



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

Financial Statements and Supplemental Schedules

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-8
Statements of Fiduciary Net Position – Annuity and Cafeteria Plans	9
Statements of Changes in Fiduciary Net Position – Annuity and Cafeteria Plans	10
Notes to Financial Statements	11-18
Supplemental Schedules	
Schedule 1 – Schedule of Administrative and Investment Deductions	19
Schedule 2 – Schedule of Payments to Consultants Other Than Investment Advisors	20



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, 2020 and 2019, 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, 2020 and 2019, 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

October 28, 2020

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

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

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, 2020 and June 30, 2019. 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, 2020 and 2019. Information for fiscal year 2018 is presented for comparative purposes.

Financial Highlights

The Plan's financial highlights for the year ended June 30, 2020 were as follows:

- The Plan's net position restricted for benefits increased by \$110.5 million during fiscal year 2020.
- The Plan's participant and employer contributions and transfers into the Plan decreased by \$2.6 million during fiscal year 2020 compared to fiscal year 2019.
- The Plan earned net investment income of \$195.4 million during fiscal year 2020, a decrease of \$59.9 million compared to fiscal year 2019.
- The Plan's benefits paid increased by \$33.5 million during fiscal year 2020 compared to fiscal year 2019.

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, 2020 and 2019. 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, 2020 and 2019. This statement presents contributions and net investment income during the period. Deductions for benefits and refunds of contributions, 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, 2020 and 2019 and the sources and uses of those funds during the years ended June 30, 2020 and 2019.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

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	Fiduciary net position				
	2020	2019	Increase (decrease)		2018
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 6,343	4,933	1,410	28.6%	\$ 10,778
Receivables	783	814	(31)	(3.8)	6,939
Due from State of Alaska General Fund	5,667	12,523	(6,856)	(54.7)	—
Investments	4,226,475	4,117,577	108,898	2.6	3,905,154
Investment loss trust fund (ILTF) at fair value	2,085	2,049	36	1.8	1,999
Total assets	4,241,353	4,137,896	103,457	2.5	3,924,870
Liabilities:					
ILTF plan participant payable	2,085	2,049	36	1.8	1,999
Payable to plan participants	70	86	(16)	(18.6)	68
Accrued expenses	1,279	8,327	(7,048)	(84.6)	1,901
Due to State of Alaska General Fund	—	—	—	—	277
Total liabilities	3,434	10,462	(7,028)	(67.2)	4,245
Fiduciary net position	\$ 4,237,919	4,127,434	110,485	2.7%	\$ 3,920,625

Description	Changes in fiduciary net position				
	2020	2019	Increase (decrease)		2018
			Amount	Percentage	
Fiduciary net position, beginning of year	\$ 4,127,434	3,920,625	206,809	5.3%	\$ 3,706,248
Additions:					
Contributions	170,998	173,604	(2,606)	(1.5)	167,599
Net investment income	195,428	255,307	(59,879)	(23.5)	262,496
Other income	178	149	29	19.5	56
Total additions	366,604	429,060	(62,456)	(14.6)	430,151
Deductions:					
Benefits and refunds of contributions	251,642	218,096	33,546	15.4	211,386
Administrative	4,477	4,155	322	7.7	4,388
Total deductions	256,119	222,251	33,868	15.2	215,774
Increase in net position	110,485	206,809	(96,324)	(46.6)	214,377
Fiduciary net position, end of year	\$ 4,237,919	4,127,434	110,485	2.7%	\$ 3,920,625

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

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

Financial Analysis of the Plans

The statement of fiduciary net position – Annuity and cafeteria plans as of June 30, 2020 and 2019 show fiduciary net position of \$4,237,919,000 and \$4,127,434,000, respectively. 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 \$110,485,000 or 2.7% from fiscal year 2019 to fiscal year 2020, and an increase of \$206,809,000 or 5.3% from fiscal year 2018 to fiscal year 2019.

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)				
	2020	2019	Increase (decrease)		2018
			Amount	Percentage	
Plan participant mandatory contributions	\$ 81,836	81,769	67	0.1%	\$ 80,069
Employer mandatory contributions	81,846	81,767	79	0.1	80,084
Plan participant voluntary contributions	1,893	3,818	(1,925)	(50.4)	3,650
Transfer-in contributions	5,423	6,250	(827)	(13.2)	3,796
Total plan member and employer contributions	170,998	173,604	(2,606)	(1.5)	167,599
Net investment income	195,428	255,307	(59,879)	(23.5)	262,496
Other income	178	149	29	19.5	56
Total	\$ 366,604	429,060	(62,456)	(14.6)%	\$ 430,151

Plan member and employer contributions decreased from \$173,604,000 for fiscal year 2019 to \$170,998,000 for fiscal year 2020, a decrease of \$2,606,000 or 1.5% primarily due to the transfer of administration of the cafeteria plan to a third-party administrator (TPA). The cafeteria plan TPA collects directly from participating employers the voluntary supplemental benefit premiums and processes all claims. Plan member and employer contributions increased from \$167,599,000 for fiscal year 2018 to \$173,604,000 for fiscal year 2019, an increase of \$6,005,000 or 3.6%.

The Plan's net investment income decreased from \$255,307,000 in fiscal year 2019 to \$195,428,000 in fiscal year 2020, a decrease of \$59,879,000 or 23.5% from amounts recorded in fiscal year 2019. The decrease relates to the decrease in rates of return in fiscal year 2020. Net investment income decreased during fiscal year 2019 by \$7,189,000 or 2.7% from amounts recorded during fiscal year 2018.

STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

The Plan's investment rates of return at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Alaska Balanced Trust	6.18 %	6.53 %
Alaska Long-Term Balanced Trust	5.16	6.67
Alaska Target Date Retirement 2010 Trust	5.01	5.92
Alaska Target Date Retirement 2015 Trust	5.12	6.23
Alaska Target Date Retirement 2020 Trust	4.93	6.42
Alaska Target Date Retirement 2025 Trust	4.78	6.61
Alaska Target Date Retirement 2030 Trust	4.46	6.76
Alaska Target Date Retirement 2035 Trust	4.33	6.80
Alaska Target Date Retirement 2040 Trust	4.09	6.77
Alaska Target Date Retirement 2045 Trust	3.76	6.82
Alaska Target Date Retirement 2050 Trust	3.75	6.83
Alaska Target Date Retirement 2055 Trust	3.77	6.79
Alaska Target Date Retirement 2060 Trust	3.62	6.74
Alaska Target Date Retirement 2065 Trust	N/A	N/A
Blackrock Strategic Completion Fund	(4.91)	N/A
Environmental, Social, and Governance Fund	9.16	N/A
International Equity Fund	0.14	(3.15)
Passive U.S. Bond Index Fund	8.69	N/A
Russell 3000 Index Fund	6.48	8.98
S&P 500 Index Fund	7.48	10.42
Stable Value Fund	2.57	N/A
State Street Institutional Treasury Money Market Fund	1.33	2.17
T. Rowe Price U.S. Small-Cap Trust	(0.03)	11.02
U.S. Real Estate Investment Trust Index Fund	N/A	9.72
U.S. Treasury Inflation Protected Security Index Fund	N/A	4.79
World Equity Ex-U.S. Index Fund	(4.41)	1.51

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

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

Benefits and Other Deductions

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

	Deductions (In thousands)				
	2020	2019	Increase (decrease)		2018
			Amount	Percentage	
Benefits and refunds of contributions	\$ 251,642	218,096	33,546	15.4%	\$ 211,386
Administrative	4,477	4,155	322	7.7	4,388
Total	<u>\$ 256,119</u>	<u>222,251</u>	<u>33,868</u>	<u>15.2%</u>	<u>\$ 215,774</u>

The Plan's benefits paid to participants and refunds of contributions, including purchases of annuity contracts for fiscal year 2020 increased \$33,546,000 or 15.4% from fiscal year 2019, and increased \$6,710,000 or 3.2% from the period ended June 30, 2018. The increase in refunds of contributions in fiscal year 2020 is related to an increase in number of members requesting disbursements from the Plan.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into U.S. law on March 27, 2020. Section 2202 of the CARES act provided expanded distribution options for up to \$100,000 of coronavirus-related distributions from eligible retirements plans. The Department of Administration, Division of Retirement and Benefits, in coordination with Empower Retirement, allowed for coronavirus-related distributions for members effective June 3, 2020.

Qualified members of the plan may request an in-service distribution of 25% of their account or \$25,000 maximum, whichever is less, between both the Alaska Supplemental Annuity Plan and the Alaska Deferred Compensation Plan (DCP) plans. Qualified members who have terminated employment may request up to an amount not to exceed \$100,000 from their account. Coronavirus-related withdrawal must be processed before December 31, 2020. There is an option for the recipient to recontribute any portion or all of the coronavirus-related withdrawal within three years of receipt. Through June 30, 2020, the Plan had \$7,488,000 in CARES Act distributions.

The Plan had administrative expenses of \$4,477,000 for fiscal year 2020 compared to \$4,155,000 for fiscal year 2019, an increase of \$322,000 or 7.7%. The increase in administrative expenses in fiscal year 2020 is primarily due to an increase in record keeping fees. The Plan had administrative expenses of \$4,155,000 for fiscal year 2019 compared to \$4,388,000 for fiscal year 2018, a decrease of \$233,000 or 5.3% primarily due to a decrease in other professional 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.

STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

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

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

Statements of Fiduciary Net Position – Annuity and Cafeteria Plans

June 30, 2020 and 2019

(In thousands)

	2020			2019		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
Assets:						
Cash and cash equivalents:						
Investment in State of Alaska General Fund and Other Nonsegregated Investments Pool	\$ 579	926	1,505	856	926	1,782
Money market fund – nonparticipant-directed	4,838	—	4,838	3,151	—	3,151
Total cash and cash equivalents	5,417	926	6,343	4,007	926	4,933
Receivables:						
Mandatory and voluntary contributions	783	—	783	814	—	814
Due from State of Alaska General Fund	5,667	—	5,667	12,523	—	12,523
Total receivables	6,450	—	6,450	13,337	—	13,337
Investments:						
Participant directed at fair value:						
Collective investment funds	1,276,341	—	1,276,341	1,203,643	—	1,203,643
Pooled investment funds	2,490,581	—	2,490,581	2,520,997	—	2,520,997
Participant directed at contract value:						
Synthetic investment contracts	459,553	—	459,553	392,937	—	392,937
Total investments	4,226,475	—	4,226,475	4,117,577	—	4,117,577
Investment loss trust fund at fair value	2,085	—	2,085	2,049	—	2,049
Total assets	4,240,427	926	4,241,353	4,136,970	926	4,137,896
Liabilities:						
Accrued expenses	353	926	1,279	7,401	926	8,327
Payable to plan participants	70	—	70	86	—	86
Investment loss trust fund plan participant payable	2,085	—	2,085	2,049	—	2,049
Total liabilities	2,508	926	3,434	9,536	926	10,462
Fiduciary net position	\$ 4,237,919	—	4,237,919	4,127,434	—	4,127,434

See accompanying notes to financial statements.

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

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

Years ended June 30, 2020 and 2019

(In thousands)

	2020			2019		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
Additions:						
Contributions:						
Employers	\$ 81,846		81,846	81,767	—	81,767
Plan members	87,259	1,893	89,152	88,019	3,818	91,837
Total contributions	169,105	1,893	170,998	169,786	3,818	173,604
Investment income:						
Net appreciation in fair value of investments	197,494	—	197,494	257,432	—	257,432
Interest	712	—	712	993	—	993
Total investment income	198,206	—	198,206	258,425	—	258,425
Less investment expense	2,778	—	2,778	3,118	—	3,118
Net investment income	195,428	—	195,428	255,307	—	255,307
Other income	178	—	178	149	—	149
Total additions	364,711	1,893	366,604	425,242	3,818	429,060
Deductions:						
Benefits and refunds of contributions	249,749	1,893	251,642	214,278	3,818	218,096
Administrative	4,477	—	4,477	4,155	—	4,155
Total deductions	254,226	1,893	256,119	218,433	3,818	222,251
Net increase in fiduciary net position	110,485	—	110,485	206,809	—	206,809
Fiduciary net position, beginning of year	4,127,434	—	4,127,434	3,920,625	—	3,920,625
Fiduciary net position, end of year	\$ 4,237,919	—	4,237,919	4,127,434	—	4,127,434

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2020 and 2019

(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 21 participating employers, including the State, as of June 30, 2020. There were 47,874 participants in the Plan as of June 30, 2020.

At June 30, 2020 and 2019, the number of participating local government employers and public organizations, including the State was as follows:

	2020	2019
State of Alaska	1	1
Municipalities	9	9
School districts	5	5
Other	6	7
Total employers	21	22

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

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

Notes to Financial Statements

June 30, 2020 and 2019

remitted by the employer to the Plan's TPA on the employee's behalf. Effective January 1, 2020 the administration of the voluntary supplemental benefits was transferred to a TPA. This transition includes the collection of all premiums from participant employers.

(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.

At June 30, 2020 and June 30, 2019, participants had the following investment options:

(i) Collective Investment Funds

Blackrock Strategic Completion Fund – This fund allocates its investments across a strategic mix of U.S. Treasury Inflation Protected Securities, real estate investment trusts, and commodities asset classes, with the objective of complementing a diversified portfolio of more traditional asset classes. This fund invests in asset classes that tend to have some "real return" characteristics and therefore may also provide a means to manage the effects of inflation on a diversified portfolio of more traditional asset classes. The fund invests and reinvests in common stocks and other forms of equity securities, depositary receipts, investment company shares, fixed-income securities and other debt obligations, asset-backed securities, mortgage-backed securities, securities issued by publicly traded real estate companies, futures contracts, forward contracts, swaps, options, and other structured investments. The fund employs a proprietary investment model that analyzes securities market data, including risk, correlation, and expected return statistics, to recommend the portfolio allocation among the asset classes.

Environmental, Social, and Governance Fund – This fund is managed to have returns, net of fees, over time, closely matching the MSCI USA Environmental, Social, and Governance (ESG) Leaders Index. The portfolios tend to invest across the spectrum of U.S. industries.

International Equity Fund – This fund's objective is to achieve long-term capital appreciation by investing primarily in the equity securities of non-U.S. issuers. The fund is a multimanager fund comprising two investment managers of differing investment strategies, style, and long-term market correlation.

Passive U.S. Bond Index Fund – This fund is an "index fund" that seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Bloomberg Barclays U.S. Aggregate Bond Index (its "Underlying Index"). The fund is invested

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

Notes to Financial Statements

June 30, 2020 and 2019

primarily in investment-grade U.S. fixed-income issues including government, corporate, and securitized debt.

Russell 3000 Index Fund – This fund offers diversified investment in the U.S. equity market and replicates the returns and characteristics of the Russell 3000 Index. The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies, representing about 98% of the entire U.S. equity market.

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.

State Street Institutional Treasury Money Market Fund – This money market fund seeks to preserve principal and liquidity and the maintenance of a stable \$1.00 per share net asset value. It invests in short-term money market securities in order to provide a level of current income that is consistent with the preservation of capital.

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.

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.

(ii) *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 14 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 comfortable with the ups and downs of the market and has 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 comfortable with the ups and downs of the market 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 2010–2065 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

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

Notes to Financial Statements

June 30, 2020 and 2019

tolerance for risk. The trusts are designed to gradually invest more conservatively as the target retirement date approaches and passes. 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.

(iii) Synthetic Investment Contracts

Stable Value Fund – The purpose of this fund is to preserve principal with a competitive rate of interest consistent with the stability and safety of principal. The fund invests in a diversified portfolio of synthetic investment contracts (SICs), issued by banks and insurance companies directly with the Plan, 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.

(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.

(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.

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

Notes to Financial Statements

June 30, 2020 and 2019

(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) Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2020 are composed of interest-bearing deposits. The money market fund consists of nonparticipant-directed funds used to pay administrative costs of the Plan.

(c) 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.

(d) Due from (to) State of Alaska General Fund

Amounts due from the State of Alaska General Fund represent the amounts remitted by employers to the General Fund but not yet transmitted to the Plan. Amounts due to the State of Alaska General Fund represent amounts paid by others on behalf of the Plan.

(e) 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.

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

Notes to Financial Statements

June 30, 2020 and 2019

(f) Valuation of Synthetic Investment Contracts

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

(g) 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.

(h) Reclassifications

Certain reclassifications were made to the prior year amounts to conform with the current year presentation.

(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 \$4,237,919,000 at June 30, 2020, 99.7% or \$4,226,475,000 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.

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

Notes to Financial Statements

June 30, 2020 and 2019

The carrying values of participant-directed investments at June 30, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Alaska Balanced Trust	\$ 1,099,551	1,142,898
Alaska Long-Term Balanced Trust	663,504	686,764
Stable Value Fund	459,553	392,937
S&P 500 Stock Index Fund	416,744	479,723
U.S. Small Cap Trust	198,117	195,075
Passive U.S. Bond Index Fund	192,353	123,502
Russell 3000 Index Fund	122,429	76,179
Environmental, Social, and Governance Fund	105,588	58,909
Alaska Target Date Retirement 2025 Trust	94,072	85,664
Alaska Target Date Retirement 2020 Trust	87,633	99,420
Alaska Target Date Retirement 2050 Trust	86,960	79,151
Alaska Target Date Retirement 2055 Trust	84,655	70,325
International Equity Fund	77,929	63,716
Alaska Target Date Retirement 2045 Trust	77,616	70,241
Alaska Target Date Retirement 2015 Trust	77,454	83,366
State Street Institutional Treasury Money Market Fund	69,897	48,325
Alaska Target Date Retirement 2030 Trust	69,241	65,211
Alaska Target Date Retirement 2040 Trust	68,743	61,931
Alaska Target Date Retirement 2035 Trust	66,798	61,654
World Equity Ex-U.S. Index Fund	59,551	69,755
Blackrock Strategic Completion Fund	33,733	—
Alaska Target Date Retirement 2010 Trust	10,591	10,227
Alaska Target Date Retirement 2060 Trust	3,086	4,146
Alaska Target Date Retirement 2065 Trust	677	—
U.S. Treasury Inflation-Protected Security Index Fund	—	47,908
U.S. Real Estate Investment Trust Index Fund	—	40,550
Total	<u>\$ 4,226,475</u>	<u>4,117,577</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>.

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

Notes to Financial Statements

June 30, 2020 and 2019

(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 position.

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.

(6) Subsequent Event

The Insurance Commissioner of the State of California, on behalf of policyholders of Executive Life Insurance Company, had filed a complaint against certain parties in 1999 for fraud related to the purchase of Aurora National Life Assurance Company guaranteed insurance contracts. In 2005, the Insurance Commissioner received a portion of settlement proceeds related to this complaint, and the Plan received some settlement funds between 2006–2010. In 2015, the last remaining defendant settled in the 16-year lawsuit. The Plan received a final distribution related to the lawsuit in July 2020 totaling \$1,159,000.

SUPPLEMENTAL SCHEDULES

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

Schedule of Administrative and Investment Deductions

Years ended June 30, 2020 and 2019

(In thousands)

	Administrative	Investment	Totals	
			2020	2019
Personal services:				
Wages	\$ 409	483	892	442
Benefits	251	224	475	256
Total personal services	660	707	1,367	698
Travel:				
Transportation	3	2	5	18
Per diem	—	1	1	3
Total travel	3	3	6	21
Contractual services:				
Management and consulting	3,547	32	3,579	4,583
Investment manager fees	—	1,858	1,858	1,533
Accounting and auditing	41	5	46	31
Data processing	98	120	218	248
Communications	5	4	9	14
Advertising and printing	2	—	2	1
Rentals/leases	33	18	51	52
Legal	26	14	40	20
Repairs and maintenance	1	1	2	8
Transportation	14	—	14	10
Other professional services	43	5	48	25
Total contractual services	3,810	2,057	5,867	6,525
Other:				
Equipment	1	3	4	11
Supplies	3	8	11	18
Total other	4	11	15	29
Total administrative and investment deductions	\$ 4,477	2,778	7,255	7,273

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

Years ended June 30, 2020 and 2019

(In thousands)

<u>Firm</u>	<u>Services</u>	<u>2020</u>	<u>2019</u>
KPMG LLP	Auditing services	35	25
State Street Bank and Trust	Custodial banking services	281	390
Alaska IT Group	Data processing services	20	27
Applied Microsystems Incorporated	Data processing services	9	9
G Treasury SS LLC	Data processing services	2	2
International Business Machines	Data processing services	—	1
Resource Data Incorporated	Data processing services	—	6
SHI International Corporation	Data processing services	5	30
State of Alaska, Department of Law	Legal services	37	17
Linea Solution Inc	Management consulting services	39	13
The Segal Company Incorporated	Management consulting services	3	—
		<u>\$ 431</u>	<u>520</u>

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

See accompanying independent auditors' report.