

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD

Relating to High Yield Fixed Income Guidelines

Resolution 2018-05

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 high yield fixed income securities; and

WHEREAS, the Board will establish and from time to time as necessary modify guidelines for high yield fixed income securities.

NOW THEREFORE BE IT RESOLVED THAT THE ALASKA RETIREMENT MANAGEMENT BOARD adopts the High Yield Fixed Income Guidelines, attached hereto and made a part hereof, regarding investment in high yield fixed income securities. This resolution repeals and replaces Resolution 2016-01.

DATED at Anchorage, Alaska this 27th day of June, 2018.


Chair

ATTEST:


Secretary

HIGH YIELD FIXED INCOME GUIDELINES

- A. Purpose.** The emphasis of investments in high yield fixed income securities shall be diversification, subject to defined constraints, to minimize risk.
- B. Investment Management Service to be Performed.** High yield fixed income Contractors shall invest and reinvest the cash and securities allocated to them and deposited in their account, without distinction between principal and income, in a portfolio consisting of fixed income securities with an intended emphasis on high yield securities. These securities will be selected and retained by Contractors 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.** Contractors are expected to have returns, net of fees, in excess of the appropriate benchmark over rolling 5-year periods. The benchmark is the ICE Bank of America Merrill Lynch BB US High Yield Constrained Index.
- D. Permissible Investments.** The most recent prospectus, as amended from time to time, governs the investment in the Fidelity Real Estate High Income Fund. For investments other than those in the Fidelity Real Estate High Income Fund, permissible high yield investments shall be limited to the following.
1. Money market 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;
 - b. Commercial paper;
 - c. Negotiable certificates of deposit and bankers acceptances; 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 states or municipalities in the United States.

6. Obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities.
7. Corporate debt securities comprising:
 - a. Corporate debt issued in the U.S. capital markets by U.S. companies;
 - b. 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);
 - c. Yankee debt (that is, U.S. dollar-denominated securities and issued in the U.S. capital markets by foreign issuers).
8. Convertible bonds.
9. Bank loans.
10. Preferred stock
11. Common stock.
12. Warrants.

E. Portfolio Constraints. For split rated securities, the methodology used by the benchmark will be employed to determine the rating. BofA Merrill Lynch Index composite ratings are the simple averages of ratings from three agencies. For the majority of the BofA Merrill Lynch index universe the composite rating is based on the average of Moody's, S&P and Fitch. Contractors shall apply appropriate diversification standards and 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. The portfolio's effective duration may not exceed a band of +/-20% around the effective duration of the benchmark.
2. The Contractor may not invest more than 10% of the portfolio's assets in securities rated A3 or higher by any rating agency (including government instruments). Cash held in the portfolio will be included in this limitation.
3. The Contractor may not invest more than 25% of the portfolio's assets in securities rated single-B (B1/B2/B3).
4. The Contractor may not invest more than 10% of the portfolio's assets in securities rated below B3.
5. Unrated securities shall be assumed to be rated below B3.

6. The minimum permissible weighted average credit quality of the entire portfolio is BB3.
7. The Contractor may not invest more than the greater of 25% of the portfolio's assets or the benchmark weight plus 5% in any one corporate sector as defined by the benchmark as defined as Industry Level 3.
8. Warrants, common stock, and preferred stock are authorized investments only if issued in conjunction with or related to bonds purchased by the Contractor.
9. Common stock received from the conversion of a convertible security, the exercise of a warrant or the restructuring of an issuer's debt should be sold within 90 days of receipt or within 90 days of the expiration of a restriction period. If more time is needed, the Contractor must seek permission in writing from the Chief Investment Officer.
10. The Contractor may not invest more than 5% of the portfolio's assets in any one corporate issuer.
11. Internal cross trading is permitted but only in accordance with requirements under: (1) 29 U.S.C. §1108(b)(19); (2) 29 C.F.R. §2550.408b-19; and (3) 26 U.S.C. §4975(d)(22).
12. There shall be no investment in private placements, except Rule 144A securities and bank loans.
13. The Contractor shall not sell securities short.
14. The Contractor shall not purchase securities on margin.
15. The Contractor shall not utilize options or futures.

F. Required Remedies. Recognizing that ratings and relative asset worth may change, the Contractor shall liquidate invested securities with care and prudence when the relative market value of an investment type limited by these guidelines exceeds the levels of holdings permitted. The Contractor 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.