



State of Alaska Update on the State's Investment Funds

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Treasury Division

The Treasury provides cash management, investment and portfolio management, debt management, unclaimed property management and accounting services for the state's general fund, constitutional budget reserve fund, retirement funds, and numerous other funds and trusts. The Division provides staff to the Alaska Retirement Management Board and Alaska Municipal Bond Bank Authority and oversees the Alaska ABLE plan.

Treasury Facts & Figures

- 45 current Treasury Division staff.
- At 12/31/18, managed \$38.8B in assets in 45 separate accounts in a pooled environment:
 - 14 defined benefit funds under the direction of ARMB (\$24.8B).
 - 4 participant directed funds under the direction of ARMB (\$6B).
 - 25 funds under the direction of the Commissioner of Revenue (\$7.7B).
 - 2 funds under the direction of other state fiduciaries (\$225M).
- Debt Management issues state debt and lease/purchase financings for the State.
- Cash Management collects all revenues, pays all expenditures and determines the amount of cash available for investment daily. Cash flows are forecasted to determine future cash needs.

Treasury Facts & Figures

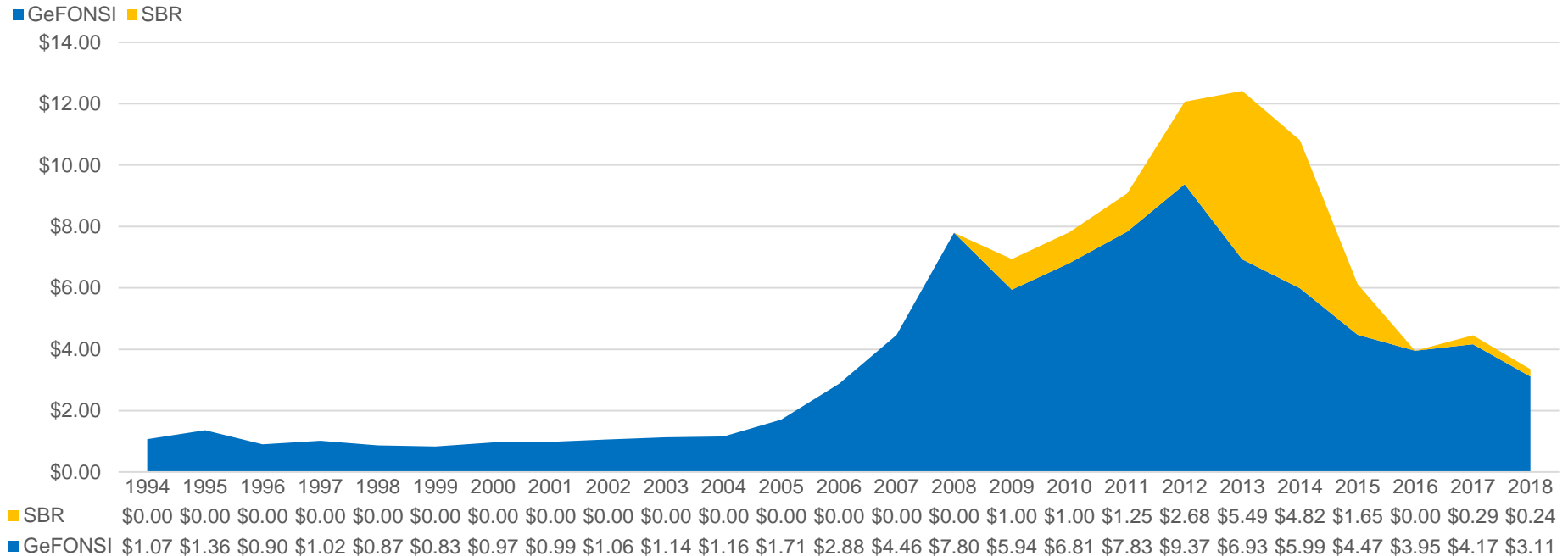
- Annually, or as needed, the Chief Investment Officer and staff perform research and analysis to develop asset allocations recommendations for discussion with the fiduciary of each fund.
- Consideration is given to the type and use of the fund, how long the fund is expected to be invested and what type of risk the fund can take.
- Callan & Associates provides 10 year Capital Market Assumptions that are used to build models to determine potential assets allocations that are discussed.

Update on Investment Funds

GeFONSI I and II

- GeFONSI includes the General Fund and Other Non segregated funds invested in a pooled environment (GF proper= \$400 million).
- Department of Administration separately accounts for each fund within State Accounting system.
- Department of Revenue is responsible for investing the GeFONSI and calculating and allocating daily investment earnings to each fund.
- 180 funds, assigned as Types 1, 2, or 3. Type 1 funds receive their earnings, the others do not.
- GeFONSI II was created in 2018 to target a higher risk return profile and includes funds that are type 2 or 3.

General Fund and other non-segregated investments Historical Invested Assets (in billions)*



* The Statutory Budget Reserve Fund (AS 37.05.540) was part of the GeFONSI before and after being managed as a separate fund from July, 2013-October, 2015.

General Fund and other non-segregated investments (GeFONSI I & II)

Fiduciary oversight: Commissioner of Revenue

		GeFONSI I (General Fund and other non-segregated investments)		GeFONSI II (General Fund and other non-segregated investments)	
Investment Objective		Moderate Risk, Short to Intermediate investment horizon		Moderately High Risk, Intermediate investment horizon	
Target Asset Allocation		<div>Intermediate-Term FI: 36%</div> <div></div> <div>Short-Term FI: 64%</div>		<div>Intermediate-Term FI: 70%</div> <div></div> <div>Short-Term FI: 8%</div> <div>International Equity: 5%</div> <div>Domestic Equity: 8%</div> <div>Broad FI: 9%</div>	
Market Value (\$thousands)	12/31/2016 12/31/2017 12/31/2018 Combined @ 12/31/2018:	Actuals		Actuals*	
		\$3,375,800		N/A	
		\$3,340,000		N/A	
		\$1,822,900		\$1,429,900	
		\$3,252,800			
Returns 12/31/18 (Rolling)	3 Month 6 Month 1 Year Actuals 3 Year Actuals 5 Year Actuals	Actuals	Benchmark ¹	Actuals	Benchmark ²
		0.81%	0.83%	-0.68%	-0.66%
		1.26%	1.22%	0.11%	0.12%
		1.86%	1.77%	N/A	N/A
		1.21%	0.97%	N/A	N/A
		0.88%	0.68%	N/A	N/A
		Callan Projected 10-Year Return: 2.38%		Callan Projected 10-Year Return: 3.38%	

¹Short-term: 3-month U.S. Treasury Bill; Intermediate-term: Barclays 1-3 Year Gov't Bond Index; ²Short-term: 3-month U.S. Treasury Bill; Intermediate-term: Barclays 1-3

Year Gov't Bond Index; Domestic Equity: Russell 3000; International Equity: MSCI ACWI ex-US; Broad Fixed Income: Barclays US Aggregate

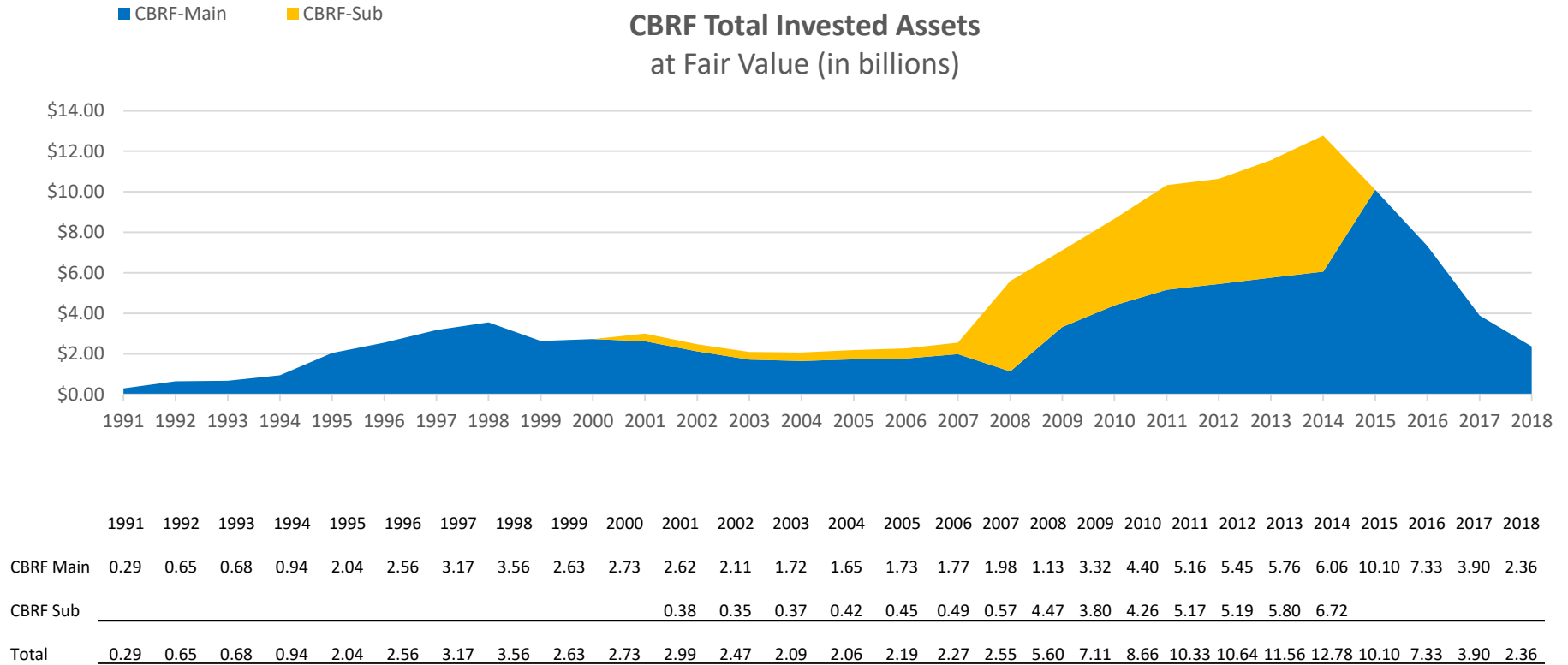
*A portion of the GeFONSI was transferred to the GeFONSI II during Fiscal Year 2018 (January 2018)

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates.

Constitutional Budget Reserve Fund

- In 1990, voters of Alaska adopted an amendment to the constitution creating the CBRF. The fund was established as a savings fund to enhance budget stability. Consists of deposits resulting from resolutions of disputes about the amount of mineral lease bonuses, royalties or taxes.
- Legislature may appropriate from the CBRF to fund operations under certain conditions:
 - Simple majority vote if available funds from other sources are less than amount appropriated to fund state government for the previous fiscal year.
 - Otherwise 3/4s vote.
- Borrowings are allowed to fund temporary cash deficiencies and budget shortfalls as appropriated by the legislature.
- Borrowings must be repaid to the CBRF when there is a surplus in the general fund at the end of the year.
- As of FY10, the CBRF was repaid and no borrowing occurred FY 11-FY14.
- A Sub-fund of the CBRF was established in 2000. In 2008, \$4.1 B was deposited (1.5 CBRF Main + \$2.6B from GF). Sub Fund was liquidated in 2015 as required by statute as funds were deemed to be needed with 5 years.

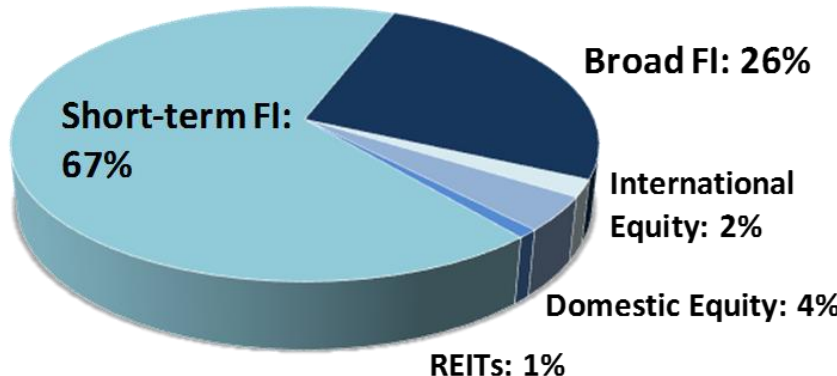
Constitutional Budget Reserve Fund Historical Invested Assets (in billions)



Data is at fiscal year end of June 30.

Constitutional Budget Reserve Fund

Fiduciary oversight: Commissioner of Revenue

		Constitutional Budget Reserve	
Investment Objective		Moderate Risk, Intermediate investment horizon	
Target Asset Allocation			
Market Value (Sthousands)	12/31/2016	Actuals	
	12/31/2017	\$5,670,300	
	12/31/2018	\$3,087,000	
		\$1,710,500	
Returns 12/31/2018 (Rolling)	3 Month	Actuals	Benchmark ¹
	6 Month	-0.08%	-0.08%
	1 Year Actuals	0.60%	0.56%
	3 Year Actuals	0.78%	0.74%
	5 Year Actuals	1.86%	1.59%
		1.52%	1.30%
Callan Projected 10-Year Return: 2.89%			

¹Broad Fixed Income: Barclays U.S. Aggregate; Domestic Equity: Russell 3000 Stock Index; International Equity: MSCI ACWI ex-US
Short-term Fixed Income: 3-month U.S. Treasury Bill; REITs: FTSE NAREIT All Equity Index

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates.

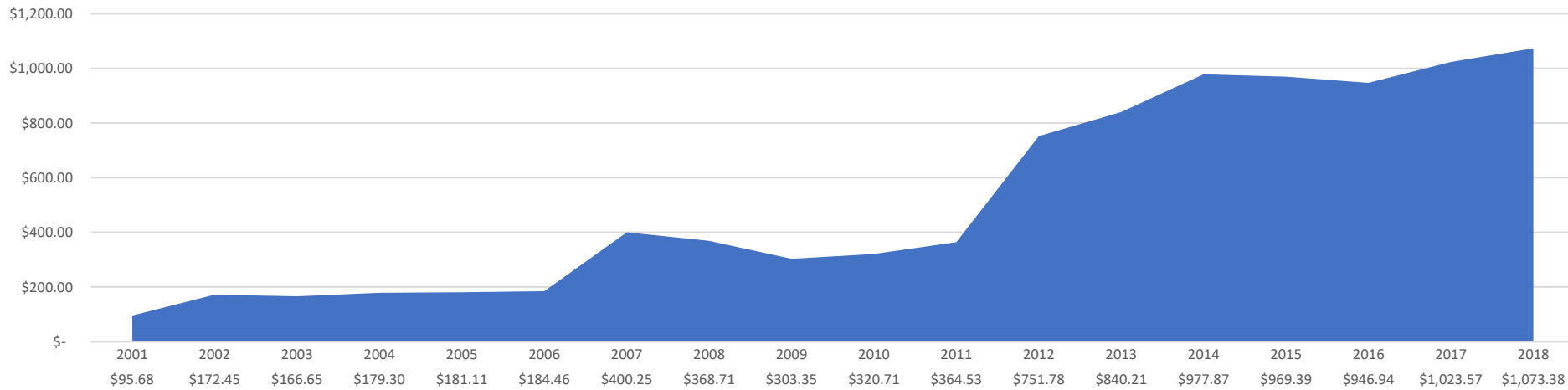
Power Cost Equalization

- The purpose of the PCE Endowment fund is to provide for a long-term stable financing source that provides affordable levels of electric utility costs in otherwise high-cost service areas of the state.
- 5% of the monthly average market value of the fund for the previous 3 fiscal years may be appropriated. If prior years' earnings exceed this amount, 70% (not to exceed \$55M) of the difference can be spent on related identified programs. Commerce is the agency that oversees the spending of the fund. SB196, effective 6/30/2016, changed the spending target from 7% to 5%.

Fund History:

- 2000-Power Cost Equalization Endowment Fund established from Constitutional Budget Reserve Appropriation of \$100 million
- 2002-PCE receives \$89.6 million from proceeds of the sale of the four dam pool hydroelectric project.
- 2007-Additional appropriation of \$182.7 million
- 2012-Additional appropriation of \$400 million

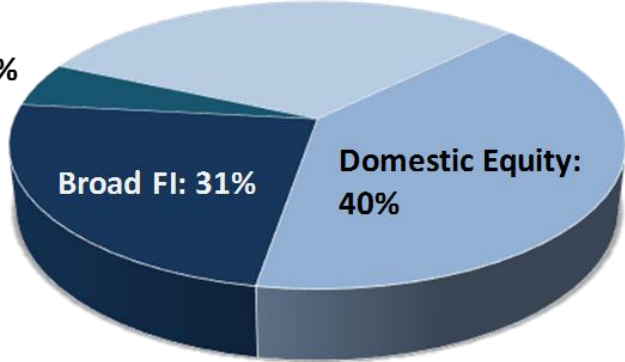
Power Cost Equalization Historical Invested Assets (in millions)



Data is at fiscal year end of June 30.

Power Cost Equalization Fund

Fiduciary oversight: Commissioner of Revenue

Power Cost Equalization Fund			
Investment Objective		High Risk, Long Term investment horizon	
Target Asset Allocation		<p>International Equity: 24%</p> <p>REITs: 5%</p> <p>Broad FI: 31%</p> <p>Domestic Equity: 40%</p> 	
Market Value (Sthousands)		Actuals	
	12/31/2016	\$947,300	
	12/31/2017	\$1,088,800	
	12/31/2018	\$959,800	
Returns 12/31/18 (Rolling)	3 Month	Actuals	Benchmark ¹
		-8.40%	-8.35%
	6 Month	-5.62%	-5.57%
	1 Year Actuals	-5.63%	-5.65%
	3 Year Actuals	5.27%	5.22%
	5 Year Actuals	4.72%	4.48%
Callan Projected 10-Year Return: 6.20%			

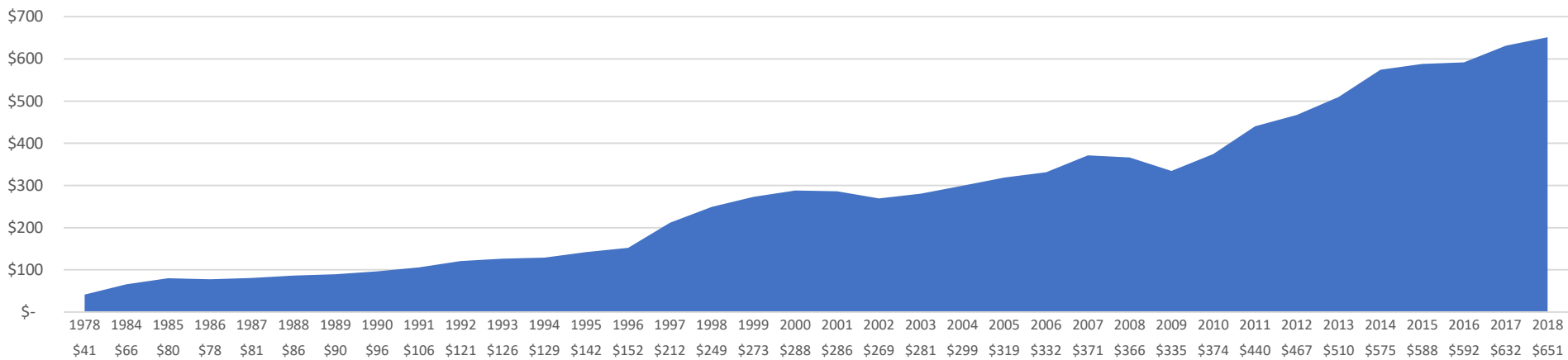
¹Broad Fixed Income: Barclays U.S. Aggregate; Domestic Equity: Russell 3000 Stock Index; International Equity: MSCI ACWI ex-US; REITs: FTSE NAREIT All Equity Index

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates. Asset Allocation does not include private investments.

Public School Trust Fund

- The PST was established in 1978, replacing the territorial era public school land grant originally created by congress in 1915, by transfer of the balance of what was then the permanent school trust into the new PST.
- Revenue consists of 1/2 of 1% of the income from state lands, including royalty interests.
- Prior to passage of HB 213 in 2018, two funds existed; the Principle and Income funds. Only the interest and dividend income earned in the Principle fund was transferred to the Income fund to be available for expenditure for public school purposes.
- Following passage of HB 213, the fund is now managed as one fund, under a percentage of market value method (5% of the average market value for the 5 years preceding the last previous fiscal year).
- The allocation to equity investments increased to roughly 70%/30% at transition in November 2018.

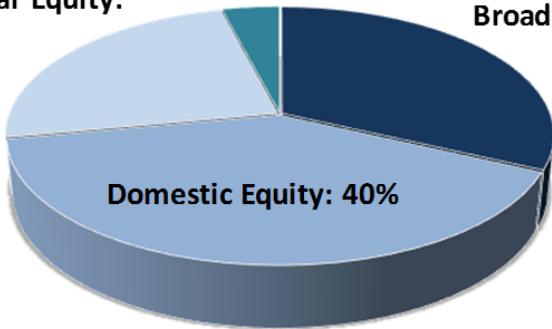
Public School Trust Historical Invested Assets (in millions)



Data is at fiscal year end of June 30.

Public School Trust Fund

Fiduciary oversight: Commissioner of Revenue

Investment Objective		Public School Trust Fund ¹ High Risk, Long Term investment horizon	
Target Asset Allocation		 <p>REITs: 4% Broad FI: 32% Domestic Equity: 40% International Equity: 24%</p>	
Market Value (Sthousands)		Actuals	
	12/31/2016	\$611,100	
	12/31/2017	\$671,900	
	12/31/2018	\$617,700	
Returns 12/31/18 (Rolling)	3 Month	Actuals	Benchmark ²
	6 Month	-7.72%	-7.38%
	1 Year Actuals	-5.43%	-5.13%
	3 Year Actuals	-5.66%	-5.40%
	5 Year Actuals	4.42%	4.48%
		4.00%	3.95%
Callan Projected 10-Year Return: 6.20%			

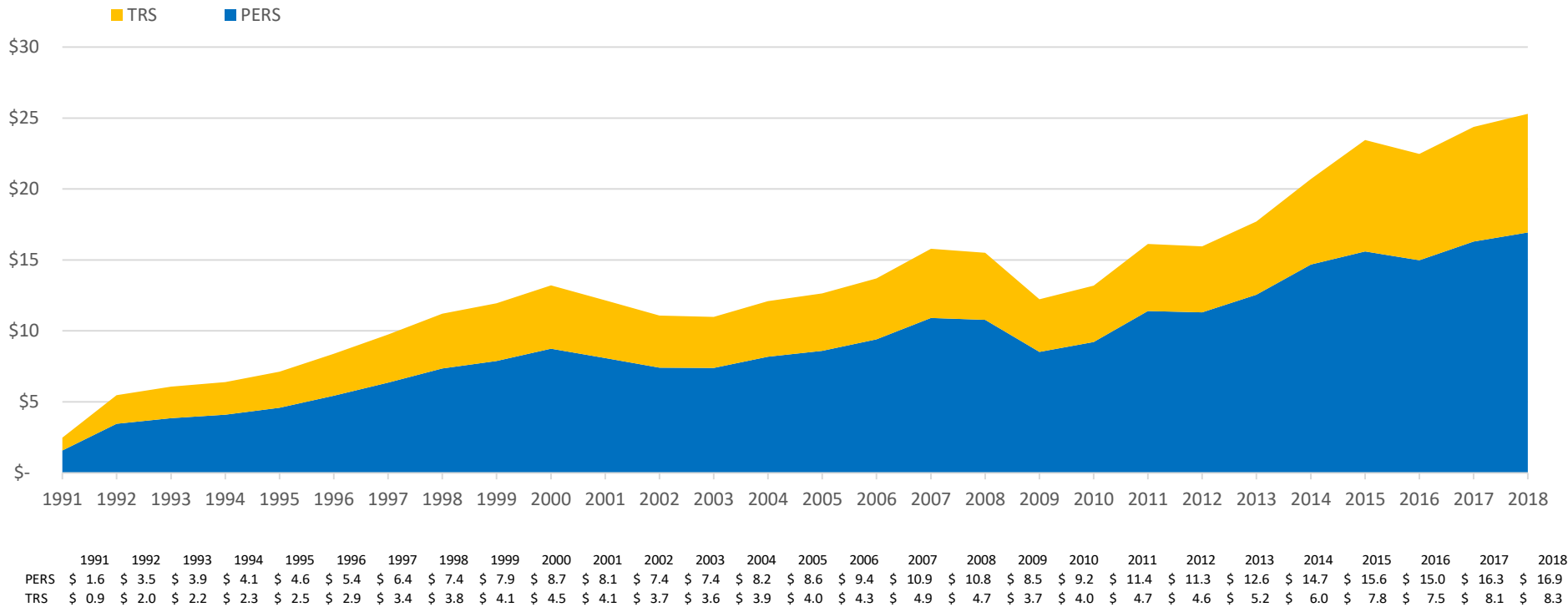
¹HB213, effective November 2018, revised the calculation for determining the amount appropriatable for future fiscal years' support of the state public school system.

²Short-term: 3-month U.S. Treasury Bill; Broad Fixed Income: Barclays U.S. Aggregate; Domestic Equity: Russell 3000 Stock Index; International Equity: MSCI ACWI ex-US; REITs: FTSE NAREIT All Equity Index

Public Employees Retirement System & Teachers Retirement System

- The Commissioner of Revenue was the sole fiduciary of the retirement funds until 1992 when the Alaska State Pension Investment Board (ASPIB) was created. The Alaska Retirement Management Board (ARMB) replaced the ASPIB in 2005.
- The ARMB is a 9 person board, with 5 meetings annually.
- Treasury staff are staff to the ARMB.
- The Retirement and Benefits division in the Department of Administration administers the pension and benefits plans.
- Investment Asset Allocations are set annually during the June board meeting.
- Experience analysis that determines key actuarial assumptions is completed every 4 years (recent study was approved January 2019).
- The defined benefit plans currently experiences net outflows from the funds.
- Returns for the year ended 6/30/18 were 9.61%.
- The 34 year return Average for PRS/TRS was 9.14%, surpassing the actuarially assumed rate of return of 8.32%.

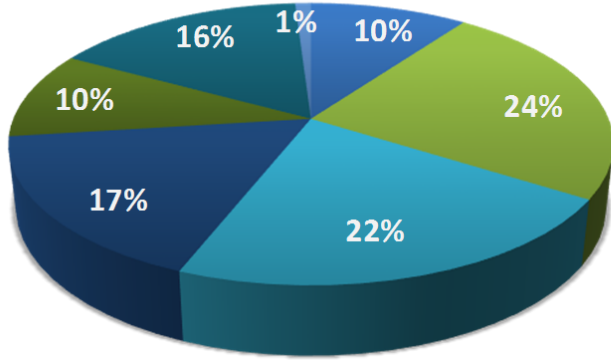
Public Employees Retirement System & Teachers Retirement System Historical Invested Assets – Pension and Health Defined Benefit Plans (in billions)



Data is at fiscal year end of June 30.

Public Employees Retirement System & Teachers Retirement System

Fiduciary oversight: Alaska Retirement Management Board

		PERS Retirement Defined Benefit Pension & Health Trust		TRS Retirement Defined Benefit Pension & Health Trust	
Investment Objective		Moderate Risk, Long Term investment horizon		Moderate Risk, Long Term investment horizon	
Target Asset Allocation					
		<div>10% Fixed Income</div> <div>24% Broad Domestic Equity</div> <div>22% Global Equity Ex-US</div> <div>17% Real Assets</div> <div>10% Opportunistic</div> <div>16% Absolute Return / Private Equity</div> <div>1% Cash</div>			
Market Value (Sthousands)	12/31/2016	Actuals		Actuals	
	12/31/2017	\$15,449,400		\$7,701,400	
	12/31/2018	\$17,097,800		\$8,477,000	
	12/31/2018	\$16,076,200		\$7,917,500	
Returns @ 9/30/2018 PRELIMINARY (Most Recent Available)	3 Month	Actuals	Benchmark ¹	Actuals	Benchmark
	1 Year Actuals	3.17%	2.89%	3.17%	2.89%
	3 Year Actuals	9.39%	7.48%	9.40%	7.48%
	5 Year Actuals	10.60%	10.18%	10.61%	10.18%
		8.20%	7.54%	8.21%	7.54%
Actuarially Assumed Rate of Investment Return: 7.38% (ARMB voted to approve a revision from 8% to 7.38% at the 1/11/2019 board meeting)					

¹ 24% Russell 3000, 22% MSCI ACWI ex US IMI, 10% Blmbg Treas Intmdt, 7% HFRI Fund of Funds Compos, 6% Russell 1000 Idx, 5.3% NCREIF Total Idx, 4.2% NCREIF Farmland Idx, 4% Blmbg Aggregate, 3% MSCI EAFE, 3% S&P 500 Idx, 3% Russell 2000 Idx, 3% Global Infra. Idx., 2.1% Alerian MLP Idx., 1.7% NCREIF Timberland Idx, 1.0% 3-Mo Treas. Bill, and 0.7% FTSE NAREIT All Eq Idx

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates.

Investment Returns

When comparing Fund Asset Allocation and Performance note:

- Time frame matters when looking at return statistics.
 - Returns for the 1 year period ended 9/30/18 are much better than those for the 1 year period ended 12/31/18 due to the significant losses in the equity markets.
- Changes to Asset Allocations impact expected returns.
 - The change in the Public School Trust fund structure led to a change in asset allocation from 56%/44% to a 68%/32% equity/bond mix. The losses in the equity markets during the last quarter of 2018 had a greater impact on the fund's returns during this time period as a result.
- Risk Tolerance must be viewed via how long the fund is expected to exist, how the fund will be used over time, other circumstances and the investment options available to the fiduciary.

THANK YOU

Please find our contact information below:

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