State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD

Relating to Securities Lending Cash Collateral Investing Guidelines

Resolution 2015-23

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for each of the funds entrusted to it; and

WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, the Board contracts an independent consultant to provide experience and expertise in asset allocation and other investment matters to come before the Board; and

WHEREAS, the Board has established a securities lending program; and

WHEREAS, the Board has authorized the creation of an investment pool into which the cash securities lending collateral will be placed; and

WHEREAS, the Board will establish and from time to time as necessary modify guidelines for the cash collateral pool.

NOW THEREFORE BE IT RESOLVED THAT THE ALASKA RETIREMENT MANAGEMENT BOARD adopts the Cash Collateral Investment Guidelines, attached hereto and made a part hereof, regarding investment of securities lending cash collateral.

DATED at Anchorage, Alaska this 3rd day of December, 2015.

Chair

ATTEST:

Gayle Harbo
Secretary

CASH COLLATERAL INVESTMENT GUIDELINES

A. **Purpose.** The emphasis of investments in this fund shall be liquidity and preservation of the fund's market value.

B. **Investment Management Service to be Performed.** Cash collateral managers shall invest and reinvest cash allocated to them and deposited into their accounts, without distinction between principal and income. The securities will be selected and retained by managers solely on the basis of their independent judgment relating to economic conditions, financial conditions, market timing, or market analysis, and will not be subject to direction from the ARMB.

C. **Performance Standards.** The benchmark is the three-month Treasury bill.

D. **Investment Structure.** Permissible investments shall be limited to the following:

1. Investments comprising:

    a. Repurchase agreements collateralized only by U.S. Treasury obligations, including bills, notes, and bonds, and only when the collateral carries a market value equal to or greater than 102% of the amount of the repurchase agreements, and only when the custodial bank appointed by retirement funds will take custody of the collateral; and

    b. Commercial paper rated at least Prime-1 by Moody's Investors Service and A-1 by Standard and Poor's Ratings Services; and

    c. Negotiable certificates of deposit; provided that an issuing bank must have total assets in excess of $5 billion.

2. United States Treasury obligations including bills, notes, bonds and other debt obligations issued by the United States Treasury, and backed by the full faith and credit of the U.S. Government.

3. Other full faith and credit obligations of the U.S. Government.

4. Securities issued or guaranteed by agencies and instrumentalities of the U.S. Government, but not explicitly backed by the full faith and credit of the U.S. Government.

5. Securities issued or guaranteed by municipalities in the United States.

6. Obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars.

7. Investment grade corporate debt securities comprising:

    1. Corporate debt issued in the U.S. capital markets by U.S. companies; and

    2. Euro-dollar debt (that is, U.S. dollar-denominated securities issued outside the U.S. capital markets by U.S. companies or by foreign issuers); and

    3. Yankee debt (that is, U.S. dollar denominated obligations and issued in the U.S. capital markets by foreign issuers).

8. Asset-backed Securities (ABS).

9. Institutional money market funds, or similar.

10. Agency and non-agency mortgage-backed securities backed by loans secured by residential, multifamily and commercial properties including, but not limited to pass-throughs, collateralized mortgage loans (CMO's), project loans, construction loans and adjustable rate mortgages.

E. **Limitation on Holdings.** Appropriate diversification standards shall apply subject, however, to the following limitations based on the current market value of assets:

1. Investments in fixed-income securities shall be placed solely in U.S. dollar-denominated debt instruments.

2. Individual fixed rate securities will be limited to 14 months to maturity or expected average life upon purchase for amortizing securities. Floating rate securities will be limited to three years to maturity or three years average life upon purchase for amortizing securities. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies.

3. Corporate securities must be rated investment grade at the time of purchase. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings. Corporate bonds may be purchased if rated by two of these agencies.

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

5. The manager may not purchase more than 10% of the currently outstanding par value of any corporate bond issue.

6. The manager may not invest more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

7. There shall be no investment in private placements, except Rule 144A securities.

8. The manager shall not sell securities short.

9. The manager shall not purchase securities on margin.

10. The manager shall not utilize options or futures.

F. **Coverage.** The manager will execute trades with dealers that will execute orders promptly at the most favorable prices reasonably attainable.

The manager may only execute trades with dealers that have a minimum of $200,000,000 in capital. This requirement does not apply to or restrict trades with direct issuers of commercial paper and mortgage-backed securities otherwise eligible for investment under these guidelines. The dealers must be able to execute orders promptly at the most favorable prices reasonably attainable.

G. **Required Remedies.** The manager shall liquidate invested securities with care and prudence when the minimum standards set in these guidelines are violated. The manager is required to notify the chief investment officer to discuss the situation and the proposed liquidation strategy if it is not prudent simply to liquidate immediately.