

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to Intermediate U.S. Treasury Fixed Income Guidelines

Resolution 2019-05

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 fixed income securities; and

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

NOW THEREFORE BE IT RESOLVED THAT THE ALASKA RETIREMENT MANAGEMENT BOARD adopts the attached Intermediate U.S. Treasury Fixed Income Guidelines, attached hereto and made a part hereof, regarding investment in domestic fixed income securities.


This resolution repeals and replaces Resolution 2012-21.

DATED at Juneau, Alaska this 24 day of June, 2019.

Chair



ATTEST:


Secretary

INTERMEDIATE U.S. TREASURY FIXED INCOME GUIDELINES

- A. Purpose.** The emphasis of investments in fixed income securities shall be diversification, subject to defined constraints, to minimize risk, to generate income, and to provide liquidity as required.
- B. Investment Management Service to be Performed.** Intermediate U.S. Treasury 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 U.S. Treasury 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 6-year periods with an ex-ante tracking error, defined as the annualized standard deviation of returns relative to the index, of less than two percent. The benchmark is the Bloomberg Barclays Intermediate U.S. Treasury Index.
- D. Investment Structure.** Permissible U.S. dollar denominated debt 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 rated at least Prime-1 by Moody's Investor Services, Inc. and A-1 by Standard and Poor's Corporation;
 - 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, 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:
 - 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 obligations and issued in the U.S. capital markets by foreign issuers).
8. Asset-backed Securities (ABS).
9. 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.
10. Total return swaps referenced to components or sub-components of fixed income indices. To mitigate interest rate risk, the proceeds may not be invested in securities with a maturity beyond 90 days, unless invested in the Department of Revenue internally-managed Short-Term Fixed Income Pool.
11. The Alaska Department of Revenue's internally managed short-term or substantially similar portfolio.

E. Portfolio Constraints. The Contractor of the fixed-income portfolio shall apply appropriate diversification standards subject, however, to the following limitations based on the current market value of assets:

1. The portfolio's effective duration may not exceed a band of +/- 20% around the modified adjusted duration (or effective duration) of the Bloomberg Barclays Intermediate U.S. Treasury Index, unless the investment agreement with an external Contractor specifically allows for a different band.
2. Investments in fixed-income securities shall be placed solely in U.S. dollar denominated debt instruments.
3. The Contractor may not invest more than 30% of the portfolio 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.

4. The Contractor may not invest more than 10% of the portfolio's assets in any one corporate sector as defined by the Bloomberg Barclays indices.
 5. Corporate, asset-backed and non-agency mortgage 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 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.
 6. The Contractor may not purchase more than 10% of the currently outstanding par value of any corporate bond issue.
 7. The Contractor may not invest more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.
 8. There shall be no investment in private placements, except Rule 144A securities.
 9. The Contractor shall not sell securities short.
 10. The Contractor shall not purchase securities on margin.
 11. The Contractor shall not utilize options or futures.
 12. Internally Managed Assets: the Contractor 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.
 13. Externally Managed Assets: 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).
- F. Required Remedies.** Recognizing that ratings and relative asset worth may change, the Contractor shall liquidate invested securities with care and prudence when the credit rating of a security falls below the minimum standards set in these guidelines or when the relative market value of that investment type exceeds the levels of holdings permitted in these guidelines. 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