



**ALASKA RETIREMENT MANAGEMENT BOARD**

**Judicial Retirement System**

**Invested Assets**

**June 30, 2008**

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

**ALASKA RETIREMENT MANAGEMENT BOARD**

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**June 30, 2008**

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## **Independent Auditors' Report**

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

We have audited the accompanying schedules of invested assets of the Judicial Retirement System as of June 30, 2008 and of investment income and changes in invested assets of the Judicial Retirement System for the year 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 audit.

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 audit to obtain reasonable assurance about whether the Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedules were prepared to present the invested assets of the Judicial Retirement System, which is established under the State of Alaska Judicial Retirement System (JRS). The Schedules are not intended to present the financial status of JRS.

In our opinion, the Schedules referred to above present fairly, in all material respects, the invested assets of the Judicial Retirement System as of June 30, 2008, and the investment income and changes in invested assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

October 23, 2008

**JUDICIAL RETIREMENT SYSTEM**  
**SCHEDULE OF INVESTED ASSETS**  
**June 30, 2008**

<b>Investments (at Fair Value)</b>	<u><b>Pension</b></u>	<u><b>Health Care</b></u>	<u><b>Total</b></u>
<b>Cash and Cash Equivalents</b>			
Short-term Fixed Income Pool	\$ 56,012	\$ 932,475	\$ 988,487
Total Cash and Cash Equivalents	<u>56,012</u>	<u>932,475</u>	<u>988,487</u>
<b>Marketable Debt Securities</b>			
Retirement Fixed Income Pool	18,406,023	-	18,406,023
International Fixed Income Pool	2,507,362	-	2,507,362
High Yield Pool	3,681,745	-	3,681,745
Treasury Inflation Protected Securities Pool	4,708,339	-	4,708,339
Total Marketable Debt Securities	<u>29,303,469</u>	<u>-</u>	<u>29,303,469</u>
<b>Equity Securities</b>			
Domestic Equity Pool	49,295,030	-	49,295,030
International Equity Pool	21,248,327	-	21,248,327
Emerging Markets Equity Pool	2,356,658	-	2,356,658
Absolute Return Pool	5,022,968	-	5,022,968
Total Equity Securities	<u>77,922,983</u>	<u>-</u>	<u>77,922,983</u>
<b>Real Estate Investments</b>			
Real Estate Pool	<u>12,450,740</u>	<u>-</u>	<u>12,450,740</u>
<b>Common Trust Funds</b>			
SSgA Domestic Equity	-	5,710,327	5,710,327
SSgA International Equity	-	2,506,121	2,506,121
SSgA Emerging Markets	-	501,448	501,448
SSgA Domestic Fixed Income	-	1,910,666	1,910,666
SSgA International Fixed Income	-	261,278	261,278
SSgA High Yield Bond Index	-	354,782	354,782
SSgA TIPS Index	-	1,277,120	1,277,120
Total Common Trust Investments	<u>-</u>	<u>12,521,742</u>	<u>12,521,742</u>
<b>Total Invested Assets</b>	<u>\$ 119,733,204</u>	<u>\$ 13,454,217</u>	<u>\$ 133,187,421</u>

**JUDICIAL RETIREMENT SYSTEM**

**SCHEDULE OF INVESTMENT INCOME  
AND CHANGES IN INVESTED ASSETS**

**Year ended June 30, 2008**

<b>Investment Income</b>	<u>Pension</u>	<u>Health</u>	<u>Total</u>
Short-term Fixed Income Pool	\$ 23,218	\$ 7,968	\$ 31,186
Securities Lending (net of \$362,570 expense for the year ended June 30, 2008)	47,623	-	47,623
Retirement Fixed Income Pool	842,252	-	842,252
International Fixed Income Pool	287,031	-	287,031
High Yield Pool	(21,401)	-	(21,401)
Domestic Equity Pool	(5,854,550)	-	(5,854,550)
International Equity Pool	(2,018,800)	-	(2,018,800)
Treasury Inflation Protected Securities Pool	555,593	-	555,593
Emerging Markets Equity Pool	90,899	-	90,899
Absolute Return Pool	72,236	-	72,236
Real Estate Pool	961,228	-	961,228
SSgA Domestic Equity	-	(311,347)	(311,347)
SSgA International Equities	-	(14,709)	(14,709)
SSgA Emerging Markets	-	(2,567)	(2,567)
SSgA Domestic Fixed Income	-	12,968	12,968
SSgA International Fixed Income	-	5,448	5,448
SSgA High Yield Bond Index	-	(9,327)	(9,327)
SSgA TIPS Index	-	28,863	28,863
<b>Total Investment Income</b>	<u>(5,014,671)</u>	<u>(282,703)</u>	<u>(5,297,374)</u>
<b>Total Invested Assets, Beginning of Year</b>	90,792,444	-	90,792,444
<b>Net Contributions</b>	<u>33,955,431</u>	<u>13,736,920</u>	<u>47,692,351</u>
<b>Total Invested Assets, End of Year</b>	<u>\$ 119,733,204</u>	<u>\$ 13,454,217</u>	<u>\$ 133,187,421</u>

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (1) THE ACCOUNTING ENTITY

The Judicial Retirement System Invested Assets (JRS Invested Assets) is the investment portfolio of the State of Alaska Judicial Retirement System (JRS). JRS is a single-employer defined benefit system established for the payment of retirement, health care, disability and death benefits to, or on behalf of, eligible State judges and justices. These Schedules are those of JRS Invested Assets and not JRS taken as a whole. Fiduciary responsibility for JRS Invested Assets resides with the Alaska Retirement Management Board (Board), 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.

The Department of Revenue, Treasury Division (Treasury) provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Defined Benefit Pension Plan the Board has fiduciary responsibility for. Additionally, Treasury manages a mix of Common Trust Funds for the Defined Benefit Health Care investments.

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 International Fixed Income Pool, High Yield Pool, Domestic Equity Pool, International Equity Pool, Emerging Markets Equity Pool, Absolute Return Pool, Real Estate Pool investments (with the exception of real estate investment trust holdings), and Common Trust Funds are managed by external management companies. Treasury manages the Retirement Fixed Income Pool, Enhanced Cash Pool, Treasury Inflation Protected Securities 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.

The Short-term Fixed Income Pool is a State pool managed by Treasury that holds investments on behalf of JRS as well as other pension and state funds.

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

#### **Valuation**

##### **Defined Benefit Pension Investments**

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.

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.

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

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

#### Valuation (Cont.)

With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions. Separate account real estate investments are appraised annually 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.

#### Defined Benefit Health Care Investments

With the exception of the SSgA Emerging Markets strategy which is valued bi-monthly following the third Wednesday and last business day of each month, Common Trust Funds are valued daily. Equity investments for which market quotations are readily available are valued at the last reported sale price or close for certain markets on their principal exchange on the valuation date. 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 the fair value as determined in good faith by the Trustee.

#### Income Allocation

Income in the fixed income, domestic and international equity pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis.

Income in the Emerging Markets, Absolute Return, and Real Estate Pools is credited to the net asset value of the pool daily and allocated to pool participants monthly on a pro rata basis.

Income for the Common Trust Funds is credited and allocated in accordance with the participants pro rata share of the fund when received.

### (3) INVESTMENTS

Both JRS Pension and Health Care Invested Assets participate in the State's Short Term internally managed fixed income pool.

#### Short-term Fixed Income Pool

JRS 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 determine 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, 2008 JRS Invested Assets included a 0.02% direct ownership in the Short-term Fixed Income Pool which included interest receivable of \$9,924. JRS Invested Assets included a 0.04% indirect ownership through ownership by other investment pools which invest in the Short-term Fixed Income Pool at June 30, 2008.

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (3) INVESTMENTS (Cont.)

#### Pension Plan Investments

##### Retirement Fixed Income Pool

JRS 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, 2008 was \$2,083. Treasury staff determine 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, 2008 JRS Invested Assets included a 0.77% ownership in the Retirement Fixed Income Pool.

##### Enhanced Cash Fixed Income Pool

JRS Invested Assets include participation in the Board's internally managed Enhanced Cash Fixed Income Pool which had only one investor, the Retirement Fixed Income Pool. The Enhanced Cash Fixed Income Pool was established on June 27, 2007 with a startup price of \$1,000. The share price at June 30, 2008 was \$1,009. Treasury staff determine 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, 2008 JRS Invested Assets included a 0.77% indirect ownership in the Enhanced Cash Fixed Income Pool.

##### International Fixed Income Pool

JRS 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, 2008 was \$2,172. 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, 2008 JRS Invested Assets included a 0.78% ownership in the International Fixed Income Pool.

##### High Yield Pool

JRS 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, 2008 was \$1,179. 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, 2008 JRS Invested Assets included a 0.97% ownership in the High Yield Pool.

##### Treasury Inflation Protected Securities (TIPS) Pool

JRS Invested Assets include participation in the Board's internally managed TIPS pool which was established May 24, 2006 with a startup price of \$1,000. The share price at June 30, 2008 was \$1,177. Treasury staff determine 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, 2008 JRS Invested Assets included a 5.27% ownership in the TIPS Pool.



# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (3) 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

JRS 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, 2008 was \$1,182. 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, 2008 JRS Invested Assets included a 0.93% ownership in the Large Cap Domestic Equity Pool.

##### Small Cap Domestic Equity Pool

JRS 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, 2008 was \$1,194. 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, 2008 JRS Invested Assets included a 1.24% ownership in the Small Cap Domestic Equity Pool.

#### International Equity Pool

JRS 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, 2008 was \$3,899. 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, 2008 JRS Invested Assets included a 0.94% ownership in the International Equity Pool.

#### Emerging Markets Equity Pool

JRS Invested Assets include participation in the Board's externally managed Emerging Markets Equity Pool which was established May 2, 1994, with a startup share price of \$1,000. The share price at June 30, 2008 was \$4,023. The pool participates in three externally managed commingled investment funds alongside other institutional investors through ownership of equity shares. The commingled funds 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, 2008 JRS Invested Assets included a 0.55% ownership in the Emerging Markets Equity Pool.

#### Absolute Return Pool

JRS 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, 2008 was \$1,267. Underlying assets in the pool are comprised of hedge fund investments through limited partnership agreements. Each fund administrator

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (3) INVESTMENTS (Cont.)

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, 2008 JRS Invested Assets included a 0.79% ownership in the Absolute Return Pool.

#### **Real Estate Pool**

JRS Invested Assets include participation in the Board's Real Estate Pool which was established June 27, 1997, with a start up share price of \$1,000. The share price at June 30, 2008 was \$3,273. 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, managers independently determine permissible investments. 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, 2008 JRS Invested Assets included a 0.66% ownership in the Real Estate Pool.

#### **Health Care Trust Investments**

The Board Contracts with an external manager who manages a mix of Common Trust Funds.

#### **Domestic Equity**

The Health Care Trust Investments in Domestic Equity are comprised of two externally managed Common Trust Funds.

##### **SSgA Domestic Large Cap**

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

#### **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 Index securities in market-weighted proportion.

#### **SSgA Emerging Markets**

The purpose of this fund is to closely match the returns of the capitalization-weighted MSCI Emerging Markets Index.

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (3) INVESTMENTS (Cont.)

#### **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 strategy seeks to replicate the returns and characteristics of the Lehman Brothers Aggregate Bond Index through individual security selection based on 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 strategy seeks to replicate the returns and characteristics of the Citigroup World Government Bond Ex-US Index by matching duration, quality and sector of the Index.

#### **SSgA High Yield Bond Index**

The purpose of this fund is to deliver a risk-controlled, higher quality, liquid exposure to the broad U.S. high yield market with low tracking error. The strategy uses stratified sampling to create a portfolio of liquid issuers that target the Lehman High Yield \$200 Million Very Liquid Index (HYVLI) in such characteristics as duration, issuer market weight, credit quality and industry.

#### **SSgA TIPS Index**

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

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (4) DEPOSIT AND INVESTMENT RISK

At June 30, 2008 JRS Invested Assets included the following:

	Fair Value (in thousands)							Total
	Fixed Income Pools							
	Short-term	Retirement	Enhanced Cash	International	TIPS	High Yield	Other	
Deposits	\$ -	\$ -	\$ -	\$ 9	\$ -	\$ -	\$ 70	\$ 79
Overnight Sweep Account (Imcs)	-	-	-	-	-	145	-	145
Short-term Investment Fund	-	-	-	16	-	-	412	428
Commercial Paper	182	-	-	-	-	-	-	182
Domestic Equity	-	-	-	-	-	1	-	1
Bridge Loans	-	-	-	-	-	55	-	55
U. S. Treasury Notes	-	1,821	-	-	3,419	-	-	5,240
U. S. Treasury Bonds	-	736	-	-	1,243	-	-	1,979
U.S. Government Agency	1,178	330	-	-	-	-	-	1,508
Municipal Bonds	-	7	-	-	-	-	-	7
Foreign Government Bonds	-	-	-	1,392	-	-	-	1,392
Mortgage-backed	95	9,761	115	-	-	-	-	9,971
Other Asset-backed	549	982	142	-	-	7	-	1,680
Corporate Bonds	519	3,666	57	1,064	-	2,245	-	7,551
Convertible Bonds	-	-	-	-	-	9	-	9
Yankees:								
Government	-	86	-	-	-	-	-	86
Corporate	156	473	32	-	-	226	-	887
Domestic Equity Pool:								
Limited Partnership	-	-	-	-	-	-	2,098	2,098
Convertible Bonds	-	-	-	-	-	-	6	6
Treasury Bills	-	-	-	-	-	-	18	18
Equity	-	-	-	-	-	-	46,448	46,448
International Equity Pool:								
Convertible Bonds	-	-	-	-	-	-	11	11
Equity	-	-	-	-	-	-	20,657	20,657
Emerging Markets Equity Pool	-	-	-	-	-	-	2,357	2,357
Absolute Return Pool:								
Limited Partnerships	-	-	-	-	-	-	5,023	5,023
Real Estate Pool:								
Real Estate	-	-	-	-	-	-	6,045	6,045
Commingled Funds	-	-	-	-	-	-	2,289	2,289
Limited Partnerships	-	-	-	-	-	-	3,606	3,606
Real Estate Investment Trusts	-	-	-	-	-	-	503	503
Mutual Funds	-	-	-	-	-	991	12,522	13,513
Net Other Assets (Liabilities)	8	(573 )	(29 )	26	40	3	(62 )	(587 )
Other Pool Ownership	(1,699 )	1,117	(317 )	-	6	-	893	-
Total Invested Assets	\$ 988	\$ 18,406	\$ -	\$ 2,507	\$ 4,708	\$ 3,682	\$ 102,896	\$ 133,187

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (4) 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, 2008, the expected average life of fixed income securities ranged from eight days to less than three months.

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 to calculate effective duration.

#### **Other Defined Benefit 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 Retirement 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, 2008, was 4.68 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 Enhanced Cash Fixed 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 International Fixed Income portfolio to  $\pm 25\%$  of the Salomon Non-U.S. World Government Bond Index. The effective duration for the Salomon Non-U.S. World Government Bond Index at June 30, 2008, was 6.24 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, 2008, was 4.49 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 TIPS portfolio to a band which may not exceed  $\pm 20\%$  around the duration of the Lehman Brothers Global Inflation-Linked U.S. TIPS Index, or a reasonable proxy thereof. The duration of the proxy index at June 30, 2008 was 6.19.

# Judicial Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2008

#### (4) DEPOSIT AND INVESTMENT RISK (Cont.)

##### Interest Rate Risk (Cont.)

At June 30, 2008, the effective duration of the Defined Benefit fixed income pools, by investment type, was as follows:

	<u>Effective Duration (in years)</u>				
	<u>Retirement</u>	<u>Enhanced Cash</u>	<u>International</u>	<u>High Yield</u>	<u>TIPS</u>
U.S. Treasury Notes	7.24	-	-	-	3.52
U.S. Treasury Bonds	13.48	-	-	-	12.66
U.S. Government Agency	4.85	-	-	-	-
Municipal Bonds	10.96	-	-	-	-
Mortgage-backed	4.37	0.73	-	-	-
Other Asset-backed	2.58	0.18	-	3.25	-
Corporate Bonds	4.91	(0.02)	-	4.46	-
Convertible Bonds	-	-	-	5.91	-
Yankees					
Government	11.93	-	6.65	-	-
Corporate	5.48	(0.76)	4.09	4.04	-
Portfolio Effective Duration	4.57	0.20	5.49	2.99	5.95

##### Defined Benefit Common Trust Funds

The Board does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the Common Trust investment funds that consists solely of debt securities, Domestic Fixed Income, High Yield, International Fixed Income, and TIPS were 4.69, 4.45, 6.31, and 7.83 years at June 30, 2008, respectively

##### Credit Risk

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

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

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 P1 or equivalent. Asset-backed and non-agency mortgage securities that are not rated by both Standard & Poor's and Moody's may be purchased if they have an AAA rating by two of the following: Standard & Poor's, Moody's, or Fitch. 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.

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (4) DEPOSIT AND INVESTMENT RISK (Cont.)

#### Credit Risk (Cont.)

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

#### Retirement Fixed Income:

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.

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, 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.

No more than 40% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 15% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard and Poor's Corporation or the equivalent by Moody's or Fitch.

#### Enhanced Cash Fixed Income:

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.

The average portfolio credit quality shall be A3 or higher.

No more than 10% 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 2% 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 and asset-backed obligations must be rated investment grade or better by a recognized credit rating agency.

Commercial paper and euro commercial paper must be rated A-1 by Standard & Poor's or P-1 by Moody's or the equivalent of a comparable rating agency.

#### High Yield

No more than 10% percent of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

No more than 5% percent of the portfolio's assets may be invested in unrated securities.

No more than 10% percent of the portfolio's assets may be invested in countries not rated investment grade, including emerging markets.

The lower of any Standard & Poor's, 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.

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (4) DEPOSIT AND INVESTMENT RISK (Cont.)

#### Credit Risk (Cont.)

##### TIPS

Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's.

Corporate debt securities must be investment grade.

No more than 5% percent of the portfolio's assets may be invested in investment grade corporate debt.

No more than 5% percent of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard & Poor's or the equivalents by Moody's or Fitch.

Corporate, asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's, 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.

##### Domestic Equity, International Equity and Emerging Markets:

Corporate debt obligations must carry a rating of at least A or better by Moody's, Standard & Poor's or Fitch rating services.

Commercial paper must bear the highest rating assigned by Moody's, Standard & Poor's, or Fitch rating services.

The Board does not have a policy to limit the concentration of credit risk for the Common Trust Funds.



# Judicial Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2008

#### (4) DEPOSIT AND INVESTMENT RISK (Cont.)

At June 30, 2008 JRS 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):

		Fixed Income Pools						
	Rating	Short-term	Retirement	Enhanced Cash	International	High Yield	TIPS	
		%	%	%	%	%	%	
Commercial Paper	Not Rated	6.80	-	-	-	-	-	
Bridge Loans	Not Rated	-	-	-	-	1.48	-	
Short Term Investment Fund	Not Rated	-	-	-	-	-	-	
U. S. Treasury Notes	AAA	-	9.89	-	-	-	72.62	
U. S. Treasury Bonds	AAA	-	4.00	-	-	-	26.41	
U.S. Government Agency Discount Notes	AAA	-	-	-	-	-	-	
U.S. Government Agency	AAA	44.00	1.34	-	-	-	-	
U.S. Government Agency	Not Rated	-	0.46	-	-	-	-	
Municipal Bonds	AA	-	0.04	-	-	-	-	
Municipal Bonds	A	-	-	-	-	-	-	
Municipal Bonds	Not Rated	-	-	-	-	-	-	
Mortgage-backed	AAA	2.99	45.33	19.37	-	-	-	
Mortgage-backed	AA	0.20	-	-	-	-	-	
Mortgage-backed	A	0.12	-	-	-	-	-	
Mortgage-backed	BBB	-	-	2.36	-	-	-	
Mortgage-backed	Not Rated	0.24	7.68	7.70	-	-	-	
Other Asset-backed	AAA	16.17	3.88	23.11	-	-	-	
Other Asset-backed	AA	0.63	0.22	0.43	-	-	-	
Other Asset-backed	A	2.53	0.24	0.13	-	-	-	
Other Asset-backed	BBB	0.24	0.47	11.75	-	-	-	
Other Asset-backed	BB	0.92	0.53	0.92	-	0.16	-	
Other Asset-backed	Not Rated	-	-	-	-	0.03	-	
Corporate Bonds	AAA	2.01	1.23	1.50	-	-	-	
Corporate Bonds	AA	12.20	4.42	3.42	-	-	-	
Corporate Bonds	A	4.10	9.07	6.41	-	-	-	
Corporate Bonds	BBB	-	4.69	2.46	-	3.38	-	
Corporate Bonds	BB	-	-	-	-	20.92	-	
Corporate Bonds	B	-	-	-	-	29.01	-	
Corporate Bonds	CCC	-	-	-	-	4.42	-	
Corporate Bonds	D	-	-	-	-	0.07	-	
Corporate Bonds	Not Rated	1.09	0.51	0.80	-	3.19	-	
Convertible Bonds	AA	-	-	-	-	-	-	
Convertible Bonds	BBB	-	-	-	-	0.10	-	
Convertible Bonds	B	-	-	-	-	0.15	-	
Yankees:								
Government	AAA	-	-	-	19.32	-	-	
Government	AA	-	-	-	6.52	-	-	
Government	A	-	-	-	21.96	-	-	
Government	BBB	-	0.25	-	-	-	-	
Government	Not Rated	-	0.22	-	7.74	-	-	
Corporate	AAA	-	-	-	28.78	-	-	
Corporate	AA	3.81	0.62	2.92	13.00	-	-	
Corporate	A	1.26	1.16	0.92	-	-	-	
Corporate	BBB	-	0.58	0.93	-	0.15	-	
Corporate	BB	-	-	-	-	2.50	-	
Corporate	B	-	-	-	-	2.50	-	
Corporate	CCC	-	-	-	-	0.29	-	
Corporate	D	-	-	-	-	0.12	-	
Corporate	Not Rated	0.74	0.22	3.47	0.65	0.57	-	
No Credit Exposure		(0.05)	2.95	11.40	2.03	30.96	0.97	
		100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (4) 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, 2008, JRS Invested Assets had the following uncollateralized and uninsured deposits:

	<u>Amount</u>
International Fixed Income	\$ 9,199
International Equity Pool	70,577

#### 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 JRS 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 and Emerging Markets Pools is to permit JRS to hold up to twenty-five percent of total investments in international equity.

The Board has no policy regarding foreign currency risk in the Common Trust Funds.

At June 30, 2008, JRS had exposure to foreign currency risk with the following deposits:

<u>Currency</u>	<u>Amount</u>	
	<u>International Fixed Income Pool</u>	<u>International Equity Pool</u>
Australian Dollar	\$ -	\$ (258)
Brazilian Real	-	313
Canadian Dollar	-	451
Danish Krone	-	4,827
Euro Currency	19	12,253
Hong Kong Dollar	-	4,553
Japanese Yen	4,879	42,523
Mexican Peso	4,301	-
New Zealand Dollar	-	571
Norwegian Krone	-	2,225
Pound Sterling	-	1,780
Singapore Dollar	-	-
South Korean Won	-	-
Swedish Krona	-	1,081
Swiss Franc	-	(27)
	<u>\$ 9,199</u>	<u>\$ 70,292</u>

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (4) DEPOSIT AND INVESTMENT RISK (Cont.)

#### Foreign Currency Risk (Cont.)

At June 30, 2008 JRS had exposure to foreign currency risk with the following investments:

Currency	Amount		
	Fixed Income		International Equity
	International Fixed Income Pool		Pool
	Foreign Government	Corporate	Equity
Australian Dollar	\$ -	\$ -	\$ 468,436
Brazilian Real	-	-	91,212
Canadian Dollar	-	-	618,220
Danish Krone	-	-	165,639
Euro	881,196	38,713	6,119,185
Hong Kong Dollar	-	-	485,187
Indonesian Rupiah	-	-	60,196
Japanese Yen	237,065	1,025,089	4,502,243
Mexican Peso	274,377	-	8,914
New Tiawan Dollar	-	-	22,128
New Zeland Dollar	-	-	30,020
Norwegian Krone	-	-	157,841
Polish Zloty	-	-	3,487
Pound Sterling	-	-	3,880,720
Singapore Dollar	-	-	154,640
South African Rand	-	-	88,289
South Korean Won	-	-	129,061
Swedish Krona	-	-	284,803
Swiss Franc	-	-	1,711,981
	<u>\$ 1,392,638</u>	<u>\$ 1,063,802</u>	<u>\$ 18,982,202</u>

At June 30, 2008, JRS also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool consists of investments in commingled 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 Retirement 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. The Board does not have a policy with regard to concentration of credit for the Enhanced Cash and TIPS Pools.

At June 30, 2008, JRS Invested Assets did not have exposure to any one issuer greater than 5% of total invested assets.

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (5) 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:

Net Realized Gain on Foreign currency	\$	933,459
Net Unrealized Gain on Foreign currency		682
Net Realized Gain on Foreign Exchange Contracts		(902)

The International Fixed Income and International Equity Pools include 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 two to one hundred and fifty-five days. JRS had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

Contract Sales	\$	438,704
Less: Fair Value		<u>437,817</u>
Net Unrealized Gains on Contracts	\$	<u>887</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.

### (6) COMMITMENTS AND CONTINGENCIES

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2008, JRS Invested Asset's share of the unfunded commitment totaled \$793,238. 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 real estate investments as it continues to build the real estate portfolio. At June 30, 2008, JRS Invested Asset's share of these unfunded commitments totaled \$1,914,351 to be paid through the year 2018.

# Judicial Retirement System

## Invested Assets

Notes to Schedules  
June 30, 2008

### (7) 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. In February of 2008, the Board voted to suspend its securities lending agreement with State Street Corporation (the Bank) which lent equity and domestic fixed income securities. Prior to suspension, the Bank, acting as the Board's agent under the agreement, transferred securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agreed to return the collateral for the same securities in the future.

While the securities lending agreement was active, there was no limit to the amount that could be loaned and the Board was able to sell securities on loan. International equity security loans were collateralized at not less than 105 percent of their fair value. All other security loans were collateralized at not less than 102 percent of their fair value. Loaned securities and collateral were marked to market daily and collateral was received or delivered the following day to maintain collateral levels.

Cash collateral 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 were terminable at will. Collateral securities could have been pledged or sold upon borrower default. Securities under loan, cash collateral and cash collateral payable were recorded on the financial schedules at fair value in prior years. The Bank and JRS received a fee from earnings on invested collateral. The Bank and JRS shared the fee paid by the borrower for loans not collateralized with cash.

There was limited credit risk associated with the lending transactions since the Board was 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 indemnified the Board against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications were subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the year ended June 30, 2008 there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.