



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

Financial Statements and Supplemental Schedules

June 30, 2018 and 2017

(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
Anchorage, AK 99501

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 financial statements of the State of Alaska Supplemental Benefits System (the Plan), a component unit of the State of Alaska, as of and for the years ended June 30, 2018 and 2017, and the related notes to financial statements, which collectively comprise the Plan's 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 an opinion on these financial statements based on our audits. We conducted our audits 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, 2018 and 2017, and the changes in fiduciary net position for the years 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 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 19 and 20 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

KPMG LLP

November 21, 2018

STATE OF ALASKA
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Management's Discussion and Analysis

June 30, 2018 and 2017

(Unaudited)

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, 2018 and June 30, 2017. 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, 2018 and 2017. Information for fiscal year 2016 is presented for comparative purposes.

Financial Highlights

The Plan's financial highlights as of June 30, 2018 were as follows:

- The Plan's net position restricted for benefits increased by \$214.4 million during fiscal year 2018.
- The Plan's participant and employer contributions and transfers into the plan decreased by \$0.7 million during fiscal year 2018 when compared to fiscal year 2017.
- The Plan earned net investment income of \$262.5 million during fiscal year 2018, a decrease of \$58.3 million during fiscal year 2018 when compared to fiscal year 2017.
- The Plan's benefits and purchases of annuity contracts decreased by \$2.1 million during fiscal year 2018 when compared to fiscal year 2017.

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) statements of fiduciary net position – annuity and cafeteria plans, (2) statements of changes in fiduciary net position – annuity and cafeteria plans, and (3) notes to financial statements.

Statements 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 value along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2018 and 2017. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plan.

Statements 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 years ended June 30, 2018 and 2017. This statement presents contributions and net investment income during the period. Deductions for benefits and 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, 2018 and 2017 and the sources and uses of those funds during the years ended June 30, 2018 and 2017.

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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.

Condensed Financial Information (In thousands)

Description	Net position				2016
	2018	2017	Increase (decrease)		
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 10,778	10,471	307	2.9%	\$ 9,264
Due from State of Alaska General Fund	—	—	—	—	—
Receivables	6,939	7,487	(548)	(7.3)	7,607
Investments	3,905,154	3,691,373	213,781	5.8	3,419,489
Investment loss trust fund (ILTF) at fair value	1,999	1,968	31	1.6	1,951
Total assets	<u>3,924,870</u>	<u>3,711,299</u>	<u>213,571</u>	<u>5.8</u>	<u>3,438,311</u>
Liabilities:					
ILTF plan participant payable	1,999	1,968	31	1.6	1,951
Payable to plan participants	68	68	—	—	31
Due to State of Alaska General Fund	277	910	(633)	(69.6)	95
Accrued expenses	1,901	2,105	(204)	(9.7)	1,819
Total liabilities	<u>4,245</u>	<u>5,051</u>	<u>(806)</u>	<u>(16.0)</u>	<u>3,896</u>
Net position	<u>\$ 3,920,625</u>	<u>3,706,248</u>	<u>214,377</u>	<u>5.8%</u>	<u>\$ 3,434,415</u>

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Description	Changes in net position				
	2018	2017	Increase (decrease)		2016
			Amount	Percentage	
Net position, beginning of year	\$ 3,706,248	3,434,415	271,833	7.9%	\$ 3,409,989
Additions:					
Contributions	167,599	168,278	(679)	(0.4)	171,061
Net investment income	262,496	320,773	(58,277)	(18.2)	45,420
Other income	56	24	32	133.3	47
Total additions	<u>430,151</u>	<u>489,075</u>	<u>(58,924)</u>	<u>(12.0)</u>	<u>216,528</u>
Deductions:					
Benefits and refunds of contributions	211,386	213,505	(2,119)	(1.0)	188,395
Administrative	4,388	3,737	651	17.4	3,707
Total deductions	<u>215,774</u>	<u>217,242</u>	<u>(1,468)</u>	<u>(0.7)</u>	<u>192,102</u>
Increase in net position	<u>214,377</u>	<u>271,833</u>	<u>(57,456)</u>	<u>(21.1)</u>	<u>24,426</u>
Net position, end of year	<u>\$ 3,920,625</u>	<u>3,706,248</u>	<u>214,377</u>	<u>5.8%</u>	<u>\$ 3,434,415</u>

Financial Analysis of the Plans

The statement of fiduciary net position – Annuity and cafeteria plans as of June 30, 2018 shows fiduciary net position of \$3,920,625,000. 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 \$214,377,000 or 5.8% from fiscal year 2017 to fiscal year 2018 and an increase of \$271,833,000 or 7.9% from fiscal year 2016 to fiscal year 2017.

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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)				
	2018	2017	Increase (decrease)		2016
			Amount	Percentage	
Plan participant mandatory contributions	\$ 80,069	80,097	(28)	—%	\$ 82,083
Employer mandatory contributions	80,084	80,083	1	—	82,083
Plan participant voluntary contributions	3,650	4,002	(352)	(8.8)	3,804
Transfer-in contributions	3,796	4,096	(300)	(7.3)	3,091
Total plan member and employer contributions	167,599	168,278	(679)	(0.4)	171,061
Net investment income	262,496	320,773	(58,277)	(18.2)	45,420
Other income	56	24	32	133.3	47
Total	\$ 430,151	489,075	(58,924)	(12.0)%	\$ 216,528

The employer, plan member, voluntary contributions, and plan member transfer-in contributions decreased from \$168,278,000 in fiscal year 2017 to \$167,599,000 for fiscal year 2018, a decrease of \$679,000 or 0.4%. Plan member and employer contributions decreased from \$171,061,000 for fiscal year 2016 to \$168,278,000 for fiscal year 2017, a decrease of \$2,783,000 or 1.6%.

The Plan's net investment income decreased from \$320,773,000 in fiscal year 2017 to \$262,496,000 in fiscal year 2018, a decrease of \$58,277,000 or 18.2% from amounts recorded in fiscal year 2017. The decrease relates to the decrease in rates of returns in fiscal year 2018. Net investment income increased during fiscal year 2017 by \$275,353,000 or 606.2% from amounts recorded during fiscal year 2016. This increase relates to significant increase in rates of returns in fiscal year 2017 compared to similar investments in fiscal year 2016.

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The Plan's investment rates of return at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Alaska Balanced Trust	4.27%	6.36%
Alaska Long-Term Balanced Trust	7.19	11.13
Alaska Target Date Retirement 2010 Trust	5.45	8.20
Alaska Target Date Retirement 2015 Trust	6.49	9.83
Alaska Target Date Retirement 2020 Trust	7.60	11.71
Alaska Target Date Retirement 2025 Trust	8.48	13.29
Alaska Target Date Retirement 2030 Trust	9.36	14.70
Alaska Target Date Retirement 2035 Trust	10.09	15.90
Alaska Target Date Retirement 2040 Trust	10.67	16.97
Alaska Target Date Retirement 2045 Trust	10.88	17.23
Alaska Target Date Retirement 2050 Trust	10.88	17.22
Alaska Target Date Retirement 2055 Trust	10.90	17.22
Alaska Target Date Retirement 2060 Trust	10.80	17.05
Allianz/RCM Socially Responsible Investment Fund	15.67	15.67
Government/Credit Bond Index Fund	(0.65)	(0.43)
Intermediate Bond Fund	(0.71)	(1.27)
International Equity Fund	6.49	16.90
Long U.S. Treasury Bond Index Fund	(0.17)	(7.27)
Russell 3000 Index Fund	14.73	18.48
S&P 500 Index Fund	14.36	17.91
SSgA Global Balanced Fund	—	10.43
Stable Value Fund	2.41	2.34
State Street Institutional Treasury Money Market Fund	1.22	0.39
U.S. Real Estate Investment Trust Index Fund	4.18	(2.61)
U.S. Small-Cap Trust	18.48	21.31
U.S. Treasury Inflation Protected Security Index Fund	2.07	(0.73)
World Equity Ex-U.S. Index Fund	7.49	19.81
World Government Bond Ex-U.S. Index Fund	3.15	(5.03)

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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)				
	2018	2017	Increase (decrease)		2016
			Amount	Percentage	
Benefits and refunds of contributions	\$ 211,386	213,505	(2,119)	(1.0)%	\$ 188,395
Administrative	4,388	3,737	651	17.4	3,707
Total	\$ 215,774	217,242	(1,468)	(0.7)%	\$ 192,102

The Plan's benefits paid to participants and refunds of contributions, including purchases of annuity contracts for fiscal year 2018 decreased \$2,119,000 or 1.0% from fiscal year 2017 and increased \$25,110,000 or 13.3% from the period ended June 30, 2016. The decrease in refunds of contributions in fiscal year 2018 is related to a slight decrease in full account disbursements.

The Plan had administrative expenses of \$4,388,000 for fiscal year 2018 compared to \$3,737,000 for fiscal year 2017, an increase of \$651,000 or 17.4%. The Plan had administrative expenses of \$3,737,000 in fiscal year 2017 compared to \$3,707,000 in fiscal year 2016, an increase of \$30,000 or 0.8%. The increase in administrative expenses in fiscal year 2018 is due to an increase in personal and contractual services.

Fiduciary Responsibilities

The Alaska Retirement Management Board and the Commissioner of Administration are cofiduciaries 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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Statements of Fiduciary Net Position – Annuity and Cafeteria Plans

June 30, 2018 and 2017

(In thousands)

	2018			2017		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
Assets:						
Cash and cash equivalents	\$ 6,805	926	7,731	6,455	926	7,381
Money market fund – nonparticipant-directed	3,047	—	3,047	3,090	—	3,090
Total cash and cash equivalents	9,852	926	10,778	9,545	926	10,471
Receivables:						
Mandatory and voluntary contributions	6,939	—	6,939	7,152	—	7,152
Other	—	—	—	335	—	335
Total receivables	6,939	—	6,939	7,487	—	7,487
Investments at fair value:						
Collective investment funds, participant-directed	1,104,316	—	1,104,316	1,038,831	—	1,038,831
Ownership of pooled investment funds, participant-directed	2,445,939	—	2,445,939	2,287,720	—	2,287,720
Investments at contract value:						
Synthetic investment contracts	354,899	—	354,899	364,822	—	364,822
Total investments	3,905,154	—	3,905,154	3,691,373	—	3,691,373
Investment loss trust fund at fair value	1,999	—	1,999	1,968	—	1,968
Total assets	3,923,944	926	3,924,870	3,710,373	926	3,711,299
Liabilities:						
Investment loss trust fund plan participant payable	1,999	—	1,999	1,968	—	1,968
Payable to plan participants	68	—	68	68	—	68
Accrued expenses	975	926	1,901	1,179	926	2,105
Due to State of Alaska General Fund	277	—	277	910	—	910
Total liabilities	3,319	926	4,245	4,125	926	5,051
Fiduciary net position	\$ 3,920,625	—	3,920,625	3,706,248	—	3,706,248

See accompanying notes to financial statements.

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

Years ended June 30, 2018 and 2017

(In thousands)

	2018			2017		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
Additions:						
Contributions:						
Employers	\$ 80,084	—	80,084	80,083	—	80,083
Plan members	83,865	3,650	87,515	84,193	4,002	88,195
Total contributions	<u>163,949</u>	<u>3,650</u>	<u>167,599</u>	<u>164,276</u>	<u>4,002</u>	<u>168,278</u>
Investment income:						
Net appreciation in fair value of investments	263,409	—	263,409	321,983	—	321,983
Interest	498	—	498	159	—	159
Total investment income	<u>263,907</u>	<u>—</u>	<u>263,907</u>	<u>322,142</u>	<u>—</u>	<u>322,142</u>
Less investment expense	<u>1,411</u>	<u>—</u>	<u>1,411</u>	<u>1,369</u>	<u>—</u>	<u>1,369</u>
Net investment income	<u>262,496</u>	<u>—</u>	<u>262,496</u>	<u>320,773</u>	<u>—</u>	<u>320,773</u>
Other income	56	—	56	24	—	24
Total additions	<u>426,501</u>	<u>3,650</u>	<u>430,151</u>	<u>485,073</u>	<u>4,002</u>	<u>489,075</u>
Deductions:						
Benefits and refunds of contributions	207,736	3,650	211,386	209,503	4,002	213,505
Administrative	4,388	—	4,388	3,737	—	3,737
Total deductions	<u>212,124</u>	<u>3,650</u>	<u>215,774</u>	<u>213,240</u>	<u>4,002</u>	<u>217,242</u>
Net increase in fiduciary net position	<u>214,377</u>	<u>—</u>	<u>214,377</u>	<u>271,833</u>	<u>—</u>	<u>271,833</u>
Fiduciary net position, beginning of year	<u>3,706,248</u>	<u>—</u>	<u>3,706,248</u>	<u>3,434,415</u>	<u>—</u>	<u>3,434,415</u>
Fiduciary net position, end of year	<u>\$ 3,920,625</u>	<u>—</u>	<u>3,920,625</u>	<u>3,706,248</u>	<u>—</u>	<u>3,706,248</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

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(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.

(a) 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 23 participating employers, including the State as of June 30, 2018. There were 45,504 participants in the Plan as of June 30, 2018.

At June 30, 2018 and 2017, the number of participating local government employers and public organizations, including the State was as follows:

State of Alaska	1	
Municipalities	9	
School districts	5	
Other	8	
	8	
Total employers	23	

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.

(b) 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 voluntary contributions are based on the optional benefits elected by each employee enrolled in the Plan. Each employee agrees to a wage reduction based on 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.

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(c) Participant Accounts

Participant accounts under the Supplemental Annuity Plan are self-directed with respect to investment options. Each participant designates how their contributions are 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.

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 recordkeeper and by the State. Most of the investment management and custody fees are netted out of the funds' performance.

At June 30, 2018 and June 30, 2017, participants had the following investment options:

(i) 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 highest ESG rankings in each sector of the 1,000 largest U.S. stocks.

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 Bloomberg 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 Bloomberg Barclays U.S. Intermediate Bond Index. The fund seeks to closely match the Index's total rate of return.

International Equity Fund – This fund is invested primarily in the equity securities of non-U.S. issuers. The fund is a multimanager fund comprising 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 State Street Global Advisors (SSgA), which, in combination, are designed to replicate the return of the Bloomberg Barclays U.S. Long Treasury Bond Index while providing for daily liquidity for plan participants. The fund seeks to match the return of Bloomberg Barclays U.S. 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 98.0% of the investable U.S. equity market.

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Standard & Poor's 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 (S&P) 500 Composite Stock Price Index. The S&P 500 Index is the world's most widely followed stock index representing about 81% of the entire U.S. equity market.

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 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. The trust's benchmark is the Russell 2000 Index, a broad representation of the small-cap U.S. equity market.

U.S. Treasury Inflation Protected Securities (TIPS) Index Fund – This fund invests in the Barclays Capital U.S. TIPS Index 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.

(ii) *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 directly with the Plan, that meet

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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.

(iii) 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 13 participant-directed funds.

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 2010–2060 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.

(d) Payment of Benefits

Participants are eligible to withdraw from the Supplemental Annuity Plan 60 days after termination. Benefits are payable in the form of a lump sum or a periodic payment option, unless the participant elects to defer commencement of benefits. The Plan issues lump-sum disbursements through its contracted recordkeeper. Various annuities can also be purchased from an insurance carrier, which are excluded from plan assets.

(e) Supplemental Benefits Cafeteria Plan

Benefits available under the Supplemental Benefits Cafeteria Plan include life, accidental death, disability, and critical illness insurance. 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 on benefit selections. All supplemental benefits are provided through contractual arrangements.

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(f) Funding of the Annuity Plan

Supplemental annuity plan contributions from employers and participants were deposited with investment managers under contract with the Plan. The amounts credited to each participant account include the appreciation or depreciation in the unit values of the investment funds in addition to contributions received during the period.

(g) Income Taxes

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

(h) 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.

(2) Summary of Significant Accounting Policies

(a) 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.

(b) Valuation of Collective Investment Funds

The Plan's investments in collective investment funds, held in trust, are stated at fair value based on the net asset 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.

(c) Valuation of Synthetic Investment Contracts

The Plan's investments in fully benefit-responsive SICs are stated at contract value.

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(d) 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.

(e) Cash and Cash Equivalents

Cash and cash equivalents are composed of interest-bearing deposits. The Money Market Fund consists of nonparticipant-directed funds used to pay administrative costs of the Plan.

(f) 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.

(g) Due to State of Alaska General Fund

Amounts due to State of Alaska General Fund represent the amounts paid by the General Fund on behalf of the Plan.

(3) Investments

The Plan is primarily participant directed, which means that the Plan's participants decide in which options to invest. Of the total plan fiduciary net assets of \$3,920,625,000 at June 30, 2018, 99.6% or \$3,905,154,000 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, 2018 and 2017 are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Alaska Balanced Trust	\$ 1,144,403	1,157,931
Alaska Long-Term Balanced Trust	683,417	591,595
S&P 500 Stock Index Fund	454,989	407,254
Stable Value Fund	354,899	364,822
U.S. Small Cap Trust	175,996	152,350
Alaska Target Date Retirement 2020 Trust	94,958	86,815
Alaska Target Date Retirement 2015 Trust	85,904	89,019
Alaska Target Date Retirement 2025 Trust	76,798	63,774
Russell 3000 Index Fund	72,624	70,708
International Equity Fund	69,084	64,495
Alaska Target Date Retirement 2050 Trust	68,944	55,554
Alaska Target Date Retirement 2045 Trust	60,065	49,143
Alaska Target Date Retirement 2030 Trust	56,387	48,436
Alaska Target Date Retirement 2055 Trust	56,097	43,730
World Equity Ex-U.S. Index Fund	54,818	39,976
Allianz/RCM Socially Responsible Investment Fund	53,141	43,549
Alaska Target Date Retirement 2040 Trust	53,116	45,011
Alaska Target Date Retirement 2035 Trust	52,457	45,557
Government/Credit Bond Index Fund	50,435	41,852
State Street Institutional Treasury Money Market Fund	41,482	39,552
Intermediate Bond Fund	40,059	41,543
U.S. Real Estate Investment Trust Index Fund	34,012	36,754
U.S. Treasury Inflation Protected Security Index Fund	31,695	23,765
Long U.S. Treasury Bond Index Fund	13,397	15,863
World Government Bond Ex-U.S. Index Fund	12,584	6,022
Alaska Target Date Retirement 2010 Trust	10,130	10,074
Alaska Target Date Retirement 2060 Trust	3,263	1,081
SSgA Global Balanced Fund	—	55,148
Total	<u>\$ 3,905,154</u>	<u>3,691,373</u>

For additional information on synthetic investment contracts, interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk, see the separately issued report on the Invested Assets of the State of Alaska Retirement and Benefits Plans at <http://treasury.dor.alaska.gov/armb/Reports-and-Policies/Annual-Audited-Financial-Schedules.aspx>.

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(Unaudited)

(4) Investment Loss Trust Fund

The Investment Loss Trust Fund was established by the state of Alaska to hold harmless Plan participants who had invested in a guaranteed investment contract that suffered losses during the 1990s. The Investment Loss Trust Fund comprises cash and cash equivalents managed by the State Treasury. The associated participant payable represents amounts due to participants under a settlement agreement associated with the guaranteed investment contract.

(5) 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. 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

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Schedule of Administrative and Investment Deductions

Years ended June 30, 2018 and 2017

(In thousands)

	<u>Administrative</u>	<u>Investment</u>	<u>Totals</u>	
			<u>2018</u>	<u>2017</u>
Personal services:				
Wages	\$ 352	116	468	372
Benefits	256	54	310	177
Total personal services	<u>608</u>	<u>170</u>	<u>778</u>	<u>549</u>
Travel:				
Transportation	6	19	25	10
Per diem	1	3	4	14
Total travel	<u>7</u>	<u>22</u>	<u>29</u>	<u>24</u>
Contractual services:				
Management and consulting	3,214	1,010	4,224	4,055
Accounting and auditing	31	4	35	35
Data processing	112	140	252	302
Communications	20	8	28	34
Advertising and printing	1	—	1	3
Rentals/leases	29	17	46	44
Legal	2	14	16	25
Repairs and maintenance	1	2	3	4
Transportation	16	1	17	1
Other professional services	340	6	346	14
Total contractual services	<u>3,766</u>	<u>1,202</u>	<u>4,968</u>	<u>4,517</u>
Other:				
Equipment	4	7	11	3
Supplies	3	10	13	13
Total other	<u>7</u>	<u>17</u>	<u>24</u>	<u>16</u>
Total administrative and investment deductions	<u>\$ 4,388</u>	<u>1,411</u>	<u>5,799</u>	<u>5,106</u>

See accompanying independent auditors' report.

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Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2018 and 2017

(In thousands)

<u>Firm</u>	<u>Services</u>	<u>2018</u>	<u>2017</u>
Conduent Human Resource Services	Actuarial services	\$ 1	—
KPMG LLP	Auditing services	30	23
State Street Bank and Trust	Custodial banking services	297	299
Alaska IT Group	Data processing services	27	73
Applied Microsystems Incorporated	Data processing services	27	27
Genesys Telecommunications Lab	Data processing services	7	—
Interactive Intelligence Group	Data processing services	—	10
International Business Machines	Data processing services	1	1
SHI International Corporation	Data processing services	36	33
Sungard Availability Services	Data processing services	3	2
State of Alaska, Department of Law	Legal services	12	21
The Segal Company Incorporated	Management consulting services	—	16
		<u>\$ 441</u>	<u>505</u>

This schedule presents payments to consultants receiving greater than \$1,000.

See accompanying independent auditors' report.