

ALASKA RETIREMENT MANAGEMENT BOARD

Public Employees' Retirement System

Invested Assets

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

ALASKA RETIREMENT MANAGEMENT BOARD

Public Employees' Retirement System

Invested Assets

June 30, 2007 and 2006

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Schedules of Invested Assets	2
Schedules of Investment Income and Changes in Invested Assets	4
Notes to Schedules.....	6

Independent Auditors' Report

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

We have audited the accompanying schedule of invested assets of the Public Employees' Retirement System as of June 30, 2007 and 2006 and the schedules of investment income and changes in invested assets for the years then ended (schedules). These schedules are the responsibility of the Division of Treasury's management. Our responsibility is to express an opinion on these schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for expressing an opinion on internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying schedules were prepared to present the invested assets of the Public Employees' Retirement System, which is established under the State of Alaska Public Employees Retirement System (PERS). The schedules are not intended to present the financial status of PERS.

In our opinion, the schedules referred to above present fairly, in all material respects, the invested assets of the Public Employees' Retirement System as of June 30, 2007 and 2006, and the investment income and changes in invested assets for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 2, 2007

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Schedules of Invested Assets

June 30, 2007 and 2006

	Defined Benefit		Defined Contribution	
			Participant Directed	Occupational Death and Disability
	2007	2006	2007	2007
Investments (at Fair Value):				
Cash and Cash Equivalents:				
Short-term Fixed Income Pool	\$ 20,752,106	559,886	604,240	12,707
Securities Lending Collateral	1,191,167,776	929,519,157	—	—
Total Cash and Cash Equivalents	<u>1,211,919,882</u>	<u>930,079,043</u>	<u>604,240</u>	<u>12,707</u>
Marketable Debt Securities:				
Domestic Fixed Income Pool	1,944,874,450	2,026,056,547	—	—
International Fixed Income Pool	201,681,837	196,326,644	—	—
High Yield Pool	193,356,315	146,295,725	—	—
Total Marketable Debt Securities	<u>2,339,912,602</u>	<u>2,368,678,916</u>	<u>—</u>	<u>—</u>
Equity Securities:				
Domestic Equity Pool	3,951,137,661	3,579,904,406	—	—
International Equity Pool	1,848,793,677	1,426,751,643	—	—
Emerging Markets Equity Pool	283,923,631	180,324,387	—	—
Private Equity Pool	729,613,318	565,342,637	—	—
Absolute Return Pool	423,103,189	239,130,193	—	—
Total Equity Securities	<u>7,236,571,476</u>	<u>5,991,453,266</u>	<u>—</u>	<u>—</u>
Other Investments Pool	<u>127,794,022</u>	<u>71,033,502</u>	<u>—</u>	<u>—</u>
Real Estate Investments:				
Real Estate Pool	1,186,582,353	940,936,275	—	—
Mortgages	2	1,507	—	—
Total Real Estate Investments	<u>1,186,582,355</u>	<u>940,937,782</u>	<u>—</u>	<u>—</u>

(Continued)

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Schedules of Invested Assets

June 30, 2007 and 2006

	Defined Benefit		Defined Contribution	
			Participant Directed	Occupational Death and Disability
	2007	2006	2007	2007
Investments (at Fair Value):				
Participant Directed:				
T. Rowe Price:				
Pool Investment Funds:				
Target 2025 Fund	\$ —	—	12,790	—
Alaska Balanced Fund	—	—	73,385	—
Long-Term Balanced Fund	—	—	15,588	—
Alaska Money Market	—	—	42,155	—
Collective Investment Fund:				
Small-Cap Fund	—	—	1,667,502	—
State Street Global Advisors - Collective				
Investment Funds:				
Daily Government/Corporate				
Bond Fund	—	—	2,012	—
S&P Stock Index Fund	—	—	1,805,960	—
Brandes Institutional - Collective				
Fund:				
International Equity Fund	—	—	2,026,521	—
Capital Guardian - Collective				
Investment Fund:				
Global Balanced Fund	—	—	122,323	—
Citizens Advisors - Collective				
Investment Fund:				
Citizens Core Growth Fund	—	—	1,476,003	—
Total Participant Directed	—	—	7,244,239	—
Occupational Death and Disability:				
ERISA Commingled and Mutual Funds:				
SSGA Domestic Equities	—	—	—	65,939
SSGA International Equities	—	—	—	28,721
SSGA Domestic Fixed Income	—	—	—	20,721
SSGA International Fixed Income	—	—	—	3,200
SSGA Treasury Inflation Protection	—	—	—	15,966
SSGA Real Estate	—	—	—	13,732
Lazard Emerging Markets	—	—	—	6,401
Money Market Fund:				
Non Participant Directed	—	—	41,165	—
Total Defined Contribution	—	—	41,165	154,680
Total Invested Assets	12,102,780,337	10,302,182,509	7,889,644	167,387
Securities Lending Collateral Payable	1,191,167,776	929,519,157	—	—
Net Invested Assets	\$ 10,911,612,561	9,372,663,352	7,889,644	167,387

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Schedules of Investment Income
and Changes in Invested Assets

For the years ended June 30, 2007 and 2006

	<u>Defined Benefits</u>		<u>Defined Contributions</u>	
			<u>Participant Directed</u>	<u>Occupational Death and Disability</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>
Investment Income (Loss):				
Short-term Fixed Income Pool	\$ 474,668	339,085	14,137	404
Securities Lending (net of \$49,817,085 and \$31,559,751 expense for the years ended June 30, 2007 and 2006, respectively)	2,639,922	1,992,580	—	—
Domestic Fixed Income Pool	119,299,689	189,693	—	—
International Fixed Income Pool	3,861,193	(2,288,024)	—	—
High Yield Pool	18,207,555	7,688,502	—	—
Domestic Equity Pool	692,010,538	303,158,846	—	—
International Equity Pool	407,080,785	362,506,165	—	—
Emerging Markets Equity Pool	91,736,243	46,248,411	—	—
Private Equity Pool	168,771,145	105,769,140	—	—
Other Investment Pool	10,013,504	4,800,839	—	—
Absolute Return Pool	34,638,081	22,505,186	—	—
Real Estate Pool	205,123,650	143,059,478	—	—
Mortgages	8	10,546	—	—
T. Rowe Price:				
Target 2025 Fund	—	—	1,092	—
Alaska Balanced Fund	—	—	192	—
Long-Term Balanced Fund	—	—	2,467	—
Small-Cap Fund	—	—	47,251	—
Alaska Money Market	—	—	(32,532)	—
State Street Global Advisors:				
Daily Government/Corporate Bond Fund	—	—	(63)	—
S&P Stock Index Fund	—	—	55,610	—

(Continued)

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Schedules of Investment Income
and Changes in Invested Assets

For the years ended June 30, 2007 and 2006

	<u>Defined Benefits</u>		<u>Defined Contributions</u>	
			<u>Participant</u>	<u>Occupational</u>
	<u>2007</u>	<u>2006</u>	<u>Directed</u>	<u>Death and</u>
			<u>2007</u>	<u>Disability</u>
			<u>2007</u>	<u>2007</u>
Investment Income (Loss):				
Brandes Institutional:	\$			
International Equity Fund		—	81,735	—
Capital Guardian:				
Global Balanced Fund		—	3,526	—
Citizens Advisors:				
Citizens Core Growth Fund		—	50,721	—
State Street Global Advisors:				
SSGA Domestic Equities		—	—	2,719
SSGA International Equities		—	—	1,729
SSGA Domestic Fixed Income		—	—	11
SSGA International Fixed Income		—	—	(27)
SSGA Treasury Inflation Protection		—	—	34
SSGA Real Estate		—	—	(1,059)
Lazard Emerging Markets		—	—	744
Money Market Fund -				
Nonparticipant Directed		—	41,165	—
Total Investment Income (loss)	1,753,856,981	995,980,447	265,301	4,555
Total Invested Assets, Beginning of Year	9,372,663,353	8,586,538,452	—	—
Net Contributions (Withdrawals)	(214,907,771)	(209,855,547)	7,624,343	162,832
Total Invested Assets, End of Year	<u>\$ 10,911,612,563</u>	<u>9,372,663,352</u>	<u>7,889,644</u>	<u>167,387</u>

Public Employees' Retirement System

Invested Assets

Notes to Schedules June 30, 2007 and 2006

(1) THE ACCOUNTING ENTITY

The Public Employees' Retirement System Invested Assets (PERS Invested Assets) is the investment portfolio of the State of Alaska Public Employees' Retirement System (PERS). PERS is a multiple employer, joint contributory, agent-defined benefit and defined contribution (established July 1, 2006) systems established for the payment of retirement, disability and death benefits to, or on behalf of, qualified employees of the State of Alaska (State) or a political subdivision within the State. These schedules are those of PERS Invested Assets and not PERS taken as a whole. Fiduciary responsibility for PERS Invested Assets resides with the Alaska Retirement Management Board (Board), pursuant to Alaska Statutes 37.10.210-390.

Alaska Statutes 39.35.080 and 37.10.071 provide 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.

The Department of Revenue, Treasury Division (Treasury) provides staff for the Board. Treasury has created a pooled environment by which it manages the Defined Benefit investments the Board has fiduciary responsibility for. Additionally, Treasury manages mix of ERISA Commingled, Collective Investment, and Mutual Funds for the Defined Contribution and Occupational Death and Disability Plans. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the Securities Lending Collateral, Collective Investment Pools, ERISA Commingled and Mutual Funds, External Domestic Fixed Income Pool, International Fixed Income Pool, High Yield Pool, Domestic Equity Pool, International Equity Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Other Investments Pool and, with the exception of real estate investment trust holdings, the Real Estate Pool are managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool, Short-term Fixed Income Pool, real estate investment trust holdings and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

(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 withdrawals represent contributions from employers and employees, net of benefits paid to PERS participants as well as administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

Valuation

Fixed income securities 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.

Domestic and international equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers.

Emerging markets securities are valued on the last business day of each month by the investment managers.

Private equity securities are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Valuation (Cont.)

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

The energy related investment in the Other Investments Pool is valued quarterly by the general partner. The agricultural investments are valued quarterly by investment managers. Valuations are based on market conditions and knowledge of industry trends. Agricultural holdings are appraised once every three years, in conjunction with the purchase anniversary date, by independent appraisers.

With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions and their knowledge of industry trends. Separate account real estate investments are appraised at least once every three years, in conjunction with the properties purchase anniversary date, by independent appraisers. Real estate investment trust holdings are valued each business day using prices obtained from a pricing service.

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices.

Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. At June 30, 2007 and 2006, the allowance for loan loss totaled \$5,221 and is considered by management to be sufficient to cover any losses to the mortgage loan portfolio.

ERISA Commingled and Mutual Funds are valued daily. Equity investments for which market quotations are readily available are valued at the last reported sale price on their principal exchange on valuation date, or official close for certain markets. If no sales are reported for that day, investments are valued at the more recent of the last published sale price or the mean between the last reported bid and asked prices, or at fair value as determined in good faith by the Trustee.

Collective Investment Funds are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Pooled Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Income Allocation

Income in the fixed income and domestic and international equity pools is allocated to pool participants daily on a pro rata basis.

Income, in the Emerging Markets, Private Equity, Absolute Return, Other Investments, and Real Estate Pools is allocated to pool participants monthly on a pro rata basis.

Income for the ERISA Commingled and Mutual Funds is credited to the fund's net asset value on a daily basis and allocated to pool participants on a pro rata basis.

Income for the Pooled Investment and Collective Investment Funds is credited to the fund's net asset value on a daily basis and allocated to pool participants on a pro rata basis.

Public Employees' Retirement System

Invested Assets

Notes to Schedules June 30, 2007 and 2006

(3) POOLED INVESTMENTS

Short-term Fixed Income Pool

Both Defined Benefit and Defined Contribution PERS Invested Assets include participation in the State's internally managed Short-term Fixed Income Pool which was established March 15, 1993, with a start up and maintained share price of \$1. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At June 30, 2007 and 2006, PERS Invested Assets included a 0.55% and .38% direct ownership in the Short-term Fixed Income Pool which included interest receivable of \$26,850 and \$21,543 respectively. PERS Invested Assets included a 9.15% and 9.28% indirect ownership in the Short-term Fixed Income Pool at June 30, 2007 and 2006, respectively.

Defined Benefit Pools

Enhanced Cash Fixed Income Pool

PERS Invested Assets include participation in the State's internally managed Enhanced Cash Fixed Income Pool which was established on June 27, 2007 with a startup price of \$1,000. The share price at June 30, 2007 was \$1,000. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At year end only one pool, the Domestic Fixed Income Pool, was invested in the Enhanced Cash Fixed Income Pool. At June 30, 2007 PERS Invested Assets included a 68.76% direct ownership in the Enhanced Cash Fixed Income Pool.

Domestic Fixed Income Pool

PERS Invested Assets include participation in the Board's internally managed Retirement Fixed Income Pool which was established March 1, 1996, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,958. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, PERS Invested Assets included a 68.50% and 68.04% ownership in the Retirement Fixed Income Pool, respectively.

International Fixed Income Pool

PERS Invested Assets include participation in the Board's externally managed International Fixed Income Pool which was established March 3, 1997, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,826. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, PERS Invested Assets included a 68.80% and 68.29% ownership in the International Fixed Income Pool, respectively.

High Yield Pool

PERS Invested Assets include participation in the Board's externally managed High Yield Pool which was established April 15, 2005, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,189. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, PERS Invested Assets included a 68.76% and 68.22% ownership in the High Yield Pool, respectively.

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(3) POOLED INVESTMENTS (CONT.)

Domestic Equity Pool

The Domestic Equity Pool is comprised of an External Large Cap Domestic Equity Pool and an External Small Cap Domestic Equity Pool.

Large Cap Domestic Equity Pool

PERS Invested Assets include participation in the Board's externally managed Large Cap Domestic Equity Pool which was established July 1, 2004, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,368. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, PERS Invested Assets included a 68.65% and 68.13% ownership in the Large Cap Domestic Equity Pool, respectively.

Small Cap Domestic Equity Pool

PERS Invested Assets include participation in the Board's externally managed Small Cap Domestic Equity Pool which was established July 1, 2004, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,375. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, PERS Invested Assets included a 69.15% and 68.14% ownership in the Small Cap Domestic Equity Pool, respectively.

International Equity Pool

PERS Invested Assets include participation in the Board's externally managed International Equity Pool which was established January 1, 1992, with a start up share price of \$1,000. The share price at June 30, 2007, was \$4,301. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, PERS Invested Assets included a 68.64% and 68.50% ownership in the International Equity Pool, respectively.

Emerging Markets Equity Pool

PERS Invested Assets include participation in the Board's externally managed Emerging Markets Equity Pool which was established May 2, 1994, with a start up share price of \$1,000. The share price at June 30, 2007, was \$3,870. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, PERS Invested Assets included a 68.76% and 65.00% ownership in the Emerging Markets Equity Pool, respectively.

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(3) POOLED INVESTMENTS (CONT.)

Private Equity Pool

PERS Invested Assets include participation in the Board's externally managed Private Equity Pool which was established April 24, 1998, with a start up share price of \$1,000. The share price at June 30, 2007, was \$2,214. Underlying assets in the pool are comprised of venture capital, buyouts, restructuring and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, PERS Invested Assets included a 69.04% and 68.62% ownership in the Private Equity Pool, respectively.

Absolute Return Pool

PERS Invested Assets include participation in the Board's externally managed Absolute Return Pool which was established October 31, 2004, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,248. Underlying assets in the pool are comprised of hedge fund limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, PERS Invested Assets included a 68.74% and 68.21% ownership in the Absolute Return Pool, respectively.

Other Investments Pool

PERS Invested Assets include participation in the Board's externally managed Other Investments Pool which was established March 18, 2004, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,286. Underlying assets in the pool are comprised of a limited partnership interest in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, PERS Invested Assets included a 69.15% and 68.62% ownership in the Other Investments Pool.

Real Estate Pool

PERS Invested Assets include participation in the Board's externally managed Real Estate Pool which was established June 27, 1997, with a start up share price of \$1,000. The share price at June 30, 2007, was \$3,006. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, each manager independently determines which permissible investments are made. Treasury staff determine the permissible real estate investment trusts to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, PERS Invested Assets included a 68.47% and 68.17% ownership in the Real Estate Pool, respectively.

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(3) POOLED INVESTMENTS (CONT.)

Defined Contribution Pooled 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 4 participant-directed funds.

T. Rowe Alaska Balanced Fund

On July 1, 2006 PERS began participation in the Alaska Balanced Trust. The purpose of this fund is to provide a balanced and diversified mix of U.S. and international stocks, investment-grade bonds, federally guaranteed mortgages and money market instruments for investors with a low to average risk tolerance. At June 30, 2007 PERS invested assets included a .01% ownership in the Alaska Balanced Trust.

T. Rowe Long-Term Balanced Fund

On July 1, 2006 PERS began participation in the Long-Term Balanced Trust. The purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages and money market instruments for investors with an average risk tolerance. At June 30, 2007 PERS invested assets included a .01% ownership in the Long-Term Balanced Trust.

T. Rowe Alaska Money Market Fund

On July 1, 2006 PERS began participation in the Alaska Money Market Trust. Underlying assets are comprised of cash equivalent instruments with maturities of less than one year which include commercial paper, banker acceptances, certificates of deposit with ratings of A1/P1 or better; as well as, obligations of the US Government and its agencies, and repurchase agreements collateralized by US Treasury Instruments with the goal of maintaining a \$1.00 unit price. At June 30, 2007 PERS invested assets included a 83.58% ownership in the Alaska Money Market Trust

T. Rowe Alaska Target 2025 Fund

On July 1, 2006 PERS began participation in the Target 2025 Trust. The purpose of this fund is to provide a diverse mix of stocks, bonds, and cash for long-term investors with a high tolerance for risk. Underlying investments are comprised of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, and money market instruments. At June 30, 2007 PERS invested assets included a .15% ownership in the Alaska Target 2025 Trust.

(4) ERISA COMMINGLED AND MUTUAL FUNDS

The Board contracts with external investment managers who maintain ERISA Commingled and Mutual Funds. Managers selected are subject to the provision of the ERISA Commingled and Mutual Funds the Board has selected.

SSGA Domestic Large Cap

The purpose of this fund is to replicate the returns and characteristics of the Russell 1000[®] Index through buying, holding securities, and trading only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

SSGA Domestic Small Cap

The purpose of this fund is to replicate the returns and characteristics of the Russell 2000[®] Index through buying, holding securities, and trading only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

Public Employees' Retirement System

Invested Assets

Notes to Schedules June 30, 2007 and 2006

(4) ERISA COMMINGLED AND MUTUAL FUNDS (CONT.)

SSGA International Equity

The purpose of this fund is to replicate the returns and characteristics of the MSCI EAFE Index through investing in 21 individual MSCI country funds which, in turn, own the Index securities in market-weighted proportion.

SSGA Domestic Fixed Income

The purpose of this fund is to create a well diversified portfolio that is representative of the domestic investment grade bond market. The Passive Bond Market Index Strategy seeks to replicate the returns and characteristics of the Lehman Brothers Aggregate Bond Index through individual security selection based upon criteria generated by SSGA's credit and research group, security availability, and the analysis of its impact on the portfolio's weightings.

SSGA International Fixed Income

The purpose of this fund is to create a well diversified portfolio that is representative of the international government bond market. The Passive World Government Bond Ex-US Index Strategy seeks to replicate the returns and characteristics of the Citigroup World Government Bond Ex-US Index by matching duration, quality and the sector of the Index.

SSGA Treasury Inflation Protection Securities (TIPS)

The U.S. Treasury Inflation Protected Securities Index Strategy seeks to replicate the returns and characteristics of the Lehman Brothers Inflation Notes Index.

SSGA Real Estate

The REIT Index Strategy seeks to replicate the returns and characteristics of the Dow Jones Wilshire REIT Index. To accomplish this, SSGA's strategy is to buy and hold securities, trading only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

Lazard Emerging Markets Equity Fund

The purpose of this fund is to meet or exceed the MSCI Emerging Markets Index by 3% per annum over a rolling five-year period. Underlying investments are comprised of domestic and global equities as well as alternative assets.

(5) COLLECTIVE INVESTMENT FUNDS

The Board contracts with external investment managers who maintain collective investment funds. Managers selected are subject to the provisions of the collective investment fund the Board has selected.

SSGA Government/Corporate

The purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index

SSGA S&P Stock Index Fund

The purpose of this fund is to provide income and capital appreciation matching the total return of the Standards & Poor's Composite Stock Price Index

Public Employees' Retirement System

Invested Assets

Notes to Schedules June 30, 2007 and 2006

(5) COLLECTIVE INVESTMENT FUNDS (CONT.)

Global Balanced Fund

This fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

Brandes Institutional International Equity Fund

The purpose of this fund is to provide long-term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

Citizens Core Growth Fund

This fund invests primarily in U.S. large cap growth stocks, with an emphasis on those that are managed in a socially responsible manner

T. Rowe Small Cap Stock Fund

The purpose of this fund is to provide long-term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

Money Market Fund

Consists of nonparticipant directed funds used to pay administrative costs of the plan.

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(6) DEPOSIT AND INVESTMENT RISK

At June 30, 2007, PERS Invested Assets included the following:

	Fair Value (in thousands)							Total
	Short-term	Defined Benefit Fixed Income Pools				Defined Contribution Pooled Investment Funds	Other	
		Enhanced Cash	Domestic	International	High Yield			
Deposits	\$ —	—	—	842	—	(1)	48,540	49,381
Overnight Sweep Account	2,319	—	—	—	11,801	—	—	14,120
Money Market Fund	—	—	—	—	—	—	1,191,209	1,191,209
Short-term Investment Fund	15,092	—	—	716	—	—	—	15,808
Commercial Paper	33,429	—	2,238	—	3,419	41	—	39,127
Domestic Equity	—	—	—	—	—	45	—	45
International Equity	—	—	—	—	—	3	—	3
Collective Investment Funds	—	—	—	—	—	—	7,100	7,100
U. S. Treasury Bills	—	—	—	—	—	—	3,757	3,757
U. S. Treasury Notes	—	—	211,629	—	—	13	—	211,642
U. S. Treasury Strips	—	—	171	—	—	—	—	171
U. S. Treasury Bonds	—	—	94,840	—	—	—	—	94,840
U.S. Treasury – TIPS	—	—	—	—	—	—	—	—
U.S. Government Agency Discount Notes	—	—	132,603	—	—	—	—	132,603
U.S. Government Agency	—	—	845	—	—	1	—	846
Municipal Bonds	—	—	1,269	—	—	—	—	1,269
Foreign Government Bonds	—	—	—	121,311	—	—	—	121,311
Mortgage-backed	25,827	—	1,092,721	—	—	21	—	1,118,569
Other Asset-backed	185,578	1,250	124,587	—	459	—	—	311,874
Corporate Bonds	96,222	1,749	350,802	75,586	155,141	19	—	679,519
Convertible Bonds	—	—	—	—	2,909	—	—	2,909
Yankees:								
Government	—	—	10,921	—	—	1	—	10,922
Corporate	20,296	—	39,010	—	15,136	1	—	74,443
Fixed Income Pools:								
Equity	—	—	—	—	1,623	—	—	1,623
Domestic Equity Pool:								
Limited Partnership	—	—	—	—	—	—	325,064	325,064
Equity	—	—	—	—	—	—	3,561,923	3,561,923
International Equity Pool:								
Equity	—	—	—	—	—	—	1,796,404	1,796,404
Emerging Markets Equity Pool	—	—	—	—	—	—	283,924	283,924
Private Equity Pool:								
Limited Partnerships	—	—	—	—	—	—	729,171	729,171
Absolute Return Pool:								
Limited Partnerships	—	—	—	—	—	—	423,103	423,103
Other Investments Pool:								
Limited Partnerships	—	—	—	—	—	—	52,291	52,291
Agricultural Holdings	—	—	—	—	—	—	75,503	75,503
Real Estate Pool:								
Real Estate	—	—	—	—	—	—	382,579	382,579
Commingled Funds	—	—	—	—	—	—	221,159	221,159
Limited Partnerships	—	—	—	—	—	—	519,634	519,634
Real Estate Investment Trusts	—	—	—	—	—	—	62,416	62,416
DCR ERISA Commingled Funds	—	—	—	—	—	—	155	155
Net Other Assets (Liabilities)	(1,693)	(530)	(417,494)	3,227	2,868	—	8,042	(405,580)
Other Pool Ownership	(356,318)	(2,469)	300,732	—	—	—	58,055	—
Total invested assets	\$ 20,752	—	1,944,874	201,682	193,356	144	9,750,029	12,110,837

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(6) DEPOSIT AND INVESTMENT RISK

At June 30, 2006, PERS Invested Assets included the following:

	Fair Value (in thousands)					Total
	Fixed Income Pools					
	Short-term	Domestic	International	High Yield	Other	
Deposits	\$ -	\$ -	\$ -	\$ -	\$ 3,425	\$ 3,425
Overnight Sweep Account	425	734	-	12,431	-	13,590
Money Market Fund	-	-	-	-	929,519	929,519
Short-term Investment Fund	10,472	-	1,188	-	21,597	33,256
Commercial Paper	21,002	6,800	-	-	-	27,802
U. S. Treasury Notes	-	111,417	-	-	-	111,417
U. S. Treasury Bonds	-	119,347	-	-	-	119,347
U. S. Treasury Strips	-	11,488	-	-	-	11,488
U.S. Government Agency						
Discount Notes	-	96,151	-	-	-	96,151
U.S. Government Agency	-	175,690	-	-	-	175,690
Municipal Bonds	-	1,415	-	-	-	1,415
Foreign Government Bonds	-	-	111,744	-	-	111,744
Mortgage-backed	18,079	961,003	-	-	-	979,082
Other Asset-backed	125,717	118,192	-	250	-	244,159
Corporate Bonds	65,044	419,280	76,247	125,017	-	685,588
Convertible Bonds	-	-	-	2,720	-	2,720
Yankees:						
Government	-	15,603	-	-	-	15,603
Corporate	2,669	1,360	-	4,662	-	8,692
Fixed Income Pools:						
Equity	-	-	-	38	-	38
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	200,597	200,597
Equity	-	-	-	-	3,339,373	3,339,373
International Equity Pool:						
Equity	-	-	-	-	1,404,660	1,404,660
Emerging Markets Equity Pool	-	-	-	-	180,324	180,324
Private Equity Pool:						
Limited Partnerships	-	-	-	-	565,343	565,343
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	239,130	239,130
Other Investments Pool:						
Limited Partnerships	-	-	-	-	27,598	27,598
Agricultural Holdings	-	-	-	-	43,435	43,435
Real Estate Pool:						
Real Estate	-	-	-	-	533,531	533,531
Commingled Funds	-	-	-	-	190,943	190,943
Limited Partnerships	-	-	-	-	147,192	147,192
Real estate investment trusts	-	-	-	-	68,333	68,333
Mortgages	-	-	-	-	2	2
Net Other Assets (Liabilities)	(137)	(222,473)	7,148	1,178	5,280	(209,003)
Other Pool Ownership	(242,711)	210,049	-	-	32,662	-
PERS Invested Assets	\$ 560	\$ 2,026,056	\$ 196,327	\$ 146,296	\$ 7,932,944	\$ 10,302,183

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

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 fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2007, the expected average life of individual fixed rate securities ranged from four days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Other Fixed Income Pools

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the enhanced cash income portfolio to one year.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the domestic fixed income portfolio to $\pm 20\%$ of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2007, was 4.70 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the international fixed income portfolio to $\pm 25\%$ of the Citigroup Non-U.S. World Government Bond Index. The effective duration for the Citigroup Non-U.S. World Government Bond Index at June 30, 2007, was 6.00 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to $\pm 20\%$ of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2007, was 4.59 years.

Defined Contribution Pooled 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 four participant directed funds. Through the Board's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

For government and corporate debt securities, duration is limited to ± 0.25 years of the Lehman Brothers Government/Credit Index. At June 30, 2007, the duration of the government and corporate debt securities was 5.12 years and the duration of the Lehman Brothers Government Credit Index was 5.01 years.

For mortgage-backed securities, duration is limited to ± 0.25 years of the Lehman GNMA Index. At June 30, 2007, the duration of the mortgage-backed securities was 4.29 years and the duration of the Lehman GNMA Index 4.31 years.

The weighted average maturity of the money market portfolio was fifty-three days at June 30, 2007

The Board does not have a policy to limit interest rate risk for funds held in foreign currency, the custodian's short-term investment fund or commercial paper.

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

ERISA Commingled and Mutual Funds

The Board does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the ERISA Commingled investment funds that consists solely of debt securities, Domestic Fixed Income, International Fixed Income, and TIPS were, 4.70, 6.16, and 7.80 years at June 30, 2007, respectively.

Collective Investment Funds

The Board does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the Collective investment fund that consisted solely of debt securities, the Government/Corporate Bond Fund, was 5.33 years at June 30, 2007.

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 of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options and other variable cash flows for purposes of the effective duration calculation.

At June 30, 2007, the effective duration of the defined benefit fixed income pools, by investment type, was as follows:

	Effective Duration (in years)			
	Enhanced Cash	Domestic	International	High Yield
U.S. Treasury Notes	—	4.07	—	—
U.S. Treasury Bonds				
U.S. Treasury Strips				
U.S. Government Agency	—	4.52	—	—
U.S. TIPS				
Municipal Bonds	—	12.33	—	—
Foreign Government Bonds				
Mortgage-backed	—	4.26	—	—
Other Asset-backed	1.84	4.82	—	4.39
Corporate Bonds	0.22	5.36	3.80	4.21
Convertible Bonds				2.20
Yankees:				
Government	—	6.46	—	—
Corporate	—	11.03	8.86	3.88
Portfolio Effective Duration	0.08	3.99	4.81	3.82

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

The Board does not have a policy to limit the concentration of credit risk for the Collective Investment, ERISA Commingled, and Mutual Funds.

The PERS invested assets in externally managed pools may lend assets or transfer securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agree to return the collateral for the same securities in the future. There is credit risk associated with the lending transactions. The risk exists that an issuer or other counter party to an investment will not fulfill its obligations and a loss results from counterparty failure or default on a loaned security.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

The Board's investment policy has the following limitations with regard to credit risk:

Domestic Fixed Income:

- Commercial paper must carry a rating of at least A1 or equivalent;

- Corporate debt securities must be investment grade;

- Corporate, asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

Enhanced Cash Fixed Income:

- Commercial paper must carry a rating of at least A1 or equivalent;

- No more than five percent of the portfolio's assets may be invested in securities rated below investment grade as determined by the Lehman Brothers rating methodology.

- No more than two percent of the portfolio's assets may be invested in the bonds of any non-U.S. government agency or instrumentality rated below investment grade.

International Fixed Income:

- Corporate debt and asset-backed securities must be investment grade.

Domestic and International Equity:

- Corporate debt obligations must carry a rating of at least A or equivalent.

Public Employees' Retirement System Invested Assets

Notes to Schedules June 30, 2007 and 2006

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

Credit Risk (Cont.)

High Yield

No more than ten percent of the portfolio's assets may be invested in securities rated A3 or higher.
No more than twenty-five percent of the portfolio's assets may be invested in securities rated below B3.
No more than five percent of the portfolio's assets may be invested in unrated securities.

The lower of any Standard & Poor's Corporation, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

Daily cash surpluses that arise in this pool are invested in the custodian's repurchase agreement sweep account. This account is secured by U.S. Government or Agency securities. As such, the Board does not consider this investment subject to the credit risk limitations above.

Defined Contribution Pooled Investment Funds:

All government and corporate fixed income securities must be rated BBB or better at the time of purchase
All mortgage-backed securities must be issued by the Government National Mortgage Association and
Commercial paper and other short-term debt obligations must be rated A1 or equivalent

Public Employees' Retirement System Invested Assets

Notes to Schedules June 30, 2007 and 2006

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

Credit Risk (Cont.)

At June 30, 2007, PERS Invested Assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

	Rating ¹	Defined Benefit					Defined Contribution			Collective Investment Funds
		Internally Managed Fixed Income Pools					Pooled Investment Funds			
		Short-term	Enhanced Cash	Domestic	International	High Yield	GNMA	Government/Corporate	Money Market	
Overnight Sweep Account	Not Rated	0.61%	—%	—%	—%	6.10%	—%	—%	—%	—%
Money Market Fund	Not Rated	—	—	—	—	—	—	—	—	0.58
Short-term Investment Account	Not Rated	3.96	—	—	0.36	—	7.40	0.84	—	—
Commercial Paper	AA	1.88	—	—	—	—	—	—	—	—
Commercial Paper	A	3.09	—	—	—	1.77	—	—	6.22	—
Commercial Paper	Not Rated	3.86	—	0.14	—	—	—	—	83.66	—
U. S. Government Agency Discount Notes	Not Rated	—	—	8.07	—	—	—	—	—	—
U. S. Government Agency	AAA	—	—	—	—	—	—	2.42	—	—
U. S. Government Agency	Not Rated	—	—	0.05	—	—	—	—	—	—
Mortgage-backed	AAA	6.50	—	51.10	—	—	88.91	17.08	—	—
Mortgage-backed	A	0.32	—	—	—	—	—	—	—	—
Mortgage-backed (Agency)	Not Rated	—	—	15.36	—	—	3.69	—	—	—
Other Asset-backed	AAA	40.98	2.65	5.14	—	—	—	—	—	—
Other Asset-backed	AA	0.91	—	0.27	—	—	—	—	—	—
Other Asset-backed	A	6.34	—	0.09	—	—	—	—	—	—
Other Asset-backed	BBB	—	1.00	0.74	—	—	—	—	—	—
Other Asset-backed	BB	—	—	—	—	0.24	—	—	—	—
Other Asset-backed	Not Rated	0.78	—	1.34	—	—	—	—	—	—
Municipal Bonds	AA	—	—	0.08	—	—	—	—	—	—
Corporate Bonds	AAA	1.97	—	1.89	25.92	—	—	1.67	3.13	—
Corporate Bonds	AA	15.13	0.60	4.28	11.43	—	—	6.70	3.13	—
Corporate Bonds	A	8.31	3.46	6.98	—	—	—	15.45	6.25	—
Corporate Bonds	BBB	—	1.04	7.15	—	1.56	—	11.42	—	—
Corporate Bonds	BB	—	—	—	—	21.55	—	—	—	—
Corporate Bonds	B	—	—	—	—	41.49	—	—	—	—
Corporate Bonds	CCC	—	—	—	—	11.57	—	—	—	—
Corporate Bonds	D	—	—	—	—	0.48	—	—	—	—
Corporate Bonds	Not Rated	—	—	1.03	0.28	3.59	—	—	—	—
Convertible Bonds	BBB	—	—	—	—	0.20	—	—	—	—
Convertible Bonds	BB	—	—	—	—	0.06	—	—	—	—
Convertible Bonds	B	—	—	—	—	1.19	—	—	—	—
Convertible Bonds	D	—	—	—	—	0.05	—	—	—	—
Yankees:										
Government	AAA – BBB	—	—	0.66	56.57	—	—	2.85	—	—
Government	Not Rated	—	—	—	3.83	—	—	—	—	—
Corporate	AAA	—	—	—	—	—	—	0.27	—	—
Corporate	AA	3.09	—	—	—	—	—	0.96	—	—
Corporate	A	1.75	—	1.47	—	—	—	0.91	—	—
Corporate	BBB	—	—	0.61	—	0.35	—	0.71	—	—
Corporate	BB	—	—	—	—	1.06	—	—	—	—
Corporate	B	—	—	—	—	5.88	—	—	—	—
Corporate	CCC	—	—	—	—	0.21	—	—	—	—
Corporate	Not Rated	0.52	—	0.30	—	0.32	—	—	—	—
No credit exposure		—	91.25	(6.75)	1.61	2.33	—	38.72	(2.39)	99.42
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

¹Rating modifiers are not disclosed.

Securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

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, 2007, PERS Invested Assets had the following uncollateralized and uninsured deposits:

	<u>Amount</u>
	(In thousands)
International Equity Pool	\$ 3,677

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

The Board's policy with regard to foreign currency risk in the International Fixed Income Pool is to restrict obligations to those issued in the currencies of countries represented in the Citibank Non-U.S. World Government Bond Index. In addition, the Board's asset allocation policy permits PERS to hold up to four percent of total investments in international fixed income.

The Board's policy with regard to foreign currency risk in the International Equity Pool and the Emerging Markets Pool is to permit PERS to hold up to eighteen percent of total investments in these two pools combined.

The Board's policy with regard to foreign currency risk in the Private Equity Pool is to permit PERS to hold up to ten percent of total investments in private equity.

The Board has no policy regarding foreign currency risk in the Defined Contribution Investment Trust pool.

**Public Employees' Retirement System
Invested Assets**

**Notes to Schedules
June 30, 2007 and 2006**

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

Foreign Currency Risk (Cont.)

At June 30, 2007, PERS had exposure to foreign currency risk with the following deposits:

<u>Currency</u>	<u>Amount (in thousands)</u>	
	<u>Defined Benefit</u>	
	<u>International Fixed Income Pool</u>	<u>International Equity Pool</u>
Australian Dollar	\$ —	353
Canadian Dollar	—	2
Euro Currency	—	(967)
Hong Kong Dollar	—	451
Japanese Yen	257	2,406
Mexican Peso	584	—
New Zealand Dollar	—	7
Norwegian Krone	—	116
Pound Sterling	—	1,240
Singapore Dollar	—	1
Swedish Krona	—	67
Swiss Franc	—	1
	<u>\$ 841</u>	<u>3,677</u>

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(6) DEPOSIT AND INVESTMENT RISK (CONT.)

Foreign Currency Risk (Cont.)

At June 30, 2007, PERS had exposure to foreign currency risk with the following investments:

Currency	Amount (in thousands)				
	Fixed Income		International Equity Pool	Defined Contribution	
	International Fixed Income Pool			Private Equity Pool	International Trust Pool
	Foreign Government	Corporate	Equity	Limited Partnerships	Equity
Australian Dollar	\$ 4,080	1,929	40,213	—	—
Canadian Dollar	—	—	36,062	—	—
Danish Krone	—	—	2,052	—	—
Euro Currency	95,510	—	672,454	60,765	1
Hong Kong Dollar	—	—	246	—	—
Japanese Yen	17,824	73,657	3,466	—	1
Mexican Peso	3,897	—	—	—	—
New Taiwan Dollar	—	—	6,485	—	—
New Zealand Dollar	—	—	70	—	—
Norwegian Krone	—	—	133	—	—
Pound Sterling	—	—	334,160	7,104	—
Singapore Dollar	—	—	17,969	—	—
South African Rand	—	—	1,384	—	—
South Korean Won	—	—	27,069	—	—
Swedish Krona	—	—	31,346	—	—
Swiss Franc	—	—	112,797	—	—
	\$ 121,311	75,586	1,285,906	67,869	2

At June 30, 2007, PERS also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool represents an investment in commingled investment funds; therefore no disclosure of specific currencies is made.

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk for the Short-term Fixed Income Pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group.

The Board's policy with regard to concentration of credit risk for the Domestic Fixed Income, International Fixed Income and High Yield Pools is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group.

At June 30, 2007, PERS invested assets included \$557 million in Federal National Mortgage Association securities which represented 5% of total PERS invested assets. Federal National Mortgage Association securities are not classified as corporate bonds.

Public Employees' Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(7) FOREIGN EXCHANGE, FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The International Fixed Income and International Equity Pool's investment income includes the following at June 30:

	<u>2007</u>	<u>2006</u>
Net realized gain on foreign currency	\$ 43,067,735	21,661,967
Net unrealized gain (loss) on foreign currency	(13,875)	(26,077)
Net realized gain on foreign exchange contracts	215,198	252,345

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 maturity periods for these contracts range from eight to one hundred and twenty-four days. PERS had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	<u>2007</u>	<u>2006</u>
Contract Sales	\$ 1,379,172	2,976,479
Less fair value	<u>1,370,948</u>	<u>2,984,540</u>
Net unrealized Gains (Loss) on Contracts	<u>\$ 8,224</u>	<u>(8,061)</u>

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of non-performance 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.

(8) COMMITMENTS

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2007, PERS Invested Asset's share of the unfunded commitment totaled \$8,892,586. This commitment can be withdrawn annually in December with ninety days notice.

The Board entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2007, PERS Invested Asset's share of these unfunded commitments totaled \$495,067,445. These commitments are estimated to be paid through 2014.

The Board entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2007, PERS Invested Asset's share of this unfunded commitment totaled \$62,924,790 to be paid through the year 2017.

The Board entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2007, PERS Invested Asset's share of these unfunded commitments totaled \$318,407,443 to be paid through the year 2011.

Public Employees' Retirement System

Invested Assets

Notes to Schedules June 30, 2007 and 2006

(9) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Board to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The Board has entered into an agreement with State Street Corporation (the Bank) to lend equity and domestic fixed income securities. The Bank, acting as the Board's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2007 and 2006, the fair value of securities on loan allocable to PERS Invested Assets totaled \$1,226,646,651 and \$915,963,861, respectively. There is no limit to the amount that can be loaned and the Board is able to sell securities on loan. International equity security loans are collateralized at not less than 105 percent of their fair value. All other security loans are collateralized at not less than 102 percent of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral in the amount of \$1,191,167,776 was invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. Collateral securities in the amount of \$72,719,147 may be pledged or sold upon borrower default. Since the Board does not have the ability to pledge or sell collateral securities unless the borrower defaults, they are not recorded on the financial schedules. Securities under loan, cash collateral and cash collateral payable are recorded on the financial schedules at fair value. The bank, PERS and the borrower receive a fee from earnings on invested collateral. The bank and PERS share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the Board is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the Board against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the years ended June 30, 2007 and 2006, there were no losses incurred as a result of securities lending transactions and there were neither significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(10) CONTINGENCY

During Fiscal Year 2007, the Department of Administration determined that the Defined Benefit Retiree Health Program funded through PERS did not meet the provisions of the Internal Revenue Code. Consequently, during the fiscal year 2007 legislative session, a law was enacted that created the Alaska Retiree Health Care Trusts (ARHCT), two separate irrevocable trusts. Senate Bill 123 (SB 123), signed into law and effective May 28, 2007, directs all separately calculated employer contributions for retiree health benefits, and appropriations, earnings and reserves for payment of retiree medical obligations, to be credited to the ARHCT. Pursuant to SB 123, Treasury and the Department of Administration anticipate establishing and implementing the ARHCT effective as of July 1, 2007. The ARHCT will be funded through contributions from employers. All premiums paid by retirees will continue to be deposited to and expensed from the Defined Benefit Retiree Major Medical Health Fund.

PERS intends to seek a tax determination letter from the Internal Revenue Service during the filing cycle beginning on February 1, 2008, and ending on January 31, 2009 concerning the status of the pension plans it administers as qualified governmental plans under Internal Revenue Code Sections 401(a) and 414(d). PERS also intends to seek private letter rulings regarding the status of the ARHCT. Finally, PERS intends to seek rulings and/or guidance from the Internal Revenue Service with respect to the prior structure of the retiree health program. As a result, invested assets may need to be reallocated between net assets available for pension benefits and net assets available for retiree health benefits, which could require a transfer of assets included in the accompanying schedule of invested assets into the ARHCT. At this time, PERS is unable to predict the exact timing of the making of its intended filing with the Internal Revenue Service, the timing of any guidance that may be obtained from the Internal Revenue Service, the results or impact of such guidance on the statements of invested assets and changes therein, or the amount of a transfer, if any to the ARHCT.