



STATE OF ALASKA RETIREMENT AND BENEFITS PLANS

Invested Assets

June 30, 2014

(With Independent Auditors' Report Thereon)

STATE OF ALASKA RETIREMENT AND BENEFITS PLANS

Invested Assets

June 30, 2014

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Schedule of Invested Assets	3
Schedule of Investment Income (Loss) and Changes in Invested Assets	4
Notes to Schedules.....	5



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

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

Report on the Schedules

We have audited the accompanying schedules of the State of Alaska Retirement and Benefit Plans Invested Assets (the Plans) as of June 30, 2014, and of investment income and changes in invested assets of the Plans for the year then ended, and the related notes to the schedules (collectively referred to as "the Schedules").

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of the Schedules in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedules of invested assets referred to above presents fairly, in all material respects, the invested assets of the Plans as of June 30, 2014, and the results of its investment income and changes in invested assets for the year then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

We draw attention to note 1 to the Schedules, which describes that the accompanying Schedules were prepared to present the invested assets of the Plans and changes therein. The presentation of the Schedules is not intended to be a complete presentation of the financial status of the Plans.

KPMG LLP

October 7, 2014

ALASKA RETIREMENT MANAGEMENT BOARD

SCHEDULE OF INVESTED ASSETS

June 30, 2014

	Pooled Investments	Participant Directed Investments	Total ARMB Assets
Investments (at Fair Value)			
Cash and Cash Equivalents			
Short-term Fixed Income Pool	\$ 687,497,065	\$ 7,487,899	\$ 694,984,964
Total Cash and Cash Equivalents	<u>687,497,065</u>	<u>7,487,899</u>	<u>694,984,964</u>
Fixed Income Securities			
U.S. Treasury Fixed Income Pool	1,244,692,226	-	1,244,692,226
Taxable Municipal Bond Pool	222,339,014	-	222,339,014
High Yield Pool	565,237,319	-	565,237,319
International Fixed Income Pool	379,100,253	-	379,100,253
Emerging Debt Pool	153,426,381	-	153,426,381
Total Fixed Income Securities	<u>2,564,795,193</u>	<u>-</u>	<u>2,564,795,193</u>
Broad Domestic Equity			
Large Cap Pool	4,703,768,612	-	4,703,768,612
Small Cap Pool	1,040,928,743	-	1,040,928,743
Total Broad Domestic Equity	<u>5,744,697,355</u>	<u>-</u>	<u>5,744,697,355</u>
Global Equity Ex-U.S.			
International Equity Pool	4,121,810,999	-	4,121,810,999
International Equity Small Cap Pool	326,147,380	-	326,147,380
Frontier Markets Pool	98,638,800	-	98,638,800
Emerging Markets Equity Pool	620,656,904	-	620,656,904
Total Global Equity Ex-U.S.	<u>5,167,254,083</u>	<u>-</u>	<u>5,167,254,083</u>
Alternative Equity Strategies			
Alternative Equity Strategies Pool	705,279,970	-	705,279,970
Convertible Bond Pool	195,674,656	-	195,674,656
Total Alternative Equity Strategies	<u>900,954,626</u>	<u>-</u>	<u>900,954,626</u>
Private Equity			
Private Equity Pool	1,727,150,865	-	1,727,150,865
Total Private Equity	<u>1,727,150,865</u>	<u>-</u>	<u>1,727,150,865</u>
Absolute Return			
Absolute Return Pool	820,708,917	-	820,708,917
Total Absolute Return	<u>820,708,917</u>	<u>-</u>	<u>820,708,917</u>
Real Assets			
Real Estate Pool	1,330,483,213	-	1,330,483,213
Real Estate Investment Trust Pool	363,135,313	-	363,135,313
Public Infrastructure Pool	164,721,168	-	164,721,168
Master Limited Partnership Pool	488,254,364	-	488,254,364
Energy Pool	106,911,597	-	106,911,597
Farmland Pool	709,869,010	-	709,869,010
Timber Pool	359,680,532	-	359,680,532
Treasury Inflation Protected Securities Pool	34,957,785	-	34,957,785
Total Real Assets	<u>3,558,012,982</u>	<u>-</u>	<u>3,558,012,982</u>
Pooled Investment Funds			
T. Rowe Price			
Target 2010 Trust	-	2,175,939	2,175,939
Target 2015 Trust	-	8,669,149	8,669,149
Target 2020 Trust	-	18,336,963	18,336,963
Target 2025 Trust	-	25,550,808	25,550,808
Target 2030 Trust	-	26,458,708	26,458,708
Target 2035 Trust	-	32,832,179	32,832,179
Target 2040 Trust	-	40,106,881	40,106,881
Target 2045 Trust	-	54,331,820	54,331,820
Target 2050 Trust	-	66,695,480	66,695,480
Target 2055 Trust	-	24,489,854	24,489,854
Alaska Balanced Fund	-	1,959,911	1,959,911
Long-Term Balanced Fund	-	34,011,387	34,011,387
Alaska Money Market	-	5,538,721	5,538,721
Total Pooled Investment Funds	<u>-</u>	<u>341,157,800</u>	<u>341,157,800</u>
Collective Investment Funds			
State Street Global Advisors			
Money Market Fund	-	1,272,175	1,272,175
S&P Stock Index Fund	-	49,464,152	49,464,152
Russell 3000 Index	-	48,579,851	48,579,851
Real Estate Investment Trust Index	-	9,480,207	9,480,207
World Equity Ex-US Index	-	40,062,512	40,062,512
Long US Treasury Bond Index	-	635,116	635,116
Treasury Inflation Protected Securities Index	-	4,248,963	4,248,963
World Government Bond Ex-US Index	-	8,320,654	8,320,654
Global Balanced Fund	-	18,514,074	18,514,074
Barclays			
Daily Government/Corporate Bond Fund	-	41,069,421	41,069,421
Intermediate Bond Fund	-	491,324	491,324
Brandes Institutional			
International Equity Fund	-	54,473,641	54,473,641
RCM			
Socially Responsible Fund	-	6,114,108	6,114,108
T. Rowe Price			
Small-Cap Fund	-	75,249,214	75,249,214
Total Collective Investment Funds	<u>-</u>	<u>357,975,412</u>	<u>357,975,412</u>
Total Invested Assets	<u>\$ 21,171,071,086</u>	<u>\$ 706,621,111</u>	<u>\$ 21,877,692,197</u>

ALASKA RETIREMENT MANAGEMENT BOARD
SCHEDULE OF INVESTMENT INCOME (LOSS) AND CHANGES IN INVESTED ASSETS
June 30, 2014

	Pooled Investments	Participant Directed Investments	Total Income (Loss)
Investment Income (Loss)			
Cash and Cash Equivalents			
Short-term Fixed Income Pool	\$ 1,520,161	\$ 22,810	\$ 1,542,971
Fixed Income Securities			
U.S. Treasury Fixed Income Pool	21,364,871	-	21,364,871
Taxable Municipal Bond Pool	22,339,014	-	22,339,014
High Yield Pool	54,771,755	-	54,771,755
International Fixed Income Pool	22,133,963	-	22,133,963
Emerging Markets Debt Pool	1,476,203	-	1,476,203
Broad Domestic Equity			
Large Cap Pool	1,048,160,466	-	1,048,160,466
Small Cap Pool	262,286,249	-	262,286,249
Global Equity Ex-U.S.			
International Equity Pool	808,144,761	-	808,144,761
International Equity Small Cap Pool	69,257,950	-	69,257,950
Frontier Markets Pool	(1,361,200)	-	(1,361,200)
Emerging Markets Equity Pool	91,434,260	-	91,434,260
Alternative Equity Strategies			
Alternative Equity Strategies	131,653,060	-	131,653,060
Convertible Bond Pool	17,684,170	-	17,684,170
Private Equity			
Private Equity Pool	354,539,260	-	354,539,260
Absolute Return			
Absolute Return Pool	50,100,002	-	50,100,002
Real Assets			
Real Estate Pool	152,935,682	-	152,935,682
Real Estate Investment Trust Pool	42,108,303	-	42,108,303
Infrastructure Public Pool	14,721,168	-	14,721,168
Master Limited Partnership Pool	125,306,898	-	125,306,898
Energy Pool	(5,957,993)	-	(5,957,993)
Farmland Pool	56,532,611	-	56,532,611
Farmland Water Pool	876,843	-	876,843
Timber Pool	24,303,073	-	24,303,073
Treasury Inflation Protected Securities Pool	1,623,960	-	1,623,960
Pooled Participant Directed Investment Funds			
T. Rowe Price			
Alaska Money Market	-	219,952	219,952
Target 2010 Trust	-	1,017,196	1,017,196
Target 2015 Trust	-	2,322,738	2,322,738
Target 2020 Trust	-	3,529,843	3,529,843
Target 2025 Trust	-	3,870,388	3,870,388
Target 2030 Trust	-	5,010,319	5,010,319
Target 2035 Trust	-	6,332,025	6,332,025
Target 2040 Trust	-	8,611,882	8,611,882
Target 2045 Trust	-	10,369,041	10,369,041
Target 2050 Trust	-	3,437,595	3,437,595
Target 2055 Trust	-	175,000	175,000
Alaska Balanced Fund	-	3,373,377	3,373,377
Long-Term Balanced Fund	-	639	639
Collective Investment Funds			
State Street Global Advisors			
Money Market Fund	-	2	2
Long US Treasury Bond Index	-	12,240,756	12,240,756
Treasury Inflation Protected Securities Index	-	7,316,795	7,316,795
World Government Bond Ex-US Index	-	1,135,879	1,135,879
S&P 500 Stock Index Fund	-	8,821,151	8,821,151
Russell 3000 Index	-	29,285	29,285
World Equity Ex-US Index	-	169,998	169,998
Real Estate Investment Trust Index	-	574,348	574,348
Global Balanced Fund	-	2,592,006	2,592,006
Barclays			
Daily Government/Corporate Bond Fund	-	1,516,031	1,516,031
Intermediate Bond Fund	-	6,643	6,643
Brandes Institutional			
International Equity Fund	-	10,184,274	10,184,274
RCM			
Socially Responsible Fund	-	1,596,728	1,596,728
T. Rowe Price			
Small-Cap Fund	-	14,410,019	14,410,019
Total Investment Income (Loss)	3,367,955,490	108,886,720	3,476,842,210
Total Invested Assets, Beginning of Year	18,075,627,714	498,042,602	18,573,670,316
Total Contributions	1,335,822,740	134,925,704	1,470,748,444
Total (Withdrawals)	(1,608,334,858)	(35,233,915)	(1,643,568,773)
Net Contributions (Withdrawals)	(272,512,118)	99,691,789	(172,820,329)
Total Invested Assets, End of Year	\$ 21,171,071,086	\$ 706,621,111	\$ 21,877,692,197

State of Alaska Retirement and Benefits Plans

Invested Assets

Notes to Schedules

June 30, 2014

(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 comprise 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. Treasury manages the U.S. Treasury Fixed Income Pool, Dow Jones Dividend 100 Index Fund in the Alternative Equity Strategies 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. All other investments are managed by external management companies.

The Short-term Fixed Income Pool is a State pool managed by Treasury that holds investments on behalf of the 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.

Valuation and Income Allocation

Fixed Income Pools and Treasury Inflation Protected Securities (TIPS)

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 determines the allocation between permissible securities.

State of Alaska Retirement and Benefits Plans

Invested Assets

Notes to Schedules

June 30, 2014

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

Valuation and Income Allocation (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 ask prices.

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, Real Estate Investment Trust (REIT), Alternative Equity Strategies, Public Infrastructure, and Master Limited Partnership (MLP) Pools

Domestic equity, international equity, REIT, alternative equity strategies, public infrastructure, and MLP 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 determines the allocation between permissible securities.

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

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

Emerging and frontier markets securities are valued on the last business day of each month by the investment managers. The pools participate in 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 comprise 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 comprise 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 comprise a limited partnership with an energy related venture capital operating company.

Real estate, farmland, and timber investments are valued quarterly by investment managers based on market conditions. Additionally, these investments are appraised annually by independent appraisers. Underlying assets in the pool comprise 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, 2014

(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 13 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 comprise 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 but are not limited to commercial paper, asset-backed securities, 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 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, 2014

(3) DEPOSIT AND INVESTMENT RISK

At June 30, the Board had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Bank Loans	\$ 10,909,693
Commercial Paper	2,779,996
Convertible Bonds	166,119,365
Corporate Bonds	592,914,230
Deposits	121,991,600
Foreign Government Bonds	350,597,426
Mortgage Backed	59,600,095
Municipal Bonds	208,274,259
Other Asset Backed	407,378,115
Overnight Sweep Account (LMCS)	115,124,259
Short-term Investment Fund	31,796,035
U.S. Government Agency	2,827,304
Treasury Bills	508,256,340
Treasury Bonds	802,037
Treasury Notes	1,057,481,882
Treasury Strips	2,048,077
Treasury TIP Bonds	9,772,776
Treasury TIP Notes	24,474,847
Yankee Corporate	82,492,026
Yankee Government	1,491,038
Equity	10,402,050,090
Futures	125,430
Limited Partnerships	1,198,627,248
Mutual Funds	922,015,622
Options	(5,986,575)
Repo	58,505,236
Rights	267,103
Warrants	133,636
Absolute Return	820,708,917
Energy	106,911,597
Farmland	709,869,010
Private Equity	1,726,013,082
Real Estate	1,330,483,213
Timber	359,680,532
Participant Directed	699,133,211
Net Other Assets (Liabilities)	(207,976,555)
	<u>\$ 21,877,692,197</u>

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 14 months to maturity or 14 months expected average life *upon purchase*. Floating rate securities are limited to three years to maturity or three years expected average life *upon*

State of Alaska Retirement and Benefits Plans

Invested Assets

Notes to Schedules

June 30, 2014

(3) DEPOSIT AND INVESTMENT RISK (Cont.)

Interest Rate Risk (Cont.)

purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2014, the expected average life of individual fixed rate securities ranged from one day to 2.2 years and the expected average life of floating rate securities ranged from 8 days to 3.2 years.

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 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, 2014 was 3.63 years.

Through the Board's investment policy, Treasury managed the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Taxable Municipal Bond portfolios to $\pm 20\%$ of the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index. The effective duration for the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index at June 30, 2014 was 11.74 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 Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2014 was 4.21 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 blended benchmark of 70% Citigroup Non-USD World Government Bond Index and 30% JP Morgan Global Bond Emerging Markets Broad Diversified Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2014 was 7.54 years and the effective duration of the JP Morgan Global Bond Index at June 30, 2014 was 4.87, for a blended duration of 6.74 at June 30, 2014.

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, 2014 was 8.21 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, 2014

(3) DEPOSIT AND INVESTMENT RISK (Cont.)

Interest Rate Risk (Cont.)

At June 30, 2014, the effective duration of the Board's fixed income pools, by investment type, was as follows:

	Effective Duration (in years)				
	U.S. Treasury	Municipal Bonds	High Yield	International	TIPS
Bridge Loans	-	-	0.11	-	-
Corporate Bonds	1.85	13.80	3.98	-	-
Foreign Government Bonds	-	-	-	5.96	-
Mortgage Backed	1.97	-	-	-	-
Municipal Bonds	-	11.44	-	-	-
Other Asset Backed	0.45	-	-	-	-
Treasury Bills	-	-	-	-	-
Treasury Bonds	-	18.87	-	-	-
Treasury Notes	4.36	5.79	-	4.78	-
Treasury Strips	4.11	-	-	-	-
Treasury TIP Bonds	-	-	-	-	12.08
Treasury TIP Notes	-	-	-	-	4.59
U.S. Government Agency	8.34	-	-	-	-
Yankee Corporate	1.64	-	4.08	-	-
Yankee Government	(4.00)	-	-	-	-
Total Portfolio	3.50	10.81	3.75	5.82	6.62

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, the Trust will invest in cash equivalent instruments with maturities of less than one year. Additionally, under normal conditions, for government debt, corporate debt, and mortgage-backed securities, duration is limited to ± 0.2 years of the blended benchmark of 70% Barclays U.S. Intermediate Aggregate Bond Index, 15% Barclays U.S. Floating Rate Note Index, 10% Barclays TIPS Index, and 5% Barclays Long U.S. Treasury 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 ± 0.4 years relative to the index.

At June 30, 2014, the duration of the government corporate debt, and mortgage-backed securities was 3.93 years and the duration of the blended Barclays Bond Index was 3.98 years.

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, 2014, the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 45 days, SSgA World Government Bond Ex-US Index: 7.68 years, SSgA Long US Treasury Bond Index: 16.68 years, SSgA TIPS Index: 7.28 years, Barclays Government Credit Bond Fund: 8.18 years, and the Barclays Intermediate Government Bond Fund: 3.82 years.

State of Alaska Retirement and Benefits Plans

Invested Assets

Notes to Schedules

June 30, 2014

(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:

U.S. Intermediate Treasury Fixed Income:

No more than 30% 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.

Taxable Municipal Bond Pool:

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

At the time of purchase, short term securities must be rated at least A-2 or equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO) or by the Contractor, if unrated. At the time of purchase, long term securities must be rated investment grade by an NRSRO or by the Contractor, if unrated. Only one rating is necessary, and the median rating will apply for securities rated by more than one NRSRO.

No more than 20% of the portfolio's assets may be invested in securities that are not rated by an NRSRO.

High Yield Fixed Income:

No more than 10% percent of the portfolio's assets may be invested in securities rated A3 or higher by any rating agency (including government instruments). Cash held in the portfolio will be included in this limitation.

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.

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. Only one rating is necessary.

International Fixed Income:

Corporate debt and asset-backed obligations must be rated investment grade or better by a recognized credit rating agency. In the event of a split rating, the lower of the ratings shall apply for evaluating credit quality.

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. In the event a split rating exists, the lower of the ratings shall apply for evaluating credit quality.

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. Non-rated securities to which the Manager assigns a non-investment grade rating are subject to the below investment grade limitation.

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, 2014

(3) DEPOSIT AND INVESTMENT RISK (Cont.)

Credit Risk (Cont.)

The Manager shall not purchase any security with a credit rating at or below CCC- by S&P and C3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and C3 by Moody's if such an investment is considered appropriate given the Board's investment objective.

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.

Non-U.S. Treasury-issued 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, 2014

(3) DEPOSIT AND INVESTMENT RISK (Cont.)

Credit Risk (Cont.)

At June 30, 2014, 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):

Investment Type	Rating	Short-Term	Fixed Income Pools					
			U.S. Treasury	Municipal Bond	High Yield	International	Convertible	TIPS
Deposits	Not Rated	- %	- %	- %	3.87 %	0.78 %	- %	- %
Bank Loans	Not Rated	-	-	-	1.93	-	-	-
Commercial Paper	Not Rated	-	-	1.25	-	-	-	-
Corporate Bonds	AAA	0.06	-	-	-	-	-	-
Corporate Bonds	AA	2.90	1.85	-	-	-	-	-
Corporate Bonds	A	3.71	2.90	-	0.11	-	-	-
Corporate Bonds	BBB	-	0.24	-	4.00	-	-	-
Corporate Bonds	BB	-	-	-	35.21	-	-	-
Corporate Bonds	B	-	-	-	36.94	-	-	-
Corporate Bonds	CCC	-	-	-	3.94	-	-	-
Corporate Bonds	Not Rated	-	-	0.56	2.93	-	-	-
Convertible Bonds	A	-	-	-	-	-	2.17	-
Convertible Bonds	BBB	-	-	-	0.29	-	14.36	-
Convertible Bonds	BB	-	-	-	-	-	19.98	-
Convertible Bonds	B	-	-	-	-	-	10.16	-
Convertible Bonds	CCC	-	-	-	-	-	1.92	-
Convertible Bonds	Not Rated	-	-	-	0.03	-	35.37	-
Equity	BBB	-	-	-	-	-	2.42	-
Equity	BB	-	-	-	-	-	3.75	-
Equity	B	-	-	-	-	-	1.36	-
Equity	Not Rated	-	-	-	-	-	2.10	-
Foreign Government Bonds	AAA	-	-	-	-	36.26	-	-
Foreign Government Bonds	AA	-	-	-	-	16.92	-	-
Foreign Government Bonds	A	-	-	-	-	18.92	-	-
Foreign Government Bonds	BBB	-	-	-	-	17.02	-	-
Foreign Government Bonds	BB	-	-	-	-	2.73	-	-
Foreign Government Bonds	Not Rated	-	-	-	-	0.60	-	-
U.S. Government Agency	AA	-	0.23	-	-	-	-	-
Overnight Sweep Account (Imcs)	Not Rated	10.44	-	4.48	-	-	5.90	-
Mortgage Backed	AAA	0.23	1.08	-	-	-	-	-
Mortgage Backed	AA	0.04	1.62	-	-	-	-	-
Mortgage Backed	A	0.06	0.26	-	-	-	-	-
Mortgage Backed	Not Rated	0.12	1.49	-	-	-	-	-
Municipal Bonds	AAA	-	-	11.03	-	-	-	-
Municipal Bonds	AA	-	-	52.76	-	-	-	-
Municipal Bonds	A	-	-	29.12	-	-	-	-
Municipal Bonds	Not Rated	-	-	0.77	-	-	-	-
Other Asset Backed	AAA	22.93	6.81	-	-	-	-	-
Other Asset Backed	AA	0.21	0.34	-	-	-	-	-
Other Asset Backed	A	0.79	-	-	-	-	-	-
Other Asset Backed	Not Rated	8.20	2.41	-	-	-	-	-
Other Pool Ownership	Not Rated	-	5.08	-	-	-	-	1.64
Repurchase Agreement	AA	6.52	-	-	-	-	-	-
Treasury Bills	AA	56.25	-	-	-	-	-	-
Treasury Bonds	AA	-	-	0.36	-	-	-	-
Treasury Notes	AA	12.65	74.36	0.22	-	4.73	-	-
Treasury Strips	AA	-	0.16	-	-	-	-	-
Treasury TIP Bonds	AA	-	-	-	-	-	-	27.96
Treasury TIP Notes	AA	-	-	-	-	-	-	70.01
Short-term Investment Fund	Not Rated	-	-	-	-	0.58	-	-
Warrants	Not Rated	-	-	-	0.01	-	-	-
Yankee Corporate	AAA	-	0.08	-	-	-	-	-
Yankee Corporate	AA	0.77	0.45	-	-	-	-	-
Yankee Corporate	A	0.74	-	-	-	-	-	-
Yankee Corporate	BBB	-	0.08	-	-	-	-	-
Yankee Corporate	BB	-	-	-	4.68	-	-	-
Yankee Corporate	B	-	-	-	4.96	-	-	-
Yankee Corporate	CCC	-	-	-	0.44	-	-	-
Yankee Corporate	Not Rated	-	0.23	-	0.28	-	-	-
Yankee Government	Not Rated	-	0.12	-	-	-	-	-
No Credit Risk		(26.62)	0.21	(0.55)	0.38	1.46	0.51	0.39
		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, 2014

(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, Treasury Investment policy requires the State's depository banks to collateralize State deposits to the extent they exceed insurance coverage provided by the Federal Deposit Insurance Corporation (The FDIC provides \$250,000 of coverage). In accordance with Treasury policy, they are required to retain collateral equal to 110% of uninsured deposits.

At June 30, 2014, the Board's Invested Assets had the following uncollateralized and uninsured deposits:

	<u>Amount</u>
International Equity Pools	\$ 85,450,127
International Fixed Income Pool	2,938,314

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, Peru, Poland, Romania, 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. The Board has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds. 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	17%	29%	14%
TRS	17%	29%	14%
JRS	17%	29%	14%
MRS	58%	24%	-

State of Alaska Retirement and Benefits Plans
Invested Assets
Notes to Schedules
June 30, 2014

(3) DEPOSIT AND INVESTMENT RISK (Cont.)

Foreign Currency Risk (Cont.)

At June 30, 2014, the Board had exposure to foreign currency risk with the following deposits and investments:

	<u>International Fixed Income</u>		<u>International Equity</u>					<u>Private Equity</u>
	<u>Foreign Government</u>		<u>Deposits</u>	<u>Equity</u>	<u>Mutual Funds</u>	<u>Rights</u>	<u>Warrants</u>	<u>Limited Partnerships</u>
	<u>Deposits</u>	<u>Bonds</u>						
Australian Dollar	201,748	25,964,286	57,047	100,029,590	-	-	-	834,580
Brazilian Real	-	27,099,442	77,837	14,822,543	-	-	-	-
Canadian Dollar	-	-	218,650	155,561,957	-	-	-	-
Colombian Peso	19,440	3,416,880	-	-	-	-	-	-
Danish Krone	-	-	627	53,828,665	-	-	-	-
Euro Currency	-	66,539,497	79,021,380	961,022,688	-	88,064	14,989	139,724,563
Hong Kong Dollar	-	-	314,185	133,390,596	-	178,924	-	-
Indian Rupee	-	-	12,364	10,150,477	-	-	-	-
Indonesian Rupiah	193,910	10,352,768	4,064	11,611,779	-	-	-	-
Israeli Shekel	-	-	72,500	1,372,707	-	-	-	-
Japanese Yen	81,585	64,261,409	3,927,302	770,562,919	-	-	-	-
Malaysian Ringgit	408,102	8,214,922	-	2,183,975	-	-	-	-
Mexican Peso	936,854	26,504,055	-	476,057	-	-	-	-
New Israeli Sheqel	-	-	-	-	-	-	32	-
New Russian Ruble	-	13,212,813	-	-	-	-	-	-
New Taiwan Dollar	-	-	148,370	3,851,855	-	-	-	-
New Zealand Dollar	-	-	41,517	9,232,433	-	-	-	-
Norwegian Krone	-	-	81,094	16,431,779	-	-	-	-
Peruvian Nouveau Sol	182,360	7,109,251	-	-	-	-	-	-
Philippine Peso	-	-	-	4,582,964	-	-	-	-
Polish Zloty	-	32,162,700	-	-	-	-	-	-
Pound Sterling	199,112	20,458,872	1,207,739	726,163,362	164,152	-	-	37,997,709
Singapore Dollar	-	-	184,277	37,140,972	-	-	-	-
South African Rand	225,684	11,493,874	-	11,262,436	-	-	-	-
South Korean Won	16	-	60	57,642,975	-	-	-	-
Swedish Krona	489,503	24,493,697	67,761	79,975,170	-	-	-	-
Swiss Franc	-	-	13,352	211,157,541	-	-	-	-
Thailand Baht	-	-	-	5,223,759	-	-	-	-
Turkish Lira	-	9,312,962	1	7,278,204	-	-	-	-
	2,938,314	350,597,428	85,450,127	3,384,957,403	164,152	266,988	15,021	178,556,852

At June 30, 2014, the Board also had exposure to foreign currency risk in the Emerging Markets Equity Pool and the Emerging Markets Debt Pool. These pools consist 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, Taxable Municipal Bond Pool or TIPS Pools.

At June 30, 2014, 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

Invested Assets

Notes to Schedules

June 30, 2014

(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, 2014, the Board had the following derivative instruments outstanding:

	Changes in Fair Value		Classification	Fair Value	
	Classification	Amount		Amount	Notional
Equity Options Written	Investment Revenue	5,287,880	Options	(5,965,500)	(1,640,000)
FX Forwards	Investment Revenue	(995,381)	Long Term Instruments	(655,129)	39,411,608
Index Futures Long	Investment Revenue	17,987,973	Futures	-	42,320
Index Options Bought	Investment Revenue	34,476	Options	-	-
Index Options Written	Investment Revenue	586,917	Options	(21,075)	(1,500)
Rights	Investment Revenue	361,702	Common Stock	267,103	751,208
Warrants	Investment Revenue	213,136	Common Stock	133,636	139,999

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. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance 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, 2014, the Board had the following Foreign Currency risk related to forward contracts:

Currency Name	Currency Forward Contracts			Total Exposure
	Options	Net Receivables	Net Payables	
Australian Dollar	-	-	(538,102)	(538,102)
Canadian Dollar	-	2,574	(9,819)	(7,245)
Euro Currency	103,053	-	-	103,053
Hong Kong Dollar	178,924	-	-	178,924
New Israeli Shekel	32	-	-	32
Japanese Yen	-	-	(60,589)	(60,589)
New Zeland Dollar	-	-	(49,194)	(49,194)
	282,009	2,574	(657,704)	(373,121)

At June 30, 2014, the Board had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions:

Counterparty Name	Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Bank of New York	2,574	A+	AA-	A1
Maximum amount of loss in case of default of all counterparties	2,574			
Effect of collateral reducing maximum exposure	-			
Liabilities subject to netting arrangements reducing maximum exposure	-			
Resulting net exposure	2,574			

(5) COMMITMENTS AND CONTINGENCIES

The Board entered into agreements through external managers to provide capital funding for limited partnerships in the domestic equity, private equity, energy, and real estate portfolios. At June 30, 2014, the Board's unfunded commitments were as follows:

Portfolio	Unfunded Commitment	Estimated to be paid through:
Domestic Equity	14,304,525	May be canceled annually in December with 90 days notice
Private Equity	986,621,125	Fiscal Year 2024
Energy	102,399,124	Fiscal Year 2023
Real Estate	437,818,751	Fiscal Year 2024
	1,541,143,525	

State of Alaska Retirement and Benefits Plans
Invested Assets
Notes to Schedules
June 30, 2014

(6) SUBSEQUENT EVENTS

In 2014 as a part of the State's Fiscal Year 2015 Capital Budget, Senate Bill 119, an appropriation was authorized to move a total of \$3 billion from the Constitutional Budget Reserve Fund to the State of Alaska Public Employees and Teachers' Retirement Systems.