



**STATE OF ALASKA RETIREMENT AND BENEFITS PLANS**

**Invested Assets**

**June 30, 2011**

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

**STATE OF ALASKA RETIREMENT AND BENEFITS PLANS**

**Invested Assets**

**June 30, 2011**

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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 State of Alaska's Retirement and Benefits Plans (the Plans) as of June 30, 2011 and of investment income (loss) and changes in invested assets of the Plans 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free 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 the purpose of expressing an opinion on the effectiveness of the Division of Treasury's internal control over financial reporting. Accordingly, we express no such opinion. 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 presentation of the Schedules. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedules were prepared to present the invested assets of the Plans. The presentation of the Schedules is not intended to be a complete presentation of the financial status of the Plans.

In our opinion, the Schedules referred to above present fairly, in all material respects, the invested assets of the Plans as of June 30, 2011, and the investment income (loss) and changes in invested assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

October 17, 2011

**STATE OF ALASKA RETIREMENT AND BENEFITS PLANS**  
**SCHEDULE OF INVESTED ASSETS**  
**June 30, 2011**

|                                                     | Pooled<br>Investments    | Participant<br>Directed<br>Investments | Total<br>ARMB<br>Assets  |
|-----------------------------------------------------|--------------------------|----------------------------------------|--------------------------|
| <b>Investments (at Fair Value)</b>                  |                          |                                        |                          |
| <b>Cash and Cash Equivalents</b>                    |                          |                                        |                          |
| Short-term Fixed Income Pool                        | \$ 113,752,176           | \$ 9,707,433                           | \$ 123,459,609           |
| Total Cash and Cash Equivalents                     | <u>113,752,176</u>       | <u>9,707,433</u>                       | <u>123,459,609</u>       |
| <b>Fixed Income</b>                                 |                          |                                        |                          |
| Retirement Fixed Income Pool                        | 40,500,499               | -                                      | 40,500,499               |
| U.S. Treasury Fixed Income Pool                     | 1,796,257,226            | -                                      | 1,796,257,226            |
| High Yield Fixed Income Pool                        | 406,149,137              | -                                      | 406,149,137              |
| International Fixed Income Pool                     | 376,463,573              | -                                      | 376,463,573              |
| Emerging Markets Debt Pool                          | 128,388,232              | -                                      | 128,388,232              |
| Total Fixed Income                                  | <u>2,747,758,667</u>     | <u>-</u>                               | <u>2,747,758,667</u>     |
| <b>Broad Domestic Equity</b>                        |                          |                                        |                          |
| Large Cap Pool                                      | 3,906,628,801            | -                                      | 3,906,628,801            |
| Small Cap Pool                                      | 890,464,840              | -                                      | 890,464,840              |
| Convertible Bond Pool                               | 94,124,587               | -                                      | 94,124,587               |
| Total Broad Domestic Equity                         | <u>4,891,218,228</u>     | <u>-</u>                               | <u>4,891,218,228</u>     |
| <b>Global Equity Ex-U.S.</b>                        |                          |                                        |                          |
| International Equity Large Cap Pool                 | 2,693,898,115            | -                                      | 2,693,898,115            |
| International Equity Small Cap Pool                 | 246,386,550              | -                                      | 246,386,550              |
| Emerging Markets Equity Pool                        | 980,228,310              | -                                      | 980,228,310              |
| Total Global Equity Ex-U.S.                         | <u>3,920,512,975</u>     | <u>-</u>                               | <u>3,920,512,975</u>     |
| <b>Private Equity</b>                               |                          |                                        |                          |
| Private Equity Pool                                 | 1,499,524,082            | -                                      | 1,499,524,082            |
| Total Private Equity                                | <u>1,499,524,082</u>     | <u>-</u>                               | <u>1,499,524,082</u>     |
| <b>Absolute Return</b>                              |                          |                                        |                          |
| Absolute Return Pool                                | 719,705,699              | -                                      | 719,705,699              |
| Total Absolute Return                               | <u>719,705,699</u>       | <u>-</u>                               | <u>719,705,699</u>       |
| <b>Real Assets</b>                                  |                          |                                        |                          |
| Real Estate Pool                                    | 1,305,941,896            | -                                      | 1,305,941,896            |
| Real Estate Investment Trust Pool                   | 165,539,135              | -                                      | 165,539,135              |
| Energy Pool                                         | 87,444,398               | -                                      | 87,444,398               |
| Farmland Pool                                       | 53,165,419               | -                                      | 53,165,419               |
| Farmland Water Pool                                 | 27,753,701               | -                                      | 27,753,701               |
| Timber Pool                                         | 190,849,149              | -                                      | 190,849,149              |
| Treasury Inflation Protected Securities Pool        | 193,193,865              | -                                      | 193,193,865              |
| Total Real Assets                                   | <u>2,502,376,336</u>     | <u>-</u>                               | <u>2,502,376,336</u>     |
| <b>Pooled Participant Directed Investment Funds</b> |                          |                                        |                          |
| T. Rowe Price                                       |                          |                                        |                          |
| Target 2010 Trust                                   | -                        | 526,918                                | 526,918                  |
| Target 2015 Trust                                   | -                        | 1,986,134                              | 1,986,134                |
| Target 2020 Trust                                   | -                        | 3,372,898                              | 3,372,898                |
| Target 2025 Trust                                   | -                        | 4,271,885                              | 4,271,885                |
| Target 2030 Trust                                   | -                        | 4,399,345                              | 4,399,345                |
| Target 2035 Trust                                   | -                        | 5,466,611                              | 5,466,611                |
| Target 2040 Trust                                   | -                        | 7,592,309                              | 7,592,309                |
| Target 2045 Trust                                   | -                        | 9,406,275                              | 9,406,275                |
| Target 2050 Trust                                   | -                        | 11,324,242                             | 11,324,242               |
| Target 2055 Trust                                   | -                        | 1,897,094                              | 1,897,094                |
| Alaska Balanced Fund                                | -                        | 417,734                                | 417,734                  |
| Long-Term Balanced Fund                             | -                        | 16,911,117                             | 16,911,117               |
| Alaska Money Market                                 | -                        | 5,554,581                              | 5,554,581                |
| Total Pooled Investment Funds                       | <u>-</u>                 | <u>73,127,143</u>                      | <u>73,127,143</u>        |
| <b>Collective Investment Funds</b>                  |                          |                                        |                          |
| State Street Global Advisors                        |                          |                                        |                          |
| Money Market Fund                                   | -                        | 331,157                                | 331,157                  |
| Long US Treasury Bond Index                         | -                        | 46,412,208                             | 46,412,208               |
| Treasury Inflation Protected Securities Ind         | -                        | 416,020                                | 416,020                  |
| World Government Bond Ex-US Index                   | -                        | 580,791                                | 580,791                  |
| S&P 500 Stock Index Fund                            | -                        | 354,845                                | 354,845                  |
| Russell 3000 Index                                  | -                        | 166,795                                | 166,795                  |
| World Equity Ex-US Index                            | -                        | 337,189                                | 337,189                  |
| Real Estate Investment Trust Index                  | -                        | 172,779                                | 172,779                  |
| Global Balanced Fund                                | -                        | 4,133,234                              | 4,133,234                |
| Barclays                                            |                          |                                        |                          |
| Daily Government/Corporate Bond Fund                | -                        | 13,404,095                             | 13,404,095               |
| Intermediate Bond Fund                              | -                        | 300,274                                | 300,274                  |
| Brandes Institutional                               |                          |                                        |                          |
| International Equity Fund                           | -                        | 62,715,755                             | 62,715,755               |
| RCM                                                 |                          |                                        |                          |
| Socially Responsible Fund                           | -                        | 3,462,340                              | 3,462,340                |
| T. Rowe Price                                       |                          |                                        |                          |
| Small-Cap Fund                                      | -                        | 45,695,749                             | 45,695,749               |
| Total Collective Investment Funds                   | <u>-</u>                 | <u>178,483,231</u>                     | <u>178,483,231</u>       |
| <b>Total Invested Assets</b>                        | <b>\$ 16,394,848,163</b> | <b>\$ 261,317,807</b>                  | <b>\$ 16,656,165,970</b> |

**STATE OF ALASKA RETIREMENT AND BENEFITS PLANS**  
**SCHEDULE OF INVESTMENT INCOME (LOSS) AND CHANGES IN INVESTED ASSETS**  
**June 30, 2011**

|                                                     | Pooled<br>Investments    | Participant<br>Directed<br>Investments | Total<br>Income (Loss)   |
|-----------------------------------------------------|--------------------------|----------------------------------------|--------------------------|
| <b>Investment Income (Loss)</b>                     |                          |                                        |                          |
| <b>Cash and Cash Equivalents</b>                    |                          |                                        |                          |
| Short-term Fixed Income Pool                        | \$ 579,251               | \$ 6,509                               | \$ 585,760               |
| <b>Fixed Income</b>                                 |                          |                                        |                          |
| Retirement Fixed Income Pool                        | 29,040,232               | -                                      | 29,040,232               |
| U.S. Treasury Fixed Income Pool                     | 23,757,177               | -                                      | 23,757,177               |
| High Yield Fixed Income Pool                        | 47,733,289               | -                                      | 47,733,289               |
| International Fixed Income Pool                     | 36,498,576               | -                                      | 36,498,576               |
| Emerging Markets Debt Pool                          | 6,025,972                | -                                      | 6,025,972                |
| <b>Broad Domestic Equity</b>                        |                          |                                        |                          |
| Large Cap Pool                                      | 969,105,108              | -                                      | 969,105,108              |
| Small Cap Pool                                      | 300,901,218              | -                                      | 300,901,218              |
| Convertible Bond Pool                               | 11,289,061               | -                                      | 11,289,061               |
| <b>Broad International Equity</b>                   |                          |                                        |                          |
| International Equity Large Cap Pool                 | 592,265,081              | -                                      | 592,265,081              |
| International Equity Small Cap Pool                 | 46,386,550               | -                                      | 46,386,550               |
| Emerging Markets Equity Pool                        | 200,834,427              | -                                      | 200,834,427              |
| <b>Private Equity</b>                               |                          |                                        |                          |
| Private Equity Pool                                 | 258,465,144              | -                                      | 258,465,144              |
| <b>Absolute Return</b>                              |                          |                                        |                          |
| Absolute Return Pool                                | 41,913,962               | -                                      | 41,913,962               |
| <b>Real Assets</b>                                  |                          |                                        |                          |
| Real Estate Pool                                    | 209,727,367              | -                                      | 209,727,367              |
| Real Estate Investment Trust Pool                   | 33,276,759               | -                                      | 33,276,759               |
| Energy Pool                                         | 6,931,946                | -                                      | 6,931,946                |
| Farmland Pool                                       | 44,093,319               | -                                      | 44,093,319               |
| Farmland Water Pool                                 | 7,494,568                | -                                      | 7,494,568                |
| Timber Pool                                         | 1,675,911                | -                                      | 1,675,911                |
| Treasury Inflation Protected Securities Pool        | 13,272,095               | -                                      | 13,272,095               |
| <b>Pooled Participant Directed Investment Funds</b> |                          |                                        |                          |
| T. Rowe Price                                       |                          |                                        |                          |
| Alaska Money Market                                 | -                        | 42,430                                 | 42,430                   |
| Target 2010 Trust                                   | -                        | 196,019                                | 196,019                  |
| Target 2015 Trust                                   | -                        | 324,032                                | 324,032                  |
| Target 2020 Trust                                   | -                        | 433,305                                | 433,305                  |
| Target 2025 Trust                                   | -                        | 494,890                                | 494,890                  |
| Target 2030 Trust                                   | -                        | 635,970                                | 635,970                  |
| Target 2035 Trust                                   | -                        | 948,427                                | 948,427                  |
| Target 2040 Trust                                   | -                        | 1,072,799                              | 1,072,799                |
| Target 2045 Trust                                   | -                        | 1,249,093                              | 1,249,093                |
| Target 2050 Trust                                   | -                        | 187,564                                | 187,564                  |
| Target 2055 Trust                                   | -                        | 34,747                                 | 34,747                   |
| Alaska Balanced Fund                                | -                        | 2,273,749                              | 2,273,749                |
| Long-Term Balanced Fund                             | -                        | 16,132                                 | 16,132                   |
| <b>Collective Investment Funds</b>                  |                          |                                        |                          |
| State Street Global Advisors                        |                          |                                        |                          |
| Money Market Fund                                   | -                        | 40                                     | 40                       |
| Long US Treasury Bond Index                         | -                        | 9,930,943                              | 9,930,943                |
| Treasury Inflation Protected Securities Index       | -                        | 69,571                                 | 69,571                   |
| World Government Bond Ex-US Index                   | -                        | 97,795                                 | 97,795                   |
| S&P 500 Stock Index Fund                            | -                        | 53,704                                 | 53,704                   |
| Russell 3000 Index                                  | -                        | (7,681)                                | (7,681)                  |
| World Equity Ex-US Index                            | -                        | 16,848                                 | 16,848                   |
| Real Estate Investment Trust Index                  | -                        | 11,786                                 | 11,786                   |
| Global Balanced Fund                                | -                        | 812,883                                | 812,883                  |
| Barclays                                            |                          |                                        |                          |
| Daily Government/Corporate Bond Fund                | -                        | 321,273                                | 321,273                  |
| Intermediate Bond Fund                              | -                        | 5,973                                  | 5,973                    |
| Brandes Institutional                               |                          |                                        |                          |
| International Equity Fund                           | -                        | 9,493,019                              | 9,493,019                |
| RCM                                                 |                          |                                        |                          |
| Socially Responsible Fund                           | -                        | 9,730,219                              | 9,730,219                |
| T. Rowe Price                                       |                          |                                        |                          |
| Small-Cap Fund                                      | -                        | 3,022,427                              | 3,022,427                |
| <b>Total Investment Income (Loss)</b>               | <b>2,881,267,013</b>     | <b>41,474,466</b>                      | <b>2,922,741,479</b>     |
| <b>Total Invested Assets, Beginning of Year</b>     | <b>13,397,714,524</b>    | <b>141,520,948</b>                     | <b>13,539,235,472</b>    |
| Total Contributions                                 | 1,514,484,256            | 93,348,361                             | 1,607,832,617            |
| Total (Withdrawals)                                 | (1,398,617,630)          | (15,025,968)                           | (1,413,643,598)          |
| <b>Net Contributions (Withdrawals)</b>              | <b>115,866,626</b>       | <b>78,322,393</b>                      | <b>194,189,019</b>       |
| <b>Total Invested Assets, End of Year</b>           | <b>\$ 16,394,848,163</b> | <b>\$ 261,317,807</b>                  | <b>\$ 16,656,165,970</b> |

# State of Alaska Retirement and Benefits Plans

## Invested Assets

### Notes to Schedules

June 30, 2011

#### (1) THE ACCOUNTING ENTITY

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

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

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 Board. Additionally, Treasury manages a mix of Pooled Investment Funds and Collective Investment Funds for the Defined Contribution Retirement Participant Directed Pension Plans under the Board's fiduciary responsibility.

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 High Yield Fixed Income Pool, International Fixed Income Pool, Emerging Markets Debt Pool, Large Cap Domestic Equity Pool, Small Cap Domestic Equity Pool, Convertible Bond Domestic Equity Pool, International Equity Large Cap Pool, International Equity Small Cap Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Real Estate Pool, Energy Pool, Farmland Pool, Farmland Water Pool, Timber Pool, Pooled Participant Directed Investment Funds, and Collective Investment Funds are managed by external management companies. Treasury manages the Retirement Fixed Income Pool, U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities (TIPS) Pool 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 Board as well as other 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 plan participants and administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

##### **Pooled Investments**

With the exception of the Short-term Fixed Income Pool, ownership in the various pools 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.

The Short-Term Fixed Income Pool maintains a share price of \$1. 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. 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 ask prices.

# State of Alaska Retirement and Benefits Plans

## Invested Assets

### Notes to Schedules

June 30, 2011

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

##### Valuation and Income Allocation (Cont.)

###### Fixed Income Pools

With the exception of the Emerging Markets Debt Pool, 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. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the investment manager determine the allocation between permissible securities.

The Emerging Markets Debt Pool participates in one externally managed commingled investment fund alongside other institutional investors through ownership of equity shares which are valued on the last business day of each month by the investment manager.

###### Broad Domestic Equity, International Equity, and Real Estate Investment Trust (REIT) Pools

Domestic equity, international equity, and REIT securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the external manager determine the allocation between permissible securities.

###### Emerging Markets Equity, Private Equity, Absolute Return, Real Estate, Energy, Farmland, Farmland Water, and Timber Pools

Income in these pools is credited to the net asset value of the pool daily and allocated to pool participants monthly on a pro rata basis.

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

Private equity investments are valued quarterly by the general partners and investment sponsors. Private equity oversight managers and Treasury staff employ a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of venture capital, buyout, restructuring, and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

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. Underlying assets are comprised of hedge fund investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

The energy related investments are valued quarterly by the general partner. The general partner is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of a limited partnership with an energy related venture capital operating company.

Real estate, farmland, farmland water property, and timber investments are valued quarterly by investment managers based on market conditions. Additionally, real estate, farmland, and timber investments are appraised annually by independent appraisers. Underlying assets in the pool are comprised of separate accounts, commingled accounts, and limited partnerships. Managers independently determine permissible investments.

# State of Alaska Retirement and Benefits Plans

## Invested Assets

### Notes to Schedules

June 30, 2011

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

##### Valuation and Income Allocation (Cont.)

###### Participant-Directed Investments

The Board contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate thirteen participant-directed funds. Additionally, the Board Contracts with external managers who manage a mix of collective investment funds. 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 daily on a pro rata basis.

Pooled Participant Directed 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. Underlying assets are comprised of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, money market instruments, and other 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.

Collective 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. Underlying assets are comprised of commingled investment funds, alongside other investors, through ownership of equity shares.

**State of Alaska Retirement and Benefits Plans**  
**Invested Assets**  
**Notes to Schedules**  
**June 30, 2011**

**(3) DEPOSIT AND INVESTMENT RISK**

|                                    | Fair Value         |               |                  |                |                |               |                |                   |       |                   |
|------------------------------------|--------------------|---------------|------------------|----------------|----------------|---------------|----------------|-------------------|-------|-------------------|
|                                    | Fixed Income Pools |               |                  |                |                |               |                |                   |       |                   |
|                                    | Short-term         | Retirement    | U.S. Treasury    | High Yield     | International  | Convertible   | TIPS           | Other             | Total |                   |
| Bridge Loans                       | \$ -               | \$ -          | \$ -             | \$ 590,103     | \$ -           | \$ -          | \$ -           | \$ -              | \$ -  | \$ 590,103        |
| Commercial Paper                   | 21,841,257         | -             | 15,505,816       | -              | -              | -             | -              | -                 | -     | 37,347,073        |
| Convertible Bonds                  | -                  | -             | -                | 4,873,477      | -              | -             | -              | -                 | -     | 4,873,477         |
| Corporate Bonds                    | 96,612,837         | -             | 62,458,068       | 349,274,945    | -              | -             | -              | -                 | -     | 508,345,850       |
| Deposits                           | 1                  | -             | -                | -              | 1,712,144      | -             | -              | -                 | -     | 1,712,145         |
| Foreign Corporate Bonds            | -                  | -             | -                | -              | 79,535,509     | -             | -              | -                 | -     | 79,535,509        |
| Foreign Government Bonds           | -                  | -             | -                | -              | 275,635,193    | -             | -              | -                 | -     | 275,635,193       |
| Mortgage-backed                    | 4,485,398          | 21,213,961    | 59,005,765       | -              | -              | -             | -              | -                 | -     | 84,705,124        |
| Mutual Funds                       | -                  | -             | -                | -              | -              | -             | -              | 200,580,242       | -     | 200,580,242       |
| Other Asset-backed                 | 96,932,273         | -             | 342,015          | -              | -              | -             | -              | -                 | -     | 97,274,288        |
| Overnight Sweep Account (Imcs)     | 2,606,150          | -             | -                | 19,048,920     | -              | 322,436       | -              | -                 | -     | 21,977,506        |
| Short-term Investment Fund         | -                  | -             | -                | -              | 3,297,407      | -             | -              | 20,656,253        | -     | 23,953,660        |
| U.S. Government Agency             | 5,390,261          | -             | 14,312,360       | -              | -              | -             | -              | -                 | -     | 19,702,621        |
| U.S. Government Agency             | -                  | -             | -                | -              | -              | -             | -              | -                 | -     | -                 |
| Discount Notes                     | 7,987,449          | -             | -                | -              | -              | -             | -              | -                 | -     | 7,987,449         |
| Treasury Bills                     | 45,665,544         | -             | -                | -              | -              | -             | -              | -                 | -     | 45,665,544        |
| Treasury Bonds                     | -                  | -             | 122,939,204      | -              | -              | -             | 66,145,629     | -                 | -     | 189,084,833       |
| Treasury Notes                     | -                  | -             | 1,472,921,801    | -              | 10,688,957     | -             | 125,256,101    | -                 | -     | 1,608,866,859     |
| Yankees:                           |                    |               |                  |                |                |               |                |                   |       |                   |
| Corporate                          | 1,907,289          | -             | 26,170,980       | 27,161,247     | -              | -             | -              | -                 | -     | 55,239,516        |
| Government                         | -                  | -             | 1,529,614        | -              | -              | -             | -              | -                 | -     | 1,529,614         |
| Fixed Income Pools:                |                    |               |                  |                |                |               |                |                   |       |                   |
| Equity                             | -                  | -             | -                | 465,500        | -              | -             | -              | -                 | -     | 465,500           |
| Warrants                           | -                  | -             | -                | 34,885         | -              | -             | -              | -                 | -     | 34,885            |
| Emerging Markets Debt Pool         | -                  | -             | -                | -              | -              | -             | -              | 128,388,232       | -     | 128,388,232       |
| Broad Domestic Equity Pools:       |                    |               |                  |                |                |               |                |                   |       |                   |
| Convertible Bonds                  | -                  | -             | -                | -              | -              | 82,732,351    | -              | -                 | -     | 82,732,351        |
| Deposits                           | -                  | -             | -                | -              | -              | -             | -              | 24,459,187        | -     | 24,459,187        |
| Equity                             | -                  | -             | -                | -              | -              | 10,556,370    | -              | 4,295,059,135     | -     | 4,305,615,505     |
| Limited Partnership                | -                  | -             | -                | -              | -              | -             | -              | 326,161,231       | -     | 326,161,231       |
| Mutual Fund                        | -                  | -             | -                | -              | -              | -             | -              | 60,456,180        | -     | 60,456,180        |
| Options                            | -                  | -             | -                | -              | -              | -             | -              | (29,316,930)      | -     | (29,316,930)      |
| Rights                             | -                  | -             | -                | -              | -              | -             | -              | 476               | -     | 476               |
| Treasury Bills                     | -                  | -             | -                | -              | -              | -             | -              | 4,593,901         | -     | 4,593,901         |
| Broad International Equity Pools:  |                    |               |                  |                |                |               |                |                   |       |                   |
| Deposits                           | -                  | -             | -                | -              | -              | -             | -              | 34,586,278        | -     | 34,586,278        |
| Equity                             | -                  | -             | -                | -              | -              | -             | -              | 2,676,066,551     | -     | 2,676,066,551     |
| Rights                             | -                  | -             | -                | -              | -              | -             | -              | 188,265           | -     | 188,265           |
| Emerging Markets Equity Pool       | -                  | -             | -                | -              | -              | -             | -              | 980,228,310       | -     | 980,228,310       |
| Private Equity Pool:               |                    |               |                  |                |                |               |                |                   |       |                   |
| Limited Partnerships               | -                  | -             | -                | -              | -              | -             | -              | 1,497,377,835     | -     | 1,497,377,835     |
| Absolute Return Pool:              |                    |               |                  |                |                |               |                |                   |       |                   |
| Limited Partnerships               | -                  | -             | -                | -              | -              | -             | -              | 719,705,699       | -     | 719,705,699       |
| Real Estate Pool:                  |                    |               |                  |                |                |               |                |                   |       |                   |
| Commingled Funds                   | -                  | -             | -                | -              | -              | -             | -              | 259,116,305       | -     | 259,116,305       |
| Limited Partnerships               | -                  | -             | -                | -              | -              | -             | -              | 359,493,747       | -     | 359,493,747       |
| Real Estate                        | -                  | -             | -                | -              | -              | -             | -              | 687,331,844       | -     | 687,331,844       |
| Real Estate Investment Trust Pool: |                    |               |                  |                |                |               |                |                   |       |                   |
| Equity                             | -                  | -             | -                | -              | -              | -             | -              | 164,927,991       | -     | 164,927,991       |
| Energy Pool:                       |                    |               |                  |                |                |               |                |                   |       |                   |
| Limited Partnerships               | -                  | -             | -                | -              | -              | -             | -              | 87,444,398        | -     | 87,444,398        |
| Farmland Pool:                     |                    |               |                  |                |                |               |                |                   |       |                   |
| Agricultural Holdings              | -                  | -             | -                | -              | -              | -             | -              | 531,654,192       | -     | 531,654,192       |
| Farmland Water Pool:               |                    |               |                  |                |                |               |                |                   |       |                   |
| Agricultural Holdings              | -                  | -             | -                | -              | -              | -             | -              | 27,753,701        | -     | 27,753,701        |
| Timber Pool:                       |                    |               |                  |                |                |               |                |                   |       |                   |
| Timber Holdings                    | -                  | -             | -                | -              | -              | -             | -              | 190,849,149       | -     | 190,849,149       |
| Participant Directed:              |                    |               |                  |                |                |               |                |                   |       |                   |
| Collective Investment Funds        | -                  | -             | -                | -              | -              | -             | -              | 178,483,231       | -     | 178,483,231       |
| Pooled Investment Funds            | -                  | -             | -                | -              | -              | -             | -              | 73,127,143        | -     | 73,127,143        |
| Net Other Assets (Liabilities)     | 130,477            | 173,727       | (3,255,992)      | 4,700,060      | 5,594,363      | 513,430       | 1,301,237      | 10,476,905        | -     | 19,634,207        |
| Other Pool Ownership               | (160,099,327)      | 19,112,811    | 24,327,595       | -              | -              | -             | 490,898        | 116,168,023       | -     | -                 |
| Total Invested Assets              | \$ 123,459,609     | \$ 40,500,499 | \$ 1,796,257,226 | \$ 406,149,137 | \$ 376,463,573 | \$ 94,124,587 | \$ 193,193,865 | \$ 13,626,017,474 | \$ -  | \$ 16,656,165,970 |

**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 to maturity or fourteen months expected average life *upon purchase*. Floating rate securities are limited to three years to maturity or three years expected average life *upon purchase*. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2011, the expected average life of individual fixed rate securities ranged from one day to one year and the expected average life of floating rate securities ranged from eight days to fourteen years.

# State of Alaska Retirement and Benefits Plans

## Invested Assets

### Notes to Schedules

June 30, 2011

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

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

##### **Other Defined Benefit Fixed Income Pools**

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.

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 Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2011, was 5.19 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 Intermediate U.S. Treasury Fixed Income portfolio to  $\pm 20\%$  of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2011, was 3.94 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 Fixed Income portfolio to  $\pm 20\%$  of the Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2011, was 4.52 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-USD World Government Bond Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2011, was 6.97 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  $\pm 20\%$  of the Barclays Capital U.S. Treasury Inflation-Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2011 was 5.31 years.

The Board does not have a policy to limit interest rate risk for the Emerging Debt or Convertible Bond portfolios.

**State of Alaska Retirement and Benefits Plans**  
**Invested Assets**  
**Notes to Schedules**  
**June 30, 2011**

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

**Interest Rate Risk (Cont.)**

At June 30, 2011, the effective duration of the Board's fixed income pools, by investment type, was as follows:

|                                     | <b>Effective Duration (in years)</b> |                          |                   |                      |             |
|-------------------------------------|--------------------------------------|--------------------------|-------------------|----------------------|-------------|
|                                     | <b>Retirement</b>                    | <b>U.S.<br/>Treasury</b> | <b>High Yield</b> | <b>International</b> | <b>TIPS</b> |
| Corporate Bonds                     | -                                    | 4.18                     | 4.66              | -                    | -           |
| Convertible Bonds                   | -                                    | -                        | 0.30              | -                    | -           |
| Equity                              | -                                    | -                        | 7.49              | -                    | -           |
| Foreign Corporate Bonds             | -                                    | -                        | -                 | 1.30                 | -           |
| Foreign Governments Bonds           | -                                    | -                        | -                 | 3.98                 | -           |
| Mortgage-Backed                     | 2.72                                 | 2.32                     | -                 | -                    | -           |
| Other Asset-Backed                  | -                                    | 1.98                     | -                 | -                    | -           |
| U.S. Treasury Bonds                 | -                                    | 7.61                     | -                 | -                    | 9.49        |
| U.S. Treasury Notes                 | -                                    | 3.67                     | -                 | 5.86                 | 2.92        |
| U.S. Treasury Strip                 | -                                    | -                        | -                 | -                    | -           |
| US. Government Agency               | -                                    | 7.71                     | -                 | -                    | -           |
| Yankees:                            |                                      |                          |                   |                      |             |
| Corporate                           | -                                    | 3.27                     | 4.42              | -                    | -           |
| Government                          | -                                    | (4.69)                   | -                 | -                    | -           |
| <b>Portfolio Effective Duration</b> | <b>1.43</b>                          | <b>3.86</b>              | <b>4.37</b>       | <b>3.40</b>          | <b>5.18</b> |

**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 thirteen 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:

Under normal conditions, for government debt, corporate debt, and mortgage-backed securities, duration is limited to  $\pm 0.2$  years of the Barclays Capital U.S. Aggregate Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event at time of purchase shall effective duration exceed  $\pm 0.4$  years relative to the index.

At June 30, 2011, the duration of the government corporate debt, and mortgage-backed securities was 5.12 years and the duration of the Barclays Capital Aggregate Bond Index was 5.19 years.

Under normal conditions, the Trust will invest in cash equivalent instruments with maturities of less than one year.

**Defined Contribution Collective Investment Funds**

The Board does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2011, the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 0.05 years, SSgA World Government Bond Ex-US Index: 6.76 years, SSgA Long US Treasury Bond Index: 14.46 years, SSgA TIPS Index: 4.69 years, Barclays Gov/Corp Bond Fund: 7.73 years, and the Barclays Intermediate Bond Fund: 3.98 years.

# State of Alaska Retirement and Benefits Plans

## Invested Assets

### Notes to Schedules

June 30, 2011

#### (3) 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.

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 must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if rated by only one of these agencies if they are rated AAA.

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.

##### U.S. Treasury Fixed Income:

No more than 10% of the portfolio's assets may be invested in securities that are not nominal, United States Treasury obligations or the internally managed short term or substantially similar portfolio at the time of purchase.

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.

##### High Yield Fixed Income:

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.

##### 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.

##### Convertible Bond:

Non-rated convertible securities are permitted provided the manager is able to assign an appropriate credit rating consistent with the criteria used by Standard and Poor's, Moody's or Fitch. Non-rated securities are limited to 35% of the total market value of the portfolio.

The weighted-average rating of the portfolio shall not fall below the Standard and Poor's equivalent of B.

# State of Alaska Retirement and Benefits Plans

## Invested Assets

### Notes to Schedules

June 30, 2011

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

##### Credit Risk (Cont.)

Investments are limited to instruments with a credit rating above CCC- by Standard and Poor's and Caa3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and Caa3 by Moody's if such an investment is considered appropriate given the Board's investment objective.

In the case of a split rating by two or more of the rating agencies, the lower rating shall apply.

##### TIPS:

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

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 (Large Cap and Small Cap) and Broad International Equity:

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 Emerging Markets Debt Pool or the Collective Investment Funds.

# State of Alaska Retirement and Benefits Plans

## Invested Assets

### Notes to Schedules

June 30, 2011

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

##### Credit Risk (Cont.)

At June 30, 2011, the Board's 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):

| <b>Fixed Income Pools</b> |                |                   |                   |                      |                   |                      |                    |             |   |       |   |
|---------------------------|----------------|-------------------|-------------------|----------------------|-------------------|----------------------|--------------------|-------------|---|-------|---|
| <b>Investment Type</b>    | <b>Rating</b>  | <b>Short-term</b> | <b>Retirement</b> | <b>U.S. Treasury</b> | <b>High Yield</b> | <b>International</b> | <b>Convertible</b> | <b>TIPS</b> |   |       |   |
|                           |                | %                 | %                 | %                    | %                 | %                    | %                  | %           | % | %     | % |
| Bank Loans                | Not Rated      | -                 | -                 | -                    | 0.15              | -                    | -                  | -           | - | -     | - |
| Commercial Paper          | A-1            | 6.95              | -                 | -                    | -                 | -                    | -                  | -           | - | -     | - |
| Commercial Paper          | Not Rated      | 0.75              | -                 | -                    | -                 | -                    | -                  | -           | - | -     | - |
| Convertible Bonds         | AA             | -                 | -                 | -                    | -                 | -                    | 0.93               | -           | - | -     | - |
| Convertible Bonds         | A              | -                 | -                 | -                    | -                 | -                    | 9.89               | -           | - | -     | - |
| Convertible Bonds         | BBB            | -                 | -                 | -                    | -                 | -                    | 14.79              | -           | - | -     | - |
| Convertible Bonds         | BB             | -                 | -                 | -                    | -                 | -                    | 19.72              | -           | - | -     | - |
| Convertible Bonds         | B              | -                 | -                 | -                    | 0.76              | -                    | 13.80              | -           | - | -     | - |
| Convertible Bonds         | CCC            | -                 | -                 | -                    | -                 | -                    | 5.73               | -           | - | -     | - |
| Convertible Bonds         | Not Rated      | -                 | -                 | -                    | 0.44              | -                    | 23.03              | -           | - | -     | - |
| Corporate Bonds           | AAA            | 23.65             | -                 | -                    | -                 | -                    | -                  | -           | - | -     | - |
| Corporate Bonds           | AA             | 1.45              | -                 | 0.70                 | -                 | -                    | -                  | -           | - | -     | - |
| Corporate Bonds           | A              | 3.20              | -                 | 1.39                 | -                 | -                    | -                  | -           | - | -     | - |
| Corporate Bonds           | BBB            | -                 | -                 | 0.95                 | 3.51              | -                    | -                  | -           | - | -     | - |
| Corporate Bonds           | BB             | -                 | -                 | -                    | 33.36             | -                    | -                  | -           | - | -     | - |
| Corporate Bonds           | B              | -                 | -                 | -                    | 39.72             | -                    | -                  | -           | - | -     | - |
| Corporate Bonds           | CCC            | -                 | -                 | -                    | 5.74              | -                    | -                  | -           | - | -     | - |
| Corporate Bonds           | CC             | -                 | -                 | -                    | 0.17              | -                    | -                  | -           | - | -     | - |
| Corporate Bonds           | Not Rated      | 5.78              | -                 | -                    | 3.51              | -                    | -                  | -           | - | -     | - |
| Equity                    | A              | -                 | -                 | -                    | -                 | -                    | 1.94               | -           | - | -     | - |
| Equity                    | BBB            | -                 | -                 | -                    | 0.11              | -                    | -                  | -           | - | -     | - |
| Equity                    | BB             | -                 | -                 | -                    | -                 | -                    | 6.16               | -           | - | -     | - |
| Equity                    | CCC            | -                 | -                 | -                    | -                 | -                    | 3.11               | -           | - | -     | - |
| Foreign Corporate Bonds   | AAA            | -                 | -                 | -                    | -                 | 17.87                | -                  | -           | - | -     | - |
| Foreign Corporate Bonds   | A              | -                 | -                 | -                    | -                 | 2.52                 | -                  | -           | - | -     | - |
| Foreign Corporate Bonds   | BBB            | -                 | -                 | -                    | -                 | 0.74                 | -                  | -           | - | -     | - |
| Foreign Government Bonds  | AAA            | -                 | -                 | -                    | -                 | -                    | -                  | -           | - | -     | - |
| Foreign Government Bonds  | AA             | -                 | -                 | -                    | -                 | 4.12                 | -                  | -           | - | -     | - |
| Foreign Government Bonds  | A              | -                 | -                 | -                    | -                 | 18.74                | -                  | -           | - | -     | - |
| Foreign Government Bonds  | BBB            | -                 | -                 | -                    | -                 | 5.85                 | -                  | -           | - | -     | - |
| Foreign Government Bonds  | BB             | -                 | -                 | -                    | -                 | -                    | -                  | -           | - | -     | - |
| Foreign Government Bonds  | Not Rated      | -                 | -                 | -                    | -                 | 44.51                | -                  | -           | - | -     | - |
| Mortgage-backed           | AAA            | 1.58              | 37.74             | 3.56                 | -                 | -                    | -                  | -           | - | -     | - |
| Mortgage-backed           | AA             | -                 | 1.41              | 0.08                 | -                 | -                    | -                  | -           | - | -     | - |
| Mortgage-backed           | A              | -                 | 4.42              | 0.10                 | -                 | -                    | -                  | -           | - | -     | - |
| Mortgage-backed           | CCC            | -                 | 5.26              | -                    | -                 | -                    | -                  | -           | - | -     | - |
| Mortgage-backed           | Not Rated      | -                 | 3.55              | 0.85                 | -                 | -                    | -                  | -           | - | -     | - |
| Other Asset-backed        | AAA            | 30.49             | -                 | -                    | -                 | -                    | -                  | -           | - | -     | - |
| Other Asset-backed        | A              | 0.07              | -                 | -                    | -                 | -                    | -                  | -           | - | -     | - |
| Other Asset-backed        | Not Rated      | 3.62              | -                 | 0.02                 | -                 | -                    | -                  | -           | - | -     | - |
| Short Term Investment     | Not Rated      | -                 | -                 | -                    | 4.69              | 0.88                 | 0.34               | -           | - | -     | - |
| U.S. Treasury Bills       | AAA            | 16.10             | -                 | -                    | -                 | -                    | -                  | -           | - | -     | - |
| U.S. Treasury Bonds       | AAA            | -                 | -                 | 6.84                 | -                 | -                    | -                  | -           | - | 34.24 | - |
| U.S. Treasury Notes       | AAA            | -                 | -                 | 82.00                | -                 | 2.84                 | -                  | -           | - | 64.83 | - |
| U.S. Government Agency    | AAA            | 1.90              | -                 | -                    | -                 | -                    | -                  | -           | - | -     | - |
| U.S. Government Agency    | Not Rated      | -                 | -                 | 0.80                 | -                 | -                    | -                  | -           | - | -     | - |
| U.S. Government Agency    | Discount Notes | 2.82              | -                 | -                    | -                 | -                    | -                  | -           | - | -     | - |
| Yankees:                  |                |                   |                   |                      |                   |                      |                    |             |   |       |   |
| Government                | Not Rated      | -                 | -                 | 0.09                 | -                 | -                    | -                  | -           | - | -     | - |
| Corporate                 | AAA            | -                 | -                 | -                    | -                 | -                    | -                  | -           | - | -     | - |
| Corporate                 | AA             | 0.49              | -                 | 0.56                 | -                 | -                    | -                  | -           | - | -     | - |
| Corporate                 | A              | 0.11              | -                 | 0.50                 | -                 | -                    | -                  | -           | - | -     | - |
| Corporate                 | BBB            | -                 | -                 | 0.23                 | 0.36              | -                    | -                  | -           | - | -     | - |
| Corporate                 | BB             | -                 | -                 | -                    | 2.60              | -                    | -                  | -           | - | -     | - |
| Corporate                 | B              | -                 | -                 | -                    | 3.22              | -                    | -                  | -           | - | -     | - |
| Corporate                 | Not Rated      | 0.07              | -                 | 0.16                 | 0.50              | -                    | -                  | -           | - | -     | - |
| No Credit Exposure        |                | 0.97              | 47.62             | 1.17                 | 1.16              | 1.93                 | 0.56               | 0.93        |   |       |   |
|                           |                | 100.00 %          | 100.00 %          | 100.00 %             | 100.00 %          | 100.00 %             | 100.00 %           | 100.00 %    |   |       |   |

# State of Alaska Retirement and Benefits Plans

## Invested Assets

### Notes to Schedules

June 30, 2011

#### (3) 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; however, any uninvested U.S Cash held in accounts is fully insured by the Federal Deposit Insurance Corporation (FDIC) under section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act effective December 31, 2010. This section of the Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts through December 31, 2012, at all FDIC insured depository institutions thereby limiting custodial credit risk.

At June 30, 2011, the Board's Invested Assets had the following uncollateralized and uninsured deposits:

|                                  | <u>Amount</u> |
|----------------------------------|---------------|
| Broad International Equity Pools | \$ 34,528,390 |
| International Fixed Income Pool  | 1,712,260     |

##### 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 these countries: Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Eurozone sovereign issuers in the aggregate, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Poland, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. The Board has no specific policy with regard to foreign currency risk relating to international or private equity. However, through its asset allocation policy, the Board limits total investments in international fixed income, global equity ex-U.S and private equity to the following:

| <u>Pension System</u> | <u>Fixed-Income</u> | <u>Global Equity Ex-U.S.</u> | <u>Private Equity Pool</u> |
|-----------------------|---------------------|------------------------------|----------------------------|
| PERS                  | 22%                 | 27%                          | 12%                        |
| TRS                   | 22%                 | 27%                          | 12%                        |
| JRS                   | 22%                 | 27%                          | 12%                        |
| MRS                   | -                   | 20%                          | -                          |

The Board has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds.

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

**Foreign Currency Risk (Cont.)**

At June 30, 2011, the Board had exposure to foreign currency risk with the following deposits:

| <u>Currency</u>    | <u>Amount</u>                              |                                           |
|--------------------|--------------------------------------------|-------------------------------------------|
|                    | <u>International Fixed<br/>Income Pool</u> | <u>Broad<br/>International<br/>Equity</u> |
| Australian Dollar  | \$ 1                                       | \$ 445,491                                |
| Brazilian Real     | -                                          | 4,556                                     |
| Canadian Dollar    | -                                          | 262,285                                   |
| Danish Krone       | -                                          | 269,784                                   |
| Euro Currency      | 45,670                                     | 26,132,987                                |
| Hong Kong Dollar   | -                                          | 511,409                                   |
| Hungarian Forint   | 269,750                                    | -                                         |
| Indonesian Rupiah  | 1                                          | -                                         |
| Israeli Shekel     | -                                          | 16,312                                    |
| Japanese Yen       | 215,082                                    | 4,596,059                                 |
| Mexican Peso       | 924,305                                    | -                                         |
| New Taiwan Dollar  | -                                          | 920,029                                   |
| New Zealand Dollar | -                                          | 12,455                                    |
| Norwegian Krone    | -                                          | 75,740                                    |
| Polish Zloty       | 13                                         | -                                         |
| Pound Sterling     | -                                          | 771,649                                   |
| Singapore Dollar   | -                                          | 46,105                                    |
| South African Rand | 221,917                                    | 9                                         |
| South Korean Won   | -                                          | 40                                        |
| Swedish Krona      | -                                          | 274,248                                   |
| Swiss Franc        | -                                          | 189,232                                   |
| Thailand Baht      | 35,521                                     | -                                         |
|                    | \$ <u>1,712,260</u>                        | \$ <u>34,528,390</u>                      |

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

**Foreign Currency Risk (Cont.)**

At June 30, 2011, the Board had exposure to foreign currency risk with the following investments:

| Currency             | Amount                          |                      |                            |                       |
|----------------------|---------------------------------|----------------------|----------------------------|-----------------------|
|                      | International Fixed Income Pool |                      | Broad International Equity | Private Equity Pool   |
|                      | Foreign                         |                      | Equity                     | Limited Partnerships  |
|                      | Government                      | Corporate            |                            |                       |
| Australian Dollar    | \$ -                            | \$ -                 | \$ 79,530,733              | \$ -                  |
| Brazilian Real       | 16,637,344                      | -                    | 8,652,312                  | -                     |
| Canadian Dollar      | -                               | -                    | 91,194,232                 | -                     |
| Chilean Peso         | 2,088,124                       | -                    | -                          | -                     |
| Colombian Peso       | 7,561,095                       | -                    | -                          | -                     |
| Czech Koruna         | 2,144,173                       | -                    | 1,159,563                  | -                     |
| Danish Krone         | -                               | -                    | 20,300,132                 | -                     |
| Euro Currency        | 91,955,352                      | 12,273,058           | 804,747,165                | 172,390,803           |
| Hong Kong Dollar     | -                               | -                    | 92,332,388                 | -                     |
| Hungarian Forint     | 9,074,635                       | -                    | -                          | -                     |
| Indian Rupee         | -                               | -                    | 4,538,817                  | -                     |
| Indonesian Rupiah    | -                               | -                    | 2,108,298                  | -                     |
| Israeli Shekel       | -                               | -                    | 2,566,349                  | -                     |
| Japanese Yen         | 39,552,093                      | 67,262,451           | 547,831,790                | -                     |
| Malaysian Ringgit    | 7,514,000                       | -                    | 4,515,082                  | -                     |
| Mexican Peso         | 24,286,707                      | -                    | 670,497                    | -                     |
| New Taiwan Dollar    | -                               | -                    | 9,112,559                  | -                     |
| New Zealand Dollar   | -                               | -                    | 12,847,472                 | -                     |
| Norwegian Krone      | -                               | -                    | 20,160,891                 | -                     |
| Peruvian Nouveau Sol | 5,391,651                       | -                    | -                          | -                     |
| Polish Zloty         | 30,057,591                      | -                    | 7,752,082                  | -                     |
| Pound Sterling       | 18,171,602                      | -                    | 510,390,627                | 27,838,735            |
| Singapore Dollar     | -                               | -                    | 28,527,673                 | -                     |
| South African Rand   | 10,226,131                      | -                    | 4,612,735                  | -                     |
| South Korean Won     | -                               | -                    | 46,911,890                 | -                     |
| Swedish Krona        | -                               | -                    | 49,608,475                 | -                     |
| Swiss Franc          | -                               | -                    | 165,944,333                | -                     |
| Thailand Baht        | 2,909,302                       | -                    | 4,958,700                  | -                     |
| Turkish Lira         | 8,065,394                       | -                    | -                          | -                     |
|                      | \$ <u>275,635,194</u>           | \$ <u>79,535,509</u> | \$ <u>2,520,974,795</u>    | \$ <u>200,229,538</u> |

At June 30, 2011, the Board 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. This provision does not apply to securities backed by the full faith and credit of the United States Government.

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income, U.S. Treasury Fixed Income, High Yield Fixed Income, International Fixed Income and Convertible Bond 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 Emerging Markets Debt or TIPS Pools.

At June 30, 2011, the Board's Invested Assets did not have exposure to any one issuer greater than 5% of total invested assets.

# State of Alaska Retirement and Benefits Plans

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

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

On June 30, 2011, the Board had the following derivative instruments outstanding:

|                        | Changes in Fair Value |                   | Fair Value at June 30, 2011 |                     |             |
|------------------------|-----------------------|-------------------|-----------------------------|---------------------|-------------|
|                        | Classification        | Amount            | Classification              | Amount              | Notional    |
| Equity Options Written | Investment Revenue    | 2,322,935         | Options                     | (29,290,530)        | (4,998,200) |
| FX Forwards            | Investment Revenue    | (1,773,481)       | Long Term Instruments       | (74,371)            | 14,181,265  |
| Index Futures Long     | Investment Revenue    | 14,372,233        | Futures                     | -                   | 62,690      |
| Index Options Written  | Investment Revenue    | 304,506           | Options                     | (26,400)            | (6,000)     |
| Rights                 | Investment Revenue    | 500,419           | Common Stock                | 22,956              | 107,907     |
| Warrants               | Investment Revenue    | (26,587)          | Common Stock                | 34,885              | 39,022      |
| <b>Grand Totals</b>    |                       | <b>15,700,025</b> |                             | <b>(29,333,460)</b> |             |

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of 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.

At June 30, 2011, the Board had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions:

| Counterparty Name | Percentage of Net Exposure | S&P Rating | Fitch Rating | Moody's Rating |
|-------------------|----------------------------|------------|--------------|----------------|
| UBS AG            | 0.00%                      | A+         | A+           | Aa3            |

Maximum amount of loss the Plans would face in case of default of all counterparties i.e.

|                                                                       |                  |
|-----------------------------------------------------------------------|------------------|
| aggregated (positive) fair value of OTC positions as of June 30, 2011 | 24,586           |
| Effect of collateral reducing maximum exposure                        | -                |
| Liabilities subject to netting arrangements reducing exposure         | -                |
| Resulting net exposure                                                | <u>\$ 24,586</u> |

#### (5) 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, 2011, the Board's unfunded commitment totaled \$78,231,800. 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, 2011, the Board's unfunded commitment totaled \$908,909,086. These commitments are estimated to be paid through 2020.

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 energy investment portfolio. At June 30, 2011, the Board's unfunded commitment totaled \$71,212,484 to be paid through the year 2019.

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**(5) COMMITMENTS AND CONTINGENCIES (Cont.)**

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, 2011, the Board's unfunded commitment totaled \$136,063,761 to be paid through the year 2018.