



STATE OF ALASKA RETIREMENT AND BENEFITS PLANS

Invested Assets

June 30, 2012

(With Independent Auditors' Report Thereon)

STATE OF ALASKA RETIREMENT AND BENEFITS PLANS

Invested Assets

June 30, 2012

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Independent Auditors' Report

Alaska Retirement Management Board and
State of Alaska, Department of Revenue
Division of Treasury:

We have audited the accompanying schedules of invested assets of the State of Alaska's Retirement and Benefits Plans (the Plans) as of June 30, 2012 and of investment income (loss) and changes in invested assets of the Plans for the year then ended (Schedules). These Schedules are the responsibility of the Division of Treasury's management. Our responsibility is to express an opinion on these Schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division of Treasury's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Schedules. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedules were prepared to present the invested assets of the Plans. The presentation of the Schedules is not intended to be a complete presentation of the financial status of the Plans.

In our opinion, the Schedules of Invested Assets referred to above present fairly, in all material respects, the invested assets of the Plans as of June 30, 2012, and the investment income (loss) and changes in invested assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

October 16, 2012

STATE OF ALASKA RETIREMENT AND BENEFITS PLANS
SCHEDULE OF INVESTED ASSETS
June 30, 2012

	Pooled Investments	Participant- Directed Investments	Total ARMB Assets
Investments (at Fair Value)			
Cash and Cash Equivalents			
Short-term Fixed Income Pool	\$ 275,458,695	\$ 9,860,753	\$ 285,319,448
Total Cash and Cash Equivalents	<u>275,458,695</u>	<u>9,860,753</u>	<u>285,319,448</u>
Fixed Income			
Retirement Fixed Income Pool	19,712,075	-	19,712,075
U.S. Treasury Fixed Income Pool	1,724,195,976	-	1,724,195,976
High Yield Fixed Income Pool	443,294,845	-	443,294,845
International Fixed Income Pool	376,204,014	-	376,204,014
Emerging Markets Debt Pool	124,050,302	-	124,050,302
Total Fixed Income	<u>2,687,457,212</u>	<u>-</u>	<u>2,687,457,212</u>
Broad Domestic Equity			
Large Cap Pool	3,835,894,813	-	3,835,894,813
Small Cap Pool	858,700,593	-	858,700,593
Convertible Bond Pool	113,744,052	-	113,744,052
Total Broad Domestic Equity	<u>4,808,339,458</u>	<u>-</u>	<u>4,808,339,458</u>
Broad International Equity			
International Equity Large Cap Pool	2,438,252,758	-	2,438,252,758
International Equity Small Cap Pool	215,913,831	-	215,913,831
Emerging Markets Equity Pool	860,295,217	-	860,295,217
Total Broad International Equity	<u>3,514,461,806</u>	<u>-</u>	<u>3,514,461,806</u>
Private Equity			
Private Equity Pool	1,606,062,525	-	1,606,062,525
Total Private Equity	<u>1,606,062,525</u>	<u>-</u>	<u>1,606,062,525</u>
Absolute Return			
Absolute Return Pool	687,125,285	-	687,125,285
Total Absolute Return	<u>687,125,285</u>	<u>-</u>	<u>687,125,285</u>
Real Assets			
Real Estate Pool	1,296,909,581	-	1,296,909,581
Real Estate Investment Trust Pool	186,325,101	-	186,325,101
Energy Pool	115,922,737	-	115,922,737
Farmland Pool	609,207,147	-	609,207,147
Farmland Water Pool	29,295,177	-	29,295,177
Timber Pool	228,626,622	-	228,626,622
Treasury Inflation Protected Securities Pool	196,927,687	-	196,927,687
Total Real Assets	<u>2,663,214,052</u>	<u>-</u>	<u>2,663,214,052</u>
Pooled Participant-Directed Investment Funds			
T. Rowe Price			
Target 2010 Trust	-	1,051,623	1,051,623
Target 2015 Trust	-	3,594,808	3,594,808
Target 2020 Trust	-	6,700,425	6,700,425
Target 2025 Trust	-	8,847,906	8,847,906
Target 2030 Trust	-	8,967,693	8,967,693
Target 2035 Trust	-	10,938,738	10,938,738
Target 2040 Trust	-	14,494,041	14,494,041
Target 2045 Trust	-	18,806,218	18,806,218
Target 2050 Trust	-	22,343,914	22,343,914
Target 2055 Trust	-	5,141,906	5,141,906
Alaska Balanced Fund	-	735,662	735,662
Long-Term Balanced Fund	-	7,012,820	7,012,820
Alaska Money Market	-	4,121,741	4,121,741
Total Pooled Investment Funds	<u>-</u>	<u>112,757,495</u>	<u>112,757,495</u>
Collective Investment Funds			
State Street Global Advisors			
Money Market Fund	-	655,380	655,380
Long US Treasury Bond Index	-	40,507,912	40,507,912
Treasury Inflation Protected Securities Index	-	5,181,389	5,181,389
World Government Bond Ex-US Index	-	5,676,957	5,676,957
S&P 500 Stock Index Fund	-	11,655,720	11,655,720
Russell 3000 Index	-	685,398	685,398
World Equity Ex-US Index	-	1,345,916	1,345,916
Real Estate Investment Trust Index	-	2,082,875	2,082,875
Global Balanced Fund	-	8,966,464	8,966,464
Barclays			
Daily Government/Corporate Bond Fund	-	14,313,720	14,313,720
Intermediate Bond Fund	-	440,652	440,652
Brandes Institutional			
International Equity Fund	-	61,257,991	61,257,991
RCM			
Socially Responsible Fund	-	16,689,117	16,689,117
T. Rowe Price			
Small-Cap Fund	-	52,724,329	52,724,329
Total Collective Investment Funds	<u>-</u>	<u>222,183,820</u>	<u>222,183,820</u>
Total Invested Assets	<u>\$ 16,242,119,033</u>	<u>\$ 344,802,068</u>	<u>\$ 16,586,921,101</u>

STATE OF ALASKA RETIREMENT AND BENEFITS PLANS
SCHEDULE OF INVESTMENT INCOME (LOSS) AND CHANGES IN INVESTED ASSETS
Year ended June 30, 2012

	Pooled Investments	Participant- Directed Investments	Total Income (Loss)
Investment Income (Loss)			
Cash and Cash Equivalents			
Short-term Fixed Income Pool	\$ 1,246,384	\$ 41,582	\$ 1,287,966
Fixed Income			
Retirement Fixed Income Pool	1,211,577	-	1,211,577
U.S. Treasury Fixed Income Pool	97,190,289	-	97,190,289
High Yield Fixed Income Pool	37,145,707	-	37,145,707
International Fixed Income Pool	(259,561)	-	(259,561)
Emerging Markets Debt Pool	(4,337,929)	-	(4,337,929)
Broad Domestic Equity			
Large Cap Pool	122,803,981	-	122,803,981
Small Cap Pool	(31,764,247)	-	(31,764,247)
Convertible Bond Pool	(380,535)	-	(380,535)
Broad International Equity			
International Equity Large Cap Pool	(344,847,757)	-	(344,847,757)
International Equity Small Cap Pool	(30,472,718)	-	(30,472,718)
Emerging Markets Equity Pool	(161,933,094)	-	(161,933,094)
Private Equity			
Private Equity Pool	139,883,705	-	139,883,705
Absolute Return			
Absolute Return Pool	(14,323,414)	-	(14,323,414)
Real Assets			
Real Estate Pool	129,059,152	-	129,059,152
Real Estate Investment Trust Pool	20,785,964	-	20,785,964
Energy Pool	4,692,290	-	4,692,290
Farmland Pool	80,615,278	-	80,615,278
Farmland Water Pool	4,216,476	-	4,216,476
Timber Pool	9,427,475	-	9,427,475
Treasury Inflation Protected Securities Pool	23,733,820	-	23,733,820
Pooled Participant-Directed Investment Funds			
T. Rowe Price			
Alaska Money Market	-	35,212	35,212
Target 2010 Trust	-	119,647	119,647
Target 2015 Trust	-	221,766	221,766
Target 2020 Trust	-	279,964	279,964
Target 2025 Trust	-	263,560	263,560
Target 2030 Trust	-	295,313	295,313
Target 2035 Trust	-	395,157	395,157
Target 2040 Trust	-	512,706	512,706
Target 2045 Trust	-	624,324	624,324
Target 2050 Trust	-	166,801	166,801
Target 2055 Trust	-	29,342	29,342
Alaska Balanced Fund	-	(408,233)	(408,233)
Long-Term Balanced Fund	-	5,005	5,005
Collective Investment Funds			
State Street Global Advisors			
Money Market Fund	-	3	3
Long US Treasury Bond Index	-	3,021,667	3,021,667
Treasury Inflation Protected Securities Index	-	87,016	87,016
World Government Bond Ex-US Index	-	252,576	252,576
S&P 500 Stock Index Fund	-	66,411	66,411
Russell 3000 Index	-	76,693	76,693
World Equity Ex-US Index	-	49,104	49,104
Real Estate Investment Trust Index	-	(3,607)	(3,607)
Global Balanced Fund	-	737,318	737,318
Barclays			
Daily Government/Corporate Bond Fund	-	1,104,301	1,104,301
Intermediate Bond Fund	-	16,806	16,806
Brandes Institutional			
International Equity Fund	-	(8,878,468)	(8,878,468)
RCM			
Socially Responsible Fund	-	(492,596)	(492,596)
T. Rowe Price			
Small-Cap Fund	-	1,376,695	1,376,695
Total Investment Income (Loss)	83,692,843	(3,935)	83,688,908
Total Invested Assets, Beginning of Year			
Total Contributions	16,394,848,163	261,317,807	16,656,165,970
Total (Withdrawals)	77,442,242	219,770,275	297,212,517
Net Contributions (Withdrawals)	(313,864,215)	(136,282,079)	(450,146,294)
Total Invested Assets, End of Year	(236,421,973)	83,488,196	(152,933,777)
	\$ 16,242,119,033	\$ 344,802,068	\$ 16,586,921,101

State of Alaska Retirement and Benefits Plans

Invested Assets

Notes to Schedules

June 30, 2012

(1) THE ACCOUNTING ENTITY

The Alaska Retirement Management Board (Board) is the investment oversight authority for the State of Alaska's Retirement and Benefits Plans (Plans). These Plans are made up of four systems: the Public Employees Retirement System (PERS), Teachers Retirement System (TRS), Judicial Retirement System (JRS), and National Guard and Naval Militia Retirement Systems (MRS). The systems are comprised of a mix of individual Defined Benefit and Defined Contribution Retirement Plans. These Schedules are those of the four systems' invested assets and not the systems as a whole. Fiduciary responsibility for the Board's Invested Assets is pursuant to Alaska Statutes 37.10.210-390.

Alaska Statute 37.10.071 provides 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.

The Department of Revenue, Treasury Division (Treasury) provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board. Additionally, Treasury manages a mix of Pooled Investment Funds and Collective Investment Funds for the Defined Contribution Retirement Participant Directed Pension Plans under the Board's fiduciary responsibility.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the High Yield Fixed Income Pool, International Fixed Income Pool, Emerging Markets Debt Pool, Large Cap Domestic Equity Pool, Small Cap Domestic Equity Pool, Convertible Bond Domestic Equity Pool, International Equity Large Cap Pool, International Equity Small Cap Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Real Estate Pool, Energy Pool, Farmland Pool, Farmland Water Pool, Individually Held Debt Securities, Timber Pool, Pooled Participant Directed Investment Funds, and Collective Investment Funds are managed by external management companies. Treasury manages the Retirement Fixed Income Pool, U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities (TIPS) Pool and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

The Short-term Fixed Income Pool is a State pool managed by Treasury that holds investments on behalf of Board as well as other state funds.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Schedules are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net contributions (withdrawals) represent contributions from employers and employees, net of benefits paid to plan participants and administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

Pooled Investments

With the exception of the Short-term Fixed Income Pool, ownership in the various pools is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction.

The Short-Term Fixed Income Pool maintains a share price of \$1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. Securities expressed in terms of foreign currencies 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.

State of Alaska Retirement and Benefits Plans

Invested Assets

Notes to Schedules

June 30, 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Valuation and Income Allocation (Cont.)

Fixed Income Pools and Treasury Inflation Protected Securities (TIPS)

With the exception of the Emerging Markets Debt Pool, 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. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the investment manager determine the allocation between permissible securities.

The Emerging Markets Debt Pool participates in one externally managed commingled investment fund alongside other institutional investors through ownership of equity shares, which are valued on the last business day of each month by the investment manager.

Broad Domestic Equity, International Equity, and Real Estate Investment Trust (REIT) Pools

Domestic equity, international equity, and REIT securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the external manager determine the allocation between permissible securities.

Emerging Markets Equity, Private Equity, Absolute Return, Real Estate, Energy, Farmland, Farmland Water, and Timber Pools

Income in these pools is credited to the net asset value of the pool daily and allocated to pool participants monthly on a pro rata basis.

Emerging markets securities are valued on the last business day of each month by the investment managers. The pool participates in three externally managed commingled investment funds alongside other institutional investors through ownership of equity shares. The commingled funds invest in the securities markets of developing countries.

Private equity investments are valued quarterly by the general partners and investment sponsors. Private equity oversight managers and Treasury staff employ a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of venture capital, buyout, restructuring, and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of hedge fund investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

The energy related investments are valued quarterly by the general partner. The general partner is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of a limited partnership with an energy related venture capital operating company.

Real estate, farmland, farmland water property, and timber investments are valued quarterly by investment managers based on market conditions. Additionally, real estate, farmland, farmland water, and timber investments are appraised annually by independent appraisers. Underlying assets in the pool are comprised of separate accounts, commingled accounts, and limited partnerships. Managers independently determine permissible investments.

State of Alaska Retirement and Benefits Plans

Invested Assets

Notes to Schedules

June 30, 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Valuation and Income Allocation (Cont.)

Participant-Directed Investments

The Board contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate thirteen participant-directed funds. Additionally, the Board Contracts with external managers who manage a mix of collective investment funds. Income for the Pooled Investment and Collective Investment Funds is credited to the fund's net asset value on a daily basis and allocated to pool participants daily on a pro rata basis.

Pooled Participant Directed Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets are comprised of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, money market instruments, and other cash equivalent instruments with maturities of less than one year, which include commercial paper, banker acceptances, certificates of deposit with ratings of A1/P1 or better as well as, obligations of the U.S. Government and its agencies, and repurchase agreements collateralized by U.S. Treasury Instruments.

Collective Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets are comprised of commingled investment funds, alongside other investors, through ownership of equity shares.

State of Alaska Retirement and Benefits Plans
Invested Assets
Notes to Schedules
June 30, 2012

(3) DEPOSIT AND INVESTMENT RISK

	Fair Value									
	Fixed Income Pools									
	Short-term	Retirement	U.S. Treasury	High Yield	International	Convertible	TIPS	Other	Total	
Bridge Loans	\$ -	\$ -	\$ -	\$ 3,756,600	\$ -	\$ -	\$ -	\$ -	\$ -	3,756,600
Commercial Paper	19,520,716	-	-	-	-	-	-	-	-	19,520,716
Convertible Bonds	-	-	-	4,100,936	-	101,503,597	-	-	-	105,604,533
Corporate Bonds	52,218,547	-	91,237,176	377,843,588	-	803,920	-	-	-	522,103,231
Deposits	2,292,248	-	-	22,485,396	1,669,765	1,532,123	-	-	-	27,979,532
Foreign Corporate Bonds	-	-	-	736,463	8,548,747	-	-	-	-	9,285,210
Foreign Government Bonds	-	-	-	-	358,920,284	-	-	-	-	358,920,284
Mortgage Backed	4,866,042	11,742,279	55,940,160	-	-	-	-	-	-	72,548,481
Municipal Bonds	-	-	1,996,430	-	-	-	-	-	-	1,996,430
Other Asset Backed	202,154,304	-	2,556,946	-	-	-	-	-	-	204,711,250
Short-term Investment Fund	-	-	-	-	2,798,370	-	-	19,463,251	-	22,261,621
U.S. Government Agency	6,873,645	-	9,119,983	-	-	-	-	-	-	15,993,628
Treasury Bills	303,136,214	-	-	-	-	-	-	-	-	303,136,214
Treasury Bonds	-	-	124,082,000	-	-	-	-	-	-	124,082,000
Treasury Notes	-	-	1,379,071,989	-	-	-	-	-	-	1,379,071,989
Treasury TIP Bonds	-	-	-	-	-	-	75,242,182	-	-	75,242,182
Treasury TIP Notes	-	-	-	-	-	-	119,988,608	-	-	119,988,608
Yankees:										
Corporate	12,014,422	-	13,065,353	29,523,133	-	-	-	-	-	54,602,908
Government	-	-	6,585,746	-	-	-	-	-	-	6,585,746
Fixed Income Pools:										
Equity	-	-	-	-	-	6,559,092	-	-	-	6,559,092
Warrants	-	-	-	15,525	-	2,653,981	-	-	-	2,669,506
Emerging Markets Debt Pool	-	-	-	-	-	-	-	124,050,302	-	124,050,302
Broad Domestic Equity Pools:										
Deposits	-	-	-	-	-	-	-	46,992,730	-	46,992,730
Equity	-	-	-	-	-	-	-	4,268,534,502	-	4,268,534,502
Futures	-	-	-	-	-	-	-	1,581,130	-	1,581,130
Limited Partnership	-	-	-	-	-	-	-	241,656,506	-	241,656,506
Mutual Fund	-	-	-	-	-	-	-	40,762,722	-	40,762,722
Options	-	-	-	-	-	-	-	(20,109,470)	-	(20,109,470)
Treasury Bills	-	-	-	-	-	-	-	2,274,628	-	2,274,628
Broad International Equity Pools:										
Deposits	-	-	-	-	-	-	-	49,941,208	-	49,941,208
Equity	-	-	-	-	-	-	-	2,378,530,928	-	2,378,530,928
Rights	-	-	-	-	-	-	-	43,162	-	43,162
Mutual Fund	-	-	-	-	-	-	-	200,656,566	-	200,656,566
Emerging Markets Equity Pool	-	-	-	-	-	-	-	860,295,217	-	860,295,217
Private Equity Pool:										
Limited Partnerships	-	-	-	-	-	-	-	1,606,062,526	-	1,606,062,526
Absolute Return Pool:										
Limited Partnerships	-	-	-	-	-	-	-	687,125,278	-	687,125,278
Real Estate Pool:										
Commingled Funds	-	-	-	-	-	-	-	275,127,252	-	275,127,252
Limited Partnerships	-	-	-	-	-	-	-	351,886,442	-	351,886,442
Real Estate	-	-	-	-	-	-	-	669,895,889	-	669,895,889
Real Estate Investment Trust Pool:										
Equity	-	-	-	-	-	-	-	185,420,292	-	185,420,292
Energy Pool:										
Limited Partnerships	-	-	-	-	-	-	-	115,922,738	-	115,922,738
Farmland Pool:										
Agricultural Holdings	-	-	-	-	-	-	-	609,207,146	-	609,207,146
Farmland Water Pool:										
Agricultural Holdings	-	-	-	-	-	-	-	29,295,177	-	29,295,177
Timber Pool:										
Timber Holdings	-	-	-	-	-	-	-	228,626,625	-	228,626,625
Participant Directed:										
Collective Investment Funds	-	-	-	-	-	-	-	222,183,820	-	222,183,820
Pooled Investment Funds	-	-	-	-	-	-	-	112,757,495	-	112,757,495
Net Other Assets (Liabilities)	(16,264,212)	106,360	(147,454,401)	4,833,204	4,266,848	691,339	1,069,879	14,331,512	-	(138,419,471)
Other Pool Ownership	(301,492,478)	7,863,436	187,994,594	-	-	-	627,018	105,007,430	-	-
Total Invested Assets	\$ 285,319,448	\$ 19,712,075	\$ 1,724,195,976	\$ 443,294,845	\$ 376,204,014	\$ 113,744,052	\$ 196,927,687	\$ 13,427,523,004	\$ -	\$ 16,586,921,101

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

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 fourteen months to maturity or fourteen months expected average life *upon purchase*. Floating rate securities are limited to three years to maturity or three years expected average life *upon purchase*. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2012, the expected average life of individual fixed rate securities ranged from two days to twenty five years and the expected average life of floating rate securities ranged from twelve days to nine years.

State of Alaska Retirement and Benefits Plans

Invested Assets

Notes to Schedules

June 30, 2012

(3) DEPOSIT AND INVESTMENT RISK (Cont.)

Interest Rate Risk (Cont.)

Other Defined Benefit 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 takes into account various possible future interest rates, historical and estimated prepayment rates, options, and other variable cash flows to calculate effective duration.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Retirement Fixed Income portfolio to $\pm 20\%$ of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2012, was 5.07 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the U.S. Treasury Fixed Income portfolio to $\pm 20\%$ of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2012 was 3.86 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the High Yield Fixed Income portfolio to $\pm 20\%$ of the Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2012 was 4.21 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the International Fixed Income portfolio to $\pm 25\%$ of the blended benchmark of 70% Citigroup Non-USD World Government Bond Index and 30% JP Morgan Global Bond Emerging Markets Broad Diversified Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2012 was 7.26 years, and the effective duration of the JP Morgan Global Bond Index at June 30, 2012 was 4.75, for a blended duration of 6.50 at June 30, 2012.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to $\pm 20\%$ of the Barclays Capital U.S. Treasury Inflation-Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2012 was 9.27 years.

The Board does not have a policy to limit interest rate risk for the Emerging Debt or Convertible Bond portfolios.

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(3) DEPOSIT AND INVESTMENT RISK (Cont.)

Interest Rate Risk (Cont.)

At June 30, 2012, the effective duration of the Board's fixed income pools, by investment type, was as follows:

	Effective Duration (in years)				
	Retirement	U.S. Treasury	High Yield	International	TIPS
Cash Equivalent	0.26	0.26	-	-	0.26
Convertible Bonds	-	-	0.12	-	-
Corporate	-	3.83	3.82	-	-
Foreign Corporate Bonds	-	-	-	3.27	-
Foreign Governments Bonds	-	-	4.81	5.48	-
Mortgage Backed	-	2.49	-	-	-
Other Asset Backed	-	0.83	-	-	-
U.S. Government Agency	-	7.27	-	-	-
U.S. Treasury Bonds	-	6.83	-	-	9.91
U.S. Treasury Notes	-	3.48	-	-	2.22
Yankees:					
Corporate	-	2.14	3.74	-	-
Government	-	1.23	-	-	-
Portfolio Effective Duration	1.66	3.36	3.57	5.34	5.16

Defined Contribution Pooled Investment Funds

The Board contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate thirteen participant-directed funds. Through the Board's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

Under normal conditions, for government debt, corporate debt, and mortgage-backed securities, duration is limited to ± 0.2 years of the Barclays Capital U.S. Aggregate Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event at time of purchase shall effective duration exceed ± 0.4 years relative to the index.

At June 30, 2012, the duration of the government corporate debt and mortgage-backed securities was 5.06 years, and the duration of the Barclays Capital Aggregate Bond Index was 5.07 years.

Under normal conditions, the Trust will invest in cash equivalent instruments with maturities of less than one year.

Defined Contribution Collective Investment Funds

The Board does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2012, the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 49 days, SSgA World Government Bond Ex-U.S. Index: 7.40 years, SSgA Long U.S. Treasury Bond Index: 16.63 years, SSgA TIPS Index: 5.12 years, Barclays Gov/Corp Bond Fund: 5.67 years, and the Barclays Intermediate Bond Fund: 3.64 years.

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(3) DEPOSIT AND INVESTMENT RISK (Cont.)

Credit Risk

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

Treasury's investment policy has the following limitations with regard to credit risk:

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P1 or equivalent. Asset-backed and non-agency mortgage securities must be rated A3 or equivalent. The A3 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 rated by only one of these agencies if they are rated AAA.

The Board's investment policy has the following limitations with regard to credit risk:

Retirement Fixed Income:

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.

Corporate, asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, 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.

No more than 40% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 15% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard and Poor's Corporation or the equivalent by Moody's or Fitch.

U.S. Treasury Fixed Income:

No more than 30% of the portfolio's assets may be invested in securities that are not nominal, U.S. Treasury obligations or the internally managed short term or substantially similar portfolio at the time of purchase.

Corporate, asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, 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.

High Yield Fixed Income:

No more than 10% percent of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

No more than 5% percent of the portfolio's assets may be invested in unrated securities.

No more than 10% percent of the portfolio's assets may be invested in countries not rated investment grade, including emerging markets.

The lower of any Standard & Poor's, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher. Only one rating is necessary.

International Fixed Income:

Corporate and asset-backed obligations must be rated investment grade or better by a recognized credit rating agency.

Commercial paper and euro commercial paper must be rated A-1 by Standard & Poor's or P-1 by Moody's or the equivalent of a comparable rating agency.

Convertible Bond:

Non-rated convertible securities are permitted provided the manager is able to assign an appropriate credit rating consistent with the criteria used by Standard and Poor's, Moody's or Fitch. Non-rated securities are limited to 35% of the total market value of the portfolio.

The weighted-average rating of the portfolio shall not fall below the Standard and Poor's equivalent of B.

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(3) DEPOSIT AND INVESTMENT RISK (Cont.)

Credit Risk (Cont.)

Investments are limited to instruments with a credit rating above CCC- by Standard and Poor's and C3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and C3 by Moody's if such an investment is considered appropriate given the Board's investment objective.

In the case of a split rating by two or more of the rating agencies, the lower rating shall apply.

TIPS:

Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's.

No more than 5% percent of the portfolio's assets may be invested in investment grade corporate debt.

No more than 5% percent of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard & Poor's or the equivalents by Moody's or Fitch.

Non-U.S. Treasury-issued 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, 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.

Domestic Equity (Large Cap and Small Cap) and Broad International Equity:

Corporate debt obligations must carry a rating of at least A or better by Moody's, Standard & Poor's or Fitch rating services.

Commercial paper must bear the highest rating assigned by Moody's, Standard & Poor's, or Fitch rating services.

The Board does not have a policy to limit the concentration of credit risk for the Emerging Markets Debt Pool or the Collective Investment Funds.

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(3) DEPOSIT AND INVESTMENT RISK (Cont.)

Credit Risk (Cont.)

At June 30, 2012, the Board's Invested Assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

Investment Type	Rating	Fixed Income Pools									
		Short-term	Retirement	U.S.		High Yield	International	Convertible	TIPS		
				Treasury							
Bank Loan	BB	-	%	-	%	-	0.36	%	-	%	-
Bank Loan	Not Rated	-		-		-	0.49		-		-
Commercial Paper	Not Rated	3.33		-		-	-		-		-
Convertible Bond	A	-		-		-	0.25		-		8.26
Convertible Bond	AAA	-		-		-	-		-		1.56
Convertible Bond	B	-		-		-	0.07		-		13.72
Convertible Bond	BB	-		-		-	-		-		19.40
Convertible Bond	BBB	-		-		-	0.37		-		17.19
Convertible Bond	CCC	-		-		-	-		-		0.58
Convertible Bond	Not Rated	-		-		-	0.49		-		29.24
Corporate Bond	A	3.60		-		2.72	-		-		-
Corporate Bond	AA	4.94		-		0.94	-		-		-
Corporate Bond	B	-		-		-	39.68		-		-
Corporate Bond	BB	-		-		-	33.38		-		-
Corporate Bond	BBB	-		-		1.17	3.22		-		-
Corporate Bond	CCC	-		-		-	6.25		-		-
Corporate Bond	Not Rated	0.35		-		0.57	2.44		-		-
Equity	B	-		-		-	-		-		1.33
Equity	BB	-		-		-	-		-		3.00
Equity	BBB	-		-		-	-		-		2.15
Equity	CCC	-		-		-	-		-		0.35
Equity	Not Rated	-		-		-	-		-		1.27
Foreign Corporate Bond	A	-		-		-	-		3.07		-
Foreign Corporate Bond	AA	-		-		-	-		0.67		-
Foreign Government	A	-		-		-	-		21.37		-
Foreign Government	AA	-		-		-	-		1.56		-
Foreign Government	BB	-		-		-	-		4.49		-
Foreign Government	BBB	-		-		-	0.17		2.24		-
Foreign Government	Not Rated	-		-		-	-		65.42		-
Government Agency	AA	1.17		-		0.53	-		-		-
Mortgage Backed	AA	-		31.67		1.82	-		-		-
Mortgage Backed	AAA	0.46		7.96		0.47	-		-		-
Mortgage Backed	CCC	-		10.53		-	-		-		-
Mortgage Backed	Not Rated	0.37		9.40		0.95	-		-		-
Other Asset Backed	A	0.08		-		0.13	-		-		-
Other Asset Backed	AA	1.90		-		-	-		-		-
Other Asset Backed	AAA	26.15		-		-	-		-		-
Other Asset Backed	Not Rated	6.30		-		0.02	-		-		-
Other Pool Ownership	Not Rated	-		39.90		10.90	-		-		0.32
STIF	Not Rated	-		-		-	-		0.74		-
US Treasury Bill	AA	51.67		-		-	-		-		-
US Treasury Bond	AA	-		-		7.20	-		-		38.21
US Treasury Note	AA	-		-		79.99	-		-		60.93
Yankee Corporate	A	0.62		-		0.44	-		-		-
Yankee Corporate	AA	1.42		-		-	-		-		-
Yankee Corporate	B	-		-		-	3.44		-		-
Yankee Corporate	BB	-		-		-	2.76		-		-
Yankee Corporate	BBB	-		-		0.32	-		-		-
Yankee Corporate	Not Rated	-		-		-	0.47		-		-
Yankee Government	AA	-		-		0.29	-		-		-
Yankee Government	Not Rated	-		-		0.09	-		-		-
No Exposure		(2.36)		0.54		(8.55)	6.16		0.44		1.95
		100.00	%	100.00	%	100.00	100.00	%	100.00	%	100.00

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(3) DEPOSIT AND INVESTMENT RISK (Cont.)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits; however, any uninvested U.S. cash held in accounts is fully insured by the Federal Deposit Insurance Corporation (FDIC) under section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act effective December 31, 2010. This section of the Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts through December 31, 2012, at all FDIC insured depository institutions thereby limiting custodial credit risk.

At June 30, 2012, the Board's Invested Assets had the following uncollateralized and uninsured deposits:

	<u>Amount</u>
Broad International Equity Pools	\$ 49,941,208
International Fixed Income Pool	1,669,765

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Board's policy with regard to foreign currency risk in the International Fixed Income Pool is to restrict obligations to those issued in the currencies of these countries: Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Eurozone sovereign issuers in the aggregate, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Peru, Poland, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. The Board has no specific policy with regard to foreign currency risk relating to international or private equity. However, through its asset allocation policy, the Board limits total investments in international fixed income, global equity ex-U.S. and private equity to the following:

<u>Pension System</u>	<u>Fixed-Income</u>	<u>Global Equity Ex-U.S.</u>	<u>Private Equity Pool</u>
PERS	21%	27%	13%
TRS	21%	27%	13%
JRS	21%	27%	13%
MRS	64%	22%	-

The Board has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds.

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(3) **DEPOSIT AND INVESTMENT RISK (Cont.)**

Foreign Currency Risk (Cont.)

At June 30, 2012, the Board had exposure to foreign currency risk with the following deposits:

<u>Currency</u>	<u>Amount</u>	
	<u>International Fixed Income Pool</u>	<u>Broad International Equity</u>
Australian Dollar	\$ 1	\$ 342,317
Brazilian Real	-	49,877
Canadian Dollar	-	256,139
Danish Krone	-	124,834
Euro Currency	-	43,123,040
Hong Kong Dollar	-	158,633
Hungarian Forint	271,348	-
Israeli Shekel	-	35,531
Japanese Yen	266,700	4,070,817
Mexican Peso	1,061,727	-
New Zealand Dollar	-	27,525
Norwegian Krone	-	80,574
Peruvian Nouveau Sol	4	-
Pound Sterling	-	970,785
Singapore Dollar	-	102,406
South African Rand	69,985	-
South Korean Won	-	68
Swedish Krona	-	67,013
Swiss Franc	-	531,104
	\$ <u>1,669,765</u>	\$ <u>49,940,663</u>

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(3) **DEPOSIT AND INVESTMENT RISK (Cont.)**

Foreign Currency Risk (Cont.)

At June 30, 2012, the Board had exposure to foreign currency risk with the following investments:

Currency	Amount			
	International Fixed Income Pool		Broad International Equity	Private Equity Pool
	Foreign		Equity	Limited
	Government	Corporate		Partnerships
Australian Dollar	\$ -	\$ -	\$ 92,387,296	\$ 36,820
Brazilian Real	21,425,878	-	8,595,855	-
Canadian Dollar	-	-	87,018,446	-
Chilean Peso	3,387,936	-	-	-
Colombian Peso	3,552,970	-	-	-
Czech Koruna	-	-	817,566	-
Danish Krone	-	-	20,609,294	-
Euro Currency	61,172,086	3,588,772	629,319,126	152,118,324
Hong Kong Dollar	-	-	78,258,904	-
Hungarian Forint	16,961,101	-	-	-
Indian Rupee	-	-	7,313,422	-
Indonesian Rupiah	3,325,205	-	5,325,236	-
Israeli Shekel	6,719,783	-	983,820	-
Japanese Yen	132,071,470	2,547,926	470,257,708	-
Malaysian Ringgit	5,742,352	-	-	-
Mexican Peso	27,735,115	2,412,049	896,113	-
New Taiwan Dollar	-	-	1,883,950	-
New Zealand Dollar	-	-	7,427,247	-
Norwegian Krone	-	-	10,528,287	-
Peruvian Nouveau Sol	1,245,997	-	-	-
Polish Zloty	40,077,249	-	758,135	-
Pound Sterling	20,394,591	-	496,736,986	24,927,909
Singapore Dollar	-	-	30,497,972	-
South African Rand	11,462,838	-	3,726,567	-
South Korean Won	-	-	45,924,862	-
Swedish Krona	-	-	53,591,026	-
Swiss Franc	-	-	140,752,527	-
Thailand Baht	-	-	11,580,749	-
Turkish Lira	3,645,712	-	-	-
	<u>\$ 358,920,283</u>	<u>\$ 8,548,747</u>	<u>\$ 2,205,191,094</u>	<u>\$ 177,083,053</u>

At June 30, 2012, the Board also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool consists of investments in commingled funds; therefore no disclosure of specific currencies is made.

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk for the Short-term Fixed Income Pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. This provision does not apply to securities backed by the full faith and credit of the U.S. Government.

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income, U.S. Treasury Fixed Income, High Yield Fixed Income, International Fixed Income and Convertible Bond Pools is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. The Board does not have a policy with regard to concentration of credit for the Emerging Markets Debt or TIPS Pools.

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At June 30, 2012, the Board's Invested Assets did not have exposure to any one issuer greater than 5% of total invested assets.

(4) FOREIGN EXCHANGE, DERIVATIVE, AND COUNTERPARTY CREDIT RISK

The Board is exposed to credit risk on investment derivative instruments that are in asset positions. The Board has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Board has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Board have a policy for contingencies.

On June 30, 2012, the Board had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at June 30, 2011	
	Classification	Amount	Amount	Notional
Equity Options Bought	Investment Revenue	\$ 1,007,208	\$ -	\$ -
Equity Options Written	Investment Revenue	25,120,259	(20,033,870)	(3,701,100)
FX Forwards	Investment Revenue	838,197	71,138	23,277,759
Index Futures Long	Investment Revenue	2,259,605	-	50,650
Index Options Bought	Investment Revenue	18,725	-	-
Index Options Written	Investment Revenue	409,111	(75,600)	(7,000)
Rights	Investment Revenue	99,177	43,162	104,446
Warrants	Investment Revenue	8,888	15,525	9,747

The above derivatives are classified on the Statement of Invested Assets within the various investment pools to which they relate.

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of non-performance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

At June 30, 2012, the Board had the following Foreign Currency risk related to forward contracts:

Currency Forward Contracts					
Currency Name	Options	Net Receivables	Net Payables	Total Exposure	
Australian Dollar	\$ -	\$ 20,585	\$ 3,237	\$ 23,822	
Canadian Dollar	9,413	-	-	9,413	
Euro Currency	33,750	10,215	(67,202)	(23,237)	
Japanese Yen	-	-	85,465	85,465	
New Zealand Dollar	-	-	18,837	18,837	
	43,163	30,800	40,337	114,300	

At June 30, 2012, the Board had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions:

Counterparty Name	Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Bank of America N.A.	\$ 10,215	A	A	A3
Credit Suisse London Branch (GFX)	74,154	A+	A	A1
Mellon Bank N.A.	11,311	A+	AA-	Aa3
State Street Bank London	42,659	A+	A+	A1

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(5) COMMITMENTS AND CONTINGENCIES

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2012, the Board's unfunded commitment totaled \$20,727,797. This commitment can be withdrawn annually in December with ninety days notice.

The Board entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2012, the Board's unfunded commitments totaled \$859,462,885. These commitments are estimated to be paid through 2022.

The Board entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the energy investment portfolio. At June 30, 2012, the Board's unfunded commitments totaled \$39,866,413 to be paid through the year 2019.

The Board entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2012, the Board's unfunded commitments totaled \$98,299,898 to be paid through the year 2014.