APPENDIX ZB

1990 Investment Policies

State of Alaska
Department of Revenue
Treasury Division

General Investment Policies

A review of the bases for
the policies, including relevant
objectives, factors, and standards,
as well as responsibilities,
authorizations, and limitations.

Prepared by
Treasury Division
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The purpose of this memorandum is to summarize and explain the bases for the Department of Revenue's investment policies, the standards utilized in implementing the policies, and the authorities under which the investment policies and investments are made.

I. APPLICABILITY

This memorandum covers the following listed separately invested funds:

State of Alaska General Investment Fund
AHFC Pledged Fund
International Airports Construction Fund
International Airports Revenue Fund
(including the Repair and Replacement Reserve Account)
State Mortgage Insurance Fund
Public Employees Retirement Trust Fund
Teachers Retirement Trust Fund
Judicial Retirement Trust Fund
Military Retirement Trust Fund
Public School Trust Fund
University of Alaska Trust Fund
Alaska Children's Trust Fund
Outer Continental Shelf Lands Act Section 7 Accounts
Alaska Education Trust Fund
Alaska Student Loan Corporation Custodial Funds
Budget Reserve Fund
Supplemental Annuity Trust Fund

Within the General Investment Fund are the General Fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, intra-governmental service funds, and other funds which are commingled for investment purposes. The International Airports Funds are the only separately invested enterprise funds. All trust funds are separately invested.

For separately invested funds, the income accrues to the fund which earned it. The income of all funds in the General Investment Fund accrues to the General Fund. The only exceptions are the Student Loan Fund, Alaska Clean Water Fund, Fish and Game Fund, Power Development Revolving Loan Fund, Public Access Fund-Contributions Account, and trust funds or accounts—the most significant of which is the Permanent Fund Dividend Trust Account—all of which receive their pro-rata share of monthly General Investment Fund income, pursuant to Attorney General's opinions dated September 10, 1984 and July 19, 1985. Appendix A contains a Memorandum of Understanding between the Departments of Revenue and Administration that provides for the crediting of General Investment Fund income to funds or accounts other than the General Fund.

II. COMMISSIONER OF REVENUE'S AUTHORITY

The Commissioner of Revenue has the general authority to invest all State funds, under AS 44.25.010 and AS 44.25.020(2), and has either the primary or secondary authority to establish policy for and invest all monies deposited or held in the applicable funds under the sources cited below. These authorities generally are not constrained to specific types of investment instruments. Instead, the Commissioner's authority is governed by a rule of professional prudence, as discussed in Section III.

A. Sources of Authority

The source of the Commissioner's authority for each of the applicable funds is:

1. State of Alaska General Investment Fund, under AS 37.10.070;

2. AHFC Pledged Fund, under Section 508 of the General Housing Mortgage Bond Resolution of the Alaska Housing Finance Corporation;

3. International Airports Construction Fund, under Section 3.02 of Resolution No. 68-4 of the State Bond Committee of the State of Alaska and AS 37.15.420;

4. International Airports Revenue Fund, under Section 5.02 of Resolution No. 68-4 of the State Bond Committee of the State of Alaska (the requirement to separately invest the Repair and Replacement Account is specified in this Resolution) and AS 37.15.430;

5. State Mortgage Insurance Fund, under AS 18.56.095;

6. Public Employees' Retirement Trust Fund, under AS 39.35.080;

7. Teachers' Retirement Trust Fund, under AS 14.25.180;

8. Judicial Retirement Trust Fund, under AS 22.25.048(c);

9. Military Retirement Trust Fund, under AS 26.05.228(c);

10. Public School Trust Fund, under AS 37.14.160 and AS 37.14.170;

11. University of Alaska Trust Fund, under AS 14.40.400 (c);

12. Alaska Children's Trust Fund, under AS 37.14.210;

13. Outer Continental Shelf Lands Act Section 7 Accounts, under Section VI of an "Agreement between the United States of America and the State of Alaska pursuant to Section 7 of the Outer Continental Shelf Lands Act, and Alaska

Statutes 38.05.137" and Sections V of an "Agreement Between the United States of America and the State of Alaska pursuant to Section 7 of the Outer Continental Shelf Lands Act, and Alaska Statutes 38.05.137 for the Leasing of Disputed Tracts in Federal Outer Continental Shelf Oil and Gas Lease Sale 71" and an "Agreement between the United States of America and the State of Alaska pursuant to Section 7 of the Outer Continental Shelf Lands Act, and Alaska Statutes 38.05.137 for the Leasing of Disputed Blocks in Federal Outer Continental Shelf Oil and Gas Lease Sale 87";

14. Alaska Education Trust Fund, under AS 14.40.805;

15. Alaska Student Loan Corporation Custodial Funds, under a Custodial/Depository Agreement between the Corporation, Seattle First National Bank, and the Department of Revenue (Exhibit B of the Trust Indenture, dated May 1, 1988, between the Corporation and Seattle First National Bank);

16. Budget Reserve Fund, under Article IX, section 17 of the Alaska Constitution; and

17. Supplemental Annuity Trust Fund, under AS 39.30.155 (a)(5) and Appendices N, O, and Q.

B. Limitations of Authority

The Commissioner's authority is limited for the following funds to specific types of investment instruments:

1. AHFC Pledged Fund (see Appendix B);

2. International Airports Funds (see Appendix C);

3. State Mortgage Insurance Fund (see Appendix D);

4. Alaska Student Loan Corporation Custodial Funds (see Appendix M);

5. Supplemental Annuity Trust Fund (see Appendices N, O, and P)

In addition, the Public Employees' Retirement Trust Fund, Teachers' Retirement Trust Fund, the Judicial Retirement Trust Fund, the Military Retirement Trust Fund, the Public School Trust Fund, the University of Alaska Trust Fund, the Alaska Children's Trust Fund, and the Alaska Education Trust Fund are subject to the following Administrative Code limitations on real estate mortgage loan investments, pending the effective date of their repeal by regulations adopted by the Department of Revenue on November 21, 1990:

(1) a single loan may not exceed $1,000,000 (115 AAC 114.050(e) and 15 AAC 139.050(e)); and

(2) loans may not exceed 20 percent of the portfolio measured at cost at the time of purchase of any loan (15 AAC 114.050(f) and 15 AAC 139.050(f).

III. COMMISSIONER OF REVENUE'S RESPONSIBILITY

The Public Employees' Retirement System board has fiduciary responsibility for the Supplemental Annuity Trust Fund. The fiduciary responsibility for investment of the Annuity Trust Fund has been delegated to the Commissioner of Revenue by the board. For all other funds the Commissioner is solely responsible for the investment policies and the realized investment results on the entirety of each of the funds. The responsibility is amplified and limited by both laws and practical considerations.

A. Fiduciary Law

1. Rule of Prudence

A rule of law concerning a trustee's degree of care in managing investments for a trustor or trust beneficiary has developed over a long period of years in U.S. jurisprudence and it has commonly been referred to as the "prudent man rule." The rule held fiduciaries to a standard of care comparable to that which a person of ordinary prudence would use in managing his or her own investments. With regard to the Commissioner's responsibility for the investment of trust funds, the Alaska Statutes (previously cited) have held the Commissioner to the higher and more demanding standard of care required of a professional institutional investor managing large investments under a trust relationship. The standard presumes the institution is a sophisticated professional investor whose knowledge and ability to evaluate alternative investments is substantially greater than that expected of an ordinarily prudent layman. Conformance with the standard may be evidenced by comparison with funds managed under similar, if not identical, standards. The trust funds covered by the statutes are the State Mortgage Insurance Fund, Public Employees' Retirement Trust Fund, the Teachers' Retirement Trust Fund, the Judicial Retirement Trust Fund, the Military Retirement Trust Fund, the Public School Trust Fund, the University of Alaska Trust Fund, the Alaska Children's Trust Fund, the Alaska Education Trust Fund, and the Alaska Student Loan Corporation Custodial Funds. The General Investment Fund, which is not in itself a trust fund, although it may include some commingled trusts, is also required by AS 37.10.070(b) to be invested under the "prudent professional institutional investor" rule, even though that would not be required necessarily under prevalent trust law. The statutes do not impose either the "prudent man rule" or the "prudent institutional investor" rule on the Commissioner in investing the monies of the International Airports Funds, the AHFC Pledged Fund, the Outer Continental Shelf Lands Act Section 7 Accounts, the Budget Reserve Fund, or the Supplemental Annuity Trust Fund.

2. Duty of Loyalty

The extant body of fiduciary laws in U.S. jurisprudence (one of which is the "prudent man rule") impose additional criteria on the actions of investment managers of funds held in trust. The primary focus of the laws is to require the trustee to act independently and only in the best objective interests of the beneficiaries of the trust, ignoring all considerations relating to the interests of others or the trustee's own self-interest, and avoiding all self-dealing and all conflicts of interest between the trustee and either the trustor or the trust beneficiaries. Similar obligations have been imposed by numerous federal and state laws (the Internal Revenue Code in granting tax-exempt status to pension funds, the Employee Retirement Income Security Act ("ERISA"), Securities and Exchange Commission, Investment Advisors Act, banking trust laws, etc.) and by professional self-regulatory bodies (Financial Analysts Federation, National Association of Securities Dealers, and others). These requirements are often referred to as a fiduciary's duty of loyalty. Alaska Statutes make a duty of loyalty directly applicable to all funds covered by this memorandum except the International Airports Funds, AHFC Pledged Fund, the State Mortgage Insurance Fund, the Outer Continental Shelf Lands Act Section 7 Accounts, the Alaska Student Loan Corporation Custodial Funds, the Budget Reserve Fund, and the Supplemental Annuity Trust Fund. As designated trust funds, the State Mortgage Insurance Fund, the Alaska Student Loan Corporation Custodial Funds, and the Supplemental Annuity Trust Fund would nevertheless be subject to a duty of loyalty under common law pertaining to fiduciaries.

B. Practical Considerations

The Commissioner's general responsibility is also partly constrained by a number of practical considerations.

1. Nature of the Funds

The size of the funds and their purposes can act to exclude or include various investments as part of a particular fund's portfolio.

2. Personnel

The number of qualified staff members affects the amount of time which can be expended in managing the investments of the funds.

3. Data

The adequacy of the content and the timeliness of the financial information available, whether internal or external, can also act to limit or extend the investment opportunities.

4. Budgets

Budgetary constraints can limit both the personnel and data requirements available to the Commissioner.

5. Administration

Required administrative procedures can act to impede some investment activity, which may obviate some opportunities and limit the investment results.

C. Personnel Standards

The Commissioner depends on the staff of the Treasury Division of the Department of Revenue in fulfilling the investment responsibility. In order to assure their compliance with the appropriate standards of conduct, the following requirements have been established:

1. Treasury Staff

All employees of the Treasury Division are required, as a condition of employment, to acknowledge and abide by the rules of conduct contained in the statement attached hereto as Appendix E.

In addition, all Treasury staff are subject to AS 39.52, the Alaska Executive Branch Ethics Act.

2. Treasury Officers

a. All officers of the Treasury Division are additionally required to conform to the applicable substantive provisions of "The Code of Ethics and the Standards of Professional Conduct" of the Financial Analysts Federation, attached hereto as Appendix F, with the exception of Part VI (c) which is superseded by the more restrictive AS 39.52.170(a) which prohibits any outside employment or service that is incompatible or in conflict with official duties.

b. In order to better ensure professional levels of knowledge, ability, and experience, investment officers involved in marketable securities are required to be Fellows of the Financial Analysts Federation or Chartered Financial Analysts.

IV. THE INVESTMENT OBJECTIVE

The general objective of all financial investments is "to increase the amount of monies available for some purpose over some span of time." The specific objectives applicable to a certain fund depend primarily upon the nature of the fund. Derived from the general objective are a number of important considerations which are involved both in determining specific objectives and in developing specific investment policies.

A. The Amount of Monies

The amount of monies concerned in a particular fund's objective or policy may represent only the principal of the fund, or its income if it has not been distributed, or they may represent some combination of both principal and income—either separately or combined.

B. Increasing the Amount

1. Capital Preservation

Whether the concern is for the principal or the income, or some combination of them, increasing the amount of monies usually requires that at least the capital of the fund (principal contributions) will not be reduced. Funds whose capital is supposed to be consumed are, of course, an exception. This objective of preserving the capital relates to the following investment characteristics which are important in determining investment policy:

a. Credit Risk

Credit risk involves the investment issuer's willingness and ability to pay the income and principal of a fixed amount obligation as it becomes due and payable. Credit risks vary greatly from issuer to issuer and usually reflect the relative certainty of the issuer's ability to pay. Low credit risks imply a high degree of certainty that the obligations will be paid in full and on time. High credit risks for classes of investment or individual investment selections are accommodated in investment policy by diversifying those investments among enough different issuers to reduce the fund's exposure to any single issuer's default, by holding marketable issues which can be sold if the issuer's credit risk rises substantially, and by continuing staff surveillance of the issuer's ability to pay.

b. Residual Risk

Equity investments are not fixed amount obligations. They are percentage ownerships of net income (after taxes) and the residue of assets remaining after retirement of all outstanding liabilities. The risk on equity investments is related to the future profitability of an enterprise and/or to its current or future liquidation value. Equities are usually diversified in order to reduce the fund's exposure.

c. Exchange Rate Risk

Exchange rate risk involves the fluctuations in the relative exchange rates between foreign currencies and the U.S. dollar and they are only involved when investments payable or valued in foreign currencies are held in a domestic portfolio. Exchange rates vary daily and reflect a number of factors. In the long run they are primarily determined by relative measures of economic productivity and prices, and trade and financial flows among countries. The risk to a fund is reduced by limiting the percentage exposure to the exchange rate, by diversifying the holdings among several foreign currencies, or by hedging the currency positions in the futures markets.

d. Market Risk

Market risk involves the market's valuation of an investment when it is voluntarily or involuntarily liquidated by the holder before its scheduled maturity date (in the case of fixed amount obligations) or at any time (in the case of equities). The valuation for a fixed amount obligation will reflect the market's perception of the credit risk (and exchange rate risk, if appropriate), the remaining time before maturity of the issue, the fixed rate of pay on the issue, and the then current interest rate at which similar obligations are being purchased (sometimes referred to as the interest rate level risk). The valuation for an equity obligation will reflect the market's perception of the current and future profitability of the enterprise, the annual rate of income remittance (dividends), the liquidation value of the enterprise, the future expected price for the equity, the exchange rate risk when appropriate, and its probable return relative to alternative investments. Because market valuations change daily and only reflect the market's perceptions, they do not necessarily reflect the true relative value of alternative investments, nor do they reflect the historical returns for held investments, but they do reflect the probable price at which investments can be bought or sold at that time. Because investments are made to achieve realized returns rather than transitory perceived returns, the market valuation is not particularly relevant to held investments if they are not going to be imminently liquidated, but it is important in making new investments because it affects the probable returns that can be made on them in the future.

2. Returns on Investments

The return on an investment is not definite until the investment is terminated. The return is the difference in the amount of monies received from an investment as compared to the amount of monies invested in it. Returns may be divided into principal returns, or income returns, or some combination of income and principal returns, depending on the nature of the funds, the purpose of the investment, legal requirements, and accounting conventions. Investments are made based upon an expected level of return over a future time period. Calculating an imputed return based on the market valuation of a held investment which is not going to be imminently liquidated is not necessarily meaningful because it reflects neither the expected return basis on which the investment was made nor the return which will be realized when the investment is terminated.

The rate-of-return on investments is a comparative measure of annual returns among alternative investments. It is the percentage rate which mathematically represents the amount of annual increase or decrease in monies as compared to the amount invested. It is always stated as an annual rate except when the time period is a fraction of a year. Rates-of-return may reflect only income, or principal, or a combination of income and principal, and they may be expectational, imputed, or realized. They are used in investment management as a basis for reallocating the relative percentages of classes of investments in a fund and as a basis for selecting particular investments from among many alternatives. They are also used on an imputed or realized basis to compare the relative performance of various investments or classes of investments within a fund or among funds. The usual objective of portfolio management is to achieve a relatively high rate-of-return over a time period appropriate to the nature of the fund.

C. Availability

Availability is a restriction on the general objective. Increasing the amount of monies is useless if the monies are not available when they are needed for the purposes of the fund. The amount and timing of the need for monies depends mostly on the nature of the fund and varies greatly among funds. Known amounts at known times can be readily accommodated by either specific maturities or liquidations of unmatured or non-maturing issues. Unknown amounts or unexpected timing can only be accommodated by liquidations. Liquidating investments means selling them at the going market price to another investor. The ability to liquidate an investment will depend on its marketability. Securities in which ongoing secondary markets are maintained are readily marketable, and those rated as having either low credit or residual risks are highly marketable. Securities which do not have ongoing secondary markets and privately-placed non-security investments have either a very low degree of marketability or none at all. Marketability is also affected by the amount of the investment. Secondary markets presume certain ranges of amounts. Liquidating investments which are substantially larger or smaller than those ranges will reduce both the marketability and the price. The ability of investment management to terminate some investments, procure others, realize returns, reallocate the fund's investments, and achieve high rates-of-return would be severely reduced if a fund was substantially invested in unmarketable investments.

D. For Some Purpose Over Some Span of Time

Both the purposes which are to be served and time over which they are to be served will vary greatly depending on the nature of the funds. Endowment type funds with a perpetual lifetime and no permissible withdrawals of principal are substantially different in purpose and time span than funds whose principal is committed to consumption within a near term period. The purpose and the time span are crucial factors in establishing the specific investment objectives and policies for a particular fund. They act to amplify or limit the classes of investments which can be considered and affect all of the characteristics previously mentioned, i.e., credit risk, residual risk, market risk, rates-of-return, and marketability.

V. THE NATURE OF INVESTMENT POLICIES

The strategic plan for achieving a particular fund's investment objectives is the fund's general investment policy. It is primarily concerned with the relative allocation of the classes of investments within the fund, but it can also be concerned with the structure or selections within a class of investments. Within the limits imposed by the nature of the fund, its investment objectives, and the constraints imposed by laws and practical considerations, the investment policy is designed to achieve a relatively high probable rate-of-return on the fund over some future time period. Although the imposed limits and constraints may be fairly static for long periods of time, the financial markets in which returns are realized are very dynamic. No matter how suitable and productive an investment policy may be at any point in time, subsequent changes in the financial markets can rapidly invalidate it. Consequently, investment policies have to be sufficiently flexible to quickly adapt to the dynamics of the market-place if the desired rates-of-return are going to be achieved. The process of keeping the policies attuned to the probable future markets involves continuing reappraisals.

Investment policies are comprehensive derived strategies which represent evaluations of all of the significant factors utilized in selecting and managing investments. The most important of these factors is the probable rates-of-return which may be earned on particular investments between now and a future date. Those probabilities together with their relative degree of certainty and the risks associated with those investments are the essential considerations involved in determining the allocation of the fund among the potential classes of investments. The allocations are balanced within the policy with the intention of maximizing the fund's probable forward rate-of-return without permitting its probable risks to rise to an unacceptable level. Because investment policies are based on expected future events, their effectiveness in achieving the objectives can only be ascertained on an after-the-fact basis.

VI. THE FUNDS AND THEIR INVESTMENT POLICIES

The application of the general investment objective to specific funds or types of funds results in the development of specific investment policies for each fund. A summary of the nature of each fund and its investment policy follows:

A. <u>The General Investment Fund</u>

The policy regarding unmarketable debt obligations made under former State programs which are no longer active is to seek early redemption or prepayment by the issuer or to hold the instrument to maturity. Policy regarding marketable securities is as follows:

1. Nature

The General Investment Fund is a reservoir which holds State revenues until they are disbursed. It contains five broad categories of monies:

a. revenues which will only temporarily be in the fund because they are subject to imminent disbursement in order to satisfy operating budget expenses;

b. revenue receipts in excess of appropriations, which are usually in the fund for less than a year because they are subsequently appropriated and disbursed;

c. revenues appropriated for capital budget projects, which may be in the fund for several years as monies are disbursed on an as needed basis;

d. past revenues not appropriated for specific expenditures but held in reserve for emergency purposes, e.g., budget reserve fund;

e. special revenue, reserve, operating, and trust funds which are commingled in the General Investment Fund but are separately accountable. These monies have mixed characteristics, are usually continuing in duration, and are a small percentage of the total fund.

The purpose of the fund is to combine these money flows into a pool where disparate inflows and outflows will frequently be offsetting and, consequently, the more stable pool will be more readily investible. The reduction through the use of a pool of the number of accounts which need to be invested also increases the size of the investments, reduces the number of investments, and minimizes the transaction and personnel costs. The fund is invested with the intent of earning income on the principal monies until the time of their disbursement. The income earnings constitute an additional source of revenues which are available for appropriation.

2. Policy

Because the principal of the fund has been appropriated and any realized losses would lead to curtailment of intended expenditures, preservation of principal is the most important determinant of investment policy. Because the expenditures are frequently large and their exact dates of disbursement are unknown, the policy has to allow for very high liquidity. Because the $1 billion or more size of the fund is very large, investments have to be limited to classes of investments which have secondary markets that can readily accommodate large holdings. Because the projected income from the investments is also appropriated before it is received, the projected income for any fiscal year should be relatively stable and certain. These characteristics denote an investment policy which avoids residual risks, has low credit and market risks, avoids substantial exchange rate risks, concentrates on large yet very marketable issues, and seeks to achieve a relatively high but non-volatile investment return within a fiscal year.

The current investment policy limits the investment selections to non-residual, fixed amount obligations. The vast majority of holdings consist of U.S. Treasury issues, which have the lowest credit risks, the highest marketability, and the best secondary markets for large holdings. The remaining holdings consist of short-term commercial or bank paper issues which have exceptionally low credit risks although they yield more income than U.S. Treasuries. The daily volatility in fund balances is handled through overnight repurchase agreements with the limited number of non-bank prime dealers with whom the Treasury Division has binding written agreements. The repurchase agreements have almost no risk because they are fully collateralized by delivered U.S. Treasury securities. The maturity structure of the fund is designed to provide cash through maturities at the probable dates it will be needed. The estimating of probable cash outflows is a continuing process and the maturity structure is constantly being altered to match the probable outflows. The particular investment selections and the maturity structure are also designed to maximize the income flow and, consequently, the current structure of interest rates and the future expected structure of those rates are important determinants of investment selections and maturity structure. In order to keep the income relatively certain, issues are usually held to their maturity date, unless the maturity schedule needs to be restructured. Currently, about 63 percent of the fund is scheduled to mature within the following 12 months and the remainder within three years.

B. AHFC Pledged Fund

1. Nature

The monies held in this fund are State funds which were required under the terms of an outstanding AHFC bond issue. The amount required depends upon standards and certifications stated in the bond indenture and any excess can be withdrawn on November 30 of each year. Excess amounts have been withdrawn each year so the monies currently held are approximately $8 million. The indenture restricts the investment maturities to six months or less and limits the choices to the instruments noted in Appendix B.

2. Policy

The stringent maturity and instrument limitations leave little room for discretionary policy. Preservation of principal is the most important characteristic and it is being served by keeping the fund invested in U.S. Treasury obligations. The maturity restriction avoids any market risk. The current investment policy is to purchase issues maturing on either the indenture's semi-annual interest pay dates of May 30 and November 30 or the nearest practical date preceding those days.

C. International Airports Construction Fund

1. Nature

The construction fund holds the proceeds of revenue bonds as well as airport revenues or other monies appropriated for construction purposes. The monies are withdrawn as needed to repay contractors for construction expenses. Consequently, it is a declining fund which eventually pays out all of its principal and income.

2. Policy

The objective of the investment policy is to maximize the return on the monies while they are held in the fund without risking the principal or the presumed interest income. The investment restrictions (Appendix C) virtually eliminate credit risks, and market risks are minimized by attempting to match the schedule of maturities to the timing and amounts of anticipated withdrawals. The schedules of withdrawals are estimated by the architects or engineers involved in the projects. Section 3.03(c) of State Bond Committee Resolution No. 68-4 restricts maturities to no more than six months after the estimated dates on which the monies will be needed.

D. International Airports Revenue Fund

1. Nature

The Revenue Fund receives all of the revenues from the ongoing operations of the international airports. The monies are utilized to pay the continuing expenses of airport operations and the principal and interest payments on outstanding airport revenue bonds. Although the bond payments are known amounts which are scheduled for the life of the issues, the revenue receipts and other expenditures are erratic in timing and highly variable in amount. Investment earnings are retained by the fund as an additional revenue.

2. Policy

The irregular, unforecasted cash flows out of the fund impose high liquidity and low risk requirements on its investments. These characteristics are met by investing solely in U.S. Treasury or money market issues due within no more than one year. The short maturities ensure minimal market risks, the issuers have very low credit risks, and the high marketability assures the availability of monies even if there are unexpected outflows. The separately invested Repair and Replacement Reserve Account, required under the terms of a bond indenture and subject to Section 5.04 of Resolution No. 68-4 of the State Bond Committee, is less subject to erratic flows and therefore may use maturities of up to five years duration. These stringent requirements effectively preclude maximizing the return on the investments. If reliable forecasts of probable cash flows were available, maturities might be lengthened and timed to take advantage of changing interest rate levels so a higher rate-of-return could be earned.

E. State Mortgage Insurance (Trust) Fund

1. Nature

The monies in this fund constitute a State insurance reserve supporting holders of AHFC Insured Mortgage Bonds. The amounts required to be held in the fund are specified in AS 18.56.095. Monies may be withdrawn from the fund as needed to effectuate the mortgage insurance programs, and the fund may receive monies from special mortgage loan commitment fees or insurance premiums, recoveries on special mortgage loans that defaulted and were charged against the fund, or appropriations by the legislature to meet the fund's size requirements. The fund has an unknown duration, it may vary in size perpetually, or it may decline to zero at some future date when all Insured Mortgage Bonds are retired.

2. Policy

Fund investments have to have the characteristics of safety of principal from credit risks because the monies are an insuring guarantee and of high marketability because money may be withdrawn at any time. These characteristics are served under the Mortgage Insurance Agreement of December 6, 1975 between the State and AHFC which limited the investments to highly marketable and low credit risk U.S. Treasury or money market investments (see Appendix D). Subject to that restriction, the Commissioner of Revenue delegated investment management of the fund to the National Bank of Alaska under the terms of a Custody and Investment Agreement dated July 30, 1976.

F. Retirement Trust Funds

This comprises the Public Employees' Retirement Trust Fund, the Teachers' Retirement Trust Fund, the Judicial Retirement Trust Fund, and the Military Retirement Trust Fund, which are separately accounted and invested. Their natures are sufficiently similar to give them the same general investment policy. However, the two minor funds, the Judicial and the Military, are too small to directly participate in equity and certain fixed amount investments. The Treasury Division has established a pooled account for domestic common stock investments of all the retirement and endowment funds to make participation by the minor funds practical. In the future, the Division may establish additional pools for other types of investments.

1. Nature

The retirement plans are defined benefit plans whose benefit payment amounts for each enrolled employee are determined by their length of employment and their salary levels. They are joint contributory plans under which both the employee and the employer are required to make continuing contributions, with the exception of the Alaska National Guard and Alaska Naval Militia plan (Military Retirement Trust Fund) which is funded solely by employer contributions. According to law, the benefits payable under the retirement plans are contractual, deferred compensation arrangements which must be honored by the employers, who are Constitutionally prohibited from diminishing or impairing the accrued benefits. The employers are the effective guarantors of the benefits and they assume all of the financial risks concerning the adequacy of the contributions and the returns on the investments. Employees have a legal right to benefits immediately upon enrollment in the system, although their right to the employer's contributions is dependent on certain vesting requirements such as a minimum term of employment and the status of that employment (full-time, part-time, temporary, etc.). The plans are considered as being perpetual in nature because they apply to both current and future employees and the employers have the characteristics of perpetual existence.

The funds' invested assets are impounded monies dedicated to the payment of future benefits and are not subject to reversion to or use by the contributors, except when paid to beneficiaries under the terms of the plans. They are fiduciary trusts whose monies are held and invested only for the benefit of current and future retirees. Actuarial services are used to determine the amount of additional monies required each year from contributing employers to enable the total fund to pay its projected liabilities for benefits through the lifetime of the last surviving member. Actuarial evaluations are not intended nor appropriate for use in evaluating investment performance.

The investments represent the accumulated excess of contributions and realized income over benefits paid during the years since the plans' inceptions. The amounts of additional monies contributed each year by the employers is determined by consulting actuaries and are based on the expected future payments to current and future retirees, the amounts of the funds, and the expected future returns on investments. In order to determine the amounts of the funds, the actuaries annually value the funds' investments by utilizing a five-year moving average of the ratios of total actuarial value to total book value, where total actuarial value is composed of market values for equities and book values for fixed amount obligations. This methodology decreases the annual volatility of both the valuations and the resultant levels of contributions. The actuarial method being utilized—projected unit credit method—requires contributions in the early years that exceed the accrual of benefits.

Contribution inflows into the funds exceed the current amounts of benefits payments. That condition is expected to continue for several years into the future. Current projections indicate that the Public Employees' Retirement System and the Teachers' Retirement System benefits may exceed contributions beginning in fiscal years 1992 and 1995 respectively. However, the excess of benefits over contributions is not projected to exceed 22.3 percent and 12.3 percent of investment income for the Public Employees' and Teachers' Retirement Systems respectively, during the next fifteen years. A net inflow is a typical situation for retirement plans that have a relatively low percentage of retired members. The Teachers' Retirement System has a higher percentage of retired members, due at least in part to the plan's provisions for normal retirement after 20 years compared to 30 years for the Public Employees' Retirement System. This fact, plus the higher average age and credited service result in the expected earlier net outflow of cash for the Teachers' Retirement System. The status of the two major plans is illustrated by the following statistics:

	Public Employees' Retirement System (1)	Teachers' Retirement System (1)	Mean of U.S. Public Pension Funds (2)	Mean of U.S. Corporate Pension Funds (2)
Average Age of Active Members	40.17	41.82	40.7	40.3
Average Years of Credited Service	6.66	10.61	11.0	11.5
% of Total Members Retired	19.9%	26.6%	27.6%	21.0%
% of Active Members Vested	42.7%	56.1%	50.4%	59.1%
Period in Years to Amortize Unfunded Accrued Benefits	25	25	29.4	23.6
% of Pension Obligation Funded	91.6%	95.0%	85.0%	N/A
Excess of Actuarial Interest Rate Assumption Over Salary Increase Assumption	2.8% (3) estimated	2.8% (3) estimated	2.1%	3.4%

(1) "Actuarial Valuation as of June 30, 1989," William M. Mercer-Meidinger, Inc.

(2) "Investment Management 1990," Greenwich Associates, Greenwich, Connecticut

(3) 2.5% for the first five years of an employee's service and 3.5% per year thereafter.

2. Policy

The most important characteristic of the funds for investment policy purposes is their perpetual nature and the long number of years before they will encounter any significant net outflows (probably 15 to 20 years). A long time span accommodates investments which should enjoy higher returns over the long-run, although they may be slow to materialize, or be erratic in the short-run, and it allows greater use of investments which may have substantial market valuation risks. This characteristic expands the universe of investment possibilities and increases the potential for achieving higher returns on the investments.

If current projections of the commencement of net outflows from the Public Employees' and Teachers' Retirement Trust Funds within the next few years are confirmed by experience, investment policy for the funds will begin to constrain the allocation of assets to lesser allocations to investments bearing substantial market risks.

The primary objective of the investment policy is to maximize the returns on the funds' total investments over a long time-span without undertaking an unreasonable degree of risk of reducing the principal of the funds or of realizing the lower returns which would necessitate raising the contribution levels. Higher investment returns over the years mean a larger fund, and a larger fund size relative to a retirement system's liability for future benefit payments is the beneficiaries' best security that the pensions will be paid when they are due. Returns which average higher than the actuarially assumed returns (currently 9 percent for the two major retirement plans) can lead to either increases in pension benefits or decreases in the amounts of annual contributions. The time-span over which the objective seeks to maximize returns is highly variable but usually falls in the range of between three to eight years. The time span cannot be precise because both the separate investment markets and the economy experience independent fluctuations in price and performance. Economic cycles usually range between three to six years, stock market cycles from two to four years, interest rate cycles from three to seven years, exchange rate cycles from four to eight years, and real estate cycles from four to ten years. Investment risks are related to the entire portfolio of a fund's investments rather than to the classes of investments which are components of the portfolio. All investments bear some degree of risk and the risks vary not only with the class of an investment and the stage of its related cycle but with the alternative investments within each class. Investments having higher expected future returns usually contain a greater risk of disappointment (lower returns) than those expected to have lower future returns. The reasonableness of risk for a fund's investment portfolio is a judgment concerning the greater probability of achieving the expected higher future returns than the probability of realizing lower than average future returns.

Because investment markets are constantly fluctuating, the ratio of probable rewards (higher returns) to probable risks (lower returns) for an investment, class of investments, or a fund is also constantly changing. In order to achieve the primary objective of the retirement funds, the funds' investments need to be continuously reallocated between classes of investments and among individual investments. The reallocating requires continuous re-evaluations of the probable levels of future markets as compared to the levels of current markets.

Consequently, the investment policy is the result of a dynamic and continuing evaluation process, rather than a static allocation of assets which ignores the changing markets and focuses on the past rather than the future.

The general investment policy of the two major retirement funds consists of ranges of allocations by investment classes. The ranges provide the flexibility needed to continually adapt the allocations to changing markets and expectations. They avoid the need to make the continuous purchases or sales that would be required to maintain a fixed allocation. The current range for equity investments runs from a low of 55 percent of the funds to a high of 65 percent. The current level is about 48 percent. Additional allocations to equities are anticipated to bring them within the 55 to 65 percent range. The longer term strategy of holding substantial percentages in equities reflects the probability that equities will continue to earn the highest relative returns on a long term basis, a condition which has been true for longer term periods in the past. Public pension funds were recently holding about 43 percent in equities and corporate pension funds were holding about 57 percent in equities[1/] (the higher returns which corporate pension funds have historically earned have been basically due to their higher percentages of equities). Within the equity area, common stock investments may range from 45 percent to 55 percent of the funds (domestic commons at 35 percent to 45 percent and international commons at 10 percent). Except for an indexed common stock portfolio, all common stock investments are being managed under discretionary contracts by external managers who were competitively selected primarily on the basis of their investment performance. In order to limit the residual risk exposure of the retirement funds, the contracts require adequate diversification of holdings and prevent substantial investments in smaller, less seasoned business corporations. Included within the domestic common stock allocation is an allocation (currently about 10 percent of total assets) for indexed domestic common stocks. This broadly diversified portfolio mirrors the performance of the Standard & Poor's 100 stock index. It may be used as a temporary investment when reallocations are pending among investment classes or managers as well as a longer-term investment to control residual risk. Real estate equities are to constitute 10 percent of the funds eventually. There may be significant variance in the real estate equity percentage (currently about 6 percent) because of the long lead time needed to increase real estate equity investments or to liquidate those investments. Real estate equities offer stable long-term returns, diversification benefits, and a hedge against inflation.

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1. "Investment Management 1990", Greenwich Associates, Greenwich, Connecticut.

The current range for fixed amount investments runs from a low of 35 percent of the funds to a high of 45 percent and is the complement of the equity investment range. The percent currently held in fixed amount investments is about 52 percent. The higher income yields available from fixed investments have given greater stability and certainty to the portfolios' annual returns and have helped avoid unnecessary volatility in the annual contribution rates. In 1990, the actuarial method of valuing assets was extended from a three year to a five year average. The purpose of this also is to help reduce volatility in contribution rates in the face of the increasing equity allocations the funds have experienced. The current income yield of 9.28 percent on the fixed portion of the two major funds helps assure that the overall portfolio income yields will meet the actuarial assumption for those funds of 9 percent per annum. The use of fixed investments also reduces the overall return risks of the investment portfolios because their credit risks are substantially less than the residual risks of the equities. Within the fixed amount area, mortgage investments currently make up 6 percent of the funds. Although the mortgage holdings usually are the highest income yielding segment of the fixed investments, they are essentially unmarketable and thereby limit the ability to reallocate the portfolio holdings toward maximizing future returns. Mortgage purchases ceased in 1986. Direct holdings of small mortgages by the retirement funds will eventually be eliminated as existing holdings are paid off by borrowers. The remainder of the fixed amount area consists of fixed income securities. The securities include U.S. Treasury bonds, foreign government bonds, corporate bonds, and short-term money market issues. Bonds may range from 35 percent to 45 percent of total assets while the money market portion of fixed income securities may range from a low of 0 percent to a high of 10 percent of total assets. Bond investment management is aimed at maximizing income yields over interest rate cycles by lengthening maturities at high interest rate peaks and shortening them at low interest rate troughs. Because the corporate bonds and money market issues may entail significant credit risks, they are diversified to reduce the risk of default by any single issuer. The high marketability of the bonds facilitates limiting market risks by changing either the selections or the maturities. Alternatively, the market risks can be offset by hedging the holdings through the financial futures or options markets.

G. Public School (Endowment) Trust Fund

The Public School Trust Fund is an endowment trust fund, separately accounted and invested.

1. Nature

The principal of endowment trust funds, including all subsequent principal contributions and principal gains, is retained in perpetuity in the funds, but the earned income is used for the purposes for which the trusts were established. The total retention of principal is a firmly established requirement of fiduciary law aimed at assuring perpetual income benefits by preventing diminution of the corpus of the trust.

The perpetual nature of the Public School Trsut Fund and the dedication of its income to public education programs is essentially a requirement of federal law. The Alaska Constitution provides for exceptions to a Constitutional prohibition against dedicated funds (Section 7, Article IX) when required by the federal government or for dedications existing at the time of the Constitution's ratification. Both of these exceptions apply to the Public School Trust Fund to a degree.

Additional principal contributions to the Public School Trust Fund are made from State mineral revenues as compensation for land grant properties expropriated by the State. The total amount of compensation has not as yet been determined, but it will be a limited amount and at some future date additional contributions will cease. Income earned on the principal of the fund is set aside in income subaccounts and reinvested pending appropriation by the legislature and subsequent expenditure. In conformance with fiduciary principles, the distinction between principal and income is strictly maintained through accrual accounting with amortization of bond premiums and discounts on a constant yield-to-maturity basis in order to prevent unwarranted conversions of principal to income or income to principal.

It is possible that contributions have or will have exceeded required compensation. This would result in some amount of principal being returned to the State's general fund to comply with the Constitutional prohibition against dedicated funds. It is important that a determination of the required compensation and the disposition of any excess contributions be made because investment policy is based on the assumption that the entire principal will remain as principal of the fund. The determination should be made in the near future because it has become increasingly likely that excess contributions have been made as each year passes.

2. Policy

The most important characteristic of the fund for investment policy purposes is its perpetual nature and the restriction that its principal can never be expended. As in the case of the retirement funds, this expands the universe of investment possibilities and increases the potential for achieving higher returns on the investments over the long-run. The primary objective of investment policy should be to continuously increase the principal of the fund without severely reducing the current income flow available for the purposes of the trust. It is the typical objective of other endowment funds in the nation. The larger corpus over time leads to larger income flows, which in turn permit increased support of the activities for which the endowment was established. If the corpus were not to grow after the original contributions cease, the annual dollar income flows would be limited to the prevailing range of interest rates and would not be able to assist in financing any expansion of the activities or any increasing costs of the activities. The need for continuing growth of the principal of the fund in order to increase the available income is evident from the fact that the current income from the Public School Trust Fund constitutes only about 1 percent of the total annual appropriations for public school programs.

Although the Public School Trust Fund can invest as broadly as the retirement funds, until recent years it has been too small to effectively use the equity markets at reasonable transaction costs and the Commissioner of Revenue did not have the necessary discretionary authority. With the delegation of the authority from the Public School Fund Advisory board, required by former AS 37.14.170(a) and granted in September 1986, domestic common stock investments were initiated for the fund. In 1988, legislation was enacted making the Commissioner of Revenue the sole fiduciary for the fund and eliminating the need for delegation from the board.

Currently, the fund holds about 27 percent of its assets in common stocks and the remainder in straight corporate or federal government debt issues. The percentage held in equities will rise toward the retirement fund levels as opportunities develop in the equity markets. The corporate debt is diversified to reduce the exposure to credit risks and the debt maturities are structured to maximize interest income over interest rate cycles. Liquidity and market risks are not important elements of the policy, except to the extent necessary to preserve the ability to reallocate the investments within the funds. The fund's investment policy has been to maximize the realized return on the investments over a 10 to 20 year time span. Reduction of the perpetual life of the fund to a shorter time horizon is a practical necessity of the investment decision process.

Under the professional prudence standard of current statutes, the investment policy will shift to a predominant reliance upon equity issues. Educational endowment funds in the nation typically hold about two-thirds of their assets in equities. Equities currently are confined to domestic common stocks, through the consolidated investment pool which also includes the retirement funds' domestic common stock investments. When the fund grows larger, or when suitable pooled accounts are established by the Treasury Division, it may include real estate or international equities in its portfolio. This policy seeks to maximize the future income of the fund by increasing the principal of the trust. The greater potential exposure to residual risks is ameliorated through adequate diversification.

H. University of Alaska (Endowment) Trust Fund

This is a land grant endowment trust created by Acts of Congress dated January 21, 1929 and February 28, 1891 and amended by subsequent Acts dated September 19, 1966 and March 4, 1915 in which lands were donated to the University of Alaska (as beneficiary) for the support of the Agricultural College and the School of Mines. The trust fund holds revenues from the use of the granted lands, proceeds from the sale of those lands, and any monetary gifts, bequests, or endowments made to the University of Alaska for the same purposes as the land grant.

1. Nature

The trust is a typical university endowment fund. Unlike the Public School Trust Fund, the entire principal is fully protected from the Constitutional prohibition against dedicated funds and is to be preserved in perpetuity. The principal contributions to the trust are erratic in timing and amount, and they do not flow from legislated appropriations. Income is used by the University for the Agricultural College and the School of Mines. As with other endowment trusts, the distinction between principal and income is strictly maintained through appropriate accounting procedures.

2. Policy

The investment policy for this fund is the same as the policy for the Public School Trust Fund for the same reasons. Unfortunately, such a policy was not legal until June 9, 1988. At that time, former AS 14.40.400(b), restricting the fund's investments to interest-bearing securities, was repealed. In its stead, the prudent institutional investor rule governs the fund's investments under current law.

Within the constraints imposed by the former interest-bearing statutory limitation, the fund's investment policy had been to maximize the income flow from the investments over one or more interest rate cycles.

Under current investment policy, the fund will move in the direction of heavier reliance on equity investments—as will the Public School Trust Fund—in order to maximize the future income of the fund by increasing the principal of the trust. As a result of the former statutory limitation, the fund holds most of its assets in straight corporate or federal government debt issues, having built its equity investments to only 16 percent of the fund so far, through the consolidated domestic common stock pool.

I. Alaska Children's (Endowment) Trust Fund

This is an endowment trust fund created by State statute in 1988. The principal of the fund consists of legislative appropriations and gifts, bequests, and contributions from any person. Income is to be used for grants for the prevention of child abuse and neglect.

1. Nature

Unlike the other two endowment funds, the perpetual nature of some amount of principal is not assured in the case of the Alaska Children's Trust Fund. None of the exceptions to the Constitutional prohibition against dedicated funds applies in this case. Thus, it would be permissable for the legislature at any time to appropriate the entire fund, both principal and income, or at least the appropriated amounts and earnings on them, for expenditure for any purpose. To date, there have been no appropriations to, or amounts deposited in, the fund. If amounts are deposited, the distinction between principal and income would be strictly maintained through accounting procedures.

2. Policy

Investment policy for the fund would be the same as for the other endowments. This policy assumes the perpetuity of principal in order to fully reflect the intended nature of the fund under current State statutes. Legislative action violative of that perpetual nature would need to recognize that investment policy prior to such action would not necessarily have been conducive to the action to be taken. The probable small size of the fund would prevent diversification into real estate or international equities, unless suitable pooled accounts are established by the Treasury Division.

J. Outer Continental Shelf Lands Act Section 7 Accounts

1. Nature

These are escrow accounts established in the U.S. Department of Treasury to hold and invest revenues received from mineral leases issued on submerged lands which are the subject of a title dispute between the United States and Alaska. Income is retained in the accounts. All principal and income will be distributed to the prevailing party for each lease upon the final judicial determination in United States v. Alaska.

Under Section VI of an "Agreement between the United States of America and the State of Alaska pursuant to Section 7 of the Outer Continental Shelf Lands Act, and Alaska Statutes 38.05.137" and Sections V of an "Agreement between the United States of America and the State of Alaska pursuant to Section 7 of the Outer Continental Shelf Lands Act and Alaska Statutes 38.05.137 for the Leasing of Disputed Tracts in Federal Outer Continental Shelf Oil and Gas Lease Sale 71", and an "Agreement between the United States of America and the State of Alaska pursuant to Section 7 of the Outer Continental Shelf Lands Act and Alaska Statutes 38.05.137 for the Leasing of Disputed Blocks in Federal Outer Continental Shelf Oil and Gas Lease Sale 87" (Appendix J), the escrow accounts are invested by the U.S. Department of the Interior in special non-marketable U.S. Treasury securities at prevailing market rates. The Department of Interior must obtain the Alaska Deparatment of Revenue's prior approval of the investment of the accounts. The Department of Interior's investment procedures are governed by memorandums of understanding with the U.S. Department of the Treasury (Appendix K) and the Alaska Department of Revenue (Appendix L).

2. Policy

The necessity for paying the entire escrow balance to the prevailing parties upon final adjudication imposes high liquidity and low risk requirements on investments of the accounts. These characteristics are assured by the limitation of investments, pursuant to the Section 7 Agreements, to a certain type of U.S. Treasury securities and by restriction of maturities to a term no greater than the expected date of final adjudication. The limitation to U.S. Treasuries practically eliminates credit risks and the maturity policy should largely eliminate market risks. Provision under paragraph 5 of the Memorandum of Understanding between the U.S. Departments of Interior and Treasury for early redemption assures the availability of monies in the accounts in the event adjudication occures sooner than expected.

K. Alaska Education Trust Fund

This trust fund was created by State statute in 1990 as part of a law establishing a program of advance payment contracts for University of Alaska tuition. The fund consists of permanent fund dividends and cash contributed to it by individuals to purchase tuition in advance for named beneficiaries. Assets of the fund are to be expended to pay tuition on behalf of such beneficiaries, to make refunds if contracts are terminated (e.g., the beneficiary decides to not attend the University), and to pay administrative costs.

1. Nature

The trust is an expendable trust fund. All of the assets will ultimately be expended for tuition, refunds, or administrative costs. Thus, there is no need to maintain a distinction between principal and income. Income will be added to principal. The University expects to allocate income to individual beneficiary account balances. An alternative being considered by the University, rather than maintain such balances, is to fix all terms of the payment contract including payments, tuition credits, and refunds.

It is uncertain if participation in the program will be sufficient to maintain the fund on an actuarily sound basis or even to bear the administrative costs. The statute provides for termination of the program in this eventuality.

2. Policy

Until participation in the program has been proven adequate to provide actuarial soundness, investment policy for the Education Trust Fund will be constrained to preservation of principal. This is to assure that participants receive as full a refund as possible, net of administrative costs, in the event the program is terminated. This policy will limit investments to U.S. Treasury securities with maturities of one year or less and to other short-term commercial or bank paper issues with the lowest credit risks. This policy avoids market, credit, residual, and exchange rate risks to any significant degree and provides the necessary liquidity should the program be terminated.

With great enough participation, actuarial soundness may be achieved. This would permit an investment policy that has a medium to long-term time horizon and accepts significant amounts of risk. Actuarial analysis would be required to provide better definition of the expected timing and amounts of cash flows into and out of the fund. Through such analysis, the liquidity requirements, time horizon for investment, and degree of risk that can be tolerated would be determined.

The acceptable degree of risk will depend in part on whether the University wants to assume or share any of the investment risk (e.g., by fixing or guaranteeing a given number of credit hours in return for given payments) or whether risk is to be borne entirely by participants. This essentially is the question of whether the program is to be a defined-benefit or a defined-contribution plan.

If the participants are to bear the risk (defined-contribution plan), the investment policy is likely to tolerate much less risk than if the University bears the risk (defined-benefit plan). Individual participants' risk preferences would vary greatly depending on the number of years before a beneficiary is expected to enroll, participants' personal financial situations and plans, and other circumstances. A more conservative investment policy would recognize that the benefits received by a participant are dependent on investment results during their participation in the program and that the hardship for some participants pursuant to any investment losses could far outweigh the benefit from potential additional returns. Under a defined-contribution approach, participant characteristics survey information should be obtained in addition to actuarial analysis.

To the extent the risk is borne by the University, the investment policy would come to resemble the that of defined-benefit retirement plans' (section VI.F.). As a corporate entity with a perpetual life and significant State funding, the University can adopt a long-term investment horizon tolerant of a significant degree of risk. However, the University may desire to limit the degree of risk, depending on other financial policies and concerns of the University.

L. Alaska Student Loan Corporation Custodial Funds

These trust funds have been established for the Alaska Student Loan Corporation pursuant to a Custodial/Depository Agreement Between the Corporation, Seattle First National Bank, and the Department of Revenue (Exhibit B of the Trust Indenture, dated May 1, 1988, and supplemental indentures, between the Corporation and Seattle First National Bank which govern the issuance of student loan revenue bonds by the Corporation).

These funds contain (a) loan repayments collected by the Alaska Commission on Postsecondary Education pending transfer to Seattle First National Bank and (b) monies drawn down from Seattle First National Bank for financing student loans.

1. Nature

These funds are maintained at the Department of Revenue's custodian bank and on the State's accounting system to facilitate the collection and accounting of loan repayments received by the Corporation and the disbursement and accounting for monies used to provide student loans. The amounts received or to be disbursed are transfered on a monthly or daily basis respectively. Earnings of the funds are transfered monthly.

2. Policy

Because the amounts in the funds are scheduled for imminent transfer and will ultimately be used for payment of debt service or administrative costs or to provide student loans within a matter of days or months, preservation of principal and liquidity is paramount. Residual, credit, market, and exchange rate risks cannot be tolerated.

The very short time-horizon for investment results in a current policy of investment of the funds in overnight repurchase agreements under written agreements with non-bank prime dealers of U.S. Treasury securities. The repurchase agreements have almost no risk because they are fully collateralized by delivered U.S. Treasury securities.

Appendix M, the Alaska Student Loan Corporation Investment Policy Guidelines, contains the applicable retrictions on investment of these funds. Investment of the funds must conform to the most restrictive of the provisions contained in section II Unrestricted Investments (Corporation policy restrictions), Exhibit D (Trust Indenture, as amended by supplemental indentures, restrictions), or Exhibit E (Bond insurer (AMBAC) restrictions).

M. Budget Reserve Fund

The Budget Reserve Fund ("Fund") is a separately invested fund in the State treasury established by a Constitutional amendment approved by the voters at the November 6, 1990 general election. Based on current informal advice of the attorney general, the Fund is distinct from a budget reserve fund ("fund") established by AS 37.05.540, which is commingled with the General Investment Fund for investment purposes. The Constitutional amendment will become effective February 27, 1991.

The Fund consists of a portion of taxes and royalties received respectively after July 1, 1990 and after the Fund's effective date from adjudication or settlement of administrative proceedings or litigation involving mineral revenues. Income of the Fund becomes part of the Fund's principal.

1. Nature

The purpose of the Fund is to provide a source of money for appropriations for the State budget in years when the available sources total less than the appropriations for the prior year. Alternatively, appropriations may be made from the Fund at any time by a three-fourths vote of the legislature.

Given the high volatility of the State's main source of revenue -- petroleum revenues -- the Budget Reserve Fund has some probability of experiencing net drawdowns during any upcoming, or even current, budget year.

2. Policy

Since the principal of the Fund may be appropriated in any year for expenditure within a short time-frame -- normally no more than 18 months from appropriation -- principal must be preserved and liquidity must be relatively high. Residual, credit, market, and foreign exchange risks must be minimized.

Money in the Fund may predominately be money that has not been appropriated. Therefore, it would have a slightly longer investment horizon than the general investment fund. However, there may be a reluctance to make appropriations from the Fund for capital projects, at least those that are not urgent and under construction as yet. This would mean that appropriated amounts of the Fund, being used for operating expenditures, would have an investment horizon shorter than the general investment fund. However, draws might not begin until the next fiscal year if the Fund is not being drawn on for the current fiscal year. Draws might occur as one single draw for all appropriations for a fiscal year, via a transfer to the general fund.

Similar to the general investment fund, the investment policy for the fund will limit investments to fixed amount obligations. Holdings would consist mainly of short-maturity U.S. Treasury securities, which have low credit and market risks, to avoid impairing principal. Their high marketability assures the liquidity needed. Remaining holdings would consist of short-term commercial or bank paper issues which have very low credit risks. There would be no need normally for overnight repurchase agreements to make cash available on a daily basis, assuming transfers are made only once or periodically from the Fund to the general fund to provide for appropriations.

The maturity structure of appropriated amounts of the Fund normally would be more compressed than the general investment fund, reflecting the compressed period of expected Fund draws. If there remain unappropriated amounts in the Fund, the Fund's maturity structure may extend to maturities as long as the longest maturities in the general investment fund, currently about three years.

N. Supplemental Annuity Trust Fund

2 AAC 37.180(a), adopted by the Public Employees' Retirement System ("PERS") board on October 18, 1990 and effective November 17, 1990, establishes the Supplemental Annuity Trust Fund. The fund contains the assets of the individual employee annuity accounts of those public employees who are participants in the Supplement Benefits System ("SBS").

The PERS board is the fiduciary for SBS under AS 39.30.155(a)(5). On July 26, 1990 the board adopted the documents contained in Appendices N, O, and P. These documents established interim investment objectives and policy for the fund and delegated fiduciary responsibility for investment of the fund to the Department of Revenue. On November 16, 1990, the board by resolution (Appendix Q) placed a sunset date on this delegation one year from the date of the resolution. Under 2 AAC 37.180, the board retains the fiduciary responsibility to establish investment goals and objectives for the fund.

1. Nature

Following a referendum by state employees in 1979 to leave the federal social security system, the legislature created SBS under AS 39.30.150-180. The initial legislation in 1980 was designed specifically for state employees to place contributions into a supplemental annuity and benefit program. Later legislation allowed participation by political subdivisions.

SBS consists of two distinct parts: 1) a benefits plan; and 2) an annuity plan. Only the annuity plan is discussed in this document.

Labelled the "Supplemental Annuity Plan," this part of the plan is funded by a mandatory contribution of 6.13% of salary from each employee, matched dollar for dollar by the employer. The total annual contribution per employee is limited in turn, to 12.26% of the social security wage base for that year. All contributions are paid into individual employee annuity accounts with participant accounting maintained by the Department of Administration.

The statute does not discuss how the Supplemental Annuity Plan is to work, other than to direct that when employment is terminated, the employee is to receive any monies held in his or her account "under the terms of the State of Alaska Supplemental Annuity Plan."

The plan developed and implemented by the Department of Administration is qualified under Internal Revenue Code, Section 401(a), as a "defined-contribution plan." Under this qualification, taxes on contributions and investment earnings are deferred until the employees or their beneficiaries receive the monies held on account. When employees terminate, they may receive their account balances either in annuity payments or in a lump sum. Their benefit levels are determined by the size of their individual account balances which consist of the contributions and any earnings. The lump sum distributions are eligible for Individual Retirement Account (IRA) rollovers which further defers federal income tax liabilities.

The annuity plan document states specifically that it is the intent of the state to continue the plan indefinitely.

The fiduciary duty of loyalty pertains to the fund. State and federal laws and regulations obligate the state to pay any assets held in the individual accounts to employees when they terminate. It would be illegal for the state to withdraw money from the fund for any purpose other than paying the assets to participants. Also, the contributions and earnings are exempt from current federal income taxes only if the assets are held in trust "for the exclusive benefit" of employees.

2. Policy

The most important characteristics of the fund for investment policy purposes are the probable long duration of the plan, its defined-contribution nature, and the availability of the assets to employees only upon termination or retirement from employment. It may be of some importance in the future that federal legislation requiring participation in, or integration with, Social Security could affect continuation of the plan.

The most critical characteristic is the defined-contribution nature of the plan. The benefits that a participant or beneficiary will ultimately receive depend, among other things, on the investment performance during the participant's employment. Unlike a defined-benefit plan, there is no guarantee from the employers or any other party that a defined amount of benefits will be provided.

Any investment policy for the fund as a whole will be less than optimal for individual employees. Each individual employee would have a different time-horizon for investment -- that is, their expected number of years until termination or retirement. Their personal financial situation, innate preference or aversion for risk, and other matters would affect their investment preferences and the optimal policy from their standpoint.

For this reason, the PERS board is currently considering whether to convert SBS to a participant-directed investment plan. Participant-direction, with adequate information and education, could come closer to providing an optimal policy for individual employees.

If the board decides to continue sponsor (State) direction of investsments rather than adopt participant-direction, the other plan characteristics become significant. The long duration of the plan and the unavailability of the assets to a participant during employment results in a current net inflow to the fund. This is expected to continue for a long period of time. However, cash flow analyses by an actuary are needed to confirm this and provide detailed projections.

Under sponsor direction, investment policy would be somewhat similar to that of the other State retirement plans but would have a shorter investment horizon and be less tolerant of residual, credit, market or foreign exchange risks. The fund's policy would be to maximize the returns on the fund's total investments over an intermediate, probably a three to five year, time-horizon.

A more conservative policy compared to a defined-benefit plan would recognize that the potential hardship on individual employees withdrawing from the plan arising from temporary losses on investments might outweigh the potential benefit of higher long-term returns that could be had by assuming greater investment risk.

The asset allocation under sponsor direction, as well as the investment time-horizon, would reflect the more conservative investment posture. They would be determined by continuing assessments of participant characteristics and cash flow analyses incorporating the assessments. The assessments and cashflow analyses would also determine what liquidity, if any, is required for the fund.

Pending a decision on sponsor vs. participant direction, the interim investment policy contained in Appendix P governs investment of the fund. That policy is to protect the principal of the fund because, until April 12, 1990, the fund had been invested only in Guaranteed Investment Contracts ("GIC's"). Any change in investment policy which radically departs from the previous investment policy of assuring the value of principal and providing a fixed rate-of-return must be preceded by adequate notice and disclosure to participants.

The interim policy also requires a high degree of liquidity because initiation of a participant-directed or new sponsor-directed plan would result in significantly different allocations of assets.

Thus, the interim investment policy is limited to fixed-income investments with low credit risks which mature within one year.

VII. ADMINISTRATION OF INVESTMENT POLICY

As noted under the nature of investment policies (V, preceding), the strategic policies are comprehensive derived evaluations of all of the significant factors which may affect investment prices and yields over some future time period. Many of the factors involved have been specified in the foregoing presentation. The development and execution of dynamic investment policies aimed at achieving the investment objectives in a constantly changing marketplace requires continuing re-evaluations by the professional investment analysts and managers who are investment officers in the Treasury Division. The policies established by officers of the Treasury Division must be in accord with the general investment policies contained in this document and State statutes and applicable regulations. The general investment policies are the responsibility of the Commissioner of Revenue.

A. Development

Development of suitable investment policies for the various funds is primarily the ongoing responsibility of the professional staff of the Treasury Division. It requires review of large amounts of complex data concerning probable cash inflows and outflows from the funds, actuarial extensions, domestic and international economic developments and financial flows, industry and company financial studies, financial market pricings, and statutory, regulatory and tax law changes. The staff collects, organizes, analyzes, and evaluates the data in order to formulate investment policy.

B. Execution

The authority to invest the State Mortgage Insurance Fund was delegated to the National Bank of Alaska by a Custody and Investment Agreement dated July 30, 1976. The authority to invest all other funds has been delegated to the investment officers of the Treasury Division of the Department of Revenue by the written delegations contained in Appendices G and H. The exceptions to the general authorization to the Treasury Division are the delegations of authority by contract to independent investment management firms of specific amounts for investment in domestic and international common stocks. The current contracts were initiated in the 1983 and 1989 fiscal years for international and domestic stocks respectively through competitive procedures required for State professional service contracts.

1. Common Stock Equities

The amounts placed with the common stock management firms and the timing of those placements are determined by the applicable investment policies which look to both the probable long and short-term benefits to the funds. The amounts so placed with the management firms are invested at their discretion, except for an indexed domestic common stock portfolio, but within the limitations imposed by the contracts.

2. Real Estate Equities

The amounts invested in real estate equity and the timing of those investments are also determined by the applicable investment policies. The selection of particular real estate equity pools is made by the Real Estate Management Unit of the Treasury Division. The Unit is in the process of developing the capability to make separate account or sponsor-directed investments in real estate equities. A real estate investment advisory firm is being retained on contract for this.

3. Fixed Amount Obligations (Non-Equities)

All fixed amount investments are selected, executed, and managed by the Treasury Division in conformance with the appropriate investment policies and under established operating standards and procedures. Real estate mortgages are the responsibility of the Real Estate Management Unit and all securities are the responsibility of the Marketable Securities Management Unit. The only exceptions to these responsibilities are:

a. unexpected daily cash surpluses which may arise at the master custodian bank and which are invested by it for an overnight period under the terms of our contract with the bank;

b. privately-placed and unmarketable Alaska securities previously acquired under former State loan programs which are being held in the General Investment Fund until maturity.

C. Operating Standards and Policies

The Treasury Division has established a number of policies and standards relating to the selection and execution of investment purchases and sales.

1. Pricing

Transaction methods are aimed at achieving the highest sale prices and lowest purchase prices, or the prevailing rates for non-priced securities.

a. All U.S. Treasury and federal agency issue transactions are executed in the national markets using competitive auction procedures with large U.S. primary dealers.

b. Corporate debt issue transactions are also executed in the national markets using competitive auction procedures with large, well-established broker-dealers, except when the procedure is impractical because the secondary market debt issue being purchased is only available from one dealer.

c. Common stock transactions are executed in national stock exchange auction markets or over-the-counter markets by the external contracted managers. The trades may alternatively be executed at the discretion of the managers in the block trade market when size of the transaction, greater speed of execution, better prices, or lower commission costs are relevant factors.

d. Other investments such as repurchase agreements, commercial paper, marketable bank paper, futures, foreign exchange, and security lending arrangements are executed at prevalent national (or international) rates or prices through either limited auction or negotiation procedures.

e. International investments utilize a combination of the aforementioned procedures depending upon the structure of the foreign market, the size of the transaction, and the limitation on trading because of time zone differences.

2. Deliveries

In order to prevent the risk in settling trades of releasing investments or cash without receiving the offsetting cash or investments, all investment transactions are limited to delivery against simultaneous payment. No payments are made nor investments delivered against "due bills" (I.O.U.'s).

3. Credit Standards

The potential credit risks on all debt securities are determined by the Marketable Securities Management Unit through financial analysis of the issuer. The standards of selection for acceptable credits are primarily professional judgments concerning the probable ability of the issuer to avoid defaulting on the obligation. Regular financial reports are required of all issuers in whose obligations the funds invest. The credit standards are formulated, monitored, and revised as necessary by the analysts in the Marketable Securities Management Unit.

4. Underlying Agreements

Certain transactions are limited to and by the terms of underlying and binding agreements entered into between the Treasury Division and other parties.

a. Repurchase Agreements

Repurchase Agreements (Repo's) are only transacted with non-bank primary dealers who have signed our repurchase agreement, which protects each party's right to the collateral in the event the other party defaults or goes bankrupt. The agreement limits acceptable collateral to U.S. Treasury obligations and requires a 102 percent ratio of the collateral's market value to the loan amount. The agreements are revised as necessary by the Marketable Securities Management Unit.

b. Lending Agreements

Lending agreements similar in protective provisions to the repurchase agreements but covering the lending of owned debt securities against acceptable collateral and at the prevailing percentage rate and margin may be entered into with broker-dealers. The agreements are developed and revised by the Marketable Securities Management Unit.

c. Master Demand Note Agreements

Lending agreements with major, prime-rated, non-bank, commercial paper issuers cover day-to-day loans of variable amounts of money to the corporate issuer and are evidenced by annotation to master notes held by our custodian bank. Rates on the notes may vary daily in response to market rates. The agreements are developed and revised by the Marketable Securities Management Unit.

d. Mortgages

Mortgage loan sales and servicing agreements are required of all sellers from whom the Treasury Division has purchased mortgages. The agreements are revised as necessary by the Real Estate Management Unit.

e. Real Estate Equities

All investments in real estate equity require underlying negotiated agreements between the Treasury Division and the seller or manager of the properties. These agreements are developed by the Real Estate Management Unit and, in the future, the real estate investment advisor, and reviewed by the Attorney General.

5. Consolidated Investment Pools

The Treasury Division may establish pools for investment in particular types of assets by the various funds under management by the Division. The purpose of consolidated investment pools is to simplify administration, reduce costs, and provide a vehicle for diversified investment in these types of assets by smaller funds. Without such pools, small funds would be unable to invest in certain types of investments and would not be adequately diversified.

Currently, the Treasury Division maintains a domestic common stock consolidated investment pool. All domestic common stock holdings of the pension and endowment trust funds are represented by shares in this pool.

Each share is entitled to an equal portion of the pool's principal, realized gains or losses, and income. The pool shares, and therefore each fund's total holdings, are valued at the market value of the pool's principal at the end of each month. Contributions to, or withdrawals from, the pool (i.e., purchases or sales of pool shares) by a fund may be made at the end of each month at the pool shares' market value. Realized gains or losses are accounted for as a change in the book value of each fund's shares but are not distributed in cash. Income received is distributed in cash each month, first, to accrued income allocated to any withdrawal, and second, in proportion to each fund's remaining accrued income.

VIII. ACCOUNTABILITY

A. Audits of Accounts

An annual financial audit is conducted each fiscal year by an independent Certified Public Accounting firm for the General Investment Fund, the retirement trust funds, and the endowment trust funds. The scope of the audits include a review of internal controls and of securities custody and safekeeping practices and procedures.

B. Safekeeping of Assets

Marketable securities are held by custodial banks under contracts with the Treasury Division. A small amount of securities or cash may be held from time to time at a futures or options broker under the requirements and supervision of the exchange on which the futures are traded. Cash held at clearing or custodial banks is kept at minimal operating levels. Non-marketable securities, mortgages, and unmarketable privately-placed loans are directly held by the Treasury Division.

C. Reporting

1. Investment Status and Activity

The Comptroller of the Treasury Division prepares separate monthly financial reports for the General Investment Fund, the retirement trust funds, and the endowment trust funds. The reports consist of asset statements, income statements on the accrual basis of accounting, and sources and uses statements.

2. Performance Reviews

Under contract with the Treasury Division independent organizations perform comparative investment performance reviews of the Public Employees' Retirement Trust Fund, the Teachers' Retirement Trust Fund, the University of Alaska Trust Fund, and the Public School Trust Fund. The reviews cover the total fund, including the portions of each fund which are managed by outside firms under contracts with the Treasury Division and the portions of each fund which are managed by the Treasury Division. The reviews compare the investment performance against market indices and funds of a similar nature or against other managers.

APPENDIX A

State of Alaska

Memorandum of Understanding ("MOU")
between
Department of Revenue
and
Department of Administration

WHEREAS, Attorney General's opinion file no. 366-103-85 (Attachment A) authorizes the crediting of investment income to trust funds or accounts managed by the State;

WHEREAS, Attorney General's opinion file no. 366-171-85 (Attachment B) authorizes the crediting of investment income to State funds containing a statutory dedication of investment income;

WHEREAS, these trust funds or accounts and funds with dedicated investment income, listed on Attachment C ("Funds"), are commingled for investment purposes with the State general fund and other funds in the General Investment Fund; and

WHEREAS, the Department of Revenue and the Department of Administration desire to formalize their agreement as to

a. their respective responsibilities for crediting investment income of the General Investment Fund to these Funds; and

b. the valuation of assets of these Funds in the event of their transfer from the General Investment Fund;

NOW THEREFORE, BE IT RESOLVED BY the Department of Revenue and the Department of Administration that:

1. The Department of Revenue, Treasury Division will determine monthly the figures for:

    (a) the book value at the end of the month of the marketable securities portfolio of the General Investment Fund; and

    (b) the income during the month on the marketable securities portfolio of the General Investment Fund, including realized gains or losses, accrued income, amortization of premiums, and accretion of discounts.

2. The Department of Revenue, Treasury Division will calculate the amount of monthly investment income to be credited to each Fund by:

   (a) calculating the pro rata share of each Fund by dividing

      (i) the preliminary balance of the Fund at the end of the month by

      (ii) the General Investment Fund balance for that month as reported under section 1.(a) of this agreement less the income during the month on the General Investment Fund as reported under section 1.(b) of this agreement;

   The preliminary balance shall be the cash balance as of the end of the month as reported on the State's automated accounting system (AKSAS) online management report #24080 on the eighth business day following the end of the month; this cash balance excludes the credit calculated in this agreement;

   (b) calculating the credit to each Fund for the month by multiplying each Fund's pro rata share as calculated in section 2.(a) of this agreement by the General Investment Fund marketable securlties portfolio income as reported under section 1.(b) of this agreement.

3. For each Fund listed on Attachment D, the Department of Revenue, Treasury Division shall credit the Fund, and debit the general fund, by the amount of each Fund's share of General Investment Fund income as calculated in section 2.(b) of this agreement by:

   (a) establishing, on AKSAS, agency journal entry (AJE) easytran shells for each Fund;

   (b) each month, posting on AKSAS the amount calculated in section 2.(b) of this agreement and the month for which the credit was calculated by entering the amount and month on the easytran shell for each Fund using RD code 04271; and

   (c) certifying the monthly credits entered into AKSAS in section 3.(b) of this agreement by entering RD code 04271 as the source code for the transaction in section 3.(b) of this agreement.

4. For those Funds not listed on Attachment D, debiting the general fund and crediting each Fund shall be the responsibility of the Managing State Agency listed on Attachment C. Each month the Department of Revenue, Treasury Division will provide to each Managing State Agency listed on Attachment C a report, the "General Investment Fund Investment Income Credits" report (Attachment E), showing the calculation of credits under section 2 of this agreement, including the preliminary balances for each Fund. A report for each Fund will be provided to the Division of Finance.

5. The Department of Administration, Division of Finance shall

   (a) verify the preliminary balance for each Fund;

   (b) approve, using RD code 00191, the AJE's entered by Treasury under RD code 04271; and

   (c) generate Financial Transactions Processed (FTP) registers using RD code 04271 showing the credits to each Fund and provide a hard copy of the register to the Treasury Division and each Managing State Agency shown on Attachment C.

6. In the event any Fund is segregated for investment purposes from the General Investment Fund, the amount of cash transferred shall be the market value of the assets. The market value of the assets shall be determined by multiplying the market value of the marketable securities portfolio of the General Investment Fund by the ratio of the Fund cash balance or portion of Fund cash balance being transferred, to the General Investment Fund balance as reported under section 1.(a) of this agreement. Balances used in this calculation shall be as of the end of the day the transfer is made and shall include all credits to the Funds accruing under this agreement through the end of the month prior to which the transfer is made.

7. The funds listed on Attachment C are subject to this agreement. Other funds may become subject to this agreement upon the approval of the Attorney General. Funds which are clearly trust funds or clearly contain a statutory dedication of investment income will become subject to this agreement automatically.

This agreement takes effect July 1, 1990 and supersedes the Memorandum of Understanding between the Department of Revenue and Department of Administration that became effective July 1, 1988.

Department of Administration Frank S. Baxter, Commissioner	Department of Revenue Hugh Malone, Commissioner
/s/ Frank S. Baxter (Signature)	/s/ Hugh Malone (Signature)
November 29, 1990 (Date)	November 29, 1990 (Date)

Attachment C

Funds to be Credited With General Investment Fund Investment Income
Revised as of July 1, 1990

Fund	Statutory Citation	Managing State Agency	Agency RD Code 3/
Student Loan Fund	AS 14.42.210	Alaska Student Loan Corp.	05920
Alaska Clean Water Fund (exclusive of non-matching funds)(effective July 1, 1987)	AS 46.03.032	Environmental Conservation	18121
Fish and Game Fund	AS 16.05.110	Fish & Game	11962
Power Development Revolving Loan Fund	AS 44.33.600	Commerce & Economic Development	08006
Mental Health Income Account	Ch. 132 SLA 1986	Natural Resources	10067
Mental Health Corpus Account	Ch. 132 SLA 1986	Natural Resources	10067
Mental Health Trust Income Account	AS 37.14.011(a)	Natural Resources	10067
Permanent Fund Dividend Trust Accounts	AS 43.23.105(e)	Health & Social Services	06702
Miscellaneous Trust Account		Law (Administrative Services)	03300
Unlicensed Vessel Personnel Annuity Retirement Fund		Administration (Retirement & Benefits)	02248
Oil Overcharge Account		Community & Regional Affairs	21220
Railbelt Energy Fund 1/	AS 37.05.153	Revenue (Fiscal)	04065
Budget Reserve Fund 1/	AS 37.05.156(d)	Revenue (Fiscal)	04065
Public Access Fund-Appropriations Account 2/ (effective May 26, 1988)	AS 38.05.874(d)	Natural Resources	10067
Public Access Fund-Contributions Account (effective May 26, 1988)	AS 38.05.874(a)	Natural Resources	10067
1989 Permanent Fund Dividend Trust Account for Felons (effective October 1, 1989)	HB 245	Revenue (PFD Division)	04182
1990 Permanent Fund Dividend Trust Account for Felons (effective October 1, 1990)	HB 245	Revenue (PFD Division)	04182
Office of Public Advocacy Trust Fund	AS 13.26.370	Administration (Finance Division)	02145
Alaska Marine Highway System Vessel Replacement Fund 1/ (effective September 19, 1990)	AS 37.05.550	Transportation and Public Facilities	24000
Self-Sufficiency Trust Fund and Accounts	AS 47.80.200	Health & Social Services	60000

1/ Income is only to be calculated (section 3 of the agreement is to be omitted) unless the legislature appropriates the income to the fund, in which case it will be credited. As a result, interest will be compounded annually at best.

2/ Income is to be credited to the General Fund Income From the Public Access Fund Appropriations Account to be established as an account in the General Fund, from which the legislature may appropriate to the Public Access Fund Appropriations Account. Income from the General Fund Income From the Public Access Fund Appropriations Account accrues to the General Fund and is not subject to this MOU. The result is no monthly compounding of income from the Public Access Fund Appropriations Account.

3/ For purposes of Financial Transactions Processed (FTP) register distribution.

Attachment D

FUNDS TO BE CREDITED BY TREASURY DIVISION
ENTRY OF AJE ON AKSAS
(Section 3 of MOU)

DEBIT GENERAL INVESTMENT FUND

The debit entry for all transactions should be General Fund collocation code 98811100 and unrestricted revenue account code 65760.

CREDIT ATTACHMENT A FUNDS

FUND #	FUND	COLLOCATION	REVENUE ACCOUNT
82000	Student Loan Fund	98882000	65760
21640	Alaska Clean Water Fund	98821640	65760
12124	Fish and Game Fund	98812124	65760
21626	Power Development Revolving Loan Fund	98821626	65760
11115	Budget Reserve Fund	98811115	65760
32010	Unlicensed Vessel Personnel Annuity	64000000	23035
32010	1989 Permanent Fund Dividend Trust Account for Felons	64000000	23502
32010	1990 Permanent Fund Dividend Trust Account for Felons	64000000	23503
	Self-Sufficiency Trust Fund and Accounts 1/		
11100	GENERAL FUND SUBACCOUNTS		
34041	Mental Health Corpus Account	98834041	65760
34042	Mental Health Trust Income Account	98834042	65760
34043	Mental Health Income Account	98834043	65760
11132	Public Access Fund - Contributions Account	98811132	65760
11131	Public Access Fund - Appropriations Account	51011131	65760
11123	Railbelt Energy Fund	98811123	65760
	Alaska Marine Highway System Vessel Replacement Fund 1/		

1/ The Finance Division is awaiting funding prior to the establishment of the accounting structure

Attachment E

GENERAL INVESTMENT FUND INVESTMENT INCOME CREDITS
TO THE ____________ FUND
FUND #

Date	(a) General Investment Fund Marketable Securities	(b) Amortized Income Marketable Securities	(c) Preliminary Fund Balance	(d) Fund Pro Rata Share	(e) Income Credits	(f) Fund Balance End of Month
07/31/87	$	$	$	%	$	$
08/31/87						
09/30/87						
10/31/87						
11/31/87						
12/31/87						
01/31/88						
02/29/88						
03/31/88						
04/30/88						
05/31/88						
06/30/88						
Average						
Total						

1. Column (d) = Column (c)/(Column (a) - Column (b))
2. Column (e) = (Column (d))(Column (b))
3. Column (f) = Column (c) + Column (e)

APPENDIX B

AHFC Pledged Fund
Permissible Investment Instruments
(Section 508 of AHFC General Housing Mortgage Bond Resolution)

Investments limited to:

1. direct obligations of or obligations guaranteed by the United States of America;

2. deposits in interest-bearing time deposits or certificates of deposit secured by obligations of, or unconditionally guaranteed by, the United States of America or by obligations described in 1 or 3 hereof;

3. bonds, debentures, notes, or participation certificates issued by any of the following Federal agencies: Bank for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Banks System, Federal Land Banks, Export-Import Bank, Tennessee Valley Authority, Government National Mortgage Association, and Farmers Home Administration;

4. Public Housing Bonds issued by Public Housing Authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contribution contract or contracts with the United States of America, or Temporary Notes issued by Public Housing Authorities or Preliminary Loan Notes issued by Local Public Agencies, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

5. direct and general obligations of or obligations guaranteed by the State to the payment of the principal of and interest on which the full faith and credit of the State is pledged;

6. deposits in interest-bearing time deposit or certificates of deposit secured by obligations of or guaranteed by the State;

7. bankers acceptances drawn on and accepted by banks with a combined capital and surplus of at least $200,000,000;

8. corporate obligations of prime or equivalent quality as rated by a nationally recognized rating agency; and

9. bank certificates of deposit which are secured as to payment of principal and interest in accordance with Alaska law.

APPENDIX C

International Airports Funds
Permissible Investment Instruments
(State Bond Committee Resolution No. 68-4)

Instruments for the Construction Fund, the Revenue Fund, and the Repair and Replacement Reserve Account are limited to:

1. time or demand deposits in any bank or trust company authorized to accept deposits of public funds and secured at all times by such obligations as are required by law and to the fullest extent required by law;

2. direct obligations of the United States of America, obligations the principal of and interest on which are guaranteed by the United States of America;

3. obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended;

4. bonds or debentures of the Federal Home Loan Bank Board or of any federal home loan bank established under the Federal Home Loan Bank Act;

5. obligations of the Federal National Mortgage Association established under the National Housing Act, as amended; and

6. debentures and consolidated debentures issued by the Central Bank for Cooperatives or banks for cooperatives established under the Farm Credit Act of 1933, as amended.

APPENDIX D

State Mortgage Insurance Fund
Permissible Investment Instruments
(AS 18.56.095(b))

Current statutes do not limit investment instruments for this fund. Former statutes did limit instruments to those formerly specified in statute for the General Investment Fund. Although the permissible instruments included all of those specified for the General Investment Fund, the Mortgage Insurance Agreement dated December 6, 1975 between the State and AHFC limited investments to:

1. direct obligations of, or obligations insured or guaranteed by, the United States of America or agencies or instrumentalities of the United States;

2. bankers acceptances drawn on and accepted by banks and certificates of deposit of banks, with a combined capital and surplus aggregating at least $200,000,000; or

3. interest bearing time deposits or certificates of deposit of a bank or trust company continuously secured and collateralized by obligations of the type described in paragraph 1 or by obligations of the State having a market value at least equal at all times to the amount of such deposit or certificate, to the extent such deposit or certificate is not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or any successors thereto.

APPENDIX E

State of Alaska
Department of Revenue
Treasury Division

Mandatory Agreement For All Treasury Personnel

The Treasury Division of the Department of Revenue is responsible for managing large amounts of investments and cash for either the State of Alaska or the beneficiaries of fiduciary trusts. The responsibility cannot be faithfully discharged if the integrity of the function is impaired through financial conflicts of interests or unnecessary dissemination of privileged information by the personnel of the Treasury Division. I voluntarily agree to adhere to the following behavioral standards as a condition of employment and with the understanding that any violations may constitute grounds both for dismissal and for any other penalties provided by law:

1. I will not engage in, nor recommend or suggest that others engage in, personal investment transactions which have an adverse effect upon the Treasury Division's investment transactions.

2. I may in the course of my employment obtain privileged information concerning recent, contemporaneous or impending Treasury Division investment transactions, or investment advice or counsel furnished to the Treasury Division, or tax payments, but I will not provide that information to others who do not have a functional need or a legal right to know it, nor will I utilize the information as a basis for making personal investments or for recommending or suggesting to other parties that they make investments whose returns are partly or wholly dependent upon similar or contrary investment transactions undertaken or to be undertaken by the Treasury Division. I understand that this restriction does not apply if the information has been disseminated to the public.

3. I will not accept from parties doing business with the Treasury Division any personal gifts or valuable considerations as a reward or inducement for any Treasury business done with them. The occasional unsolicited distribution by financial institutions of token gifts to their substantial customers, and meals or refreshments furnished while business is being transacted, may be accepted, subject to the reporting requirements of AS 39.52.130(b) if the gift or consideration exceeds $50 and the recipient may take official action that affects the giver.

Acknowledged by: ______________________
Signature

____
Date

APPENDIX F

THE CODE OF ETHICS AND THE STANDARDS OF PROFESSIONAL CONDUCT

Adopted by The Financial Analysts Federation and The Institute of Chartered Financial Analysts. Revised June 17, 1986.

THE FAF RESOLUTION

WHEREAS, the profession of financial analysis and investment management has evolved because of the increasing public need for competent, objective, and trustworthy advice with regard to investments and financial management; and

WHEREAS, those engaged in this profession have joined together in an organization known as The Financial Analysts Federation; and

WHEREAS, despite a wide diversity of interest among analysts employed by brokers and securities dealers, investment advisers, banks, insurance companies, investment companies and trusts, pension trusts, and other institutional investors and investment entities, there are nevertheless certain fundamental standards of conduct which should be common to all engaged in the profession of financial analysis and investment management and accepted and maintained by them; and

WHEREAS, the members of The Financial Analysts Federation adopted a Code of Ethics and Standards on May 20, 1962, which have been amended from time to time; and

WHEREAS, The Financial Analysts Federation provides for individual membership in it, requires that all of its member societies adopt its Code of Ethics and Standards of Professional Conduct, and requires that all individual members comply with them;

THE ICFA RESOLUTION

WHEREAS, the profession of financial analysis and investment management has evolved because of the increasing public need for competent, objective, and trustworthy advice with regard to investments and financial management; and

WHEREAS, The Institute of Chartered Financial Analysts was organized to establish educational standards in the field of financial analysis, to conduct examinations of financial analysts and to award the professional designation of Chartered Financial Analyst, among other objectives; and

WHEREAS, despite a wide diversity of interest among analysts employed by brokers and security dealers, investment advisers, banks, insurance companies, investment companies and trusts, pension trusts, and other institutional investors and investment entities, there are nevertheless certain fundamental standards of conduct which should be common to all engaged in the profession of financial analysis and investment management and accepted and maintained by them; and

WHEREAS, The Institute of Chartered Financial Analysts adopted a Code of Ethics and Standards on March 14, 1964, which have been amended from time to time;

NOW, THEREFORE, The Institute of Chartered Financial Analysts hereby adopts the following Code of Ethics and Standards of Professional Conduct:

NOW, THEREFORE, the following are the Code of Ethics and Standards of Professional Conduct of The Financial Analysts Federation:

All individual members of The Financial Analysts Federation including fellows, associates, and affiliates are obligated to conduct their professional activities in accordance with the following Code of Ethics and Standards of Professional Conduct. Disciplinary sanctions may be imposed for violations of the Code or Standards.

All members of The Institute of Chartered Financial Analysts and holders of and candidates for the professional designation Chartered Financial Analyst are obligated to conduct their professional activities in accordance with the following Code of Ethics and Standards of Professional Conduct. Disciplinary sanctions may be imposed for violations of the Code or Standards.

THE CODE OF ETHICS

A financial analyst should conduct himself* with integrity and dignity and act in an ethical manner in his dealings with the public, clients, customers, employers, employees, and fellow analysts.

A financial analyst should conduct himself and should encourage others to practice financial analysis in a professional and ethical manner that will reflect credit on himself and his profession.

A financial analyst should act with competence and should strive to maintain and improve his competence and that of others in the profession.

A financial analyst should use proper care and exercise independent professional judgment.

THE STANDARDS OF PROFESSIONAL CONDUCT

I. Obligation to Inform Employer of Code and Standards.

The financial analyst shall inform his employer, through his direct supervisor, that the analyst is obligated to comply with the Code of Ethics and Standards of Professional Conduct, and is subject to disciplinary sanctions for violations thereof. He shall deliver a copy of the Code and Standards to his employer if the employer does not have a copy.

II. Compliance with Governing Laws and Regulations and the Code and Standards.

A. Required Knowledge and Compliance.

The financial analyst shall maintain knowledge of and shall comply with all applicable laws, rules, and regulations of any government,

*Masculine pronouns, used throughout the Code and Standards, as well as throughout the Handbook, to simplify sentence structure, shall apply to all persons, regardless of sex.

governmental agency, and regulatory organization governing his professional, financial, or business activities, as well as with these Standards of Professional Conduct and the accompanying Code of Ethics.

B. Prohibition Against Assisting Legal and Ethical Violations.

The financial analyst shall not knowingly participate in, or assist, any acts in violation of any applicable law, rule, or regulation of any government, governmental agency, or regulatory organization governing his professional, financial, or business activities, nor any act which would violate any provision of these Standards of Professional Conduct or the accompanying Code of Ethics.

C. Prohibition Against Use of Material Nonpublic Information.

The financial analyst shall comply with all laws and regulations relating to the use of material nonpublic information. (1) If the analyst acquires such information as a result of a special or confidential relationship with the issuer, he shall not communicate the information (other than within the relationship), or take investment action on the basis of such information, if it violates that relationship. (2) If the analyst is not in a special or confidential relationship with the issuer, he shall not communicate or act on material nonpublic information if he knows or should have known that such information was disclosed to him in breach of a duty. If such a breach exists, the analyst shall make reasonable efforts to achieve public dissemination of such information.

D. Responsibilities of Supervisors.

A financial analyst with supervisory responsibility shall exercise reasonable supervision over those subordinate employees subject to his control, to prevent any violation by such persons of applicable statutes, regulations, or provisions of the Code of Ethics or Standards of Professional Conduct. In so doing the financial analyst is entitled to rely upon reasonable procedures established by his employer.

III. Research Reports, Investment Recommendations and Actions.

A. Reasonable Basis and Representations.

1. The financial analyst shall exercise diligence and thoroughness in making an investment recommendation to others or in taking an investment action for others.

2. The financial analyst shall have a reasonable and adequate basis for such recommendations and actions, supported by appropriate research and investigation.

3. The financial analyst shall make reasonable and diligent efforts to avoid any material misrepresentation in any research report or investment recommendation.

4. The financial analyst shall maintain appropriate records to support the reasonableness of such recommendations.

B. Research Reports.

1. The financial analyst shall use reasonable judgment as to the inclusion of relevant factors in research reports.

2. The financial analyst shall distinguish between facts and opinion in research reports.

3. The financial analyst shall indicate the basic characteristics of the investment involved when preparing for general public distribution a research report that is not directly related to a specific portfolio or client.

C. Portfolio Investment Recommendations and Actions.

The financial analyst shall, when making an investment recommendation or taking an investment action for a specific portfolio or client, consider its appropriateness and suitability for such portfolio or client. In considering such matters, the financial analyst shall take into account (1) the needs and circumstances of the client, (2) the basic characteristics of the investment involved, and (3) the basic characteristics of the total portfolio. The financial analyst shall use reasonable judgment to determine the applicable relevant factors. The financial analyst shall distinguish between facts and opinion in presentation of investment recommendations.

D. Prohibition Against Plagiarism.

The financial analyst shall not, when presenting material to his employer, associates, customers, clients, or the general public, copy or use in substantially the same form, material prepared by other persons without acknowledging its use and identifying the name of the author or publisher of such material. The analyst may, however, use without acknowledgment factual information published by recognized financial and statistical reporting services or similar sources.

E. Prohibition Against Misrepresentation of Services.

The financial analyst shall not make any statements, orally or in writing, which materially misrepresent (1) the services that the analyst or his firm is capable of performing for the client, (2) the qualifications of such analyst or his firm, (3) the investment performance that the analyst or his firm has accomplished or can reasonably be expected to achieve for the client, or (4) the expected performance of any investment. The financial analyst shall not make any unsupported oral or written statement that assures or guarantees any investment or its return either explicitly or implicitly.

F. Fair Dealing With Customers and Clients.

The financial analyst shall act in a manner consistent with his obligation to deal fairly with all customers and clients when (1) disseminating investment recommendations, (2) disseminating material changes in prior investment advice, and (3) taking investment action.

IV. Priority of Transactions.

The financial analyst shall conduct himself in such a manner that transactions for his customers, clients, and employer have priority over personal transactions, and so that his personal transactions do not operate adversely to their interests. If a financial analyst decides to make a recommendation about the purchase or sale of a security or other investment, he shall give his customers, clients, and employer adequate opportunity to act on this recommendation before acting on his own behalf.

V. Disclosure of Conflicts.

The financial analyst, when making investment recommendations, or taking investment actions, shall disclose to his customers and clients any material conflict of interest relating to him and any material beneficial ownership of the securities or other investments involved, which could reasonably be expected to impair his ability to render unbiased and objective advice.

The financial analyst shall disclose to his employer all matters which could reasonably be expected to interfere with his duty to the employer, or with his ability to render unbiased and objective advice.

The financial analyst shall also comply with all requirements as to disclosure of conflicts of interest imposed by law and by rules and regulations of organizations governing his activities and shall comply with any prohibitions on his activities if a conflict of interest exists.

VI. Compensation.

A. Disclosure of Additional Compensation Arrangements.

The financial analyst shall inform his customers, clients, and employer of compensation arrangements in connection with his services to them which are in addition to compensation from them for such services.

B. Disclosure of Referral Fees.

The financial analyst shall make appropriate disclosure to a prospective client or customer of any consideration paid to others for recommending his services to that prospective client or customer.

C. Duty to Employer.

The financial analyst shall not undertake independent practice for compensation in competition with his employer unless he has received written consent from both his employer and the person for whom he undertakes independent employment.

VII. Relationships with Others.

A. Preservation of Confidentiality.

A financial analyst shall preserve the confidentiality of information communicated by the client concerning matters within the scope of the confidential relationship, unless the financial analyst receives information concerning illegal activities on the part of the client.

B. Maintenance of Independence and Objectivity.

The financial analyst, in relationships and contacts with an issuer of securities, whether individually or as a member of a group, shall use particular care and good judgment to achieve and maintain independence and objectivity.

C. Fiduciary Duties.

The financial analyst, in relationships with clients, shall use particular care in determining applicable fiduciary duty and shall comply with such duty as to those persons and interests to whom it is owed.

VIII. Use of Professional Designation.

FAF

The qualified financial analyst may use the professional designation "Fellow of The Financial Analysts Federation," and is encouraged to do so, but only in a dignified and judicious manner. The use of the designation may be accompanied by an accurate explanation (1) of the requirements that have been met to obtain the designation and (2) of The Financial Analysts Federation.

ICFA

The Chartered Financial Analyst may use the professional designation Chartered Financial Analyst, or the abbreviation CFA, and is encouraged to do so, but only in a dignified and judicious manner. The use of the designation may be accompanied by an accurate explanation (1) of the requirements that have been met to obtain the designation and (2) of The Institute of Chartered Financial Analysts.

IX. Professional Misconduct.

The financial analyst shall not (1) commit a criminal act that upon conviction materially reflects adversely on his honesty, trustworthiness, or fitness as a financial analyst in other respects or (2) engage in conduct involving dishonesty, fraud, deceit, or misrepresentation.

APPENDIX G

State of Alaska
Department of Revenue
Delegation of Investment Authority

I, Hugh Malone, Commissioner of Revenue for the State of Alaska, do hereby delegate the authority vested in me by the Alaska Statutes to invest and reinvest the assets of State funds to the state officers whose signatures appear below.

Steven R. Stein State Investment Officer	/s/ Steven R. Stein
Michael S. Cheung State Investment Officer	/s/ Michael S. Cheung
Steven C. Verschoor State Investment Officer	/s/ Steven C. Verschoor

The officers designated above are authorized to open an account or accounts with one or more firms or financial institutions for the purpose of engaging in transactions to purchase, sell, assign, transfer or otherwise enter into agreements, contracts, commitments or similar arrangements, for cash or forward settlement or future or options contracts relating to the investment of assets.

The designated officers are authorized to commit, bind, and obligate the State of Alaska for investment transactions, to execute those transactions, and in connection therewith to deliver securities and monies, to sign and deliver agreements, contracts, commitments and confirmations and other necessary, desirable or customary documents. Other parties to the transactions may rely and act upon any verbal or written orders and instructions from the designated officers in connection with such accounts and transactions.

This delegation is effective March 5, 1990 and shall continue in force until amended or revoked in writing by the Commissioner of Revenue.

/s/ Hugh Malone
Hugh Malone
Commissioner of Revenue
February 27, 1990

APPENDIX H

State of Alaska
Department of Revenue
Delegation of Investment Authority

I, Hugh Malone, Commissioner of Revenue for the State of Alaska, do hereby delegate the authority vested in me by the Alaska Statutes to invest and reinvest the assets of the State of Alaska General and Segregated Funds, the Public Employees Retirement System and Trust Fund, and the Teachers Retirement System and Trust Fund to the state officers whose signatures appear below.

Martin W. Lentz
State Investment Officer — /s/ Martin W. Lentz

OR

Karen Ann L. Carlson
Loan Examiner — /s/ Karen Ann L. Carlson

The officers designated above are authorized to open an account or accounts with one or more firms or banks for the purpose of engaging in real estate transactions to purchase, sell, convey, assign, transfer or otherwise enter into agreements, contracts, commitments or similar arrangements, for cash or forward settlement or future contracts relating to the investment of the assets of the above funds. The officers designated above are also authorized to convey any and all real property acquired by the State of Alaska as a result of any of the above described transactions.

For all accounts authorized above, the designated officers are authorized to commit, bind and obligate the State of Alaska for conveyances of real property and loan and mortgage transactions, to execute such transactions, and in connection therewith to deliver securities and monies, to sign and deliver agreements, contracts, deeds, commitments, confirmations and other necessary, desirable or customary documents. Other parties to the transactions may rely and act upon any verbal or written orders and instructions from the designated officers in connection with such accounts and transactions.

This delegation is effective November 1, 1990 and shall continue in force until amended or revoked in writing by me or my successor.

/s/ Hugh Malone
Hugh Malone
Commissioner of Revenue
November 1, 1990

APPENDIX I

Real Estate Mortgages
Standards & Policies

GENERAL INFORMATION

** No refinancings or interest rate reductions of an existing investment by a fund are allowed, except for bankruptcies, sale of properties acquired through foreclosure to a new borrower, or interest rate buydowns.

** Discounts for early payoff are not allowed.

DELINQUENCIES AND FORECLOSURES

DELINQUENCIES

Each Seller/Servicer is required to take progressive actions against borrowers that are delinquent one or more payments and provide to the State a monthly written delinquency report. The actions and reports thereon are broken down into the following three categories:

a. 30 day (1 payment) - These loans are reported to the State. The Seller/Servicer automatically issues late notices to the borrowers on the 16th day and demand notices on the 30th day. On the 45th day they send a notice of intent to foreclose.

b. 60 day (2 payments) - Details of collection efforts are sent to the State. The Seller/Servicer issues to the borrower a second demand notice. When the loan reaches this level the Seller/Servicer contacts the borrower and if financially possible, a modification of the loan terms is considered and, if not, a "Request for Legal Action" form is sent to the State with the Seller/Servicer's recommendations on foreclosure. If applicable, an Assignment of Rents is put into effect at this time.

c. 90 day (3 payments) - At this level the Seller/ Servicer provides detailed reports and other correspondence. Loans are either on a Seller/Servicer or State approved workout, have a modification in process, have filed bankruptcy, or have a legal action pending. Each report details the activity that the Seller/Servicer is pursuing and if the loan is on an approved workout, the status of the payments on the workout.

d. over 90 days (4 or more payments) - These loans have had some type of action finalized. Foreclosure has been initiated, bankruptcy has delayed collection, or a modification is in the final stages of approval. The Seller/Servicer has to follow very strict collection policies set down under the Federal Truth in Lending Laws and the Fair Debt Collection Practices Act (P.L. 95-109) and their guidelines.

Each month Treasury investment staff consult with Seller/ Servicer personnel on resolution of delinquencies.

BANKRUPTCIES

In the collection process the borrowers often file for protection under the United States bankruptcy laws and this stops all direct contact with the borrower. The Seller/Servicer then hires an attorney and proceeds under very rigid guidelines in the continuation of the collection process through the bankruptcy court. The State must evaluate the value of the collateral versus the debt and, when applicable, file for a relief from stay. This process is very time consuming and costly as the bankruptcy court requires a formal appraisal to verify the value in order to consider a relief from stay. The bankruptcy court must evaluate the State's claim to the asset as well as other creditors', secured or otherwise, and determine the best course of action for all parties concerned.

FORECLOSURES

This process may take one of the following three forms:

a. Deed in Lieu: The borrower offers their property back to the Seller/Servicer willingly without the time delays or the cost of a legal foreclosure. This process is only considered if the borrowers can give a title clear of any other obligations and the value of the collateral plus insurance is at least sufficient to cover the debt. The private mortgage insurance company must concur with this action, and the amount of the claim settlement is considered when evaluating possible loss in this transaction.

b. Non-Judicial Foreclosure: This is also referred to as a summary foreclosure and allows the State to foreclose on the collateral. This eliminates all other liens following the State's first deed of trust position. This process takes a minimum of 120 days from the Notice of Intent to Foreclose and includes filing for foreclosure and the actual sale. This process is considered when the value of the collateral is at least sufficient to cover the debt but the title is encumbered. Private mortgage insurance on the loan is also taken into consideration and may cover any possible loss to the State.

c. Judicial Foreclosure: This process allows the State to foreclose on the collateral and on any other current or future assets that the borrower may have. This process takes one year to foreclose and then has a one year right of redemption for the borrower. A deficiency judgement is issued for any possible loss and filed against the other remaining assets of the borrower. This judgement is valid for 10 years. The costs to do this type of foreclosure are very high, and it is only considered when the loss level is extreme and the chance of recovery on the deficiency judgement exists. Again, private mortgage insurance will in some cases offset some of the losses, but they do not have to pay on the claim until given clear title which does not occur until the end of the second year.

Each loan is reviewed and analyzed for the proper procedure from the first 60 day notice through the delinquency and foreclosure process.

MODIFICATIONS

Each loan that is presented for modification to receive some type of temporary relief will be reviewed on a case by case basis. Each loan presented to the State for modification must have the following information and it is evaluated on the merits of that particular loan:

Two years tax returns on the individuals and the corporate entity, if applicable

Financial statements on all participants

Cash flow analysis for the past year on the subject property

Cash flow projection for at least the next six months to one year

Written analysis from the borrower explaining in detail their financial problems and their request for modification

A letter from the Seller/Servicer recommending a modification whether it conforms with the borrower's request or not.

These packages are thoroughly analyzed and, if feasible, a modification may be allowed. If the borrowers can subsidize the loan payment from other sources of income, the State will require this. Not every request is approved. Some are rejected and the borrower told to resume regular payments, whereas others are changed to meet a minimum level of modification that the State will allow.

Some modifications call for a permanent rate reduction and if the borrower or the individuals assuming the loan can afford the process, the State will allow the interest rate to be bought down under the following guidelines.

BUYDOWN POLICY

The interest rate on loans can be bought down to the current interest rate or a maximum of two points if the rate is to be bought down below the current market rate for the fund, whichever affords the greatest reduction to the borrower.

1. Cost of buydown to the borrower or assumptor is a percent of the outstanding principal balance per point bought down depending on the age of the loan as follows:

    a. 4% per point through the first 5 years of the mortgage

    b. 3.5% per point 6 years through 8 years of the mortgage

    c. 3% per point 9 years through 11 years of the mortgage

    d. 2.5% per point 12 years through 14 years of the mortgage

    e. 2% per point 15 years through 17 years of the mortgage

f. 1.5% per point 18 years through 20 years of the mortgage

g. 1% per point 21 years to maturity of the mortgage

2. Depending upon the age of the mortgage, equity position, and current market opinion/appraisal, the buydown expenses may be capitalized at the request of the investor under the following conditions:

   a. no other liens will be in place at the time of capitalization or those lien positions will be subordinate to the modification;

   b. whenever feasible, the capitalized amount will not take the balance to more than the original loan amount;

   c. whenever feasible, the new balance will be reamortized so that the maturity on the loan will remain the same but in no case more than 25 years for commercial and 30 years for residential;

   d. if reamortization is not economically feasible, a balloon payment will be required at maturity for the remaining unpaid balance.

All of the above processes and procedures are the responsibilities of the Seller/Servicer and they are addressed in the Sales and Servicing Agreement and Sales and Servicing Agreement Addendum which is signed by each of the Seller/Servicers that do business with the State.

It is the discretionary responsibility of the investment staff that manages the mortgage loan portfolios to implement these policies. The Sales and Servicing Agreements follow industry standards and specifically address the Alaska Statutes. Updates to the contracts may take place as the industry changes.

APPENDIX J

Section VI of an "Agreement between
the United States of America and the State of Alaska
pursuant to Section 7
of the Outer Continental Shelf Lands Act,
and Alaska Statutes 38.05.137"

The escrow account provided for in Section V(e) of this Agreement will be established in the U.S. Department of Treasury as a Deposit Fund Account. The funds deposited in such account shall be invested at the direction of the Department of the Interior only in special non-marketable U.S. Treasury securities purchased at prevailing market rates. The Department of the Interior will obtain the approval of the State Department of Revenue before directing the U.S. Department of the Treasury with regard to investment of funds in the escrow account.

Section V of an "Agreement between
The United States of America and the State of Alaska
pursuant to Section 7
of the Outer Continental Shelf Lands Act
and Alaska Statutes 38.05.137
for the Leasing of Disputed Tracts in Federal
Outer Continental Shelf Oil and Gas Lease Sale 71"

and

an "Agreement between
The United States of America and the State of Alaska
pursuant to Section 7
of the Outer Continental Shelf Lands Act
and Alaska Statutes 38.05.137
for the Leasing of Disputed Blocks in Federal
Outer Continental Shelf Oil and Gas Lease Sale 87"

The escrow account provided for in Section IV(e) of this Agreement will be established in the U.S. Department of the Treasury as a Deposit Fund Account. The funds deposited in that account shall be invested at the direction of the Department of the Interior only in special non-marketable U.S. Treasury securities purchased at prevailing market rates. The Department of the Interior will obtain the approval Treasury securities purchased at prevailing market rates. The Department of the Interior will obtain the approval of the State Department of Revenue before directing the U.S. Department of Treasury with regard to the investment of funds in the escrow account. The State will hold the Department of the Interior harmless from any liability due to interest lost from investments it is required to direct the Department of the Treasury to make as a consequence of the State's failure to timely approve those investments.

APPENDIX K

Memorandum of Understanding Between Department of the Interior ("Interior") and Department of the Treasury ("Treasury") on Operating Procedures Relating to the Investment of Monies in the Deposit Fund Escrow Account

This memorandum establishes the procedures which Interior and Treasury agree to follow in investing and redeeming Treasury non-marketable Government account series securities ("market-based specials") for the subject deposit fund escrow account.

1. Definition of Market-Based Special (MK)

A market-based special (MK) is a special issue identical in every respect except for transferability, to any marketable Treasury issue that is being traded or sold in the Government Securities Market, i.e., bills, notes or bonds.

2. Responsibility for Selecting Security

Interior shall select the MK securities to be purchased or sold and may do so on a daily basis; Provided, that Treasury retains discretion to decline to purchase particular securities for the Account when, in Treasury's sole judgement, the volume of market trading in those securities is not sufficient to establish a reliable indication of their prices. This proviso includes, but is not limited to, the current market situation in which there is no reliable price for coupon securities which mature within six months. Further provided, that Interior shall not make a request for investment and/or redemption activity aggregating $50,000 or less.

3. Investments (MK bills, notes, or bonds)

If Interior communicates its requests for investment to the Appropriation and Investment Branch ("AIB"), Bureau of Government Financial Operations, Treasury, by 11 A.M. Eastern Time, of a business day, stating the security or securities that are to be purchased, Treasury will make the investment by the close of business on that business day. If Interior's request is received after 11 A.M. Eastern Time, Treasury will make the investment by the close of business on the following business day. If the desired Treasury marketable security (or securities) is being traded on the market, the MK security will be issued to the Account at the mean of the bid and asked prices quoted by the Federal Reserve Bank of New York as of noon on the date of purchase. Interior expressly agrees that a request received by AIB before 11 A.M. Eastern Time, may not be changed or cancelled after 11 A.M. Eastern Time.

4. Subscriptions (MK) bills, notes, or bonds)

If a desired Treasury marketable security is being sold by Treasury, and if Interior's request for investment in such a security is received by telephone before the closing time for the sale specified in the Treasury Press release, then Treasury will make the investment on the delivery date specified in the Treasury Press release, at the average price of competitive bids if the sale is at auction, or at the specified price (subject to allotment) if the price is fixed by Treasury. Interior expressly agrees that once the subscription deadline has passed, Interior may not change or cancel its request.

5. Redemptions (MK bills, notes, or bonds)

Any MK security held on behalf of the Account may be redeemed prior to maturity. If telephone requests for such redemptions are made to AIB by 11 A.M. Eastern Time of a business day, Treasury shall effect the redemption by the close of business on that business day. Action on requests for redemption received after 11 A.M. Eastern Time of a business day, shall be completed by the close of business on the following day. MK securities shall be redeemed at the bid price quoted by the Federal Reserve Bank of New York as of noon on the day of redemption.

6. Extension of MK Bills

If, with respect to an MK bill Interior wishes to have purchased, Interior finds that its expenditure needs will not fall on a day the security is maturing, Interior may request Treasury to extend the maturity of the MK bill but only at the time Interior requests that it be purchased. The maturity of an MK bill may be extended from one to six calendar days. For example, weekly bills normally mature on Thursday; however, at the time of investment, Interior may indicated that it wishes the MK bill to mature on the Wednesday following that Thursday, an extension of six days. The purchase price will be based on the mean of the bid and asked price of the applicable marketable bill on the day of purchase, less one to six days additional discount at the same rate. The bill will then mature on the extended date. If Interior finds that they must sell the extended bill before maturity, it will be sold at the bid price of the next closest maturing bill. For example, if the extended bill chosen matures on Wednesday and Interior wishes to sell it Monday, it will be sold at the bid price of the Thursday bill with discount shortened to the day of early redemption.

7. "As of" Investments of Redemption

Interior may not request "as of" investments or redemptions. Unless Interior informs Treasury of amounts to be invested and/or redeemed prior to or on the date it wishes a transaction completed, the necessary investment and/or redemption activity will not be completed on the desired transaction date.

8. Confirmation Wires or Letters

Interior shall confirm each telephone request for investment and/or redemption in the above MK securities by wire or letter. Interior shall mail or send each confirmation letter or wire on the date the requested transaction is processed. Interior shall include in each confirmation wire or letter to A.I.B. the date the transaction is to be processed, the security to be purchased or sold and the type of transaction requested, i.e. purchase or sale.

9. Portfolio Management practices

Interior shall manage funds of the Account invested in MK securities to maximize interest earnings on those funds. Treasury is not required to effect requests which in Treasury's sole judgement would either involve "day trading" type activity in the form of buying and selling the same security, or would afford arbitrage profits mainly as a result of the insulation of activity in market-based specials from market price reaction.

For the Department of the Interior

By: /s/ (not legible) 10/6/81
(Name & Title) (Date)
Assistant Secretary--Land and Water Resources

For the Department of Treasury

By: /s/ (not legible) 10/6/81
(Name & Title) (Date)
Fiscal Assistant Secretary

APPENDIX L

Memorandum of Understanding between the United States Department of the Interior and the State of Alaska Department of Revenue on Procedures Relating to the Investment of Monies under the Section 7 Escrow Accounts

This Memorandum of Understanding (MOU) establishes the procedures for the investments and reinvestments to be made pursuant to the following agreements between the United States of America and the State of Alaska under Section 7 of the Outer Continental Shelf Lands Act and Alaska Statutes 38.05.137: (1) the Agreement dated on or about October 26, 1979, with regard to the Joint Federal/State Beaufort Sea Sale; (2) the Agreement dated on or about September 7, 1982, with regard to OCS Lease Sale 71; and (3) the Agreement dated on or about July 18, 1984, with regard to OCS Oil and Gas Lease Sale 87 (collectively, the Section 7 Agreements). This MOU also supercedes all Section 7 Agreements only with regards to the timing of the disbursement to Alaska upon final judicial determination in United States v. Alaska. The United States Department of the Interior (Interior) is required to obtain the approval of the State of Alaska, Department of Revenue (Revenue) before directing the United States Department of Treasury (Treasury) with regard to investment of funds in the escrow account established under the Section 7 Agreements. However, the Section 7 Agreements do not specify a procedure for obtaining such approval. Henceforth, the procedure for obtaining Revenue's approval will be as follows:

(1) Interior will cause to have the following information received by Revenue as early as possible, but no later than by 1 p.m. Alaska Time 2 days before the funds are due to be invested or reinvested:

a. the amount of money to be invested or reinvested:

b. a description of the available investments; and

c. Interior's investment preference, together with any reasons which Interior may wish to advance in favor of its preference. Interior's investment preference will be dictated by the restrictions imposed by the MOU between Interior and Treasury signed October 6, 1981, or any further MOU implemented pursuant to paragraph (7) below. The October 6, 1981, MOU restricts all of Interior's investments to nonmarketable Government account series securities, i.e., bills, notes, or bonds.

The information may be conveyed by telephone, telex, telecopy, or letter.

(2) Revenue will communicate its approval or disapproval of Interior's investment preference by telephone, telecopy, or telex by 10:00 a.m. Alaska Time on the day before the funds are due to be invested or reinvested. Revenue will confirm in writing any oral approval or disapproval within 2 days. If Revenue disapproves of Interior's preference, it will identify the investment preferred by Revenue consistent with the MOU between Interior and Treasury, together with any reasons which Revenue may wish to advance in favor of its preference.

(3) If Revenue does not respond to Interior's timely request conveyed pursuant to paragraph 1, or if Revenue approves of Interior's request pursuant to paragraph 2, Interior will proceed to make its proposed investment.

(4) If Revenue disapproves Interior's investment preference and Interior agrees to Revenue's preference, Interior will proceed to make the investment proposed by Revenue.

(5) If Revenue disapproves Interior's preference and Interior disapproves Revenue's preference, Interior shall arrange a teleconference with Revenue. In that teleconference, both parties will seek to agree to a mutually acceptable investment. If the parties still cannot agree, the investment choice shall alternate between Revenue and Interior, the first choice being Revenue's.

(6) Interior will, in addition to the monthly escrow account reports and other appropriate information which may be requested by Revenue, send the following information to Revenue as it becomes known or available to Interior:

a. updated schedules of investment maturities and income flows,

b. written confirmations of investments made.

(7) Before entering into any further MOU or other agreement with Treasury concerning the investments in the escrow accounts under the Section 7 Agreements, Interior will obtain Revenue's written approval. However, should Treasury impose any new or revised investment regulations upon Interior, Interior shall comply with the new regulations and notify Revenue of the changes as early as practicable.

(8) Notification pursuant to this section shall be the following:

a. If to Revenue:

Steven R. Stein (907) 465-3078
or in his absence,
Michael Cheung (907) 465-3076
Treasury Division
Alaska Department of Revenue

P. O. Box SB

Juneau, AK 99811

Fax: (907) 465-2394

b. If to Interior:

Chief, General Ledger Section, currently

Dave Menard (303) 231-3574

or in his absence,

Chief, Royalty Accounting Branch, currently

Randall Drake (303) 231-3139

Minerals Management Service

Royalty Management Program

P. O. Box 25165, MS 3230

Denver, Colorado 80225

Fax: (303) 231-3216

(9) With regards to the timing of the disbursement to the State of Alaska upon final judicial determination, the following changes to each Section 7 agreement are made:

Section VIII (d) of the Joint Federal/State Beaufort Sea Sale Agreement; and Section VII (d) of both the Sale 71 and Sale 87 Agreements are amended to read as follows:

> Payment from the escrow account of sums due to either party under this section shall be made as soon as possible after the final judicial determination in United States v. Alaska, but in no event more than 10 days after the investment maturity dates following such determination.

This Memorandum of Understand is effective August 15, 1990.

/s/ Jimmy W. Mayberry
Unites States Department of
the Interior

/s/ Milton B. Barker
State of Alaska

Royalty Accounting Branch
Funds Administration and Investments Section
Status of Section 7 Investments
As of February 4, 1988

				DateMaturity YieldValue at	Investment	
Sale	Invested	Date	Rate	Cost	Maturity	Media
71A	12/30/87	06/02/88	6.12 percent	$ 1,472,971.20	$ 1,520,000.00	Treasury Bill
BF-State	12/10/87	06/09/88	6.45 percent	232,943,076.37	240,795,000.00	Treasury Bill
BF-FED	01/07/88	07/07/88	6.35 percent	698,671,770.37	721,845,000.00	Treasury Bill
87A	01/14/88	07/14/88	6.25 percent	3,137,625.00	3,240,000.00	Treasury Bill
		Investment Totals		$936,225,442.94	$967,400,000.00	

APPENDIX M

ALASKA STUDENT LOAN CORPORATION
Investment Policy Guidelines
Dated: November 21, 1990

I. Summary of Investment Policy by Fund

The Alaska Student Loan Corporation operates with two general types of funds. The first is for all funds under the control of bond indentures (i.e., Indentured Funds and Custodial/Depository Agreement Funds) for which investments are restricted by the Indenture and the insurer, of the Corporation's bonds (AMBAC). The second is for those funds which are not covered by the Indenture and their investment is controlled by the Commissioner of Revenue of the State of Alaska. The following chart illustrates the above guidelines.

Fund	Policy Guideline	Investment Directed By
Indentured Funds (Exhibit A)	• Indenture (Exhibit D) or AMBAC investment criteria (Exhibit E), whichever is more restrictive.	• Finance Officer of Corporation, in consultation with Financial Advisor, as delegated by Executive Director of Corporation as delegated by Corporation Board.
Custodial/Depository Agreement Funds (Exhibit B)	• Same as Indentured Funds	• Same as Indentured Funds.
Non-Indentured Funds (Exhibit C)	• Investment Policy (Exhibit F)	• State of Alaska - Department of Revenue

II. Unrestricted Investments

The following requirements apply to investments for both Indentured and Non-Indentured Funds:

A. **Repurchase Agreements:**

1. Provider shall be a non-bank government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York;

2. The securities shall be direct obligations of the Department of the Treasury of the United State of America or

obligations of federal agencies which obligations represent the full faith and credit of the United States of America.

3. Term should not exceed three years.

B. **Investment Agreements:**

1. Primary dealers

   a. provider shall be a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and approved by bond insurer;

   b. the agreement shall be collateralized within the policy guidelines for collateral listed below; and

   c. term should not exceed three years.

2. Insurance companies

   a. company must be rated "AA/Aa" or better and approved by bond insurer;

   b. agreement must be in form of an insurance policy; and

   c. term should not exceed three years.

3. Domestic and Foreign banks

   a. banks must be rated "AA/Aa" or better and approved by bond insurer;

   b. an enforceability opinion must be provided by the branch office issuing the agreement and the parent company's home office counsel;

   c. term should not exceed three years.

4. Collateral

   a. direct obligations of the Department of the Treasury of the United States of America or obligations of federal agencies which obligations represent the full faith and credit of the United States of America must be provided as collateral;

b. the collateral securities shall be valued daily, marked-to-market at current price plus accrued interest, the fair market value of such securities, over the term of the repurchase agreement shall be equal to at least 102 percent; and

c. the collateral shall be held with a third party acting solely as an agent for the Trustee.

5. Termination

a. If, at any time during the term of the agreement, the rating of the provider falls below "AA/Aa", the Trustee in consultation with the bond insurer can (1) remove the invested funds and seek suitable replacement or (2) require collateral from the provider at the minimum level required by the bond insurer.

III. Restricted Investments

Certain funds of the Corporation are subject to having the yield on investments of bond proceeds restricted to the yield on the bonds as required by the Tax Reform Act of 1986. However, there is generally a temporary period from one month to three years before the yield restrictions apply. See chart below for further detail:

Fund	*Yield Requirement*	*Subject to Arbitrage Rebate*
Master Student Loan Fund		
Series Student Loan Fund	Restricted after 6 months	Yes
Capital Reserve Fund	Unrestricted	Yes
Debt Service Fund	Restricted after 13 months	Yes
Redemption Fund	Restricted after 20 days	Yes
Revenue Fund	Unrestricted	Yes
Rebate Fund	Unrestricted	No
Surplus Fund	Unrestricted	Yes

The following requirements apply to investments for Indentured Funds which are subject to yield restriction but cannot be invested subject to Unrestricted Investments in part II above.

A. Municipal obligations:

1. Money market funds rated "AAAm" or "AAm-G" or better by Standard & Poor's and in the highest rating category by Moody's.

B. United States Treasury - State and Local Government Series Securities (i.e., SLGS)

EXHIBIT B

CUSTODIAL/DEPOSITORY AGREEMENT FUNDS
(As of July, 1990)

The following accounts have been established at First Pennsylvania Bank, Philadelphia for the Alaska Student Loan Corporation in accordance with the Custodial/Depository Agreement (Exhibit B of the Indenture dated May 1, 1988) between the Corporation, Seattle First National Bank and the State of Alaska, Department of Revenue. They are:

1. Collateral Loan Fund Account
2. 1988 Series A Disbursement Account
3. 1988 Series A Receipt Account
4. 1989 Series A Disbursement Account
5. 1989 Series A Receipt Account
6. 1990 Series A Disbursement Account
7. 1990 Series A Receipt Account

These accounts contain (a) program receipts (loan repayments) collected by the Alaska Commission on Postsecondary Education pending transfer to Seattle First National Bank and (b) monies drawn down from Seattle First National Bank for financing student loans.

The accounts are managed and maintained by the Department of Revenue and are invested in repurchase agreements.

EXHIBIT D

INVESTMENT SECURITIES APPROVED BY INDENTURE DATED MAY 1, 1988

"Investment Securities" for all purposes other than (i) investments in escrow accounts and (ii) investing, and receiving credit for, accrued and capitalized interest.

(a) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America;

(b) Obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America;

- Export-Import Bank
- Farmers Home Administration
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration;

(c) Bonds, notes or other evidences of indebtedness rated "Aaa" by Standard & Poor's Corporation and "Aaa" by Moody's, issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, and with remaining maturities not exceeding three years;

(d) U.S. Dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than 360 days after the date of purchase;

(e) commercial paper which is rated at the time of purchase "A-1" by Standard & Poor's Corporation and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(f) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by Standard & Poor's and in the highest rating category by Moody's;

(g) Pre-refunded municipal obligations defined as follows:

> Any bonds or other obligations of any state of the United State of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice, and (A) which are rated, based on the escrow, in the highest rating category of Standard & Poor's Corporation and Moody's Investors Service, Inc. or any successors thereto; or (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in paragraph (A) which fund may be applied only to the payment of such principal of and interest and redemption premium if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions referred to above, as appropriate; and (ii) which fund is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

(h) Investment agreements and other form of investments approved in writing by the Bond Insurer (if applicable) and AMBAC Indemnity (so long as any Prior Bonds are outstanding).

If Additional Bonds are issued and Investment Securities are defined differently in the supplemental indenture or Indenture, then only those investments appearing on both or all definitions shall be Investment Securities.

EXHIBIT E

AMBAC CRITERIA
(As of July, 1990)

1. INVESTMENT AGREEMENTS

A. Domestic Commercial Banks

1. Bank must be rated "AA/Aa" or better and approved by AMBAC's Financial Institution's Group.

2. During the life of the agreement, if the bank's rating falls to "A+/A1" or lower but above a "BBB+", the bank must collateralize its obligation at 108% if marked to market monthly or 105% if marked to market weekly.

3. The Collateral must be perfected and held with a third party (with no prior liens).

4. If the bank's rating falls to "BBB+" or below, the Trustee can withdraw the funds with no penalty or require the bank of increase the collateral level to 125%.

5. Term of the agreement can match the maturity on the bonds.

B. Foreign Banks

1. Banks must be rated "AA/Aa" or better and approved by AMBAC's Financial Institutions Group.

2. An enforceability opinion must be provided by the branch office issuing the agreement and the parent company's home office council.

3. Foreign banks will not pledge collateral. Therefore, if the rating falls to "A-/A3" the Trustee with AMBAC's consent can remove the funds and seek a suitable replacement.

4. Term of the agreement can match the maturity on the bonds.

C. Insurance Companies

1. Company must be rated "AA/Aa" or better and approved by AMBAC's Financial Institution Group.

2. Agreement must be in the form of an insurance policy (usually a deferred annuity).

3. Term of the agreement should not exceed three years.

2. REPURCHASE AGREEMENTS

I. Repurchase agreements must be collateralized by:

A. Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America;

B. Direct obligations of any of the following federal agencies which obligations are fully guaranteed by the full faith and credit of the United States of America; including:

- Export-Import Bank
- Farmers Home Administration
- General Service Administration
- Government National Mortgage Corporation (GNMA)
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration;

which (agreements) are made with any broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated at least "Prime-1" or "A3" or better by Moody's Investors Service, Inc. and "A-1" or "A-" or better by Standard & Poor's Corporation, provided that the requirements set forth in paragraph II-VII are met.

II. A master repurchase agreement or specific written agreement governs the transaction, which provides that:

A. The interest rate is specified;

B. A margin maintenance call is required if the level of collateral (as required by paragraph VII below) falls below the required level by a valuation date. The procedures and notice provisions for satisfying a margin call must be specified in writing. Failure to maintain the requisite collateral percentage requires the Trustee or liquidate collateral;

C. Events of default under the Agreement must be specified, with Trustee to terminate the Agreement within one business day following notice of default;

D. Transfer of funds shall be in cash or by wire;

E. All agreements must at all times remain in compliance with applicable laws and regulations.

III. The securities are held free and clear of any lien by the bond trustee or an independent third party acting solely as agent for the trustee, and such third party is (a) a Federal Reserve Bank, (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $25 million, or (c) a bank approved in writing for such purpose by AMBAC Indemnity Corporation, and the trustee shall have received written confirmation from such third party that it holds such securities, free of any lien, as agent for the bond trustee; and

IV. A perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 CFR 306.1 et esq. or 31 CFR 350.0 et seq. in such securities is created for the benefit of the Trustee; and

V. The repurchase agreement has a term approved by AMBAC (but in no case exceeding 90 days) and the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within 2 business days of such valuation; and

VI. The repurchase agreement matures at least 10 days (or other appropriate liquidation period as approved by AMBAC) prior to a debt service payment date; and

VII. The market value of the collateral is maintained at levels rated "A" or better by Standard & Poor's Corporation and Moody's Investors Service (accrued interest to the settlement of the originating transaction must be included in determining value of collateral); coupon payments that occur on collateral during the term of the Agreement should be paid to the Trustee and the amount covered by the Agreement should be reduced to reflect the partial payment received.

APPENDIX N

State of Alaska

Supplemental Benefit System
Supplemental Annuity Program
Statement of Interim Investment Objective

The State of Alaska Supplemental Benefit System (SBS), a qualified annuity purchase plan, was established in 1979 by Alaska Statute to provide supplemental retirement benefits as a replacement for the federal social security benefit.

The Public Employees' Retirement Board (PERS Board) is responsible for governing the operations of the SBS. The Board does not have its own staff, but instead relies upon the State Departments of Administration and Revenue for managing the affairs of the SBS program, including investments.

The investment objectives of the SBS are:

- achieve the highest guaranteed rate of return
- maintain the highest level of financial security

To meet these goals, the assets of the fund have been invested exclusively in group annuity investment (GIC) contracts with insurance carriers. Recently, the Board has begun to reconsider this investment policy.

In light of this reconsideration and the investment objectives of the SBS, it is the policy of the Board to invest SBS assets, not already invested with insurance carriers, in fixed income instruments, the maturity of which shall not exceed one year from the date of purchase.

Upon completion of its review of plan goals and objectives, the Board will review and revise this statement as necessary, at least annually, with adequate prior notice to participants.

Date: 7/26/90

James P. Wellington, Chairman
Public Employees Retirement Board

APPENDIX O

Investment Agreement between the Departments of Revenue and Administration for the Supplemental Benefits System

The Departments of Revenue and Administration agree as follows:

Current Management

Currently, the Supplemental Benefits System ("SBS") monies retained by the State are commingled and invested with the State's General Investment Fund. They receive a monthly credit for their pro-rata share of monthly General Investment Fund earnings, pursuant to the enclosed Memorandum of Understanding ("MOU"). Under the MOU, the Treasury Division posts the SBS credit on AKSAS and provides a report to the Division of Retirement and Benefits ("DRB"). The Division of Finance approves the credit on AKSAS and provides a Financial Transactions Processed ("FTP") Register to DRB.

Interim Management

The Department of Revenue has received the enclosed cash flow schedule dated March 30, 1990 for SBS from DRB. The Treasury Division will conduct further discussions with DRB to gain an understanding of the amount of uncertainty attached to the cash flow projection.

With this information, the Treasury Division will initiate investment of SBS monies as a segregated fund on May 11, 1990. Segregated accounts will be established for SBS on AKSAS, Treasury's investment accounting system ("Resource"), and at the State's custodian bank, First Pennsylvania Bank.

Transfer of SBS monies from the General Investment Fund to the segregated SBS accounts will be pursuant to the enclosed MOU. Transfers will be based on market value and include SBS's pro-rata share of General Investment Fund earnings through April 30, 1990, as per the MOU.

Interim SBS investments will be limited to money market instruments and other marketable fixed income investments with similar nominal credit risks to mature in 12 months or less from date of aquisition.

Treasury Division staff will meet with DRB to determine reporting requirements. The Treasury Division will provide monthly asset and income statements and any other reports required by DRB to DRB on or before the dates agreed upon by the Treasury Division and DRB.

Longer-Term Management

The Department of Revenue will assist the Department of Administration in developing the goals and objectives of the SBS program, and, following those determinations, in developing SBS investment and accounting policy.

This agreement takes effect April 13, 1990.

By: Frank S. Baxter
Frank S. Baxter
Commissioner
Department of Administration

By: Hugh Malone 4·16
Hugh Malone
Commissioner
Department of Revenue

APPENDIX P

Supplemental Benefits System (SBS) Interim Investment Policy May 11, 1990

This investment policy is adopted by the Department of Revenue pursuant to delegation of investment authority for the Supplemental Benefits System by an Investment Agreement between the Departments of Revenue and Administration dated April 12, 1990 and ratified by the Public Employees Retirement Board on July 26, 1990. This policy and any amendments to it shall at all times conform to any statement of goals or objectives for the Supplemental Benefits System adopted by the Public Employees Retirement Board and concurrently in effect.

This policy statement is intended to serve as one basis for communications between the Department of Revenue, the Investment Staff at Treasury, the Public Employees Retirement Board, and the Department of Administration — both those now serving and those yet to serve -- and to provide a sense of form and structure to retirees, future retirees, and other interested parties.

The intention is to conduct the investments in such a fashion so as to provide for benefits to participants as specified in the Plan document and in a fashion as participants may have generally come to expect.

THIS IS INTENDED TO ACT AS AN INTERIM INVESTMENT POLICY ONLY

Many participants view SBS as a replacement for the Federally sponsored Social Security program. Official State of Alaska documents contain the following language: "Effective as of January 1, 1980, the State of Alaska withdrew from the Federal Social Security System. In its place, the Supplemental Benefits system was established ..."

The central feature to Social Security is the inviolate Federal government guarantee of benefit payments.

Further, State of Alaska SBS information states (in part) "contributions in your Supplemental Annuity account are invested ... and earn a guaranteed rate of return."

Accordingly, the central feature of this interim investment policy shall be safety of principal values.

This interim policy shall serve only until a statement of goals and objectives is adopted by the Public Employees Retirement Board. This will require two events:

A. A thorough and detailed ANALYSIS of purpose, goals, and objectives of SBS.

B. Proper and thorough DISCLOSURE of information to any and all affected participants.

It is expected that a statement will be adopted by the Public Employees Retirement Board at their fall meeting on or about October 18, 1990.

THIS IS INTENDED TO ACT AS AN INTERIM INVESTMENT POLICY ONLY

GENERAL

1. The management of the assets of the Plan shall be performed within the framework established by this document.

2. The results of any investment program are measured according to the financial needs of the investor. On an interim basis, the singular investment goal of SBS annuity is safety of principal.

   The SBS is unable to tolerate any volatility in principal values in order to seek growth of principal. Enhanced "total return" is precluded by the need to protect principal values.

3. Investment management will be judged in part upon performance relative to the relevant market return index -- the average yield on 91-day U.S. Treasury Bills. Absolute performance will be the primary consideration.

   Longer term performance standards are not germane inasmuch as this policy is intended to be temporary in nature.

4. The ultimate objective of capital preservation is to avoid permanent impairment of principal. Treasury investment staff shall address protection of principal values through both quality determinations and diversification as to industry and specific issue. Treasury shall be mindful of the liquidity of each investment in order to facilitate a timely response to the (as yet undetermined) permanent investment policy.

IMPLEMENTATION

A. Responsibilities: Treasury shall discharge the daily management of assets. This includes:

   1. Selection for purchase and/or retention of those issues for investment which individually and collectively will contribute most to the total return of the portfolio consistent with containing total risk.

   2. Selecting and retaining specialized services of other independent investment management firms to perform certain tasks as Treasury, in its sole discretion, deems necessary.

B. Restrictions: Consistent with the needs of the SBS plan, the portfolio shall contain only investments as qualified below:

   1. Cash Equivalents - which must have a final maturity within twelve (12) months of date of purchase and include the following instruments:

      a. U.S. government bonds, notes, and bills, or notes of any U.S. government agency.

b. Repurchase agreements which satisfy standards established by Treasury and may be used for other fiduciary assets.

c. C.D.'s, Bankers Acceptance, and other obligations of the 20 largest U.S. domiciled banks which have outstanding bonds rated "A" or higher by one of the recognized rating services.

d. Commercial paper and other short-term taxable instruments rated P-1/A-1.

e. Master notes as may be established and approved by Treasury for use in similar fiduciary accounts.

f. U.S. domiciled corporate or (taxable) municipal obligations rated "A" or better by Moody's or Standard & Poor's to include medium term notes as may otherwise be qualified.

g. "Yankee" bonds denominated in U.S. dollars as may otherwise be qualified.

2. Guaranteed Investment Contracts of the SBS plan which are in force as of June 1, 1990 and which continue to meet current standards of the Department of Administration.

3. Portfolio restrictions

   a. Not more than 5% of the portfolio shall be in securities of one issuer unless an obligation of or guaranteed by the U.S. government.

   b. Companies whose principal business is in the same industry shall not exceed 30% of the portfolio. (Communications, electric utility, and gas transmission shall be viewed as separate industries.)

   c. Transactions in tax-exempt bonds, futures, options, derivative securities, and short sales are prohibited.

4. Exceptions: Up to 10% of the portfolio (at market) may be invested in securities which do not qualify under certain of the above restrictions but which the Treasury investment staff determines 1) would otherwise generally qualify; and 2) would enhance the portfolio through either additional expected return or a reduction in overall risk exposure.

5. Emergencies: Under certain (unforeseen) extenuating market or economic situations, Treasury investment staff may feel strongly that a portfolio position outside these specifications, yet within the requirements of the April 12, 1990 Investment Agreement between the Departments of Revenue and Administration, is prudent. If so, the Chief Investment Officer shall inform the Commissioner of Revenue and the Deputy Commissioner of Revenue before taking such action.

The Commissioner of Revenue shall notify each member of the Public Employees Retirement Board, the Commissioner of Administration, and the plan administrator of any such actions.

C. Reports: The Treasury Division shall provide the following reports to the Public Employees Retirement Board and the Commissioners of Administration and Revenue:

1. monthly financial statements consisting of asset, income, and change in asset statements; and

2. a quarterly investment report describing

   a. the assets, their maturity structure, and diversification;

   b. investment activity for the period;

   c. investment performance for the period, year to date, and since inception of Treasury investment of the fund; and

   d. a narrative explanation of past activity and performance as well as the investment outlook and its implications.

D. Meetings: Flexibility is the hallmark of this policy statement; and communication is the assurance that this statement shall continue to address the needs of the Plan.

Treasury staff shall meet at least semi-annually with the Public Employees Retirement Board, the Commissioners of Administration and Revenue, and members of their staff as may be appropriate, and other interested parties in a place and at a time as may be convenient to all. These meetings shall be announced publicly.

The agenda shall include investment results and other such matters as may be appropriate.

E. Amendments: This policy takes effect May 11, 1990 and shall remain in effect until otherwise amended or rescinded in writing and countersigned by the Commissioner of Revenue and the Chief Investment Officer for Treasury. Prior to any amendment or recission, the Commissioner shall notify, consult with, and provide an opportunity for comment to the Public Employees Retirement Board, Commissioner of Administration, and plan administrator.

Steven R. Stein
Chief Investment Officer, Treasury

8 28 90

Hugh Malone
Commissioner of Revenue

APPENDIX Q

RESOLUTION OF THE PUBLIC EMPLOYEES' RETIREMENT BOARD

The Public Employees' Retirement Board ("the Board"), acting under authority of AS 39.30.155(a)(5), enters this resolution for purposes of prescribing policy and taking other actions considered necessary to carry out the purposes of the Supplemental Employee Benefit System ("SBS"), and hereby requests and respectfully instructs the following parties to take action and assist the Board as follows:

1. The Department of Revenue shall continue to operate under that certain memorandum of understanding respecting management and investment of SBS funds until further notice, not to exceed one year.

2. The Department of Revenue, pursuant to said memorandum of understanding and its responsibilities for investment of SBS funds pursuant thereto, shall deliver a report at each meeting of the Board respecting the financial status of SBS, and shall provide such reports as long as the memorandum of understanding above is in effect.

3. The administrator shall take all steps necessary to update and bring current all records respecting individual annuity accounts under SBS by February 15, 1991. By February 15, 1991, the administrator shall provide an estimate to the Board of a date when all other accounts under SBS will be brought current.

4. The administrator of SBS shall develop a mechanism and procedure for reporting to SBS annuitants the status of SBS on a quarterly basis, and the administrator shall consult with the Commissioner of Revenue respecting SBS financial data for the report. The reports on the status of SBS shall include a report on financial holdings, rates of return, options for participant-directed or sponsor-directed programs as contemplated by the Board, and such other information deemed reasonably relevant to inform SBS annuitants.

5. The administrator shall form and assist a "task force" to advise the Board on the subject of participant-directed or sponsor-directed programs, and the task force shall consist of a representative (to the extent volunteered) from each of the four largest collective

bargaining unions representing State employees, one or more (but not to exceed three) representatives of State employees not represented by collective bargaining, and one or more (not to exceed three) representatives of non-State employees participating in the SBS program. The administrator shall provide data and encourage the task force members to develop a presentation for the Board at a meeting to be held in January 1991. The Department of Revenue shall also provide data to the task force members. The participation by collective bargaining representatives in this task force shall be advisory only and will not constitute collective bargaining negotiations.

6. The administrator shall conduct a survey of SBS annuitants respecting annuitants' interests in participant-directed or sponsor-directed SBS plans or combinations of such plans, and shall report the results of said survey to the Board on the same date as the task force presentation described in paragraph 5 above. The survey shall provide a concise description of the alternative programs and offer as choices possible blended programs.

7. The administrator, Department of Administration and Department of Revenue shall assist the Board in ascertaining and implementing policies on overall goals and objectives of SBS fund management, including the adoption as quickly as possible of regulations implementing

(a) investment policies;
(b) clarifying establishment of the SBS fund as a trust fund;
(c) designation of the fiduciary of the SBS fund;
(d) designation of investment objectives and restrictions; and
(e) employee choices of investment alternatives.

The Department of Administration and the Department of Revenue shall provide drafts of regulations and give notice respecting hearings concerning the implementation of the decision for participant-directed or sponsor-directed programs.

8. The administrator shall advise the Board respecting meeting procedures and satisfaction of Board responsibilities concerning investment management of SBS funds to the extent such procedures are recommended or are different from procedures presently being utilized by the Board in making such determinations.

9. The administrator shall investigate sources of funds for implementing the foregoing requests and instructions, and shall seek State assistance for reimbursement of said funds in a manner consistent with the provisions of AS 39.30.150(a).

DATED: November 16, 1990

BY ORDER OF THE PUBLIC EMPLOYEES' RETIREMENT BOARD

By: Michael Andrews
Michael Andrews
Acting Chairman

RESOLUTION
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