the "risk" of low or negative returns.

There are many other ways of expressing the results of the statistical analysis that Treasury employs to measure risk. For example, we can express the analysis in terms of the probability that a particular asset class will have a zero return or less, an 8% return or less, an 8% return or more and so forth.

When it comes time to measure the risk of a portfolio that includes more than one asset class, the statistical analysis becomes more complex. This is because different asset classes behave differently. Sometimes the market forces that decrease the returns on one asset class in the portfolio also simultaneously increase the returns on another asset class in the portfolio. Consequently, we must use both the estimated standard deviation of return on each asset class in the portfolio and the estimated correlation coefficient between the performance of each of those asset classes to derive the risk (standard deviation of return) for the entire portfolio. The differing performance of asset classes provide what we often refer to as, "the benefits of diversification." Treasury measures risk at the portfolio level to account for the benefits of diversification. Individual investments or investments in a particular asset class may seem risky in isolation but could lower the overall risk at the portfolio level.

Treasury must consider the level of risk and the nature of the risks being accepted when developing the investment policy for each individual fund. The amount of risk a particular investment policy entails can change with market conditions. Treasury annually evaluates the risk levels of all investment policies and recommends changes as appropriate.

### 3. Treasury's Categorization of Risk

Treasury evaluates the riskiness of various investments or investment strategies using a spectrum of terms that range from "low" risk to "high" risk with reference to the estimated probability of a loss and the magnitude of potential loss over the next one-year period. The categories are:

| **Risk Categories** | **Probability of Loss** | **Potential Loss** |
|---|---|---|
| Low Risk | <1% | 0-0.4% |
| Moderate Risk | 1-5% | 0-1.5% |
| Moderately High Risk | 5-10% | 1.5-5% |
| High Risk | >10% | 5-20% |

## D. *Correlations*

Correlation measures (using the statistical measure of a "correlation coefficient") the association or co-movement among the returns of various classes of assets. Correlation coefficients can vary from 1 to -1. If the returns of one security or asset class move in tandem with the returns of another security or asset class, the returns have a correlation of one. If the two securities' or asset classes' returns have a completely inverse relationship, the correlation coefficient will be a minus one. If the two securities or asset classes' returns are completely unrelated to each other or are random, the correlation coefficient will be zero.

## E. *Time and Time Horizon*

Risk is a measure of the expected variability or volatility of the return on an asset class or a particular investment portfolio over time. Experience tells us that over long periods of time actual investment results will average out close to the expected result for a particular asset class or portfolio. In any one year, actual results may vary significantly from the expected results. The expected magnitude of that variance is usually measured by the standard deviation from the expected investment returns. However, if the estimated average return is accurate, then over a long period of time actual investment results will be very close to the estimated returns no matter how risky the investment policy. The critical point is that the riskier the investment policy the longer the time horizon before this averaging out process is likely to bring the actual results in line with the expected results.

If the state intends to spend a fund's money in the near future, Treasury cannot rely upon time to reduce the risk of one bad year causing an unacceptable shortfall. Similarly, if the state does not need the money for many years, Treasury can rely on time to average out returns so that one bad year is of less concern.

Time's ability to moderate the risk of an investment policy makes it a critical factor in the development of a fund's investment policy. All other things considered, the longer the time before the state needs money from a fund the more aggressive the investment policy can be. A more aggressive investment policy will have higher expected returns and higher risk. Taking a higher risk means a much greater chance of a loss in the short-term and a much greater chance of a robust return over the long-term.

"Time horizon" is the term Treasury uses to specify when the state is likely to use the money from a fund. When specifying the time horizon for a particular fund, Treasury considers when cash will be needed, not how long a fund will be in existence. If a fund may be expected to exist for many years but if a significant portion of the money currently held in a fund could be used in the near term, Treasury considers it to have a short time horizon. Furthermore, a fund may not have a single time horizon. While a fund is a single accounting entity, Treasury may consider it the sum of several blocks of money each with a different time horizon. In such a case, Treasury may develop an investment policy that effectively sums several different policies, with each of the individual policies being appropriate for different portions of a fund with different time horizons.

Treasury uses the following time horizon specifications in making and articulating its investment policies:

| Time Horizon | Estimated Time (before State will need funds) |
|---|---|
| Very short | Less than 6 months |
| Short | 6 months to 1 year |
| Intermediate | 1 to 4 years |
| Moderately long | 4 to 8 years |
| Long | More than 8 years |

## F. *Risk Tolerance*

Another term often used in conjunction with "risk" and "time horizon" in the development of investment policies is "risk tolerance." Risk tolerance is a measure of an investor's tolerance for variability in returns as well as capacity for loss in exchange for the likelihood of higher long-term compensation. For purposes of developing investment policies for state funds, Treasury categorizes risk tolerance as follows:

| Risk Tolerance | Description |
|---|---|
| Low | Unwilling to risk material short term volatility because of the immediate need for the invested funds. Minimizing exposure of principal to loss is very important |
| Moderate | Willing to assume an average amount of market risk and volatility to achieve higher returns. |
| Moderately high | Willing to assume an above average amount of risk, volatility, and loss of principal to achieve higher returns. |
| High | Willing to assume a material amount of risk, volatility, and loss of principal to take advantage of higher return opportunities. |

## G. *Liquidity and Income*

"Liquidity" refers to the ease and efficiency with which an investment or class of investments can be converted to money. The greater the liquidity of an investment the easier it is to convert the investment to money. Factors that affect the liquidity of an investment or class of investments are: (1) the size of the marketplace, (2) the typical difference between the sale and purchase price, and (3) the complexity of the investment.

The larger the marketplace for any investment the more likely a seller will be able to find a willing buyer at all times. The presence of willing buyers and sellers is critical for a liquid market. If there are too few participants in a market, a seller may not be able to find a willing buyer at the current market price. In order to convert the investment to money the seller may have to accept a lower sales price or take more time to sell the investment. When this occurs, the seller will probably lower the price in the marketplace through their efforts to sell their investment.

For any given investment, the markets establish a normal difference between the asking price and the offering price. The smaller this difference the greater the efficiency and the lower the cost of buying and selling an investment. This is usually referred to as the "transaction cost." The lower the transaction costs, the greater the liquidity of an investment.

When describing the complexity of an investment, the two ends of the complexity spectrum are usually referred to as "simple" and "complicated."  Complicated investments are generally less liquid than simple investments. Complicated investments require the prospective buyer to perform a series of analytical steps and make consequent judgments to value the investment. The more complicated the investment, the longer it can take to make all the necessary judgments. The longer it takes to buy or sell an investment, the lower its liquidity. Further, since more judgments are necessary to value a complicated investment there is a greater likelihood that the seller will determine different valuations than those of the prospective buyer. The riskier the investment, the more reluctant the would-be buyer and, consequently, the less liquid the investment.

An investment manager can convert a highly liquid investment into money or another investment quickly and efficiently. Therefore, liquidity increases flexibility in the investment management process. Less liquid investments and asset classes generally have higher expected rates of return than comparable more liquid assets. Whether Treasury will sacrifice liquidity for higher expected return depends on the specific purposes and needs of each fund.

“Income” refers to investment related cash flows such as dividends and interest. These can be reinvested or distributed to satisfy any cash flow needs of the specific fund. For those specific funds with periodic income needs, a higher yielding investment portfolio may be warranted.

# X. Investment Pools

Alaska Statute 37.10.071 provides the authority for Treasury to pool investments (see Appendix L), and Treasury has used this authority in two different ways.

First, it has used the authority to combine, for investment purposes, all the assets of many funds into the General Fund and Other Non-segregated Investments (the GeFONSI). The GeFONSI is made up of the assets of two classes of state funds: (1) funds with similar risk and return objectives, and (2) funds that must return all their earnings to the state General Fund (additional information about the GeFONSI is contained in Section XII(A)). The state then accounts for the pool participants' aggregate investment in the GeFONSI but does not attribute individual investments of the GeFONSI to any pool participant.

Second, Treasury has used its investment pooling authority to establish investment options as follows: 1) six different fixed income pools, and 2) two equity investment pools: domestic equity and international equity and 3) one REITs pool.

Using the GeFONSI and the investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of available cash that Treasury must keep on hand to support daily operations of the state. Treasury can thus increase the return on funds not needed for daily cash operations. Second, pooling investments significantly reduces the accounting, budgeting and administration required of state agencies to administer many small programs and funds. Finally, by pooling funds the state can achieve benefits from economies of scale on the various funds the Department of Revenue invests including: (1) investment options that could not otherwise be practically provided for individual small funds; (2) internal cost reduction; and (3) improved negotiating leverage on fees.

## A. *The GeFONSI*

The GeFONSI includes almost all the assets of the General Fund together with the assets of a long list of smaller funds. The Department of Revenue is responsible for investing the GeFONSI. The Department of Administration separately accounts for the assets for each of the funds included in this investment pool. The Department of Revenue is responsible for calculating and allocating the monthly investment earnings to the GeFONSI participants in accordance with the provisions of a Memorandum of Understanding (MOU) between the Departments of

Administration and Revenue. An example of this MOU is shown in Appendix R of this publication. The most recent modifications to this MOU are on file in Treasury's Asset Accounting Section.

## B. *The Fixed Income, Equity, and RETIs Investment Pools*

The Department of Revenue has established four fixed income investment pools to efficiently invest the assets Treasury manages for the State of Alaska. These pools are: (1) Short-term Fixed Income Investment Pool; (2) Intermediate-term Fixed Income Investment Pool; (3) the Broad Market Fixed Income Investment Pool; (4) Tactical Bond Pool; (5) TIPs Pool; and (6) the Short-term Treasury Pool, which was established during fiscal year 2014 to facilitate the accounting for individual securities within the Permanent Fund Dividend Holding Account. In addition, Treasury participates in a domestic equity pool, international equity pool and a REITs pool. These investment vehicles cover most of the spectrum of risk and return options available in the mainstream domestic and international investment market. Treasury can invest the assets of a fund participant in any combination of these investment options to meet that fund's unique investment objectives.

## C. *Periodic Evaluation of Available Investment Pools*

Because contemporary studies of capital markets tell us there are likely to be substantial diversification benefits from including other asset classes in the asset allocation policies for some of the funds Treasury manages, Treasury has examined the costs and benefits of establishing pools for additional asset classes.

In March 2000, Treasury reviewed the liquidity needs of participants in the Broad Market Fixed Income Investment Pool and determined that the performance benchmark should be changed from the Lehman Brothers Govt./Corporate Bond Index to the Lehman Brothers Aggregate Bond Index. The new benchmark was effective 4/1/00. Details and the Commissioner's concurrence are shown in Appendix AY.

For a list of historical pools, retained for institutional memory, please see Appendix HE.

# XI. Investment Policies Pertaining to Treasury's Investment Options

## A. *Short-term Fixed Income Investments (AY70)*

### 1. Description and History

Treasury has created a pooled environment by which it manages short-term fixed income investments. The Short-term Fixed Income Investment Pool (Short-term Pool) is a convenient, economical medium for investing short-term, risk-averse funds. This pool was created July 1, 1994. The pool is managed directly by the Treasury Division's investment staff.

The Short-term Pool is the only investment pool created for money in the state Treasury in which money from the various retirement trust funds is also invested. Treasury established a separate fixed income pool in which Treasury invests money from all the pertinent retirement funds. All short-term investment requirements of the various retirement trust funds are met through this Short-term Pool including: 1) the temporary investment of funds just received from participating employers or just awaiting disbursement to eligible beneficiaries, 2) the investment of cash held by some of the retirement systems' external managers, and 3) cash held by the retirement trust funds.

The pool maintains the general characteristics of a money market pool. Treasury's income objective for the pool is to earn the highest possible return while meeting significant liquidity requirements and taking very low principal risk. The money Treasury invests in this pool has a short time horizon.

### 2. Investment Policy

Treasury invests the funds in this pool in a broad range of short-term fixed income investments. Under the Prudent Investor Rule, Treasury constructs the pool's portfolio with a low risk tolerance. Upon purchase, individual fixed rate securities will be limited to 14 months to maturity or expected average life for amortizing securities. Upon purchase, floating rate securities will be limited to three years to maturity or three years average life for amortizing securities. These constraints apply to trade date, except for securities brought at new issue, for which settlement date applies.

Investments include instruments with a long-term credit rating of at least "A3" or equivalent and instruments with a short-term credit rating of at least "P1" or equivalent. (Appendix Y contains an explanation of the credit rating designations). Investments for this pool are limited to:

- Money market investments comprising:
    - Repurchase agreements collateralized only by U.S. Treasury obligations, including bills, notes, and bonds, and only when the collateral carries a market value equal to or greater than 102% of the amount of the repurchase agreements, and only when the custodial bank appointed by Treasury will take custody of the collateral;
    - Commercial paper rated at least Prime-1 by Moody's Investors Service, Inc. and A-1 by Standard and Poor's Ratings Services; and
    - Negotiable certificates of deposit and bankers acceptances; provided that an issuing bank must have total assets in excess of $5 billion.
    - United States Treasury obligations including bills, notes, bonds, and other debt obligation issued by the United States Treasury and backed by the full faith and credit of the U.S. Government.
    - Institutional money market funds rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Ratings Services which comply with SEC Rules governing such funds.
- Other full faith and credit obligations of the U.S. Government
- Securities issued or guaranteed by agencies and instrumentalities of the U.S. Government, but not explicitly backed by the full faith and credit of the U.S. Government;
- Obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars or local currency, if hedged back to U.S. dollars;
- Corporate debt securities comprising:
    - Corporate debt issued in the U.S. capital market by U.S. companies;
    - Euro-dollar debt (that is, U.S. dollar-denominated securities issued outside the U.S. capital markets by U.S. companies or by foreign issuers); and

    - Yankee debt (that is, U.S. dollar denominated obligations issued in the U.S. capital market by foreign issuers)

- Asset-backed securities;
- Agency and non-agency mortgage-backed securities backed by loans secured by residential, multifamily and commercial properties including, but not limited to pass-throughs, collateralized mortgage obligations (CMO's), project loans, construction loans, and adjustable rate mortgages
  Asset-backed and non-agency mortgage securities must be rated A3 or equivalent. The A3 or equivalent rating is defined as the median rating of the following three rating agencies: Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA; and
- Currency forward contracts, futures, and swaps

Investment in this pool is ideal for fund participants needing to invest part or all of their money with the following characteristics:

| | |
|---|---|
| Risk Tolerance | Low. The daily investment results reflect daily changes in the market value of the pool's investments. It is possible to have a loss on a single day based on the changes in market value of the pool's assets. |
| Investment Objectives | Minimizing exposure of principal to loss is very important |
| Current Income | Daily earnings credit. The earnings of the pool iclude interest and changes in the market value of the investments held in the pool. There is no distinction between current income and capital gains. |
| Inflation Protection | Little need for signifcant long-term inflation protection. The pool could earn less than inflation over time while meeting its other objectives. |
| Liquidity | Need for significant liquidity. The pool can accommodate major withdrawls and contributions (exceeding $500,000,000) in the normal operating environment. The Pool can accommodate much larger withdrawals with very little advance notice. |
| Time Horizon | Very short to short time horizons. The short time horizon effectively limits the risk taken in this pool. |

Treasury's performance benchmark for the Short-term Pool is:

100% Three-month U.S. Treasury Bill – the market measure for extremely liquid investments.

### 3. Legal Constraints and Special Circumstances

Treasury uses shares of the Short-term Pool to satisfy inter-fund liabilities within the state's accounting system. The net asset value of a share in the pool is always one dollar per share. The total net asset value of all the shares in the pool must reflect the current market value of all the assets in the pool. Failure to follow this convention would make it inappropriate for Treasury to use these shares for payment between fund participants because investment earnings would shift among various funds. Treasury permits a particular pool participant to overdraw the Short-term Pool if that fund has investments in other investment pools that would cover the overdraft condition in a very short time. This overdraft provision allows fund participants to maintain minimum investments in the Short-term Pool while still meeting obligations to other funds.

## B. *Short-term Treasury Pool (AY1B)*

### 1. Description and History

The Short-term Treasury Pool was created July 2013 for the Permanent Fund Dividend Holding Account when there is a need to invest in individual securities.

### 2. Investment Policy

Individual fixed rate securities will be limited to 6 months to maturity. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. Investments for this pool are limited to:

- Repurchase agreements collateralized only by U.S. Treasury obligations, including bills, notes, and bonds, and only when the collateral carries a market value equal to or greater than 102% of the amount of the repurchase agreements, and only when the custodial bank appointed by Treasury will take custody of the collateral;
- United States Treasury obligations including bills, notes, bonds, and other debt obligation issued by the United States Treasury and backed by the full faith and credit of the U.S. Government;
- Other full faith and credit obligations of the U.S. Government;
- Securities issued or guaranteed by agencies and instrumentalities of the U.S. Government, but not explicitly backed by the full faith and credit of the U.S. Government;
- Obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars; and
- The internally-managed Short-term Fixed Income Pool.

Investment in this pool is ideal for fund participants needing to invest part or all of their money with the following characteristics:

| | |
|---|---|
| Risk Tolerance | Low. The daily investment resutls reflect daily changes in the market value of the pool's investments. It is possible to have a loss on a single day based on the changes in the market value of the pool's assets. |
| Investment Objectives | Minimizing exposure of principal to loss is very important |
| Current Income | Daily earnings credit. The earnings of the pool iclude interest and changes in the market value of the investments held in the pool. There is no distinction between current income and capital gains. |
| Inflation Protection | Little need for signifcant long-term inflation protection. |
| Liquidity | Need for significant liquidity. The pool can accommodate major withdrawls and contributions (exceeding $500,000,000) in the normal operating environment. |
| Time Horizon | Very short to short time horizons. The short time horizon effectively limits the risk taken in this pool. |

Treasury’s performance benchmark for the Short-term Treasury Pool is:

100% Three-month U.S. Treasury Bill – the market measure for risk free, extremely liquid investments.

## C. *Intermediate-term Fixed Income Pool (AY72)*

### 1. Description and History

Treasury has created a pooled environment by which it manages intermediate-term fixed income investments. The Intermediate-term Fixed Income Investment Pool (Intermediate-term Pool) is an efficient investment option for fund participants that require less liquidity than the Short-term Pool provides and that can tolerate slightly more principal risk (credit risk plus market risk) to achieve higher returns over time.

Like the Short-term Pool, it was created on July 1, 1994 and is also managed by Treasury's investment staff.

For this pool, Treasury seeks to earn the highest possible income while meeting liquidity requirements and taking moderately high principal risk. The money Treasury invests in this pool has an intermediate time horizon, a more limited need for liquidity than the money invested in the Short-term Pool, a limited need for inflation protection, and can be invested at a moderate risk level. The interest rate risk for this pool, as measured by duration, will generally be close (± 20%) to that of the Bloomberg Barclays 1-3 year Government Bond Index.

On July 1, 2020, investments in this pool were divested following an assessment of interest rate conditions. The yield of the Bloomberg Barclays 1-3 Government Bond Index was approximately equivalent to the yield on the Three-month U.S. Treasury Bill. As market conditions evolve, staff anticipates the Intermediate-term Pool will again become a more viable investment option.

### 2. Investment Policy

Treasury invests the funds in this pool in a broad range of intermediate-term fixed income investments. Under the Prudent Investor Rule, Treasury constructs the pool's portfolio with a moderately high-risk tolerance. Investments include instruments with a long-term credit rating of at least "Baa3" or equivalent and instruments with a short-term credit rating of at least "P1" or equivalent. Investments for this pool are limited to:

- Money market investments comprising:
    - Repurchase agreements collateralized only by U.S. Treasury obligations, including bills, notes, and bonds, and only when the collateral carries a market value equal to or greater than 102% of the amount of the repurchase agreements, and only when the custodial bank appointed by Treasury will take custody of the collateral;
    - Commercial paper rated at least Prime-1 by Moody's Investors Service, Inc. and A-1 by Standard and Poor's Ratings Services; and

  - Negotiable certificates of deposit and bankers' acceptances; provided that an issuing bank must have total assets in excess of $5 billion.
- United States Treasury obligations including bills, notes, bonds, and other debt obligation issued by the United States Treasury, and backed by the full faith and credit of the U.S. Government;
- Other full faith and credit obligations of the U.S. Government;
- Securities issued or guaranteed by agencies and instrumentalities of the U.S. Government, but not explicitly backed by the full faith and credit of the U.S. Government;
- Obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars or local currency, if hedged back to U.S. dollars;
- Investment grade corporate debt securities comprising:
  - Corporate debt issued in the U.S. capital market by U.S. companies;
  - Euro-dollar debt (that is, U.S. dollar-denominated securities issued outside the U.S. capital markets by U.S. companies or by foreign issuers); and
  - Yankee debt (that is, U.S. dollar denominated obligations issued in the U.S. capital market by foreign issuers).
- Investment grade asset-backed securities;
- Agency and investment grade non-agency mortgage-backed securities backed by loans secured by residential, multifamily and commercial properties including, but not limited to pass-throughs, collateralized mortgage obligations (CMO's), project loans, construction loans, and adjustable rate mortgages.

  Asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA;

- Total return swaps referenced to components or sub-components of fixed income indices. To mitigate interest rate risk, the proceeds may not be invested in securities with a maturity beyond 90 days, unless invested in the Department of Revenue internally managed Short-Term Fixed Income Pool; and
- Currency forward contracts, futures, and swaps.

Investment in this pool is ideal for fund participants needing to invest part or all of their money with the following characteristics:

| | |
|---|---|
| Risk Tolerance | Moderately high. The daily investment results reflect daily changes in the market value of the pool's investments. Losses are likley over the short-term based on the changes in market value of the pool's assets. |
| Investment Objectives | Willing to assume an average amount of market risk, volatility, and principal loss to see higher returns. |
| Current Income | Daily earnings credit. The earnings of the pool iclude interest and changes in the market value of the investments held in the pool. There is no distinction between current income and capital gains. |
| Inflation Protection | Moderate need for long-term inflation protection. |
| Liquidity | Need for moderate liquidity. The pool can accommodate major withdrawls and contributions (exceeding $5,000,000) in the normal operating environment. The pool can accommodate much larger withdrawals, $50,000,000 or more, with very little advance notice. |
| Time Horizon | Intermediate time horizon. The intermediate time horizon allows a more aggressive investment policy with higher expected returns than the Short-term Pool. |

Treasury's performance benchmark for the Intermediate-term Investment Pool is:

100% Bloomberg Barclays 1-3 Year Government Bond Index

## D. *Broad Market Fixed Income Pool (AY73)*

### 1. Description and History

The Broad Market Fixed Income Investment Pool (Broad Market Pool) is an efficient investment option for fund participants requiring less liquidity than the Short-term or Intermediate-term Pools provide and that can take more principal risk (credit risk plus market risk) in exchange for higher expected returns over time. This pool, administered by Treasury's investment staff, was also created July 1, 1994.

Prior to 1997, it had about $100 million invested in it - all from the Public School Trust Fund, the University of Alaska Trust Fund and the Alaska Children's Trust. With the development of a more aggressive investment policy for the Constitutional Budget Reserve Fund (CBRF) in early 1997 (Section XII(B), the amount invested in this pool increased to an amount in excess of $1 billion. In September 1999, Treasury revised the Constitutional Budget Reserve Fund asset allocation which brought the amount invested down to approximately $200 million.

The money Treasury invests in this pool has a long-time horizon and a limited need for liquidity and requires some inflation protection.

In March 2000, Treasury reviewed the liquidity needs of participants in the Broad Market Pool and determined that the performance benchmark should be changed from the Lehman Brothers Govt./Corporate Bond Index to the Lehman Brothers Aggregate Bond Index. The new benchmark was effective 4/1/2000. Details and the Commissioner's concurrence are shown in Appendix AY. In September of 2008, due to the acquisition of assets of Lehman Brothers Holdings, Inc. by Barclays Plc, the performance benchmark was renamed the Barclays US Aggregate Bond Index.

The interest rate risk for this pool, as measured by duration, approximates that of the Barclays US Aggregate Bond Index (± 20%). It has higher expected returns, on average, than intermediate-term investments, and higher expected volatility of those returns. In fiscal year 2018 the High Yield asset class was discontinued, and the Broad Market Fixed Income Pool assets were broadened to include certain high yield investments.

## 2. Investment Policy

Treasury invests the funds in this pool in a broad range of fixed income investments. Treasury constructs the pool's portfolio with a high-risk tolerance. Investments include investment grade instruments, some high yield instruments and instruments with a short-term credit rating of at least P1 or equivalent. Investments for this pool are limited to:

- Money market investments comprising:
  - Repurchase agreements collateralized only by U.S. Treasury obligations, including bills, notes, and bonds, and only when the collateral carries a market value equal to or greater than 102% of the amount of the repurchase agreements, and only when the custodial bank appointed by retirement funds will take custody of the collateral;
  - Commercial paper rated at least Prime-1 by Moody's Investors Service, Inc. and A-1 by Standard and Poor's Ratings Services; and
  - Negotiable certificates of deposit and bankers' acceptances; provided that an issuing bank must have total assets in excess of $5 billion.
- United States Treasury obligations including bills, notes, bonds, and other debt obligations issued by the United States Treasury and backed by the full faith and credit of the U.S. Government;
- Other full faith and credit obligations of the U.S. Government;
- Securities issued or guaranteed by agencies and instrumentalities of the U.S. Government, but not explicitly backed by the full faith and credit of the U.S. Government;
- Securities issued or guaranteed by municipalities in the United States;
- Obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars or local currency, if hedged back to U.S. dollars;
- Investment grade corporate debt securities comprising:
  - Corporate debt issued in the U.S. capital markets by U.S. companies;

  - Euro-dollar debt (that is, U.S. dollar-denominated securities issued outside the U.S. capital markets by U.S. companies or by foreign issuers); and
  - Yankee debt (that is, U.S. dollar denominated obligations issued in the U.S. capital markets by foreign issuers).
- Investment grade asset-backed securities (ABS);
- Agency and investment grade non-agency mortgage-backed securities backed by loans secured by residential, multifamily, and commercial properties including, but not limited to, pass-throughs, collateralized mortgage obligations (CMOs), project loans, construction loans, and adjustable rate mortgages;

  Asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Rating Services, Moody's Investors Service and Fitch Ratings. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA;
- High yield securities, up to 5% of the portfolio's assets at the time of purchase, including the following securities and constraints:
  - Convertible bonds;
  - Preferred stock;
  - Warrants and common stock only if issued in conjunction with or related to bonds purchased by the manager; and
  - Common stock received from the conversion of a convertible security, the exercise of a warrant or the restructuring of an issuer's debt should be sold within 90 days of receipt or within 90 days of expiration of a restructuring period. If more time is needed, the Chief Investment Officer must affirm in writing that it is in the Fund's best interest to allow more time.
- Total return swaps referenced to components or sub-components of fixed income indices. To mitigate interest rate risk, the proceeds may not be

invested in securities with a maturity beyond 90 days, unless invested in the Department of Revenue internally managed Short-term Pool; and

- Currency forward contracts, futures and swaps.

Investment in this pool is ideal for fund participants needing to invest part of all of their money with the follow characteristics:

| | |
|---|---|
| Risk Tolerance | High. The daily investment results reflect daily changes in the market value of the pool's investments. Losses are likley over the intermediate-term based on the changes in market value of the pool's assets. |
| Investment Objectives | Willing to risk significant short-term volatility and prinicpal loss for the possibilty of gains in the long-term. |
| Current Income | Daily earnings credit. The earnings of the pool iclude interest and changes in the market value of the investments held in the pool. There is no distinction between current income and capital gains. |
| Inflation Protection | Moderate need for long-term inflation protection. The pool should earn a positive real rate over an intermediate time horizon while meeting its other objectives |
| Liquidity | Need for moderate liquidity. The pool can accommodate major withdrawls and contributions (exceeding $5,000,000) in the normal operating environment. The pool can accommodate much larger withdrawals, $25,000,000 or more, with very little advance notice. |
| Time Horizon | Moderately long to long time horizon. The long time horizon allows a more aggressive investment policy with higher expected returns than the Intermediate-term Pool. |

Treasury's performance benchmark for the Broad Market Fixed Income Pool is:

100% Bloomberg Barclays US Aggregate Bond Index.

### 3. Legal Constraints and Special Circumstances

Treasury anticipates that several trust funds will participate in this pool. Treasury must distinguish income from net appreciation to meet the legal restrictions pertinent to various trust funds.

## E. *Domestic Equity Investments (AY5V)*

### 1. Description and History

The Domestic Equity Investment Pool (Domestic Equity Pool) is an efficient investment option for fund participants that do not have high liquidity needs and that can take high residual or equity risk in exchange for higher expected returns over time. Money is invested in a passively managed index fund operated by State Street Global Advisors: The State Street Global Advisors Russell 3000 Stock Index Common Trust Fund. The Trust includes other, non-State institutional investors. When investing in this Trust, the State does not own the individual securities, but instead, much like an investment in a mutual fund, it owns shares of the Trust.

The selection of the index for investment of money managed by Treasury has evolved over time. From 1991 to 1997, the state invested in a trust fund that tracked the Standard & Poor's 500 Stock Index. In October 1997, Treasury invested in a second trust fund so that the two trust funds combined replicated the Russell 3000 Stock Index. In May 2000, Treasury transferred all money invested in these two investments to State Street's Russell 3000 Trust Fund, except for the University of Alaska Trust money which remained invested in the S&P 500. In June 2004, at the University of Alaska's request, Treasury transferred all money invested in the S&P 500 to State Street's Passive Bond Market Common Trust Fund (see the Broad Market Fixed Income Investments section). In July 2011, Treasury created the Domestic Equity Pool into which all discrete State fund investments were placed. Prior to this, each fund invested directly in the domestic equity trust.

The rationale for passive management of domestic equity is explained in Appendix M. The rationale for selection of the Russell 3000 Stock Index is explained in Appendix N.

## 2. Investment Policy

Treasury invests money in State Street's Russell 3000 Stock Index Common Trust Fund. According to FTSE Russell, this index represents approximately 98% of the investable U.S. equity market. Consequently, the risk characteristics of the Trust approximates the risk of the broad U.S. equity market.

Investment in this option is ideal for funds needing to invest part or all of their money with the following characteristics:

| | |
|---|---|
| Risk Tolerance | High. Losses are likely over the intermediate-term based on the changes in market value of the common trust's assets. |
| Investment Objectives | Willing to risk significant short-term volatility and prinicpal loss for the possibilty of gains in the long-term. |
| Current Income | Not a high priority. The total return of the common trust is calculated daily and included in the daily unit price. Earnings are recorded daily. The total return of the common trust includes dividends and capital appreciation. In calculating anticipated return, there is no distinction bewteen current income and capital appreciation. However, the ability to separately account for capital ppreciation is required for any trust that may invest in the common trust. |
| Inflation Protection | High need for long-term inflation protection. The common trust should earn a positive real return over a long time horizon while meeting its other objectives. |
| Liquidity | Limited liquidity required. The common trust can accommodate withdrawals and contributions (exceeding $5,000,000) in the normal operating environment. The common trust can be accommodate much larger withdrawals, $25,000,000 or more, with advance notice. |
| Time Horizon | Long. This time horizon allows a more aggressive investment policy with higher expected returns than any of the fixed income options. |

Treasury's performance benchmark for the common trust is:

100% Russell 3000 Index

### 3. Legal Constraints and Special Circumstances

Treasury anticipates that several trust funds will participate in this option. Treasury may need to distinguish dividends from capital appreciation to meet the legal restrictions pertinent to various trust funds.

## F. *International Equity Investments (AYLC)*

### 1. Description and History

The International Equity Investment Pool (International Equity Pool) is an efficient investment option for fund participants that do not have high liquidity needs and that can take high residual or equity risk in exchange for higher expected returns over time. Money is invested in a passively managed index fund operated by State Street Global Advisors: the State Street Global Advisors MSCI All Country World Index ex-United States Stock Index Common Trust Fund. The Trust includes other, non-State institutional investors. When investing in this Trust, the State does not own the individual securities, but instead, much like an investment in a mutual fund, it owns shares of the Trust.

Treasury originally considered international equities in 1997. Treasury evaluated the expected volatility and the correlation of international equities with other asset classes together with the costs associated with managing and monitoring an international equity portfolio. Treasury concluded that international equities were not warranted. Treasury re-evaluated international equities in 1998 and came to the same conclusion.

In 1999, Treasury concluded that international equities were warranted in portfolios with a long-term investment time horizon. Unlike the passively managed Domestic Equity Pool, Treasury concluded that an actively managed international equity pool would provide higher expected returns and less volatility than a passively managed portfolio. The analysis and rationale supporting the decision to select Lazard Freres Asset Management to actively manage the International Equity Investment Pool can be found in Appendix HF to this publication. To ensure broad exposure to international equities, and to provide an avenue for additional liquidity, Treasury began offering access to a passively managed portfolio in 2007. In July 2011, Treasury created the International Equity Passive Pool into which all discrete State fund investments were placed. Prior to this, each fund invested directly into the passively managed international equity trust. In September 2019, the Commissioner informed staff of the decision to discontinue active investment in international equities.

### 2. Investment Policy

The capital market assumptions of the international equity allocation are based on the expected return volatility and correlation assumptions of the MSCI ACWI ex-US Index.

Investment in these pools is ideal for funds needing to invest part or all of their money with the following characteristics:

| | |
|---|---|
| Risk Tolerance | High. Losses are likely over the intermediate-term based on the changes in market value of the portfolio's underlying assets. |
| Investment Objectives | Willing to risk significant short-term volatility and prinicpal loss for the possibilty of gains in the long-term. |
| Current Income | Not a high priority. The total return of the pool is calculated daily and included in the daily unit price. Earnings are recorded daily. The total return of the pool includes dividends and capital appreciation. In calculating anticipated return, there is no distinction bewteen current income and capital appreciation. However, the ability to separately account for capital ppreciation is required for any trust that may invest in the common trust. |
| Inflation Protection | High need for long-term inflation protection. The international equity investments should earn a positive real return over a long time horizon while meeting its other objectives. |
| Liquidity | Very limited liquidity required. The International Equity Investment Pool can accommodate withdrawals and contributions (exceeding $1,000,000) only with advance notice. |
| Time Horizon | Long. This time horizon allows a more aggressive investment policy with higher expected returns than any of the fixed income options. |

Treasury's performance benchmark for the International Equity Pool is:

100% MSCI ACWI ex-US

## G. *Domestic Real Estate Investment Trust (REIT) Investment Pool (AYKC)*

Investment in the Domestic Real Estate Investment Trust (REIT) Investment Pool has been reinstated as of July 1, 2021. Please see Appendix HE for historical descriptions and guidelines.

### 1. Description and History

In July 2021, the Domestic Real Estate Investment Trust investment pool (Domestic REIT pool) was approved as a pooled investment vehicle for the State of Alaska funds. The Domestic REIT Pool is managed internally using existing Treasury staff. The pool was added for additional performance diversification resulting from exposure to commercial real estate. Staff manages the portfolio internally at low incremental cost.

Commercial real estate allows investors to own property, with the primary objective of leasing a structure to various tenants in return for income and the potential for capital gain. Core property types commonly include multifamily residential (apartment buildings), retail, office, and industrial. Long-term returns for real estate are driven primarily by a property's net operating income and to a lesser extent by property value appreciation. Private commercial real estate has long been considered an institutional asset class and advocated as a component of an efficient portfolio.

REITs provide an opportunity to efficiently obtain diversified, liquid exposure to commercial real estate. REITs provide for different fundamental sources of risk and return, versus the broad equity and fixed income markets. These benefits are more likely to manifest themselves over the longer term, as REITs are equity securities and will be somewhat correlated with the equity market over the short term.

REITs provide a natural hedge against inflation as income-oriented properties may increase rents to compensate for inflation's erosion of value. Equities tend to underperform during periods of high inflation or deflation, while bonds perform best during times of deflation and underperform during inflationary times.

## 2. Investment Policy

Treasury invests money in the Domestic REIT Pool in a broadly diversified portfolio of REITs. The portfolio is invested in all REIT property types including multi-family, office, industrial, and retail properties. Permissible investments include:

- Publicly traded US REITs;
- Investments owned as a result of a corporate action and not a direct purchase, including, but not limited to securities delisted and/or deregistered if held at a value deemed to be de minimis and compliant with the manager's specific investment mandate or strategy;
- equity related composite instruments including, but not limited to exchange traded funds (ETFs), standardized equity index futures and closed end funds; and
- the Short-term Fixed Income Investment Pool.

Treasury staff are authorized to invest or reinvest or dispose of any cash or securities held in their account or invest the proceeds of any disposition, without distinction between principal and income, provided that:

- No more than ten percent of the voting stock of any corporation is acquired or held;
- In the event the aggregate total of any security held by the State of Alaska exceeds five percent (5%) of total shares outstanding, the Commissioner may direct Treasury staff to sell securities until the aggregate is below five percent (5%);
- Cash levels, including investments in the Short-term Fixed Income Investment Pool are below a maximum of three percent (3%), calculated using a 10-day moving average; and
- Treasury staff will use its best efforts to obtain prompt execution of orders at the most favorable prices reasonably obtainable, and in doing so, will consider a number of factors, including, without limitation, the overall direct net economic result to the State (including commissions, which may not be the lowest available but which ordinarily will not be higher than the generally prevailing competitive range), the financial strength and stability of the

broker, the efficiency with which the transaction is effected, the ability to effect the transaction at all where a large block is involved, the availability of the broker to stand ready to execute possible difficult transactions in the future and other matters involved in the receipt of "brokerage and research services" as defined in and in compliance with Section 28(e) of the Securities Exchange Act of 1934, as amended, and regulations thereunder; and

- Treasury staff will vote any or all of the securities held by or for the State, unless written instructions to the contrary have been provided by the Commissioner. In voting securities of the State, Treasury staff shall act prudently in the interest and for the benefit of the State and the beneficiaries of the funds administered by the State.

Investment in this option is ideal for funds investing part of all of their money with the following characteristics:

| | |
|---|---|
| Risk Tolerance | High. Losses are likely over the intermediate-term based on the changes in market value of the portfolio's underlying assets. |
| Investment Objectives | Willing to risk significant short-term volatility and prinicpal loss for the possibilty of gains in the long-term. |
| Current Income | This investment can be expected to generate higher levels of current income than the Domestic Equity Pool. The total return of the pool is calculated daily. Earnings are recorded on a daily basis. The total return of the pool includes dividends and capital appreciation. In calculating anticipated return, there is no distinction between current income and capital appreciation. However, the ability to separately account for capital appreciation is required for any trust that may invest in the common trust. |
| Inflation Protection | Long-term inflation protection. The pool should earn a positive real rate of return over a long time horizon while meeting its other objectives. |
| Liquidity | Moderate liquidity. The pool can accommodate withdrawals and contributions (exceeding $5,000,000) in the normal operating environment. The pool can accommodate much larger withdrawals, $25,000,000 or more, with advance notice. |

The portfolio is expected to have returns, over time, in excess of its benchmark.

Treasury's performance benchmark for the Domestic REITs Pool is:

100%	FTSE NAREIT All Equity Index

## H. *Inflation-Indexed Fixed Income Pool (AYL9)*

### 1. Description and History

The emphasis of investments in inflation-indexed fixed income securities shall be exposure to the Bloomberg Barclays US Treasury Inflation-Linked Bond Index. The purpose of this investment is to provide exposure, if warranted, to domestic inflation and changes in domestic inflation.

### 2. Investment Policy

- Money market investments comprising:
    - Repurchase agreements collateralized only by U.S. Treasury obligations, including bills, notes, and bonds, and only when the collateral carries a market value equal to or greater than 102% of the amount of the repurchase agreements, and only when the custodial bank appointed by retirement funds will take custody of the collateral;
    - Commercial paper rated at least Prime-1 by Moody's Investor Services, Inc. and A-1 by Standard and Poor's Corporation; and
    - Negotiable certificates of deposit and bankers acceptances, provided that an issuing bank must have total assets in excess of $5 billion.
- United State Treasury obligations including bills, notes, bonds, other debt obligations issued by the United States Treasury, and backed by the full faith and credit of the U.S. Government;
- Other full faith and credit obligations of the U.S. Government;
- Securities issued or guaranteed by agencies and instrumentalities of the U.S. Government, but not explicitly backed by the full faith and credit of the U.S. Government;
- Securities issued or guaranteed by municipalities in the United States;
- Obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities;

- Investment grade corporate debt securities comprising:
    - Corporate debt issued in the U.S. capital markets by U.S. companies;
    - Euro-dollar debt (that is, U.S. dollar-denominated securities issued outside the U.S. capital markets by U.S. companies or by foreign issuers);
    - Yankee debt (that is, U.S. dollar-denominated obligations and issued in the U.S. capital markets by foreign issuers); and
    - Corporate debt issued outside of the U.S. capital markets
- Asset-backed securities (ABS);
- Agency and non-agency mortgage-backed securities backed by loans secured by residential, multifamily, and commercial properties included, but not limited to, pass-throughs, collateralized mortgage loans (CMOs), project loans, construction loans, and adjustable-rate mortgages;
- Total return swaps referenced to components or sub-components of fixed income indices. To mitigate interest rate risk, the proceeds may not be invested in securities with a maturity beyond 90 days, unless invested in the Department of Revenue internally managed Short-Term Fixed Income Pool.

### 3. Limitations on Holdings

The manager of the fixed-income portfolio shall apply appropriate diversification standards subject, however, to the following limitations based on the current market value of assets:

- A minimum of 80% of the portfolio's assets will be invested in inflation-indexed bonds;
- The portfolio's duration may not exceed a band of +/-20% around the duration of the Bloomberg Barclays US Treasury Inflation-Linked Bond Index, or a reasonable proxy thereof;
- The manager may not invest more than 10% of the portfolio's assets in non-U.S. dollar-denominated debt;
- The manager may not invest more than 5% of the portfolio's assets in investment grade corporate debt;
- Corporate, asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and

Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies;

- The manager may not invest more than 5% of the portfolio's assets in BBB+ to BBB- rated debt by Standard and Poor's Corporation or the equivalents by Moody's or Fitch; and
- The manager may not purchase more than 10% of the currently outstanding par value of any corporate bond issue.

### 4. Coverage

The manager will execute trades with dealers that will execute orders promptly at the most favorable prices reasonably attainable:

- Internally managed assets – the manager may only execute trades with U.S. Treasury primary dealers or approved dealers, provided that the dealer shall have a minimum of $200,000,000 in capital. This requirement does not apply to or restrict trades with direct issuers of commercial paper and mortgage-backed securities otherwise eligible for investment under these guidelines. The dealers must be able to execute orders promptly at the most favorable prices reasonably attainable
- Externally managed assets – Internal cross trades are permitted at prevailing market levels, in accordance with the Department of Labor's Prohibited Transaction Exemption 95-66

### 5. Specific Exclusions on Investments

The manager shall apply appropriate limitations designed to reduce risk exposure at the time investment securities are purchased, and shall, at a minimums, apply the following limitations:

- There shall be no investment in private placements, except rule 144A securities;
- The manager shall not sell securities short;
- The manger shall not purchase securities on margin; and
- The manager shall not utilize options or futures.

### 6. Required Remedies

Recognizing that ratings and relative asset worth may change, the manager shall liquidate invested securities with care and prudence when the credit rating of a security falls below the minimum standards set in these guidelines or when the relative market value of that investment type exceeds the levels of holdings permitted in these guidelines. The manager is required to notify the chief investment officer to discuss the situation and the proposed liquidation strategy if it is not prudent simply to liquidate immediately.

## I. *Tactical Bond Pool (AYL8)*

### 1. Description and History

The Tactical Bond Fund became available in September 2021. The Fund's investment objective is to maximize risk-adjusted returns by tactically investing in an expansive range of fixed income sectors and security types. The Fund will allocate among global fixed income investments including investment grade and high yield corporate bonds, emerging markets debt, leveraged loans, non-agency mortgage-backed securities, convertible bonds, preferred and hybrid securities. The Fund is managed by Fidelity Investments Asset Management (FIAM).

### 2. Investment Policy

Treasury invests money in the FIAM Tactical Bond Fund, LP, a Delaware limited partnership. The Fund has a targeted excess return of 1.25% to 2.50% with a tracking error expectation of 2.50% to 5.00% versus the benchmark.

Investment in this option is ideal for funds needing to invest part or all their money with the following characteristics:

| | |
|---|---|
| Risk Tolerance | Moderate. The daily investment results reflect daily changes in the market value of the fund investments. Losses are possible over the intermediate term based on the changes in market value of the fund assets. |
| Investment Objectives | Willing to risk significant short-term volatility and principal loss for the possibility of large gains in the long-term. |
| Current Income | Income is reinvested in the Fund. |
| Inflation Protection | Moderate need for long-term inflation protection. The fund should earn a positive real rate over an intermediate time horizon while meeting its other objectives. |
| Liquidity | Substantial liquidity available. The fund can accommodate significant withdrawals. |
| Time Horizon | Moderate to long time horizon. The longer time horizon allows a more aggressive investment policy with higher expected returns than the other fixed income options. May invest alongside passive market investments in short-term funds. |

Treasury's performance benchmark for the Tactical Bond fund is:

100% Bloomberg Barclays U.S. Aggregate Bond Index

## J. *High Yield Investments Pool (AYJC)*

Investment in the High Yield Investments Pool has been discontinued, but this reference is retained for institutional memory. Please see Appendix HE for historical descriptions and guidelines.

# XII. Investment Policies Pertaining to Funds under the Direct Responsibility of the Commissioner of Revenue

## A. *General Fund and the GeFONSI Investment Pool (AY01, AY3F)*

### 1. Overview

As explained earlier in this publication, the Commissioner of Revenue is responsible for all deposits and investments of the state's money except where the Legislature has delegated that responsibility to other individuals or boards responsible for separate subdivisions or component units of the state. Treasury has the responsibility for managing all of the state's money except money held by the following component units:

- Alaska Permanent Fund Corporation
- Alaska Energy Authority
- Alaska Housing Finance Corporation
- Alaska Industrial Development and Export Authority
- Alaska Mental Health Trust Authority
- Alaska Municipal Bond Bank Authority
- Alaska Railroad Corporation
- Alaska Student Loan Corporation

The money Treasury is responsible for investing is held in either a treasurer's pool known as the GeFONSI[5] or one of the several other segregated treasurers' pools. Some component units may invest funds with the Treasury; however, they are responsible to their own asset allocation. Each treasury pool is held in a unique fund[6] in the statewide accounting system.

[5] This treasurer's pool was known as the General Investment Fund until July 1994 when the Revenue Commissioner gave it a more descriptive name – the General Fund and Other Non-segregated Investments.

[6] The term "fund" is used in many ways in legislation, in this publication and by pertinent state government officials. In governmental accounting, however, the term "fund" has a very precise, technical meaning. In order to account for restrictions imposed by the governing legislative body on the utilization of a state or municipal government's financial resources, the applicable accounting conventions required by the Governmental Accounting Standards Board (GASB) rely on fund accounting. Under the GASB rules, a fund is a "fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations." National Council on Governmental Accounting, *Statement 1:*

### 2. Historical

- 1959. At or near the time Alaska achieved statehood, Treasury establishes a commingled treasurer's pool called the General Investment Fund to hold the cash and investments of various governmental funds.
- July 1, 1985. The state installs its new Statewide Accounting System (AKSAS)[7].TP11F PT Prior to 1985, the state maintained three systems to track state funds: (a) Treasury kept a series of manual ledgers to track invested balances, (b) Finance kept a batch system that tracked fund balances, and (c) Finance kept a manual system that tracked state warrants. One purpose of AKSAS was to replace these three systems.
- July 1994. Treasury establishes the GeFONSI, a treasury pool which participates in the newly created Short- and Intermediate-term Fixed Income Investment Pools.
- October 12, 2000. The State of Alaska sold, without recourse, all rights, title and interest to forty percent of the revenue that the State has a right to receive from time to time under the Master Settlement Agreement identified in the Agreed Dismissal Order in the action entitled The State of Alaska v. Phillip Morris, Inc., et al (2000 Tobacco Assets). The proceeds from this sale were invested in a specific investment agreement managed by the Alaska Housing Finance Corporation. The investment agreement is recorded in the General Fund but is not included in the GeFONSI treasury pool.
- August 1, 2001, The State of Alaska sold, without recourse, all rights, title and interest to forty percent of the revenue that the State has a right to receive from time to time under the Master Settlement Agreement identified in the Agreed Dismissal Order in the action entitled The State of Alaska v. Phillip Morris, Inc., et

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*Governmental Accounting and Financial Reporting Principles* (Chicago: Municipal Finance Officers Association of the United States and Canada, 1979), p. 2.

[7] AKSAS was designed to incorporate sophisticated file management technology, highly flexible management reporting facilities, on-line data entry/inquiry and streamlined procedures to provide minimum processing turn-around time and high quality, timely management and financial information for the State of Alaska. The design is based on three major concepts: (a) maintain the detailed financial data available at the time transactions are recorded to provide ready access to transactions and reporting flexibility, (b) provide additional reporting structures beyond the required statewide budget structure and the funds to accommodate regulatory, financial and management reporting requirements, and (c) streamline the transaction processing flow through on-line data entry/error correction and transaction certification.

al (2001 Tobacco Assets). The proceeds from this sale were invested in a specific investment agreement managed by the Alaska Housing Finance Corporation. The investment agreement is recorded in the General Fund but is not included in the GeFONSI treasury pool.

- June 2002. The asset allocation policy was changed from 38% Short-term Pool and 62% Intermediate-term Pool to 30% Short-term Pool, 60% Intermediate-term Pool and 10% Broad Market Pool effective July 1, 2002.
- July 2002. The interest rate environment is lower than initially expected as the economy struggles, and the Federal Reserve remains on hold. As such, the move to the new asset allocation targets has been temporarily postponed.
- July 26, 2002. Permanent Fund Dividend monies invested in the GeFONSI were transferred to the Permanent Fund Dividend Holding Account, created to accommodate the early transfer of annual permanent fund dividend money. This balance will be separately invested from here on out.
- January 2003. Due to the continued low interest rate environment, the asset allocation policy was revised midyear. The policy that was to become effective July 1, 2002 and subsequently postponed was reversed and the policy in place effective April 1, 2000 was reinstated effective December 31, 2002. The asset allocation policy reverted to 38% Short-term Pool and 62% Intermediate-term Pool effective December 31, 2002.
- March 2003. The asset allocation policy was changed to 50% Short-term Pool and 50% Intermediate-term Pool effective July 1, 2003.
- July 1, 2005. The asset allocation policy was changed to 44% Short-term Pool and 56% Intermediate-term Pool.
- July 1, 2006. The asset allocation policy was changed to 36% Short-term Pool and 64% Intermediate-term Pool.
- July 1, 2007. The asset allocation policy was changed to 33% Short-term Pool and 67% Intermediate-term Pool.
- July 1, 2008. The asset allocation policy was changed to 37% Short-term Pool and 63% Intermediate-term Pool.
- July 1, 2009. The asset allocation policy was changed to 43% Short-term Pool and 57% Intermediate-term Pool.

- July 1, 2010. The asset allocation policy was changed to 44% Short-term Pool and 56% Intermediate-term Pool.
- July 1, 2011. The asset allocation policy was changed to 53% Short-term Pool and 47% Intermediate-term Pool.
- July 1, 2012. There was no change to the asset allocation policy; however, the benchmark was changed from the 1-5 year Merrill Lynch Gov. Bond Index to the Barclays 1-3 year Gov. Bond Index.
- August 2, 2012. The asset allocation policy changed to 43% Short-term Pool, 10% Short-term Liquidity Pool, and 47% Intermediate-term Pool.
- January 2013. The asset allocation policy was updated with the addition of Treasury Bills, Treasury Notes, Treasury Bonds or Federal Agency Debentures at 0%, +2%. The new asset allocation was intended to mitigate risk by providing the ability to engage in repurchase transactions directly.
- July 1, 2013. The asset allocation policy changed to 45% Short-term Pool, 10% Short-term Liquidity Pool, and 45% Intermediate-term Pool.
- July 1, 2014. The asset allocation policy changed to 72% Short-term Pool / Short-term Liquidity Pool, and 28% Intermediate-term Pool. The asset allocation policy was updated with the addition of Broad Market Pool at 0%, +10%. The policy retained the allocation to invest up to 2% in bank bonds, and up to 2% in treasury bills, treasury notes, treasury bonds or federal agency debentures (intended to mitigate risk by providing the ability to engage in repurchase transactions directly).
- July 1, 2015. The asset allocation policy changed to 68% Short-term Pool / Short-term Liquidity Pool, and 32% Intermediate-term Pool. The policy retained the allocation to invest in the Broad Market Pool at up to 10%, as well as up to 2% in bank bonds, and up to 2% in treasury bills, treasury notes, treasury bonds or federal agency debentures (intended to mitigate risk by providing the ability to engage in repurchase transactions directly).
- July 1, 2016. The asset allocation policy was retained at 68% Short-term Pool / Short-term Liquidity Pool, and 32% Intermediate-term Pool. The policy also retained the allocation to invest in the Broad Market Pool at up to 10%, as well as up to 2% in bank bonds, up to 2% in treasury bills, treasury notes, treasury bonds

or federal agency debentures (intended to mitigate risk by providing the ability to engage in repurchase transactions directly), and up to 2% in Tax Credit Loans.

- July 1, 2017. The asset allocation policy was changed to 64% Short-term Pool / Short-term Liquidity Pool, and 36% Intermediate-term Pool. The policy also retained the allocation to invest in the Broad Market Pool at up to 10%, as well as up to 2% in bank bonds, up to 2% in treasury bills, treasury notes, treasury bonds or federal agency debentures (intended to mitigate risk by providing the ability to engage in repurchase transactions directly), and up to 2% in Tax Credit Loans.
- July 1, 2018. The asset allocation policy remained at 64% Short-term Fixed Income Pool, and 36% Intermediate-term Fixed Income Pool. The policy also retained the allocation to invest in the Broad Market Pool at up to 10%, as well as up to 2% in bank bonds, and up to 2% in treasury bills, treasury notes, treasury bonds or federal agency debentures (intended to mitigate risk by providing the ability to engage in repurchase transactions directly).
- July 1, 2018. Certain assets were transferred to the GeFONSI II at the end of fiscal year 2018 to target a longer-term investment horizon and higher returns. The asset allocation policy was initiated for the GeFONSI II at 70% Intermediate-term Pool, 9% Broad Market Pool, 8% Domestic Equity Pool, 8% Short-term Pool, 5% International Equity Pool, and up to 4% REITs.
- August 1, 2019. The asset allocation policy for the GeFONSI I was changed to 83% Short-term Fixed Income Pool, and 17% Intermediate-term Fixed Income Pool. The policy retained the allocation to invest in the Broad Market Pool at up to 10%.
- August 1, 2019. The asset allocation policy for the GeFONSI II was changed to 53% Short-term Fixed Income Pool, 31% Intermediate-term Fixed Income Pool, 9% Broad Market Pool, 4% Domestic Equity Pool, and 3% International Equity Pool.
- July 1, 2020. The asset allocation policy for the GeFONSI I was changed to 77% Short-term Fixed Income Pool, and 23% Broad Market Fixed Income Pool. This followed divestment from the Intermediate-term Fixed Income Pool, given an unfavorable interest rate environment.
- July 1, 2020. The asset allocation policy for the GeFONSI II was changed to 75% Short-term Fixed Income Pool, 18% Broad Market Fixed Income Pool, 4% Domestic Equity Pool, and 3% International Equity Pool. This followed divestment

from the Intermediate-term Fixed Income Pool, given an unfavorable interest rate environment.

- July 1, 2021. The asset allocation policy for GeFONSI I was changed to 85% Short-term Fixed Income Pool, 15% Broad Market Fixed Income Pool.
- July 1, 2021. The asset allocation policy for GeFONSI II was changed to 68% Short-term Fixed Income Pool, 26% Broad Market Fixed Income Pool, 4% Domestic Equity Pool, 2% International Equity Pool.

History of Investment Earnings Allocation Methods

| | **Actual Paid under MOU** | | |
|---|---|---|---|
| **FY** | **Balance** | **Rate Used** | **GAAP Requirement for State CAFR Presentation** |
| 1993 | Month end balance | Pro rata share of GeFONSI earnings[8] | Lower of cost or market (LCM)[9] |
| 1994 | Daily balance | 180-Day T-Bill[10] | LCM |
| 1995 | Daily balance | 180-Day T-Bill | LCM |
| 1996 | Daily balance | 180-Day T-Bill | LCM |
| 1997 | Daily balance | 180-Day T-Bill | LCM, but State implemented GASB No. 31 early which presents invested assets at fair market value |
| 1998 | Daily balance | GeFONSI mark-to-market daily rate | Fair market value |

[8]Per Memorandum of Understanding dated October 2, 1992 effective September 1, 1992. Earnings are defined as realized gains or losses, accrued income [refers to interest rather than income], amortization of premiums, and accretion of discounts.
[9] Invested assets are reported at cost unless the market value is materially less at fiscal year-end.
[10] Specifically, the rate was derived from the Bond Yield Equivalent resulting from the weekly 180-day Treasury Bill auction for the previous week.

## 3. Facts and Figures

**Performance Results**

| GeFONSI I | | GeFONSI II | |
|---|---|---|---|
| **Fiscal Year** | **Rate of Return** | **Fiscal Year** | **Rate of Return** |
| 1992 | 6.92% | 1992 | - |
| 1993 | 4.37% | 1993 | - |
| 1994 | 3.12% | 1994 | - |
| 1995 | 7.06% | 1995 | - |
| 1996 | 5.47% | 1996 | - |
| 1997 | 6.22% | 1997 | - |
| 1998 | 6.62% | 1998 | - |
| 1999 | 5.02% | 1999 | - |
| 2000 | 5.29% | 2000 | - |
| 2001 | 8.59% | 2001 | - |
| 2002 | 4.63% | 2002 | - |
| 2003 | 4.82% | 2003 | - |
| 2004 | 0.92% | 2004 | - |
| 2005 | 2.84% | 2005 | - |
| 2006 | 2.92% | 2006 | - |
| 2007 | 5.60% | 2007 | - |
| 2008 | 5.85% | 2008 | - |
| 2009 | 4.24% | 2009 | - |
| 2010 | 3.38% | 2010 | - |
| 2011 | 1.72% | 2011 | - |
| 2012 | 1.52% | 2012 | - |
| 2013 | 0.31% | 2013 | - |
| 2014 | 0.57% | 2014 | - |
| 2015 | 0.45% | 2015 | - |
| 2016 | 0.82% | 2016 | - |
| 2017 | 0.57% | 2017 | - |
| 2018 | 1.02% | 2018 | - |
| 2019 | 3.08% | 2019 | 4.65% |
| 2020 | 2.15% | 2020 | 3.31% |
| 2021 | 0.09% | 2021 | 2.52% |

## 4. Management

### a) How a Treasurer's Pool Works

The Division of Finance in the Department of Administration (Finance) has established separate funds (GASB funds) to account for the various programs established by the pertinent legal authorities (for the most part, the Alaska

Legislature). The General Fund is the most visible of these funds; most state government activity is paid through this fund.

Finance has established a series of treasury pools to facilitate cash flow and warrant clearings. Treasury pools are not GASB funds under generally accepted accounting principles. Rather, they are entities established by Finance to hold and account for cash and investments for separate GASB funds. The balance sheets for each of the GASB funds, in turn, reflect the invested assets for that GASB fund in a separate account.

The State accounting system is configured so that each of the state's GASB funds will be invested in only one treasurer's pool. However, a treasurer's pool may hold the assets of more than one GASB fund. Treasury's investment policies for each of the GASB funds must accommodate this constraint.

As explained in Section X (B), most of the assets in the General Fund are invested in the GeFONSI investment pool. Using a commingled investment pool maximizes the earnings potential for most of the pools' participants by providing smaller funds the opportunity to participate in investment opportunities that would otherwise be unavailable to them and by providing economies of scale.

Funds from each of the major operating fund categories recognized by GASB - governmental funds, proprietary funds, and fiduciary funds - are invested in the GeFONSI.[11]

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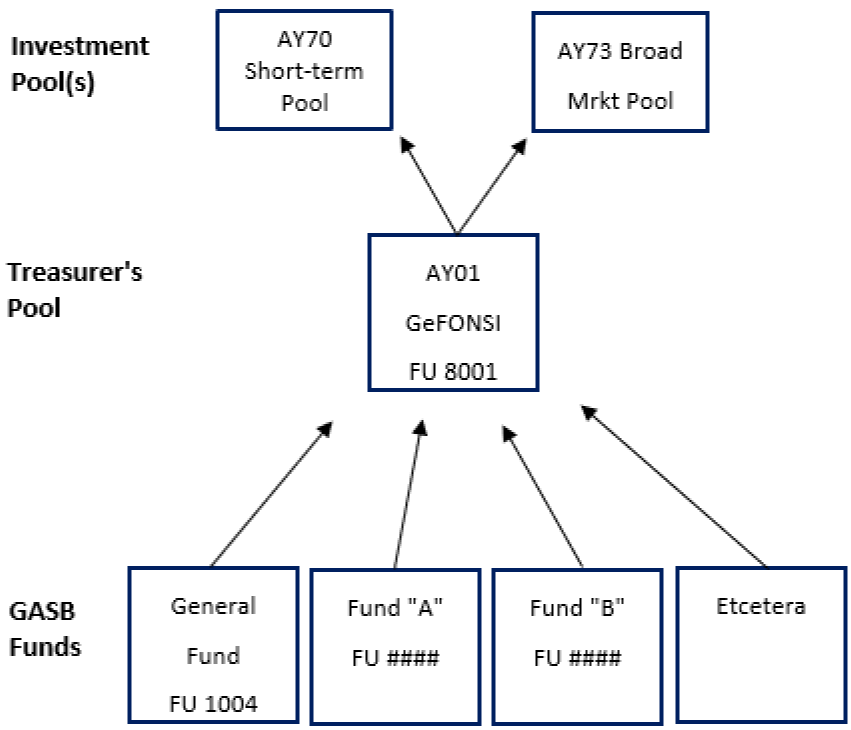
[11] Governmental funds are expendable; money in governmental funds are received and expended with no expectation that the money will be returned through user or departmental charges. Proprietary funds are commercial-type funds used to account for the ongoing operations conducted by the government that are similar to those conducted by private business; they include both enterprise funds that provide services to individuals outside state government and internal service funds that provide services from one government agency to another. Finally, fiduciary funds are used to account for fund assets held by the government in a trust capacity or as an agent for other entities.

As described more fully below, Treasury has concluded that the GeFONSI has a moderate risk tolerance, a short time horizon and a high need for liquidity[12].

The relationship between the pertinent GASB funds, the treasury pools, and their related accounts at the custodian bank is shown in the following graphic:




b) Earnings Allocation Policy

Whether a GeFONSI participant receives investment earnings depends on applicable state or federal legislation, court decree or a formal opinion issued by

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[12] The General Fund is also comprised of the following non-commingled investments and clearing accounts:

- **Cash and Compensating Balances** - To cover the costs of certain banking services provided to the Treasury Division, the General Fund holds interest-free compensating balances with one or more servicing banks. See AS 37.10.075(d). These balances also include daily deposits in Alaska, Washington and Canadian banks that are transferred to the state's clearing bank for redemption of state warrants.
- **Settlement Accounts** - These include transactions and settlements that have not been fully allocated in the state's accounting records.
- **Tobacco Revenue Fixed Income Agreement** - The General Fund owns separate accounts representing unspent proceeds and related earnings from the sale of anticipated tobacco revenue. These accounts are managed by the Alaska Housing Finance Corporation.
- **Permanent Fund Dividend Holding Account** - See XII(W).

the state's Attorney General. The Department of Administration, Division of Finance interprets the applicable statutes according to their procedures set forth in Appendix AS. Each participant can be classified into one of three categories as follows:

- Type 1: Individual funds whose assets are invested in the GeFONSI are legally entitled to automatically receive the earnings attributable to the investment of those assets.
- Type 2: Other funds invested in the GeFONSI are entitled to receive the earnings attributable to the investment of their assets if the Legislature chooses to appropriate the earnings to those funds. If the Legislature does not so appropriate, then the General Fund receives the earnings from those assets.
- Type 3: Treasury computes and separately accounts for investment earnings but credits those earnings to the General Fund

The specific arrangements pertaining to the distribution of GeFONSI investment earnings have been memorialized in a series of Memoranda of Understanding (MOU) between the Departments of Revenue and Administration beginning in 1986. A sample MOU may be found in Appendix R. Designated persons in the Department of Administration, Division of Finance, transmit changes to participant classification through updates to Attachment C of the MOU. Treasury staff retains updates to the MOU with attachments in a permanent file within the Accounting Section.

Under the MOU effective July 1, 1993 to June 30, 1997, each fund invested in the GeFONSI (other than the General Fund) that was entitled to the earnings on its invested assets initially received an amount based on the bond equivalent yield of the 180-Day Treasury Bill established at the weekly U.S. Treasury auction. In November 1997, administrators for one of the participating funds, the Exxon Valdez Settlement Fund, questioned the validity of using this proxy rate of return. (See Appendix BI). The Revenue Commissioner requested the state attorney general's opinion regarding the matter. (See Appendix S) In reply, the attorney general determined that funds involving a trust[13] or custodial relationship should have received their actual daily rate of return while their assets were invested in the GeFONSI during FY1994 through 1997 (See Appendix AQ). Though not intended to be a comprehensive review of funds participating in the GeFONSI during FY1994 through FY1997, the state's attorney specifically indicated the following funds fall under a trust or custodial relationship:

- Oil Restoration Fund (Fund 3382)[14]
- Exxon Valdez Settlement Fund (Fund 3386)
- Deposits, Suspense and Miscellaneous Trust Account (Fund 3285)[15]
- Public Advocacy Trust (Fund 3288)
- Wage and Hour Trust (Fund 3287)
- Alaska Aerospace Development Corp. Revolving Fund (Fund 3310)
- Alaska Aerospace Development Corp. Federal Grant Fund (Fund 3311)
- Alaska Student Loan Corporation Revolving Loan Fund (Fund 1106)
- Mental Health Trust (Fund 3320)
- Mental Health Trust Income Settlement (Fund 1092)

Effective July 1, 1997, the Departments of Revenue and Administration entered into a new Memorandum of Understanding that modified the earnings allocation method used to distribute investment earnings to GeFONSI participants. Under the modified procedure, Treasury allocates investment earnings to eligible GeFONSI participants (other than the General Fund) using

[13] According to the attorney general opinion number 663-98-0298 dated October 26, 2000, "a Trust is…a fiduciary relationship with respect to property, subjecting a person by whom title to property is held to equitable duties to deal with property for the benefits of another person, which arises as [a] result of manifestation to intention to create it."

[14] "By plea agreement, the Oil Restoration Fund, consisting of approximately $50 million, was established as a segregated fund. U.S. v. Exxon, No. A90-9015 CR (D.C. Alaska). The state was obligated to use the money for a specific purpose, and the plea agreement expressly provided for the payment of interest on the recovery after the money was placed in state custody."

[15] "This general category includes a mixture of funds and accounts. Some of the sub-funds do not raise liability for income allocation decisions. Trust or custodial relationships are present in the permanent fund dividend trust accounts, the Alaska Heritage Endowment, Cooke Memorial Trust, the Department of Law Trust Account, and the Unlicensed Vessel Operators Retirement Fund."

the actual daily rate of return for the GeFONSI. The actual daily earnings rate includes income plus net appreciation (i.e., total return).[16]

Effective July 1, 2018 GeFONSI II was created to invest Type 2 and Type 3 MOU funds, with a longer investment horizon and a higher return target.

c) Treasurers' Pools other than the GeFONSI

While the invested assets of most of the state's GASB funds are held by the GeFONSI, the invested assets of selected GASB funds are held in segregated treasurers' pools. These GASB funds are:

- Constitutional Budget Reserve Fund (AY19);
- Public School Trust Fund (AY08);
- Education Endowment Fund (AY3G);
- Investment Loss Trust Fund (AY28);
- International Airports Revenue Fund (AY04);
- International Airports Repair and Replacement Account Fund (AY05);
- International Airports Series 2002B Non-AMT Reserve Fund (AY2E);
- International Airports Series 2003 A&B Reserve Fund (AY2U);
- International Airports Series 2006 Non-AMT Bond Construction Fund (AY9X);
- International Airports Series 2006 Variable Rate Bond Construction Fund (AY9Y);
- International Airports Series 2010C Private Activity Non-AMT Bond Construction Fund (AY3A);
- International Airports Series 2010D Taxable BABS Bond Construction Fund (AY3B);
- General Obligation 2013B Bonds - Library, Education, and Educational Research Facilities (Pursuant to 2010 Act) (AY3Z);

[16] Where the applicable statutes specify that a GeFONSI participant is entitled to its "interest" earnings, Treasury has interpreted the definition as total return. That is, the participant receives income (interest and dividends, if any) plus net appreciation (realized and unrealized gains and losses). This interpretation was first applied in FY 1998 when Treasury began to use the actual daily rate of return to allocate investment earnings.

- General Obligation, Series 2016A - 2012 Transportation Authorization - General Obligation Projects (AY3Y);
- General Obligation, Series 2016B - 2012 Transportation Authorization - General Obligation Projects (AY3Q);
- Alaska Higher Education Investment Fund (AY3L);
- Mine Reclamation Trust Fund (Illinois Creek) (AY9J);
- EVOS Research Investment Fund (AY02)*;
- EVOS Habitat Investment Fund (AY2H)*;
- Power Cost Equalization Endowment Fund (AY13);
- Permanent Fund Dividend Holding Account (AY2G);
- Alaska Mental Health Trust Reserve (AY2L)*;
- Transportation Projects (2008 General Obligation Bonds) (AY2Q);
- Education BABS (2010A General Obligation Bond Fund) (AY3R);
- Education Tax Exempt Bonds (2010C General Obligation Bond Fund) (AY3V);
- Public Employees' Retirement Trust (AY21);
- Teachers' Retirement Trust (AY22);
- Judicial Retirement Trust (AY23);
- National Guard and Naval Militia Retirement Trust (AY24);
- DC Participant Directed PRS Fund;
- DC Participant Directed TRS Fund;
- DCR Health Reimbursement Arrangement Trust PRS (AYY2);
- DCR Health Reimbursement Arrangement Trust TRS (AYY3);
- DCR Occupational and Death Disability PRS (AY6G);
- DCR Occupational and Death Disability TRS (AY6H);
- DCR Occupational and Death Disability Peace Officers/Fire Fighters (AY6I);
- DCR Retiree Medical Plan PRS (AYX2);
- DCR Retiree Medical Plan TRS (AYX3);
- Retiree Health Trust PRS (AYW2);
- Retiree Health Trust TRS (AYW2);

- Retiree Health Trust JRS (AYW4)
- Supplemental Benefits System Trust;
- Retiree Major Medical Insurance Fund (AY03);
- Retiree Long-term Care Fund (AY11); and
- ASLC Investment Fund (AY3S)*

*Treasury has limited responsibility for the EVOS Research Investment Fund, the EVOS Habitat Investment Fund, the ASLC Investment Fund, and the Alaska Mental Health Trust Reserve funds. Treasury invests these funds under the direction of the designated fiduciaries.

Cash Flows

The State recognizes that cash deficiencies occur, and a plan is necessary to ensure State government continues to operate in these situations. Cash in the State's General Fund is essential to ongoing day-to-day operations. Without cash in the fund, the State cannot pay its bills and the daily operations of the State come to a halt. The State's daily cash need can be as much as $200 million in a single day. For purposes of this operating plan, a cash deficiency situation exists any time the General Fund cash balance is projected to, or does, drop below $400 million and is expected to stay below $400 million for five days. Experience demonstrates that cash deficiencies occur, and therefore funding for cash flow purposes is necessary, even in years with a balanced budget.

Senate Bill 26 (“SB26”), relating to the earnings of the Permanent Fund, was approved and became law in 2018. The law adjusted the transfer from the earnings reserve of the Permanent Fund to an amount determined by taking 5.25% of the average market value of the fund for the first five of the preceding six fiscal years, including the fiscal year just ended. Effective July 1, 2021, the amount determined for transfer from the earnings reserve of the Permanent Fund is reduced to 5.00% of the average market value of the fund for the first five of the preceding six fiscal years, including the fiscal year just ended. This calculation does not include the principal attributable to the settlement of State v. Amerada Hess. This transfer is made from the earnings reserve to the General Fund as unrestricted General Fund revenue.

Recently, the General Fund has needed to fund from the Constitutional Budget Reserve Fund (CBRF) or the Statutory Budget Reserve Fund (SBRF) to meet its daily obligations for disbursements. Even in years of balanced budgets, the difference between receipts flowing in and disbursements flowing out of the State causes periodic cash deficiencies and annual budget gaps. The General Fund's cash requirements routinely exceed its balance at points during the fiscal year. The reasons for this include a mismatch in timing between revenues received and funds disbursed, fluctuating oil prices, falling oil production, and an increase in designated sub-funds within the General Fund.

Prior to 1985, most unrestricted revenue flowed directly into the General Fund where it was available to pay day-to-day costs of operating state government. This is no longer the case. Over time, the Legislature has created more than 50 cash pools as sub-funds of the General Fund (See Appendix P and Appendix Q).The effect of these actions has diverted cash historically destined for the General Fund to cash pools that may not be readily available to pay day-to-day state operating costs.

Also contributing to cash deficiencies is the fact that the inflow of unrestricted cash receipts does not mirror the cash outflow. Revenue flows into the state treasury at a relatively constant rate with peaks occurring at the end of each month, quarter, and fiscal year. Expenditure rates vary considerably. The expenditures for the first quarter of each fiscal year are much higher than the revenue for the same period. If the General Fund does not have a large cash balance at the beginning of the fiscal year or if other sources of funds are not available, the state annually faces multiple cash deficiencies before the end of the first quarter of the fiscal year.

The Departments of Law, Revenue, Administration, and the Office of Management and Budget have jointly developed and updated their Cash Deficiency Operating Plan to accomplish this goal (Appendix J). This plan outlines how the State identifies when a cash deficiency is likely to occur, and the steps taken to resolve that deficiency. Treasury makes projections of cash flow patterns for each fiscal year that will identify potential deficiencies. Steps to resolve deficiencies are detailed in a hierarchical list, including accessing funds from legislatively authorized sources, such as the CBRF, SBRF, ERA, sub-funds of the General Fund, and other temporary funding mechanisms. The plan also sets out a procedure for seeking legislative relief if all borrowing sources are exhausted and discusses the differences between funding for cash flow and funding for budgetary needs. Please see Appendix J, which provides a detailed description of procedures and the action that triggers execution of the cash deficiency contingency plan.

### 5. Investment Policy

Appendix U contains the statutes applicable to the investment of GeFONSI. The General Fund, directly and indirectly (through funds or sub-funds whose earnings go directly to the General Fund) constitutes the largest element of the GeFONSI. When developing the investment policy for the GeFONSI, the Department carefully considered the relationship between the General Fund and the Constitutional Budget Reserve Fund (CBRF). (See Section XII(B) - Investment Policy Statement:  Constitutional Budget Reserve Fund) Treasury currently invests the GeFONSI assets with the following in mind:

**GeFONSI I**

| | |
|---|---|
| **Risk Tolerance** | Moderate |
| **Investment Objectives** | • Minimal exposure to principal loss<br>• Maximize current income within moderate risk tolerance<br>• Minimal inflation protection needed<br>• High liquidity requirement |
| **Time Horizon** | Short to intermediate |
| **Other Contraints** | Ongoing review of the nature of objectives of pool participants can change nature of pool or result in withdrawal of some pool participants. Significant intra-month cash flows require normalization of the pool's investment balances when evaluating compliance with investment policy bands. |

**GeFONSI II**

| | |
|---|---|
| **Risk Tolerance** | Moderate-High |
| **Investment Objectives** | • Tolerate moderate exposure to principal loss to target modestly higher returns |
| **Time Horizon** | Intermediate |

Effective July 1, 2021, Treasury's investment policy is:

**GeFONSI I**

| | | |
|---|---|---|
| 85% | +/- 10% | Cash Equivalents |
| 15% | +/- 10% | Core U.S. Fixed Income |

**GeFONSI II**

| | | |
|---|---|---|
| 68% | +/- 10% | Cash Equivalents |
| 26% | +/- 10% | Core U.S. Fixed Income |
| 4% | +5%/-4% | Broad U.S. Equity |
| 2% | +5%/-2% | International Equity |

Performance benchmark:

**GeFONSI I**

| | |
|---|---|
| 85% | 3-Month T-Bill |
| 15% | BB Barclays US Agg Index |

**GeFONSI II**

| | |
|---|---|
| 68% | 3-Month T-Bill |
| 26% | BB Barclays US Agg Index |
| 4% | Russell 3000 Index |
| 2% | MSCI ACWI ex-US Index |

### 6. Ongoing Review of Funds Participating in the GeFONSI

The day-to-day needs of the state's General Fund, with its short time horizon, significantly influence the investment policy applicable to the GeFONSI. However, the GeFONSI holds the cash assets of at least three types of fund participants with longer time horizons than the General Fund. They are:

- Fund participants that are highly likely to maintain minimum large balances for the foreseeable future (e.g., the Oil and Hazardous Substance Release Response Account, the Alaska Marine Highway Fund, the Fish and Game Fund, the Agricultural Revolving Loan Fund, and the Commercial Fish Revolving Loan Fund);
- Fund participants with large balances that are likely to be spent down to a zero balance over a definite, intermediate time horizon (e.g. the Oil Restoration/Exxon Valdez Criminal Fine Fund, the Alyeska/Exxon Valdez Settlement Fund, and the Power Project Fund); and,
- Small trust fund participants whose principal balance must be preserved (e.g., the Alaska Heritage Endowment Fund and the Margaret Nick Cooke Memorial Trust).

The Treasury Division considered three options to enhance the return from the funds with longer time horizons:

- Initiate a second GeFONSI using a more aggressive asset allocation among the existing Treasury investment pools;
- Establish a second, more aggressively invested Intermediate-term Fixed Income Investment Pool in which all of the assets of some of the funds with longer time horizons would be invested; or
- Leave participation in the GeFONSI undisturbed but adopt a more aggressive investment policy for the Intermediate-term Pool and, consequently, a more aggressive policy for the entire GeFONSI.

In February 1998, Treasury recommended the third option; the Commissioner accepted that recommendation. Appendix T contains the analysis supporting Treasury's recommendation. In 2017, Treasury staff again explored the concept of creating a second GeFONSI for funds that could tolerate greater risk to achieve a higher expected return. The fiscal year 2018 asset allocation included the GeFONSI II and it was funded in January of 2018. Starting in July 2020, the Intermediate-term Fixed Income Investment Pool was divested, as the interest rate environment at the time was not conducive. This environment is expected to revert to historic norms in the future, making investment in the Intermediate-term Fixed Income Investment Pool a more viable option.

### 7. Control and Reporting Requirements

AS 37.10.071(a)(8) requires the Commissioner to maintain accounting records in accordance with generally accepted accounting principles. This responsibility has been delegated to the State Comptroller.

AS 37.10.071(a)(9) requires the Commissioner to engage an independent certified public accountant to perform an annual audit of the financial condition and the pertinent investment transactions. To fulfill this requirement, the State Comptroller contracts with an independent certified public accountant to perform the annual audit.

## B. Constitutional Budget Reserve Fund (AY19)

### 1. Overview

The state must deposit in a Constitutional Budget Reserve Fund (CBRF) all money received by the state after July 1, 1990, as a consequence of the resolution of disputes about the amount of mineral lease bonuses, royalties or taxes.

The Legislature may appropriate funds from the CBRF to fund the operations of state government only under certain conditions. If, at any time, the amount of funds from other sources available to the Alaska Legislature for appropriation is less than the amount appropriated to fund state government for the previous fiscal year, then the Legislature may appropriate from the CBRF on a simple majority vote. When the amount of funds from other sources exceeds the amount appropriated for the previous fiscal year, the Legislature may appropriate from the Fund for any public purpose with a three-fourths vote of the members of each house.

The Alaska state constitutional provision governing the operation of the CBRF requires the state's general fund to repay the money that has been appropriated from the CBRF if and when there is a surplus in the general fund at the end of any fiscal year. The general fund does not pay interest on the money it has "borrowed" from the CBRF.

Treasury's investment policies for the CBRF have changed over the years as the balance and the expected uses of the CBRF have changed. A significant change occurred in 2000 when the 21PstP Legislature created a special subaccount in the CBRF in order to "yield higher returns than might be feasible to obtain with other money in the budget reserve fund." The legislature directed that "in establishing or modifying the investment policy for the subaccount in the constitutional budget reserve fund, the commissioner of revenue shall assume that those funds will not be needed for at least five years. Income earned on money in the subaccount shall be retained in the subaccount by the department." AS 37.10.430(c).

Treasury, according to the constitution, credits to the CBRF the amount earned by the investment of the money in the CBRF. That is, the main account of the CBRF retains its investment earnings and the subaccount of the CBRF retains its investment earnings.

Appendix V contains the constitutional and statutory provisions applicable to the CBRF.

## 2. History

- November 1990. Voters of Alaska adopt an amendment to the Alaska State Constitution creating the CBRF. Article IX, 17 - See Appendix V.
- 1992-1994. Litigation over meaning of key terms in the constitutional provision.
- 1994. Legislature attempts to define "administrative proceedings involving taxes" and "money available for appropriation." 1 Ch. 5 SLA 1994. AS 37.10.410-420.
- April 1994. Alaska Supreme Court decision in Hickel v. Halford 872 P.2d 171 defining scope of "dispute" and "administrative proceedings."
- May 1994. Alaska Supreme Court decision in Hickel v. Cowper 874 P.2d 922 defining meaning of "amount available for appropriation."
- 1996. Legislature modifies definition of "administrative proceedings involving taxes." 5 Ch. 108 SLA 1996. See Appendix V.
- 1996. Legislature grants commissioner discretion to transfer management of all or a portion of CBRF to Alaska Permanent Fund Corporation. 1 Ch. 41 SLA 1996. AS 37.10.430. See Appendix V.
- 1997. Commissioner of Revenue decides to manage and invest all of CBRF through the Treasury Division, and Commissioner adopts Reserves Policy for the state.
- 1997. Commissioner adopts investment policy for CBRF based on three separate purposes of CBRF:
  - Fund to implement the state's Reserves Policy to cover anticipated and unanticipated shortfalls in the next two fiscal years' budgets;
  - Fund to provide a transition to a long-term fiscal plan; and
  - Fund to act as long-term reserve account to cover unanticipated budget shortfalls well into the future.
- June 1997. Legislature appropriates money from the CBRF for the first time from the CBRF to pay for CBRF equity investment management fees.

- July 1998. Because of anticipated heavy use of CBRF in short to medium term to balance state budgets, Commissioner modifies investment policy and eliminates consideration of using a portion of the CBRF to act as long-term reserve account.
- December 1998. Treasury reviews the Department of Revenue's Fall oil revenue forecast and the Office of Management and Budget's updated expenditure forecast. Treasury determines that the CBRF will be exhausted within five years to meet revenue shortfalls. Commissioner modifies investment policies and eliminates all equity investments.
- July 1999-September 1999. Treasury recommends and Commissioner accepts an investment policy recognizing a two-year investment horizon for the entire balance of the CBRF. Very large draws on CBRF to balance FY 98 and FY 99 budgets, together with a projected $600 million to $1.0 billion draw to balance FY 00 budget, reduces the anticipated time horizon for the balance of fund. Commissioner concludes this change is appropriate no matter how the public votes in the September 14, 1999 special election relating to the state’s long-range finances. Similarly, the Commissioner concludes that the higher oil prices experienced in the late spring and summer of 1999 should not alter this proposed policy.
- April 2000. Treasury recommends and Commissioner accepts an investment policy that recognizes a balance in the CBRF in excess of the state’s two-year reserve requirement and the state’s cash flow needs. Higher than anticipated oil prices and a significant settlement increased the balance of the CBRF enough to cause the change in the investment policy.
- July 2000. A significant change in the legislation relating to the fund caused Treasury to recommend significant changes to the investment policy of the fund. Treasury recommended and the commissioner accepted an investment policy that recognized a distinction for the newly created subaccount of the fund, the likely life of the fund, and the role of the balance of the fund in filling the reserve requirements of the State. Revised documents relating to those policy decisions may be found in Appendix W and Appendix X.)

- March 2003. The asset allocation policy for the main account was changed to 20% Short-term Pool, 60% Intermediate-term Pool and 20% Broad Market Pool effective July 1, 2003.
- The subaccount asset allocation policy was changed to 17% International Equities, 39% Domestic Equity Pool and 44% Broad Market Pool effective July 1, 2003.
- July 2004. The asset allocation policy for the main account was changed to 22% Short-term Pool, 58% Intermediate-term Pool and 20% Broad Market Pool effective July 1, 2004.
- The subaccount asset allocation policy was changed to 16% International Equities, 43% Domestic Equity Pool and 41% Broad Market effective July 1, 2004.
- July 2005. The asset allocation policy for the main account was changed to 18% Short-term Pool, 62% Intermediate-term Pool and 20% Broad Market Pool effective July 1, 2005.
- The subaccount asset allocation policy was not changed.
- July 2006. The asset allocation policy for the main account was changed to 20% Broad Market Pool, 72% Intermediate-term Pool, and 8% Short-term Pool effective July 1, 2006.
- The subaccount asset allocation policy was changed to 39% Broad Market Pool, 44% Domestic Equity Pool and 17% International Equities effective July 1, 2006.
- July 2007. The asset allocation policy for the main account was changed to 20% Broad Market Pool, 76% Intermediate-term Pool, and 4% Short-term Pool effective July 1, 2007.
- The subaccount asset allocation policy was changed to 36% Broad Market Pool, 45% Domestic Equity Pool, 19% International Equities, and 0% Short Term Pool effective July 1, 2007.
- April 2008. $4.1 billion deposited into the subaccount. Of this, $1.5 billion was from the main account and the remaining $2.6 billion came from the General Fund as a part of the repayment of the CBRF borrowing. The $2.6 billion from the General Fund was due to an increase in petroleum revenues collected in FY 08, which also allowed for a transfer of $1 billion to the Statutory Budget Reserve Fund (SBR). The remaining petroleum revenue surplus was transferred to the

CBRF to repay previous borrowing as required by Article IX, section 17(d) of the Alaska Constitution.

- July 2008. The asset allocation policy for the main account was changed to 20% Broad Market Pool, 75% Intermediate-term Pool, and 5% Short-term Pool.
- September 2008. The subaccount asset allocation policy was changed to 36% Conservative Aggregate Pool, 44% Domestic Equity Pool, 19% International Equities, 1% LEI+ Mandate effective September 30, 2008.
- During FY09 an additional payment was made from the General Fund in the amount of $1 billion, which repaid all remaining borrowings from the CBRF.
- July 2009. The asset allocation policy for the main account was changed to 20% Broad Market Pool, 71% Intermediate-term Pool, and 9% Short-term Pool.
- July 2009. The subaccount asset allocation policy was changed to 35% Conservative Aggregate Pool, 44% Domestic Equity Pool, 20% International Equities, and 1% LEI+ Mandate.
- December 2009. The subaccount asset allocation policy was changed due to a replacement of the Conservative Aggregate Pool with a respective allocation to the Broad Market Pool and the U.S. Treasury Pool (90% Broad Mkt. and 10% U.S. Treasury). The resulting allocation was 32% Broad Market Pool, 3% US Treasury Pool, 44% Domestic Equity Pool, 20% International Equities, and 1% LEI+ Mandate.
- July 2010. The asset allocation policy for the CBRF Main account was unchanged.
- July 2010. The subaccount asset allocation policy was changed to 35% Broad Market Pool, 3% Intermediate Treasury Pool, 52% Domestic Equity Pool, 9% International Equities, and 1% LEI+ Mandate. There is an option to allocate up to a maximum of 2% of the fund to the Short-term Pool.
- July 2011. The asset allocation policy for the CBRF Main account was changed to 20% Broad Market Pool, 61% Intermediate-term Pool, and 19% Short-term Pool.
- July 2011. The CBRF Subaccount asset allocation policy was changed to 41% Broad Market Pool, 27% Domestic Equity Pool, and 32% International Equities.
- July 2012. The asset allocation policy for the CBRF Main account was unchanged with the exception of a policy that permits up to a 2% allocation to Bank Bonds.
- July 2012. The CBRF Subaccount asset allocation policy was changed to 42% Broad Market Pool, 38% Domestic Equity Pool, and 20% International Equities.

- July 2013. The asset allocation policy for the CBRF Main account was unchanged.
- July 2013. The asset allocation policy for the CBRF Subaccount was unchanged.
- July 2014. The asset allocation policy for the CBRF Main account was changed to 20% Broad Market Pool, 33% Intermediate-term Pool, and 47% Short-term Pool.
- July 2014. The CBRF Subaccount asset allocation policy was changed to 39% Broad Market Pool, 40% Domestic Equity Pool, and 21% International Equities.
- Fiscal Year 2015. Additional state contributions were made for the fiscal year ending June 30, 2015 from the CBRF into the retirement system. The sum of $1 billion was appropriated from the CBRF to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system as an additional state contribution for the fiscal year ending June 30, 2015. The sum of $2 billion was appropriated from the CBRF to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution for fiscal year ending June 30, 2015. Please see Section 48 of FY 2015 Capital Budget Bill SB 119.
- April 2015. The CBRF Subaccount balance was transferred to the Main account. When originally creating the Subaccount the legislature provided that "In establishing or modifying the investment policy for the subaccount in the constitutional budget reserve fund, the commissioner of revenue shall assume that those funds will not be needed for at least five years." AS 37.10.430(c).
- July 2015. The asset allocation policy for the CBRF Main account was changed to 70% Short-term Pool, 23% Broad Market Pool, 5% Domestic Equity Pool, and 2% International Equities.
- July 2016. The asset allocation policy for the CBRF Main account was changed to 69% Short-term Pool, 24% Broad Market Pool, 4% Domestic Equity Pool, 2% International Equities, and 1% REITs.
- July 2017. The asset allocation policy for the CBRF Main account was changed to 67% Short-term Pool, 24% Broad Market Pool, 3% Domestic Equity Pool, 1% International Equity Pool, 1% REITs, and 4% High Yield.
- July 2018. The asset allocation policy for the CBRF Main account was changed to 67% Short-term Pool, 26% Broad Market Pool, 4% Domestic Equity Pool, 2% International Equity Pool, and 1% REITs.

- August 2019. The asset allocation policy for the CBRF Main account was changed to 75% Short-term Pool, 21% Broad Market Pool, 2% Domestic Equity Pool, and 2% International Equity Pool.
- May 2020. The asset allocation policy for the CBRF Main account was changed to 79% Short-term Pool, and 21% Broad Market Pool.
- July 2020. The asset allocation policy for the CBRF Main account was changed to 100% Short-term Pool. The shift to a more conservative asset allocation is consistent with analysis that suggests the balance of the fund may become depleted over the next 12-18 months.
- July 2021. The asset allocation policy for the CBRF Main account remains at 100% Short-term Fixed Income Pool.

## 3. Facts and Figures

**Constitutional Budget Reserve Fund**
**Sub-Account**
**($ millions)**

| Fiscal Year | | Investment Income | Net Contributions/ (Withdrawals) | Balance at Fiscal Year End |
|---|---|---|---|---|
| 2000 | $ | 0 | 0 | 0 |
| 2001 | | (24) | 400 | 376 |
| 2002 | | (21) | 0 | 355 |
| 2003 | | 18 | 0 | 373 |
| 2004 | | 45 | 0 | 418 |
| 2005 | | 36 | 0 | 454 |
| 2006 | | 39 | 0 | 493 |
| 2007 | | 75 | 0 | 568 |
| 2008 | | (200) | 4,100 | 4,467 |
| 2009 | | (670) | 0 | 3,797 |
| 2010 | | 468 | 0 | 4,265 |
| 2011 | | 901 | 0 | 5,166 |
| 2012 | | 24 | 0 | 5,190 |
| 2013 | | 610 | 0 | 5,800 |
| 2014 | | 922 | 0 | 6,722 |
| 2015 | | 179 | (6,901) | 0 |
| **Total** | **$** | **2,401** | **(2,401)** | |

**Constitutional Budget Reserve Fund**
**Main Account**
**($ millions)**

| Fiscal Year | Investment Income | Net Contributions/ (Withdrawals) | Balance at Fiscal Year End |
|---|---|---|---|
| 1991 | $ 6 | 291 | 297 |
| 1992 | 19 | 247 | 563 |
| 1993 | 57 | 65 | 685 |
| 1994 | 61 | (132) | 614 |
| 1995 | 122 | 1,258 | 1,994 |
| 1996 | 111 | 413 | 2,518 |
| 1997 | 167 | 487 | 3,172 |
| 1998 | 369 | 18 | 3,559 |
| 1999 | 114 | (1,045) | 2,628 |
| 2000 | 115 | (9) | 2,734 |
| 2001 | 227 | (342) | 2,619 |
| 2002 | 143 | (648) | 2,114 |
| 2003 | 127 | (521) | 1,720 |
| 2004 | 8 | (81) | 1,647 |
| 2005 | 62 | 23 | 1,732 |
| 2006 | 34 | 9 | 1,775 |
| 2007 | 106 | 101 | 1,982 |
| 2008 | 140 | (988) | 1,134 |
| 2009 | 144 | 2,040 | 3,318 |
| 2010 | 223 | 858 | 4,399 |
| 2011 | 126 | 639 | 5,164 |
| 2012 | 167 | 121 | 5,452 |
| 2013 | 8 | 304 | 5,764 |
| 2014 | 85 | 209 | 6,058 |
| 2015 | 18 | 4,025 | 10,101 |
| 2016 | 138 | (2,908) | 7,331 |
| 2017 | 94 | (3,529) | 3,896 |
| 2018 | 47 | (1,583) | 2,360 |
| 2019 | 75 | (603) | 1,832 |
| 2020 | 63 | 89 | 1,983 |
| 2021 | 2 | (909) | 1,076 |
| **Total** | **$ 3,176** | **(1,192)** | |

**Constitutional Budget Reserve Fund**
**Combined**
**($ millions)**

| Fiscal Year | Investment Income | Net Contributions/ (Withdrawals) | Balance at Fiscal Year End |
|---|---|---|---|
| 1991 | $ 6 | 291 | 297 |
| 1992 | 19 | 247 | 563 |
| 1993 | 57 | 65 | 685 |
| 1994 | 61 | (132) | 614 |
| 1995 | 122 | 1,258 | 1,994 |
| 1996 | 111 | 413 | 2,518 |
| 1997 | 167 | 487 | 3,172 |
| 1998 | 369 | 18 | 3,559 |
| 1999 | 114 | (1,045) | 2,628 |
| 2000 | 115 | (9) | 2,734 |
| 2001 | 203 | 58 | 2,995 |
| 2002 | 122 | (648) | 2,469 |
| 2003 | 145 | (521) | 2,093 |
| 2004 | 53 | (81) | 2,065 |
| 2005 | 98 | 23 | 2,186 |
| 2006 | 73 | 9 | 2,268 |
| 2007 | 181 | 101 | 2,550 |
| 2008 | (60) | 3,112 | 5,601 |
| 2009 | (526) | 2,040 | 7,115 |
| 2010 | 691 | 858 | 8,664 |
| 2011 | 1,027 | 639 | 10,330 |
| 2012 | 191 | 121 | 10,642 |
| 2013 | 618 | 304 | 11,564 |
| 2014 | 1,007 | 209 | 12,780 |
| 2015 | 197 | (2,876) | 10,101 |
| 2016 | 138 | (2,908) | 7,331 |
| 2017 | 94 | (3,529) | 3,896 |
| 2018 | 47 | (1,583) | 2,360 |
| 2019 | 75 | (603) | 1,832 |
| 2020 | 63 | 89 | 1,983 |
| 2021 | 2 | (909) | 1,076 |
| **Total** | **$ 5,577** | **(3,593)** | |

## 4. Investment Policy

For the main account of the CBRF, Treasury recognizes the State's current two-year reserve requirement, General Fund cash flow borrowing needs, money in excess of that which might be needed within two years and the Investment policy of the GeFONSI.

Treasury would invest the main account of the CBRF with the following in mind:

| | |
|---|---|
| **Risk Tolerance** | Low |
| **Investment Objectives** | • Very low exposure to principal loss<br>• Little inflation protection needed<br>• High liquidity requirement |
| **Time Horizon** | Short |

Effective July 1, 2021, Treasury's investment policy for CBRF main account is:

100% +/- 0% Cash Equivalents

Performance benchmark:

100% 3-Month T-Bill

<u>*The following has been retained for institutional memory.*</u>

For the subaccount of the CBRF, Treasury previously invested the assets with the following in mind (the assets were moved into the main account April 2015):

| | |
|---|---|
| Risk Tolerance | High (as required by statute) |
| Investment Objectives | High exposure of principal to loss |
| Inflation Protection | Little inflation protection needed |
| Liquidity | Moderate liquidity required |
| Time Horizon | Moderately long |

Effective July 1, 2014, Treasury's investment policy for the CBRF subaccount was:

| | |
|---|---|
| 40% ± 7% | Domestic Equity Pool |
| 21% ± 7% | International Equity Pool |
| 0% + 2% | Short-term Pool |

Performance benchmark:

| | |
|---|---|
| 40% | Russell 3000 |
| 21% | MSCI EAFE |
| 39% | BBG Barclays US Aggregate |

### 5. Control and Reporting Requirements

On or before March 15 each year, AS 37.10.430 requires Treasury to prepare a report to the Legislature comparing beginning and ending balances in the CBRF for the immediately preceding calendar year together with comparative nominal, real and realized returns for the CBRF, the Permanent Fund and the General Fund. The State Comptroller in the Treasury Division is responsible for compiling this information and preparing and distributing the required report.

The Alaska Legislature made AS 37.10.071 directly applicable to the CBRF. Accordingly, the Commissioner, through the State Comptroller, maintains accounting records for the Fund in accordance with generally accepted accounting principles (as would be required by AS 37.10.071(a)(8) and engages an independent certified public accountant to perform an annual audit of the financial condition of the Fund and the pertinent investment transactions (as would be required by AS 37.10.071(a)(9).

## C. *Public School Trust Fund (AY08)*

### 1. Overview

The Public School Trust Fund (originally the Public School Permanent Fund) is a non-expendable trust fund (classified as a Permanent Fund for accounting purposes), the income of which is dedicated to the benefit of Alaska's public schools.

### 2. History

- March 15, 1915. Congress creates Alaska Public School Permanent Fund by reserving sections 16 and 36 of each surveyed township in the Territory of Alaska for support of public schools. Territory authorized to lease lands and required to deposit all lease proceeds in a permanent trust fund. Income from trust fund dedicated to public schools of Alaska.
- 1958 and 1959. Statehood Act terminates Alaska's rights to additional school lands. At statehood, the lands already in the Trust, totaling just over 105,000 acres, transferred to the state. DNR assumed management.
- 1976. In response to Legislative Budget and Audit Committee criticism of DNR's school land lease rate determinations, legislature requires State Board of Education to approve new Trust land transactions.
- 1978. Legislature passes comprehensive legislation dealing with federally created land-based trusts. Ch. 182 SLA 1978. (See Section XII(E) introduction regarding University of Alaska Trust Fund and Section XII(N) regarding Alaska Mental Health Trust.) With respect to the Public School Trust:
    - All lands in Trust re-designated state general grant lands;
    - The Public School Fund established;
    - The money in the Public School Permanent Fund transferred to the Public School Fund;
    - One half of one percent (0.5%) of the income from all state general grant lands and from the federal public land revenue shared with the State of Alaska (state land revenue) dedicated to the Public School Fund;
    - A Public School Advisory Board consisting of the Commissioner of Education, three members of the Board of Education, and the

Commissioner of Revenue was created to prepare long range investment plans for the Fund; and
    - Commissioner of Revenue designated official custodian and given responsibility to: (1) receive contributions, (2) collect investment earnings, and (3) invest the principal of the Fund following review by the Advisory Board.
- 1978. $7.8 million transferred from Public School Permanent Fund to Public School Fund.
- 1980. Alaska National Interest Lands and Conservation Act (ANILCA) authorizes a grant of 75,000 acres of land to State of Alaska as follows:

> *In full and final settlement of any and all claims by the State of Alaska arising under the Act of March 4, 1915 (38 Stat. 1214), as confirmed and transferred in section 6(k) of the Alaska Statehood Act, the state is hereby granted seventy-five thousand acres which it shall be entitled to select until January 4, 1994, from vacant, unappropriated, and unreserved public lands. In exercising the selection rights granted herein, the state shall be deemed to have relinquished all claims to any right, title, or interest to any school lands which failed to vest under the above statutes at the time Alaska became a state. Lands selected and conveyed to the state under this subsection shall be subject to the provisions of subsections (j) and (k) of the Alaska Statehood Act.*

- August 13, 1985. Attorney General's office issues informed opinion to the effect that perpetual dedication of 0.5 percent of state land revenue will eventually violate dedicated fund prohibition of Alaska Constitution, Article IX, § 7. (See Appendix AA).
- 1988. Legislature revises state investment statutes comprehensively (Ch. 141 SLA 1988). For School Trust this means:
    - Name changed to Public School Trust Fund;
    - Trust was relabeled as an "endowment trust";

   - Advisory Board's responsibility to prepare long range investment plans and authority to approve investments repealed; and
   - Commissioner made the fiduciary of the Trust. See governing statutes (AS 37.14.110-170) in Appendix Z.
- November 27, 1995. Memorandum from contract attorney to Attorney General and Commissioner of Revenue on dedicated funds problem. (Appendix AA).
- 1980-1998. State selects the additional 75,000 acres granted by ANILCA. State receives income from these lands. Income not invested with the Trust but with the GeFONSI.
- 1998. State sued for breach of School Trust in Kasayulie case. (See Appendix AA for a paper dated March 1984 by E. Dean Coon, Associate Professor of Education at the University of Alaska, Fairbanks, entitled, The Alaska Public School Fund: A Permanent Fund for Education. This paper contains a history of the Trust through 1983.)
- February 2000. Treasury examines the Public School Trust Fund's distribution history and develops a payout model employing a rolling five-year smoothing methodology. The fiduciary (Commissioner of Revenue) adopts the payout methodology.
- Asset allocation policy for the Trust's principal assets has evolved over the years. A portion of this fund was first invested in domestic common stock in 1986; prior to that time, the Public School Fund Advisory Board had not granted the necessary authority to the Commissioner. By 1990, the equity proportion of the Fund portfolio had grown to 27 percent. With the creation of the Domestic Equity Collective Funds option in 1991, Treasury increased the equity exposure for the principal assets of the Fund to 33 percent. The equity proportion remained at that level until the Commissioner, after consulting with the Public School Advisory Board in February 1996, increased the Fund's equity exposure to 60 percent of the Fund's principal assets.
- Effective April 2000, the asset allocation policy for the Principal assets was changed to 45% Domestic Equity Pool and 55% Broad Market Pool.
- March 2003. The asset allocation policy for the Principal assets was changed to 41% Domestic Equity Pool and 59% Broad Market Pool effective July 1, 2003. The asset allocation policy for the Income assets remains 100% Short-term Pool.

- July 2004. The asset allocation policy for the Principal assets was changed to 43% Domestic Equity Pool and 57% Broad Market Pool effective July 1, 2004. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- July 2005. No Change
- July 2006. The asset allocation policy for the Principal assets was changed to 55% Broad Market Pool and 45% Domestic Equity Pool effective July 1, 2006. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- July 2007. No Change.
- July 2008. No Change.
- July 2009. The asset allocation policy for the Principal assets was changed to 57% Conservative Aggregate Pool and 43% Domestic Equity Pool effective July 1, 2009. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- December 2009. The asset allocation policy was changed due to a replacement of the Conservative Aggregate Pool with a respective allocation to the Broad Market Pool and the U.S. Treasury Pool (90% Broad Mkt. and 10% U.S. Treasury). The resulting allocation was 51% Broad Market Pool, 6% US Treasury Pool, and 43% Domestic Equity Pool.
- July 2010. The asset allocation policy for the Principal assets was changed to 47% Broad Market Pool, 6% U.S. Treasury Pool, and 47% Domestic Equity Pool effective July 1, 2010. There is an option to allocate up to a maximum of 2% of the fund to the Short-term Pool. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- July 2011. The asset allocation policy for the Principal assets was changed to 54% Broad Market Pool, and 46% Domestic Equity Pool effective July 1, 2011. There is an option to allocate up to a maximum of 2% of the fund to the Short-term Pool. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- July 2012. The asset allocation policy for the Principal assets was changed to 58% Broad Market Pool, 27% Domestic Equity Pool, and 15% International Equities effective July 1, 2012. There is an option to allocate up to a maximum of 2% of the fund to the Short-term Pool. The asset allocation policy for the Income assets remains 100% Short-term Pool.

- July 2013. The asset allocation policy for the Principal assets was unchanged; 58% Broad Market Pool, 27% Domestic Equity Pool, and 15% International Equities effective July 1, 2013. There is an option to allocate up to a maximum of 2% of the fund to the Short-term Pool. The asset allocation policy for the Income assets remains unchanged; 100% Short-term Pool.
- July 2014. The asset allocation policy for the Principal assets was changed to 50% Broad Market Pool, 33% Domestic Equity Pool, and 17% International Equities effective July 1, 2014. There is an option to allocate up to a maximum of 2% of the fund to the Short-term Pool. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- July 2015. The asset allocation policy for the Principal assets was changed to 45% Broad Market Pool, 36% Domestic Equity Pool, and 19% International Equities effective July 1, 2015. There is an option to allocate up to a maximum of 2% of the fund to the Short-term Pool. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- July 2016. The asset allocation policy for the Principal assets was changed to 43% Broad Market Pool, 32% Domestic Equity Pool, 22% International Equities, and 3% REITs, effective July 1, 2016. There is an option to allocate up to a maximum of 2% of the fund to the Short-term Pool. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- July 2017. The asset allocation policy for the Principal assets was changed to 40% Broad Market Pool, 32% Domestic Equity Pool, 19% International Equity Pool, 4% REITs, and 5% High Yield effective July 1, 2017. There is an option to allocate up to a maximum of 5% of the fund to the Short-term Pool. The asset allocation policy for the Income assets remains 100% Short-term Pool.
- November 2018. With passage into law of HB213, the assets of the Principal and Income account were consolidated, and on July 1 of each year, the Commissioner shall determine the monthly average market value of the fund for the previous five fiscal years preceding the previous fiscal year. The legislature may appropriate not more than five percent of the amount determined by the Commissioner. Pending signature by the Governor, the appropriated amount may be expended the following fiscal year.

- November 2018 the asset allocation policy for Public School Trust Fund was changed to 32% Broad Market Pool, 40% Domestic Equity Pool, 24% International Equities, and 4% REITs. There is an option to allocate up to a maximum of 5% of the fund to the Short-term Pool.
- August 1, 2019. The asset allocation policy for Public School Trust Fund was changed to 32% Broad Market Pool, 41% Domestic Equity Pool, and 27% International Equities. There is an option to allocate up to a maximum of 2% of the fund to the Short-term Pool.
- July 1, 2020. The asset allocation policy for Public School Trust Fund was changed to 1% Short-term Pool, 29% Broad Market Pool, 42% Domestic Equity Pool, and 28% International Equities.
- July 1, 2021. The asset allocation policy for Public School Trust Fund was changed to 1% Short-term Fixed Income Pool, 30% Broad Market Fixed Income Pool, 5% Domestic REITs Pool, 39% Domestic Equity Pool, and 25% International Equities.

## 3. Facts and Figures

### a) Fund Balances (in thousands)

| Fiscal Year | Contributions from DNR Lands | Statutory Net Income[17] | Distributions, Prior Period Adjustments and Transfers | Capital Gains/(Losses) | State of Alaska ACFR Ending Balance |
|---|---|---|---|---|---|
| Opening balance from Public School Permanent Fund | | | | - | 7,800 |
| 1978-83 | 34,096 | 6,790 | (7,607) | - | 41,079 |
| 1984 | 9,217 | 15,626[18] | - | - | 65,922 |
| 1985 | 7,121 | 6,769 | - | - | 79,812 |
| 1986 | 6,578 | 8,029 | (16,836) | - | 77,583 |
| 1987 | 3,262 | 10,112 | (10,122) | - | 80,835 |
| 1988 | 6,470 | 6,358 | (7,527) | - | 86,136 |
| 1989 | 4,333 | 8,091 | (8,991) | - | 89,569 |
| 1990 | 5,208 | 8,694 | (7,189) | - | 96,282 |
| 1991 | 8,331 | 8,417 | (6,983) | - | 106,047 |
| 1992 | 6,637 | 15,998 | (7,758) | - | 120,924 |
| 1993 | 5,748 | 7,971 | (8,394) | - | 126,249 |
| 1994 | 3,987 | 7,201 | (8,533) | - | 128,904 |
| 1995 | 8,764 | 11,448[19] | (6,897) | - | 142,219 |
| 1996 | 6,150 | 9,101 | (5,473) | - | 151,997 |
| 1997 | 5,482 | 7,730 | (11,917) | 58,244[20] | 211,536 |
| 1998 | 4,026 | 8,497 | (9,276) | 34,590 | 249,373 |
| 1999 | 2,608 | 8,997 | (7,278) | 19,300 | 273,000 |
| 2000 | 5,291 | 11,895 | (7,620) | 5,825 | 288,391 |
| 2001 | 5,788 | 13,157 | (8,519) | (12,731) | 286,086 |
| 2002 | 4,328 | 11,325 | (11,911) | (20,454) | 269,374 |
| 2003 | 6,224 | 10,235 | (12,613) | 7,285 | 280,505 |
| 2004 | 7,138 | 10,275 | (12,623) | 13,857 | 299,152 |
| 2005 | 9,591 | 11,002 | (12,380) | 11,230 | 318,595 |
| 2006 | 12,052 | 12,437 | (12,595) | 1,111 | 331,600 |
| 2007 | 10,840 | 14,385 | (12,855) | 27,203 | 371,173 |
| 2008 | 16,657 | 14,196 | (12,503) | (23,142) | 366,381 |
| 2009 | 11,121 | 5,241 | (14,423) | (33,569) | 334,751 |
| 2010 | 11,213 | 7,036 | (13,026) | 34,437 | 374,411 |
| 2011 | 13,709 | 10,263 | (9,913) | 51,854 | 440,324 |
| 2012 | 14,919 | 9,261 | (13,356) | 16,171 | 467,319 |
| 2013 | 14,001 | 11,743 | (9,441) | 26,429 | 510,051 |
| 2014 | 12,770 | 13,152 | (10,667) | 49,372 | 574,678 |
| 2015 | 8,127 | 13,861 | (10,220) | 1,822 | 588,268 |
| 2016 | 4,536 | 14,106 | (13,182) | (2,060) | 591,668 |
| 2017 | 5,757 | 13,034 | (23,770) | 44,820 | 631,509 |
| 2018 | 7,254 | 10,587 | (24,778) | 27,838 | 652,410 |
| 2019 | 7,503 | 9,846 | (28,522) | 38,192 | 679,429 |
| 2020 | 5,215 | 6,382 | (26,309) | 23,609 | 688,326 |
| 2021 | Pending[21] | 4,815 | | 23,649 | |

[17] Statutory net income is comprised of interest and dividends and specifically excludes unrealized or realized capital gains/losses. AS 37.14.110.
[18] Includes a $10,175 prior period adjustment for prior years' investment income recorded in the General Fund.
[19] Includes a $3,059 prior period adjustment for prior years' dividend income recorded as unrealized gain/losses by Treasury (and therefore not in the CAFR).
[20] FY 97 was the first year that assets were recorded at fair value in the state CAFR. Prior to FY 97, "income" did not include unrealized capital gains/losses.
[21] Contributions from DNR Lands, Distributions, Prior Period Adjustments and Transfers, and Ending Balance will be updated upon official release of the State of Alaska's ACFR.

b) History of Payout Methodologies

This section describes the payout methodologies applied to the Public School Trust Fund since inception. The Commissioner of Revenue is to determine the net income of the fund in a manner that preserves the distinction between principal and income and excludes capital gains or losses realized on principal.

In compliance with the above intent, the Treasury Division regularly transfers distributable income (interest and dividends net of amortization or accretion) to the Income Assets account. Treasury does not transfer either realized or unrealized capital gains to the Income Asset account.

Each year, during the fall budget preparation cycle, Treasury provides an estimate to the Department of Education and Early Development (DEED, formerly DOE - Department of Education) of the amount of Income Assets they can include in the DEED budget request for the following year.

Following is a timeline of the methodologies used to determine the amount of the income assets available for appropriation:

| | |
|---|---|
| 1978-1986 | There is no documentation regarding how the amount available was calculated or who determined the amount to be included in DEED's budget. However, it should be noted that during this period, the trust's distributable income was recorded in the general fund, and the appropriation came from the general fund, not the trust. In 1983, the Legislative Audit Division found that this action did not properly segregate the trust assets. Over the period 1983-1985, there were no appropriations to DEED from trust income as the audit was completed and all distributable income earned but not previously appropriated (from 1978-1982) was apparently accounted for. In 1986, the Legislature appropriated all the distributable income earned from 1985 plus any income from prior years that had not already been appropriated to DEED. |
| 1987-1997 | From at least 1989, Treasury began to project the balance they believed would be available from the trust for inclusion in DEED's budget. Following is the formula that Treasury used each September:<br>Actual assets available at the end of the most recent fiscal year<br>+ Projected distributable income for the current fiscal year<br>- Current fiscal year's appropriation<br>= Projected assets available at the end of the current fiscal year for appropriation to next fiscal year<br>In using this methodology, Treasury attempted to distribute income fully as it was earned. Treasury did not attempt to reduce the volatility of the cash flows to DEED caused by changing market conditions or the effects of changes in asset allocation. This methodology also resulted in large changes on cash flow caused by prior period accounting adjustments. |
| 1998-1999 | Treasury first incorporated smoothing into their annual projections. |
| 1997-1998 | During the fall 1997 and 1998 budget cycles, Treasury adjusted the estimate for the FY 1999 and 2000 budgets by one-third of the difference between the assets that they had estimated would be available for the current year and the actual assets that were available. |
| 1999 | Treasury began discussing a payout methodology based upon the market value of the trust. In the interim, for purposes of providing an estimate for the DEED FY 01 budget, Treasury used the average income earned for the most recently completed five fiscal years, that is, 1995-1999. |
| 2000 | Treasury completed its review of the payout methodology. The new policy pays out 4.75% of the last 5 years' average beginning market value of the principal. Treasury staff created an interactive model to stress-test the effect of the payout rate on the available Income Assets. The following assumptions can be changed individually or simultaneously: asset allocation, expected returns, expected yields and the payout rate. |
| 2012 | Due to a low yield environment, and an expectation of yields to remain subdued over a short time horizon, the Treasury Division completed a review of the payout methodology. The Treasury Division regularly transfers distributable income (interest and dividends net of amortization or accretion) to the income account, from the principal account assets. With the intent of preserving the assets in the income account, the Treasury Division would recommend only transferring a max amount, or a threshold not to exceed limit, using the previous years' transfer amount from the principal to income account (i.e. the previous years transferred interest and dividends). The Treasury Division continues to monitor the payout methodology in an effort to preserve the income assets in the current yield environment. |
| 2018 | With passage into law of HB213, the assets of the Principal and Income account were consolidated, and on July 1 of each year, the Commissioner shall determine the monthly average market value of the fund for the previous five fiscal years preceding the previous fiscal year. The legislature may appropriate not more than five percent of the amount determined by the Commissioner. |

c) Payments to Support State Education Programs

| Fiscal Year | Payout ($ in millions) |
|---|---|
| | *Actual:* |
| 1994 | $ 8.5 |
| 1995 | 6.8 |
| 1996 | 5.4 |
| 1997 | 11.9 |
| 1998 | 9.3 |
| 1999 | 7.1 |
| 2000 | 7.6 |
| 2001 | 8.4 |
| 2002 | 11.8 |
| 2003 | 12.5 |
| 2004 | 12.6 |
| 2005 | 11.9 |
| 2006 | 11.9 |
| 2007 | 12.3 |
| 2008 | 12.4 |
| 2009 | 14.3 |
| 2010 | 12.9 |
| 2011 | 9.8 |
| 2012 | 13.2 |
| 2013 | 9 |
| 2014 | 10.5 |
| 2015 | 12 |
| 2016 | 13 |
| 2017 | 36.8 |
| 2018 | 24.8 |
| 2019 | 28.5 |
| 2020 | 26.3 |
| | *Estimate:* |
| 2021 | 42.6 |
| 2022 | 44.0 |

## 4. Management

AS 37.14.170 establishes the investment objectives for the Trust:

*The commissioner of revenue is the fiduciary of the trust fund and shall invest the fund to provide increasing net income over long-term periods to the fund's income beneficiaries. The commissioner may invest the money in the fund on the basis of probable total rate of return to promote the long-term generation of income. In managing the trust fund, the commissioner shall:*

*(1) consider the status of the fund's capital and the income generated on both a current and a probable future basis;*

*(2) determine the appropriate investment objectives;*

*(3) establish investment policies to achieve the objectives; and*

*(4) act only in regard to the financial interests of the fund's beneficiaries.*

Historically, the applicable statutes require that Treasury account for the Fund in a manner that distinguished between "principal" and "income." Treasury achieved this objective by establishing a "principal account" and an "income account" for the Fund. With the passage of HB213 into law, the assets of the Principal and Income account were consolidated.

The investment objective is to provide "increasing net income over long-term periods to the Trust's income beneficiaries." Treasury believes this provision requires an investment policy that is most likely to yield increasing real, or inflation adjusted, income over long term periods.

To fulfill the Legislature's policy requiring increasing the real or inflation adjusted income over long-term periods, a substantial proportion of the Trust must be invested in the equity market.

## 5. Investment Policy

Treasury's long-term investment objective for the Public School Trust Fund is to preserve the purchasing power of the Trust. This policy has been established to increase the real and inflation adjusted value of the fund every year without regard to the possibility of continuing contributions from the dedication of state land revenue. Further, the investment policy is designed to produce the maximum income for the Trust's beneficiaries consistent with the policy of growing the principal.

Treasury invests the Public School Trust Fund assets with the following in mind:

| | |
|---|---|
| **Risk Tolerance** | High |
| **Investment Objectives** | • High exposure to principal loss in return for higher expected longer-term returns<br>• Limited current income requirement<br>• Limited inflation protection needed<br>• Moderate liquidity requirement |
| **Time Horizon** | Long |

Effective July 1, 2021, Treasury's investment policy for the Public School Trust Fund is:

| | | |
|---|---|---|
| 39% | +/- 5% | Broad U.S. Equity |
| 30% | +/- 5% | Core U.S. Fixed Income |
| 25% | +/- 5% | International Equity |
| 5% | +/- 5% | U.S. REITs |
| 1% | +2%/-1% | Cash Equivalents |

Performance benchmark:

| | |
|---|---|
| 39% | Russell 3000 Index |
| 30% | BB Barclays US Agg Index |
| 25% | MSCI ACWI ex-US Index |
| 5% | FTSE NAREIT All Equity |
| 1% | 3-Month T-Bill |

## 6. Control and Reporting Requirements

AS 37.14.160(3) requires the Commissioner of Revenue to maintain accounting records of the Trust. The accounting records are maintained by the State Comptroller. The State Comptroller sends financial statements to the Public School Advisory Board within 30 days following the end of each fiscal year.

AS 37.10.071(a)(9), made applicable by AS 37.14.160(1) and AS 14.25.080(c), require an annual independent audit of the Public School Trust Fund. The State Comptroller contracts with an independent certified public accountant to perform an annual audit of the Trust. Within 90 days after the completion of the audit, the State Comptroller transmits a copy of the audit report to the Public School Advisory Board. Alternatively, the audit report may be distributed at the next scheduled board meeting.

By September 30 of each year, the State Comptroller sends the Department of Education a projection of the balance expected to be available on the following July 1, the start of the next fiscal year. The Department of Education then uses this projection to construct their budget request relating to the state's elementary and secondary foundation program.

AS 37.14.160(4) requires the Commissioner of Revenue to provide reports to the Public School Fund Advisory Board on the condition and investment performance of the Trust. The State Comptroller is responsible for contacting the Board Chair to arrange for Treasury's presentation of the annual performance measurement report and the annual audit report. The applicable statutes do not specify who is to provide staff support for the Board. Unless the Board directs otherwise, the Treasury Division will maintain pertinent records relating to the Trust.

While the Commissioner is the sole fiduciary for this trust fund and, as such, responsible for the asset allocation judgments for the Fund, it is the policy of the Department to consult with the Public School Fund Advisory Board at least once a year to review the asset allocation options and to consult with the Board before making any substantial changes in asset allocation policy.

### 7. Treasury Funding

Each year Treasury includes a portion of the Public School Trust Fund as a funding source for the Division's annual budget. The Trust is charged for the actual costs of investment management fees and performance measurement costs, if any. Treasury also allocates a portion of the Division's personnel costs and custodial costs to the Trust.

## D. *Alaska Higher Education Fund (AY3L)*

### 1. Overview

On September 1, 2012, the Alaska Higher Education Investment Fund was capitalized with a $400 million deposit from receipts of the Alaska Housing Capital Corporation. The fund was established to make grants and scholarship payments to qualified postsecondary institutions for students. The Legislature may appropriate up to seven percent of the fund's prior June 30 market value balance each year.

On January 28, 2013 the Alaska Higher Education Investment Fund was moved out of the General Fund into a segregated fund, and an asset allocation was approved to generate earnings sufficient to meet the seven percent annual appropriation amount as required by AS 37.14.750.(c).

AS 37.14.750 delineates that two-thirds of each year's appropriation be allocated for Alaska Performance Scholarship Awards and one-third of appropriation be allocated for AlaskAdvantage Education Grants.

- Alaska Performance Scholarship Award: Assumptions are based on an average award level of $3,419 for each recipient, with student eligibility rates increasing over time from 28% to 44% of high school graduates. It is further assumed that the utilization rates will increase over time from 36% to 50%.
- AlaskAdvantage Education Grant: Recipients receive an average award of $1,580. The awards are made relative to the pool of applicants specific to a given academic year. The applicant pool is ranked in order of greatest to least financial need and AlaskAdvantage Education Grants are awarded until available funds are exhausted or all eligible applicants are awarded, whichever occurs first.

### 2. History

- FY2014. $8 million was allocated for Alaska Performance Scholarship Awards, and $4 million was allocated for AlaskAdvantage Education Grants.
- FY2015. $11 million was allocated for Alaska Performance Scholarship Awards, and $5.5 million was allocated for AlaskAdvantage Education Grants.

- FY2016. $11.5 million was allocated for Alaska Performance Scholarship Awards, and $5.75 million was allocated for AlaskAdvantage Education Grants.
- FY2017. $11.5 million was allocated for Alaska Performance Scholarship Awards, and $5.75 million was allocated for AlaskAdvantage Education Grants.
- FY2018. $11.75 million was allocated for Alaska Performance Scholarship Awards, and $5.875 million was allocated for AlaskAdvantage Education Grants.
- FY2019. $11.75 million was allocated for Alaska Performance Scholarship Awards, and $5.875 million was allocated for AlaskAdvantage Education Grants.
- FY2020. $11.75 million was allocated for Alaska Performance Scholarship Awards, and $5.842 million was allocated for AlaskAdvantage Education Grants.
- FY2021. $16.04 million was allocated for Alaska Performance Scholarship Awards and $8.02 million was allocated for AlaskaAdvantage Educational Grants.

### 3. Facts and Figures

Total invested assets in the Alaska Higher Education Investment Fund (AY3L) at June 30 have been:

| Alaska Higher Education | | |
|---|---|---|
| Fiscal Year | Investment Income | Ending Balance |
| 2013 | $ 8,191,607 | 406,437,846 |
| 2014 | 65,915,884 | 460,672,112 |
| 2015 | 13,893,789 | 458,758,594 |
| 2016 | 2,991,344 | 439,543,309 |
| 2017 | 43,695,898 | 369,799,589 |
| 2018 | 25,875,825 | 344,265,007 |
| 2019 | 23,678,390 | 347,092,361 |
| 2020 | 15,979,779 | 343,797,313 |
| 2021 | 91,015,048 | 416,411,396 |

## 4. Investment Policy

As of July 1, 2021, the asset allocation targets an expected long-term return of 5.62%. This allocation has an equity component which equals 70%, with fixed income and cash equivalent securities at 30%. The expected standard deviation is 12.50%.

Treasury invests the Alaska Higher Education Investment Fund with the following in mind:

| | |
|---|---|
| **Risk Tolerance** | High |
| **Investment Objectives** | • High exposure to principal loss in return for higher expected longer-term returns<br>• Limited current income requirement<br>• Limited inflation protection needed<br>• Moderate liquidity requirement |
| **Time Horizon** | Long |

Effective July 1, 2021, Treasury's investment policy for the Alaska Higher Education Investment Fund is:

| | | |
|---|---|---|
| 39% | +/- 5% | Broad U.S. Equity |
| 30% | +/- 5% | Core U.S. Fixed Income |
| 25% | +/- 5% | International Equity |
| 5% | +/- 5% | U.S. REITs |
| 1% | +2%/-1% | Cash Equivalents |

Performance benchmark:

| | |
|---|---|
| 39% | Russell 3000 Index |
| 30% | BB Barclays US Agg Index |
| 25% | MSCI ACWI ex-US Index |
| 5% | FTSE NAREIT All Equity |
| 1% | 3-Month T-Bill |

## E. *Investment Loss Trust Fund (AY28)*

### 1. Overview

The Legislature established the Investment Loss Trust Fund in 1991 to indemnify then-current and former state employees against anticipated losses in their interests in the state Supplemental Benefits System (Plan) occasioned by the insolvency of the Executive Life Insurance Company of California (Executive Life). Executive Life had issued guaranteed investment contracts to the Plan and individual annuities to three hundred members. In April 1991, California state regulators took over Executive Life raising considerable uncertainty about the value of the Plan assets and the individual annuities.

### 2. History

- 1991. The Alaska State Legislature establishes the Investment Loss Trust Fund as an expendable trust to hold harmless both current participants in the Plan and former participants who had become annuity holders with Executive Life. The Commissioner of Revenue is the fiduciary of this Trust (See the governing statute, AS 37.14.300, in Appendix AH). The Fund was originally capitalized with $138.1 million appropriated from the General Fund and the Statutory Budget Reserve Fund. Subsequent payments from the conservator of Executive Life and recoveries from certain third parties that together total almost $150 million have made it possible to reduce the balance in the Trust significantly.
- 1991 - early 1993. Treasury manages the Trust.
- 1993 - November 1994. T. Rowe Price manages the Trust for Treasury for slightly more than a year.
- November 1994. Treasury once again manages the Trust.

### 3. Facts and Figures

A court order requires the state to maintain certain balances in the ILTF to guarantee the annuity contracts of former Plan participants who became individual annuity holders with Executive Life. These annuitants currently hold annuity contracts with Aurora Life Assurance Company, a company created by the California Insurance Commissioner from the assets of Executive Life. The required Trust balance results from the Settlement Agreement in Maupin et al. v. State et al., 3AN-91-6006 Civil, a class-action lawsuit that was initiated against the state over the Executive Life Contracts by the individual beneficiaries of the Plan.

The state may legally withdraw any remaining balance in the Trust for other purposes. The Department of Administration tracks the annuity payments based on data supplied by Aurora Life and determines the amount needed to guarantee annuities that must be maintained in the fund (an annual reconciliation of the Executive Life Recovery/Investment Loss Trust Fund (ILTF) can be found in Appendix BD). As of September 30, 2020, of the $3,744,912 total cash balance, $2,086,461 is reserved for annuitant commitments, $1,658,451 is reserved for outstanding appropriations from the 1997-2020 sessions, and the remaining balance of $117,293is not reserved for other purposes.

Total invested assets in the ILTF on June 30, have been:

| Investment Loss Trust | | | |
|---|---|---|---|
| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
| 1994 | $ | (29,747) | 150,157,024 |
| 1995 | | 18,342,068 | 130,128,230 |
| 1996 | | 8,129,039 | 13,246,631 |
| 1997 | | 526,830 | 16,937,468 |
| 1998 | | 655,544 | 8,152,595 |
| 1999 | | 398,746 | 6,845,127 |
| 2000 | | 429,018 | 8,057,434 |
| 2001 | | 418,395 | 4,127,902 |
| 2002 | | 123,958 | 7,600,007 |
| 2003 | | 149,189 | 9,396,324 |
| 2004 | | 78,155 | 6,484,054 |
| 2005 | | 83,825 | 2,202,651 |
| 2006 | | 244,559 | 11,485,225 |
| 2007 | | 455,176 | 6,019,709 |
| 2008 | | 112,614 | 3,465,821 |
| 2009 | | 39,517 | 3,333,438 |
| 2010 | | 38,410 | 2,978,132 |
| 2011 | | 15,989 | 3,496,127 |
| 2012 | | 11,286 | 2,725,290 |
| 2013 | | 6,608 | 2,731,897 |
| 2014 | | 7,228 | 2,731,096 |
| 2015 | | 8,088 | 2,739,184 |
| 2016 | | 14,971 | 2,627,857 |
| 2017 | | 22,676 | 2,569,836 |
| 2018 | | 39,210 | 2,592,972 |
| 2019 | | 95,705 | 4,135,387 |
| 2020 | | 73,015 | 4,217,124 |
| 2021 | | 7,275 | 3,749,260 |

## 4. Investment Policy

Treasury invests the Investment Loss Trust Fund very conservatively because the money held in the Trust might be needed on very short notice. Treasury has invested with the following in mind:

| | |
|---|---|
| **Risk Tolerance** | Low |
| **Investment Objectives** | • Very low exposure to principal loss<br>• Modest current income requirement<br>• Little inflation protection needed<br>• High liquidity requirement |
| **Time Horizon** | Short |

Treasury's investment policy for the Investment Loss Trust Fund is:

| | | |
|---|---|---|
| 100% | +/- 0% | Cash Equivalents |

Performance benchmark:

| | |
|---|---|
| 100% | 3-Month T-Bill |

## 5. Control and Reporting Requirements

AS 37.10.071(a)(8) (applicable as a consequence of AS 37.14.300(a) requires the Commissioner to maintain accounting records for these funds in accordance with generally accepted accounting principles. The Commissioner delegated this to the State Comptroller.

## 6. Treasury Funding

any. Treasury also allocates a portion of the Division's personnel costs and custodial costs to the Trust.

## F. *International Airports Funds*

### 1. Overview

There are three funds and one related account relevant to the international airports' revenue bonds. Revenue officials are responsible for managing the money in the construction funds and the repair and replacement funds, but not the bond redemption fund. For the most recent bonds payable information, please see Appendix AM.

The following is a summary of Alaska International Airports System (AIAS) funds as of June 30, 2021:

**Revenue from Operations**

- Repair and Replacement Fund
  - Repair and Replacement Reserve Account (AY05)
- AIAS Revenue Funds
  - AIAS Revenue Fund (AY04)
  - FAI (Fairbanks) Passenger Facilities Charge Revenue Fund (IRIS FU 3275)
  - AIAS (Anchorage) Passenger Facilities Charge Revenue Fund (IRIS FU 3273)

**Revenue from Bond Proceeds**

- Construction Funds
  - Series 2006B Non-AMT (AY9X)
  - Series 2009A Non-AMT Variable (AY9Y)
  - Series 2010C Non-AMT (AY3A)
  - Series 2010D B.A.B.S Taxable (AY3B)
- AIAS Bond Redemption and Reserves Funds
  - AIAS Revenue Bond Redemption
  - Series 2002 Reserve (AY2E)
  - Series 2003 Reserve (AY2U)

a) Construction Fund

Administration officials deposit proceeds from bond sales into this state-managed fund, where they remain until they are used to build airport facilities (AS 37.15.420).

b) Repair and Replacement Reserve Account

The State Bond Committee requires a minimum balance of $500,000 in this state managed reserve account and requires its investment in obligations maturing within five years from the date of investment.

c) Revenue Fund (excluding the Repair and Replacement Reserve Account)

State officials (Department of Transportation) deposit gross revenue from airport operations at the two airports (Anchorage and Fairbanks) into this state-managed fund (AS 37.15.430).

Beginning October 2000, the Revenue Fund also contains receipts from passenger facility charges collected at the Anchorage and Fairbanks International Airports. The International Airports System staff deposit these receipts into two separate sub-funds of the International Airports Revenue Fund.

d) Redemption Fund

To ensure timely payment of interest and principal on the outstanding revenue bonds, Department of Administration, Division of Finance, Alaska International Airport System, Department of Transportation and Department of Revenue officials oversee the annual transfer of money from the Revenue Fund to the Redemption Fund (AS 37.15.440). The contract trustee, The Bank of New York Mellon Trust Company, N.A., is responsible for ensuring that the state fulfills its obligations to pay bondholders.

### 2. History

- 1961. Ch. 88, SLA 1961 (now codified as AS 37.15.410-550)[22] (see Appendix AK) established an enterprise fund called the International Airports Revenue Fund to

[22] The 1961 legislation was adopted as a Temporary and Special Act. Ch. 88 SLA 1961. In 1972, the Legislature repealed the 1961 Temporary and Special Act and readopted the pertinent provisions as part of the Alaska Statutes. Ch. 149 SLA 1972.

facilitate issuing revenue bonds for construction at the Anchorage and Fairbanks International Airports. Though the state has created a plethora of independent corporations and authorities since 1970 to finance and operate state enterprises, the International Airports, while operated as an enterprise, have remained the responsibility of the Department of Transportation and Public Facilities.

*The State Bond Committee passed Resolution 99-01 (see Appendix AL), a Master Resolution replacing earlier SBC Resolution 68-4 on January 28, 1999. Also in January 1999, the state issued bonds totaling $179,175,000. The bond proceeds were used to retire bond anticipation notes and fund the Anchorage International Airport Terminal redevelopment. The State Legislature, through Ch. 80, SLA 99, increased the aggregate principal amount of airport revenue bonds that can be issued under Ch. 88, SLA 1961. The State Bond Committee passed Resolution 99-07, a supplement to Resolution 99-1 (see Appendix AL) to issue $25 million Series 1999C revenue bonds for cash flow purposes for specific airside projects at the Anchorage International Airport in October 1999.*

- From February 10, 1999 to May 15, 1999, Treasury managed the Construction Fund assets (Series 1999A and 1999B Series) in the Short-term Pool.
- The asset allocation policy for the Construction Fund assets (Series 1999A and 1999B Series) was 25% Short-term Pool and 75% Intermediate-term Pool effective May 15, 1999.
- October 1999. Alaska International Airports System Revenue Bonds Series 1999C were issued. The asset allocation policy was set at 25% Short-term Pool and 75% Intermediate-term Pool.
- October 2000. The International Airports System begins to collect passenger facility charges at the Anchorage and Fairbanks International Airports. Annual receipts are expected to be about $5 million.
- April 2002. Alaska International Airports System Revenue Bonds Series 2002A AMT and 2002 B Non-AMT bonds were issued pursuant to Resolution 2002-01, a supplement to Resolution 99-01 (see Appendix AL). The asset allocation policy for the Construction Funds was set at 50% Short-term Pool and 50% Intermediate-

term Pool. The asset allocation policy for the Reserve Funds was set at 100% Broad Market Pool.

- November 2003. In anticipation of the issuance of 2003 bonds for the International Airport System, new investment accounts were established with an asset allocation policy effective December 1, 2003.
- December 11, 2003. Funding of the new accounts occurred with the closing of the 2003 series A AMT and 2003 series B Non-AMT bond issues. The asset allocation policies for the three new accounts (two construction accounts and one reserve account) were all 100% Short-term Pool with a Benchmark of the Three-month U.S. Treasury Bill.
- June 2004. The State's Debt Manager issued a memo stating that separate reserve accounts were not necessary for the 2002 Series A and B bond issues. This memo requested that the two accounts be combined prior to the end of fiscal year 2004.
- July 2004. The asset allocation policy for the 2002 Series revenue bonds was changed to 75% Short-term Pool and 25% Broad Market Pool effective July 1, 2004.
- November 2004. Agreement created to authorize State Street, Master Custodian under the Master Custodian Contract between the State of Alaska, Department of Revenue, Treasury Division and State Street, as well as The Bank of New York Mellon Trust Company, N.A., Registrar for the Reserve Account, to act upon detailed instructions of the Alaska International Airports System authorizing resolutions for the Debt Service Reserve Funds.
- February 2005. Assets were deposited into fund AY9M, the AIA Development Fund, for management by the Department of Revenue, Treasury Division. The asset allocation policy for the AIA Development funds were initially set at 15% Short-term Pool, and 85% Intermediate-term Pool.
- July 2005. The asset allocation policy for the 1999 Series revenue bonds was changed to 70% Short-term Pool and 30% Broad Market Pool. The 2002 Series revenue bonds was changed to 87% Short-term Pool and 13% Broad Market Pool. The 2003 Series revenue bonds was changed to 97% Short-term Pool and 3% Broad Market Pool effective July 1, 2005.

- March 2006. Per resolution 1999-01 and Supplemental Resolution 2006-10 of the State Board Committee, Series 2006A, B, C, & D are closed funding accounts for Series A, B, & C in Treasury Division on March 14, 2006.
- July 2007. The asset allocation policy for the International Airport Revenue Fund was 96% Intermediate-term Pool and 4% Short-term Pool. The asset allocation policy for the AIA Development Fund was 94% Intermediate-term Pool and 6% Short-term Pool. The asset allocation policies of the AIA Repair and Replacement Fund, Series 1999A AIA AMT Construction Fund, Series 1999C AMT Construction Fund, Series 1999B AIA Non-AMT Const. Fund, 2002B Non-AMT, 2002A AMT Construction Fund, 2002 Series Reserve Acct., 2003 Series A AMT, 2003 Series B Non-AMT, 2003 AIA Series (Reserve), 2006 AIA Series AMT, 2006 AIA Series Non-AMT, and 2006 AIA Series Variable Rate was 100% Short-term Pool.
- July 2008. The asset allocation policy for the International Airport Revenue Fund was changed to 95% Intermediate-term Pool and 5% Short-term Pool. The asset allocation policy for the AIA Development Fund was changed to 93% Intermediate-term Pool and 7% Short-term Pool. No Changes were made to the asset allocation policies of the other Airport system funds.
- January 2009. Pursuant to resolution 2008-08 the 2006 C variable rate bonds were restricted into the 2009A revenue bonds in January 2009. Per Resolution 2009-01 the bonds were reconfigured as Non-AMT bonds.
- July 2009. The asset allocation policy for the International Airport Revenue Fund was changed to 87% Intermediate-term Pool and 13% Short-term Pool. The asset allocation policy for the AIA Development Fund was changed to 85% Intermediate-term Pool and 15% Short-term Pool. No Changes were made to the other Airport system funds.
- July 2010. No Changes were made to the asset allocation of any Airport system funds.
- September 29, 2010. Alaska International Airports System Revenue Bonds Series 2010-C Non-AMT and 2010-D Taxable Build America Bond Structure bonds were issued pursuant to and secured by Resolution No. 68-4, as amended and restated by Resolution No. 99-01. The asset allocation policy for the Construction Funds was set at 100% Short-term Pool.

- February 2011. Agreement updated to authorize State Street, Master Custodian under the Master Custodian Contract between the State of Alaska, Department of Revenue, Treasury Division and State Street, as well as BNY Mellon Trust Company, N.A., Registrar for the Reserve Account, to act upon detailed instructions of the Alaska International Airports System authorizing resolutions for the Debt Service Reserve Funds. This updates the agreement dated November 2004 (Please see updated Appendix AR).
- July 2011. No changes were made to the asset allocation of any Airport system funds.
- July 2012. The asset allocation policy for the International Airport Revenue Fund was changed to 28% Short-term Pool, and 72% Intermediate-term Pool. No changes were made to the asset allocation of other Airport system funds.
- July 2013. The asset allocation policy for the International Airport Revenue Fund was changed to 55% Short-term Pool, and 45% Intermediate-term Pool. The asset allocation policy for the AIA Development Fund was changed to 55% Short-term Pool, and 45% Intermediate-term Pool. No changes were made to the asset allocation of other Airport system funds.
- July 2014. The asset allocation policy for the International Airport Revenue Fund was changed to 47% Short-term Pool, and 33% Intermediate-term Pool, and 20% Broad Market Pool. The asset allocation policy for the AIA Development Fund was changed to 47% Short-term Pool, and 33% Intermediate-term Pool, and 20% Broad Market Pool. No changes were made to the asset allocation of other Airport system funds.
- July 2015. No changes were made to the asset allocation of the International Airport Revenue Fund, the AIA Development Fund, or any other Airport system funds.
- July 2016. The asset allocation policy for the International Airport Revenue Fund was changed to 69% Short-term Pool, 24% Broad Market Pool, 4% Domestic Equity Pool, 2% International Equity Pool, and up to 1% REITs. No changes were made to the asset allocation of other Airport system funds.
- July 2017. The asset allocation policy for the International Airport Revenue Fund was changed to 67% Short-term Pool, 24% Broad Market Pool, 3% Domestic

Equity Pool, 1% International Equity Pool, 1% REITs, and 4% High Yield. No changes were made to the asset allocation of other Airport system funds.

- July 2018. The asset allocation policy for the International Airport Revenue Fund was changed to 67% Short-term Pool, 26% Broad Market Pool, 4% Domestic Equity Pool, 2% International Equity Pool, and 1% REITs. No changes were made to the asset allocation of other Airport system funds.
- August 2019. The asset allocation policy for the International Airport Revenue Fund was changed to 75% Short-term Pool, 21% Broad Market Pool, 2% Domestic Equity Pool, and 2% International Equity Pool. No changes were made to the asset allocation of other Airport system funds.
- July 2020. The asset allocation policy for the International Airport Revenue Fund was changed to 77% Short-term Pool, and 23% Broad Market Pool. No changes were made to the asset allocation of other Airport system funds.
- July 2021. The asset allocation policy for the International Airport Revenue Fund was changed to 85% Short-term Fixed Income Pool and 15% Broad Market Fixed Income Pool.

## 3. Facts and Figures

### a) Debt Service Coverage

Each of the applicable bond resolutions requires the Transportation Commissioner to set fees, charges and rentals for the use of facilities at the International Airports at a level enough to provide adjusted net revenues at least equal to 125 percent of debt service. There was a required coverage of 130 percent until 1999, and coverage of 125 percent thereafter. Adjusted net revenues of the International Airports have consistently provided the required debt service coverage. The table below excludes debt service bonds which are defeased.

**Int'l Airports System Revenue Bond Debt Service Charge**

| Fiscal Year | Net Revenue $ (Millions) | Debt Service $ (Millions) | Ratio Net Revenues to Debt Service |
|---|---|---|---|
| 1983 | 7.7 | 2.4 | 3.23 |
| 1984 | 9.1 | 1.5 | 6.16 |
| 1985 | 20.1 | 6.0 | 3.42 |
| 1986 | 22.4 | 5.5 | 4.10 |
| 1987 | 20.1 | 6.9 | 2.90 |
| 1988 | 28.9 | 8.3 | 3.47 |
| 1989 | 30.9 | 8.6 | 3.59 |
| 1990 | 21.4 | 8.6 | 2.49 |
| 1991 | 18.1 | 8.6 | 2.10 |
| 1992 | 12.0 | 8.6 | 1.41 |
| 1993 | 10.5 | 7.6 | 1.38 |
| 1994 | 10.6 | 2.8 | 3.79 |
| 1995 | 15.6 | 5.6 | 2.79 |
| 1996 | 17.9 | 5.7 | 3.14 |
| 1997 | 19.7 | 5.7 | 3.46 |
| 1998 | 20.7 | 5.7 | 3.63 |
| 1999 | 16.3 | 5.7 | 2.86 |
| 2000 | 18.9 | 4.8 | 3.94 |
| 2001 | 37.4 | 15.2 | 2.46 |
| 2002 | 30.5 | 15.2 | 2.01 |
| 2003 | 33.9 | 17.6 | 1.93 |
| 2004 | 33.0 | 22.1 | 1.49 |
| 2005 | 48.7 | 31.1 | 1.57 |
| 2006 | 43.7 | 32.4 | 1.35 |
| 2007 | 58.4 | 45.4 | 1.29 |
| 2008 | 62.7 | 49.1 | 1.28 |
| 2009 | 38.0 | 24.9 | 1.52 |
| 2010 | 51.3 | 24.6 | 2.09 |
| 2011 | 44.5 | 31.7 | 1.40 |
| 2012 | 41.6 | 31.2 | 1.33 |
| 2013 | 41.6 | 31.2 | 1.33 |
| 2014 | 51.6 | 41.2 | 1.25 |
| 2015 | 59.9 | 40.2 | 1.49 |
| 2016 | 60.2 | 40.4 | 1.49 |
| 2017 | 65.9 | 40.4 | 1.63 |
| 2018 | 67.2 | 31.1 | 2.16 |
| 2019 | 63.1 | 30.5 | 2.07 |
| 2020 | 75.7 | 29.7 | 2.55 |

b) Fund Balances

| | Combined (AY04 and AY05) | Revenue Fund (AY04) | | Repair & Replacement Reserve (AY05) | |
|---|---|---|---|---|---|
| **Fiscal Year** | **Fair Value** | **Investment Income** | **Balance at Fiscal Year End** | **Investment Income** | **Balance at Fiscal Year End** |
| 1993 | $ 70,992,452 | $ 3,132,439 | 70,498,476 | $ 18,513 | 493,976 |
| 1994 | 67,787,277 | 1,970,317 | 67,295,982 | 17,339 | 491,295 |
| 1995 | 72,221,444 | 4,415,799 | 71,715,998 | 28,405 | 505,446 |
| 1996 | 80,262,835 | 4,385,226 | 79,730,677 | 28,234 | 532,158 |
| 1997 | 85,902,455 | 4,958,405 | 85,374,994 | 27,492 | 527,461 |
| 1998 | 93,774,439 | 5,617,713 | 93,246,564 | 27,785 | 527,875 |
| 1999 | 84,975,404 | 4,709,560 | 84,450,497 | 24,822 | 524,907 |
| 2000 | 87,275,822 | 4,291,842 | 86,721,893 | 29,022 | 553,929 |
| 2001 | 101,338,768 | 8,467,769 | 100,838,768 | 33,121 | 500,000 |
| 2002 | 105,165,101 | 5,494,942 | 104,665,101 | 14,734 | 500,000 |
| 2003 | 112,910,579 | 6,249,504 | 112,410,579 | 9,101 | 500,000 |
| 2004 | 114,397,421 | 901,999 | 113,897,421 | 5,968 | 500,000 |
| 2005 | 74,962,228 | 2,897,370 | 74,462,228 | 11,900 | 500,000 |
| 2006 | 88,006,827 | 1,976,080 | 87,506,827 | 22,231 | 500,000 |
| 2007 | 89,424,323 | 4,577,775 | 88,924,323 | 27,887 | 500,000 |
| 2008 | 84,399,203 | 6,165,047 | 83,899,203 | 15,660 | 500,000 |
| 2009 | 92,308,232 | 5,029,153 | 91,808,232 | 5,995 | 500,000 |
| 2010 | 97,245,893 | 4,402,774 | 96,745,893 | 5,884 | 500,000 |
| 2011 | 110,402,102 | 2,214,838 | 109,902,102 | 2,403 | 500,000 |
| 2012 | 122,285,615 | 2,185,238 | 121,785,615 | 2,065 | 500,000 |
| 2013 | 127,789,824 | 439,987 | 127,289,824 | 1,212 | 500,000 |
| 2014 | 92,623,955 | 708,909 | 92,123,955 | 1,325 | 500,000 |
| 2015 | 106,035,317 | 790,039 | 105,535,317 | 1,480 | 500,000 |
| 2016 | 92,223,593 | 667,728 | 91,723,593 | 2,812 | 500,000 |
| 2017 | 118,662,696 | 1,034,273 | 118,162,696 | 4,401 | 500,000 |
| 2018 | 123,228,070 | 1,665,922 | 122,728,070 | 7,657 | 500,000 |
| 2019 | 130,985,790 | 5,399,333 | 130,485,790 | 12,482 | 500,000 |
| 2020 | 147,320,766 | 4,786,171 | 146,820,766 | 8,829 | 500,000 |
| 2021 | 195,465,109 | 228,465 | 194,965,109 | 957 | 500,000 |

**AIA Series 2010-C Non-AMT Const. Fund (AY3A)**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2011 | $ | 43,803 | 13,141,693 |
| 2012 | | 51,086 | 11,978,294 |
| 2013 | | 29,187 | 10,651,043 |
| 2014 | | 27,081 | 9,464,818 |
| 2015 | | 27,261 | 8,936,883 |
| 2016 | | 48,536 | 8,633,986 |
| 2017 | | 71,565 | 7,898,867 |
| 2018 | | 117,221 | 7,362,787 |
| 2019 | | 165,613 | 5,110,754 |
| 2020 | | 33,926 | 911,897 |
| 2021 | | 1,196 | 959 |

**AIA Series 2010-D Taxable BABS (AY3B)**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2011 | $ | 64,954 | 16,765,757 |
| 2012 | | 61,621 | 14,605,958 |
| 2013 | | 35,578 | 13,449,039 |
| 2014 | | 32,215 | 10,605,290 |
| 2015 | | 21,795 | 5,160,544 |
| 2016 | | 15,964 | 2,795,208 |
| 2017 | | 22,552 | 2,421,385 |
| 2018 | | 35,662 | 2,446,458 |
| 2019 | | 55,772 | 654,697 |
| 2020 | | 10,416 | 420,414 |
| 2021 | | 701 | 346,388 |

**AIA Series 2006 Non-AMT Const. Fund (AY9X)**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2006 | $ | 1,094,607 | 75,372,206 |
| 2007 | | 4,080,553 | 72,356,044 |
| 2008 | | 1,909,785 | 53,125,762 |
| 2009 | | 514,686 | 43,601,592 |
| 2010 | | 487,571 | 34,366,527 |
| 2011 | | 158,347 | 32,236,873 |
| 2012 | | 118,977 | 28,421,010 |
| 2013 | | 69,287 | 21,616,090 |
| 2014 | | 52,234 | 18,358,134 |
| 2015 | | 50,495 | 16,167,950 |
| 2016 | | 71,013 | 9,309,539 |
| 2017 | | 54,109 | 4,631,315 |
| 2018 | | 58,693 | 3,555,765 |
| 2019 | | 85,021 | 3,103,076 |
| 2020 | | 42,761 | 2,362,376 |
| 2021 | | 4,248 | 2,062,643 |

**AIA Series 2006 Variable Rate Fund (AY9Y)**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2006 | $ | 719,582 | 49,458,370 |
| 2007 | | 2,759,754 | 52,218,124 |
| 2008 | | 1,635,113 | 53,657,796 |
| 2009 | | 105,247 | 9,874,868 |
| 2010 | | 111,180 | 6,980,538 |
| 2011 | | 32,919 | 6,506,590 |
| 2012 | | 26,422 | 6,409,885 |
| 2013 | | 15,539 | 6,424,728 |
| 2014 | | 16,887 | 6,283,178 |
| 2015 | | 17,823 | 5,864,860 |
| 2016 | | 32,263 | 5,657,279 |
| 2017 | | 48,284 | 5,033,700 |
| 2018 | | 66,613 | 4,168,987 |
| 2019 | | 95,936 | 3,752,465 |
| 2020 | | 60,267 | 3,057,678 |
| 2021 | | 5,550 | 2,207,537 |

**AIA Series 2002 Reserve Account (AY2E)**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2002 | $ | 188,759 | 10,186,966 |
| 2003 | | 1,099,615 | 11,286,581 |
| 2004 | | 81,372 | 12,524,832 |
| 2005 | | 508,110 | 12,888,866 |
| 2006 | | 547,807 | 13,436,673 |
| 2007 | | 749,760 | 14,186,433 |
| 2008 | | 444,315 | 14,630,748 |
| 2009 | | 175,410 | 14,806,158 |
| 2010 | | 174,226 | 14,980,383 |
| 2011 | | 71,983 | 15,052,366 |
| 2012 | | 62,153 | 15,114,519 |
| 2013 | | 36,647 | 15,151,184 |
| 2014 | | 40,149 | 15,191,333 |
| 2015 | | 44,989 | 15,236,322 |
| 2016 | | 85,736 | 15,322,057 |
| 2017 | | 134,863 | 15,456,920 |
| 2018 | | 236,683 | 15,693,603 |
| 2019 | | 391,771 | 16,085,374 |
| 2020 | | 284,048 | 16,369,422 |
| 2021 | | 31,337 | 16,400,758 |

**AIA Series 2003 Reserve Account (AY2U)**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2002 | $ | - | - |
| 2003 | | - | - |
| 2004 | | 23,779 | 3,672,067 |
| 2005 | | 86,857 | 3,715,888 |
| 2006 | | 164,564 | 3,880,453 |
| 2007 | | 216,527 | 4,096,980 |
| 2008 | | 124,035 | 2,349,315 |
| 2009 | | 28,166 | 2,377,481 |
| 2010 | | 27,976 | 2,405,457 |
| 2011 | | 16,154 | 3,671,611 |
| 2012 | | 19,669 | 7,691,280 |
| 2013 | | 19,525 | 9,710,805 |
| 2014 | | 25,732 | 9,736,537 |
| 2015 | | 28,835 | 9,765,372 |
| 2016 | | 54,950 | 9,820,322 |
| 2017 | | 86,437 | 9,906,759 |
| 2018 | | 151,697 | 10,058,456 |
| 2019 | | 251,097 | 10,309,553 |
| 2020 | | 182,054 | 10,491,606 |
| 2021 | | 20,085 | 10,511,691 |

For institutional memory, historical balances have been retained and can be found in Appendix HA.4.

This section contains policies and procedures for managing the International Airports funds (except the Redemption Fund, see page XII-F-14).

a) General Management – Construction Fund

Department of Administration officials deposit all bond and anticipation note proceeds into the Construction Fund. Beginning with the 2002 bond issues, reserve accounts are funded with bond proceeds and maintained in separate accounts within the Construction Fund. Until proceeds are used in accordance with applicable bond covenants, Treasury invests the unexpended cash balances according to the policies set forth in Section V.

The AIAS debt service reserve funds are an aggregate of cash (such as Treasury funds AY2E, and AY2U) and multiple surety policies issued by MBIA and AMBAC. The AIA reserve account requirement is calculated by taking the lowest value of three reserve requirement tests – 1) Maximum annual debt service, 2) 10% of initial par of outstanding debt, and 3) 125% of the average annual debt service. There is a provision for third party access to the Reserve Accounts in the event of a default. The Bank of New York Mellon Trust Company, N.A. is the Registrar for the Alaska International Airport System and is granted this status (see Appendix AR). Should the balance fall below the required levels determined by the test outlined above, the Registrar would inform the Debt Manager who would work with responsible officials in the Department of Transportation and AIAS to adjust the balance to the required amounts in accordance with the applicable bond covenants. The AIAS has entered into a plan of gradually replacing the surety policy portion of the reserve with cash funding by depositing approximately $2 million per year to the reserves. This action is being taken to bolster the strength of the reserve in consideration of the weakened position of the firms providing the surely policies and in anticipation of the expiration of the surety policies beginning in 2017. This plan has resulted in a combination of reserves and surety policies that exceed the minimal reserve requirement.

b) General Management - Revenue Fund (AY04)

State officials (Department of Transportation) deposit all revenue, fees, charges, and rentals derived from state ownership, lease, use, and operation of the two airports or any related facilities and improvements pertinent to the two airports into the International Airports Revenue Fund. Beginning in October 2000, the Revenue Fund also contains receipts from passenger facility charges. These receipts are held in two sub-funds, one for Anchorage airport receipts and another for Fairbanks airport receipts. The invested assets of both sub-funds are held in the GeFONSI (as described earlier in this document) which matches their investment risk profile and time horizon. The Revenue Commissioner is the fiduciary for this fund, subject to investment restrictions established by the State Bond Committee and any municipal bond insurance company restrictions that may be applicable.

Bonds issued to finance improvements at the two airports have a first lien on the gross revenue deposited into the Revenue Fund from airport operations.

After the Department of Revenue oversees the transfer of all required money to the Redemption Fund, all remaining funds in the Revenue Fund are referred to as surplus revenues and are available to:

- Pay the normal and necessary costs of maintaining and operating the airports;
- Pay renewal, replacement and extraordinary repair costs at the airports;
- Redeem bonds prior to maturity;
- Acquire, construct, or install necessary additions or improvements;
- Pay costs relating to the ownership, use and operation of the airports;
- Maintain other reserves required by the applicable operating agreements; and
- For any other purpose permitted by statute.

The Revenue Fund maintains a significant balance and the investment earnings on that balance are a significant revenue source for the airport system. The Department of Transportation considers these investment earnings in negotiating fees with the airlines. Airport management and airline representatives want to keep fees as stable and as low as practical. Relatively stable investment earnings assist the airport system and the airlines in meeting that goal.

All the airport systems' revenue and expenses flow through the Revenue Fund. This includes normal operating transactions and most repair and maintenance projects. This subjects the Revenue Fund to the possibility of relatively significant cash inflows and outflows.

State Bond Committee Resolution 99-01, Section 3.03 (see Appendix AL), expressly permits Treasury to invest the Construction Fund and the Revenue Fund in any of Treasury's investment pools.

c) General Management – Repair and Replacement Reserve Fund (AY05)

The Repair and Replacement Reserve Account, a subaccount of the Revenue Fund, must contain a $500,000 minimum balance. Should the balance fall below $500,000, responsible officials in the Department of Transportation adjust the balance to the required amount in accordance with the applicable bond covenants. Beginning June 2001, Treasury Division annually transfers investment earnings of the Repair and Replacement Account to the Revenue Fund so that the account will end the fiscal year with exactly $500,000.

d) General Management – Redemption Fund

By December 31 of each year, the State Bond Committee must certify to the commissioners of Revenue and Transportation the amounts needed in the ensuing calendar year to be paid out of the Revenue Fund into the Redemption Fund and into the Repair and Replacement Account. This certification includes the last date or dates upon which the state can make such payments (Section 3.04 of the Resolution 99.01, see Appendix AL).

The Department of Administration, Division of Finance on behalf of the State Bond Committee and with the direction of the Department of Revenue Debt Manager oversees the transfer of money from the Revenue Fund to the Redemption Fund according to the established payment schedule.

Treasury officials do not expect material investment earnings in the International Airports Revenue Bond Redemption Fund due to low short-term interest rates and the relatively short amount of time the funds are held (up to 12 months).

## 5. Investment Policy

This section outlines the investment policy for the International Airports Construction Fund, Revenue Fund, Repair and Replacement Reserve Account, and the Revenue Bond Redemption Fund. The Passenger Facility Charge Revenue Funds are invested in the GeFONSI.

### a) Construction Funds

Series 2002A & 2002B (AY2A and AY2B; reserve – AY2E)

The State Bond Committee, through Resolution No.2002-01, (see Appendix AL), issued Alaska International Airports System Revenue Bonds in the principal amounts of $13,060,000 2002A (AMT) and $127,720,000 Series 2002B (non-AMT) dated April 1, 2002. The associated proceeds arrived on April 4, 2002.

Series 2003A and 2003B (AY2P and AY2R; reserve – AY2U)

The State Bond Committee, through Resolution No.2003-10, (see Appendix AL), issued Alaska International Airports System Revenue Series 2003A AMT Bonds in the principal amount of $73,025,000 Series 2003B non-AMT Bonds in the principal amount of $21,900,000 dated December 3, 2003. The associated proceeds arrived on December 11, 2003.

Series 2006 (AY9W, AY9X and AY9Y)

The State Bond Committee, through Resolution No.2006-01, issued Alaska International Airports System Revenue Series 2006A AMT Bonds in the principal amount of $118,975,000, Series 2006B non-AMT Bonds in the principal amount of $70,760,000, Series 2006C AMT Variable Rate Demand Bonds in the principal amount of $50,000,000, and Series 2006D non-AMT Revenue Refunding Bonds that refunded $104,860,000 of principal. These bonds were dated March 14, 2006.

Series 2010C and 2010D (AY3A and AY3B)

The State Bond Committee, through Resolution No. 2010-05, issued Alaska International Airports System Revenue Series 2010A Private Activity - AMT Revenue Refunding Bonds that refunded $117,270,000 of principal, Series

2010B Governmental non-AMT Revenue Refunding Bonds that refunded $21,685,000 of principal, Series 2010C Non-AMT Bonds in the principal amount of $12,565,000, and Series 2010D Taxable BABs Bonds in the principal amount of $19,540,000. These bonds were dated September 29, 2010.

Treasury invests these funds with the following in mind[23]:

AY2E – AIA Series 2002 Reserve Account

AY2U – AIA Series 2003 Reserve Account

AY9X – AIA Series 2006 Non-AMT Construction Fund

AY9Y – AIA Series 2006 Variable Rate Fund

AY3A – AIA Series 2010-C Non-AMT Construction Fund

AY3B – AIA Series 2010-D Taxable BABS

| | |
|---|---|
| **Risk Tolerance** | Low |
| **Investment Objectives** | • Very low exposure to principal loss<br>• Modest current income requirement<br>• Little inflation protection needed<br>• High liquidity requirement |
| **Time Horizon** | Short |

Effective July 1, 2021, Treasury's investment policy for these funds is:

100% +/- 0% Cash Equivalents

Performance benchmark:

100% 3-Month T-Bill

b) Revenue Fund (AY04)

The State Bond Committee in section 1.01 of Bond Resolution 99-01 (see Appendix AL) established the permitted investments for the Revenue Fund.

[23] See Appendix AR for restrictions related to movement of monies in the Reserve Account

Treasury invests the Revenue Fund assets with the following in mind:

| | |
|---|---|
| **Risk Tolerance** | Moderate |
| **Investment Objectives** | • Minimal exposure to principal loss<br>• Maximize current income within moderate risk tolerance<br>• Minimal inflation protection needed<br>• High liquidity requirement |
| **Time Horizon** | Short to intermediate |
| **Other Contraints** | State Bond Committee Resolution 99-1 restricts the type of investment instruments |

Treasury invested the Revenue Fund in a broad range of short and intermediate term securities specifically allowed under the permitted investments list in Bond Resolution 93-05. Subsequent State Bond Committee adoption of Bond Resolution 99-01 allows Treasury to invest the fund in the investment pools managed by the Treasury Division (Section 3.03). Participation in these investment pools allows the Revenue Fund to minimize transaction and administrative expenses.

From February 10, 1999 to May 15, 1999, Treasury managed the Revenue Fund assets in short-term fixed income investments pending final confirmation by the State Bond Committee on the proper investment policy.

Effective July 1, 2021, Treasury's investment policy for the Revenue Fund is:

| | | |
|---|---|---|
| 85% | +/- 10% | Cash Equivalents |
| 15% | +/- 10% | Core U.S. Fixed Income |

Performance benchmark:

| | |
|---|---|
| 85% | 3-Month T-Bill |
| 15% | BB Barclays US Agg Index |

c) Repair and Replacement Reserve Fund (AY05)

Prior to June 2001, Treasury invested the $500,000 Repair and Replacement Reserve Account in six-month U.S. Treasury Bills that were held to maturity unless funds were needed in the interim. Bond covenants applicable to the

Series 1999A and 1999B revenue bonds allow the Repair and Replacement Reserve Account to participate in any of the Treasury Division's investment pools, although those covenants also stipulate that investments must mature within five years from the date of investment. This additional stipulation essentially limits investments to pools that hold no investments maturing after five years.

| | |
|---|---|
| **Risk Tolerance** | Low |
| **Investment Objectives** | • Very low exposure to principal loss<br>• Modest current income requirement<br>• Little inflation protection needed<br>• High liquidity requirement |
| **Time Horizon** | Short |

Effective July 1, 2021, Treasury's investment policy for the Repair & Replacement Reserve Account is:

100% +/- 0% Cash Equivalents

Performance benchmark:

100% 3-Month T-Bill

## G. Alaska Student Loan Corporation

### 1. Overview

The Alaska Student Loan Corporation (ASLC) funded most of the Alaska Commission on Postsecondary Education's loan programs through the issuance of tax-exempt bonds. The bonds were issued pursuant to a master trust indenture (the 2002 Master Indenture).

In March 2004, and again in March 2005, the ASLC issued bonds to fund various State capital projects. These bonds were issued pursuant to master indentures dated February 1, 2004 and March 1, 2005, respectively.

Under the trust indentures, and subsequent supplemental indentures, the corporation is responsible for investing indentured funds including bond proceeds until needed for their intended purpose. The ASLC named a trustee to act as custodian for these investments.

The Corporation is also responsible for investing money not pledged to an indenture. These balances were formerly invested by the Department of Revenue, Division of Treasury, until their depletion. The Division of Treasury still invests the balance of the Education Loan Fund-Program Administration (formerly ASLC Revolving Student Loan Fund) (Fund 1106) assets in the GeFONSI.

In July 2021, the Department of Revenue and ASLC entered into a memorandum of understanding to invest money on behalf of ASLC. The ASLC Investment Fund (AY3S) was created for this purpose and was initially funded on July 28, 2021.

### 2. History

Please see Appendix HA.10 for ASLC funds that were previously invested by the Department of Revenue, Treasury Division.

## 3. Facts and Figures

Education Loan Fund-Program Administration (formally ASLC Revolving Student Loan Fund) (Fund 1106) assets invested in GeFONSI I at June 30:

| Fiscal Year | Investment Income | Balance at Fiscal Year End |
|---|---|---|
| 1989 | $ 1,226,579 | 2,969,573 |
| 1990 | 183,534 | 2,041,777 |
| 1991 | 140,905 | 1,908,118 |
| 1992 | 105,370 | 1,976,986 |
| 1993 | 84,236 | 2,447,273 |
| 1994 | 99,849 | 3,189,727 |
| 1995 | 294,365 | 7,069,675 |
| 1996 | 420,505 | 8,733,443 |
| 1997 | 419,184 | 8,151,095 |
| 1998 | 682,019 | 10,747,127 |
| 1999 | 666,014 | 12,079,845 |
| 2000 | 702,134 | 13,206,804 |
| 2001 | 1,387,871 | 14,865,218 |
| 2002 | 710,373 | 4,825,086 |
| 2003 | 532,592 | 9,695,749 |
| 2004 | 71,865 | 15,463,548 |
| 2005 | 430,402 | 15,788,292 |
| 2006 | 398,755 | 21,309,733 |
| 2007 | 1,369,242 | 30,626,355 |
| 2008 | 867,048 | 1,508,670 |
| 2009 | 137,018 | 2,476,946 |
| 2010 | 99,059 | 1,249,212 |
| 2011 | 61,484 | 4,168,618 |
| 2012 | 31,034 | 3,695,768 |
| 2013 | 6,126 | 6,226,274 |
| 2014 | 20,436 | 1,820,245 |
| 2015 | 17,303 | 3,425,309 |
| 2016 | 41,053 | 1,378,053 |
| 2017 | 15,946 | 4,658,515 |
| 2018 | 34,252 | 4,872,356 |
| 2019 | 92,051 | 1,719,916 |
| 2020 | 72,007 | 2,363,779 |
| 2021 | 5,134 | 1,967,534 |

Treasury has no performance benchmark for the Education Loan Fund-Program Administration (Fund 1106). See section XII(A) for the investment policy statement for the GeFONSI I.

### 4. Investment Policy

The Alaska Student Loan Corporation determines asset allocation policy for the ASLC Investment Fund (AY3S). This includes the risk tolerance, investment objective and the horizon.

| | |
|---|---|
| **Risk Tolerance** | Moderate |
| **Investment Objectives** | • Moderate exposure to principal loss<br>• Modestly higher returns than cash equivalents |
| **Time Horizon** | Intermediate |

Effective July 28, 2021, the ASLC investment policy for the ASLC Investment Fund is:

| | | |
|---|---|---|
| 74% | +/- 10% | Cash Equivalents |
| 26% | +/- 10% | Core U.S. Fixed Income |

| | |
|---|---|
| 74% | 3-Month T-Bill |
| 26% | BB Barclays US Agg Index |

## H. *Alaska Heritage Endowment Fund*

### 1. Overview

The Alaska Heritage Endowment Fund (fund 3372) is a trust fund the income of which is dedicated to funding the acquisition of significant historical and cultural items for the Alaska State Museum and the Sheldon Jackson Museum.

The Alaska Heritage Endowment Fund may be funded by legislative appropriations or by contributions from individuals and organizations. Private contributions may be made to the principal of the Fund (in which case only the income derived from those contributions can be used to purchase objects for the museums) or to the net income account of the Fund (in which case the entire contribution can be used to purchase objects for the museums).

### 2. History

- 1992. The Legislature establishes the Alaska Heritage Endowment Fund. § 5 Ch. 82 SLA 1992. Sponsor of the legislation that established the Fund proposed a tax credit to encourage contributions to the Fund. The Department of Revenue vigorously opposed the tax credit and consequently, that part of the proposed legislation did not pass.
- March 1997. The Alaska Heritage Endowment Fund accumulated slightly more than $2,300 ($2,235 in principal and $125 in income). State records reflect that contributions to the Fund were solicited for the principal account of the Fund by the Friends of the Alaska State Museum.

## 3. Facts and Figures

Total invested assets in the Alaska Heritage Endowment Fund at June 30:

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 1994 | $ | 2 | 226 |
| 1995 | | 34 | 758 |
| 1996 | | 45 | 912 |
| 1997 | | 77 | 2,383 |
| 1998 | | 163 | 2,642 |
| 1999 | | 141 | 2,920 |
| 2000 | | 227 | 7,062 |
| 2001 | | 760 | 10,579 |
| 2002 | | 623 | 14,975 |
| 2003 | | 811 | 18,651 |
| 2004 | | 178 | 19,794 |
| 2005 | | 623 | 23,319 |
| 2006 | | 83 | 25,737 |
| 2007 | | 101 | 27,923 |
| 2008 | | 1,678 | 30,060 |
| 2009 | | 1,275 | 32,486 |
| 2010 | | 1,133 | 35,420 |
| 2011 | | 596 | 37,000 |
| 2012 | | 537 | 38,595 |
| 2013 | | 120 | 39,701 |
| 2014 | | 240 | 51,297 |
| 2015 | | 99 | 58,514 |
| 2016 | | 482 | 58,875 |
| 2017 | | 333 | 59,891 |
| 2018 | | 636 | 63,930 |
| 2019 | | 2,039 | 68,458 |
| 2020 | | 1,477 | 70,119 |
| 2021 | | 60 | 70,099 |

## 4. Management

Appendix AO.

While the governing statutes clearly contemplate private contributions to the Fund's net income account (see AS 37.14.510), it appears that all expenditures from the

Fund's net income account must be authorized by specific appropriations. AS 37.14.520 and AS 37.14.530(b) and (c).

The applicable statutes require Treasury to account for the Fund in a manner that distinguishes "principal" from "income." Treasury intends to follow the practice it has established for the endowment funds (such as Public School Trust Fund), once there is a sufficient balance in the Fund. (See section 5 for discussion of sufficient balance.) Treasury will establish a "principal account" and an "income account" for the Fund. Income may be spent; principal must be preserved. AS 37.14.530(a) provides that "any capital gains or losses realized on the principal shall be retained perpetually in the fund for investment;" consequently, income includes only interest and dividends[24]. AS 37.14.530(c) requires Treasury to reinvest the realized net income not yet appropriated and expended.

## 5. Investment Policy

AS 37.14.170 establishes the investment objectives for the Fund:

*Investments*. The commissioner of revenue is the fiduciary of the trust fund and shall invest the fund to provide increasing net income over long-term periods to the fund's income beneficiaries. The commissioner may invest the money in the fund on the basis of probable total rate of return to promote the long-term generation of income. In managing the trust fund, the commissioner shall:

> (1) consider the status of the fund's capital and the income generated on both a current and a probable future basis;
>
> (2) determine the appropriate investment objectives;
>
> (3) establish investment policies to achieve the objectives; and
>
> (4) act only in regard to the financial interests of the fund's beneficiaries.

The investment objective is to provide "increasing net income over long-term periods to the Fund's income beneficiaries." Treasury believes this provision requires an

[24] The statute does not address unrealized gains or losses. Treasury will retain such gains and losses with the principal.

investment policy that is most likely to yield increasing real, or inflation adjusted, income over long term periods.

To offset the additional costs incurred from investing the fund in equities or more aggressive assets separately from the GeFONSI, the Fund would need assets in excess of $3 million. Separate investment of the fund would require Treasury to establish two separate accounts with the state's custodian bank. Treasury would establish the two separate accounts to facilitate management control and separation of principal and income assets. Currently, all of the funds in the Fund are invested in one "account" and that "account" is invested in the GeFONSI. If Treasury separately invested the fund, Treasury would allocate costs to the fund in the same manner as it does the Public School Trust Fund. Currently, Treasury does not allocate any costs to this fund.

Once separate principal and income accounts were established, monthly, Treasury would transfer income (only dividends and interest and not net appreciation) produced by the principal assets of the Fund to a separate income account within the Fund where it would be held pending expenditure. Net appreciation must be retained in the principal assets account (AS 37.14.530(a))[25].

Consequently, the Fund would require separate investment policies for the principal assets of the Fund and the income assets of the Fund. Once earned, the Legislature could appropriate the income assets for museum acquisitions.

### 6. Control and Reporting Requirements

AS 37.14.520(7) requires the Commissioner to engage an independent certified public accountant to perform an annual audit. To fulfill this requirement, the State Comptroller contracts with an independent certified public accountant to perform the annual audit of all investments managed by Treasury including those in the GeFONSI.

[25] Under GASB Statement No. 31, "income" is defined as interest and dividends while "net appreciation" is defined as realized and unrealized capital gains and losses.

AS 37.14.520(6) requires the Commissioner of Revenue to maintain accounting records that distinguish between the principal and income of the Fund. The accounting records are maintained by the State Comptroller. It is the policy of the Department for the State Comptroller to inform the Alaska Museum Collections Advisory Committee of the current status of the Fund and to work closely with the staff of the State Museum and the Friends of the State Museum to provide information and assistance with respect to this fund. The State Comptroller sends a letter to the Museum Collections Advisory Committee within 30 days following the end of each fiscal year to describe the financial condition and activity of the fund in accordance with AS 34.14.520(9).

### 7. Treasury Funding

While the Alaska Heritage Endowment Fund is invested in the GeFONSI, it is not used as a funding source for the Division’s annual budget. The Fund is not charged for the actual costs of investment management fees nor for performance measurement costs. Treasury allocates no portion of the Division’s personnel costs and custodial costs to the Fund.

## I. *Statutory Budget Reserve Fund*

Please see Appendix HA.11 for historical information relating to the Statutory Budget Reserve Fund (AY3E).

## J. *Oil Spill Funds*

### 1. Overview

The Oil and Hazardous Substance Release Prevention and Response Fund (Response Fund) was created by the Legislature in 1986 to provide a readily available funding source to investigate, contain, clean up and take other necessary action to protect public health, welfare and the environment from the release or threatened release of oil, or a hazardous substance. Alaska Statute 46.080.030 states: "It is the intent of the legislature and declared to be the public policy of the state that funds for the abatement of a release of oil or a hazardous substance will always be available." (SLA 1986 Sec.1 Ch. 59).

The statutes governing the Response Fund were amended in 1989, 1990, 1991, 1994, 1999, and 2006. These amendments increased the scope that defines how the Response Fund can be used and it also increased the Department of Environmental Conservation's (DEC) reporting requirements. In addition, the 1994 amendment made major changes to the Response Fund structure by dividing the Response Fund into two separate accounts. The first account is the Response Account and the second account is the Prevention Account. The changes became effective on July 1, 1994.

The 1999 amendment changed the reporting requirement on the status of the Response Fund from an annual report to the Legislature to a biennial report. The 2006 amendment changed the surcharge levied on crude oil produced in the state. The legislation imposed a prevention account surcharge of $0.04, which was formerly $0.03 per barrel of oil produced from each lease or property in the state, less any oil the ownership or right to which is exempt from taxation. Sec. 26 of AS 43.55.201 was also amended to change the response account surcharge from $0.02 to $0.01 per barrel of oil produced from each lease or property of the state.

**<u>Response Account</u>**

The response account may be used to finance the state's response to an oil or hazardous substance release disaster declared by the governor, or to address a release or threatened release that poses an imminent and substantial threat to the public health or welfare, or to the environment. To access the response account for any incident other than a declared disaster, DEC must notify the governor and the Legislative Budget and Audit Committee within 120 hours of using the money from this account.

The response account is financed by a $0.01 per barrel surcharge and money recovered from responsible parties. The surcharge is suspended when the combined balance of the surcharge account; the response mitigation account and the unreserved and unobligated balance in the response account reach $50 million. The account balance reached $50 million for the first time during the quarter ending December 31, 1994. Therefore, beginning April 1, 1995, the surcharge collection was suspended.

Access to the fund for the response to the North Slope Pipeline spills occurred on November 20, 2006. This action lowered the balance of the account below $50 million. On April 1, 2007, the Department of Administration imposed the $0.01 cent surcharge to restore the balance to $50 million. Spill responses reduced the balance again over the years and on July 1, 2013 the $0.01 surcharge was again imposed to restore the balance to $50 million. The combined balance of the Response Account as of June 30, 2020, was $42.2 million.

**Prevention Account**

The prevention account may be used to respond to oil and hazardous substance releases that have not been declared a disaster by the governor. In addition, the prevention account is also used to fund Alaska's oil and hazardous substance release response and prevention programs. The Legislature appropriates money from the prevention account to support DEC for the spill prevention and preparedness planning activities (AS 46.08.040(a)(2)).

The prevention account is financed with a $0.04 per barrel surcharge and fines, settlements, penalties and interest.

**Investment Earnings Allocation**

The Legislature appropriates all of the investment earnings from the Prevention Account, the Prevention Mitigation Account, the Response Account and the Response Mitigation Account into the Prevention Account.

As the result of legislative action, the following funds exist:

| GASB Fund No. | Fund Description | Legal Authority |
|---|---|---|
| 11128 | **Oil & Hazardous Substance Release Prevention and Response Fund**<br>Roll up only. Fund consists of two accounts (sub-funds 1052 and 3208). | AS 46.08.010<br>AS 46.08.040(a) |
| 1052 | **Oil & Hazardous Substance Release Prevention & Response Fund, Prevention Account**<br>Consists of appropriations by the Legislature of 4 cents per barrel surcharge; money from private donors; money recovered from parties responsible for cleanup of oil or a hazardous substance; and fines, penalties, or damages recovered under chapter 46. The fund is to be used for paying for prevention and preparedness. | AS 46.08.040(a) |
| 3208 | **Oil & Hazardous Substance Release Prevention and Response Fund, Response Account**<br>Consists of appropriations by the Legislature of 1 cent per barrel temporary surcharge and money recovered from responsible parties. The Fund is to be used for financing the containment and cleanup effort related to a declared disaster or to address a release or threatened release that poses an imminent or substantial threat to the public health or welfare, or the environment. | AS 46.08.010(a)<br>AS 46.08.045 |
| 11152 | **Oil & Hazardous Substance Release Prevention and Response Mitigation Accounts**<br>This fund entity is a roll-up for sub-funds 3211 and 3212.<br>These accounts were not established as a fund by statute, but are maintained for accounting purposes only. | |

| | | |
|---|---|---|
| 3211 | **Oil & Hazardous Substance Release Prevention Mitigation Acct.** The Legislature may annually appropriate the balance of this fund to the Oil and Hazardous Substance Release Prevention Account (fund 1052). | AS 46.08.020 |
| 3212 | **Oil and Hazardous Substance Release Response Mitigation Account** The Legislature may annually appropriate the balance of this fund to the Oil and Hazardous Substance Release Response Account (fund 3208). | AS 43.55.231 |

Please see Appendix BE for the complete Biennial Report, produced by the Alaska Department of Environmental Conservation. The complete report goes into detail regarding expenditures, obligations, prevention mitigation and response mitigation revenues, revenue sources, appropriations, projects, and contaminated sites throughout the State of Alaska.

# K. National Petroleum Reserve Alaska Special

## 1. Overview

Similar to the history of the Alaska Mental Health Lands Trust, the National Petroleum Reserve Alaska (NPRA) Special Revenue Fund started with a federal mandate governing state revenue that later was violated by the Legislature, then decided in a court battle and finally settled with more legislation.

The issue started in 1980 when Congress enacted legislation requiring the federal government to give to the state half of lease payments, bonuses and royalties from federal oil and gas leases in NPRA.

## 2. History

- 1923. President Warren G. Harding signs an executive order creating the Naval Petroleum Reserve No. 4, a 23-million-acre reserve on Alaska's North Slope, west of Prudhoe Bay. It was one of four petroleum reserves around the country set aside for possible use by the Navy, though no oil had ever been pumped from the Alaska reserve.
- 1976. The reserve is renamed the National Petroleum Reserve Alaska, and jurisdiction is transferred to the U.S. Department of Interior.
- 1980. Congress authorizes the Secretary of the Interior to offer competitive leases in NPRA, clearing the way for private development of the resources. As part of that legislation, Congress enacts P.L. 96-514, which requires that the federal government turn over to the state 50 percent of the revenues from NPRA. The codified statute is 42 U.S.C. § 6508. Federal law specifies that the state use the money for planning, construction, maintenance and operation of essential public facilities and other necessary provisions of public service. "Provided further, that in the allocation of such funds the state shall give priority to use by subdivisions of the state most directly or severely impacted by development of oil and gas leased under this act."
- 1982. The Legislature passes CS SB 835 (Finance) amended House, which would have established an NPRA Special Revenue Fund. All of the state's federal proceeds of NPRA revenues would have gone into the fund, with half going out to

communities affected by the leasing and the other half available for state spending. Governor Jay Hammond vetoes the bill.

- 1983. The federal government awards competitive leases for a total of 7.2 million acres of land in NPRA, paying half of the lease payment and bonus income to the state.
- Without a specific state law on the books to govern receipt and expenditure of the $48.6 million in NPRA lease income received by the state during the early 1980s, none of the money is guaranteed for affected communities. Instead, it is disbursed as follows:
  - Half of the state's share is automatically deposited into the Alaska Permanent Fund (about $24.3 million).
  - One-half of one percent of some of the payments is deposited into the Public School Fund (about $182,000).
  - The remainder is deposited into the General Fund (about $24.1 million).
- 1984. Until 1984, NPRA money in the General Fund is appropriated by the Legislature in the same manner as all other General Fund money (about $18 million of the $24.1 million). The General Fund holds about $6.1 million of NPRA lease money when the Legislature adopts a new law (Chapter 94, SLA 1984) establishing the National Petroleum Reserve Alaska Special Revenue Fund. The law, AS 37.05.530, let stand the 1980-1984 deposits into the Permanent Fund and Public School Fund and the appropriations out of the General Fund. The law designates that the remaining balance ($6.1 million) and any future income shall be disbursed as grants to communities affected by leasing in NPRA. The law specifically exempts municipalities from using the funds to retire debt. The law directs the Department of Community and Regional Affairs to set up a grant program that would "give priority in the allocation of grants to municipalities that are experiencing or will experience the most direct or severe impact from oil and gas development under 42 U.S.C. § 6508 within the National Petroleum Reserve Alaska." The state distributes NPRA receipts that are not appropriated under AS 37.05.530 as municipal grants by the end of each fiscal year according to the following allocation:
  - Half to the principal of the Permanent Fund.

- One-half of one percent to the Public School Fund.
- The remainder to the General Fund.

The commissioner of Revenue is charged with managing the NPRA Special Revenue Fund, under AS 37.05.530(b).

- 1985. Though the 1984 legislation set up a grant program through the Department of Community and Regional Affairs, the Legislature sidestepped that process and by 1985 had appropriated about 60 percent of the balance of the fund, or $3.7 million, for directs grants and projects in the North Slope Borough not necessarily related to impacts from leasing in NPRA. In late 1985, the North Slope Borough and the cities of Barrow, Nuiqsit and Wainwright sue the state, alleging that its handling of NPRA revenue violates the federal requirement of priority for communities affected by oil and gas leasing in the reserve. The plaintiffs wanted:
  - A "rational process" for communities to apply for the grants.
  - A declaration that the automatic deposit of whatever is left each year into the Permanent Fund, Public School Fund and General Fund violates federal law.
  - An order directing the state to reconstitute the fund equal to the total amount of federal money received over the years.

  Alaska Superior Court Judge Walter Carpeneti rules (see Appendix AX):
  - The state must establish a process for municipalities to apply for grants.
  - That any automatic deposit of the money to funds other than impact grants to communities violates federal law, though it might be permissible if it covers only those funds remaining each year after grants have been made.
  - The state must reconstitute the fund but does not have to include any money already spent by General Fund appropriation. Subtracting that $18 million from the original federal payments of $48.6 million left about $30.6 million to be returned to the new NPRA Special Revenue Fund.

- 1986. To comply with the court ruling, the Legislature (Chapter 53, SLA 1986) authorizes the Department of Community and Regional Affairs to adopt regulations for a grant program under the 1984 law. The department adopts the regulations (19 AAC 50.010-.090) in July 1986, setting eligibility criteria for the grants. However, instead of appropriating the full 30.6 million to comply with the court ruling, the Legislature appropriated just $24.5 million to the fund. Instead of including in the appropriation the approximately $2.4 million that remained in the fund (the $6 million 1984 balance minus the $3.7 million in direct grants in 1984-1985), the Legislature appropriates $2.155 million of that money for a residential care alcohol and drug treatment center in Barrow. The plaintiffs in the case, however, agree to stipulate that the treatment center appropriation would be considered as a grant under the Special Revenue Fund program and allowed it as a credit to the overall appropriation that year.
- 1987. After several million dollars were disbursed as municipal grants, there remained about $17.2 million in the Special Revenue Fund before the end of fiscal year 1987. The state distributes that money to the Permanent Fund and Public School Fund according to the allocation plan set out in AS 37.05.530(g) - though it was short by almost $2 million of what should have been distributed because of the Legislature's short-funding the 1986 appropriation to settle the court case. In addition to the $48.6 million received through Fiscal 1986, the state receives an additional $1.5 million in fiscal year 1987, which is disbursed according to the allocation table set out in AS 37.05.530(g).
- 1994 – 1999. The state receives no NPRA payments from the federal treasury. There is no money in the fund and there are no operating leases in NPRA.
- 1998. Following an environmental review process, Interior Secretary Babbitt decides in October 1998 to proceed with leasing in the 4.6-million acre northeastern corner of the refuge.
- 1999. Following the October 1998 environmental review, the Department of the Interior completes the May 1999 sale, the largest on-land federal oil lease sale ever, drawing bids on 135 tracts from six companies. Treasury anticipates payment from the sale will arrive about one quarter later.

- January 10, 2000. The state receives $40,298,622 from the federal Bureau of Land Management as its share of revenue from the May 1999 sale of oil and gas leases in the National Petroleum Reserve – Alaska.
- February 2000. The state receives $75,826 into the NPRA Fund.
- Fiscal Year 2001. The state receives $1,683,850 into the NPRA Fund.
- Fiscal Year 2002. The state receives $1,686,105 into the NPRA Fund.
- Fiscal Year 2003. The state receives $34,556,000 into the NPRA Fund.
- Fiscal Year 2004. The state receives $2,530,586 into the NPRA Fund.
- Fiscal Year 2005. The state receives $31,594,594.50 into the NPRA Fund.
- Fiscal Year 2006. The state receives $4,473,163.50 into the NPRA Fund.

In 2006, the provisions of the NPRA Special Revenue Fund established under AS 37.05.530 were amended by Senate Bill 171. SB 171 provides that amounts received by the State under 42 U.S.C. 6506 a (1) (formerly 42 U.S.C. 6508) and not appropriated for grants to impacted municipalities, shall be deposited at the end of each fiscal year as follows:

- 25% of the gross amount of receipts to the principal of the Alaska Permanent Fund.
- 0.5% of the gross amount of receipts to the Public School Trust Fund
- Any remaining dollars after these deposits may be appropriated by the Legislature to the Power Cost Equalization and Rural Electric Capitalization Fund
- Any remaining cash balance shall lapse into the State General Fund for use by the State for planning, construction, operation & maintenance of essential public facilities; and other necessary public purposes.

Additionally, SB 171 allows for a “catch-up” mechanism whereby if there are amounts left over in future years following payment of grants and deposits to the Alaska Permanent Fund and the Public School Trust Fund, those amounts will be allocated to the Permanent Fund and the Public School Trust Fund in an amount equal to the deficiencies in past years when the full gross amount could not be deposited.

SB 171 also specifies that in making appropriations from the National Petroleum Reserve-Alaska Special Revenue Fund, the Legislature shall identify the grants for activities, services, and facilities as capital appropriation items and shall specify amounts for each.

- Fiscal Year 2007. The state receives $12,772,299 into the NPRA Fund.
- Fiscal Year 2008. The state receives $5,246,474 into the NPRA Fund.
- Fiscal Year 2009. The state receives $16,235,761 into the NPRA Fund.
- Fiscal Year 2010. The state receives $5,001,121 into the NPRA Fund.
- Fiscal Year 2011: On April 15, 2010 the State was informed that $14,634,516 would be disbursed from the Kuukpik leases. These funds were included in the FY11 capital bill as an appropriation for capital project grants under the National Petroleum Reserve-Alaska impact grant program. In July 2010 the Department provided public notice and requested impacted communities to submit grant applications for an NPR-A Special Funding Cycle in response to this appropriation. A total of 14 applications requesting $17,143,528 in grant funding were received by the August 31, 2010 deadline. In December 2010, a total of 14 grants totaling $14,634,516 were awarded funding from this specific appropriation.
- Fiscal Year 2012. SLA 2011, Chapter 5, Section 22 – FY12, a total of 6 grants in 4 communities totaling $3,032,458 were awarded funding.
- Fiscal Year 2013. SLA 2012, Chapter 17, Section 18 – FY13, a total of 11 grants in 4 communities totaling $4,749,254 were awarded funding.
- Fiscal Year 2014. SLA 2013, Chapter 16, Section 24 – FY14, a total of 10 grants in 4 communities totaling $3,561,616 were awarded funding.
- Fiscal Year 2015. SLA 2014, Chapter 18, Section 29 – FY15, a total of 8 grants in 4 communities totaling $4,005,621 were awarded funding.
- Fiscal Year 2016. SLA 2015, Chapter 38, Section 24 – FY16, a total of 9 grants in 5 communities totaling $3,152,920 were awarded funding.
- Fiscal Year 2017. SLA 2016, Chapter 2, Section 15 – FY17, a total of 7 grants in 5 communities totaling $2,032,925 were awarded funding.
- Fiscal Year 2018. SLA 2017, Chapter 1, Section 9 – FY18, a total of 3 grants in 3 communities totaling $1,378,346 were awarded funding.
- Fiscal Year 2019. SLA 2018, Chapter 19, Section 19 – FY19, a total of 16 grants in 5 communities totaling $11,611,722 were awarded funding; SLA 2019 Chapter

3, Section 12(a) – FY19, a total of 18 grants in 4 communities totaling $13,371,497

- Fiscal Year 2020. SLA 2019, Chapter 3, Section 12(b) – FY20, a total of 8 grants in 3 communities totaling $6,428,714

For more detailed State Fiscal Year number of projects and communities, and grant money awarded, please see the most recent NPR-A Report to the Alaska Legislature in Appendix BJ.

### 3. Investment Policy

Money in the fund that the legislature does not appropriate will be transferred at the end of each fiscal year - either as deposits to the Permanent Fund, Public School Fund or the state's General Fund. The investment policy is therefore based on low risk and significant liquidity. The NPRA Fund is currently a participant in the General Fund and Other Non-segregated Investments II pool (the GeFONSI is described earlier in this section). However, NPRA is a type 3 participant (does not get investment earnings). This essentially makes risk irrelevant since Treasury does not allocate investment earnings (losses) to this account.

## L. *Energy Funds*

Appendix AU presents a brief overview of the energy-related funds with assets invested in GeFONSI.

These funds exist because of past state investment in and financial support for energy-generating and distribution projects across Alaska.

## M. *Retiree Health Insurance Fund (AY03, AY11)*

### 1. Overview

The Department of Administration established the Group Health and Life Insurance Fund (GHLIF) to account for the state's self-funded health insurance program for active employees and the Retiree Health Insurance Fund (RHIF) for the state's self-funded health insurance program for retired employees.

AS 39.30.091 and AS 39.30.095 expressly authorize the Commissioner of Administration to provide certain group health and life insurance benefits for active employees by means of self-insurance. If the Commissioner of Administration determines that there is more money in the fund than the amount needed to pay premiums, benefits, and administrative costs for the current fiscal year, the surplus, or so much of it as the commissioner of administration considers advisable, may be invested by the commissioner of revenue in the same manner as retirement funds are invested under AS 37.10.220. The Commissioner of Administration has determined that AS 39.30.090, AS 39.30.091 and AS 39.30.095, by implication, confer that same authority with respect to retired employees. The Division of Retirement and Benefits manages these two programs. Treasury manages the funds' excess cash.

Three insurance plans comprise the RHIF: (1) major medical, (2) long-term care (LTC), and (3) dental, visual and audio (DVA).

### 2. History

- July 1, 1997. The Department of Administration establishes the GHLIF and RHIF to account for the state's self-funded health insurance program for active employees and inactive employees, respectively. Treasury manages GHLIF and RHIF assets as participants in the GeFONSI.
- May 28, 1998. Treasury reaches an agreement with the Department of Administration to manage excess RHIF assets. The Division of Retirement and Benefits determines that there is no surplus in the GHLIF; it remains invested in the GeFONSI.

- July 1, 1998. Treasury transfers excess assets in the RHIF to a separate bank account at the custodian bank. Initial funding is $36,967,803. Treasury establishes an asset allocation policy for these invested assets.
- April – June 1999. The Division of Retirement and Benefits determines that the three plans comprising the RHIF should be invested separately (see memorandum dated May 17, 1999 shown in Appendix BC). On April 13, 1999, the Division of Retirement and Benefits moved the LTC portion into a new fund within the statewide accounting system (AKSAS). Given its long-term investment time horizon, asset allocation for the LTC portion will include equities. Treasury decides to fund the equity allocation in equal installments on a quarterly basis. In the interim, Treasury decides to manage these LTC assets (the portion to be invested in equities) in the Short-term Pool. Given its short investment horizon and high liquidity requirements, Treasury decides to invest the DVA portion in the GeFONSI[26]. Treasury modifies asset allocation policy for the major medical portion.
- July 1999 – July 2000. The period for the interim and target asset allocation policies applicable to the RHIF LTC portion. The target investment policy has a plus or minus band for each investment pool in the allocation to avoid the expense of continually rebalancing the investments.

| | | |
|---|---|---|
| 63% | ± 20% | Short-term Pool |
| 37% | ± 20% | Broad Market Pool |

- The related interim performance benchmark for RHIF LTC portion was:

| | |
|---|---|
| 63% | Three-month U.S. Treasury Bill |
| 37% | Lehman Brothers Aggregate Bond Index |

---

[26] Before April 13, 1999, the Division of Retirement and Benefits held assets for all three plans in one fund (FU 11156) to separately account for plan assets. The Division of Retirement and Benefits created additional funds as follows:

| | |
|---|---|
| FUND | 11159 Retiree Health Funds |
| | 11156 Major Medical Retiree |
| | 11158 LTC Retiree |
| | 11157 DVA Retiree Health |

- July 1999. The asset allocation policy for the RHIF Long-term Care Insurance was set at 36% Broad Market Pool, 45% Domestic Equity Pool and 19% International Equities effective July 1, 1999 with full implementation by July 2000. The related benchmarks were the Lehman Brothers Aggregate, Russell 3000 and the MSCI EAFE, respectively.
- March 2003. The asset allocation policy for the RHIF Long-term Care Insurance changes to 34% Broad Market Pool, 45% Domestic Equity Pool, 20% International Equities and 1% Short-term Pool, effective July 1, 2003.
- June 2004. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changes to 33% Broad Market Pool, 48% Domestic Equity Pool, 18% International Equities and 1% Short-term Pool, effective July 1, 2004.
- July 2005 – no change
- July 2006. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changes to 31% Broad Market Pool, 49% Domestic Equity Pool, 19% International Equities and 1% Short-term Pool effective July 1, 2006.
- June 2007. Health Care 115 trusts for the DB (PRS, TRS, JRS) and DC (PRS, TRS) plans are established. Funds in the RHIF Major Medical Account are transferred to the new Health Care Trust accounts, leaving remaining amounts to pay claims for the remaining retirees in the self-funded plan. No new amounts are expected to be placed into the RHIF Major Medical fund which will be closed upon payment of all claims. The fund continues to be invested as follows: 100% Short-term Pool (AY70).
- July 2007. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changes to 28% Broad Market Pool, 50% Domestic Equity Pool, 21% International Equities and 1% Short-term Pool, effective July 1, 2007.
- July 2008. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changes to 28% Conservative Aggregate Pool, 50% Domestic Equity Pool, 21% International Equities, and 1% Short Term Pool, effective July 1, 2008.
- July 2009. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changes to 26% Conservative Aggregate Pool, 50% Domestic Equity Pool, 23% International Equities, and 1% Short Term Pool, effective July 1, 2009.

- December 2009. The asset allocation policy was changed due to a replacement of the Conservative Aggregate Pool with a respective allocation to the Broad Market Pool and the U.S. Treasury Pool (90% Broad Mkt. and 10% U.S. Treasury). The resulting allocation was 23% Broad Market Pool, 3% US Treasury Pool, 50% Domestic Equity Pool, 23% International Equities, and 1% Short-term Pool.
- July 2010. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changes to 27% Broad Market Pool, 3% U.S. Treasury Pool, 58% Domestic Equity Pool, 11% International Equities, and 1% Short-term Pool, effective July 1, 2010.
- July 2010. Univita performs an actuarial valuation of the RHIF Long-term care insurance (LTC) program as of 6/30/2009.
- March 2011. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changes to 35% Broad Market Pool, 27% U.S. Treasury Pool, 18% Domestic Equity Pool, 9% International Equities, and 11% Short-term Pool, effective March 15, 2011.
- July 2011. Treasury bases its asset allocation policy for the RHIF Long-term Care Insurance (LTC) on the rate of return assumed in the actuarial valuation performed by Univita (at 5.00%). The asset allocation policy changes to 52% Broad Market Pool, 17% Domestic Equity Pool, 9% International Equities, and 22% Short-term Pool, effective July 1, 2011.
- July 2012. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changes to 50% Broad Market Pool, 21% Domestic Equity Pool, 11% International Equities, and 18% Short-term Pool, effective July 1, 2012.
- July 2013. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changes to 41% Broad Market Pool, 27% Domestic Equity Pool, 14% International Equities, and 18% Short-term Pool, effective July 1, 2013.
- July 2014. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changes to 62% Broad Market Pool, 25% Domestic Equity Pool, 13% International Equities, and 0% up to 2% Short-term Pool, effective July 1, 2014.
- July 2015. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) remains at 62% Broad Market Pool, 25% Domestic Equity Pool, 13% International Equities, and 0% up to 2% Short-term Pool, effective July 1, 2015.

- July 2016. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changed to 61% Broad Market Pool, 21% Domestic Equity Pool, 15% International Equities, 3% REITs, and 0% up to 2% Short-term Pool, effective July 1, 2016.
- July 2017. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changed to 53% Broad Market Pool, 24% Domestic Equity Pool, 14% International Equity Pool, 4% REITs, 5% High Yield and 0% up to 2% Short-term Pool, effective July 1, 2017.
- July 2018. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changed to 56% Broad Market Pool, 25% Domestic Equity Pool, 16% International Equity Pool, 3% REITs, and up to 2% Short-term Pool, effective July 1, 2018.
- August 2019. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changed to 69% Broad Market Pool, 19% Domestic Equity Pool, 12% International Equity Pool, up to 2% Short-term Pool, effective August 1, 2019.
- July 2020. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changed to 54% Broad Market Pool, 27% Domestic Equity Pool, 18% International Equity Pool, and 1% Short-term Pool, Effective July 1, 2021.
- July 2021. The asset allocation policy for the RHIF Long-term Care Insurance (LTC) changed to 1% Short-term Fixed Income Pool, 41% Broad Market Fixed Income Pool, 33% Domestic Equity Pool, 21% International Pool, and 4% Domestic REITs Pool.

## 3. Facts and Figures

| RHIF Major Medical | | | | RHIF LTC Insurance | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | | Investment Income | Balance at Fiscal Year End | Fiscal Year | | Investment Income | Fiscal Year End |
| 1999 | $ | 1,583,061 | 33,001,306 | 1999 | $ | 156,313 | 35,207,877 |
| 2000 | | 1,514,794 | 44,050,959 | 2000 | | 2,240,733 | 43,351,919 |
| 2001 | | 4,185,477 | 60,015,103 | 2001 | | (2,680,768) | 49,190,135 |
| 2002 | | 3,988,715 | 85,018,184 | 2002 | | (3,349,659) | 54,726,925 |
| 2003 | | 6,014,429 | 106,394,819 | 2003 | | 3,038,571 | 67,557,296 |
| 2004 | | 881,122 | 119,069,663 | 2004 | | 9,554,347 | 87,783,451 |
| 2005 | | 5,897,739 | 164,564,109 | 2005 | | 8,024,782 | 107,069,639 |
| 2006 | | 2,803 | 152,593,253 | 2006 | | 9,504,396 | 128,476,539 |
| 2007 | | 14,598,412 | 207,481,882 | 2007 | | 21,043,353 | 162,860,532 |
| 2008 | | 2,389,258 | 8,466,635 | 2008 | | (10,125,578) | 174,126,559 |
| 2009 | | 275,734 | 20,129,239 | 2009 | | (24,154,246) | 155,581,441 |
| 2010 | | 237,131 | 17,628,263 | 2010 | | 19,203,479 | 189,173,265 |
| 2011 | | 78,570 | 11,619,060 | 2011 | | 42,109,237 | 246,610,433 |
| 2012 | | 50,092 | 12,537,696 | 2012 | | 10,224,065 | 272,703,512 |
| 2013 | | 30,978 | 13,727,143 | 2013 | | 17,029,445 | 306,487,824 |
| 2014 | | 37,368 | 14,277,787 | 2014 | | 36,201,127 | 360,071,328 |
| 2015 | | 41,688 | 14,599,978 | 2015 | | 10,271,503 | 388,830,006 |
| 2016 | | 83,657 | 15,354,501 | 2016 | | 14,571,811 | 417,455,884 |
| 2017 | | 137,181 | 16,185,213 | 2017 | | 29,056,991 | 465,782,200 |
| 2018 | | 255,602 | 17,450,686 | 2018 | | 21,242,541 | 506,038,739 |
| 2019 | | 445,725 | 18,409,991 | 2019 | | 39,417,086 | 564,896,064 |
| 2020 | | 327,940 | 18,892,583 | 2020 | | 43,259,220 | 628,675,133 |
| 2021 | | 36,053 | 18,961,998 | 2021 | | 106,771,999 | 756,058,037 |

### a) Statutory Authorization

Under AS 39.30.095, the Department of Administration is explicitly authorized to create a reserve for active state employees. If the commissioner of administration determines that there is more money in the fund than the amount needed to pay premiums, benefits, and administrative costs for the current fiscal year, the surplus, or so much of it as the commissioner of administration considers advisable, may be invested by the commissioner of revenue in the same manner as retirement funds are invested under AS 14.25.180.

In this section of the statutes, "fund" means the Group Health and Life Benefits Fund, also known as the Group Health and Life Insurance Fund (GHLIF). AS 39.30.095(e). Department of Administration officials acted on implied parallel authorization to set up RHIF reserve and self-insurance for retirees.

b) General Management

The Statewide Accounting System is designed to sweep excess assets (those in excess of immediate daily needs) nightly into a specified treasurer's pools. Treasury allocates a portion of the Division's personnel and custodial costs to the trust in addition to actual costs of investment management fees.

## 5. Investment Policy

Treasury began to manage the RHIF assets as a separate account in July 1998 (AY03). Under a self-insurance program, the employer collects and holds premiums for future claims. The Division of Retirement and Benefits historically provided annually updated cash flow projections as reflected in an agreement with Treasury dated May 28, 1998, upon which investment policies could be established. The most recent cash flow projections are shown in

Effective July 1, 2011 Treasury began to use the rate of return assumed by the Actuary firm Univita in its valuation of the RHIF LTC to establish the investment policies. Appendix BC includes the most recent actuarial evaluation, including a historical 1999 cash flow analysis.

Treasury invests the funds with the following in mind:

**RHIF Major Medical**

| | |
|---|---|
| **Risk Tolerance** | Low |
| **Investment Objectives** | • Very low exposure to principal loss<br>• Modest current income requirement<br>• Little inflation protection needed<br>• High liquidity requirement |
| **Time Horizon** | Short |

**RHIF LTC Insurance**

| | |
|---|---|
| **Risk Tolerance** | High |
| **Investment Objectives** | • To match the fund's assumed actuarial rate of return while minimizing risk |
| **Time Horizon** | Long |

Effective July 1, 2021, Treasury's investment policy is:

**RHIF Major Medical**

| | | |
|---|---|---|
| 100% | +/- 0% | Cash Equivalents |

| | | |
|---|---|---|
| 41% | +/- 5% | Core U.S. Fixed Income |
| 33% | +/- 5% | Broad U.S. Equity |
| 21% | +/- 5% | International Equity |
| 4% | +/- 4% | U.S. REITs |
| 1% | +2%/-1% | Cash Equivalents |

**RHIF Major Medical**

| | |
|---|---|
| 100% | 3-Month T-Bill |

| | |
|---|---|
| 41% | BB Barclays US Agg Index |
| 33% | Russell 3000 Index |
| 21% | MSCI ACWI ex-US Index |
| 4% | FTSE NAREIT All Equity |
| 1% | 3-Month T-Bill |

AS 37.10.071(a)(8) requires the fiduciary (i.e., the commissioner of revenue) to maintain accounting records for the RHIF in accordance with generally accepted accounting principles. The commissioner has delegated this responsibility to the State Comptroller.

AS 37.10.071(a)(9) requires the commissioner of revenue to engage an independent certified public accountant to perform an annual audit of the financial condition of RHIF and the pertinent investment transactions. To fulfill this requirement, the state comptroller contracts with an independent certified public accountant to perform an annual audit.

Additional accounting and reporting requirements are included in Appendix BC.

## N. *Exxon Valdez Oil Spill (AY02, AY2H)*

### 1. Overview

Following a lawsuit and the filing of criminal charges, Exxon Corporation agreed to pay the state and federal governments restitution for damages caused when the Exxon Valdez oil tanker hit Bligh Reef on March 24, 1989. The settlement provided for payment to the state and federal governments as follows:

- Criminal plea agreement for $150 million with a portion suspended for Exxon's spill clean-up expenses[27].
- Criminal restitution of $100 million. This money was evenly divided between the federal and state governments. The state's share is deposited in the Oil Restoration Fund.
- Civil settlement of $900 million[28] paid in annual installments through September 2001. Payments through September 1999 went into a fund that was managed by Court Registry Investment System (CRIS) until the Exxon Valdez Trustee Council approved projects and requested transfers to the applicable state or federal agency. The civil settlement has a "re-opener" clause that would allow the governments to make a claim for up to an additional $100 million to restore resources that suffered a substantial loss, the nature of which could not have been anticipated from the data available at the time of the settlement. In 2006, the US Department of Justice and the State of Alaska asserted a claim under the Reopener provision by providing Exxon with a detailed project plan for the cleanup of lingering oil at an estimated cost of $92 million.
- In March of 2011, environmentalist Rick Steiner was denied a request to act on behalf of the State and Federal governments. At this time government lawyers were waiting for completed studies that were currently under way to determine the remaining/lingering oil and the effectiveness of previous

[27] The court forgave $125 million in recognition of Exxon's spill clean-up efforts. Of the remaining $25 million, $12 million went to the North American Wetlands Conservation Fund and $13 million went to the national Victims of Crime Fund.

[28] United States of America v. Exxon Corporation, Civil Action No. A91-082CIV and State of Alaska v. Exxon Corporation, Civil Action No. A91-083CIV.

cleaning techniques before pursuing the claim. In the court order, Judge Holland requested a status report with respect to the reopener provisions on or before September 15, 2011.

In October 2000 the Treasury Division became responsible for implementing the council's investment policy for the reserve upon court approval of the council's investment program. The fund is the EVOS Investment Fund (AY02).

## 2. History

- March 24, 1989. Exxon Valdez oil tanker hits Bligh Reef spilling millions of gallons of Alaskan crude oil into Prince William Sound. The state and federal governments subsequently file criminal charges and civil claims for damages.
- October 9, 1991. U.S. District Court approves settlement among the State of Alaska, the United States Government and Exxon Corporation. The civil portion of the settlement creates the Exxon Valdez Trustee Council to oversee expenditure of the settlement money. The settlement mandates use of Court Registry Investment System for investment management.
- 1992. Treasury starts managing council funds that have been approved for expenditure for state projects in the Exxon Settlement Fund (Fund 33070) in the GEFONSI.
- November 1994. Reserve established to provide a secure source of funding for restoration into the future beyond the last annual payment from Exxon Corporation.
- 1994. Treasury starts advising the council on possible investment approaches for the reserve.
- Council worked with the Alaska Congressional Delegation, the Federal Court, and Exxon to gain the authority to consider investment options beyond what CRIS could provide. (Public Law No. 106-113.)
- July 2000. The Exxon Valdez Trustee Council enters into an agreement with Treasury Division to manage the reserve until designated to projects by the council. Treasury sets up the EVOS Investment Fund (AY02) to hold this money. Initial funding takes place October 5, 2000.

- October 2002. The EVOS Trustee Council requests Treasury to split the EVOS Investment Fund (AY02) into two separate accounts pursuant to PL 106-113 that states, “$55 million of the funds remaining on October 1, 2002, and the associated earnings, thereafter, shall be managed and allocated for habitat protection programs… All other funds remaining on October 1, 2002, and the associated earnings shall be used to fund a program consisting of marine research, including applied fisheries research; monitoring, and restoration, other than habitat acquisition, …” The two new accounts established are:
    - EVOS Research Investment (AY02)
    - EVOS Habitat Investment (AY2H)

  Treasury was further instructed to split the EVOS Habitat Investment Fund by transferring $29.8 million to a new account designated for Koniag. EVOS Koniag Investment (AY2J) was created to hold this designated sub-fund because Koniag has investment authority over these funds.

  The EVOS Trustee Council continues to maintain the investment authority over all three EVOS accounts. The three accounts are collectively referred to as the EVOS Investment Fund and are each invested in the same manner with the same asset allocations.

- March 2014. Department of Finance receives legal approval to close the EVOS Koniag sub-fund. Treasury proceeds with a direction letter to transfer the entire balance from the Koniag Fund (AY2J) into the EVOS Habitat Fund (AY2H) effective March 14, 2014.

## 3. Facts and Figures

**Cash Flows**

Exxon made payments on the civil settlement in annual installments (see the schedule in Appendix AT, page AT-8). As of June 2000, the undesignated portion of the civil settlement held in trust is approximately $65 million, all of which the CRIS transferred to Treasury in October 2000[29]. In addition, the two final payments arrived at the state treasury or other State agencies on October 1, 2000 and September 1, 2001. The dollar amount of the transfers and payments into the EVOS Investment Fund was as follows:

| **State Fiscal Year** | **Contributions** |
|---|---|
| 2001 | 134,646,690[30] |
| 2002 | 66,113,500[31] |

In May 2000, the council adopted a payout schedule, which, after a transitional period, provides for an annual payout of 4.5% of the Fund's five-year average ending net asset value. (See Appendix BH). In 2009, the council stated its intent to spend down the Research fund by 2032 and to spend the Habitat fund down opportunistically as opportunities present themselves. Any Council may choose to change course in the future.

**Flow of Funds**

The Trustee Council approves any disbursements from the EVOS Investment Fund. The flow of funds and responsible parties are shown below.

*Inflows*

- For incoming money, Treasury's Cash Management Section records deposits to the EVOS Investment Fund using a collocation code (which points to the

[29] Prior to August 2000, the CRIS managed the undesignated EVOS settlement money until needed to pay for specific expenditures authorized by the Trustee Council. CRIS held the settlement money in two separate accounts at the Federal Reserve Bank in Texas: the liquidity account and the reserve account. The liquidity account was invested in 100-day securities. The reserve account was invested in laddered strip securities.
[30] $64.6 million initial balance plus $70 million additional from Exxon.
[31] $3,886,500 was not transferred into the EVOS Investment fund and therefore not reflected in the table above. $3,750,000 was transferred directly to the Department of Natural Resources for reimbursement of cleanup costs incurred by the state and the remaining $136,500 was sent to the Department of Law for reimbursement of costs incurred by the state.

associated GASB fund) and a liability account provided by the Alaska Department of Fish and Game (see Management Section for an explanation of their role).

*Outflows*

- For outgoing money, the Trustee Council approves expenditures. A court order is entered by the United States District Court for the District of Alaska to disburse funds.
- For state expenditures, the Legislature appropriates any money the Trustee Council has designated for state agencies. Once appropriated, the Alaska Department of Administration, Division of Finance transfers money from the EVOS Investment Fund to the existing EVOS Special Revenue Fund (FU 3386)[32]. Finally, state agencies expend from FU33070 as authorized by the Alaska Legislature.
- If the Trustee Council directs money to Federal agencies (e.g., U.S.F.S), Treasury wires the money directly to federal agency at the request of the Alaska Department of Fish and Game who records the associated GASB fund transaction.

[32] Each time the Trustee Council requests a payment from the EVOS Investment Fund for expenditure by a state agency, the money flows into a state fund called the Exxon Valdez Settlement Fund (GASB Fund 3386) to receive and expend money requested by the Exxon Valdez Trust Council. Assets of this latter fund are held in the GeFONSI, a state investment pool with many other participants, which is described earlier in this document.

Total invested assets in the EVOS Investment Funds at June 30 (in millions):

| EVOS Research Investment | | | | EVOS Habitat Investment | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | | Investment Income | Balance at Fiscal Year End | Fiscal Year | | Investment Income | Balance at Fiscal Year End |
| 2001 | $ | (3.4) | 131.3 | 2001 | $ | n/a | n/a |
| 2002 | | 3.2 | 177.6 | 2002 | | n/a | n/a |
| 2003 | | (0.8) | 98.2 | 2003 | | 3.3 | 26.7 |
| 2004 | | 11.9 | 104.1 | 2004 | | 3.4 | 29.9 |
| 2005 | | 8.5 | 107.2 | 2005 | | 2.6 | 32.4 |
| 2006 | | 9.0 | 111.5 | 2006 | | 2.8 | 35.1 |
| 2007 | | 16.7 | 121.8 | 2007 | | 5.5 | 40.5 |
| 2008 | | (6.5) | 110.2 | 2008 | | (2.3) | 37.8 |
| 2009 | | (16.5) | 86.5 | 2009 | | (5.9) | 26.1 |
| 2010 | | 11.0 | 91.6 | 2010 | | 3.3 | 29.4 |
| 2011 | | 20.3 | 99.1 | 2011 | | 6.8 | 35.5 |
| 2012 | | 2.2 | 92.4 | 2012 | | 1.0 | 36.3 |
| 2013 | | 12.3 | 96.7 | 2013 | | 5.0 | 40.7 |
| 2014 | | 17.9 | 108.2 | 2014 | | 10.8 | 114.7 |
| 2015 | | 4.4 | 105.5 | 2015 | | 4.8 | 117.7 |
| 2016 | | 1.2 | 94.3 | 2016 | | 0.5 | 102.8 |
| 2017 | | 11.4 | 98.3 | 2017 | | 12.3 | 102.0 |
| 2018 | | 8.1 | 101.7 | 2018 | | 8.1 | 91.1 |
| 2019 | | 6.8 | 103.9 | 2019 | | 5.6 | 85.2 |
| 2020 | | 6.1 | 103.2 | 2020 | | 5.2 | 82.9 |
| 2021 | | 20.0 | 107.6 | 2021 | | 15.1 | 93.3 |

Below are historical balances retained for institutional memory:

| EVOS Koniag Investment | | | |
|---|---|---|---|
| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
| 2001 | $ | n/a | n/a |
| 2002 | | n/a | n/a |
| 2003 | | 3.3 | 33.1 |
| 2004 | | 4.1 | 36.8 |
| 2005 | | 3.1 | 39.5 |
| 2006 | | 3.3 | 42.4 |
| 2007 | | 6.6 | 48.4 |
| 2008 | | (2.8) | 45.1 |
| 2009 | | (7.1) | 37.5 |
| 2010 | | 4.6 | 41.5 |
| 2011 | | 9.6 | 50.4 |
| 2012 | | 1.4 | 51.2 |
| 2013 | | 7.1 | 57.6 |
| 2014 | | 7.6 | (to AY2H) |
| 2015 | | - | - |

## 4. Management

The Trustee Council is responsible for deciding how to spend the civil settlement money and is the fiduciary for the portion held in trust pending their decision to spend. The council has adopted an investment policy[33] and an asset allocation (see the asset allocation at Appendix BF). The council's investment policy calls for the council to review its asset allocation annually. Following a period of due diligence, the Trustee Council selected the Treasury Division to manage these assets in a fund to be called the EVOS Investment Fund[34]. In July 2000, the Trustee Council, through the Alaska Department of Fish and Game, entered into an agreement[35] with the Department of Revenue to provide investment management services for invested assets of the EVOS Investment Fund[36]. Under the agreement, the Commissioner of Revenue acts as custodian for the EVOS Investment Fund[37].

In 2002, the fund was split into 3 funds (AY02, AY2H, AY2J) but the 3 funds together are still referred to as the "EVOS Investment Fund" or the "EVOS Joint Trust Fund."

Treasury separately manages the EVOS Investment Fund as a participant in State of Alaska investment pools; the Fund does not hold individual securities. The amount invested in the respective investment vehicles is at the direction of the Fund's fiduciary, the Trustee Council. The council's investment procedures for the EVOS Investment Fund are set forth in the Council's Investment Policies. In part, those procedures require that "all principal and interest shall be accounted for separately by the custodian."  EVOS staff clarified that earnings on principal do not need to be separately held by the custodian; rather, income must be distinguishable from the principal in the accounting records.

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[33] The current investment policy is available from the Exxon Valdez Oil Spill Trustee Council.
[34] Public Law No. 106-113 allows the settlement money to be deposited "in a federal account … or in other accounts outside the U.S. Treasury."
[35] Subsequent annual renewals of the RSA and are kept on file in Treasury's Asset Accounting Section.
[36] The Exxon Valdez Trustee Council acts through a member agency such as the Alaska Department of Fish and Game to fulfill its administrative support functions.
[37] As a part of the due diligence effort, the council obtained an Attorney General Opinion that advised that it is appropriate for the money to be held in a "state fund". See Appendix BG, page 7

Treasury allocates a portion of the Division's personnel and custodial costs to the trust in addition to actual costs of investment management fees.

## 5. Investment Policy

The Trustee Council determines asset allocation policy for the EVOS Investment Fund. Effective February 1, 2021, the council adopted the following asset allocation policy (Appendix BF):

**EVOS Research Investment (AY02)**

| | | |
|---|---|---|
| 46.3% | +/- 5% | Core U.S. Fixed Income |
| 31.4% | +/- 7% | Broad U.S. Equity |
| 22.3% | +/- 7% | International Equity |
| 0.0% | +10%/0% | Cash Equivalents |

**EVOS Habitat Investment (AY2H)**

| | | |
|---|---|---|
| 50.3% | +/- 5% | Core U.S. Fixed Income |
| 28.9% | +/- 7% | Broad U.S. Equity |
| 20.8% | +/- 7% | International Equity |
| 0.0% | +10%/0% | Cash Equivalents |

Performance benchmark:

**EVOS Research Investment (AY02)**

| | |
|---|---|
| 46.3% | BB Barclays US Agg Index |
| 31.4% | Russell 3000 Index |
| 22.3% | MSCI ACWI ex-US Index |
| 0.0% | 3-Month T-Bill |

**EVOS Habitat Investment (AY2H)**

| | |
|---|---|
| 50.3% | BB Barclays US Agg Index |
| 28.9% | Russell 3000 Index |
| 20.8% | MSCI ACWI ex-US Index |
| 0.0% | 3-Month T-Bill |

The council reviews the asset allocation of the EVOS Investment Fund annually. As authorized by the Trustee Council, the EVOS executive director has discretion to move assets among investment managers and asset categories provided that such actions are consistent with the bands of the council's adopted asset allocation policy. Treasury will provide guidance relating to investment allocation within the policy to the executive director when the director requests it.

## 6. Control and Reporting Requirements

Money in the EVOS Investment Fund is held in trust and has not been designated or appropriated by the EVOS Trustee Council. Therefore, invested assets in the EVOS Investment Fund under Treasury management are not included in Treasury's annual consolidated financial statements but are included in the State of Alaska Comprehensive Annual Financial Report with similar fiduciary (agency) funds. The

Trustee Council contracts with an independent CPA firm to audit the invested assets of the EVOS Investment Fund (previously held by CRIS)[38].

The State Comptroller provides monthly reports to the Trustee Council's Executive Director for the EVOS Investment Fund. Such reports are set out in the most current Reimbursable Services Agreement covering Treasury investment services.

[38] The most recent audited financial statement for the EVOS Settlement Account is on file in the Treasury Division.

## O. *Power Cost Equalization Endowment (AY13)*

### 1. Overview

The Alaska Legislature created the Power Cost Equalization (PCE) Endowment Fund through Chapter 60, SLA 2000 Sec. 6 and 7, codified under AS 42.45.070(c) effective July 1, 2000[39]. The PCE Endowment Fund is established as a separate fund of the Alaska Energy Authority, a component unit of the State of Alaska.

The purpose of the PCE Endowment Fund is to provide for a long-term, stable financing source for power cost equalization which provides affordable levels of electric utility costs in otherwise high-cost service areas of the state.

Initial capitalization of the PCE Endowment Fund came from a $100 million transfer (authorized by HB 447, Chapter 60, SLA 2000) from the Constitutional Budget Reserve, a fund established through a 1990 amendment to the State Constitution - Article IX, Section 17. Additional funding came from the sale of the Four Dam hydroelectric project to joint purchasing utilities plus payments received after June 30, 2001 for the sale of power made to the state, legislative appropriations, and accumulated earnings of the fund. The fund was further capitalized by appropriations from the General Fund in fiscal year 2007 in the amount of $182.7 million, and fiscal year 2012 in the amount of $400 million.

### 2. History

- 1993. The Alaska Legislature created the Power Cost Equalization & Rural Electric Capitalization Fund through Chapter 18 SLA 1993 which was codified under AS 42.45.100, effective August 11, 1993. The former Department of Community and Regional Affairs was named as the administering agency (now the Department of Community and Economic Development). Treasury managed the fund's assets in the GeFONSI (which is described earlier in this document).

[39] Other portions of the Act have effective dates conditioned upon formation of joint purchasing utilities under a memorandum of understanding with the Alaska Energy Authority dated April 11, 2000 and the sale of the four dam pool hydroelectric project. The joint purchasing agencies are the Copper Valley Electric Association, Inc., City of Ketchikan, Kodiak Electric Association, Inc., City of Petersburg and City of Wrangell.

- 1999. At the start of fiscal year 1999, the Power Cost Equalization & Rural Electric Capitalization Fund held a balance of more than $21 million. Despite a cash infusion of $5.5 million into the Fund in late September 1999, the balance was nearly depleted by mid-April 2000.
- 2000. The 21PstP Legislature, in its second session, took action to reorganize the Power Cost Equalization & Rural Electric Capitalization Fund by authorizing the sale of the Four Dam pool hydroelectric project to a newly established joint action agency comprised of local public utilities. The proceeds of the sale were used for an endowment fund for the PCE program. Chapter 60, SLA 2000 Sec. 6 and 7, codified under AS 42.45.070(c).
- May 2000. Initial capitalization of the Endowment Fund was provided by a $100 million direct appropriation from the Constitutional Budget Reserve Fund.
- July 2000. The asset allocation policy was 42% Broad Market Pool, 41% Domestic Equity Pool and 17% International Equities, effective July 1, 2003. The related Benchmarks are the Lehman Brothers Aggregate, Russell 3000 and the MSCI EAFE, respectively.
- 2002. Proceeds of the Four Dam Pool sale - $89.6 million – added to the Endowment Fund. The closing date of the sale was January 31, 2002.
- March 18, 2003. The balance in the Power Cost Equalization and Rural Electrification Capitalization fund was moved from the GeFONSI to Alaska Energy Authority.
- March 2003. The asset allocation policy changes to 38% Broad Market Pool, 43% Domestic Equity Pool and 19% International Equities, effective July 1, 2003. The bands around the Broad Market and Domestic Equity Pools were reduced from 7% to 5%.
- June 2004. The asset allocation policy changes to 37% Broad Market Pool, 46% Domestic Equity Pool and 17% International Equities, effective July 1, 2004.
- June 2005. The asset allocation policy remains the same as 2004.
- June 2006. The asset allocation policy changes to 35% Broad Market Pool, 47% Domestic Equity Pool and 18% International Equities, effective July 1, 2006.

- Fiscal Year 2007 - Enacted Capital Budget (SB 231). The sum of $182,700,000 was appropriated from the State of Alaska's general fund to the Power Cost Equalization endowment fund (AS 42.45.070).
- July 2007. The asset allocation policy changes to 41% Broad Market Pool, 42% Domestic Equity Pool, 17% International Equities and 0% (+2%) Short Term Pool, effective July 1, 2007.
- July 2008. The asset allocation policy changes to 39% Conservative Aggregate Pool, 43% Domestic Equity Pool, 18% International Equities, and 0% (+2%) Short Term Pool, effective July 1, 2008.
- July 2009. The asset allocation policy changes to 37% Conservative Aggregate Pool, 43% Domestic Equity Pool, 20% International Equities, and 0% (+2%) Short Term Pool, effective July 1, 2009.
- December 2009. The asset allocation policy was changed due to a replacement of the Conservative Aggregate Pool with a respective allocation to the Broad Market Pool and the U.S. Treasury Pool (90% Broad Mkt. and 10% U.S. Treasury). The resulting allocation was 33% Broad Market Pool, 4% US Treasury Pool, 43% Domestic Equity Pool, 20% International Equities, and up to 2% Short-term Pool.
- July 2010. The asset allocation policy changes to 33% Broad Market Pool, 4% U.S. Treasury Fixed Income Pool, 53% Domestic Equity Pool, 10% International Equities, and up to 2% Short Term Pool, effective July 1, 2010.
- July 2011. The asset allocation policy changes to 33% Broad Market Pool, 44% Domestic Equity Pool, 23% International Equities, and up to 2% Short Term Pool, effective July 1, 2011.
- Fiscal Year 2012 - Enacted Operating Budget (HB 108). The sum of $400,000,000 was appropriated from the State of Alaska's general fund to the Power Cost Equalization endowment fund (AS 42.45.070(a)).
- July 2012. The asset allocation policy changes to 25% Broad Market Pool, 49% Domestic Equity Pool, 26% International Equities, and up to 2% Short Term Pool effective July 1, 2012.
- July 2013. The asset allocation policy changes to 20% Broad Market Pool, 52% Domestic Equity Pool, 28% International Equities, and up to 2% Short Term Pool, effective July 1, 2013.

- July 2014. The asset allocation policy changes to 33% Broad Market Pool, 44% Domestic Equity Pool, 23% International Equities, and up to 2% Short Term Pool, effective July 1, 2014.
- July 2015. The asset allocation policy changes to 29% Broad Market Pool, 47% Domestic Equity Pool, 24% International Equities, and up to 2% Short Term Pool, effective July 1, 2015.
- Effective June 30, 2016. SB 196 amends AS 42.45.080(c) to read the monthly average market value of the fund for the previous three closed fiscal years; and the earnings of the fund for the previous closed fiscal year. Also, the amount determined by the commissioner of revenue on July 1 of each year under AS 42.45.080(c) was changed to five percent, and may be appropriated for the following purposes:
    - Funding the power cost equalization and rural electric capitalization fund;
    - Reimbursement to the Department of Revenue for the costs of establishing and managing the fund
    - Reimbursement of other costs of administration of the fund.

        *If the amount appropriated is insufficient to achieve the purposes of (1)- (3) of this section, the amount shall be prorated among the purposes listed in (1) and (2) of this section.

        *If the earnings of the fund for the previous closed fiscal year, as calculated under AS 42.45.080(c)(2), exceed the appropriation under (a) of this section for the current fiscal year, the legislature may
        appropriate 70 percent of the difference between the earnings of the fund for the previous closed fiscal year, as calculated under AS 42.45.080(c)(2), and the appropriation made under (a) of this section for the current fiscal year as follows:

        If the amount calculated under this subsection is less than $30,000,000, that amount to a community revenue sharing or community assistance fund; or (2) if the amount calculated under this subsection is $30,000,000 or more, (A) $30,000,000 to a community revenue sharing or community assistance fund; and (B) the remaining amount, not to exceed $25,000,000, to the renewable energy grant fund established under AS 42.45.045, to the bulk fuel revolving loan fund established under AS 42.45.250, or for rural power system upgrades or to a combination of the funds or purposes listed in this subparagraph.

- July 2016. The asset allocation policy changes to 32% Broad Fixed Income, 38% Domestic Equity Pool, 27% International Equity Pool, 3% REITS, and up to 2% Short-term Fixed Income Pool, effective July 1, 2016.
- July 2017. The asset allocation policy changes to 28% Broad Fixed Income, 38% Domestic Equity Pool, 24% International Equity Pool, 5% REITS, 5% High Yield, and up to 2% Short-term Fixed Income Pool, effective July 1, 2017.
- July 2018. The asset allocation policy changes to 31% Broad Fixed Income, 40% Domestic Equity Pool, 24% International Equity Pool, 5% REITS, and up to 2% Short-term Fixed Income Pool, effective July 1, 2018.
- August 2019. The asset allocation policy changes to 32% Broad Fixed Income, 41% Domestic Equity Pool, 27% International Equity Pool, and up to 2% Short-term Fixed Income Pool, effective August 1, 2019.
- July 2020. The asset allocation policy changes to 24% Domestic Equity Pool, 15% International Equity Pool, 60% Broad Fixed Income, and 1% Short-term Fixed Income Pool, Effective July 1, 2021
- July 2021. The asset allocation policy changes to 32% Domestic Equity Pool, 20% International Equity Pool, 4% Domestic REITs Pool, 43% Broad Market Fixed Income Pool, 1% Short-term Fixed Income Pool.

## 3. Facts and Figures

**Power Cost Equalization**

| Fiscal Year | Investment Income | Balance at Fiscal Year End | Actual Return |
|---|---|---|---|
| 2000 | $ 1,726,614 | 101,726,614 | |
| 2001 | (6,049,407) | 95,677,206 | -6.00% |
| 2002 | (5,716,214) | 172,445,674 | -5.09% |
| 2003 | 6,241,929 | 166,653,975 | 3.88% |
| 2004 | 20,676,236 | 179,303,474 | 12.90% |
| 2005 | 15,384,400 | 181,113,210 | 8.78% |
| 2006 | 14,591,803 | 184,456,694 | 8.43% |
| 2007 | 44,876,372 | 400,250,076 | 15.91% |
| 2008 | (18,750,502) | 368,706,164 | -4.79% |
| 2009 | (49,095,135) | 303,354,399 | -13.87% |
| 2010 | 38,386,794 | 320,713,602 | 12.74% |
| 2011 | 67,651,024 | 364,529,375 | 21.80% |
| 2012 | 10,947,889 | 751,780,453 | 1.67% |
| 2013 | 111,487,779 | 840,214,875 | 15.12% |
| 2014 | 171,111,667 | 977,867,367 | 20.72% |
| 2015 | 33,192,304 | 969,389,431 | 3.50% |
| 2016 | 8,912,404 | 946,938,059 | 0.99% |
| 2017 | 112,330,514 | 1,023,565,664 | 12.21% |
| 2018 | 76,602,411 | 1,073,378,411 | 7.53% |
| 2019 | 74,141,548 | 1,072,825,381 | 7.28% |
| 2020 | 48,303,424 | 1,078,156,859 | 4.64% |
| 2021 | 150,299,205 | 1,149,165,454 | 14.44% |

The PCE is used to fund the Power Cost Equalization & Rural Electric Capitalization Fund and to reimburse the costs associated with establishing, managing, and administrating the fund. The Power Cost Equalization & Rural Electric Capitalization Fund was previously funded by the Four Dam Pool Fund which was repealed in Chapter 60, SLA 2000 Section 12.

The Power Cost Equalization & Rural Electric Capitalization Fund is used to make grants to eligible utilities under AS 42.45.180 to improve the performance of the utility, and to help offset the high cost of electric power generation costs relative to other areas of the state[40].

### 4. Management

#### a) Fiduciary Responsibilities

The Alaska Energy Authority is responsible for administering the PCE Endowment Fund[41]. The Department of Revenue is the fiduciary for invested assets of the endowment fund. Please see Appendix AD for statutes pertaining to the PCE fund including commissioner responsibility and authorized uses of the fund.

[40] Alaska has more than 118 independent utilities serving a total population of about 600,000 and covering an enormous range of geographic and economic diversity. The Alaska Energy Authority (AEA), which places emphasis on lowering the costs and increasing the safety and reliability of rural power systems, is responsible for administering the Power Cost Equalization Program. The goal of the program is to provide economic assistance to customers in rural areas of Alaska where, in many instances, the kilowatt-hour charge for electricity can be three to five times higher than the charge in more urban areas of the state

[41] The Alaska Legislature created the Alaska Energy Authority (AEA) in 1976. AEA's original mission was to construct, acquire, finance, and operate power projects and facilities that utilize Alaska's natural resources to produce electricity and heat. In 1993, under comprehensive energy legislation, oversight of AEA's existing state hydroelectric projects and the Alaska Intertie (Railbelt) was transferred to the Alaska Industrial Development and Export Authority (AIDEA). Programs addressing the energy needs of rural communities were transferred to a newly-created Division of Energy within the (former) Department of Community and Regional Affairs (now merged with the Department of Community and Economic Development). In 1999, rural energy programs were integrated into AEA, with AIDEA oversight and management. Both AEA and AIDEA share a 5-member board of directors.

## 5. Investment Policy

There are two primary factors driving the asset allocation policy of the PCE Endowment Fund: (a) invest the fund in a manner likely to achieve at least a four percent nominal return over a five-year period to meet the objectives of the power cost equalization and rural electric capitalization fund while considering the status of the fund's capital and the income generated on both current and probable future bases , and (b) five-percent of the amount determined by the commissioner of revenue on July 1 of each year under AS 42.45.080(c) may be appropriated annually. Treasury invests the PCE Endowment Fund with the following in mind:

| | |
|---|---|
| **Risk Tolerance** | High |
| **Investment Objectives** | • Returns require relatively high exposure to principal loss in return for higher expected longer-term returns<br>• Limited current income requirement<br>• Limited inflation protection needed |
| **Time Horizon** | Intermediate |

Effective July 1, 2021, Treasury's investment policy for the PCE Endowment Fund is:

| | | |
|---|---|---|
| 43% | +/- 5% | Core U.S. Fixed Income |
| 32% | +/- 5% | Broad U.S. Equity |
| 20% | +/- 5% | International Equity |
| 4% | +/- 3% | U.S. REITs |
| 1% | +2%/-1% | Cash Equivalents |

Performance benchmark:

| | |
|---|---|
| 43% | BB Barclays US Agg Index |
| 32% | Russell 3000 Index |
| 20% | MSCI ACWI ex-US Index |
| 4% | FTSE NAREIT All Equity |
| 1% | 3-Month T-Bill |

## 6. Control and Reporting Requirements

On July 1 of each year, the Commissioner of Revenue (or designee) shall determine the monthly average market value of the PCE Endowment fund for the previous three fiscal years following a transition period as noted in AS 42.45.080(c). The Commissioner [or designee] sends the results of the calculation to the Alaska Energy

Authority. The Alaska Energy Authority then uses this information to construct their budget request relating to the state's power cost equalization program.

Under AS 37.10.071(a)(9), the invested assets of the PCE Endowment Fund are subject to an annual independent audit. The State Comptroller contracts with an independent certified public accountant to perform the audit. Within 90 days after the completion of the audit, the State Comptroller transmits a copy of the audited report to the Alaska Energy Authority. Alternatively, the audit report may be distributed at the Authority's next scheduled board meeting. Treasury Division shall also provide interim monthly financial statements to the Alaska Energy Authority.

To assist the Alaska Energy Authority in preparation of their annual audit (fiscal year ends June 30), Treasury Division provides fiscal year-to-date realized and unrealized capital gains for each investment pool in which the PCE Fund participates. Treasury also facilitates fiscal year end account balance confirmation requests through the custodian bank.

Prior to FY 2002, payment for the cost of investing assets of the PCE Endowment Fund was set forth in a reimbursable service agreement (RSA) with the Alaska Energy Authority and was updated annually by the State Comptroller.

After FY 2002, payment for the cost of investing assets of the PCE Endowment Fund equals the pro rata cost of external management fees for assets under management and for a portion of Treasury costs, based on the federally approved cost allocation plan. The authorization for these costs is included in Treasury's annual budget; therefore, no RSA is necessary. These investment management costs are reviewed annually.

## P. *Permanent Fund Dividend Holding Account (AY2G)*

### 1. Overview

The Alaska Permanent Fund Corporation (APFC) transfers funds to the State of Alaska's Department of Revenue, to fund the distribution of Permanent Fund Dividend warrants to eligible Alaska residents. The amount of the transfer is governed by AS 37.13.140. In past years, the transfer occurred in late September with warrant issuance beginning in early October. During the interim, the funds were held in the General Fund which is invested in the GeFONSI. Investment earnings accrued to the General Fund.

In July 2002, the Attorney General's office issued an opinion directing the Alaska Permanent Fund Corporation to transfer these funds to the State as soon as possible after June 30, resulting in a transfer in early July.

As a result of this opinion, the State of Alaska would hold these funds for approximately three months before distributing them to eligible Alaska residents. Therefore, a new account was created to allow these funds to be invested separately (AY2G). Investment earnings will continue to accrue to the General Fund and will be transferred, when realized, monthly.

In July 2009, realizing that the timing of receipt of the transferred funds occurred after they were needed to meet July 1 appropriations, the Department of Revenue entered into a Memorandum of Understanding (MOU) with the APFC to transfer 25% of the appropriation amounts to the PFD Holding account on or as close to July 1 as possible. The MOU and the Attorney General's 2002 opinion are in Appendix AJ.

### 2. History

- July 2002. The Permanent Fund Dividend Holding Account was created to accommodate the new account activity. The account was funded on July 26, 2002. An investment policy was developed with 100% of the balance being placed in the Short-term Pool with a benchmark equal to the Three-month U.S. Treasury Bill.

- July 2003. The asset allocation policy was amended to include Treasury Bills or Federal Agencies as allowable investment types for this account. This change was effective July 1, 2003.
- July 2013. The asset allocation policy was amended to include the Short-term Treasury Pool. The full asset allocation includes the Short-term Pool, Short-term Treasury Pool, Treasury Bills, or Federal Agencies.
- June 2020. Funding to pay the FY21 dividend was transferred to this account in June 2020. The dividend was paid to Alaskans on July 1, 2020.

### 3. Facts and Figures

Total invested assets and annual earnings at June were:

**Permanent Fund Dividend Holding Account**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2003 | | 4,421,797 | 12,923,240 |
| 2004 | $ | 1,730,054 | 10,714,336 |
| 2005 | | 2,364,885 | 10,951,388 |
| 2006 | | 5,030,565 | 12,480,040 |
| 2007 | | 9,251,670 | 16,187,727 |
| 2008 | | 11,433,754 | 18,332,152 |
| 2009 | | 813,705 | 23,807,511 |
| 2010 | | 622,040 | 19,921,867 |
| 2011 | | 422,146 | 17,120,455 |
| 2012 | | 290,914 | 17,930,469 |
| 2013 | | 265,411 | 21,763,976 |
| 2014 | | 134,324 | 20,614,278 |
| 2015 | | 170,172 | 25,564,159 |
| 2016 | | 336,920 | 22,243,328 |
| 2017 | | 620,939 | 20,856,458 |
| 2018 | | 1,066,599 | 14,322,476 |
| 2019 | | 1,606,136 | 8,695,605 |
| 2020 | | 2,450,247 | 650,183,599 |
| 2021 | | 123,919 | 27,538,494 |

## 4. Investment Policy

Treasury invests the Permanent Fund Dividend Holding Account assets with the following in mind:

| | |
|---|---|
| **Risk Tolerance** | Low |
| **Investment Objectives** | • Very low exposure to principal loss<br>• Modest current income requirement<br>• Little inflation protection needed<br>• High liquidity requirement |
| **Time Horizon** | Short |

Effective July 1, 2021, Treasury's investment policy for the Permanent Fund Dividend Holding Account is:

100% +/- 0% Cash Equivalents

Performance benchmark:

100% 3-Month T-Bill

## Q. *General Obligation Bonds*

### 1. Overview

On November 5, 2002, two general obligation bond propositions were passed by a majority of the qualified voters in the State, the Transportation Bond Act (Chapter 114, SLA 2002 (HB525)) and the Education Bond Act (SLA2002 (HB2002)). These propositions authorized the issuance of general obligation bonds for transportation and education related projects. The Series 2003A Bonds and the Series 2003B Bonds represent all of the bonds scheduled for issuance pursuant to these propositions.

### 2. History

April 15, 2003. General Obligation Bond Series 2003A (General Purpose) were issued in the amount of $359,130,000 and 2003B (Transportation Grant Eligible Projects) were issued in the amount of $102,805,000. Proceeds were deposited into accounts managed by Revenue. The asset allocation policy was set at 100% Short-term Pool effective upon deposit.

April 2, 2009. A bill was passed in the 2008 legislative session (SCS CSHB 314) that provided for the issuance of general obligation bonds for the purpose of paying the cost of state transportation projects. This 2008 Transportation GO Bonds fund has been established and was funded on April 2, 2009.

November 2, 2010. A general obligation bond proposition was passed by a majority of the qualified voters in the State who voted on the question, authorizing the issuance of $397,200,000 in general obligation bonds for the purpose of design and construction of library, education and educational research facilities. Of the amount authorized, the State of Alaska issued $200 million in General Obligation Bonds - representing a portion of the bonds approved for issuance pursuant to this proposition. The bond issuance was pursuant to the Alaska Constitution, particularly Article IX, Section 8, Alaska Statutes 37.15 (the "State Bonding Act"), Section 3 – 7 of Chapter 95, SLA 2010 (HB 424) (the "Act"), and the Resolution.

On December 14, 2010, $200 million in bonds were issued for the purpose of paying toward the costs of design and construction for certain State library, education and educational research projects pursuant to the Act. Of which, the $119,570,000 GO Series 2010A are Taxable Build America Bonds, the $45,000,000 GO Series 2010B are Taxable Qualified School Construction Bonds, and the $35,000,000 GO Series 2010C are Tax-Exempt Bonds.

On November 6, 2012, a general obligation bond authorization was passed by a majority of the qualified voters in the State who voted in the election authorizing the issuance of $453,499,200 of general obligation bonds for the purpose of paying the costs of design and construction of state transportation projects.

On January 15, 2013, approximately $162.5 million in bonds were issued for the purpose of 1) Securing cost of design and construction of library education and education research facilities (designated as Qualified School Construction Bonds totaling $11,945,000 2013A). The 2013B Bonds were issued for the purpose of funding $184,165,870 for cost of design and construction of library, education and educational research facilities (premium included in “funding” amount).

On March 27, 2013, approximately $149.6 million in bond anticipation notes were issued for the purpose of paying costs of design and construction of state transportation projects pursuant to the 2012 State Transportation Bond Act.

In March of 2014, Bond Anticipation Notes were issued for the purpose of refinancing $142,645,000 of the State’s 2013 General Obligation Bond Anticipation Notes, and $27,355,000 for paying additional costs of the projects authorized by the 2012 State Transportation Bond Act for a total of $170,000,000.

In March of 2015, additional one-year notes were issued, the 2015 Series A, for the purpose of refinancing $162,700,000 of the State’s outstanding $170,000,000 General Obligation Bond Anticipation Notes (BANs), Series 2014 originally issued pursuant to the 2012 State Transportation Bond Act. Additionally, $10 million of a State appropriation was used to pay and redeem the 2014 notes.

Also in March of 2015, the State of Alaska issued General Obligation Refunding Bond, Series 2015B, in the amount of $94,425,000, to provide for the defeasance to the earlier of stated maturity, or optional redemption on August 1, 2019, of a portion of the outstanding principal amount of the Series 2009A Bonds.

In March of 2016, the Series 2016A general obligation bonds were issued for the purpose of paying the principal of and interest on the BANs (issued in March of 2015), and to pay or to make grants to pay costs of projects authorized under the Act. In June of 2016, the Series 2016B general obligation bonds were issued to pay or to make grants to pay costs of projects authorized under the Act.

### 3. Facts and Figures

Historical balances of closed funds can be found in Appendix HA.9.

Total invested assets and annual earnings at June 30 were:

**2010C Series Gen. Obligation (AY3V)**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2011 | $ | 98,307 | 35,528,307 |
| 2012 | | 146,700 | 35,675,007 |
| 2013 | | 57,974 | 2,706,072 |
| 2014 | | 4,593 | 1,125,400 |
| 2015 | | 620 | 180,666 |
| 2016 | | 1,017 | 181,682 |
| 2017 | | 1,599 | 183,281 |
| 2018 | | 2,807 | 186,088 |
| 2019 | | 4,645 | 190,733 |
| 2020 | | 403 | 2,636 |
| 2021 | | 5 | 2,641 |

**2013B Series Gen. Obligation (AY3Z)**

| Fiscal Year | | Investment Income | Fiscal Year End |
|---|---|---|---|
| 2013 | $ | 48,168 | 133,442,838 |
| 2014 | | 223,483 | 58,483,066 |
| 2015 | | 156,275 | 50,946,852 |
| 2016 | | 262,570 | 46,004,722 |
| 2017 | | 386,365 | 43,150,531 |
| 2018 | | 506,471 | 27,368,339 |
| 2019 | | 257,745 | 6,231,367 |
| 2020 | | 15,551 | 240,291 |
| 2021 | | 460 | 240,751 |

**2016A Series 2012 Transportation Bond Act (AY3Y)**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2013 | | (6,774) | 151,046,758 |
| 2014 | $ | 394,627 | 156,689,757 |
| 2015 | | 339,439 | 76,204,255 |
| 2016 | | 270,926 | 31,294,672 |
| 2017 | | 93,358 | 5,960,946 |
| 2018 | | 68,127 | 4,069,912 |
| 2019 | | 60,628 | 651,486 |
| 2020 | | 7,218 | 2,003,769 |
| 2021 | | 3,719 | 1,915,439 |

**2016B Series 2012 Transportation Bond Act (AY3Q)**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2016 | $ | 7,167 | 155,277,017 |
| 2017 | | 1,248,101 | 127,706,389 |
| 2018 | | 1,632,024 | 97,459,896 |
| 2019 | | 2,257,248 | 88,479,243 |
| 2020 | | 1,119,752 | 29,553,517 |
| 2021 | | 151,289 | 83,596,328 |

**2003 Series B (AY2M)/2008 Gen. Obligations (AY2Q)**

| Fiscal Year | Investment Income | Balance at Fiscal Year End |
|---|---|---|
| 2003 | 337,070 | 103,142,070 |
| 2004 | $ 1,199,054 | 92,825,369 |
| 2005 | 1,965,851 | 69,667,990 |
| 2006 | 1,828,840 | 33,281,511 |
| 2007 | 1,480,942 | 26,747,831 |
| 2008 | 634,448 | 12,322,686 |
| 2009 | 1,567,799 | 169,953,319 |
| 2010 | 1,690,037 | 116,177,373 |
| 2011 | 502,364 | 94,216,290 |
| 2012 | 329,339 | 70,918,330 |
| 2013 | 138,890 | 35,007,263 |
| 2014 | 43,410 | 7,576,179 |
| 2015 | 23,150 | 6,933,919 |
| 2016 | 38,558 | 6,816,885 |
| 2017 | 58,442 | 6,546,056 |
| 2018 | 100,037 | 6,628,899 |
| 2019 | 164,036 | 6,734,535 |
| 2020 | 24,540 | 758,991 |
| 2021 | 1,453 | 760,444 |

## 4. Investment Policy

Treasury invests the education and transportation bond assets with the following in mind:

| | |
|---|---|
| **Risk Tolerance** | Low |
| **Investment Objectives** | • Very low exposure to principal loss<br>• Modest current income requirement<br>• Little inflation protection needed<br>• High liquidity requirement |
| **Time Horizon** | Short |

Effective July 1, 2021, Treasury's investment policy is:

100% +/- 0% Cash Equivalents

Performance benchmark:

100% 3-Month T-Bill

## R. Alaska Mental Health Trust Fund (AY2L)

### 1. Overview

The Alaska Mental Health Trust Authority (AMHTA), established by AS 47.30.011, is a public corporation of the state and a political subdivision within the Department of Revenue. The AMHTA administers the Alaska Mental Health Trust established under the Alaska Mental Health Enabling Act of 1956 and AS 37.14.009. See Appendix AV.1 for statutes pertaining to the Alaska Mental Health Trust fund.

Alaska Statutes create two separate and distinct financial accounts for the AMHTA. The mental health trust fund (AS 37.14.031) which is to be managed by the Alaska Permanent Fund Corporation per AS 37.14.033 and the trust settlement income account (AS 37.14.036) which is to be managed by the AMHTA.

Per AS 37.14.009 the AMHTA contracts with the Department of Natural Resources to manage the land assets of the trust.

Please see Appendix AV.2 for a flow chart of the funds and accounts of the Alaska Mental Health Trust.

### 2. History

Appendix AV presents a historical overview of the Mental Health Trust and an explanation of the several funds relating to the trust that are reflected in the state's accounting system.

April 2003. Alaska Mental Health Trust Authority staff met with Department of Revenue, Treasury staff to discuss the possibility of Treasury investing some of the trust settlement income account.

May 2003. The Alaska Mental Health Trust Authority Board approves a motion to invest some of the trust settlement income account in the Department of Revenue’s Intermediate-term Pool. The Alaska Permanent Fund Corporation previously invested all of the trust settlement income account and will continue to invest the portion not transferred to Revenue. The AMHTA remains the fiduciary of the funds.

September 2, 2003. On behalf of the Alaska Mental Health Trust Authority, the Alaska Permanent Fund Corporation transfers $20,963,600 to the Department of Revenue to be invested 100% in the Intermediate-term Pool.

As of November 1, 2008, The Alaska Mental Health Trust Authority has adopted an asset allocation consisting of 29% Broad Market Pool, 40% Domestic Equity Pool, 21% International Equities, and 10% Short Term Pool.

As of March 1, 2019, the Alaska Mental Health Trust Authority has adopted an asset allocation consisting of 33% Domestic Equity Pool, 23% International Equities, 44% Broad Market Pool and 0% Short Term Pool. There have been no subsequent changes to the asset allocation policy since this date.

### 3. Facts and Figures

Total invested assets at June 30 were:

**Alaska Mental Health Trust Reserve**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2004 | $ | 383,546 | 21,347,147 |
| 2005 | | 778,440 | 25,576,424 |
| 2006 | | 445,740 | 29,660,683 |
| 2007 | | 4,586,218 | 33,801,161 |
| 2008 | | (1,914,206) | 36,255,902 |
| 2009 | | (4,733,371) | 33,470,999 |
| 2010 | | 3,920,850 | 34,778,251 |
| 2011 | | 7,318,199 | 42,096,450 |
| 2012 | | 929,976 | 43,026,428 |
| 2013 | | 4,830,327 | 37,356,754 |
| 2014 | | 6,149,180 | 40,005,934 |
| 2015 | | 1,509,831 | 38,640,765 |
| 2016 | | 513,691 | 39,154,456 |
| 2017 | | 4,274,627 | 43,429,083 |
| 2018 | | 3,415,382 | 46,844,464 |
| 2019 | | 3,203,619 | 50,048,083 |
| 2020 | | 2,980,418 | 53,028,501 |
| 2021 | | 11,248,846 | 61,447,347 |

### 4. Management

The AMHTA has adopted an Asset Management Policy Statement[42] that covers the management plan for those assets entrusted to the Alaska Mental Health Trust Board. The AMHTA is responsible for deciding how to invest the balance held in their settlement income account. Following a period of due diligence, the AMHTA selected the Treasury Division to manage a portion of the assets in the settlement income account. The account does not hold individual securities. The amount invested is at the direction of the Alaska Mental Health Trust Board.

### 5. Investment Policy

The Alaska Mental Health Trust Board determines asset allocation policy for the Alaska Mental Health Trust Reserve account. This includes the risk tolerance, investment objective and the horizon.

Effective March 1, 2019, the AMHTA Board's investment policy for the Alaska Mental Health Trust Reserve account is:

| | | |
|---|---|---|
| 44% | +/- 5% | Core U.S. Fixed Income |
| 33% | +/- 5% | Broad U.S. Equity |
| 23% | +/- 5% | International Equity |

| | |
|---|---|
| 44% | BB Barclays US Agg Index |
| 33% | Russell 3000 Index |
| 23% | MSCI ACWI ex-US Index |

[42] A copy of the AMHTA's Asset Management Policy Statement can be obtained by contacting the authority directly.

## S. *Illinois Creek Mine Reclamation Trust Fund (AY9J)*

### 1. Overview

The Alaska Legislature in Chapter 137 SLA 2004 established a new Article 9 in AS 37.14. The Article established a Mine Reclamation Trust Fund. The Trust Fund provides a location to hold fund and earnings on the fund to assure reclamation for a mine.

That law provides in AS 37.14.800(c) that "Before payments are accepted into the mine reclamation trust fund income account[43] for a particular mining operation, the commissioner of natural resources and the miner may execute a memorandum of understanding that outlines a schedule of expected payments into the trust fund and the relationship of the payments and accumulated earnings in the trust fund to reclamation obligations of the miner under AS 27.19.040[44]. The memorandum of understanding may also address expected use of the fund under AS 37.14.820. If the memorandum of understanding addresses investment of the fund with respect to payments made by the miner, the commissioner of revenue must also sign the memorandum."

### 2. History

The Illinois Creek Gold Mine is a remote gold mine located on state land approximately 51 miles south of Galena, Alaska. It is a fly-in mine without road access. USMX of Alaska, Inc. originally permitted the mine in 1996. Construction began in June 1996. After some corporate changes and mergers, the mining companies responsible for the mine eventually went bankrupt, the financier abandoned its ownership rights, and the State of Alaska inherited operating responsibility for the mine in July 1999.

The mining company had provided a $1,618,209 Reclamation Bond to satisfy the bonding requirements of DNR and DEC. On behalf of those agencies, DNR, upon the

[43] The law works as follows: payments are made into the "income account" of the trust fund. The legislature transfers the balance to the "operating account", and DNR takes funds from the operating account for reclamation needs, consistent with the law.
[44] The words omitted reference AS 27.21.160 which is the Coal Reclamation statute and not relevant to Illinois Creek Mine Project nor this Trust Fund.

company's bankruptcy and default, seized the bond, and used funds from the bond, augmented by proceeds from the sale of gold that continued to be produced by the mine's heap leach facility, to maintain the mine until an operator could be found to reclaim it. DNR also seized equipment at the mine owned by the mining company.

After a series of temporary contracts, DNR entered into a contract with American Reclamation Group, LLC to reclaim the mine. American Reclamation Group was to use a combination of proceeds from further mining and the remaining reclamation bond to reclaim the mine. American Reclamation Group finished reclaiming the site in the fall of 2005. Following reclamation by American Reclamation Group, the agencies assumed the responsibility to monitor the site and to fix unexpected post-reclamation problems[45]. To fund the post-closure monitoring and maintenance, the agencies established the Illinois Creek Mine Reclamation Trust Fund.

In a typical Mine Reclamation Trust Fund, periodic payments are made into the fund by a mining company, DOR manages the fund, and DNR withdraws funds from the operating account to accomplish required reclamation tasks. The Illinois Creek Mine Reclamation Trust Fund is not typical as the original mining company no longer exists, and DNR already seized the original reclamation bond. However, as with a typical fund, DOR will manage the fund and DNR will withdraw funds from the operating account consistent with monitoring and reclamation obligations.

In June 2011, a mining exploration company named Silver Predator Corporation signed an option to acquire the leases around the mine site for possible development.

### 3. Facts and Figures

Total invested assets of Illinois Creek Mine Reclamation as of June 30 were:

[45] Another mining company has retained control and has responsibility for reclamation of some part of the Illinois Creek Mine site. Elsewhere on the site, monitoring remains the responsibility of the state.

**Illinois Creek Mine Reclamation**

| Fiscal Year | | Investment Income | Balance at Fiscal Year End |
|---|---|---|---|
| 2006 | $ | 23,215 | 859,762 |
| 2007 | | 73,702 | 898,464 |
| 2008 | | (897) | 892,856 |
| 2009 | | (30,767) | 837,089 |
| 2010 | | 35,550 | 872,639 |
| 2011 | | 50,677 | 898,316 |
| 2012 | | 8,933 | 901,249 |
| 2013 | | 35,496 | 928,745 |
| 2014 | | 40,522 | 961,267 |
| 2015 | | 7,999 | 953,266 |
| 2016 | | 4,854 | 950,120 |
| 2017 | | 116,100 | 1,066,220 |
| 2018 | | 80,090 | 1,138,310 |
| 2019 | | 81,871 | 1,193,181 |
| 2020 | | 53,386 | 1,186,566 |
| 2021 | | 316,865 | 1,473,432 |

The Department of Natural Resources will be responsible for expending funds from Operating Account of the Illinois Creek Mine Reclamation Trust Fund to ensure that appropriate monitoring and maintenance of the Mine Site is accomplished. In addition, DNR must forecast the need for funds so that DOR may appropriately invest the Trust Fund. DNR works closely with DEC to accomplish these tasks.

The Department of Revenue is responsible for investing the Illinois Creek Mine Reclamation Trust Fund so as to best protect and grow the Trust Fund while making funds available to meet the DNR's forecast of expenditures, and with the ability to make funds available to meet the need for unplanned expenditures, after appropriate notice.

The State Comptroller may act for the Department of Revenue under this Memorandum of Understanding. Communication to DOR under the MOU should be addressed to the State Comptroller. The MOU is shown as Appendix O.

The Trust Fund was established by a one-time deposit from funds held in other State of Alaska accounts. These funds were derived from three sources: mining proceeds, a remnant of the reclamation bond seized from the original mining company, and sale of the equipment seized by DNR and forfeited by the original mining company.

DNR may make expenditures from the operating account for a purpose authorized in AS 37.14.820(a). However, the primary expectation for use of the fund is for monitoring erosion, re-vegetation, and water quality at the site, especially from the heap leach facility, and for fixing any problems should they unexpectedly occur. The current estimate of the cost of monitoring is included in Appendix O, and the current Monitoring Plan that explains the use of the funds is included as well.

AS 37.14.820(b) provides that, subject to appropriation, DOR may expend funds from the operating account to pay DOR's expenses for managing the fund. DOR charges the fund for the actual cost of external management fees and for a portion of Treasury costs based on the federally approved cost allocation plan.

AS 37.14.820(b) also provides that, subject to appropriation, DNR may expend funds from the operating account to pay its expenses in administrating the fund and programs under AS 27.19 and AS 27.21. However, DNR does not expect to ask the Alaska Legislature for an appropriation from the operating account of the Fund for its administrative expenses.

## 5. Investment Policy

Treasury invests the account assets with the following in mind:

| | |
|---|---|
| **Risk Tolerance** | High |
| **Investment Objectives** | • Maximize return while still being able to fund uncertain maintenance expenditures (amount and size) |
| **Time Horizon** | Long |

Effective July 1, 2021, the asset allocation for the Illinois Creek Mine Reclamation Fund is:

| | | |
|---|---|---|
| 39% | +/- 5% | Broad U.S. Equity |
| 30% | +/- 5% | Core U.S. Fixed Income |
| 25% | +/- 5% | International Equity |
| 5% | +/- 5% | U.S. REITs |
| 1% | +2%/-1% | Cash Equivalents |

| | |
|---|---|
| 39% | Russell 3000 Index |
| 30% | BB Barclays US Agg Index |
| 25% | MSCI ACWI ex-US Index |
| 5% | FTSE NAREIT All Equity |
| 1% | 3-Month T-Bill |

## T. *Alaska Sport Fish Construction Funds*

For a complete description overview, history, and facts and figures, please see Appendix HA.12.

## U. *Education Endowment Fund (AY3G)*

### 1. Overview

The Education Endowment Fund, established by AS 43.23.220, is a separate account in the general fund. The commissioner of the Department of Revenue is the fiduciary of the fund. Per the statute, applicants for the Alaska Permanent Fund Dividend that are 18 years of age or older have the option to donate all or a portion of their Dividend payments, in increments of $100, for educational purposes. 25% of all donations received shall be appropriated to the Education Endowment Fund. An additional 25% of all donations received shall be appropriated to the Dividend Raffle Fund (a fund within the GeFONSI I). When the balance of the Dividend Raffle Fund reaches $300,000,000 at the end of a fiscal year, the commissioner of the Department of Revenue shall transfer the amount above $300,000,000 to the Education Endowment Fund.

The fund is to be invested to achieve an expected return of at least four percent nominal over a five-year period. When the balance of the fund exceeds $1 billion at the end of a fiscal year, 4.5 percent of the average fiscal-year-end market value of the balance of the fund for the last five fiscal years, including the fiscal year just ended, will be transferred to the Department of Education and Early Development for distribution as supplemental grants to school districts according to average daily membership for each district.

### 2. History

The Education Endowment Fund was created in statute in 2018 and became effective on January 1, 2019. A separate account was established soon thereafter, and the first contribution was received into the endowment in October 2019.

### 3. Facts and Figures

Total invested assets in the Education Endowment Fund at June 30 were:

| Education Endowment | | | |
|---|---|---|---|
| **Fiscal Year** | | **Investment Income** | **Balance at Fiscal Year End** |
| 2020 | $ | 10,707 | 228,157 |
| 2021 | $ | 125,704 | 599,686 |

### 4. Investment Policy

| | |
|---|---|
| **Risk Tolerance** | High |
| **Investment Objectives** | • High exposure of principal to loss in return for higher expected longer-term returns<br>• Limited current income requirement<br>• Limited inflation protection needed<br>• Moderate liquidity requirement |
| **Time Horizon** | Long |

| | | |
|---|---|---|
| 39% | +/- 5% | Broad U.S. Equity |
| 30% | +/- 5% | Core U.S. Fixed Income |
| 25% | +/- 5% | International Equity |
| 5% | +/- 5% | U.S. REITs |
| 1% | +2%/-1% | Cash Equivalents |

Performance benchmark:

| | |
|---|---|
| 39% | Russell 3000 Index |
| 30% | BB Barclays US Agg Index |
| 25% | MSCI ACWI ex-US Index |
| 5% | FTSE NAREIT All Equity |
| 1% | 3-Month T-Bill |

## XIII. Securities Lending Program

From early 1991 through mid-1995 Treasury had in place a securities lending program that covered all public securities under management. Treasury staff terminated the program in early 1995 for several reasons.TP59F PT Following changes in the industry that helped reduce risk and improved monitoring capabilities, Treasury staff recommended reestablishment of a securities lending program. See Appendix AE.

On January 4, 2001, Treasury entered into an agreement with State Street Bank & Trust Co. to lend securities for selected investment pools and participants[46]. The program was intended to include all assets not precluded from lending by statute or other constraints. The following funds or investment pools did not participate pending fiduciary approval or for other reason(s) as noted:

| Account | Entity |
|---|---|
| AY12 | University of Alaska Endowment Trust Fund |
| AY15 | ASLC Series End 2001 Custodial Fund* |
| AY2F | ASLC AlaskAdvantage Custodial Fund* |
| AY2V | ASLC Capital Projects Fund* |
| AY2G | Permanent Fund Dividend Holding Account |
| AY9J | TeckCominco Red Dog Mine |
| N/A | Non-retirement Domestic Equity Common Trust Fund** and the Passive Bond Market Index Common Trust Fund[47] |

* Bond covenants specify permitted investments and collateral restrictions.
** Russell 3000 Stock Index Common Trust Fund.

The custodian bank's systems are designed to allocate income based on each participant's pro rata share in the respective pool(s) in which they are invested. Since certain entities did not participate in the securities lending program, the bank's accounting systems were unable to automatically allocate the income to participating funds. Therefore, Treasury's Asset Accounting Section allocated securities lending income in accordance with the procedures set forth in Appendix AF[48].

[46]Contract term was January 4, 2001 ending December 31, 2005. Program costs were paid directly from participating accounts.
[47] These domestic bond and equity investments were made through a collective trust vehicle. The State chose investment options that do not participate in a securities lending program.
[48] Treasury's securities lending program is modeled after that of the state pension trust funds' program. The Alaska State Pension Investment Board (ASPIB) approved participation in a securities lending program at their December 3, 2000 meeting. See ASPIB Resolution No. 2000-12 (includes only defined benefit plans, not defined contribution or deferred compensation plans). .

In February 2008, Treasury staff suspended the program as staff perceived increased concentration and collateral risk under the then current lending program. An Action memo to the ARMB dated February 15, 2008 describes the background to this decision and is available from the ARMB liaison.

In September 2015, the ARMB authorized staff to resume its securities lending program with State Street. The features of the program included: borrower default indemnification, receipt of cash collateral invested in the Prime Navigator Fund at State Street Global Advisors, the ability for staff to preclude securities or portfolios from lending, and a minimum spread on securities lent that is set and adjustable by staff. The minimum spread established was 50 basis points.

## XIV. Commission Recapture Program

In April 2001, a directed brokerage or commission recapture program began utilizing four brokers. Managers were asked to direct a percentage of their trades through these brokers and the funds received a rebate of the commissions on those trades. The target participation percentages were set at:

| Market | Target |
|---|---|
| Domestic large cap | 30% |
| Domestic small cap | Voluntary |
| International | 20% |

On directed domestic trades the funds received from 66-69% of the commission. On directed international trades the funds received from 57-61% of the commission.

Beginning November 2004, an agreement (see Appendix AG) with State Street Global Markets (SSGM) expanded the brokers available and improved reporting. SSGM works with a large stable of brokers who provide recapture programs to their clients. In exchange for capturing and reconciling the trade data (a large time expense for the brokers), SSGM and the broker have a cost sharing agreement in which they split the portion of the commission that is not rebated back to the client.

The rebate amount under the new agreement is 72% on domestic trades and 60% on international trades. The target participation percentages remained the same as those set under the previous agreement.

There are two primary benefits of this program. These include:

- Managers are no longer restricted to just four brokers. These four brokers, as well as others that our managers regularly use, are all in the SSGM program.
- Staff used to spend a significant amount of time manually reconciling reports from the four separate brokers with the commission recapture income recorded in the accounting records. Under the SSGM program, all reconciliations are prepared monthly by SSGM staff.

The costs of the program are born by the broker community in their split of the unrebated commission with State Street.

Treasury funds that invest in actively managed international investments also participate in the commission recapture program.

# XV. Investment Practices and Investment Restrictions

## A. *Standard Practices: Execution*

The Commissioner has delegated investment authority to the chief investment officer, by written delegation. Please see Appendix I for the most recent delegations for Investment Authority and Cash Management Authority

## B. *Standard Practices: Pricing*

Treasury's objective in buying and selling "priced" securities is the lowest price when purchasing and the highest price when selling. When Treasury buys or sells "non-priced" securities, Treasury aims to achieve "prevailing rates." To achieve these objectives, the following policies apply:

- All fixed income transactions must be executed with dealers using competitive procedures when this is possible or directly with one dealer when such execution is reasonably expected to be equal to or better than the competitive execution. Competitive procedures may include obtaining quotes from more than one dealer for a security, either by direct inquiry or from dealer messages that contain quotes; evaluating whether the security has traded recently and at what valuation, if available; or, comparing the proposed valuation with generally available multi-dealer systems that provide bid-ask quotations. The financial strength and stability of the dealer will be considered when executing transactions.
- All common stock transactions must be executed in national stock exchange markets or over-the-counter markets by the contracted manager. The manager is obligated to obtain prompt execution of orders at the most favorable prices reasonably obtainable. The manager may execute trades of equity securities in the block trade market based on one or more of the following: (1) the size of the transaction; (2) greater speed of execution; (3) better prices; or (4) lower commission costs.
- All other investments including repurchase agreements, options, and futures and forwards must be executed at prevailing national rates.
- Miscellaneous
    - To prevent the risk of releasing investments or cash without receiving the offsetting cash or investments, all investment transactions must be made based

on delivery versus payment (DVP). Without exception, no payments may be made, nor investments delivered against "due bills." (A "due bill" is a written promise to deliver an investment, or to make payment for the delivery of an investment, at a future time or date.)

- Contracted managers are authorized and must vote any or all the securities held by them for the accounts of the funds managed for Treasury. In voting, the manager shall act prudently in the interest and for the benefit of the applicable fund's beneficiaries.

## C. *Standard Practices: Prohibited Transactions*

The following transactions are prohibited with respect to the funds for which Treasury is responsible unless those transactions have the prior written consent of the Commissioner:

- Short sale of securities (the sale and settlement of a security not currently owned by the Treasury Division and a formal agreement to borrow the security to facilitate the settlement of the short sale);
- Purchases of futures, forwards or options for the purpose of speculating (currency futures, forwards and options are permitted only for hedging, or to facilitate otherwise permissible transactions);
- Borrowing to leverage the return on investments with the exception of borrowing from the Short-term Pool. Borrowing from the Short-term Pool may occur for short periods of time in the normal course of state operations. In addition, extended settlement of securities purchases executed to facilitate or improve the efficiency of a transaction will not be considered borrowing, provided that sufficient cash equivalent securities or receivables are available to facilitate the extended settlement;
- Purchases of "private placement" securities, except Rule 144A Securities;
- Purchases of more than 10% of a corporate bond issue; and
- Purchases of more than 5% of the outstanding stock of a company.
- Purchases of more than 5% of the individual pool's assets in corporate bonds backed by any one company or affiliated group; such prohibition does not apply to securities backed by the Full Faith and Credit of the United States Government.

- Staff is directed to develop and maintain a list of public companies doing material business in Iran. For actively managed direct public investments, staff will disallow investment in companies on the list, for both state and ARMB investments (please see Appendix AB for the ARMB's policy on Iran investment and Appendix AC for the Commissioner of Revenue's policy on Iran investment).

# XVI. Investment Policies Pertaining to Funds Under the Policy Control of the Alaska Retirement Management Board

## A. *Alaska Retirement Management Board/Treasury Relationship*

### 1. ARMB Overview

Pursuant to Ch. 9 FSSLA SLA, the Alaska Retirement Management Board (ARMB) was established on October 1, 2005 as fiduciary of the assets of the state's retirement systems, replacing the Alaska State Pension Investment Board. The board's primary mission is to serve as trustee of the assets of the state's retirement systems, the State of Alaska Supplemental Annuity Plan, the deferred compensation program, the Health Reimbursement Arrangement Account, the Occupational Death & Disability Fund, and the DCR Retiree Health Account on behalf of public employees and teachers.

### 2. ARMB History

At its first meeting on October 11, 2005, the ARMB approved Resolution 2005-01, accepting fiduciary responsibility of the funds previously entrusted to the Alaska State Pension Investment Board (ASPIB). That resolution also adopted the investment policies and procedures put in place by ASPIB, with the caveat that all policies would be individually brought to the board for approval at future meetings. Resolution 2005-01 is set forth in Appendix BB. The statutes pertinent to the ARMB's fiduciary responsibility for various funds are set forth in Appendix BA.

Those funds are:

- Public Employees' Retirement Trust Fund;
- Teachers' Retirement Trust Fund;
- Judicial Retirement Trust Fund;
- National Guard and Naval Militia Retirement Trust Fund;
- Public Employees' Retiree Health Care Trust Fund;
- Teachers' Retiree Health Care Trust Fund;
- Judicial Retiree Health Care Trust Fund;
- Public Employees' DCR Retiree Medical Plan Fund;
- Teachers' DCR Retiree Medical Plan Fund;

- Public Employees' DCR Health Reimbursement Arrangement Account Fund;
- Teachers' DCR Health Reimbursement Arrangement Account Fund;
- Public Employees' DCR Occupational Death & Disability Fund;
- Teachers' DCR Occupational Death & Disability Fund;
- Peace Officer/Fire Fighters' DCR Occupational Death & Disability Fund;
- State Supplemental Benefits System (SBS)

As described more fully in Section V of this publication, the Commissioner of Revenue was the fiduciary of the first four retirement trust funds listed above before the creation of the ASPIB in 1992. The legislation establishing the ARMB as fiduciary of the retirement trust funds, the SBS and the Deferred Compensation plan, also names ARMB as fiduciary for the Health Reimbursement Arrangement, the DCR Retiree Health, and the Occupational Death & Disability Funds.

There is an annually updated Reimbursable Services Agreement (RSA) delineating Treasury's responsibilities to the ARMB. The current year RSA is on file in the State Comptroller's Office.

### B. *Delegations of Authority from ARMB to Treasury*

In addition to the delegations of authority derived from the RSA, ARMB, by resolution, has made other important specific delegations to Treasury. The Delegation of Investment Authority is shown in Appendix AP.

### C. *ARMB Objectives, Policies, and Asset Allocations for the Non-Participant Directed Retirement Systems*

See: http://treasury.dor.alaska.gov/armb/AssetAllocation.aspx

### D. *ARMB Investment Guidelines, Policies, and Procedures*

See: http://treasury.dor.alaska.gov/armb/Reports-and-Policies.aspx

### E. *ARMB Policy Relating to Direct Mortgages and Other Direct Loans*

The Public Employees' (PERS) and Teachers' (TRS) Retirement Trust Funds were once heavily invested in direct mortgage loans and other direct loans. In Fiscal Year 1985, when the combined total of direct loans reached approximately $500 million, policy makers reversed the policy of investing these funds in direct loans. Through 1980, the direct loan investments were solely in Alaska loans. From 1981 to 1985, the Funds held mortgages nation-wide.

Historical information regarding the direct loan investments and the policy of liquidating these direct loan portfolios can be found in Appendix HC. The direct loans investments were active from fiscal year 1975 through 1993. Note that the proportion of the two funds invested in direct loans reached its apex in 1978. As of June 30, 2010, the remaining balances in the loan loss reserves of the two portfolios has almost been entirely written off.

## F. *ARMB Rebalancing Policy*

See Appendix AZ.

# XVII. Policies Pertinent to the State Comptroller

## A. *Preserving Institutional Memory and Basic Governing Documents*

The State Comptroller is responsible for ensuring that Treasury is properly accountable for the funds it manages and that all of Treasury's investment activities are subject to appropriate controls. One of the major purposes of maintaining this publication is to properly document Treasury's authority and activity with respect to the funds it manages. With respect to the Treasury-managed funds, maintaining this publication coupled with supplemental permanent files for each fund should sufficiently ensure the necessary basic documentation for each fund. The current account list of Treasury managed funds is shown in Appendix AW.

The “AY” accounts shown in Appendix AW are the separate accounts Treasury has established at the custodian bank. Treasury's custodian bank establishes these accounts, upon request from the state per terms of the custody contract. The State Comptroller is responsible for ensuring any additions are properly authorized in writing and made part of the contract files.

Appendix AW also reflects the “QD” accounts at State Street Bank and Trust Company pertinent to the State's Supplemental Benefits System, Deferred Compensation Plan, and the Defined Contribution Plans. Like the “AY” accounts, “QD” accounts are also separate accounts Treasury has established at the custodian bank.

Finally, the State Comptroller maintains a comprehensive description of all the funds that may have assets invested in the GeFONSI (see Appendix Q).

## B. *Custody Contract*

The State Comptroller administers the custody contract. This contract governs the Cash Management services provided by the State's custodial bank. The custodial bank is the primary concentration bank for all large dollar deposits to the State. The services covered under the custody contract include the receipt and disbursement of domestic and foreign funds transfers, transfers between the general and segregated funds, and the electronic reporting of these transactions. The contract also accommodates the manual transfer of funds, which are commonly used for the payment of foreign obligations. Due to the sensitivity and finality of electronic payments, the section has established a security process that requires multiple authorizations together with written confirmation of banking instructions for all outgoing transactions originated by the section.

### C. *Monthly Reports*

The State Comptroller is responsible for the monthly preparation of the Schedule of Invested Assets and Schedule of Investment Income and Changes in Invested Assets as well as the recording of monthly investment activity resulting from accounts managed by the Department of Revenue for the following current funds:

- Constitutional Budget Reserve Fund;
- Statutory Budget Reserve Fund;
- Public School Trust (formerly contained in two funds: Principal & Income);
- Education Endowment Fund
- Investment Loss Trust Fund;
- International Airports Revenue Fund;
- International Airports Repair and Replacement Account Fund;
- International Airports Series 2002B Non-AMT Reserve Fund;
- International Airports Series 2003 A&B Reserve Fund;
- International Airports Series 2006 AMT Bond Construction Fund;
- International Airports Series 2006 Non-AMT Bond Construction Fund;
- International Airports Series 2006 Variable Rate Bond Construction Fund;
- International Airports Series 2010C Private Activity Non-AMT Bond Construction Fund;
- International Airports Series 2010D Taxable BABS Bond Construction Fund;
- Taxable Qualified School Construction Bonds –Series 2013A General Obligation (Pursuant to 2010 Act);
- General Obligation 2013B Bonds - Library, Education, and Educational Research Facilities (Pursuant to 2010 Act);
- General Obligation, Series 2016A & 2016B - 2012 Transportation Authorization - General Obligation Projects;
- Alaska Higher Education Investment Fund;
- Mine Reclamation Trust Fund (Illinois Creek);
- EVOS Research Investment Fund*;
- EVOS Habitat Investment Fund*;

- Power Cost Equalization Endowment Fund;
- Permanent Fund Dividend Holding Account;
- Alaska Mental Health Trust Reserve*;
- Transportation Projects (2008 General Obligation Bonds);
- Education BABS (2010A General Obligation Bond Fund);
- Education Tax Exempt Bonds (2010C General Obligation Bond Fund);
- Public Employees' Retirement Trust;
- Teachers' Retirement Trust;
- Judicial Retirement Trust;
- National Guard and Naval Militia Retirement Trust;
- DC Participant Directed PRS Fund;
- DC Participant Directed TRS Fund;
- DCR Cash Transition Fund PRS;
- DCR Cash Transition Fund TRS;
- DCR Health Reimbursement Arrangement Trust PRS;
- DCR Health Reimbursement Arrangement Trust TRS;
- DCR Occupational and Death Disability PRS;
- DCR Occupational and Death Disability TRS;
- DCR Occupational and Death Disability Peace Officers/Fire Fighters;
- DCR Retiree Medical Plan PRS;
- DCR Retiree Medical Plan TRS;
- Retiree Health Trust PRS;
- Retiree Health Trust TRS;
- Retiree Health Trust JUD;
- Supplemental Benefits System Trust;
- Retiree Major Medical Insurance Fund; and
- Retiree Long-term Care Fund

In addition, the monthly Retirement Trust Funds' reports include analyses of the retirement funds at the manager and participant level, as well as budget updates.

## D. *Annual Audits*

The State Comptroller is responsible for preparing the annual financial schedules and contracting with an independent certified public accounting firm to perform audits of the Schedule of Invested Assets and Schedule of Investment Income (Loss) and Changes in Invested Assets for the following funds at June 30:

**State of Alaska Retirement and Benefits Plans**

- Public Employees' Trust Fund;
- Teachers' Retirement Trust Fund;
- Judicial Retirement Trust Fund;
- National Guard and Naval Militia Retirement Trust Fund;
- Public Employees' Retiree Health Care Trust Fund;
- Teachers' Retiree Health Care Trust Fund;
- Judicial Retiree Health Care Trust Fund;
- DC Participant Directed PRS Fund;
- DC Participant Directed TRS Fund;
- DCR Medical Plan PRS Fund;
- DCR Retiree Medical Plan TRS Fund;
- DCR Health Reimbursement Arrangement PRS Fund;
- DCR Health Reimbursement Arrangement TRS Fund;
- DCR Occupational Death and Disability PRS Fund;
- DCR Occupational Death and Disability TRS Fund;
- DCR Occupational Death and Disability Peace Officers/Fire Fighters Fund
- Supplemental Benefits System Trust Fund; and
- Deferred Compensation Fund

**Invested Assets under the Investment Authority of the Commissioner of Revenue**

- General Fund and other Non-Segregated Investments (GeFONSI);
- Constitutional Budget Reserve Fund;
- Public School Trust Fund;
- Education Endowment Fund
- Investment Loss Trust Fund;

- Higher Education Investment Fund;
- Retiree Health Insurance Funds;
- Power Cost Equalization Endowment Fund;
- International Airports Revenue Fund;
- International Airports Repair and Replacement Account Fund;
- International Airports Development Account Fund;
- International Airports Series 2002B Non-AMT Reserve Fund;
- International Airports Series 2003 A&B Reserve Fund;
- International Airports Series 2006 AMT Bond Construction Fund;
- International Airports Series 2006 Non-AMT Bond Construction Fund;
- International Airports Series 2006 Variable Rate Bond Construction Fund;
- International Airports Series 2010C Private Activity Non-AMT Bond Construction Fund;
- International Airports Series 2010D Taxable BABS Bond Construction Fund;
- Taxable Qualified School Construction Bonds – Series 2013A General Obligation;
- GO 2013B Bonds – Library, Education, and Educational Research Facilities;
- General Obligation, Series 2016A - 2012 Transportation Authorization - General Obligation Projects;
- General Obligation, Series 2016B - 2012 Transportation Authorization - General Obligation Projects;
- Alaska Higher Education Investment Fund;
- Transportation Project Fund (2008 General Obligation Bond Funds);
- Education BABS (2010A General Obligation Bond Fund);
- Education Tax Exempt Bonds (2010C General Obligation Bond Fund); and
- Mine Reclamation Trust Fund (Illinois Creek).

## E. *Special Reports to Boards and Commissions*

The State Comptroller is responsible for providing:

- The latest monthly financial reports related to the invested assets of the Retirement Trust Funds to the Alaska Retirement Management Board's Liaison Officer for inclusion in materials to be distributed for the regular ARMB meetings;
- The annual audit report related to the invested assets of the Retirement System Trust Funds to the Board's Liaison Officer for inclusion in ARMB's annual report;

- Monthly financial reporting of all non-ARMB funds managed by Treasury;
- The annual proposed budget of the Alaska Retirement Management Board for their adoption, at the direction of the Treasury Director;
- The annual proposed budget for Treasury at the direction of the Treasury Director; and
- The annual report and meeting arrangement for presentation of the report to the Public School Advisory Board for the purpose of reviewing the prior year's performance and audited financial statements.

## F. *Special Reports to the Legislature and Other Agencies*

The Comptroller's office provides financial reports and information for several funds throughout the year, many of which can be located at the Treasury website at http://treasury.dor.alaska.gov. In addition, the Comptroller's office provides forecasts used to develop the Revenue Sources Book published each spring and fall by the Department of Revenue. The Comptroller is responsible for providing special reports required by statute as follows.

### 1. Alaska Marine Highway Funds

The State Comptroller is responsible for calculating the monthly earnings on Alaska Marine Highway System Vessel Replacement Fund and the Alaska Marine Highway System Fund. AS 37.05.550 and AS 19.65.070, respectively. The State Comptroller, per statute, is to prepare a report by the 10th legislative day of each regular session that reflects the prior year's earnings and the current and next fiscal years' projected earnings. The State Comptroller shall notify the Legislature that the report is available. It should be noted that Treasury does not distribute the earnings unless they are specifically appropriated by the Legislature.

### 2. Constitutional Budget Reserve Fund

The State Comptroller is responsible for preparing a report setting out the balance in the CBRF on January 1 and December 31 of the previous calendar year. The report must include the nominal, real and realized return on the CBRF compared to those of the Permanent Fund and the General Fund during the previous calendar year. AS 37.10.430. The report is due to the legislature by March 15 each year.

### 3. Power Cost Equalization Fund

The State Comptroller is responsible for preparing a report that shows the earnings of the fund for the previous closed fiscal year. The report also contains the amount available for appropriation for various programs. AS 42.45.080 and AS 42.45.085.

### 4. Alaska ABLE Program

In accordance with AS 06.65.350, the Department of Revenue (DOR) is required to evaluate the Alaska ABLE program each year and submit an annual report containing the evaluation to the Senate Secretary and Chief Clerk of the House of Representatives on or before the first day of each regular session of the legislature and shall notify the legislature that the report is available.

### 5. Alaska Veterans' Memorial Endowment Fund

In accordance with AS 37.14.730(a), as soon as practicable after July 1 of each year, the Commissioner of Revenue shall determine the average month-end market value of the fund for the immediately preceding three fiscal years (fiscal years 2009, 2010, and 2011). The Commissioner shall identify five percent of that amount as available for appropriation by the legislature for uses described in AS 37.14.730(b). The Comptroller provides this information in a letter from the Commissioner of Revenue to the Commissioner of the Department of Military and Veterans' Affairs.

### 6. Alaska Retirement Management Board Financial Condition

In accordance with AS 37.10.220(a)(13), by the first day of each regular legislative session, the Alaska Retirement Management Board (ARMB) is required to report to the governor, the legislature, and the individual employers participating in the state's retirement systems on the financial condition of the systems. The Comptroller, as staff to the ARMB, provides this information in a letter from the Commissioner of Revenue.

### 7. Alaska Retirement Management Board Investment Performance

In accordance with AS 37.10.220(a)(14), the Alaska Retirement Management Board (ARMB) is required to submit quarterly updates of the investment performance reports to the Legislative Budget and Audit Committee. The Comptroller, as staff to the ARMB, provides this information in a letter from the Commissioner of Revenue.

# XVIII. Policies Pertinent to the Cash Manager

## A. *Establish and Maintain Control Systems to Capture, Record, and Report Bank Activity*

The Cash Manager is responsible for collecting and recording state revenues. To meet this requirement, a network of banks is established for receiving and consolidating State deposits. Cash Management polls each of these banks daily and obtains a report of all receipts and disbursements. The results of this polling are processed through a Treasury subsystem that prepares the information for a batch interface into the State accounting system.

## B. *Set Daily Cash Availability*

The Cash Manager is responsible for setting the State's daily cash availability. To determine the amount of cash available for investment in excess of amounts necessary for operations, Cash Management uses a cash availability projection model that accounts for the consolidation of deposits made at the State's depository banks together with the projected cash inflows and outflows at the State's custody bank. From the total cash available, Cash Management wires funds from the State's custody account to the warrant clearing account to cover each day's warrant presentments. The remaining balance of the custody account represents cash available for investment. The projected cash availability (positive or negative) is given to Portfolio Management for inclusion with the net investment position for the day. As part of this analysis, Cash Management also extracts data from the State's accounting system that reflects the daily balances due to or from the general fund and other funds managed by the Portfolio Management section. Cash Management authorizes the transfers necessary to settle the due to or from balances each day.

## C. *Monitor Cash Balances*

Cash Manager must ensure that adequate cash balances exist to fund State operations. To determine General Fund cash sufficiency, Cash Management takes the amount of General Fund Cash with Treasury Pool less Warrants Outstanding on the State's accounting system, as well as other outstanding liabilities agreed upon by Division of Finance and Cash Management. This calculation yields total cash available for operations. If the General Fund cash sufficiency drops below $400 million, the State is in a cash deficiency situation. When a deficiency occurs, the appropriate steps, as stated in the Cash Deficiency Operating Plan, will be followed (See Appendix J).

### D. *Establish and Manage Banking Contracts and Relationships*

The Cash Manager is responsible for providing most of the financial services required by the State for the receipt and disbursement of funds. The Cash Management Section issues and manages the treasury management system, depository concentration, warrant clearing and processing, credit card acceptance, ACH origination contracts in accordance with the State's procurement policies. Cash Management reviews all State contracts for banking services issued outside Treasury. All Requests for Proposals and contract awards made by Cash Management are drafted not only to obtain the required services at the most competitive price, but also provide a high level of detail for the handling of the respective service. The contracts managed in the section are up for renewal every five years. To minimize the impact that changes in banking relationships may have on State agencies, the State has its own ABA number. This allows the bulk of the State's critical banking information to remain the same even when the State changes banks.

Listed below are highlights of the services provided by the section's contracts.

#### 1. Treasury Management System

This system polls the State’s banks daily, standardizes the detail information and uploads it to the current State Accounting System. It has also integrated the processes of expecting funds, reconciling expected funds and setting available cash.

#### 2. Depository Concentration

Depository and concentration contracts allow agencies located around the State to deposit funds in bank branch offices that are conveniently located near each agency. These funds are then transferred daily to the warrant clearing account to provide funding for State warrants clearing the next day. This contract also covers the use of remote deposit capture, the process that converts paper checks to scanned check images for deposit to State accounts.

### 3. Warrant Clearing and Processing

The issuance of paper and electronic warrants is the primary method of payment utilized by the State. For the purpose of payment and accounting, State warrants are broken into (2) two categories. Those issued by the Department of Administration and those issued by the Department of Labor.

The paper warrant-clearing bank is responsible for:

- Providing payee positive pay services
- Obtaining and advising the State of the dollar amount of paper warrants to be presented each business day
- Providing payment to the presenting financial institutions
- Electronically transmitting individual warrant detail
- Reprocessing or returning warrants as advised
- Providing images of each day's warrant presentments over the internet, and on CD-ROM, if requested
- Retaining warrants for 90 days
- Providing original copies as requested, if available
- Accepting and processing warrants submitted on collection

Cash Management's responsibilities regarding this contract include recording warrant charges and adjustments, and funding daily warrant charges. Electronic warrants are processed through the State’s ACH contract.

### 4. Credit Card Acceptance

The credit card acceptance and processing contract allows State agencies to accept credit cards as payment for services. Agencies process credit card information, including account number and amount charged manually, electronically, using a point of sales device, or via a touch tone phone or the Internet and pass the information to a third-party processor. The processor then passes it on to the card issuer. Payment is remitted two days after the transaction date. State agencies using the credit card acceptance program include:

- Office of the Governor – Notary services and Elections
- Department of Administration - Division of Motor Vehicles, Surplus, APOC

- Department of Revenue – Permanent Fund Dividend
- Department of Law – Restitution
- Department of Education – Museum entry and teacher licensing
- Department of Health and Social Services – Pioneer Homes, Public Health Centers
- Department of Labor and Workforce Development – AVTEC, Certified Payroll
- Department of Community and Economic Development - Occupational Licensing
- Department of Transportation - Alaska Marine Highways
- Department of Natural Resources - Public Information Offices, District Recorder
- Department of Fish & Game – Licensing, CFEC
- Department of Public Safety – Licensing and certification
- Department of Environmental Conservation – Permitting

Most bank fees assessed for services provided by the banking contracts are paid using compensating balances as authorized under AS 37.10.075(d), unless billed directly to the agencies using the services. The earnings rate varies according to contractual agreements in place.

### 5. ACH Origination

This contract controls all the direct deposit and direct debit transactions initiated by the State for:

- Payroll
- Retiree payroll
- Unemployment Insurance
- IRIS vendor payments
- Permanent Fund Dividend
- Student loan payments
- Division of Motor Vehicles
- Public Employees Retirement System contributions
- Department of Revenue Taxes

- Unemployment Insurance tax collection
- Various other smaller revenue streams using the Beaches system

## E. *Establish and Maintain the Cash Management Agreement with the Federal Treasury*

The Cash Management Improvement Act Agreement with the Federal Treasury outlines the drawdown procedures for federally funded programs with the goal of ensuring interest neutrality. The Cash Manager is responsible for establishing and maintaining the Cash Management Agreement, centralized processing of daily requests for federal monies owed the state, and monitoring State agencies for compliance with the agreement.

## F. *Collateralized State Deposits*

The Cash Manager is responsible for establishing and monitoring the collateralization of the State's deposits. Collateralization is the process of pledging assets as collateral for State deposits to protect those deposits in the event of a bank failure. Acceptable collateral is currently defined as U.S. Treasury Bonds, Notes, Bills and debt securities guaranteed by the U.S. or its agencies or instrumentalities as follows:

- Debt securities of the Federal Farm Credit System
- Debt securities of the Federal Home Loan Bank
- Letters of credit of the Federal Home Loan Bank
- Debt securities of the Federal National Mortgage Association (“Fannie Mae”)
- Debt securities of the Government National Mortgage Association (Ginnie Mae”)
- Debt securities of the Federal home Loan Mortgage Corporation (“Freddie Mac”)

These securities must be marked to market at least monthly, AAA rated senior debt that is non-callable. If mortgages are held, they must be TBA deliverable.

An eligible trustee holds the pledged assets for safekeeping. The State requires its depository banks to collateralize State deposits at a level of 100% of the amount that they exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC).

The Cash Manager must ensure that a periodical review is performed on the deposit balances to ensure that collateral levels are not exceeded. To view the memo containing the approval of this policy change, see Appendix AN.

### G. *Provide Consulting Services to Improve Employee Productivity and Cash Processing*

The Cash Manager is involved with all processes requiring the receipt or disbursement of cash and is the primary facilitator between State agencies and the State's depository banks. The Cash Manager is responsible for establishing all bank accounts and night depository agreements, distributing bank supplies, and assisting agencies in recording all bank adjustments, returned items and liquidations of suspense receipts. Additionally, this involvement often results in assisting other State agencies in determining more efficient ways in which to receive or disburse cash. Cash Management has been involved in assisting agencies with the following special projects:

- Direct deposit
    - Department of Administration - payroll and vendor payments
    - Department of Labor - unemployment insurance
    - Department of Revenue - child support, permanent fund dividends
- Direct Payment
    - Department of Administration, Division of Motor Vehicles - dealer payments
    - Department of Revenue - corporate taxes, child support
- Electronic benefit transfer cards - Department of Health and Social Services - public assistance programs
- New warrant stock issuance for Women and Infant Children
- Implementing a new system for managing Offender's trust accounts held by the Department of Corrections
- Assisting the Child Support Enforcement Division in changing banks to ensure check purchases could continue to be paid for using compensating balances

## XIX. Current Appendices

| Update Frequency | | List of Current Appendices |
|---|---|---|
| Upon legislative changes | Appendix A | Statutes Pertaining to the Responsibilities of the Department of Revenue for the State Treasury |
| As needed | Appendix B | Mandatory Agreement for All Treasury Personnel |
| As needed | Appendix C | Code of Ethics and Standards of Professional Conduct of the CFA Institute, Standards of Ethical Conduct of the Association for Financial Professionals, Principles of the Code of Professional Conduct and Rules 102 and 501 of the Code of Professional Conduct of the American Institute of Certified Public Accountants, Treasury Division Insider Trading Policy, and Transaction Disclosure Statement |
| Upon legislative changes | Appendix D | Statutes Pertaining to the Commissioner's Responsibility to Ensure that the Proper Amounts Pertinent to Each Fund are Collected and Expended |
| None | Appendix E | Key Legislative History Material - Ch. 141 SLA 1988 (HB 547) |
| Upon legislative changes | Appendix F | Statutes Pertaining to the General Investment Authority and Responsibility of the Commissioner of Revenue |
| Upon legislative or policy changes | Appendix G | Duties of Care and Loyalty and Treasury's Five-Step Process |
| Upon legislative changes | Appendix H | Provisions of the Restatement (Third) of Trusts Regarding Delegation of Fiduciary Responsibilities<br>Statutes Pertaining to Authority to Delegate Fiduciary Responsibility |
| July, annually or with new hires | Appendix I | Commissioner's Standing Order of Delegation, Delegation of Investment Powers, and Delegation of Investment Authority |
| Upon modifications | Appendix J | Cash Deficiency Operating Plan |
| March, annually | Appendix K | Capital Market Assumptions and Projections |
| Upon legislative changes | Appendix L | Commissioner's Authority to Pool Investment Funds |
| Upon modifications to asset allocations for applicable funds | Appendix M | Commissioner's Decision to Invest in the State Street Global Advisors' S&P 500 Common Trust Fund |
| Upon modifications | Appendix N | Commissioner's Decision to Invest in the State Street Global Advisors' S&P 500 Common Trust Fund and the State Street Global Advisors' Special Small Company Common Trust Fund |
| Upon modifications | Appendix O | Illinois Creek Mine Reclamation Trust Fund Memorandum of Understanding |

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| None | Appendix P | "A Day in the Life of the GeFONSI" |
| Upon modifications; reviewed annually | Appendix Q | Attachment C to the Memorandum of Understanding Pertaining to Funds Participating in the GeFONSI |
| Upon modifications | Appendix R | Memorandum of Understanding Pertaining to the GeFONSI |
| None | Appendix S | Request for Attorney General's Opinion Pertaining to Income Earned by Funds Invested in the GeFONSI |
| None | Appendix T | Memo Regarding Investment of GeFONSI Assets |
| Upon legislative changes | Appendix U | Statutes Governing Investment of the GeFONSI |
| Upon legislative changes | Appendix V | Constitutional Provisions and Statutes Pertaining to the Constitutional Budget Reserve Fund |
| Upon modifications | Appendix W | Reserves Policy |
| Upon modifications | Appendix X | Commissioner's Amended Decision and Justification for Managing the Constitutional Budget Reserve Fund in the Treasury Division of the Department of Revenue |
| Upon modifications | Appendix Y | Credit Ratings and Descriptions |
| Upon legislative changes | Appendix Z | Statutes Governing Investment of the Public School Trust Fund |
| None | Appendix AA | Opinions of Counsel and Historical Materials Pertinent to the Public School Trust Fund |
| Upon modifications | Appendix AB | Alaska Retirement Management Board Iran Investment Policy |
| Upon modifications | Appendix AC | Commissioner of Revenue Iran Investment Policy |
| Upon legislative changes | Appendix AD | Statutes Pertaining to the Power Cost Equalization Fund |
| None | Appendix AE | Staff recommendation to resume Securities Lending Program – January 2001 |
| Upon modifications | Appendix AF | Securities Lending Income Distribution Procedures |
| Upon modifications | Appendix AG | Commission Recapture Agreement |
| Upon legislative changes | Appendix AH | Statutes Governing Investment of the Investment Loss Trust Fund |
| Upon modifications | Appendix AI | Commissioner of Revenue Rebalance Policy |
| Upon modifications | Appendix AJ | MOU between APFC and the SOA and the legal opinion regarding the timing of annual transfer from Permanent Fund Corporation to Department of Revenue to fund the PFD program |

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| Upon legislative changes | Appendix AK | Statutes Governing Investment of International Airport Funds |
| With new bond issuances | Appendix AL | Resolutions related to the issuance of the State of Alaska International Airports System Revenue bonds |
| Annual report, Bonds Payable note | Appendix AM | International Airports Bond Debt Service Schedule |
| Upon modifications | Appendix AN | Policy Regarding the Collateralization of State Deposits |
| Upon legislative changes | Appendix AO | Statutes and Other Materials Governing the Alaska Heritage Endowment Fund |
| Upon modifications | Appendix AP | ARMB Delegation of Investment Authority and CIO's Delegation to Staff |
| | Appendix AQ | Attorney General's opinion no. 663-98-0298 dated October 26, 2000 regarding the investment earnings allocation methodology for certain funds participating in the GeFONSI during FY1994 through FY1997 |
| Upon reissuance or changes | Appendix AR | AIA Bond resolution covenants and related directions to State of Alaska's master custodian and reserve account registrar |
| Upon modifications | Appendix AS | Division of Finance Policy on Funds Credited with Investment Income Under MOU with Treasury |
| None | Appendix AT | Historical Exxon and Oil Spill Funds Overview |
| None | Appendix AU | Overview of Energy Funds |
| None | Appendix AU.1 | Historical Description of the Four Dam Pool Funds |
| None | Appendix AV | Historical Information Pertaining to Alaska Mental Health Trust |
| Upon legislative changes | Appendix AV.1 | Statutes Pertaining to the Alaska Mental Health Trust Fund |
| Upon modifications | Appendix AV.2 | Flow Chart of the Funds and Accounts of the Alaska Mental Health Trust Authority (AMHTA) |
| Upon modifications | Appendix AW | Listing of "AY" and "QD" Accounts at Custodial Bank |
| None | Appendix AX | Court Ruling pertaining to the National Petroleum Reserve – Alaska |
| None | Appendix AY | Commissioner's recommendation for changing benchmark for Broad Market Fixed Income Investment Pool. |
| Upon modifications | Appendix AZ | Alaska Retirement Management Board Rebalancing Policy |
| Upon legislative changes | Appendix BA | Statutes Pertaining to the Alaska Retirement Management Board |
| None | Appendix BB | Alaska Retirement Management Board Assumption of Fiduciary Responsibility |
| Upon modifications | Appendix BC | Univita Actuarial Report and Memo from Division of Retirement and Benefits dated May 17, 1999 Regarding Insurance Reserves |

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| June, annually | Appendix BD | Annual Investment Loss Trust Fund Reconciliation |
| SPAR website | Appendix BE | Complete Oil Spill Funds Annual Reports from DEC |
| April, annually | Appendix BF | Exxon Valdez Oil Spill Trustee Council Resolution Pertaining to Asset Allocation |
| None | Appendix BG | AG Opinion regarding Exxon Valdez Oil Spill Expenditures |
| Upon modifications | Appendix BH | Exxon Valdez Oil Spill Fund Payout Schedule |
| None | Appendix BI | Letter from Exxon Valdez Oil Spill Trustee Council's Executive Director Regarding Earnings of the Exxon Valdez Settlement Fund |
| NPR-A website | Appendix BJ | NPRA Annual Report to the Legislature |

## XX. Historical Appendices

| Update Frequency | | List of Historical Appendices |
|---|---|---|
| Upon fund closes | Appendix HA | Historical Trusts, Endowments, and Other Funds |
| None | Appendix HA.1 | History of the Alaska Children's Trust |
| Upon legislative changes | Appendix HA.1.1 | Statutes Pertaining to Alaska Children's Trust |
| None | Appendix HA.1.2 | Assistant Attorney General's Memo Regarding Tobacco-free Investments for the Alaska Children's Trust |
| None | Appendix HA.1.3 | Changes to Alaska Children's Trust Asset Allocation in response to CSHB 190(FIN) |
| None | Appendix HA.2 | History of University of Alaska Endowment Trust Fund |
| Upon legislative changes | Appendix HA.2.1 | Statutes Pertaining to the University of Alaska Endowment Trust Fund |
| None | Appendix HA.2.2 | History of the University of Alaska's Federal Land Grant |
| None | Appendix HA.3 | History of the Alaska Advance College Tuition Savings Fund |
| None | Appendix HA.3.1 | Investment Policy for the Alaska Advance College Tuition Savings Fund |
| None | Appendix HA.4 | Historical Information Pertaining to the International Airport Funds |
| None | Appendix HA.5 | History of Alaska Housing Finance Corporation Special Pledge Fund |
| None | Appendix HA.6 | General Fund Real Estate Investments |
| None | Appendix HA.7 | Historical Information for Disputed Oil and Gas Lease Bonus Funds |
| None | Appendix HA.8 | Historical Information for Margaret Nick Cooke Memorial Trust |
| Upon fund closures | Appendix HA.9 | Historical Balances of General Obligation Bonds |
| None | Appendix HA.10 | Former ASLC funds managed by the Department of Revenue, Division of Treasury |
| None | Appendix HA.10.1 | ASLC Promissory Note with SOA for the purpose of originating student loans (2009) |
| None | Appendix HA.10.2 | ASLC 1988, 2002, 2004 and 2005 Custodian/Depositary/Servicing Agreements |
| None | Appendix HA.10.3 | Investment Management Agreement between the Department of Revenue, Treasury Division and the ASLC |
| None | Appendix HA.11 | History of Statutory Budget Reserve Fund |
| Upon legislative changes | Appendix HA.11.1 | Statutes Relating to the Statutory Budget Reserve Fund |

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| None | Appendix HA.12 | Alaska Sport Fish Construction Funds |
| None | Appendix HA.13 | Supplemental Benefits System Cash Transition Fund |
| None | Appendix HB | Replacement of the Conservative Broad Market Pool with corresponding allocations to the Broad Market Fixed Income Pool, and the U.S. Treasury Fixed Income Pool |
| None | Appendix HC | Historical Information Pertaining to Direct Loans and Mortgages for the ARMB |
| None | Appendix HD | 1990 Investment Regulations and Policies |
| Upon fund closure | Appendix HE | Historical Investment Pools |
| None | Appendix HF | Decision to Select Lazard Freres Asset Management to manage the International Equity Portfolio |