



**STATE OF ALASKA RETIREMENT AND BENEFITS PLANS**

**Invested Assets**

**June 30, 2015**

**(With Independent Auditors' Report Thereon)**

**STATE OF ALASKA RETIREMENT AND BENEFITS PLANS**

**Invested Assets**

**June 30, 2015**

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KPMG LLP  
Suite 600  
701 West Eighth Avenue  
Anchorage, AK 99501

## Independent Auditors' Report

Alaska Retirement Management Board and  
State of Alaska Department of Revenue  
Treasury Division:

### Report on the Schedules

We have audited the accompanying schedules of the State of Alaska Retirement and Benefit Plans Invested Assets (the Plans) as of June 30, 2015, and of investment income (loss) and changes in investment assets of the Plans for the year then ended, and the related notes to the schedules (collectively referred to as "the Schedules").

### *Management's Responsibility for the Schedules*

Management is responsible for the preparation and fair presentation of the Schedules in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the Schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the Schedules of invested assets referred to above presents fairly, in all material respects, the invested assets of the Plans as of June 30, 2015, and the results of its investment income (loss) and changes in invested assets for the year then ended, in accordance with U.S. generally accepted accounting principles.

### *Emphasis of Matter*

We draw attention to note 1 to the Schedules, which describes that the accompanying Schedules were prepared to present the invested assets of the Plans and changes therein. The presentation of the Schedules is not intended to be a complete presentation of the financial status of the Plans.

**KPMG LLP**

September 30, 2015

**STATE OF ALASKA RETIREMENT AND BENEFIT PLANS  
SCHEDULE OF INVESTED ASSETS**

**June 30, 2015**

	Pooled Investments	Participant Directed Investments	Total ARMB Assets
<b>Investments (at Fair Value)</b>			
Cash and Cash Equivalents	476,223,542	-	476,223,542
Fixed Income Securities	2,857,825,374	-	2,857,825,374
Broad Domestic Equity	6,504,007,877	-	6,504,007,877
Global Equity Ex-U.S.	5,945,733,820	-	5,945,733,820
Alternative Equity Strategies	889,259,951	-	889,259,951
Private Equity	1,839,284,992	-	1,839,284,992
Absolute Return	1,359,536,583	-	1,359,536,583
Real Assets	4,118,054,789	-	4,118,054,789
Pooled Investment Funds	-	440,111,032	440,111,032
Collective Investment Funds	-	392,343,902	392,343,902
<b>Total Invested Assets</b>	<b>\$ 23,989,926,928</b>	<b>\$ 832,454,934</b>	<b>\$ 24,822,381,862</b>

**STATE OF ALASKA RETIREMENT AND BENEFIT PLANS  
SCHEDULE OF INVESTMENT INCOME (LOSS) AND CHANGES IN INVESTED ASSETS**

**June 30, 2015**

	Pooled Investments	Participant Directed Investments	Total Income (Loss)
<b>Investment Income (Loss)</b>			
Cash and Cash Equivalents	1,579,993	38,499	1,618,492
Fixed Income Securities	(16,969,819)	-	(16,969,819)
Broad Domestic Equity	473,846,021	-	473,846,021
Global Equity Ex-U.S.	(164,820,641)	-	(164,820,641)
Alternative Equity Strategies	(4,780,805)	-	(4,780,805)
Private Equity	230,480,040	-	230,480,040
Absolute Return	97,579,471	-	97,579,471
Real Assets	137,448,622	-	137,448,622
Pooled Participant Directed Investment Funds	-	11,164,465	11,164,465
Collective Investment Funds	-	9,725,747	9,725,747
<b>Total Investment Income (Loss)</b>	<b>754,362,882</b>	<b>20,928,711</b>	<b>775,291,593</b>
<b>Total Invested Assets, Beginning of Year</b>	<b>21,171,071,086</b>	<b>706,621,111</b>	<b>21,877,692,197</b>
Total Contributions	3,742,091,365	149,778,660	3,891,870,025
Total Withdrawals	(1,677,598,405)	(44,873,548)	(1,722,471,953)
<b>Total Invested Assets, End of Year</b>	<b>\$ 23,989,926,928</b>	<b>\$ 832,454,934</b>	<b>\$ 24,822,381,862</b>

# State of Alaska Retirement and Benefits Plans

## Invested Assets

### Notes to Schedules

June 30, 2015

#### (1) THE ACCOUNTING ENTITY

The Alaska Retirement Management Board (Board or ARMB) is the investment oversight authority for the State of Alaska's Retirement and Benefits Plans (Plans). These Plans are made up of four systems: the Public Employees' Retirement System (PERS), Teachers Retirement System (TRS), Judicial Retirement System (JRS), and National Guard and Naval Militia Retirement Systems (MRS). The systems comprise a mix of individual Defined Benefit and Defined Contribution Retirement Plans. These Schedules are those of the four systems' invested assets and not the systems as a whole. Fiduciary responsibility for the Board's Invested Assets is pursuant to Alaska Statutes 37.10.210-390.

Alaska Statute 37.10.071 provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios.

#### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Accounting

The Schedules are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net contributions represent contributions from employers and employees. Withdrawals represent benefits paid to plan participants and administrative and investment management expenses.

##### Investments and Related Policies

###### **Carrying value of investments**

Securities transactions are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers. Fair values of investments that have no readily ascertainable fair value are determined by management using the fair value of the capital account balances nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Real estate, farmland, and timber investments are appraised annually by independent appraisers. Private infrastructure investments are valued by independent valuation specialists. Pooled participant directed accounts and the collective investment funds, held in trust, are valued based on a unit value determined by the Trustees multiplied by the total units held by the Plan. The unit value is determined by the Trustees based on the fair value of the underlying assets.

**State of Alaska Retirement and Benefits Plans**  
**Invested Assets**  
**Notes to Schedules**  
**June 30, 2015**

**(3) DEPOSIT AND INVESTMENT RISK**

At June 30, the Board had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>
Absolute Return	1,359,536,583
Bank Loans	1,887,573
Certificate of Deposit	3,937,443
Commercial Paper	2,399,998
Convertible Bonds	177,239,444
Corporate Bonds	572,585,340
Deposits	112,900,171
Energy	102,336,751
Equity	13,933,204,515
Farmland	773,975,468
Foreign Government Bonds	376,174,550
Futures	148,395
Infrastructure	289,066,878
Mortgage Backed	80,551,428
Municipal Bonds	207,193,504
Mutual Funds	122,314,837
Options	29,367,427
Other Asset Backed	554,647,482
Private Equity	1,831,684,380
Real Estate	1,324,446,156
Repurchase Agreement	68,830,616
Rights	1,081,563
Short-term Investment Fund	81,335,529
Timber	385,814,701
U.S. Government Agency	2,775,776
U.S. Treasury Bills, Notes, Bonds, and TIPS	1,514,794,505
Warrants	33,818
Yankee Corporate	100,273,719
Yankee Government	11,193,600
Participant Directed	832,454,934
Net Other Assets (Liabilities)	(31,805,222)
<b>Total Invested Assets</b>	<b>24,822,381,862</b>

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The ARMB invests its cash in the Treasury's Short-Term Fixed Income Pool. As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to 14 months to maturity or 14 months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. At June 30, 2015, the expected average life of individual fixed rate securities ranged from 10 days to 3.3 years and the expected average life of floating rate securities ranged from 10 days to 14.5 years.

**State of Alaska Retirement and Benefits Plans**  
**Invested Assets**  
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**June 30, 2015**

**(3) DEPOSIT AND INVESTMENT RISK (Cont.)**

**Other Pooled Fixed Income Investments**

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration is the average fair value weighted duration of each security taking into account all related cash flows. At June 30, 2015, the effective duration of the Board's fixed income investments by type, was as follows:

	Effective Duration (in years)
Bank Loans	(0.05)
Certificate of Deposit	0.14
Convertible Bonds	0.07
Corporate Bonds	4.32
Foreign Government Bonds	6.26
Mortgage Backed	1.75
Municipal Bonds	11.15
Other Asset Backed	0.69
U.S. Government Agency	7.89
U.S. Treasury Bills, Notes, Bonds, and TIPS	4.65
Yankee Corporate	4.13
Yankee Government	6.18
<b>Total Portfolio</b>	<b>4.97</b>

**Defined Contribution Pooled Investment and Collective Investment Funds**

The Board contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate thirteen participant directed funds. Under normal conditions, the Trust will invest in cash equivalent instruments with maturities of less than one year. Additionally, under normal conditions, for government debt, corporate debt, and mortgage-backed securities, duration is limited to  $\pm 0.2$  years of the blended benchmark of 70% Barclays U.S. Intermediate Aggregate Bond Index, 15% Barclays U.S. Floating Rate Note Index, 10% Barclays TIPS Index, and 5% Barclays Long U.S. Treasury Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event at time of purchase shall effective duration exceed  $\pm 0.4$  years relative to the index. At June 30, 2015, the duration of the government corporate debt, and mortgage-backed securities was 4.00 years and the duration of the blended Barclays Bond Index was 3.98 years. The Board does not have a policy to limit interest rate risk for its collective investment funds.

**Credit Risk**

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. At June 30, 2015, the Board's Invested Assets consisted of fixed income securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

Rating	US Dollar	Foreign
AAA	463,840,924	-
AA	177,063,170	-
A	142,155,463	51,762,325
BBB	75,769,017	47,813,095
BB	315,369,780	-
B	239,065,075	-
CCC	38,185,155	-
U.S. Government Agency (AA)	2,775,776	-
U.S. Treasury Bills, Notes, Bonds, and TIPS (AA)	1,514,794,505	-
Not Rated	393,976,915	281,102,405

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits. At June 30, 2015, the Board's Invested Assets had the following uncollateralized and uninsured foreign currency deposits of \$50,028,261.

**State of Alaska Retirement and Benefits Plans**  
**Invested Assets**  
**Notes to Schedules**  
**June 30, 2015**

**(3) DEPOSIT AND INVESTMENT RISK (Cont.)**

**Foreign Currency Risk**

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Through its asset allocation the Board limits total investments foreign currencies to the following:

<b>Pension System</b>	<b>Fixed Income</b>	<b>Global Equity Ex-U.S.</b>	<b>Private Equity Pool</b>
PERS	20%	29%	14%
TRS	20%	29%	14%
JRS	20%	29%	14%
MRS	58%	24%	-

At June 30, 2015, the Board had exposure to foreign currency risk with the following deposits and investments:

	<b>Foreign Government</b>				<b>Private Equity Limited</b>
	<b>Deposits</b>	<b>Bonds</b>	<b>Equity</b>	<b>Rights &amp; Warrants</b>	<b>Partnerships</b>
Australian Dollar	23,426	5,338,295	136,987,243	28,811	1,202,157
Brazilian Real	124,928	27,622,906	17,888,419	-	-
Canadian Dollar	196,409	-	142,607,588	160	-
Colombian Peso	30,554	8,285,716	-	-	-
Danish Krone	1,154,745	-	113,663,654	-	-
Euro Currency	33,483,085	87,576,453	1,112,446,364	983,948	112,645,221
Hong Kong Dollar	674,835	-	193,039,598	-	-
Indian Rupee	-	-	3,143,813	-	-
Indonesian Rupiah	258,312	11,562,084	17,440,553	-	-
Japanese Yen	6,826,603	92,131,603	917,982,299	-	-
Malaysian Ringgit	161,324	14,267,164	4,943,844	-	-
Mexican Peso	1,102,796	31,650,897	2,616,284	-	-
New Israeli Sheqel	26,012	-	7,264,832	-	-
New Russian Ruble	-	7,434,692	5,710,966	-	-
New Taiwan Dollar	6,342	-	5,155,074	-	-
New Zealand Dollar	270,089	-	11,940,609	-	-
Norwegian Krone	146,780	-	29,321,630	-	-
Peruvian Nouveau Sol	64,438	5,503,694	-	-	-
Philippine Peso	-	-	1,991,724	-	-
Polish Zloty	-	19,016,316	74,107	-	-
Pound Sterling	3,492,849	32,563,690	910,613,874	-	33,971,767
Republic Of Chile	-	-	-	-	-
Singapore Dollar	92,620	-	51,216,020	100,721	-
South African Rand	214,331	9,273,804	13,558,984	-	-
South Korean Won	12,812	-	65,320,070	-	-
Swedish Krona	903	13,105,094	108,535,106	-	-
Swiss Franc	1,590,538	-	304,407,530	-	-
Thailand Baht	7	-	757,977	-	-
Turkish Lira	65,117	10,842,142	10,320,035	-	-
Yuan Renminbi	8,406	-	5,777,333	-	-
	<b>50,028,261</b>	<b>376,174,550</b>	<b>4,194,725,530</b>	<b>1,113,640</b>	<b>147,819,145</b>

**Concentration of Credit Risk**

At June 30, 2015, the Board's Invested Assets did not have exposure to any one issuer greater than 5% of total invested assets.

# State of Alaska Retirement and Benefits Plans

## Invested Assets

### Notes to Schedules

June 30, 2015

#### (4) DERIVATIVES, FOREIGN EXCHANGE, AND COUNTERPARTY CREDIT RISK

The Board is exposed to credit risk on investment derivative instruments that are in asset positions. The Board has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Board has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Board have a policy for contingencies. On June 30, 2015, the Board had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value		
	Classification	Amount	Classification	Amount	Notional
Equity Options Written	Investment Income (loss)	(1,996,862)	Options	-	-
FX Forwards	Investment Income (loss)	3,654,941	Long Term Instruments	251,292	2,769,626
Index Futures Long	Investment Income (loss)	5,995,460	Futures	-	34,600
Index Options Bought	Investment Income (loss)	(2,265,573)	Options	30,888,677	107,500
Index Options Written	Investment Income (loss)	2,792,377	Options	(1,521,250)	(138,500)
Rights	Investment Income (loss)	(46,050)	Equities	1,081,563	4,103,991
Warrants	Investment Income (loss)	(72,800)	Equities	33,818	8,298

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date. At June 30, 2015, the Board had the following Foreign Currency risk related to forward contracts:

Currency Name	Options	Net Receivables	Net Payables	Total Exposure
Australian Dollar	28,811	-	-	28,811
Canadian Dollar	160	-	-	160
Euro Currency	983,947	-	-	983,947
Hong Kong Dollar	-	-	-	-
Japanese Yen	-	113	(53)	60
New Zealand Dollar	-	-	251,232	251,232
Singapore Dollar	100,721	-	-	100,721
	1,113,639	113	251,179	1,364,931

At June 30, 2015, the Board had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions:

Counterparty Name	Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Northern Trust Company	113	AA-	AA-	A2
State Street Bank London	251,232	A+	AA-	A2
Maximum amount of loss in case of default of all counterparties	251,345			
Effect of collateral reducing maximum exposure	-			
Liabilities subject to netting arrangements reducing maximum exposure	-			
Resulting net exposure	251,345			

#### (5) COMMITMENTS AND CONTINGENCIES

The Board entered into agreements through external managers to provide capital funding for limited partnerships in the domestic equity, private equity, energy, and real estate portfolios. At June 30, 2015, the Board's unfunded commitments were as follows:

Portfolio	Unfunded Commitment	Estimated to be paid through:
Private Equity	1,254,026,593	Fiscal Year 2026
Energy	78,927,477	Fiscal Year 2023
Real Estate	210,425,423	Fiscal Year 2024
	1,543,379,493	