

STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

JUNE 30, 2024

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION

INVESTED ASSETS UNDER THE
INVESTMENT AUTHORITY OF THE
COMMISSIONER OF REVENUE

Combined Schedules

June 30, 2024

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KPMG LLP
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Anchorage, AK 99503

Independent Auditors' Report

State of Alaska, Department of Revenue
Treasury Division:

Opinion

We have audited the total invested assets column in the accompanying combined schedule of invested assets for invested assets under the investment authority of the Commissioner of Revenue as of June 30, 2024, and the related total income column in the combined schedule of investment income for the year ended June 30, 2024, and the related notes to the schedules (the schedules).

In our opinion, the accompanying schedules present fairly, in all material respects, the total invested assets and the total investment income for the invested assets under the authority of the Commissioner of Revenue as of and for the year ended June 30, 2024, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Schedules section of our report. We are required to be independent of the Treasury Division and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the schedules, the accompanying schedules represent only the activity of the funds outlined in Note 1 and were prepared to present the invested assets under the authority of the Commissioner of Revenue and related investment income, and not the complete financial activity of the funds or the State of Alaska as a whole. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Schedules

Management is responsible for the preparation and fair presentation of the schedules in accordance with U.S. generally accepted accounting principles and for 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' Responsibilities for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedules.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedules.
- Obtain an understanding of internal control relevant to the audit 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 Treasury Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedules.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Anchorage, Alaska
September 17, 2024

STATE OF ALASKA
DEPARTMENT OF REVENUE - TREASURY DIVISION
INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

COMBINED SCHEDULE OF INVESTED ASSETS

June 30, 2024

(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL	PUBLIC SCHOOL TRUST FUND	INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL	INTERNATIONAL	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	TOTAL INVESTED ASSETS
		BUDGET RESERVE FUND MAIN				CONSTRUCTION FUND	AIRPORTS FUND	MAJOR MEDICAL	LONG-TERM CARE		June 30, 2024
INVESTMENTS (at Fair Value) (Notes 4 and 5)											
Short-term Fixed Income Pool	\$ 3,178,564	2,728,085	11,348	3,631	49,218	191,230	27,816	21,019	16,057	20	6,226,988
Non-interest Bearing Deposits	9,937	-	-	-	-	-	-	-	-	-	9,937
Intermediate-term Fixed Income Pool	758,152	-	-	-	-	32,793	-	-	-	-	790,945
Broad Market Fixed Income	121,931	-	245,446	-	-	-	-	-	438,034	459	805,870
Domestic Equity Pool	222,287	-	331,957	-	-	-	-	-	219,092	620	773,956
International Equity Pools	130,303	-	206,272	-	-	-	-	-	152,938	385	489,898
Real Assets	19,247	-	38,743	-	-	-	-	-	31,912	72	89,974
Total Investments	4,440,421	2,728,085	833,766	3,631	49,218	224,023	27,816	21,019	858,033	1,556	9,187,568
Receivables											
Income Receivable	11,612	11,864	49	16	216	820	121	91	64	-	24,853
Total Receivables	11,612	11,864	49	16	216	820	121	91	64	-	24,853
Net Invested Assets	\$ 4,452,033	2,739,949	833,815	3,647	49,434	224,843	27,937	21,110	858,097	1,556	9,212,421

STATE OF ALASKA
DEPARTMENT OF REVENUE - TREASURY DIVISION
INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

COMBINED SCHEDULE OF INVESTMENT INCOME
For the year ended June 30, 2024
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND MAIN	PUBLIC SCHOOL TRUST FUND	INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	INTERNATIONAL AIRPORTS FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	TOTAL
								MAJOR MEDICAL	LONG-TERM CARE		INCOME YEAR ENDED June 30, 2024
Investment Income											
Short-term Fixed Income Pool	\$ 140,395	150,357	455	197	2,970	8,961	1,518	1,125	551	1	306,530
Intermediate-term Fixed Income Pool	37,502	-	-	-	-	1,337	-	-	-	-	38,839
Broad Market Fixed Income	3,737	-	7,419	-	-	-	-	-	13,855	14	25,025
Domestic Equity Pool	46,391	-	64,913	-	-	-	-	-	43,628	122	155,054
International Equity Pool	14,205	-	21,252	-	-	-	-	-	16,164	40	51,661
Real Assets	1,214	-	2,459	-	-	-	-	-	2,096	5	5,774
Total Investment Income	243,444	150,357	96,498	197	2,970	10,298	1,518	1,125	76,294	182	582,883
Net Investment Income	\$ 243,444	150,357	96,498	197	2,970	10,298	1,518	1,125	76,294	182	582,883

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

Notes to Combined Schedules

June 30, 2024

(1) THE ACCOUNTING ENTITY

The accompanying combined schedules present the financial position and investment income, as of and for the year ended June 30, 2024, for the invested assets of funds under the investment authority of the Commissioner of Revenue (Commissioner). The Commissioner is responsible for all deposits and investments of the State of Alaska (State) except where the Legislature has delegated that responsibility to other individuals or boards. As the fiduciary, the Commissioner has the statutory authority to invest the assets under the prudent investor rule. Alaska Statutes 37.10.070 and 37.10.071 provide 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.

These schedules represent only the investment activity of the funds and not the complete financial activity of the funds or the State as a whole. The complete financial activity of the funds is shown in the Annual Comprehensive Financial Report available from the Division of Finance in the Department of Administration.

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments for which the Commissioner has fiduciary responsibility. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. Specifically, the Tactical Bond, Domestic Equity, and the International Equity Pools are managed externally. Treasury manages the Short-term Fixed Income Pool, Short Term Treasury Pool, Real Estate Investment Trust (REIT) Pool, and Broad Market Fixed Income Pool in addition to acting as oversight manager for all externally managed investments.

For detailed information on the funds under the fiduciary authority of the Commissioner of Revenue, please see the Treasury's website at: <https://treasury.dor.alaska.gov/home/investments>.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The combined schedules are prepared using the accrual basis of accounting. Investments are reported at fair value under Government Accounting Standards Board Statement 72, *Fair Value Measurement and Application*. Investment purchases and sales are recorded on a trade-date basis. Investment income, including interest and dividends, is recognized in the period in which it is earned. Interest income is recognized on an accrual basis, while dividend income is recognized when the dividends are declared. Investment income also includes gains and losses from changes in the fair value of investments.

Valuation

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.

Investments are considered cash equivalents when maturity at time of purchase is equal to three months or less.

Non-interest bearing deposits are reported at cost, which approximates fair value.

Domestic and international equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Securities expressed in terms of foreign currencies

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

Notes to Combined Schedules

June 30, 2024

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.

(3) NON-INTEREST BEARING DEPOSITS

Non-interest bearing deposits are comprised of various State agency cash held pending redemption of State warrants and compensating balances.

(4) FAIR VALUE MEASUREMENTS

Various inputs are used in valuing the investments held by the Commissioner. U.S. generally accepted accounting principles (GAAP) establishes a hierarchy of inputs used to value investments emphasizing observable inputs and minimizing unobservable inputs. These inputs are summarized as follows:

Level 1 – Quoted prices for identical assets in an active market.

Level 2 – Inputs, other than quoted prices, that are observable for the asset, either directly or indirectly or quoted in less active markets.

Level 3 – Unobservable inputs. Unobservable inputs should only be used to the extent that observable inputs are not available for a particular asset.

The Commissioner categorizes fair value measurements within the fair value hierarchy established by GAAP. The Commissioner has the following recurring fair value measurements as of June 30, 2024 (in thousands):

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June 30, 2024

Investment by fair value level	Total	Level 1	Level 2	Level 3
Cash Equivalents				
Certificate of Deposit	26,000	-	26,000	-
Deposits	27,197	27,197	-	-
Money Market	18	-	18	-
Repurchase Agreement	921,700	-	921,700	-
Total Cash Equivalents	974,915	27,197	947,718	-
Debt Securities				
Corporate Bonds	625,660	-	625,660	-
Foreign Government Agency	506	-	506	-
Mortgage Backed	218,731	-	218,731	-
Municipal Bonds	12,402	-	12,402	-
Other Asset Backed	2,529,858	-	2,529,858	-
U.S. Government Agency	1,876,009	-	1,876,009	-
U.S. Treasury Bills, Notes, and Bonds	2,135,683	-	2,135,683	-
Yankee Corporate Bonds	244,318	-	244,318	-
Yankee Government Bonds	22,690	-	22,690	-
Total Debt Securities	7,665,857	-	7,665,857	-
Equity				
Commingled Equity Funds	1,514,040	1,514,040	-	-
Real Estate Inv Trust	99,286	99,286	-	-
Total Equity	1,613,326	1,613,326	-	-
Total Investments measured at fair value	10,254,098			
Other Fiduciary Responsibility	(794,885)			
Net Receivables / (Payables)	(246,792)			
Total Invested Assets	9,212,421			

Securities classified as level 1 are valued using prices quoted in active markets for those securities. Securities classified as level 2 are valued using matrix pricing with various defined pricing sources.

(5) DEPOSIT AND INVESTMENT RISK

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At June 30, 2024 all fixed-income securities were in compliance with Treasury's duration policies.

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 for amortizing securities upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life for amortizing securities upon purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2024, all securities within the Short-term Fixed Income Pool met these compliance metrics.

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

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June 30, 2024

Intermediate-term and Broad Market 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 considers various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation. Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its other fixed-income pool portfolios to the following:

Intermediate-term Fixed Income Pool: \pm 20% of the Bloomberg 1-3 Year Government Total Return Bond Index.

Broad Market Fixed Income Pool: \pm 20% of the Bloomberg U.S. Aggregate Total Return Bond Index.

At June 30, 2024, the Commissioner's effective duration by investment type was as follows:

	Effective Duration (in years)
Corporate Bonds	2.59
Mortgage Backed	4.93
Municipal Bonds	11.02
Other Asset Backed	0.25
U.S. Government Agency	1.81
U.S. Treasury Bills, Notes, and Bonds	0.91
Yankee Corporate Bonds	1.47
Yankee Government Bonds	2.94
Effective Duration	0.98

To mitigate interest rate risk, the proceeds of total return swaps referenced to components or sub-components of fixed income indices may not be invested in securities with a maturity beyond 90 days, unless invested in the internally managed Short-term Fixed Income Pool.

At June 30, 2024, the Intermediate-term Fixed Income Pool and Broad Market Fixed Income Pool did not hold any total return swaps.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Short-term Fixed Income Pool investments can include instruments with long-term credit ratings of at least A3 or equivalent, short-term credit ratings of at least P-1 or equivalent, commercial paper rated at least P-1 or equivalent, institutional money market funds rated Aaa or equivalent, and asset-backed and non-agency mortgage-backed and commercial mortgage-backed securities rated at least A3 or equivalent. Asset-backed

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securities, non-agency mortgage securities, and commercial mortgaged-backed securities may be rated by one agency if rated at least Aaa or equivalent.

Intermediate-term Fixed Income Pool investments can include instruments with long-term credit ratings of at least Baa3 or equivalent, short-term credit ratings of at least P-1 or equivalent, commercial paper rated at least P-1 or equivalent, corporate debt securities, asset-backed securities, non-agency mortgage-backed securities, and commercial mortgage-backed securities rated at least investment grade. Asset-backed securities, non-agency mortgage securities and commercial mortgaged-backed securities may be rated by one agency if rated at least Aaa or equivalent.

Broad Market Fixed Income Pool investments can include instruments with investment grade credit ratings, some high yield credit ratings, short-term credit ratings of at least P-1 or equivalent, commercial paper rated at least P-1 or equivalent, corporate debt securities, asset-backed securities, non-agency mortgage-backed securities, and commercial mortgage-backed securities rated at least investment grade. Asset-backed securities, non-agency mortgage securities and commercial mortgaged-backed securities may be rated by one agency if rated at least Aaa or equivalent.

At June 30, 2024, the State’s internally managed pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor’s Corporation rating scale, in thousands):

	<u>Short-Term Fixed Income</u>	<u>Intermediate-term Fixed Income</u>	<u>Broad Market Fixed Income</u>
AAA	\$ 2,599,581	25,083	9,626
AA	55,042	35,032	29,852
A	239,685	186,520	108,967
A-1	112,097	-	-
BBB	-	96,562	125,122
BB	-	-	979
U.S. Government Agency	1,482,041	212,855	181,114
U.S. Treasury Bills, Notes, and Bonds	1,733,760	284,261	117,662
Not Rated	733,464	51,082	416,389
No Credit Risk	(100,946)	(34,215)	(112,677)
Other Fiduciary	(627,736)	(66,235)	(71,164)
	<u>\$ 6,226,988</u>	<u>790,945</u>	<u>805,870</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. Treasury’s 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 100% of uninsured deposits.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in an issuer. Treasury policies prohibit the purchase of more than 5% of the individual pool’s holdings in corporate bonds

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June 30, 2024

backed by any one company or affiliated group, 10% of a corporate bond issue, or 5% of the outstanding stock of a company.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Commissioner of Revenue formally adopts asset allocation policies for each fund at the beginning of each fiscal year, which places policy limitations on the amount of international equity each fund may be exposed to. The following policies were in place during fiscal year 2024 and invested assets included the following holdings at June 30, 2024, for the funds invested in the International Equity Pool:

Fund Name	Policy
Education Endowment Fund	25% +/- 5%
GeFonsi II	2% -2%/+5%
Higher Education Fund	25% +/- 5%
Illinois Creek Mine Reclamation Fund	25% +/- 5%
Public School Trust Fund	25% +/- 5%
Retiree Health Insurance Fund, Long-Term Care	22% +/- 5%

At June 30, 2024, the funds invested in the International Equity Pool had no direct exposure to foreign currency risk.

(6) FOREIGN EXCHANGE, FOREIGN EXCHANGE CONTRACTS, OFF-BALANCE SHEET RISK, AND DERIVATIVE EXPOSURE

The Commissioner has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Commissioner has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Commissioner have a policy on contingencies.

The International Equity Pool contains no separate or actively managed accounts. The pool consists of one commingled investment, the SSGA MSCI ACWI Ex-US Common Trust Fund. The Commissioner is not directly exposed to any foreign exchange, derivative contract, or off-balance sheet risk in this pool.