



**STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION**

Judicial Retirement System

Invested Assets

Schedules

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION**

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June 30, 2004 and 2003

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Independent Auditors' Report

Alaska State Pension Investment Board and
State of Alaska, Department of Revenue
Division of Treasury:

We have audited the accompanying schedules of invested assets of the Judicial Retirement System as of June 30, 2004 and 2003 and of investment income (loss) and changes in invested assets of the Judicial Retirement System for the years then ended (schedules). These schedules are the responsibility of the Division of Treasury's management. Our responsibility is to express an opinion on these schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the schedules referred to above present fairly, in all material respects, the invested assets of the Judicial Retirement System as of June 30, 2004 and 2003, and the investment income (loss) and changes in invested assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 10, 2004

**STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION
JUDICIAL RETIREMENT SYSTEM**

SCHEDULES OF INVESTED ASSETS

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Investments (at Fair Value) (Notes 4, 8)		
Cash and Cash Equivalents (Note 3)		
Short-term Fixed Income Pool	\$ <u>49,802</u>	\$ <u>54,045</u>
Marketable Debt Securities (Note 3)		
Retirement Fixed Income Pool	7,186,759	7,267,295
External Domestic Fixed Income Pool	10,639,073	11,062,201
International Fixed Income Pool	<u>2,255,615</u>	<u>2,097,939</u>
Total Marketable Debt Securities	<u>20,081,447</u>	<u>20,427,435</u>
Equity Securities (Note 3)		
Domestic Equity Pool	30,320,036	27,460,260
International Equity Pool	<u>13,852,390</u>	<u>10,474,934</u>
Total Equity Securities	<u>44,172,426</u>	<u>37,935,194</u>
Real Estate Investments (Note 3)		
Real Estate Pool	<u>6,123,309</u>	<u>5,091,705</u>
Total Invested Assets	<u>\$ <u>70,426,984</u></u>	<u>\$ <u>63,508,379</u></u>

See accompanying notes to schedules

**STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION
JUDICIAL RETIREMENT SYSTEM**

**SCHEDULES OF INVESTMENT INCOME (LOSS)
AND CHANGES IN INVESTED ASSETS**

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Investment Income (Loss) (Note 5)		
Short-term Fixed Income Pool	\$ 1,096	\$ 1,730
Retirement Fixed Income Pool	52,491	765,901
External Domestic Fixed Income Pool	82,649	1,108,934
International Fixed Income Pool	157,720	446,164
Domestic Equity Pool	5,284,638	90,569
International Equity Pool	3,334,191	(649,573)
Real Estate Pool	<u>475,329</u>	<u>467,799</u>
Total Investment Income	9,388,114	2,231,524
Total Invested Assets, Beginning of Year	63,508,379	63,712,224
Net Withdrawals	<u>(2,469,509)</u>	<u>(2,435,369)</u>
Total Invested Assets, End of Year	<u>\$ 70,426,984</u>	<u>\$ 63,508,379</u>

See accompanying notes to schedules

Judicial Retirement System

Invested Assets

Notes to Schedules

June 30, 2004 and 2003

(1) THE ACCOUNTING ENTITY

The Judicial Retirement System Invested Assets (JRS Invested Assets) is the investment portfolio of the State of Alaska Judicial Retirement System (JRS). JRS is a single-employer defined benefit system established for the payment of retirement, disability and death benefits to, or on behalf of, eligible State judges and justices. These schedules are those of JRS Invested Assets and not JRS taken as a whole. Fiduciary responsibility for JRS Invested Assets resides with the Alaska State Pension Investment Board (Board), pursuant to Alaska Statutes 37.10.210-390.

Alaska Statutes 14.25.180, 22.25.048(c) and 37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios.

The Department of Revenue, Treasury Division (Treasury) provides staff for the Board. Treasury has created a pooled environment by which it manages the investments the Board has fiduciary responsibility for. 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 External Domestic Fixed Income Pool, International Fixed Income Pool, Domestic Equity Pool, International Equity Pool and the Real Estate Pool are managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool and cash holdings of certain external domestic equity 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.

(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 in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Net withdrawals represent contributions from employers and employees, net of benefits paid to JRS participants as well as administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

In fiscal year 2004, Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures* was implemented. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, foreign currency risk and concentration of credit risk.

Valuation

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type.

Domestic and international equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates or, in the absence of a sale, at the last reported bid price.

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

Judicial Retirement System

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Notes to Schedules

June 30, 2004 and 2003

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

Valuation (Cont.)

Real estate investments are valued quarterly by investment managers based on market conditions and their knowledge of industry trends. Real estate investments are valued once every three years, in conjunction with the purchase date anniversary, by independent appraisers.

Income Allocation

Income, which includes interest and realized and unrealized gains and losses, in the fixed income pools is allocated to pool participants daily on a pro rata basis.

Income, which includes interest, dividends and realized and unrealized gains and losses, in the Domestic and International Equity Pools is allocated to pool participants daily on a pro rata basis.

Income, which includes interest, income from operations and realized and unrealized gains and losses in the Real Estate Investment Pool is allocated to pool participants monthly on a pro rata basis.

(3) POOLED INVESTMENTS

Short-term Fixed Income Pool

JRS Invested Assets include participation in the State's internally managed Short-term Fixed Income Pool which was established March 15, 1993, with a start up and maintained share price of \$1. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At June 30, 2004 and 2003, JRS Invested Assets included a 0.003% direct ownership in the Short-term Fixed Income Pool which included interest receivable of \$137 and \$203, respectively.

Retirement Fixed Income Pool

JRS Invested Assets include participation in the Board's internally managed Retirement Fixed Income Pool which was established March 1, 1996, with a start up share price of \$1,000. The share price at June 30, 2004 was \$1,723. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, JRS Invested Assets included a 0.33% and 0.35% ownership in the Retirement Fixed Income Pool, respectively.

External Domestic Fixed Income Pool

JRS Invested Assets include participation in the Board's externally managed Domestic Fixed Income Pool which was established June 25, 1999, with a start up share price of \$1,000. The share price at June 30, 2004 was \$1,448. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, JRS Invested Assets included a 0.95% ownership in the External Domestic Fixed Income Pool.

Judicial Retirement System

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Notes to Schedules June 30, 2004 and 2003

(3) POOLED INVESTMENTS (Cont.)

International Fixed Income Pool

JRS Invested Assets include participation in the Board's externally managed International Fixed Income Pool which was established March 3, 1997, with a start up share price of \$1,000. The share price at June 30, 2004 was \$1,630. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, JRS Invested Assets included a 0.51% ownership in the International Fixed Income Pool.

Domestic Equity Pool

JRS Invested Assets include participation in the Board's externally managed Domestic Equity Pool which was established July 1, 1991, with a start up share price of \$1,000. The share price at June 30, 2004 was \$4,086. Each manager independently determines the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, JRS Invested Assets included a 0.62% ownership in the Domestic Equity Pool.

International Equity Pool

JRS Invested Assets include participation in the Board's externally managed International Equity Pool which was established January 1, 1992, with a start up share price of \$1,000. The share price at June 30, 2004 was \$2,312. Each manager independently determines the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, JRS Invested Assets included a 0.68% and 0.61% ownership in the International Equity Pool, respectively.

Real Estate Pool

JRS Invested Assets include participation in the Board's externally managed Real Estate Pool which was established June 27, 1997, with a start up share price of \$1,000. The share price at June 30, 2004 was \$1,807. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, JRS Invested Assets included a 0.66% ownership in the Real Estate Pool.

Judicial Retirement System Invested Assets

Notes to Schedules June 30, 2004 and 2003

(4) DEPOSIT AND INVESTMENT RISK

At June 30, 2004, JRS Invested Assets included the following (stated in thousands):

	Short-term Fixed Income Pool	Retirement Fixed Income Pool	External Domestic Fixed Income Pool	Internat- ional Fixed Income Pool	Equity and Real Estate	Total
Commercial Paper	\$ 356,409	\$ -	\$ -	\$ -	\$ -	\$ 356,409
U.S. Treasury Notes	132,644	149,846	191,188	-	-	473,678
U.S. Treasury Bonds	-	120,358	55,410	-	-	175,768
U.S. Treasury Strips	-	31,210	5,264	-	-	36,474
U. S. Government Agency Discount Notes	-	-	210,132	-	-	210,132
U. S. Government Agency	39,932	94,097	98,938	-	-	232,967
Foreign Government	-	-	-	327,591	-	327,591
Mortgage-related	154,138	1,081,936	463,823	-	-	1,699,897
Asset-backed	805,164	67,855	37,395	-	-	910,414
Corporate	466,513	525,012	213,034	100,869	-	1,305,428
Yankees	-	18,860	21,038	-	-	39,898
Domestic Equity Pool:						
Convertible Bonds	-	-	-	-	783	783
Equity	-	-	-	-	4,859,726	4,859,726
International Equity Pool:						
Convertible Bonds	-	-	-	-	4,619	4,619
Equity	-	-	-	-	1,986,354	1,986,354
Real Estate Pool:						
Real Estate Holdings	-	-	-	-	930,404	930,404
Total Fair Value	1,954,800	2,089,174	1,296,222	428,460	7,781,886	13,550,542
Net Pending Security						
Receivables (Payables)	(14,419)	(75,880)	(187,780)	8,963	11,302	(257,814)
Deposits	14,240	163,323	15,901	4,442	68,534	266,440
Total Net Assets at Fair Value before earnings distribution to participants	1,954,621	2,176,617	1,124,343	441,865	7,861,722	13,559,168
Earnings payable to participants	(1,828)	-	-	-	-	(1,828)
Ownership by the Retirement Fixed Income Pool	(163,323)	-	-	-	-	(163,323)
Ownership by Funds Under Other Fiduciary Responsibility	(1,788,361)	-	-	-	-	(1,788,361)
Ownership by Other Retirement Systems under ASPIB's Fiduciary Responsibility	(1,059)	(2,169,430)	(1,113,704)	(439,610)	(7,811,426)	(11,535,229)
JRS Invested Assets	\$ 50	\$ 7,187	\$ 10,639	\$ 2,255	\$ 50,296	\$ 70,427

Judicial Retirement System

Invested Assets

Notes to Schedules

June 30, 2004 and 2003

(4) DEPOSIT AND INVESTMENT RISK (CONT.)

Interest Rate Risk

Short-term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates in the Short-term Fixed Income Pool, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. When evaluating fixed rate securities, Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2004, the expected average life of individual fixed rate securities in the Short-term Fixed Income Pool ranged from one to six months and the expected average life of floating rate securities ranged from less than one year to 2.85 years.

Retirement and External Domestic Fixed Income Pools (domestic fixed income)

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the domestic fixed income portfolio to $\pm 20\%$ of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2004, was 4.77 years.

At June 30, 2004, the effective duration of the domestic fixed income portfolio, by investment type, was as follows:

	<u>Effective Duration (in years)</u>
U.S. Treasury Notes	4.11
U.S. Treasury Bonds	8.71
U.S. Treasury Strips	21.14
U.S. Government Agency	5.31
Mortgage-related	4.02
Asset-backed	2.36
Corporate	5.54
Yankees	7.96
Portfolio Effective Duration	4.76

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, call options and other variable cash flows for purposes of the effective duration calculation.

Judicial Retirement System

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June 30, 2004 and 2003

(4) DEPOSIT AND INVESTMENT RISK (CONT.)

Interest Rate Risk

International Fixed Income Pool

It is the Board's policy that external international managers select and retain securities based solely the managers' independent judgment. The Board does not specifically provide risk limitations to these managers. At June 30, 2004, JRS Invested Assets included the following:

	<u>Currency</u>	<u>Maturity</u>	<u>Fair Value</u> (in thousands)
Corporate:			
European Investment Bank	Japanese Yen	11/8/2004	\$ 25
International Bank for Reconstruction and Development	Japanese Yen	12/20/2004	48
Kreditanstalt Fuer Wiederaufbau International Finance	Japanese Yen	12/20/2004	56
Asian Development Bank	Japanese Yen	6/29/2005	72
Export Import Bank	Japanese Yen	7/28/2005	19
European Investment Bank	Japanese Yen	9/20/2007	17
International American Development Bank	Japanese Yen	7/8/2009	89
Osterreichische Kontrollbank	Japanese Yen	3/22/2010	49
Kreditanstalt Fuer Wiederaufbau International Finance	Japanese Yen	3/23/2010	122
SL Finance PLC	Euro Currency	7/12/2022	11
Zurich Finance USA	Euro Currency	10/2/2023	6
Foreign Government:			
Queensland Treasury Corporation	Australian Dollar	6/14/2005	7
Kingdom of Spain	Japanese Yen	9/20/2006	15
Kingdom of Netherlands	Euro Currency	2/15/2007	86
New South Wales Treasury Corporation	Australian Dollar	3/1/2008	38
Federal National Mortgage Association	Japanese Yen	3/26/2008	17
Republic of Italy	Japanese Yen	3/27/2008	60
Republic of Poland	Polish Zloty	6/24/2008	43
Kingdom of Sweden	Swedish Krona	1/28/2009	95
Republic of Italy	Euro Currency	5/1/2009	64
Federal Republic of Germany	Euro Currency	7/4/2009	57
Kingdom of Spain	Euro Currency	7/30/2009	156
Republic of France	Euro Currency	10/25/2009	14
Government of Poland	Polish Zloty	11/24/2009	30
Republic of France	Euro Currency	4/25/2010	81
Government of Poland	Polish Zloty	11/24/2010	26
Republic of Finland	Euro Currency	2/23/2011	58
Government of Australia	Australian Dollar	6/15/2011	32
Bundesrepublik Deutschland	Euro Currency	7/4/2011	112
Japan Financial Corporation	Japanese Yen	2/21/2012	33
Kingdom of Sweden	Swedish Krona	10/8/2012	54
Federal Republic of Germany	Euro Currency	1/4/2013	98
Commonwealth of Australia	Australian Dollar	5/15/2013	70
Queensland Treasury Corporation	Australian Dollar	8/14/2013	71
Government of Poland	Polish Zloty	10/24/2013	100
Kingdom of Sweden	Swedish Krona	5/5/2014	94
Kingdom of Sweden	Swedish Krona	12/1/2020	20
Bundesrepublik Deutschland	Euro Currency	7/4/2027	140
Total International Fixed Income			<u>\$ 2,185</u>

Judicial Retirement System

Invested Assets

Notes to Schedules June 30, 2004 and 2003

(4) DEPOSIT AND INVESTMENT RISK (CONT.)

Credit Risk

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. In addition, Treasury's investment policy limits investments with regard to credit risk for the following investment types:

- Corporate debt must be investment grade and comprise those issued in the U.S. capital market by U.S. companies, Euro-dollar debt, or Yankee debt;
- Asset-backed securities must be investment grade;
- Mortgage-related securities must be issued or securitized by one of the following U.S. Government Agencies: Government National Mortgage Association; Federal National Mortgage Association; or the Federal Home Loan Mortgage Corporation.

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

Domestic Fixed Income:

- Commercial paper must carry a rating of at least P1 or equivalent;
- Corporate debt securities must be investment grade and comprise those issued in the U.S. capital market by U.S. companies, Euro-dollar debt, or Yankee debt;
- Corporate, asset-backed and non-agency mortgage securities must have a minimum rating of BBB or equivalent. For asset-backed and non-agency mortgage securities that are solely rated by Fitch or Duff & Phelps, they must have a AAA rating.

International Fixed Income:

- Commercial paper and euro commercial paper must be rated at least A-1 or equivalent and
- Corporate and asset-backed obligations must be investment grade.

Domestic and International Equity:

- Commercial paper must bear the highest rating assigned and
- Corporate debt obligations must carry a rating of at least A or equivalent.

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(4) DEPOSIT AND INVESTMENT RISK (CONT.)

Credit Risk

At June 30, 2004, JRS Invested Assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows:

	<u>Rating¹</u>	<u>Short-term Fixed Income Pool</u>	<u>Domestic Fixed Income Pools</u>	<u>International Fixed Income Pool</u>	<u>International Equity Pool</u>
Short-term Investment Account (Deposit)	Not Rated	1%	-	-	-
Government Short-term Investment Fund (Deposit)	Not Rated	-	-	1%	1%
Commercial Paper	A	18%	-	-	-
U. S. Government Agency Discount Notes	AAA	-	6%	-	-
U. S. Government Agency	AAA	2%	5%	-	-
Foreign Government	AAA	-	-	47%	-
Foreign Government	AA	-	-	15%	-
Foreign Government	A	-	-	8%	-
Foreign Government	Not Rated	-	-	6%	-
Mortgage-related	AAA	7%	32%	-	-
Mortgage-related	Not Rated ²	-	8%	-	-
Asset-backed	AAA	41%	3%	-	-
Corporate	AAA	2%	3%	22%	-
Corporate	AA	8%	3%	1%	-
Corporate	A	14%	7%	-	-
Corporate	BAA	-	1%	-	-
Corporate	BBB	-	8%	-	-
Investments with no credit exposure		7%	24%	-	99%

¹Rating modifiers are not disclosed.

²TBA's issued by U.S. Government Agencies allowed by policy.

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(4) DEPOSIT AND INVESTMENT RISK (CONT.)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned. The Board does not have a formal policy for custodial credit risk. At June 30, 2004, JRS Invested Assets had the following uncollateralized and uninsured deposits:

	<u>Amount</u> (in thousands)
International Fixed Income Pool	\$ 6
International Equity Pool	26
	<u>\$ 32</u>

Foreign Currency Risk

The Board's policy with regard to foreign currency risk is to restrict obligations to those issued in the currencies of countries represented in the family of Solomon Brothers World Government Bond Indices. The Board's asset allocation policy permits JRS to hold up to five percent of total investments in international fixed income and up to twenty-two percent of total investments in international equity. At June 30, 2004, JRS invested assets included 3.20% in international fixed income and 19.67% in international equity.

At June 30, 2004, JRS had exposure to foreign currency risk with the following deposits:

<u>Currency</u>	<u>Amount</u> (in thousands)
Australian Dollar	\$ 1
Euro Currency	8
Japanese Yen	10
Polish Zloty	3
Pound Sterling	6
South Korean Won	2
Swiss Franc	2
	<u>\$ 32</u>

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(4) DEPOSIT AND INVESTMENT RISK (CONT.)

Foreign Currency Risk (Cont.)

At June 30, 2004, JRS had exposure to foreign currency risk with the following investments (stated in thousands):

<u>Currency</u>	<u>Foreign Government</u>	<u>Corporate</u>	<u>Convertible Bonds</u>	<u>Equity</u>
Australian Dollar	\$ 218	\$ -	\$ -	\$ 112
Canadian Dollar	-	-	-	151
Danish Krone	-	-	-	11
Euro Currency	866	18	2	5,036
Hong Kong Dollar	-	-	-	179
Japanese Yen	125	497	26	2,518
New Zealand Dollar	-	-	-	105
Norwegian Krone	-	-	-	73
Polish Zloty	198	-	-	-
Pound Sterling	-	-	-	2,907
Singapore Dollar	-	-	-	224
South Korean Won	-	-	-	180
Swedish Krona	264	-	-	96
Swiss Franc	-	-	3	1,102
	<u>\$ 1,671</u>	<u>\$ 515</u>	<u>\$ 31</u>	<u>\$ 12,694</u>

Concentration of Credit Risk

Treasury does not have a policy with regard to concentration of credit risk for the Short-term Fixed Income Pool.

The Board's policy limits with regard to concentration of credit risk are as follows:

Domestic Fixed Income:

No more than ten percent of the currently outstanding par value of any corporate bond issue can be purchased.

International Fixed Income:

No more than ten percent of an outstanding non-government issue or non-government agency issue may be purchased.

At June 30, 2004, JRS invested assets included \$7,343,440 in Federal National Mortgage Association securities which represented 9.56% of total JRS invested assets.

Judicial Retirement System Invested Assets

Notes to Schedules June 30, 2004 and 2003

(5) INVESTMENT INCOME (LOSS)

For the years ended June 30, investment income (loss) for each investment type includes the following components:

	2004		
	Interest and/or dividends	Net increase (decrease) in the fair value of investments	Total
Short-term Fixed Income Pool	\$ 1,096	\$ -	\$ 1,096
Retirement Fixed Income Pool	380,492	(328,001)	52,491
External Domestic Fixed Income Pool	402,320	(319,671)	82,649
International Fixed Income Pool	98,111	59,609 ⁽¹⁾	157,720
Domestic Equity Pool	434,500	4,850,138	5,284,638
International Equity Pool	316,977	3,017,214 ⁽²⁾	3,334,191
Real Estate Pool	369,090	106,239	475,329
Total	<u>\$ 2,002,586</u>	<u>\$ 7,385,528</u>	<u>\$ 9,388,114</u>

(1) Includes net realized gains of \$124,348 and net unrealized gains of \$24 on foreign currency.

(2) Includes net realized gains of \$690,406 and net unrealized gains of \$146 on foreign currency. Also includes net realized gains of \$847 on foreign exchange contracts.

	2003		
	Interest and/or dividends	Net increase (decrease) in the fair value of investments	Total
Short-term Fixed Income Pool	\$ 1,730	\$ -	\$ 1,730
Retirement Fixed Income Pool	415,614	350,287	765,901
External Domestic Fixed Income Pool	410,490	698,444	1,108,934
International Fixed Income Pool	102,658	343,506 ⁽¹⁾	446,164
Domestic Equity Pool	398,948	(308,379)	90,569
International Equity Pool	260,841	(910,414) ⁽²⁾	(649,573)
Real Estate Pool	391,044	76,755	467,799
Total	<u>\$ 1,981,325</u>	<u>\$ 250,199</u>	<u>\$ 2,231,524</u>

(1) Includes net realized gains of \$102,285 and net unrealized losses of \$172 on foreign currency.

(2) Includes net realized gains of \$146,426 and net unrealized losses of \$193 on foreign currency. Also includes net realized losses of \$9,912 on foreign exchange contracts.

Judicial Retirement System

Invested Assets

Notes to Schedules

June 30, 2004 and 2003

(6) FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The International Equity and International Fixed Income Pools include foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from forty-five to ninety-six days. JRS had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	<u>2004</u>	<u>2003</u>
Net Contract Sales	\$ 43,702	\$ 12,365
Less: Fair Value	<u>46,285</u>	<u>12,206</u>
Net unrealized gains (losses) on contracts	<u>\$ (2,583)</u>	<u>\$ 159</u>

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of non-performance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(7) COMMITMENTS AND CONTINGENCIES

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, 2004, JRS Invested Asset's share of these unfunded commitments totaled \$646,511 to be paid through the year 2007.

(8) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Board to lend assets, under an agreement and for a fee, against deposited collateral of equivalent market value. In January 2001, the Board entered into an agreement with State Street Corporation (the Bank) to lend fixed income, domestic equity and international equity securities. The Bank, acting as the Board's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2004 and 2003, the fair value of securities on loan allocable to JRS Invested Assets totaled \$9,309,479 and \$6,024,064, respectively. There is no limit to the amount that can be loaned and the Board is able to sell securities on loan. International equity security loans are fully collateralized at not less than 105 percent of their fair value. All other security loans are fully collateralized at not less than 102 percent of their fair value. The Bank invests the cash collateral in a commingled investment pool; maturities of these investments generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. The Bank may pledge or sell collateral upon borrower default. Since the Board does not have the ability to pledge or sell the collateral unless the borrower defaults, no assets or liabilities are recorded on the financial schedules. There is limited credit risk associated with the lending transactions since the Board is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank. The Bank and the borrower receive a fee from earnings on invested collateral.

For the year ended June 30, 2004 and 2003, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.