

**POLICIES AND PROCEDURES APPLICABLE  
TO THE TREASURY DIVISION,  
DEPARTMENT OF REVENUE,  
STATE OF ALASKA**



**APPENDIX AD**

**Replacing the Conservative Broad Market Fixed Income Fund with Respective Allocations  
to the Broad Market Fixed Income Pool and the U.S. Treasury Pool**

# MEMORANDUM

# STATE OF ALASKA DEPARTMENT OF REVENUE Treasury Division

To: Pat Galvin  
Commissioner

Date: December 16, 2009

Thru: Jerry Burnett *JB*  
Deputy Commissioner

From: Gary M. Bader *Gary*  
Chief Investment Officer Telephone: (907) 465-4399

Subject: Conservative Broad Market Fixed Income Fund

Last year, we requested and you approved the establishment of a new fixed income fund that was described as the Conservative Broad Market Fixed Income fund. The Conservative Broad Market is a combined fixed income investment fund with a target mix of 90% Barclay's Aggregate, and 10% U.S. Treasuries. The intent of the approach was to begin to incorporate staff thinking that a fixed income portfolio that included a higher proportion of treasuries would have better risk, and liquidity characteristics when combined with equities than a fixed income portfolio that did not overweight treasuries. We still hold that belief.

Unfortunately, the creation of the Conservative Aggregate fund has created some accounting challenges associated with the posting of interest earnings to some of our internally managed funds (Public School Fund, and Children's Trust) that require a distinction between interest earnings and capital gains and losses. Other funds that use the Conservative Broad Market fund include the CBR Sub-Account and LTC Insurance to name a few.

The accounting challenges of posting interest could probably be addressed through manual intervention each month. However, the extra effort and risk of making entry errors does not seem justified when the investment objective can also be achieved by directly investing in our internal Barclays Aggregate and Treasury funds separately.

As outlined above, you have previously approved a number of asset allocations for FY 2010 that identify the Conservative Broad Market fund as one of the items in the asset allocation. I request that you approve changing all asset allocations that reference Conservative Broad Market in the asset allocation. The change would be to replace

Conservative Broad Market with two internally managed asset funds. The first would be (AY 73) Broad Market Fixed Income Pool, and the second would be (AY 75) U.S. Treasury Fund. The respective allocations to the two funds would be 90% of the Conservative Broad Market to the Broad Market fixed Income Pool +/- 7%, and 10% of the Conservative Broad Market to the U.S. Treasury Fund +/- 2%. For example, the current allocation to the CBR Sub-Account is currently has a 35% +/- 7% allocation to the Conservative Broad Market fund. As outlined above, the Conservative Broad Market would be replaced with a 32% allocation to (AY 73) Broad market Fixed Income Pool, and a 3% allocation to (AY 75) U.S. Treasury Fund.

Your approval is requested.

Approved  \_\_\_\_\_

Date 12/16/09

cc: Bob Mitchell, Investment Officer  
Pam Green, Comptroller  
James McKnight, Operations Research Analyst