State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to Investment Guidelines for
Domestic and International Equities

Resolution 2017-18

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 an asset allocation for the funds that considers earnings and liabilities on a current as well as a future basis; and

WHEREAS, the Board has authorized investment in domestic and international equities; and

WHEREAS, the Board will establish and from time to time as necessary modify guidelines for domestic and international equities.

NOW THEREFORE BE IT RESOLVED THAT THE ALASKA RETIREMENT MANAGEMENT BOARD adopt the Investment Guidelines for Domestic and International Equities, attached hereto and made a part hereof, regarding investment in domestic and international equities.

This resolution repeals and replaces Resolution 2016-07

DATED at Anchorage, Alaska this 13th day of October, 2017.

Chair

ATTEST:

Gayle Harbo
Secretary

ALASKA RETIREMENT MANAGEMENT BOARD (ARMB)

INVESTMENT GUIDELINES FOR DOMESTIC AND INTERNATIONAL EQUITIES

A. **Purpose.** The portfolio will have a primary emphasis on diversification to minimize risk.

B. **Investment Structure.** Permissible domestic and international equity investments include:

1. equity and equity related securities of corporations incorporated in the United States that are listed on recognized stock exchanges where recognized stock exchanges are those acknowledged by a manager as a source of prudent investments for the fund; and

2. international equity and equity related securities listed on recognized stock exchanges where recognized stock exchanges are those acknowledged by a manager as a source of prudent investments for the fund; and

3. American depository receipts, American depository securities and global depository securities; and

4. convertible debentures; and

5. publicly traded partnerships listed on recognized stock exchanges, where recognized stock exchanges are those acknowledged by a manager as a source of prudent investments for the fund; and

6. investments owned as a result of a corporate action and not a direct purchase, including, but not limited to securities delisted and/or deregistered if held at a value deemed to be de minimis and compliant with the manager's specific investment mandate or strategy; and

7. equity related composite instruments including, but not limited to exchange traded funds (ETFs) and closed end funds if specified in the investment management agreement or determined to be fundamental to the manager's investment mandate or strategy; and

8. equity related derivative instruments including futures contracts, forward contracts, options, and swaps if specified in the investment management agreement or determined to be fundamental to the manager's investment mandate or strategy.

C. **External Equity Management.** The manager must represent and warrant:

1. that it is an "investment advisor" or "bank" as defined in the Investment Advisors Act of 1940 as amended; and

2. that it has completed, obtained and performed all registrations, filings, approvals, authorizations, consents or examinations required by any government or governmental authority for acts contemplated by this contract; and

3. that it is a "Fiduciary", as that term is defined in Section 3(21)(a)(ii) of ERISA with respect to the securities, and that it will discharge its duties with respect to the securities solely in the interest of the ARMB and the beneficiaries of the funds administered by the ARMB; and

4. that it has and will maintain all forms of insurance and other prerequisites required by the ARMB.

D. **Investment Management Service to be Performed.** From time to time, equity managers shall invest and reinvest the cash and securities allocated to it and deposited in their account, without distinction between principal and income, in a portfolio consisting of stocks or other securities when market conditions warrant alternatives to stock. These securities will be selected and retained by the manager 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; provided, however, that in the event the aggregate total of any security held by the ARMB exceeds five percent (5%) of total shares outstanding, the ARMB may direct portfolio managers to sell securities until the aggregate is below five percent (5%). This guideline does not pertain to shares of mutual funds. Other securities shall be limited to:

1. obligations of the United States government; and

2. obligations of United States government agencies; and

3. certificates of deposit; and

4. corporate debt obligations; and

5. commercial paper; and

6. warrants; and

7. bankers acceptances; and

8. repurchase agreements.

E. **Managers will be Authorized.** Managers are authorized to invest or reinvest or dispose of any cash or securities held in their account or invest the proceeds of any disposition, provided that:

1. no more than ten percent of the voting stock of any corporation is acquired or held; and

2. certificates of deposit have been issued by domestic United States banks or trust companies which are members of the Federal Deposit Insurance Corporation, and are readily saleable in a recognized secondary market for such instruments; and

3. corporate debt obligations are rated A or better by Moody's, Standard & Poor's or Fitch rating services (Note: This rating restriction does not apply to convertible debentures); and

4. commercial paper bears the highest rating assigned by Moody's, Standard & Poor's or Fitch rating services; and

5. bankers' acceptances must have been drawn on and accepted by United States banks which have capital and surplus of at least $200 million each; and

6. repurchase agreements must be secured by the debt obligations set forth in 2 through 5 above; and

7. except as provided in Section B, Investment Structure, future contracts for sale of investments or for the sale of currencies may be entered into only for the purpose of hedging an existing ownership in these investments; and

8. except as provided in Section B, Investment Structure, futures and options will be authorized for the purposes of implementing a portfolio reallocation to gain immediate exposure to the appropriate country weighting:

    a. contracts are traded on recognized exchanges, or that OTC instruments are traded with AA rated or equivalent counterparts and no contracts exceed a period of twelve months; and

    b. futures and options are not used to leverage the portfolio; and

    c. all futures and options positions must be reported to the client each month. The report must show both the nominal position and the "economic impact" of all derivative positions; and

9. except as provided in Section B, Investment Structure, standardized equity index futures will be authorized for the purpose of cash equitization; and

10. purchases in commodities or the commodities of futures market of any kind are specifically prohibited; and

11. no more than ten percent (10%) of any international portfolio benchmarked against the MSCI EAFE Index or the MSCI EAFE Small Cap Index may be invested in emerging markets.

F. **Cash Held in Portfolio.** Managers are expected to maintain fully invested equity portfolios. The ARMB considers a portfolio to be fully invested as long as cash levels are below a maximum of 5 percent for small capitalization and international equity managers and 3 percent for all other equity managers, calculated using a 10-day moving average. In implementing this portion of the equity guidelines, the Chief Investment Officer will consider any cash in an individual equity account in excess of the maximum to be available for use as a funding source for other ARMB needs. Any manager that expects to exceed the maximum cash level in the short-term as the result of a specific strategy must notify ARMB in writing in advance. Such notice will temporarily exempt the manager from the maximum cash rebalancing threshold. Staff shall regularly report all equity manager net cash holdings.

G. **Performance Standards**. Managers are expected to have returns, over time, in excess of their appropriate contractual benchmark, net of fees.

H. **Performance Benchmarks**. ARMB's asset class level benchmarks for domestic and international equities are as follows:

Broad Domestic Equity – Russell 3000 Index

Global Equity ex US – MSCI ACWI ex US IMI Index

I. **Brokerage and Commissions.** In carrying out its functions, a manager will use its best efforts to obtain prompt execution of orders at the most favorable prices reasonably obtainable, and in doing so, will consider a number of factors, including, without limitation, the overall direct net economic result to the ARMB (including commissions, which may not be the lowest available but which ordinarily will not be higher than the generally prevailing competitive range), the financial strength and stability of the broker, the efficiency with which the transaction is effected, the ability to effect the transaction at all where a large block is involved, the availability of the broker to stand ready to execute possible difficult transactions in the future and other matters involved in the receipt of "brokerage and research services" as defined in and in compliance with Section 28(e) of the Securities Exchange Act of 1934, as amended, and regulations thereunder.

If the manager determines execution only transactions do not result in the greatest net benefit to ARMB considering the factors described in this section I, the manager is encouraged to execute transactions with a brokerage firm participating in a commission recapture program with the ARMB.

The Chief Investment Officer will evaluate and report the commission recapture program to the ARMB that will include:

1. total commission dollars recaptured; and

2. actual percentage of commissions recaptured; and

3. a full analysis of the commission recapture program with recommendations for expanding the program.

J. **Voting and Other Action.** The managers shall vote any or all of the securities held by or for the account of the ARMB, unless written instructions to the contrary have been provided by ARMB. In voting securities of the ARMB, the managers shall act prudently in the interest and for the benefit of the ARMB and the beneficiaries of the funds administered by the ARMB. The manager is to furnish, on an annual basis, copies of the contractor's policy and voting records in regards to voting proxies.