

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to Investment Policy Statement

Resolution 2012-33

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for each of the funds entrusted to it; and

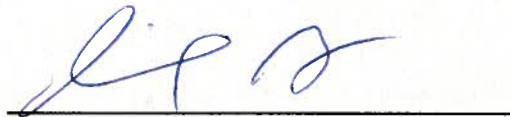
WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, AS 37.10.2201(a)(12) requires the Board to obtain an external review to evaluate the investment policies of each fund entrusted to the Board and report the results of the review; and

WHEREAS, the Board received the report from Independent Fiduciary Services which included a recommendation that a total fund investment policy statement be developed and that all investment policies be reviewed annually;


NOW THEREFORE BE IT RESOLVED THAT THE ALASKA RETIREMENT MANAGEMENT BOARD adopt the Total Fund Investment Policy Statement, attached hereto and made a part hereof.

DATED at Anchorage, Alaska this 1st day of December, 2012.



Chair

ATTEST:


Secretary

Alaska Retirement Management Board

Investment Policy Statement

1. Purpose and background

The Alaska Retirement Management Board (ARMB) was established by the Legislature in 2005 to serve as trustee for the assets of the state's defined benefit and defined contribution retirement systems, the State of Alaska Supplemental Annuity Plan, the deferred compensation program for state employees, and the Alaska retiree health care trusts. Consistent with standards of prudence, the board has the fiduciary obligation to manage and invest these assets in a manner that is sufficient to meet the liabilities and obligations of the systems, plan, program, and trusts.

The ARMB manages over \$18 billion of investments on behalf of a diverse set of over 16 retirement and benefits accounts, each with unique attributes including funding status and demographic profile. The two biggest defined benefit systems, the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) are a large majority of the total assets. Both systems are significantly underfunded. The funding objective of these plans, as adopted by the ARMB, is to set a contribution rate that will pay the normal cost and amortize the initial unfunded actuarial accrued liability and each subsequent annual change in the unfunded actuarial accrued liability over a closed 25-year period. This funding objective is currently being met. The State of Alaska is the largest contributor to paying down the unfunded liability and the State is expected to make its contribution payments over the near term planning horizon. The demographics of PERS and TRS are such that over half of the total plan participants are retired and receiving benefits or otherwise no longer active in the system. Without investment gains, distributions out of PERS and TRS are now larger than payments into the systems. Like PERS and TRS, the other accounts that make up the system – the Judicial Retirement System (JRS) and the National Guard Naval Militia System (NGNMRS), have their own unique funding, demographic, and other attributes for the ARMB to consider.

2. Statement of Objectives

The ARMB's general investment goals are broad in nature. For the defined benefit plans under its responsibility, the overall objective of the ARMB investment program is to provide members and beneficiaries with benefits as required by law. This will be accomplished through a carefully planned and executed long-term investment program that efficiently and effectively allocates and manages the assets entrusted to the ARMB.

The investment policies have been designed to allow ARMB to seek its expected long-term total return. Reasonable and prudent risk-taking is appropriate within the context of overall diversification to meet ARMB long-term investment objectives. The assets of ARMB will be broadly diversified to reduce the effect of short-term losses within any investment program in a manner that controls the costs of administering and managing the portfolio.

Regarding the defined contribution plans under its responsibility, each participant has his or her own risk tolerance, time horizon, and investment objectives. Participants are responsible for their own investment decisions. To help meet these varying needs, the ARMB seeks to provide participants with an array of investment choices across a range of asset classes, risk levels, and investment strategies so they can construct and/or invest in portfolios that address their individual needs, and do so using investment vehicles and structures that provide competitive risk-adjusted returns at a reasonable cost.

3. Investment Guidelines

The ARMB endeavors to achieve its expected long-term total return, as determined by the actuarially-required rate of return, while minimizing risk as determined by the projected standard deviation of the range of potential future returns.

The target allocation of assets among various asset classes shall be approved by the ARMB. The asset allocation policy shall be predicated on the following factors:

- The historical performance and risk measures of capital markets adjusted for expectations of the future long-term capital market performance
- The correlation of returns and risk among the relevant asset classes
- The expectations of future economic conditions, including inflation and interest rate assumptions
- The projected liability stream of benefits and the costs of funding to both covered employees and employers
- The relationship between the current and projected assets of the plan and the projected actuarial liability stream.

This asset allocation policy will identify target allocations to the classes of assets ARMB can utilize and the ranges within which each can fluctuate as a percent of the total portfolio for each plan. At times the asset allocation for a plan may drift beyond the proscribed bands of the target allocation. At such times, staff will consider the costs and benefits of rebalancing the asset allocation to comply with the plan's asset allocation policy.

4. Securities Guidelines

The desired attributes of a security vary substantially by asset class. As such, care is taken by the ARMB to identify the types of securities that are allowable when formulating and updating the investment guidelines at the asset class level. Particular care is given when considering the inclusion of guideline language that would allow for leverage, shorting and the use of derivatives.

5. Selection of Investment Managers

The ARMB may use internal and external investment managers, subject to the Board's discretion. In selecting external investment managers, the ARMB will engage a consultant to conduct an investment manager search. Investment staff will work with the consultant to construct applicable search criteria which may include, but is not limited to:

- Relevant experience managing investments for institutional clients
- Stability in attracting and retaining high quality investment professionals
- A record of managing asset and client growth and an asset base sufficient to accommodate the ARMB's investment
- Performance reporting compliant with Global Investment Performance Standards (GIPS)
- Competitive investment management fees

The consultant will recommend a group of semi-finalist candidates to staff. Staff will engage in additional research and due diligence and will recommend one or more of the semi-finalists to the ARMB for hiring consideration. Under certain circumstances, the ARMB may delegate investment manager hiring authority to staff or use a modified hiring process.

6. Control procedures

The ARMB has control procedures in place to monitor compliance with investment policies and objectives. The following parties have responsibility for elements of the investment monitoring and control process:

Investment Consultant

The ARMB's general Investment Consultant is a fiduciary and the primary source of asset allocation and investment manager performance information. At least annually, the Consultant will:

- Assist the ARMB in establishing long term goals and objectives that incorporate results from actuarial studies which the ARMB will provide to the Consultant.
- Develop risk guidelines that offer an acceptable likelihood of achieving the objectives.
- Develop forward-looking capital market assumptions.
- Optimize the risk-return characteristics for the funds.
- Document the entire asset allocation in a written formal report and present the report to ARMB at a regular meeting.

At least quarterly, the Consultant will provide the ARMB and Investment Staff with a performance report that, at minimum, includes information on:

- Rates of return presented in tables and graphs for the component portfolios, the asset and sub-asset classes, and the total investments for each of the funds for the past quarter as well as the past one, three, and five year periods.
- Performance comparisons using relevant investment universes and indexes for fund level returns as well as individual investment manager returns.
- Performance attribution analyses; market sensitivity analyses; measures of diversification, capital ratios, price-earnings ratios, turnover; comparisons by style of

management and other comparisons or information that is relevant to the particular manager, pool or asset class.

The Consultant will be available regularly to discuss the performance information with the ARMB.

Chief Investment Officer and Investment Staff

The ARMB's Chief Investment Officer (CIO) and Investment Staff advise on, implement, and monitor the board's investment program. Investment Staff is responsible for a variety of investment functions and provide the following investment controls that are reported to the ARMB:

- The CIO makes recommendations to the board on asset allocation and periodically rebalances the investment portfolio so that it remains compliant with the ARMB asset allocation. All rebalancing and manager allocation changes are regularly communicated to the ARMB Chair and communicated to the full ARMB at the next regular meeting.
- On an ongoing basis, often daily, the Investment Staff monitors managers using quantitative techniques, consultant information, discussions with managers, on-site due diligence, and other tools to identify potential issues. Issues are communicated through the CIO report to the ARMB at regular meetings. Exceptional issues are communicated to board members between regular meetings.
- The CIO leads a formal annual investment manager review. As part of this process, investment manager questionnaires are provided to the general consultant and the IAC. The CIO provides feedback to the ARMB on special concerns or other issues.
- The CIO and investment staff is responsible for reviewing all ARMB investment policies at least annually and recommending potential changes to the ARMB.

Comptroller and Accounting Staff

The State Comptroller is responsible for fund accounting and financial reporting. The State Comptroller and Accounting Staff perform a wide range of accounting functions and provide regular reporting to the ARMB that includes at minimum:

- A monthly financial report for each significant fund and investment manager including account balances and net cash flows.
- A monthly comparison of the target and the actual asset allocation.

Compliance

The Department of Revenue has a compliance function with direct reporting authority to the Comptroller. The Compliance function monitors the ARMB's investment managers and staff to ensure compliance with the ARMB's policies and procedures. Compliance reports to the Deputy Commissioner and the ARMB Audit Committee at least monthly on the investment program's adherence to board policies.

Financial Auditing Firm and ARMB Audit Committee

Annually, an independent accounting firm audits the financial statements of the pension system. The ARMB has an audit committee charged with overseeing this process and both the audit committee and the full ARMB meets directly with the auditors annually.

Fiduciary Auditing Firm

Every four years, the ARMB hires an independent firm to perform a review of the ARMB's investment policies and present their findings to the ARMB.

Consultant Auditing Firm

Every four years, the ARMB hires an independent firm to audit the performance reports of the Investment Consultant and present their findings to the ARMB.

Investment Advisory Council

The ARMB has an Investment Advisory Council (IAC) composed of up to five investment experts charged with providing advice to the ARMB at board meetings and as requested.