



STATE OF ALASKA
DEFERRED COMPENSATION PLAN
(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
DEFERRED COMPENSATION PLAN
(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 Deferred Compensation Plan:

We have audited the accompanying financial statements of the State of Alaska Deferred Compensation Plan (the Plan), a component unit of the State of Alaska, as of and for the years ended June 30, 2019 and 2018, 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 Deferred Compensation Plan as of June 30, 2019 and 2018, 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 3–7 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 audits 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 that collectively comprise the Plan's financial statements. The supplemental schedules on pages 19–20 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 16, 2019

STATE OF ALASKA
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Management's Discussion and Analysis (unaudited)
June 30, 2019 and 2018

This section presents management's discussion and analysis (MD&A) of the State of Alaska Deferred Compensation Plan's (the Plan) financial position and performance for the fiscal year ended 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, 2019 and 2018. Information for fiscal year 2017 is presented for comparative purposes.

Financial Highlights

The Plan's financial highlights as of June 30, 2019 were as follows:

- The Plan's fiduciary net position increased by \$44.9 million during fiscal year 2019.
- The Plan's participant contributions and transfers in of \$44.0 million increased by \$1.8 million during fiscal year 2019 when compared to fiscal year 2018.
- The Plan's net investment income decreased by \$13.6 million when compared to fiscal year 2018 to \$63.3 million during fiscal year 2019.
- Benefits paid to participants and purchases of annuity contracts of \$61.3 million increased by \$4.3 million in fiscal year 2019 when compared to fiscal year 2018.

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

Statements of fiduciary net position – 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 and receivables less liabilities at June 30, 2019 and 2018.

Statements of changes in fiduciary net position – This statement presents how the Plan's net position restricted for participants and operations changed during the years ended June 30, 2019 and 2018. This statement presents contributions and net investment income during the period. Deductions for benefits paid, purchases of annuity contracts, and administrative expenses are also presented.

The above statements represent resources available for investment and payment of benefits and expenses as of June 30, 2019 and 2018 and the sources and uses of those funds during the years ended June 30, 2019 and 2018.

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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Condensed Financial Information (In thousands)

Fiduciary net position					
Description	2019	2018	Increase (decrease)		2017
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 1,362	2,675	(1,313)	(49.1)%	\$ 2,500
Participant contributions receivable	—	1,735	(1,735)	(100.0)	1,796
Due from State of Alaska General Fund	3,328	—	3,328	100.0	—
Other receivables	—	—	—	—	42
Investments	<u>987,484</u>	<u>941,277</u>	<u>46,207</u>	<u>4.9</u>	<u>880,359</u>
Total assets	<u>992,174</u>	<u>945,687</u>	<u>46,487</u>	<u>4.9</u>	<u>884,697</u>
Liabilities					
Due to State of Alaska General Fund	—	68	(68)	(100.0)	110
Accrued expenses	<u>1,854</u>	<u>220</u>	<u>1,634</u>	<u>742.7</u>	<u>224</u>
Total liabilities	<u>1,854</u>	<u>288</u>	<u>1,566</u>	<u>543.8</u>	<u>334</u>
Fiduciary net position	<u>\$ 990,320</u>	<u>945,399</u>	<u>44,921</u>	<u>4.8%</u>	<u>\$ 884,363</u>

Changes in fiduciary net position					
Description	2019	2018	Increase (decrease)		2017
			Amount	Percentage	
Fiduciary net position, beginning of year	\$ <u>945,399</u>	<u>884,363</u>	<u>61,036</u>	<u>6.9%</u>	\$ <u>814,937</u>
Additions:					
Contributions and transfers in	44,035	42,283	1,752	4.1	43,249
Net investment income	63,332	76,973	(13,641)	(17.7)	86,771
Other	<u>29</u>	<u>10</u>	<u>19</u>	<u>190.0</u>	<u>1</u>
Total additions	<u>107,396</u>	<u>119,266</u>	<u>(11,870)</u>	<u>(10.0)</u>	<u>130,021</u>
Deductions:					
Benefits paid to participants and purchases of annuity contracts	61,321	57,048	4,273	7.5	59,626
Administrative	<u>1,154</u>	<u>1,182</u>	<u>(28)</u>	<u>(2.4)</u>	<u>969</u>
Total deductions	<u>62,475</u>	<u>58,230</u>	<u>4,245</u>	<u>7.3</u>	<u>60,595</u>
Net increase in net position	<u>44,921</u>	<u>61,036</u>	<u>(16,115)</u>	<u>(26.4)</u>	<u>69,426</u>
Fiduciary net position, end of year	<u>\$ 990,320</u>	<u>945,399</u>	<u>44,921</u>	<u>4.8%</u>	<u>\$ 884,363</u>

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Financial Analysis of the Plan

The statement of fiduciary net position as of June 30, 2019 shows net fiduciary position of \$990,320,000. The entire amount is available to pay benefits to participants and their beneficiaries as well as administrative costs.

This amount represents an increase in the Plan's net position restricted for participants and operations of \$44,921,000 or 4.8% from fiscal year 2018 to fiscal year 2019, and an increase of \$61,036,000 or 6.9% from fiscal year 2017 to fiscal year 2018.

Contributions and Investment Income

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

	Additions (In thousands)				
	2019	2018	Increase (decrease)		2017
			Amount	Percentage	
Participant contributions	\$ 42,495	41,462	1,033	2.5%	\$ 43,065
Transfers in	1,540	821	719	87.6	184
Net investment income	63,332	76,973	(13,641)	(17.7)	86,771
Other	29	10	19	190.0	1
Total	<u>\$ 107,396</u>	<u>119,266</u>	<u>(11,870)</u>	<u>(10.0)%</u>	<u>\$ 130,021</u>

The Plan's participant contributions increased from \$41,462,000 in fiscal year 2018 to \$42,495,000 in fiscal year 2019, an increase of \$1,033,000 or 2.5%. The Plan's participant contributions decreased from \$43,065,000 in fiscal 2017 to \$41,462,000 in fiscal year 2018, a decrease of \$1,603,000 or 3.7%. Fiscal year 2019 saw an increase in number of participants, but little change in the average active plan participant contributions, while fiscal year 2018 saw little change in number of participants, but a decrease in the average active plan participants contribution. The plan is an optional participation plan with a minimum contribution of \$50 dollars per month.

The Plan's net investment income decreased from \$76,973,000 in fiscal year 2018 to \$63,332,000 in fiscal year 2019, a decrease of \$13,641,000 or 17.7%. The decrease relates to the decrease in overall investment performance in fiscal year 2019 compared to fiscal year 2018. Net investment income decreased in fiscal year 2018 by \$9,798,000 or 11.3% when compared to amounts recorded fiscal year 2017. This increase relates to investment performance in fiscal year 2018 compared to similar investments in fiscal year 2017.

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The Plan's investment rates of return at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Alaska Balanced Trust	6.53 %	4.27 %
Alaska Long-Term Balanced Trust	6.67	7.19
Alaska Target Date Retirement 2010 Trust	5.92	5.45
Alaska Target Date Retirement 2015 Trust	6.23	6.49
Alaska Target Date Retirement 2020 Trust	6.42	7.60
Alaska Target Date Retirement 2025 Trust	6.61	8.48
Alaska Target Date Retirement 2030 Trust	6.76	9.36
Alaska Target Date Retirement 2035 Trust	6.80	10.09
Alaska Target Date Retirement 2040 Trust	6.77	10.67
Alaska Target Date Retirement 2045 Trust	6.82	10.88
Alaska Target Date Retirement 2050 Trust	6.83	10.88
Alaska Target Date Retirement 2055 Trust	6.79	10.90
Alaska Target Date Retirement 2060 Trust	6.74	10.80
Allianz/RCM Socially Responsible Investment Fund	—	15.67
Government/Credit Bond Index Fund	—	(0.65)
International Equity Fund	(3.15)	6.49
Interest Income Fund	—	2.52
Intermediate Bond Fund	—	(0.71)
Environmental, Social, and Governance Fund	N/A	—
Long U.S. Treasury Bond Index Fund	—	(0.17)
Passive U.S. Bond Index Fund	N/A	—
Russell 3000 Index Fund	8.98	14.73
S&P 500 Index Fund	10.42	14.36
Stable Value Fund	N/A	—
State Street Institutional Treasury Money Market Fund	2.17	1.22
U.S. Real Estate Investment Trust Index Fund	9.72	4.18
T. Rowe Price U.S. Small-Cap Trust	11.02	18.48
U.S. Treasury Inflation Protected Security Index Fund	4.79	2.07
World Equity Ex-U.S. Index Fund	1.51	7.49
World Government Bond Ex-U.S. Index Fund	—	3.15

The MassMutual Equity Fund and MassMutual Bond Fund have both been closed to participant use since 1986. Because of the closed nature of the funds, a rate of return on a fully comparable basis is not provided. However, both funds closely mirror funds generally of the same asset composition that are actively available.

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Benefits and Other Deductions

The primary deductions to the Plan are the payment of benefits and purchases of annuity contracts. Benefit payments and administrative expenses were as follows:

	Deductions (In thousands)				
	2019	2018	Increase (decrease)		2017
			Amount	Percentage	
Benefits paid to participants and purchases of annuity contracts	\$ 61,321	57,048	4,273	7.5%	\$ 59,626
Administrative	1,154	1,182	(28)	(2.4)	969
Total	<u>\$ 62,475</u>	<u>58,230</u>	<u>4,245</u>	<u>7.3%</u>	<u>\$ 60,595</u>

The Plan's benefits paid to participants and purchases of annuity contracts in fiscal year 2019 increased by \$4,273,000 or by 7.5% from fiscal year 2018 based on retiree preference. The Plan's benefits paid to participants and purchases of annuity contracts in fiscal year 2018 decreased by \$2,578,000 or 4.3% from fiscal year 2017 based on member preference.

The Plan had administrative expenses of \$1,154,000 in fiscal year 2019 compared to \$1,182,000 in fiscal year 2018, a decrease of \$28,000 or 2.4%. The Plan's fiscal year 2019 decreased primarily due to lower personnel costs allocated to Plan expenses. The Plan's administrative expenses of \$1,182,000 in fiscal year 2018 compared to \$969,000 in fiscal year 2017 reflected an increase of \$213,000 or 22.0% primarily due to a 65% increase in the managed account costs due to a higher participation rate in the managed accounts program.

Fiduciary Responsibilities

The Alaska Retirement Management Board 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 for those parties interested in the Plan's finances. Questions concerning any of the information provided in this financial report or requests for additional information should be addressed to:

State of Alaska Deferred Compensation Plan
Division of Retirement and Benefits, Finance Section
P.O. Box 110203
Juneau, Alaska 99811-0203

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Statements of Fiduciary Net Position

June 30, 2019 and 2018

(In thousands)

	2019	2018
Assets:		
Cash and cash equivalents:		
Investment in State of Alaska General Fund and Other Nonsegregated Investments Pool	\$ 495	1,911
Money market fund – nonparticipant directed	867	764
Total cash and cash equivalents	1,362	2,675
Receivables:		
Participant contributions receivable	—	1,735
Due from State of Alaska General Fund	3,328	—
Total receivables	3,328	1,735
Investments:		
Participant directed at fair value:		
Collective investment funds	579,317	548,404
Pooled investment funds	224,685	216,547
Participant directed at contract value:		
Synthetic investment contracts	183,482	176,326
Total investments	987,484	941,277
Total assets	992,174	945,687
Liabilities:		
Accrued expenses	1,854	220
Due to State of Alaska General Fund	—	68
Total liabilities	1,854	288
Fiduciary net position	\$ 990,320	945,399

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position

Years ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Additions:		
Participant contributions	\$ 42,495	41,462
Transfers in	1,540	821
Total contributions	44,035	42,283
Investment income:		
Net appreciation in fair value of investments	63,745	77,321
Less investment expense	413	348
Net investment income	63,332	76,973
Other income	29	10
Total additions	107,396	119,266
Deductions:		
Benefits paid to participants and purchases of annuity contracts	61,321	57,048
Administrative	1,154	1,182
Total deductions	62,475	58,230
Net increase in fiduciary net position	44,921	61,036
Fiduciary net position, beginning of year	945,399	884,363
Fiduciary net position, end of year	\$ 990,320	945,399

See accompanying notes to financial statements.

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Notes to Financial Statements

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(Unaudited)

(1) Description

The following description of the State of Alaska Deferred Compensation Plan (the Plan), a defined contribution plan, is provided for general information purposes only. Participants should refer to the plan document for more complete information.

(a) General

The Plan was created by State of Alaska (the State) statutes issued May 31, 1974, and was most recently amended effective January 1, 2011. It is a deferred compensation plan under Section 457 of the Internal Revenue Code and is available to all permanent and long-term nonpermanent employees and elected officials of the State and members of State boards and commissions. Participants in the Plan authorize the State to reduce their current salary or compensation so that they can receive the amount deferred at a later date. The deferred compensation is not available to participants until termination, retirement, death, or an unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Code. All amounts deferred are held in a trust for the exclusive benefit of employees and beneficiaries. There were 11,534 participants in the Plan as of June 30, 2019.

At June 30, 2019 and 2018, the number of participating local government employers and public organizations, including the State was as follows:

	2019	2018
State of Alaska and Component Units	1	1
Municipalities	2	1
School districts	1	—
Other	2	1
Total employers	6	3

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

During the fiscal year ended June 30, 2019, plan participants are required to contribute a minimum of \$50 per month (\$600 per year). At June 30, 2019, the maximum amount that could be deferred in a calendar year was \$19,000 for participants under age 50 and \$25,000 for participants who are age 50 and greater. However, for each of the participant's last three calendar years ending prior to normal retirement age, a "catch-up limitation" may apply, which allows larger contributions (up to \$38,000 in calendar year 2019). Participants vest automatically in all their contributions and earnings on those contributions.

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(c) Participant Accounts

Participant accounts 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.

A record keeping/administrative fee is deducted monthly from each participant's account and applied pro rata to all the funds in which the member 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, 2019 and June 30, 2018, 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. This fund changed management in 2018, and assets rolled over to the Environmental, Social, and Governance Fund.

Environmental, Social, and Governance Fund – This fund is passively managed to have returns, net of fees, over time, closely matching the MSCI UAS Environmental, Social, and Governance (ESG) Leaders Index. The fund invests in domestic large cap and mid-cap investments with high ESG rankings.

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. This fund was closed in fiscal year 2019 and assets rolled over to the Passive U.S. bond index fund.

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. This fund was closed in fiscal year 2019 and assets rolled over to the Passive U.S. bond index fund.

International Equity Fund – This fund is invested 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.

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

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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. This fund was closed in fiscal year 2019 and assets rolled over to the Passive U.S. bond index fund.

MassMutual Bond Fund – This fund invests in investment-grade corporate and government bonds and other debt securities. This investment option is only available to participants whose contributions were originally invested with the MassMutual Life Insurance Company and have since remained with MassMutual.

MassMutual Equity Fund – This fund invests in diversified common stocks of high-quality growth companies for long-term capital growth with income a secondary consideration. This investment option is only available to participants whose contributions were originally invested with the MassMutual Life Insurance Company and have since remained with MassMutual Life Insurance Company.

Passive U.S. Bond Index Fund – This fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the underlying index, the BlackRock U.S. Debt Index Non-Lendable Fund E. The fund is invested and reinvested primarily in a portfolio of debt securities with the objective of approximating the total rate of return of the market for debt securities as defined by the Bloomberg Barclays U.S. Aggregate Bond Index.

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.

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. This fund was closed in fiscal year 2018 and assets rolled over to the Alaska long-term balanced trust.

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,

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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. This fund was closed in August 2019 and assets were rolled over to a new investment option called the Strategic Completion Fund.

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 Bloomberg Barclays U.S. TIPS 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. TIPS and is managed duration neutral to the index at all times. This fund is one of full replication, investing in a portfolio that owns the market-value weight of each security in the index. This fund was closed in August 2019 and assets were rolled over to a new investment option called the Strategic Completion Fund.

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. This fund was closed in fiscal year 2019 and assets rolled over to the Passive U.S. bond index fund.

(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 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.

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(Unaudited)

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.

(iii) Synthetic Investment Contracts

Interest Income Fund – The fund seeks to preserve principal with a competitive rate of interest consistent with the preservation of capital through investing in a diversified portfolio of primarily 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. This fund was closed in fiscal year 2019 and assets rolled over to the 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 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 their account balance upon termination. Benefits are payable in the form of a lump sum, one of various annuities, or a periodic payment option, unless the participant elects to defer commencement of benefits. Account balances of \$1,000 or less are automatically paid in the form of a lump-sum distribution. The deferred benefit commencement date can be no later than April 1 of the year after the participant would have turned age 70½. Payment of benefits to a participant commences 60 days after termination or the deferred benefit commencement date, as applicable.

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Participants may request a hardship withdrawal for an unforeseeable emergency, within the definition allowed by the Internal Revenue Code. Hardship withdrawals are disbursed as lump sums and must be approved by the plan administrator.

(e) Income Taxes

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

(f) Termination, Partial Termination, or Complete Discontinuance of Contributions

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 participants in the Plan will be deemed to have withdrawn from the Plan as of the date of such termination. Deferred compensation shall thereupon cease. Upon plan termination, each participant or beneficiary shall be given the opportunity to elect a benefit commencement date and form of payment.

(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 the third party administrator multiplied by the number of units held by the Plan. The net asset value is determined by the third party administrator 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.

(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.

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(e) Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2019 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 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.

(3) Investments

The Plan is primarily participant directed, which means that the Plan's participants decide in which options to invest. Of total plan net position of \$990,320,000 at June 30, 2019, 99.7% or \$987,484,000 are 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 carrying values of participant-directed investments at June 30, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
S&P 500 Stock Index Fund	\$ 219,141	212,541
Stable Value Fund	183,482	—
U.S. Small-Cap Trust	118,956	112,136
Alaska Long-Term Balanced Trust	87,336	90,335
Passive U.S. Bond Index Fund	62,020	—
Russell 3000 Index Fund	48,473	42,686
International Equity Fund	34,183	38,407
Alaska Balanced Trust	31,198	29,731
Alaska Target Date Retirement 2020 Trust	25,040	25,855
Environmental, Social, and Governance Fund	23,553	—
World Equity Ex-U.S. Index Fund	22,002	18,121
Alaska Target Date Retirement 2025 Trust	20,807	17,508
U.S. Treasury Inflation-Protected Security Index Fund	18,964	13,045
U.S. Real Estate Investment Trust Index Fund	14,974	12,529
State Street Institutional Treasury Money Market Fund	14,814	13,838
Alaska Target Date Retirement 2030 Trust	13,248	11,502
Alaska Target Date Retirement 2015 Trust	9,421	9,479
Alaska Target Date Retirement 2040 Trust	8,882	7,721
Alaska Target Date Retirement 2035 Trust	8,158	6,551
Alaska Target Date Retirement 2045 Trust	6,463	5,476
Alaska Target Date Retirement 2050 Trust	4,656	3,854
Alaska Target Date Retirement 2055 Trust	4,484	4,054
Alaska Target Date Retirement 2010 Trust	4,060	4,037
MassMutual Equity Fund	2,188	2,409
Alaska Target Date Retirement 2060 Trust	932	444
MassMutual Bond Fund	49	62
Interest Income Fund	—	176,326
Government/Credit Bond Index Fund	—	27,250
Allianz/RCM Socially Responsible Investment Fund	—	22,746
Intermediate Bond Fund	—	22,522
Long U.S. Treasury Bond Index Fund	—	5,352
World Government Bond Ex-U.S. Index Fund	—	4,760
	<u>987,484</u>	<u>941,277</u>
Total	\$ <u>987,484</u>	<u>941,277</u>

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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>.

(4) 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.

SUPPLEMENTAL SCHEDULES

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Schedule of Administrative and Investment Deductions

Years ended June 30, 2019 and 2018

(In thousands)

	<u>Administrative</u>	<u>Investment</u>	<u>2019</u>	<u>2018</u>
Personal services:				
Wages	\$ 155	15	170	179
Benefits	94	6	100	117
Total personal services	<u>249</u>	<u>21</u>	<u>270</u>	<u>296</u>
Travel:				
Transportation	2	3	5	6
Per diem	1	1	2	1
Total travel	<u>3</u>	<u>4</u>	<u>7</u>	<u>7</u>
Contractual services:				
Management and consulting	809	336	1,145	1,036
Accounting and auditing	24	1	25	29
Data processing	32	34	66	77
Communications	3	1	4	8
Rentals/leases	13	5	18	16
Legal	4	5	9	5
Repairs and maintenance	3	—	3	—
Transportation	2	—	2	3
Other professional services	8	2	10	46
Total contractual services	<u>898</u>	<u>384</u>	<u>1,282</u>	<u>1,220</u>
Other:				
Supplies	1	3	4	4
Equipment	3	1	4	3
Total other	<u>4</u>	<u>4</u>	<u>8</u>	<u>7</u>
Total administrative and investment deductions	<u>\$ 1,154</u>	<u>413</u>	<u>1,567</u>	<u>1,530</u>

See accompanying independent auditors' report.

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Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2019 and 2018

(In thousands)

<u>Firm</u>	<u>Services</u>	<u>2019</u>	<u>2018</u>
KPMG LLP	Auditing services	\$ 24	27
State Street Bank and Trust	Custodial banking services	126	68
Alaska IT Group	Data processing services	3	11
Applied Microsystems Incorporation	Data processing services	3	11
Genesys Telecommunications Lab	Data processing services	—	2
Resource Data Incorporated	Data processing services	2	—
SHI International Corporation	Data processing services	12	14
Sungard Availability Services	Data processing services	—	1
State of Alaska, Department of Law	Legal services	8	5
		<u>\$ 178</u>	<u>139</u>

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

See accompanying independent auditors' report.