



STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2015

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)

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KPMG LLP
Suite 600
701 West Eighth Avenue
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Independent Auditors' Report

The Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska Supplemental Benefits System:

We have audited the accompanying statement of fiduciary net position – annuity and cafeteria plans of the State of Alaska Supplemental Benefits System (the Plan), a component unit of the State of Alaska, as of June 30, 2015, and the related statement of changes in fiduciary net position – annuity and cafeteria plans for the year then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Alaska Supplemental Benefits System as of June 30, 2015, and the changes in fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management’s Discussion and Analysis, on pages 3–7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Schedules

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plan's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

December 4, 2015

STATE OF ALASKA
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Management's Discussion and Analysis (Unaudited)

June 30, 2015

This section presents management's discussion and analysis (MD&A) of the State of Alaska Supplemental Benefits System's (the Plan) financial position and performance for the fiscal years ended June 30, 2015 and the seventeen months ended June 30, 2014. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements and notes to financial statements to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2015 and 2014.

Financial Highlights

The Plan's financial highlights as of June 30, 2015 were as follows:

- The Plan's net position restricted for benefits increased by \$79.5 million during fiscal year 2015.
- The Plan's participant and employer contributions and transfers into the plan decreased by \$69.1 million during fiscal year 2015.
- The Plan earned net investment income of \$92.5 million during fiscal year 2015, a decrease of \$373.4 million from the 17-month period ending June 30, 2014.
- The Plan's benefits paid to participants and refunds of contributions including purchases of annuity contracts decreased by \$54.0 million during fiscal year 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements. The Plan's financial statements are composed of three components: (1) statement of fiduciary net position – annuity and cafeteria plans, (2) statement of changes in fiduciary net position – annuity and cafeteria plans, and (3) notes to financial statements.

Statement of Fiduciary Net Position – Annuity and Cafeteria Plans – This statement presents information regarding the Plan's assets, liabilities, and resulting net position restricted for participants and operations. This statement reflects the Plan's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2015. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plan.

Statement of Changes in Fiduciary Net Position – Annuity and Cafeteria Plans – This statement presents how the Plan's net position restricted for participants and operations changed during the period ended June 30, 2015. This statement presents contributions and net investment income during the period. Deductions for benefits paid, refunds of contributions including purchases of annuity contracts, and administrative expenses are also presented. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plan.

The above statements represent resources available for investment and payment of benefits and expenses as of June 30, 2015, and the sources and uses of those funds during the period ended June 30, 2015.

Notes to Financial Statements – The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules that are essential to a full understanding of the Plan's financial statements.

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June 30, 2015

Condensed Financial Information (In thousands)

Description	Net position				January 31, 2013
	June 30, 2015	June 30, 2014	Increase (decrease)		
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 1,778	2,160	(382)	(17.7)%	\$ 6,218
Due from State of Alaska general fund	391	—	391	100.0	—
Receivables	7,825	13,354	(5,529)	(41.4)	7,640
Investments, at fair value	3,402,570	3,322,952	79,618	2.4	2,854,140
Investment loss trust fund, at fair value	1,940	1,935	5	0.3	1,929
Total assets	<u>3,414,504</u>	<u>3,340,401</u>	<u>74,103</u>	<u>2.2</u>	<u>2,869,927</u>
Liabilities:					
ILTF plan participant payable	1,940	—	1,940	—	—
Payable to plan participants	32	1,961	(1,929)	(98.4)	1,929
Due to other funds	624	—	624	—	—
Due to Cafeteria Plan	775	—	775	—	—
Accrued expenses	1,144	7,951	(6,807)	(85.6)	1,108
Total liabilities	<u>4,515</u>	<u>9,912</u>	<u>(5,397)</u>	<u>(54.4)</u>	<u>3,037</u>
Net position	<u>\$ 3,409,989</u>	<u>3,330,489</u>	<u>79,500</u>	<u>2.4%</u>	<u>\$ 2,866,890</u>

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June 30, 2015

Description	Changes in net position				January 31, 2013 (12 months)
	June 30, 2015 (12 months)	June 30, 2014 (17 months)	Increase (decrease)		
			Amount	Percentage	
Net position, beginning of year	\$ 3,330,489	2,866,890	463,599	16.2%	\$ 2,625,572
Additions:					
Contributions	175,130	244,245	(69,115)	(28.3)	164,837
Net investment income	92,465	465,838	(373,373)	(80.2)	240,703
Other income	30	35	(5)	(14.3)	—
Total additions	<u>267,625</u>	<u>710,118</u>	<u>(442,493)</u>	<u>(62.3)</u>	<u>405,540</u>
Deductions:					
Benefits paid to participants and purchases of annuity contracts	180,160	234,148	(53,988)	(23.1)	150,275
Insurance premiums and dependent care assistance plan reimbursements	3,485	5,138	(1,653)	(32.2)	3,244
Administrative expenses	4,480	7,233	(2,753)	(38.1)	10,703
Total deductions	<u>188,125</u>	<u>246,519</u>	<u>(58,394)</u>	<u>(23.7)</u>	<u>164,222</u>
Increase in net position	<u>79,500</u>	<u>463,599</u>	<u>(384,099)</u>	<u>(82.9)</u>	<u>241,318</u>
Net position, end of year	<u>\$ 3,409,989</u>	<u>3,330,489</u>	<u>79,500</u>	<u>2.4%</u>	<u>\$ 2,866,890</u>

Financial Analysis of the Plans

The statement of fiduciary net position – annuity and cafeteria plans as of June 30, 2015 shows net position restricted for participants and operations of \$3,409,989,000. The entire amount is available to pay benefits to participants and their beneficiaries, as well as administrative costs.

These amounts represent an increase in plan net position restricted for participants and operations of \$79,500,000 or 2.4% from fiscal year 2014 to fiscal year 2015, and an increase of \$463,599,000 or 16.2% from fiscal year 2013 to the 17-month period ending June 30, 2014.

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June 30, 2015

Contributions, Investment Income, and Other Additions

Additions to the Plan are accumulated through a combination of employer and plan participant contributions, investment income, and other additions as follows:

	Additions (In thousands)				January 31, 2013 (12 months)
	June 30, 2015 (12 months)	June 30, 2014 (17 months)	Decrease		
			Amount	Percentage	
Plan participant mandatory contributions	\$ 83,190	116,260	(33,070)	(28.4)%	\$ 78,486
Employer mandatory contributions	83,190	116,416	(33,226)	(28.5)	78,486
Plan participant voluntary contributions	3,485	4,907	(1,422)	(29.0)	3,367
Transfer in contributions	5,265	6,615	(1,350)	(20.4)	4,498
 Total plan member and employer contributions	 175,130	 244,198	 (69,068)	 (28.3)	 164,837
Net investment income	92,465	465,838	(373,373)	(80.2)	240,703
Other income	30	82	(52)	(63.4)	—
Total	\$ 267,625	710,118	(442,493)	(62.3)%	\$ 405,540

The employer, plan member, voluntary contributions, and plan member transfers-in contributions decreased from \$244,198,000 in the 17-month fiscal period ending June 30, 2014 to \$175,130,000 for fiscal year 2015, a decrease of \$69,068,000 or 28.3%. Plan member and employer contributions increased from \$164,837,000 in fiscal year 2013 to \$244,198,000 for the 17-month fiscal period ended June 30, 2014, an increase of \$79,361,000 or 48.1%. The increase in plan member and employer contributions during the 17-month fiscal period ended June 30, 2014 is primarily attributable to the additional five months in the fiscal period ended June 30, 2014.

The Plan's net investment income decreased from \$465,838,000 in the 17-month fiscal period ending June 30, 2014 to \$92,465,000 in fiscal year 2015, a decrease of \$373,373,000 or 80.2% from amounts recorded in fiscal year 2014. Net investment income increased during the 17-month fiscal period ended June 30, 2014 by \$225,135,000 or 93.5% from amounts recorded in fiscal year 2013. This increase in investment income relates to the healthy and positive financial climate and the additional five months in the fiscal period ended June 30, 2014.

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The Plan's investment rates of return are as follows:

	<u>June 30, 2015</u>
Alaska Balanced Trust	2.33%
Alaska Long-Term Balanced Trust	2.84
Alaska Target Date Retirement 2010 Trust	2.34
Alaska Target Date Retirement 2015 Trust	2.70
Alaska Target Date Retirement 2020 Trust	2.97
Alaska Target Date Retirement 2025 Trust	3.19
Alaska Target Date Retirement 2030 Trust	3.32
Alaska Target Date Retirement 2035 Trust	3.41
Alaska Target Date Retirement 2040 Trust	3.53
Alaska Target Date Retirement 2045 Trust	3.55
Alaska Target Date Retirement 2050 Trust	3.54
Alaska Target Date Retirement 2055 Trust	3.56
Allianz/RCM Socially Responsible Investment Fund	4.91
Government/Credit Bond Index Fund	1.52
Intermediate Bond Fund	1.68
Long U.S. Treasury Bond Index Fund	6.29
Russell 3000 Index Fund	7.34
S&P 500 Stock Index Fund	7.39
SSgA Global Balanced Fund	(0.20)
Stable Value Fund	2.50
State Street Money Market Fund	—
T. Rowe Price U.S. Small Cap Trust	6.27
U.S. Real Estate Investment Trust Index Fund	4.98
U.S. TIPS Index Fund	(1.83)
World Equity Ex-U.S. Index Fund	(5.25)
World Government Bond Ex-U.S. Index Fund	(13.60)

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Benefits and Other Deductions

The primary deductions of the Plan are the payment of benefits and purchases of annuity contracts. Benefit payments, insurance premiums, dependent care reimbursements, and administrative costs were as follows:

	Deductions (In thousands)				
	June 30, 2015	June 30, 2014	Decrease		January 31, 2013
	(12 months)	(17 months)	Amount	Percentage	(12 months)
Benefits	\$ 183,645	239,286	(55,641)	(23.3)%	\$ 153,519
Administrative	4,480	7,233	(2,753)	(38.1)	10,703
Total	<u>\$ 188,125</u>	<u>246,519</u>	<u>(58,394)</u>	<u>(23.7)%</u>	<u>\$ 164,222</u>

The Plan's benefits paid to participants and refunds of contributions, including purchases of annuity contracts, for fiscal year 2015 decreased \$55,641,000 or 23.3% from the 17-month fiscal period ending June 30, 2014 and increased \$85,767,000 or 55.9% for the 17-month period ended June 30, 2014 from fiscal year 2013. This increase in deductions is primarily attributable to the additional five-month increase in the length of this fiscal period ended June 30, 2014.

The Plan had administrative expenses of \$4,480,000 for fiscal year 2015 compared to \$7,233,000 during the 17-month period ended June 30, 2014, a decrease of \$2,753,000 or 38.1%. The decrease in deductions is primarily attributable to the additional five-month increase in the length of the fiscal period ended June 30, 2014. The Plan did incur additional legal services expenditures as a result of compliance work performed in the 17-month period ended June 30, 2014. The Plan had administrative expenses of \$7,233,000 in the 17-month period ended June 30, 2014 compared to \$10,703,000 in fiscal year 2013, a decrease of \$3,470,000 or 32.4%.

Fiduciary Responsibilities

The Alaska Retirement Management Board, the plan administrator, and the Commissioner of Administration are co-fiduciaries of the Plan.

The Plan's assets can only be used for the exclusive benefit of the Plan's participants, beneficiaries, and alternate payees.

Request for Information

This financial report is designed to provide a general overview of the finances of the Plan. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

State of Alaska Supplemental Benefits System
Division of Retirement and Benefits, Finance Section
P.O. Box 110203
Juneau, Alaska 99811-0203

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Statement of Fiduciary Net Position – Annuity and Cafeteria Plans

June 30, 2015

(In thousands)

	Annuity	Cafeteria	Total
Assets:			
Cash and cash equivalents	\$ 677	—	677
Money market fund – nonparticipant directed	1,101	—	1,101
Total cash and cash equivalents	1,778	—	1,778
Receivables:			
Mandatory and voluntary contributions	7,490	120	7,610
Due from SBS Annuity Plan	—	775	775
Due from State of Alaska general fund	391	—	391
Other	335	—	335
Total receivables	8,216	895	9,111
Investments, at fair value:			
Collective investment funds, participant directed	927,881	—	927,881
Synthetic investment contracts	351,754	—	351,754
Ownership of pooled investment funds, participant directed	2,122,935	—	2,122,935
Total investments	3,402,570	—	3,402,570
Investment loss trust fund, at fair value	1,940	—	1,940
Total assets	3,414,504	895	3,415,399
Liabilities:			
ILTF plan participant payable	1,940	—	1,940
Payable to plan participants	32	—	32
Accrued expenses	1,144	895	2,039
Due to State of Alaska General Fund	624	—	624
Due to Cafeteria Plan	775	—	775
Total liabilities	4,515	895	5,410
Net position restricted for individuals and organizations	\$ 3,409,989	—	3,409,989

See accompanying notes to financial statements.

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Statement of Changes in Fiduciary Net Position – Annuity and Cafeteria Plans

Year ended June 30, 2015

(In thousands)

	<u>Annuity</u>	<u>Cafeteria</u>	<u>Total</u>
Additions:			
Contributions:			
Employers	\$ 83,190	—	83,190
Plan members	88,455	3,485	91,940
Total contributions	<u>171,645</u>	<u>3,485</u>	<u>175,130</u>
Investment income:			
Net appreciation in fair value of investments	100,934	—	100,934
Interest	15	—	15
Total investment income	<u>100,949</u>	<u>—</u>	<u>100,949</u>
Less investment expense	<u>8,484</u>	<u>—</u>	<u>8,484</u>
Net investment income	<u>92,465</u>	<u>—</u>	<u>92,465</u>
Other:			
Other income	<u>30</u>	<u>—</u>	<u>30</u>
Total additions	<u>264,140</u>	<u>3,485</u>	<u>267,625</u>
Deductions:			
Benefits	180,160	3,485	183,645
Administrative expenses	4,480	—	4,480
Total deductions	<u>184,640</u>	<u>3,485</u>	<u>188,125</u>
Net increase in net position restricted for individuals and organizations	79,500	—	79,500
Net position, beginning of year	<u>3,330,489</u>	<u>—</u>	<u>3,330,489</u>
Net position, end of year	<u>\$ 3,409,989</u>	<u>—</u>	<u>3,409,989</u>

See accompanying notes to financial statements.

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Notes to the Financial Statements

June 30, 2015

(1) Description

The following description of the State of Alaska Supplemental Benefits System (the Plan), which comprises the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plan, is provided for general information purposes only. Participants should refer to the plan documents for more complete information.

General

The Plan was created by State of Alaska (the State) statutes effective January 1, 1980, to provide benefits in lieu of those provided by the federal Social Security System (Social Security). All State employees who would have participated in Social Security, if the State had not withdrawn, participate in the Plan. Other employers whose employees participate in the State's Public Employees' Retirement System and meet other requirements are eligible to have their employees participate in the Plan as provided by Alaska statute. There were 22 participating employers besides the State as of June 30, 2015. There were 43,755 participants in the Plan as of June 30, 2015.

The Division of Retirement and Benefits is responsible for plan administration and record keeping. The Alaska Retirement Management Board (the Board) is responsible for the specific investment of moneys in the Plan.

The fiscal year-end was changed from a fiscal year-end of January 31 to a fiscal year-end of June 30 effective June 30, 2014.

Contributions

Mandatory contributions are made to the Supplemental Annuity Plan, a defined contribution plan, and voluntary contributions to the Supplemental Benefits Cafeteria Plans. Participating employees are vested at all times.

Supplemental Annuity Plan contributions are made in lieu of contributions to Social Security. The State and other participating employers are required by statute to contribute 12.26% of an employee's wages up to the taxable wage base in effect under Social Security regulations. Each employee is considered to have agreed to a wage reduction equal to one-half the contribution made on the employee's behalf.

Supplemental Benefits Cafeteria Plan contributions are voluntary based upon the optional benefits elected by each employee enrolled in the Plan. Each employee agrees to a wage reduction based upon the benefit options selected. The benefit amounts are deducted from each employee's wages and remitted by the employer to the Plan on the employee's behalf.

Participant Accounts

Participant accounts under the Supplemental Annuity Plan are self-directed with respect to investment options.

Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

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Record-keeping/administrative fees consisting of a fixed amount, applied in a lump sum each calendar year, and a variable amount, applied monthly, are deducted from each participant's account, applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the contracted record-keeper and by the State. Most of the investment management and custody fees are netted out of the funds' performance.

At June 30, 2015, participants had the following investment options:

Collective Investment Funds

Allianz/RCM Socially Responsible Investment Fund – This fund is actively managed and only invests in companies contained within the MSCI USA environmental, social, and governance (ESG) Index (LMSI). The LMSI holds approximately 600 companies with the ESG rankings in each sector of the 1,000 largest U.S. stocks.

Brandes International Equity Fund – Investment in this fund ended during fiscal year 2015 and this fund was invested primarily in the equity securities of non-U.S. issuers whose equity market capitalizations exceed \$5 billion at the time of purchase. The fund was managed using a value investment process based on Graham & Dodd fundamental analysis of individual securities to identify those that are priced below their intrinsic value.

Government/Credit Bond Index Fund – This fund invests in a highly diversified portfolio of high-quality U.S. fixed income securities. The fund buys and holds portfolios of the securities included in the Barclays Capital Government/Credit Bond Index. The fund seeks to closely match the Index's total rate of return.

Intermediate Bond Fund – This fund buys and holds representative securities included in the Barclays Capital Intermediate Bond Index. The fund seeks to closely match the Index's total rate of return.

International Equity Fund – Inception date for this fund was March 2015 and it is invested primarily in the equity securities of non-U.S. issuers. The fund is a multimanager fund comprised of two investment managers of differing investment strategies, style, and long-term market correlation.

Long U.S. Treasury Bond Index Fund – This fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the return of the Barclays Capital Long Treasury Bond Index while providing for daily liquidity for plan participants. The fund seeks to match the return of Barclays Capital Long Treasury Bond Index by investing in a well-diversified portfolio of Treasury securities with maturities longer than 10 years.

Russell 3000 Index Fund – This fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the returns and characteristics of the Russell 3000 Index. The fund measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

Standard & Poor's (S&P) 500 Stock Index Fund – This fund offers diversified investment in the U.S. equity market and replicates the returns and characteristics of the Standard & Poor's 500 Composite Stock Price

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Index. The fund owns all 500 of the securities in the S&P 500 Index in proportion to each security's size as measured by its total market value.

SSgA Global Balanced Fund – This fund has a target asset allocation of 60% equities and 40% fixed income and is invested in a mix of passively managed index commingled funds, which, in combination, are designed to replicate the returns and characteristics of the fund benchmark.

State Street Institutional Treasury Money Market Fund – This money market fund seeks to achieve its investment objective by investing substantially all of its investable assets in the State Street Money Market Portfolio of State Street Master Funds, which has the same investment objective as, and investment policies that are substantially similar to, those of the fund. The fund attempts to achieve its investment objective by investing exclusively in direct obligations of the U.S. Treasury, such as U.S. Treasury bills, notes, and bonds. The fund may also invest in other mutual funds, subject to regulatory limitations, that invest exclusively in such obligations.

U.S. Real Estate Investment Trust Credit Index Fund – This fund seeks to replicate the returns and characteristics of the Dow Jones U.S. Select REIT Index by purchasing each security in the same capitalization weight as it appears in the Index.

U.S. Small Cap Trust – This fund invests primarily in common stocks of small companies that appear undervalued or offer the potential for superior earnings growth.

U.S. Treasury Inflation-protected Securities (TIPS) Index Fund – This fund invests in the SSgA TIPS Index NL Series (Class A) and is intended to replicate the return of the index while providing for daily liquidity for the plan participants. The fund seeks to match the returns of the index by investing in a portfolio of U.S. Treasury inflation protected securities.

World Equity Ex-U.S. Index Fund – This fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the returns and characteristics of the MSCI ACWI Ex-U.S. Index and provide a broad-based, low-cost exposure to both the developed and emerging markets. The index consists of approximately 2,000 securities across 47 markets.

World Government Bond Ex-U.S. Index Fund – This fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the Citigroup World Government Ex-U.S. Index over the long term. The fund is managed using a passive or indexing investment approach, by which SSgA attempts to replicate, before expenses, the performance of the index.

Money Market Fund – This fund consists of nonparticipant directed funds used to pay administrative costs of the Plan.

Pooled Investment Funds

The Board contracts with an external investment manager who is given authority to invest in a wholly owned pooled environment to accommodate 12 participant-directed funds.

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Alaska Balanced Trust – The purpose of this fund is to provide exposure to a diversified mix of stocks, bonds, and money market securities for investors with a higher tolerance for risk and a medium investment horizon. The trust invests in up to four underlying common trust funds, each one emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment-grade bonds, and money market securities.

Alaska Long-Term Balanced Trust – The purpose of this fund is to provide exposure to a diversified mix of stocks, bonds, and money market securities for investors with a higher tolerance for risk and a medium to long investment horizon. The trust invests in up to four underlying common trust funds, each one emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment-grade bonds, and money market securities.

Alaska Target Date Retirement 2010–2055 Trusts – The purpose of these funds is to provide a diverse mix of stocks, bonds, and money market securities for long-term investors with a higher tolerance for risk. The trusts are designed to gradually invest more conservatively as the target retirement date approaches. The trusts invest in four underlying common trust funds, each one emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment-grade bonds, and money market securities. Over time, the allocations become more conservative, systematically decreasing exposure to stocks and increasing exposure to bonds and money market securities on a quarterly basis. At the target date, the trusts maintain a substantial exposure to stocks (approximately 55%). The most conservative allocation to stocks (approximately 20%) occurs 30 years after the target date is reached.

Stable Value Fund

Stable Value Fund – The purpose of this fund is to preserve principal with a competitive rate of interest consistent with the preservation of capital. The fund invests in a diversified portfolio of synthetic investment contracts (SICs) issued by banks and insurance companies that meet specified credit standards. Supporting securities for SICs typically include U.S. Treasury/agency obligations, mortgage- and asset-backed securities, as well as investment-grade corporate bonds.

Payment of Annuity Benefits

Employees are eligible to withdraw from the Supplemental Annuity Plan 60 days after termination. Benefits are payable in the form of a lump sum or one of various continuing annuities purchased from an insurance carrier, which are excluded from plan assets. The plan administrator issues lump-sum disbursements through its contracted record-keeper.

Supplemental Benefits Cafeteria

Benefits available under the Supplemental Benefits Cafeteria Plan include death, disability, survivor benefits, and dependent care reimbursement. Selection of these benefits is at the discretion of the employee, with certain restrictions, and may be amended and/or changed on an annual basis or in conjunction with an employee's change in status. The Plan is funded entirely by employee contributions based upon benefit selections. All supplemental benefits are provided through third-party administrators.

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Funding of the Annuity Plan

Supplemental annuity contributions from employers were deposited with investment managers under contract with the Plan for the fiscal year ended June 30, 2015. The amounts credited to each participant account include the appreciation or depreciation in the unit values of the investment funds in addition to participant contributions received during the period.

Effect of Plan Termination

Although the State has established the Plan with the bona fide intention and expectation that it will continue the Plan indefinitely, the State may in its sole and absolute discretion terminate the Plan in whole or in part at any time without liability whatsoever for such termination. If the Plan is terminated, the deposit contracts shall remain in force until all individual employee benefit accounts have been completely distributed in accordance with the Plan.

The employers are under no obligation or liability to continue making contributions to, or participate in, the Plan. Employers in their sole and absolute discretion may discontinue participation and contributions with no liability whatsoever for such termination except liability to the State under the terms of the participation agreement.

Income Taxes

The Plan is exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. In preparing the financial statements, the plan administrator is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and additions and deductions for the reporting periods. Actual results could differ from those estimates.

Valuation of Collective Investment Funds

The Plan's investments in collective investment funds (note 3), held in trust, are stated at fair value based on the unit value as reported by Third Party Administrator (TPA) multiplied by the number of units held by the Plan. The unit value is determined by the TPA based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Valuation of Synthetic Investment Contracts

The Plan's investments in fully benefit-responsive SICs (note 4) are stated at fair values as they are affected by market factors and current standings.

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Valuation of Ownership of Pooled Investment Funds

The Plan's ownership of pooled investment funds held in trust are stated at fair value based on the unit values 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 the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2015 are composed of interest-bearing deposits.

Contributions Receivable

Contributions applicable to wages earned through June 30 are accrued. These contributions are considered fully collectible, and accordingly, no allowance for doubtful accounts is considered necessary.

Due to State of Alaska General Fund

Amounts due to the State of Alaska General Fund represent the net difference between amounts paid by the Plan on behalf of others and amounts paid by others on behalf of the Plan.

(3) Investments

The Plan is primarily participant directed, which means that the Plan's annuity participants decide in which options to invest. Of the total plan fiduciary net assets of \$3,409,989,000 at June 30, 2015, 99.8% or \$3,402,570,000 were specifically allocated to individual participant accounts.

Each participant designates how their contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions, adjusted for the appreciation or depreciation in unit value for the investment funds, and reduced for administrative fees.

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The market values of participant-directed investments at June 30, 2015 are as follows (in thousands):

	<u>2015</u>
Alaska Balanced Trust	\$ 1,177,603
Alaska Long-Term Balanced Trust	540,248
Stable Value Fund	351,754
S&P 500 Stock Index Fund	340,239
U.S. Small Cap Trust, T. Rowe Price	134,659
Alaska Target Date Retirement 2015 Trust	97,514
International Equity Fund	81,573
Alaska Target Date Retirement 2020 Trust	68,914
Russell 3000 Index Fund	63,723
SSgA Global Balanced Fund	60,903
Government/Credit Bond Index Fund	53,686
Alaska Target Date Retirement 2025 Trust	44,931
RCM Socially Responsible Investment Fund	40,414
State Street Money Market Fund	38,715
U.S. Real Estate Investment Trust Index Fund	34,276
Alaska Target Date Retirement 2050 Trust	34,230
Alaska Target Date Retirement 2030 Trust	33,530
Alaska Target Date Retirement 2045 Trust	31,781
Alaska Target Date Retirement 2035 Trust	29,379
Alaska Target Date Retirement 2040 Trust	29,223
World Equity Ex-U.S. Index Fund	29,177
Alaska Target Date Retirement 2055 Trust	26,276
U.S. Treasury Inflation Protected Security Index Fund	15,533
Intermediate Bond Fund	12,274
Long U.S. Treasury Bond Index Fund	12,181
World Government Bond Ex-U.S. Index Fund	10,528
Alaska Target Date Retirement 2010 Trust	9,306
Total	<u>\$ 3,402,570</u>

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The Plan's investments at June 30, 2015 include the following collective investment funds:

	Balance <u>(in thousands)</u>
Equity funds:	
S&P 500 Stock Index Fund	\$ 340,239
U.S. Small Cap Trust, T. Rowe Price	134,659
International Equity Fund	81,573
U.S. Real Estate Investment Trust Index Fund	34,276
Allianz/RCM Socially Responsible Investment Fund	40,414
Russell 3000 Index Fund	63,723
World Equity Ex-U.S. Index Fund	29,177
	<u>724,061</u>
Bond and debt securities funds:	
Government/Credit Bond Index Fund	53,686
U.S. TIPS Index Fund	15,533
Long U.S. Treasury Bond Index Fund	12,181
Intermediate Bond Fund	12,274
World Government Bond Ex-U.S. Index Fund	10,528
	<u>104,202</u>
Bond and equity funds:	
SSgA Global Balanced Fund	60,903
Money market fund:	
Participant directed – State Street Institutional Treasury Money Market Fund	38,715
Total collective investment funds	\$ 927,881

(4) Synthetic Investment Contracts

Accounts and terms of SICs in effect at June 30, 2015, are as follows:

Prudential Insurance Company of America

In September 2013, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Prudential Insurance Company of America. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and

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investment withdrawals. The contract is included in the Plan's financial statements at market value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The book value of the investment contract at June 30, 2015 was \$88,807,000, as reported by Prudential Insurance Company of America and the market value of the portfolio at June 30, 2015 was \$90,951,000. The average crediting rate for fiscal year ending June 30, 2015 was approximately 2.71%. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration.

Royal Bank of Canada

In February 2013, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Royal Bank of Canada. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at market value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The book value of the investment contract at June 30, 2015 was \$58,766,000, as reported by Royal Bank of Canada and the market value of the portfolio at June 30, 2015 was \$60,077,000. The average crediting rate for the fiscal year ending June 30, 2015 was approximately 2.60%. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration.

Pacific Life Insurance Co.

In 2004, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Pacific Life Insurance Co. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at market value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The book value of the investment contract at June 30, 2015 was \$59,013,000, as reported by Pacific Life Insurance Co., and the market value of the portfolio at June 30, 2015 was \$60,724,000. The average crediting rate for the fiscal year ending June 30, 2015 was approximately 2.85%. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration.

State Street Bank & Trust Co.

In 2000, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with State Street Bank. This financial institution provides a wrap contract that covers a separately managed constant duration synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at market value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The book value of the investment contract at June 30, 2015 was \$105,841,000, as reported by State Street Bank, and the market

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value of the portfolio at June 30, 2015 was \$108,911,000. The average crediting rate for fiscal year ending June 30, 2015 was approximately 2.85%. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration.

(5) Investment Loss Trust Fund

Deposits with contract values of \$131,805,000 at January 31, 1991, were invested in guaranteed investment contracts with Executive Life Insurance Company (Executive Life), which was taken over by California State Regulators in April 1991, resulting in uncertainty about the value of these plan assets.

To address this situation, the Investment Loss Trust Fund (Fund) was established by Alaska Statute 37.14.300. The Alaska Department of Administration is to spend that Fund as necessary to hold participants in the Plan and annuity holders (with Executive Life) harmless from a loss of value in the investment and annuity contracts issued by Executive Life. The hold harmless loss limit was the principal plus accrued interest through May 3, 1991, plus earnings by the Fund on that balance since that date, less a portion of earnings to be used to pursue recovery (at a 1.0% rate) of the investment value and protect the interest of plan participants and annuity holders. Unpaid annuity amounts due to current annuity holders under contracts issued by Executive Life are also covered by the Fund.

The Fund was capitalized with \$138,100,000 of appropriations by the State. The physical control and ownership of the assets of the Fund are under the control of the State, and not the Plan. However, through the Fund legislation and the Partial Interim Settlement Agreement in *Maupin, et al. vs. State of Alaska, et al.*, 3AN-91-6006 Civil, the participants in the Plan are held harmless to the extent allowed by law. Therefore, the amount represented by the asset, the Fund, is the amount computed to be the incremented hold harmless limit.

In February 1994, the State and the Plan elected to opt out of the plan of rehabilitation for Executive Life. By that action, which covered the guaranteed investment contracts issued before January 1, 1989, and a favorable ruling by the California Court of Appeals (as supported by the election of the California Supreme Court not to hear a further appeal of that ruling), which related to the contracts issued after 1989, the Plan received from the conservator and therefore ultimately the State received payments of \$147,689,000 through June 30, 2015.

The availability of the amounts from the conservator did not affect the Partial Interim Settlement Agreement approved in 1992 by the Alaska Superior Court in *Maupin, et al. vs. State of Alaska et al.*, as it related to the accounts of individual participants. From May 1991 through October 1995, the Plan recorded the assets of the Fund in lieu of carrying the Executive Life investment contracts. Also included were assets set aside to hold harmless those who had continuing annuity contracts with Aurora National Life Assurance Company.

At June 30, 2015, the Fund is comprised of cash and cash equivalents.

With the receipt of the October 1995 Executive Life Settlements, the amounts represented by Fund assets, and the accumulated earnings thereon in individual accounts, were moved to the corresponding participant's regular annuity plan account and their Fund account closed. In April 1996, the Alaska Superior Court approved a final settlement with the State that does not contemplate the making of any further payments by

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the State to the participants of the Class in *Maupin, et al. vs. State of Alaska et al.*, beyond the payments already made pursuant to the Partial Interim Settlement Agreement described previously.

During 2000, the State legislature appropriated a portion of the Fund assets, totaling \$4 million, to be used for other purposes.

The remaining assets of the Fund relate to continuing annuity contracts with Executive Life and are managed by the State Treasury.

(6) 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.

Collective Investment and Money Market Funds

The Board contracts with external investment managers who maintain collective investment funds. Managers selected to manage investments for the Plan are subject to the provisions of the collective investment funds the Board has selected. In addition, the Plan maintains a balance in a commingled money market portfolio. The Board does not have a policy to limit interest rate risk for these investments.

	Fair value (in thousands)	Weighted average maturity
Government/Credit Bond Index Fund	\$ 53,686	8.24 years
Institutional Treasury Money Market Fund	38,715	27 days
Intermediate Bond Fund	12,274	3.92 years
Long U.S. Treasury Bond Index Fund	12,181	24.86 years
U.S. TIPS Index Fund	15,533	8.54 years
World Government Bond ex-U.S. Index Fund	10,528	9.55 years

Short-Term Fixed Income Pool

The Investment Loss Trust Fund and the Plan's cash and cash equivalents are invested in the State's internally managed 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 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 12-month prepay speeds for other securities. At June 30, 2015, the expected average life of individual fixed rate securities ranged from 10 days to 3.3 years and the expected average life of floating rate securities ranged from 10 days to 14.5 years.

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Stable Value Fund

The Board contracts with an external investment manager who is given the authority to invest in SICs and a reserve. This external manager also manages the securities underlying the SICs.

Through the Board's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration on SICs as follows:

- For constant duration SICs, duration cannot exceed the longer of six years or the duration of the Barclays Capital Intermediate Aggregate Index plus one-half year. The aggregate duration of the constant duration SICs was 3.84 years at June 30, 2015. The duration of the Barclays Capital Intermediate Aggregate Index was 4.07 years at June 30, 2015.
- Duration is a measure of interest rate risk. In the case of the Plan's constant duration SICs, duration is the fair value weighted average term to maturity of all fixed income securities underlying the contracts and their related cash flows. Duration of the Plan's structured payout SICs is the weighted average maturity of the contract payments.

The Board does not have a policy to limit interest rate risk for the reserve. The balance of the reserve is invested in the custodian's Institutional Treasury Money Market Fund.

Pooled Investment Funds

Duration is a measure of a security's sensitivity to a 100-basis point change in interest rates. Duration for the securities in the pooled investment funds is the fair value weighted average term to maturity for each security taking into account all related cash flows.

The Board contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate 13 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:

- For government and corporate debt securities, duration is limited to ± 0.2 years of the blended benchmark of 70% Barclays U.S. Intermediate Aggregate Bond Index, 15% Barclays U.S. Floating Rate Note Index, 10% Barclays TIPS Index, and 5% Barclays Long U.S. Treasury Bond Index. At June 30, 2015, the blended Barclays Bond Index duration was 3.98 years, and the duration of the Aggregate Bond Trust was 3.93 years.

The weighted average maturity of the money market portfolio was 35.92 days at June 30, 2015.

The Board does not have a policy to limit interest rate risk for funds held in foreign currency, the custodian's short-term investment fund, or commercial paper.

Credit Risk

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

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The Board does not have a policy to limit credit risk for the Plan's Collective Investment Funds and commingled money market portfolio. These investments are not rated.

Treasury's investment policy limits credit risk in the short-term fixed income pool by limiting investments 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. Treasury's investment policy further limits investments in institutional money market funds to those rated AAA. Treasury does not have a policy to limit credit risk associated with deposit accounts or investment funds maintained by the custodian.

The Board's investment policy has the following limitations with regard to credit risk for SICs, investments underlying the synthetic investment contracts and the reserve:

- SIC issuers must have an investment grade rating
- Supranational agency and foreign government entity investments must have a minimum rating of A- or equivalent
- Corporate debt securities must have a minimum rating of BBB- or equivalent
- Asset-backed securities must have a minimum rating of AAA or equivalent
- The ratings assigned to issuers of money market instruments must have the highest rating of any nationally recognized statistical rating organization. This limitation does not apply to the investment funds maintained by the custodian.

The Board's investment policy has the following limitations with regard to credit risk for wholly owned pooled investments:

- All government and corporate fixed income securities must be rated BBB- or better at time of purchases
- GNMA, FNMA, and FHLMC mortgage-backed securities may be purchased even if they are not rated by all or any of these rating agencies as long as they are rated investment grade by T. Rowe's internal credit evaluation
- Commercial paper and other short-term debt obligations must be rated A1 or equivalent.

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At June 30, 2015, plan investments consisted of securities with credit quality ratings issued by a nationally recognized statistical rating organization as follows (using the Standard and Poor's rating scale):

Investment type	Rating	Fair value (in thousands)			
		Underlying synthetic investment contracts	Investment loss trust	Other	Total
Investments with credit exposure:					
Money market fund	Not rated	\$ 31,091	—	1,101	32,192
Short-term investment fund	Not rated	3,343	—	—	3,343
Commercial paper	AAA	—	240	—	240
Commercial paper	Not rated	—	93	—	93
U.S. government agency	AA	11,220	—	—	11,220
U.S. government agency	Not rated	—	469	—	469
Mortgage-backed	AAA	3,433	33	—	3,466
Mortgage-backed	AA	—	5	—	5
Mortgage-backed	A	1,483	5	—	1,488
Mortgage-backed	Not rated	95,476	1	—	95,477
Other asset-backed	AAA	10,045	1,451	—	11,496
Other asset-backed	AA	—	76	—	76
Other asset-backed	A	—	48	—	48
Other asset-backed	Not rated	5,112	509	—	5,621
Corporate bonds	AAA	292	—	—	292
Corporate bonds	AA	7,614	32	—	7,646
Corporate bonds	A	30,961	40	—	31,001
Corporate bonds	BBB	24,309	—	—	24,309
Corporate bonds	Not rated	1,161	—	—	1,161
Yankees:					
Corporate	AA	4,613	19	—	4,632
Corporate	A	13,566	18	—	13,584
Corporate	BBB	3,601	—	—	3,601
Corporate	Not rated	201	—	—	201
Government	AAA	3,612	—	—	3,612
Government	AA	1,996	—	—	1,996
Government	A	1,922	—	—	1,922
Deposits and investments with no credit exposure:					
Deposits		(2,327)	—	—	(2,327)
U.S. Treasury bills	Not rated	—	69	—	69
U.S. Treasury notes	AA	66,925	—	—	66,925
U.S. Treasury notes	Not rated	32,105	93	—	32,198
Participant-directed funds:					
Collective investment funds		—	—	671,236	671,236
Pooled investment funds		—	—	2,122,935	2,122,935
Wholly owned domestic		—	—	175,073	175,073
Wholly owned international		—	—	81,572	81,572
ILTF Assets not reported with SBS		—	(1,123)	—	(1,123)
Total invested assets		351,754	2,078	3,051,917	3,405,749
Pool-related net liabilities		—	(138)	—	(138)
Total		\$ 351,754	1,940	3,051,917	3,405,611

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Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer.

The Board does not have a policy to limit concentration of credit risk in the collective investment and money market funds.

Treasury’s policy with regard to the short-term fixed income pool is to prohibit the purchase of more than 5% of the portfolio’s assets in corporate bonds of any one company or affiliated group, unless explicitly backed by the U.S. government.

The Board’s policy with regard to concentration of credit risk for SICs, investments underlying the SICs, and the reserve is as follows:

- No investment will be made if, at the time of purchase, total investment in any single issuer of investment contracts would exceed 35% of the Stable Value Fund’s total value
- No investment will be made if, at the time of purchase, total investment in any single issuer or in all issuers of the securities held as supporting investments under SICs in the table below would exceed the respective percentages of all investments underlying the SICs.

<u>Investment type</u>	<u>Issuer</u>	<u>All issuers</u>
U.S. Treasury and agencies	100.0%	100.0%
U.S. agency securities	100.0	100.0
Agency mortgage-backed securities	50.0	50.0
Nonagency mortgage-backed securities	5.0	50.0
Asset-backed securities	5.0	50.0
Domestic and foreign corporate debt securities	5.0	50.0
Supranational agency and foreign government entity securities	5.0	50.0
Money market instruments – nongovernmental agency	5.0	100.0
Custodian short-term investment fund	100.0	100.0

- The maximum exposure to securities rated BBB is limited to 20% of the total value underlying SICs.
- For the reserve, the total investment of any single issuer of money market instruments may not exceed 5% of the total value underlying SICs. This limitation does not apply to the investment funds maintained by the custodian.

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The Board's policy with regard to concentration of credit risk for wholly owned pooled investments is as follows:

- Equity holdings will be limited to 5% per issuer of the equity portfolio at the time of purchase.
- With the exception of the U.S. government or its agencies, fixed income holdings of any single issuer is limited to 2% of the total portfolio at the time of purchase.
- With the exception of the U.S. government or its agencies, money market holdings of any single issuer are limited to no more than 5% of the portfolio at the time of purchase. This limitation does not apply to the investment funds maintained by the custodian.

At June 30, 2015, the Plan had no exposure to a single issuer in excess of 5% of total invested assets.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The Board does not have a policy to limit foreign currency risk associated with collective investment funds. The Plan has exposure to foreign currency risk in the International Equity and the Global Balanced collective investment funds.

The Board's policy with regard to the Stable Value Fund is to require that all investments underlying a SIC be denominated in U.S. dollars.

The Board's policy with regard to pooled investments requires that all money market holdings be made in entities domiciled in the United States. The Board has no policy with regard to other pooled investments.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the deposits may not be returned. The Board does not have a policy for custodial credit risk. At June 30, 2015, the Plan's deposits were uncollateralized and uninsured.

(7) Risk and Uncertainty

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of fiduciary net assets.

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The Plan may invest in pooled separate accounts that include securities with contractual cash flows, which may include asset-backed securities, collateralized mortgage obligations, and commercial mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

SUPPLEMENTAL SCHEDULES

Schedule 1

**STATE OF ALASKA
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Schedule of Administrative and Investment Deductions

Year ended June 30, 2015

(In thousands)

	<u>Administrative</u>	<u>Investment</u>	<u>Totals</u>
Personal services:			
Wages	\$ 386	49	435
Benefits	211	20	231
Total personal services	<u>597</u>	<u>69</u>	<u>666</u>
Travel:			
Transportation	13	27	40
Per diem	3	4	7
Total travel	<u>16</u>	<u>31</u>	<u>47</u>
Contractual services:			
Management and consulting	3,513	8,040	11,553
Accounting and auditing	40	173	213
Data processing	143	109	252
Communications	25	8	33
Advertising and printing	4	2	6
Rentals/leases	33	12	45
Legal	83	19	102
Repairs and maintenance	1	1	2
Other professional services	4	6	10
Total contractual services	<u>3,846</u>	<u>8,370</u>	<u>12,216</u>
Other:			
Equipment	4	3	7
Supplies	17	11	28
Total other	<u>21</u>	<u>14</u>	<u>35</u>
Total administrative and investment deductions	<u>\$ 4,480</u>	<u>8,484</u>	<u>12,964</u>

See accompanying independent auditors' report.

STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Payments to Consultants
Other than Investment Advisors

Year ended June 30, 2015

(In thousands)

Firm	Services	2015
KPMG LLP	Auditing services	\$ 31
State Street Bank Corporation	Custodian banking services	146
Applied Microsystems Inc.	Data processing consultants	59
G Treasury SS LLC	Data processing consultants	1
International Business Machines	Data processing consultants	1
Sungard Availability Services	Data processing consultants	2
Wostmann Group LLC	Data processing consultants	6
State of Alaska, Department of Law	Legal services	99
		\$ 345

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