

ALASKA RETIREMENT MANAGEMENT BOARD

Judicial Retirement System

Invested Assets

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

ALASKA RETIREMENT MANAGEMENT BOARD

Judicial Retirement System

Invested Assets

June 30, 2007 and 2006

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Independent Auditors' Report

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

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

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

The accompanying schedules were prepared to present the invested assets of the 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, 2007 and 2006, and the investment income and changes in invested assets for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 2, 2007

JUDICIAL RETIREMENT SYSTEM

Schedules of Invested Assets

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Investments (at fair value):		
Cash and cash equivalents:		
Short-term Fixed Income Pool	\$ 194,176	50,743
Securities Lending Collateral	<u>10,728,980</u>	<u>8,007,877</u>
Total cash and cash equivalents	<u>10,923,156</u>	<u>8,058,620</u>
Marketable debt securities:		
Domestic Fixed Income Pool	12,660,108	17,563,426
International Fixed Income Pool	1,496,516	1,467,636
Treasury Inflation Protection Pool	4,144,804	—
High Yield Pool	<u>1,595,292</u>	<u>1,255,228</u>
Total marketable debt securities	<u>19,896,720</u>	<u>20,286,290</u>
Equity securities:		
Domestic Equity Pool	35,714,174	32,400,324
International Equity Pool	17,628,225	15,360,970
Absolute Return Pool	3,675,562	2,093,307
Emerging Markets Equity Pool	<u>2,278,594</u>	<u>—</u>
Total equity securities	<u>59,296,555</u>	<u>49,854,601</u>
Real estate investments:		
Real Estate Pool	<u>11,404,993</u>	<u>9,084,043</u>
Total invested assets	101,521,424	87,283,554
Securities lending collateral	<u>10,728,980</u>	<u>8,007,877</u>
Net invested assets	<u>\$ 90,792,444</u>	<u>79,275,677</u>

See accompanying notes to schedules

JUDICIAL RETIREMENT SYSTEM

Schedules of Investment Income and Changes in Invested Assets

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Investment income (loss):		
Short-term Fixed Income Pool	\$ 10,574	6,989
Securities Lending (net of \$442,078 and \$300,429 expense)	25,170	18,968
Domestic Fixed Income Pool	783,971	65,598
International Fixed Income Pool	28,881	(17,387)
High Yield Pool	151,654	36,228
Domestic Equity Pool	6,189,398	2,800,661
International Equity Pool	4,108,654	3,768,584
Treasury Inflation Protection Pool	144,804	—
Emerging Markets Equity Pool	678,594	—
Absolute Return Pool	301,425	163,897
Real Estate Pool	1,973,177	1,385,234
	<u>14,396,302</u>	<u>8,228,772</u>
Total investment income	14,396,302	8,228,772
Total invested assets, beginning of year	79,275,677	73,673,123
Net withdrawals	<u>(2,879,535)</u>	<u>(2,626,218)</u>
Total invested assets, end of year	<u>\$ 90,792,444</u>	<u>79,275,677</u>

See accompanying notes to schedules

Judicial Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(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 Retirement Management 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 Securities Lending Collateral, External Domestic Fixed Income Pool, International Fixed Income Pool, Domestic Equity Pool, International Equity Pool and, with the exception of real estate investment trust holdings, the Real Estate Pool are managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool, real estate investment trust holdings and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

The Short-term Fixed Income Pool is a State pool managed by Treasury.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The schedules are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net withdrawals represent contributions from employers and employees, net of benefits paid to JRS participants as well as administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

Valuation

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers.

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

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

Judicial Retirement System

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June 30, 2007 and 2006

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

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.

Income Allocation

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

Income in the Real Estate Pool is allocated to pool participants monthly on a pro rata basis.

Income in the Treasury Inflation Protected Securities (TIPS) Pool is credited to the fund's net asset value on a daily basis and allocated to pool participants 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, 2007 and 2006, JRS Invested Assets included a 0.005% and 0.002% direct ownership in the Short-term Fixed Income Pool which included interest receivable of \$439 and \$220, respectively. JRS Invested Assets included a 0.44% and 4.29% indirect ownership in the Short-term Fixed Income Pool at June 30, 2007 and 2006, respectively.

Enhanced Cash Fixed Income Pool

JRS Invested Assets include participation in the State's internally managed Enhanced Cash Fixed Income Pool which was established in June 2007 with a startup share price of \$1,000. The share price at June 30, 2007 was \$1,000. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At year end only one pool, the Retirement Fixed Income Pool, was invested in the Enhanced Cash Fixed Income Pool. At June 30, 2007 JRS Invested Assets included a 0.40% direct ownership in the Enhanced Cash Fixed Income Pool.

Domestic Fixed Income Pool

JRS Invested Assets include participation in the Board's internally managed Domestic Fixed Income Pool which was established March 1, 1996, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,958. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, JRS Invested Assets included a 0.45% and 0.27% ownership in the Retirement Fixed Income Pool, respectively.

Judicial Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(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, 2007 was \$1,826. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, JRS Invested Assets included a 0.51% ownership in the International Fixed Income Pool.

Domestic Equity Pool

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

Large Cap Domestic Equity Pool

JRS Invested Assets include participation in the Board's externally managed Large Cap Domestic Equity Pool which was established July 1, 2004, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,368. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, JRS Invested Assets included a 0.62% and 0.61% ownership in the Large Cap Domestic Equity Pool, respectively.

Small Cap Domestic Equity Pool

JRS Invested Assets include participation in the Board's externally managed Small Cap Domestic Equity Pool which was established July 1, 2004, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,375. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, JRS Invested Assets included a 0.63% ownership in the Small Cap Domestic Equity Pool.

International Equity Pool

JRS Invested Assets include participation in the Board's externally managed International Equity Pool which was established January 1, 1992, with a start up share price of \$1,000. The share price at June 30, 2007, was \$4,302. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, JRS Invested Assets included a 0.65% and 0.74% ownership in the International Equity Pool, respectively.

Judicial Retirement System

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Notes to Schedules

June 30, 2007 and 2006

(3) POOLED INVESTMENTS (CONT.)

Absolute Return Pool

JRS Invested Assets include participation in the Board's externally managed Absolute Return Pool which was established October 31, 2004, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,248. Underlying assets in the pool are comprised of hedge fund limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007, JRS Invested Assets included a 0.60% ownership in the Absolute Return Pool.

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, 2007, was \$3,006. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, each manager independently determines which permissible investments are made. Treasury staff determine the permissible real estate investment trusts to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, JRS Invested Assets included a 0.66% ownership in the Real Estate Pool.

TIPS

JRS Invested Assets include participation in the Boards externally managed TIPS Pool which was established May 24, 2006. At June 30, 2007 investments in this pool consisted of equity in an externally managed TIPS Fund. The U.S. Treasury Inflation Protected Securities Index Strategy seeks to replicate the returns and characteristics of the Lehman Brothers Inflation Notes Index.

High Yield Pool

PERS Invested Assets include participation in the Board's externally managed High Yield Pool which was established April 15, 2005, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,189. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, JRS Invested Assets included a 0.57% and 0.58% ownership in the High Yield Pool, respectively.

Judicial Retirement System Invested Assets

Notes to Schedules June 30, 2007 and 2006

(3) POOLED INVESTMENTS (CONT.)

Emerging Markets Equity Pool

PERS Invested Assets include participation in the Board's externally managed Emerging Markets Equity Pool which was established May 2, 1994, with a start up share price of \$1,000. The share price at June 30, 2007, was \$3,870. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, JRS Invested Assets included a 0.56% and 0.00% ownership in the Emerging Markets Equity Pool, respectively.

Judicial Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(4) DEPOSIT AND INVESTMENT RISK

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

	Fair value (in thousands)							Total
	Fixed income pools							
	Short-term	Enhanced cash	Domestic	International	TIPS	High yield	Other	
Deposits	\$ —	—	—	6	—	—	463	469
Overnight Sweep Account (Imcs)	17	—	—	—	—	97	—	114
Money Market Fund (sl)	—	—	—	—	—	—	10,729	10,729
Short-term Investment Fund	106	—	—	6	—	—	—	112
Commercial Paper	236	—	15	—	—	28	—	279
U. S. Treasury Bills	—	—	—	—	—	—	34	34
U. S. Treasury Notes	—	—	1,378	—	—	—	—	1,378
U. S. Treasury Strips	—	—	1	—	—	—	—	1
U. S. Treasury Bonds	—	—	617	—	—	—	—	617
U.S. Treasury – TIPS	—	—	—	—	4,145	—	—	4,145
U.S. Government Agency								
Discount Notes	—	—	863	—	—	—	—	863
U.S. Government Agency	—	—	5	—	—	—	—	5
Municipal Bonds	—	—	8	—	—	—	—	8
Foreign Government Bonds	—	—	—	900	—	—	—	900
Mortgage-backed	182	—	7,113	—	—	—	—	7,295
Other Asset-backed	1,309	8	811	—	—	4	—	2,132
Corporate Bonds	679	11	2,284	561	—	1,223	—	4,758
Convertible Bonds	—	—	—	—	—	24	—	24
Yankees:								
Government	—	—	71	—	—	—	—	71
Corporate	143	—	254	—	—	182	—	579
Fixed Income Pools:								
Equity	—	—	—	—	—	13	—	13
Domestic Equity Pool:								
Limited Partnership	—	—	—	—	—	—	2,927	2,927
Equity	—	—	—	—	—	—	32,201	32,201
International Equity Pool:								
Equity	—	—	—	—	—	—	17,129	17,129
Emerging Markets Equity Pool	—	—	—	—	—	—	2,279	2,279
Absolute Return Pool:								
Limited Partnerships	—	—	—	—	—	—	3,676	3,676
Real Estate Pool:								
Real Estate	—	—	—	—	—	—	3,677	3,677
Commingled Funds	—	—	—	—	—	—	2,126	2,126
Limited Partnerships	—	—	—	—	—	—	4,996	4,996
Real Estate Investment Trusts	—	—	—	—	—	—	600	600
Net Other Assets (Liabilities)	(12)	(3)	(2,718)	24	—	24	69	(2,616)
Other Pool Ownership	(2,466)	(16)	1,958	—	—	—	524	—
Total Invested Assets	\$ 194	—	12,660	1,497	4,145	1,595	81,430	101,521

Judicial Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

(4) DEPOSIT AND INVESTMENT RISK, (CONT.)

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

	Fair Value (in thousands)					
	Fixed Income Pools					Total
	Short-term	Domestic	International	High Yield	Other	
Deposits	\$ -	\$ -	\$ -	\$ -	\$ 37	\$ 37
Overnight Sweep Account	2	15	-	107	-	124
Money Market Fund	-	-	-	-	8,008	8,008
Short-term Investment Fund	51	-	9	-	230	290
Commercial Paper	103	142	-	-	-	245
U. S. Treasury Notes	-	1,290	-	-	-	1,290
U. S. Treasury Bonds	-	1,141	-	-	-	1,141
U. S. Treasury Strips	-	240	-	-	-	240
U.S. Government Agency						
Discount Notes	-	1,959	-	-	-	1,959
U.S. Government Agency	-	966	-	-	-	966
Municipal Bonds	-	30	-	-	-	30
Foreign Government Bonds	-	-	835	-	-	835
Mortgage-backed	88	7,745	-	-	-	7,834
Other Asset-backed	614	1,731	-	2	-	2,347
Corporate Bonds	318	2,979	570	1,073	-	4,939
Convertible Bonds	-	-	-	23	-	23
Yankees:						
Government	-	172	-	-	-	172
Corporate	13	28	-	40	-	81
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	1,806	1,806
Equity	-	-	-	-	30,231	30,231
International Equity Pool:						
Equity	-	-	-	-	15,123	15,123
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	2,093	2,093
Real Estate Pool:						
Real Estate	-	-	-	-	5,151	5,151
Commingled Funds	-	-	-	-	1,843	1,843
Limited Partnerships	-	-	-	-	1,421	1,421
Real estate investment trusts	-	-	-	-	660	660
Net Other Assets (Liabilities)	-	(1,715)	54	10	46	(1,606)
Other Pool Ownership	(1,138)	840	-	-	298	-
Total Invested Assets	\$ 51	\$ 17,563	\$ 1,468	\$ 1,255	\$ 66,947	\$ 87,283

Judicial Retirement System

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Notes to Schedules

June 30, 2007 and 2006

(4) DEPOSIT AND INVESTMENT RISK, (CONT.)

Interest Rate Risk

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

Short-term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2007, the expected average life of individual fixed rate securities ranged from four days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Other Fixed Income Pools

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

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

The Board does not have a policy to limit interest rate risk for TIPS Pool investments. The weighted average maturity of the TIPS pool was 7.80 years at June 30, 2007.

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

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

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(4) DEPOSIT AND INVESTMENT RISK (CONT.)

Interest Rate Risk (Cont.)

At June 30, 2007, the effective duration of the domestic fixed income portfolio, by investment type, was as follows (in years):

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

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(4) 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:

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

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

Domestic Fixed Income:

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

Corporate debt securities must be investment grade;

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

International Fixed Income:

Corporate and asset-backed obligations must be investment grade.

Domestic and International Equity:

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

Judicial Retirement System Invested Assets

Notes to Schedules June 30, 2007 and 2006

(4) DEPOSIT AND INVESTMENT RISK (CONT.)

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

	Internally managed fixed income pools					
	Rating ¹	Short-term	Enhanced			High yield
			cash	Domestic	International	
Overnight sweep account	Not Rated	0.61%	—%	—%	—%	6.10%
Short-term investment account	Not Rated	3.96	—	—	0.36	—
Commercial paper	AA	1.88	—	—	—	—
Commercial paper	A	3.09	—	—	—	1.77
Commercial paper	Not Rated	3.86	—	0.14	—	—
U.S. government agency discount notes	Not Rated	—	—	8.07	—	—
U.S. government agency	AAA	—	—	—	—	—
U.S. government agency	Not Rated	—	—	0.05	—	—
Mortgage-backed	AAA	6.50	—	51.10	—	—
Mortgage-backed	A	0.32	—	—	—	—
Mortgage-backed (agency)	Not Rated	—	—	15.36	—	—
Other Asset-backed	AAA	40.98	2.65	5.14	—	—
Other Asset-backed	AA	0.91	—	0.27	—	—
Other Asset-backed	A	6.34	—	0.09	—	—
Other Asset-backed	BBB	—	1.00	0.74	—	—
Other Asset-backed	BB	—	—	—	—	0.24
Other Asset-backed	Not Rated	0.78	—	1.34	—	—
Municipal bonds	AA	—	—	0.08	—	—
Corporate bonds	AAA	1.97	—	1.89	25.92	—
Corporate bonds	AA	15.13	0.60	4.28	11.43	—
Corporate bonds	A	8.31	3.46	6.98	—	—
Corporate bonds	BBB	—	1.04	7.15	—	1.56
Corporate bonds	BB	—	—	—	—	21.55
Corporate bonds	B	—	—	—	—	41.49
Corporate bonds	CCC	—	—	—	—	11.57
Corporate bonds	D	—	—	—	—	0.48
Corporate bonds	Not Rated	—	—	1.03	0.28	3.59
Convertible bonds	BBB	—	—	—	—	0.20
Convertible bonds	BB	—	—	—	—	0.06
Convertible bonds	B	—	—	—	—	1.19
Convertible bonds	D	—	—	—	—	0.05
Yankees:						
Government	AAA – BBB	—	—	0.66	56.57	—
Government	Not Rated	—	—	—	3.83	—
Corporate	AA	3.09	—	—	—	—
Corporate	A	1.75	—	1.47	—	—
Corporate	BBB	—	—	0.61	—	0.35
Corporate	BB	—	—	—	—	1.06
Corporate	B	—	—	—	—	5.88
Corporate	CCC	—	—	—	—	0.21
Corporate	Not Rated	0.52	—	0.30	—	0.32
No credit exposure		—	91.25	(6.75)	1.61	2.33
		100.00%	100.00%	100.00%	100.00%	100.00%

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

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June 30, 2007 and 2006

(4) DEPOSIT AND INVESTMENT RISK (CONT.)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits. At June 30, 2007, JRS Invested Assets had the following uncollateralized and uninsured deposits (in thousands):

	Amount (in thousands)
International Equity Pool	\$ 35

Foreign Currency Risk

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

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

The Board's policy with regard to foreign currency risk in the International Equity Pool is to permit JRS to hold up to twenty-one percent of total investments in international equity.

<u>Currency</u>	<u>Amount (in thousands)</u>	
	<u>International Fixed Income Pool</u>	<u>International Equity Pool</u>
Australian Dollar	\$ —	3,368
Canadian Dollar	—	21
Euro Currency	—	(9,222)
Hong Kong Dollar	—	4,302
Japanese Yen	1,910	22,942
Mexican Peso	4,334	—
New Zealand Dollar	—	69
Norwegian Krone	—	1,109
Pound Sterling	—	11,824
Singapore Dollar	—	7
South Korean Won	—	1
Swedish Krona	—	640
Swiss Franc	—	13
	<u>\$ 6,244</u>	<u>35,074</u>

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

Judicial Retirement System

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Notes to Schedules

June 30, 2007 and 2006

(4) DEPOSIT AND INVESTMENT RISK (CONT.)

Foreign Currency Risk (Cont.)

At June 30, 2007, JRS had exposure to foreign currency risk with the following investments (in thousands):

<u>Currency</u>	<u>Amount (in thousands)</u>		
	<u>Fixed income</u>		<u>International</u>
	<u>International Fixed Income Pool</u>		<u>Equity Pool</u>
	<u>Foreign</u>		<u>Equity</u>
	<u>Government</u>	<u>Corporate</u>	
Australian Dollar	\$ 30	14	383
Canadian Dollar	—	—	344
Danish Krone	—	—	20
Euro Currency	709	—	6,412
Hong Kong Dollar	—	—	246
Japanese Yen	132	547	3,466
Mexican Peso	29	—	—
New Taiwan Dollar	—	—	62
New Zealand Dollar	—	—	70
Norwegian Krone	—	—	133
Pound Sterling	—	—	3,186
Singapore Dollar	—	—	171
South African Rand	—	—	13
South Korean Won	—	—	258
Swedish Krona	—	—	299
Swiss Franc	—	—	1,075
	<u>\$ 900</u>	<u>561</u>	<u>16,138</u>

Concentration of Credit Risk

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

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

At June 30, 2007, JRS invested assets did not have exposure to any one issuer greater than 5% of total invested assets.

Judicial Retirement System

Invested Assets

Notes to Schedules

June 30, 2007 and 2006

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

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

	<u>2007</u>	<u>2006</u>
Net realized gain (loss) on foreign currency	\$ 417,847	(401,353)
Net unrealized gain on foreign currency	339	20
Net realized gain on foreign exchange contracts	2,311	2,229

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from eight to one hundred and twenty-four days. JRS had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	<u>2007</u>	<u>2006</u>
Contract sales	\$ 77,245	(140,832)
Less fair value	<u>76,785</u>	<u>(141,213)</u>
Net unrealized gains on contracts	<u>\$ 460</u>	<u>381</u>

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

(6) COMMITMENTS

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2007, JRS Invested Asset's share of the unfunded commitment totaled \$80,125. This commitment can be withdrawn annually in December with ninety days notice.

The Board entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2007, JRS Invested Asset's share of these unfunded commitments totaled \$3,060,415 to be paid through the year 2011.

(7) SECURITIES LENDING

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

At June 30, 2007 and 2006, the fair value of securities on loan allocable to JRS Invested Assets totaled \$11,064,035 and \$7,892,613, respectively. There is no limit to the amount that can be loaned and the Board is able to sell securities on loan. International equity security loans are collateralized at not less than

Judicial Retirement System

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Notes to Schedules June 30, 2007 and 2006

(7) SECURITIES LENDING (CONT.)

105 percent of their fair value. All other security loans are collateralized at not less than 102 percent of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral in the amount of \$10,728,980 was invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. Collateral securities in the amount of \$674,650 may be pledged or sold upon borrower default. Since the Board does not have the ability to pledge or sell collateral securities unless the borrower defaults, they are not recorded on the financial schedules. Securities under loan, cash collateral and cash collateral payable are recorded on the financial schedules at fair value. The Bank, JRS and the borrower receive a fee from earnings on invested collateral. The bank and JRS share a fee paid by the borrower for loans not collateralized with cash.

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

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

(8) CONTINGENCY

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

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