



**STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM**

(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2017 and 2016

(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, 2017 and 2016, and the related notes to financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Alaska Supplemental Benefits System as of June 30, 2017 and 2016, 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 3–8, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Schedules

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

KPMG LLP

November 22, 2017

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

Management's Discussion and Analysis

June 30, 2017 and 2016

(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, 2017 and June 30, 2016. 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, 2017 and 2016. Information for fiscal year 2015 is presented for comparative purposes.

Financial Highlights

The Plan's financial highlights as of June 30, 2017 were as follows:

- The Plan's net position restricted for benefits increased by \$271.8 million during fiscal year 2017.
- The Plan's participant and employer contributions and transfers into the plan decreased by \$2.8 million during fiscal year 2017.
- The Plan earned net investment income of \$320.8 million during fiscal year 2017, an increase of \$275.4 million during fiscal year 2017.
- The Plan's benefits and refunds of contributions to participants increased by \$25.1 million during 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, 2017 and 2016. 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 year ended June 30, 2017 and 2016. 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, 2017 and 2016, and the sources and uses of those funds during the year ended June 30, 2017 and 2016.

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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		Increase (decrease)		2015
	2017	2016	Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 10,471	9,264	1,207	13.0%	\$ 1,778
Due from State of Alaska General Fund	—	—	—	—	391
Receivables	7,487	7,607	(120)	(1.6)	7,825
Investments	3,691,373	3,419,489	271,884	8.0	3,402,570
Investment loss trust fund (ILTF), at fair value	1,968	1,951	17	0.9	1,940
Total assets	<u>3,711,299</u>	<u>3,438,311</u>	<u>272,988</u>	<u>7.9</u>	<u>3,414,504</u>
Liabilities:					
ILTF plan participant payable	1,968	1,951	17	0.9	1,940
Payable to plan participants	68	31	37	119.4	32
Due to State of Alaska General Fund	910	95	815	857.9	624
Due to Cafeteria Plan	—	—	—	—	775
Accrued expenses	2,105	1,819	286	15.7	1,144
Total liabilities	<u>5,051</u>	<u>3,896</u>	<u>1,155</u>	<u>29.6</u>	<u>4,515</u>
Net position	<u>\$ 3,706,248</u>	<u>3,434,415</u>	<u>271,833</u>	<u>7.9%</u>	<u>\$ 3,409,989</u>

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Changes in net position					
Description	2017	2016	Increase (decrease)		2015
			Amount	Percentage	
Net position, beginning of year	\$ 3,434,415	3,409,989	24,426	0.7%	\$ 3,330,489
Additions:					
Contributions	168,278	171,061	(2,783)	(1.6)	175,130
Net investment income	320,773	45,420	275,353	606.2	92,465
Other income	24	47	(23)	(48.9)	30
Total additions	<u>489,075</u>	<u>216,528</u>	<u>272,547</u>	<u>125.9</u>	<u>267,625</u>
Deductions:					
Benefits and refunds of contributions	213,505	188,395	25,110	13.3	183,645
Administrative	3,737	3,707	30	0.8	4,480
Total deductions	<u>217,242</u>	<u>192,102</u>	<u>25,140</u>	<u>13.1</u>	<u>188,125</u>
Increase in net position	<u>271,833</u>	<u>24,426</u>	<u>247,407</u>	<u>1,012.9</u>	<u>79,500</u>
Net position, end of year	<u>\$ 3,706,248</u>	<u>3,434,415</u>	<u>271,833</u>	<u>7.9%</u>	<u>\$ 3,409,989</u>

Financial Analysis of the Plans

The statement of fiduciary net position – annuity and cafeteria plans as of June 30, 2017 shows fiduciary net position of \$3,706,248,000. 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 \$271,833,000 or 7.9% from fiscal year 2016 to fiscal year 2017, and an increase of \$24,426,000 or 0.7% from fiscal year 2015 to fiscal year 2016.

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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)				
	2017	2016	Increase (decrease)		2015
			Amount	Percentage	
Plan participant mandatory contributions	\$ 80,097	82,083	(1,986)	(2.4)%	\$ 83,190
Employer mandatory contributions	80,083	82,083	(2,000)	(2.4)	83,190
Plan participant voluntary contributions	4,002	3,804	198	5.2	3,485
Transfer-in contributions	4,096	3,091	1,005	32.5	5,265
 Total plan member and employer contributions	 168,278	 171,061	 (2,783)	 (1.6)	 175,130
Net investment income	320,773	45,420	275,353	606.2	92,465
Other income	24	47	(23)	(48.9)	30
Total	\$ 489,075	216,528	272,547	125.9%	\$ 267,625

The employer, plan member, voluntary contributions, and plan member transfers-in contributions decreased from \$171,061,000 in fiscal year 2016 to \$168,278,000 for fiscal year 2017, a decrease of \$2,783,000 or 1.6%. Plan member and employer contributions decreased from \$175,130,000 for fiscal year 2015 to \$171,061,000 for fiscal year 2016, a decrease of \$4,069,000 or 2.3%.

The Plan's net investment income increased from \$45,420,000 in fiscal year 2016 to \$320,773,000 in fiscal year 2017, an increase of \$275,353,000 or 606.2% from amounts recorded in fiscal year 2016. The increase relates to the increase in rates of returns in fiscal year 2017. Net investment income decreased during fiscal year 2016 by \$47,045,000 or 50.9% from amounts recorded during fiscal year 2015. This decrease relates to significant declines in rates of returns in fiscal year 2016 compared to similar investments in fiscal year 2015.

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The Plan's investment rates of return at June 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Alaska Balanced Trust	6.36%	2.49%
Alaska Long-Term Balanced Trust	11.13	0.95
Alaska Target Date Retirement 2010 Trust	8.20	1.36
Alaska Target Date Retirement 2015 Trust	9.83	1.08
Alaska Target Date Retirement 2020 Trust	11.71	0.78
Alaska Target Date Retirement 2025 Trust	13.29	0.39
Alaska Target Date Retirement 2030 Trust	14.70	—
Alaska Target Date Retirement 2035 Trust	15.90	(0.25)
Alaska Target Date Retirement 2040 Trust	16.97	(0.60)
Alaska Target Date Retirement 2045 Trust	17.23	(0.59)
Alaska Target Date Retirement 2050 Trust	17.22	(0.59)
Alaska Target Date Retirement 2055 Trust	17.22	(0.59)
Alaska Target Date Retirement 2060 Trust	17.05	—
Allianz/RCM Socially Responsible Investment Fund	15.67	1.26
Government/Credit Bond Index Fund	(0.43)	3.80
Intermediate Bond Fund	(1.27)	6.65
International Equity Fund	16.90	(16.51)
Long U.S. Treasury Bond Index Fund	(7.27)	19.45
Russell 3000 Index Fund	18.48	2.21
S&P 500 Stock Index Fund	17.91	3.98
SSgA Global Balanced Fund	10.43	1.49
Stable Value Fund	2.34	2.38
State Street Money Market Fund	0.39	0.08
T. Rowe Price U.S. Small Cap Trust	21.31	(2.20)
U.S. Real Estate Investment Trust Index Fund	(2.61)	22.49
U.S. TIPS Index Fund	(0.73)	4.23
World Equity Ex-U.S. Index Fund	19.81	(9.56)
World Government Bond Ex-U.S. Index Fund	(5.03)	13.83

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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)				
	2017	2016	Increase (decrease)		2015
			Amount	Percentage	
Benefits and refunds of contributions	\$ 213,505	188,395	25,110	13.3%	\$ 183,645
Administrative	3,737	3,707	30	0.8	4,480
Total	\$ 217,242	192,102	25,140	13.1%	\$ 188,125

The Plan's benefits paid to participants and refunds of contributions, including purchases of annuity contracts, for fiscal year 2017 increased \$25,110,000 or 13.3% from fiscal year 2016 and increased \$4,750,000 or 2.6% from the period ending June 30, 2015.

The Plan had administrative expenses of \$3,737,000 for fiscal year 2017 compared to \$3,707,000 for fiscal year 2016, an increase of \$30,000 or 0.8%. The Plan had administrative expenses of \$3,707,000 in fiscal year 2016 compared to \$4,480,000 in the 12-month period ended June 30, 2015, a decrease of \$773,000 or 17.3%.

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, 2017 and 2016

(In thousands)

	2017			2016		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
Assets:						
Cash and cash equivalents	\$ 6,455	926	7,381	8,126	865	8,991
Money market fund – nonparticipant directed	3,090	—	3,090	273	—	273
Total cash and cash equivalents	<u>9,545</u>	<u>926</u>	<u>10,471</u>	<u>8,399</u>	<u>865</u>	<u>9,264</u>
Receivables:						
Mandatory and voluntary contributions	7,152	—	7,152	7,263	9	7,272
Other	335	—	335	335	—	335
Total receivables	<u>7,487</u>	<u>—</u>	<u>7,487</u>	<u>7,598</u>	<u>9</u>	<u>7,607</u>
Investments, at fair value:						
Collective investment funds, participant directed	1,038,831	—	1,038,831	922,336	—	922,336
Ownership of pooled investment funds, participant directed	2,287,720	—	2,287,720	2,123,521	—	2,123,521
Investments, at contract value:						
Synthetic investment contracts	364,822	—	364,822	373,632	—	373,632
Total investments	<u>3,691,373</u>	<u>—</u>	<u>3,691,373</u>	<u>3,419,489</u>	<u>—</u>	<u>3,419,489</u>
Investment loss trust fund, at fair value	1,968	—	1,968	1,951	—	1,951
Total assets	<u>3,710,373</u>	<u>926</u>	<u>3,711,299</u>	<u>3,437,437</u>	<u>874</u>	<u>3,438,311</u>
Liabilities:						
Investment loss trust fund plan participant payable	1,968	—	1,968	1,951	—	1,951
Payable to plan participants	68	—	68	31	—	31
Accrued expenses	1,179	926	2,105	945	874	1,819
Due to State of Alaska General Fund	910	—	910	95	—	95
Total liabilities	<u>4,125</u>	<u>926</u>	<u>5,051</u>	<u>3,022</u>	<u>874</u>	<u>3,896</u>
Fiduciary net position	<u>\$ 3,706,248</u>	<u>—</u>	<u>3,706,248</u>	<u>3,434,415</u>	<u>—</u>	<u>3,434,415</u>

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, 2017 and 2016

(In thousands)

	2017			2016		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
Additions:						
Contributions:						
Employers	\$ 80,083	—	80,083	82,083	—	82,083
Plan members	84,193	4,002	88,195	85,174	3,804	88,978
Total contributions	<u>164,276</u>	<u>4,002</u>	<u>168,278</u>	<u>167,257</u>	<u>3,804</u>	<u>171,061</u>
Investment income:						
Net appreciation in fair value of investments	321,983	—	321,983	53,977	—	53,977
Interest	159	—	159	35	—	35
Total investment income	<u>322,142</u>	<u>—</u>	<u>322,142</u>	<u>54,012</u>	<u>—</u>	<u>54,012</u>
Less investment expense	<u>1,369</u>	<u>—</u>	<u>1,369</u>	<u>8,592</u>	<u>—</u>	<u>8,592</u>
Net investment income	<u>320,773</u>	<u>—</u>	<u>320,773</u>	<u>45,420</u>	<u>—</u>	<u>45,420</u>
Other income	<u>24</u>	<u>—</u>	<u>24</u>	<u>47</u>	<u>—</u>	<u>47</u>
Total additions	<u>485,073</u>	<u>4,002</u>	<u>489,075</u>	<u>212,724</u>	<u>3,804</u>	<u>216,528</u>
Deductions:						
Benefits and refunds of contributions	209,503	4,002	213,505	184,591	3,804	188,395
Administrative	<u>3,737</u>	<u>—</u>	<u>3,737</u>	<u>3,707</u>	<u>—</u>	<u>3,707</u>
Total deductions	<u>213,240</u>	<u>4,002</u>	<u>217,242</u>	<u>188,298</u>	<u>3,804</u>	<u>192,102</u>
Net increase in fiduciary net position	<u>271,833</u>	<u>—</u>	<u>271,833</u>	<u>24,426</u>	<u>—</u>	<u>24,426</u>
Fiduciary net position, beginning of year	<u>3,434,415</u>	<u>—</u>	<u>3,434,415</u>	<u>3,409,989</u>	<u>—</u>	<u>3,409,989</u>
Fiduciary net position, end 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>

See accompanying 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.

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 besides the State as of June 30, 2017. There were 44,436 participants in the Plan as of June 30, 2017.

At June 30, 2017 and 2016, the number of participating local government employers and public organizations including the State was as follows:

State of Alaska	1
School districts	5
Other	17
	17
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.

Contributions

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

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

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

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

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

Collective Investment Funds

Allianz/RCM Socially Responsible Investment Fund – This fund is actively managed and only invests in companies contained within the MSCI USA environmental, social, and governance (ESG) Index (LMSI). The LMSI holds approximately 600 companies with the 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 Barclays Capital Government/Credit Bond Index. The fund seeks to closely match the Index's total rate of return.

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

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

Long U.S. Treasury Bond Index Fund – This fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the return of the Barclays Capital Long Treasury Bond Index while providing for daily liquidity for plan participants. The fund seeks to match the return of Barclays Capital Long Treasury Bond Index by investing in a well-diversified portfolio of Treasury securities with maturities longer than ten 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 (S&P) 500 Stock Index Fund – This fund offers diversified investment in the U.S. equity market and replicates the returns and characteristics of the Standard & Poor's 500 Composite Stock Price 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.

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.

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

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

Alaska Target Date Retirement 2010–2060 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.

Stable Value Fund

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

Payment of Benefits

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

Supplemental Benefits Cafeteria

Benefits available under the Supplemental Benefits Cafeteria Plan include life, death, disability, survivor benefits, 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 upon benefit selections. All supplemental benefits are provided through third-party administrators.

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Funding of the Annuity Plan

Supplemental annuity contributions from employers were deposited with investment managers under contract with the Plan for the fiscal year ended June 30, 2017. The amounts credited to each participant account include the appreciation or depreciation in the unit values of the investment funds in addition to participant contributions received during the period.

Effect of Plan Termination

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

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

Income Taxes

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Valuation of Collective Investment Funds

The Plan's investments in collective investment funds (note 3), held in trust, are stated at fair value based on the 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.

Valuation of Synthetic Investment Contracts

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

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

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determined by the trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2017 are composed of interest-bearing deposits. The Money Market Fund consists of nonparticipant directed funds used to pay administrative costs of the Plan.

Contributions Receivable

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

Due to State of Alaska General Fund

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

(3) Investments

The Plan is primarily participant directed, which means that the Plan's annuity participants decide in which options to invest. Of the total plan fiduciary net assets of \$3,706,248,000 at June 30, 2017, 99.6% or \$3,691,373,000 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, 2017 and 2016 are as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Alaska Balanced Trust	\$ 1,157,931	1,156,897
Alaska Long-Term Balanced Trust	591,595	533,480
S&P 500 Stock Index Fund	407,254	340,069
Stable Value Fund	364,822	373,632
U.S. Small Cap Trust, T. Rowe Price	152,350	121,029
Alaska Target Date Retirement 2015 Trust	89,019	88,212
Alaska Target Date Retirement 2020 Trust	86,815	75,525
Russell 3000 Index Fund	70,708	70,532
International Equity Fund	64,495	55,188
Alaska Target Date Retirement 2025 Trust	63,774	49,862
Alaska Target Date Retirement 2050 Trust	55,554	40,618
SSgA Global Balanced Fund	55,148	51,351
Alaska Target Date Retirement 2045 Trust	49,143	35,934
Alaska Target Date Retirement 2030 Trust	48,436	36,227
Alaska Target Date Retirement 2035 Trust	45,557	33,611
Alaska Target Date Retirement 2040 Trust	45,011	33,249
Alaska Target Date Retirement 2055 Trust	43,730	30,080
RCM Socially Responsible Investment Fund	43,549	38,829
Government/Credit Bond Index Fund	41,852	42,869
Intermediate Bond Fund	41,543	30,057
World Equity Ex-U.S. Index Fund	39,976	28,569
State Street Institutional Treasury Money Market Fund	39,552	39,188
U.S. Real Estate Investment Trust Index Fund	36,754	46,543
U.S. Treasury Inflation Protected Security Index Fund	23,765	21,999
Long U.S. Treasury Bond Index Fund	15,863	26,644
Alaska Target Date Retirement 2010 Trust	10,074	9,653
World Government Bond Ex-U.S. Index Fund	6,022	9,469
Alaska Target Date Retirement 2060 Trust	1,081	173
Total	<u>\$ 3,691,373</u>	<u>3,419,489</u>

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June 30, 2017 and 2016

The Plan's investments at June 30, 2017 and 2016 include the following collective investment funds (in thousands):

	<u>2017</u>	<u>2016</u>
Equity funds:		
S&P 500 Stock Index Fund	\$ 407,254	340,069
U.S. Small Cap Trust, T. Rowe Price	152,350	121,029
Russell 3000 Index Fund	70,708	70,532
International Equity Fund	64,495	55,188
U.S. Real Estate Investment Trust Index Fund	36,754	46,543
Allianz/RCM Socially Responsible Investment Fund	43,549	38,829
World Equity Ex-U.S. Index Fund	39,976	28,569
	<u>815,086</u>	<u>700,759</u>
Bond and debt securities funds:		
Government/Credit Bond Index Fund	41,852	42,869
U.S. TIPS Index Fund	23,765	21,999
Long U.S. Treasury Bond Index Fund	15,863	26,644
Intermediate Bond Fund	41,543	30,057
World Government Bond Ex-U.S. Index Fund	6,022	9,469
	<u>129,045</u>	<u>131,038</u>
Bond and equity funds:		
SSgA Global Balanced Fund	55,148	51,351
Money market fund:		
Participant directed – State Street Institutional Treasury Money Market Fund	39,552	39,188
Total collective investment funds	<u>\$ 1,038,831</u>	<u>922,336</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>.

(4) Investment Loss Trust Fund

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

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

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

In February 1994, the State and the Plan elected to opt out of the plan of rehabilitation for Executive Life. By that action, which covered the guaranteed investment contracts issued before January 1, 1989, and a favorable ruling by the California Court of Appeals (as supported by the election of the California Supreme Court not to hear a further appeal of that ruling), which related to the contracts issued after 1989, the Plan received from the conservator, and therefore, ultimately, the State received payments of \$147,389,000 through June 30, 2017.

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

At June 30, 2017, the Fund is comprised of cash and cash equivalents.

With the receipt of the October 1995 Executive Life Settlements, the amounts represented by Fund assets, and the accumulated earnings thereon in individual accounts, were moved to the corresponding participant's regular annuity plan account and their Fund account closed. In April 1996, the Alaska Superior Court approved a final settlement with the State that does not contemplate the making of any further payments by the State to the participants of the Class in *Maupin, et al. vs. State of Alaska et al.*, beyond the payments already made pursuant to the Partial Interim Settlement Agreement described previously.

During 2000, the State legislature appropriated a portion of the Fund assets, totaling \$4 million, to be used for other purposes. The remaining assets of the Fund relate to continuing annuity contracts with Executive Life and are managed by the State Treasury.

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(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, 2017 and 2016

(In thousands)

	Administrative	Investment	Totals	
			2017	2016
Personal services:				
Wages	\$ 332	40	372	401
Benefits	161	16	177	230
Total personal services	493	56	549	631
Travel:				
Transportation	2	8	10	13
Per diem	5	9	14	13
Total travel	7	17	24	26
Contractual services:				
Management and consulting	2,967	1,088	4,055	11,182
Accounting and auditing	24	11	35	30
Data processing	161	141	302	249
Communications	26	8	34	47
Advertising and printing	2	1	3	5
Rentals/leases	27	17	44	49
Legal	14	11	25	54
Repairs and maintenance	1	3	4	2
Transportation	—	1	1	—
Other professional services	9	5	14	11
Total contractual services	3,231	1,286	4,517	11,629
Other:				
Equipment	2	1	3	—
Supplies	4	9	13	13
Total other	6	10	16	13
Total administrative and investment deductions	\$ 3,737	1,369	5,106	12,299

See accompanying independent auditors' report.

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Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2017 and 2016

(In thousands)

<u>Firm</u>	<u>Services</u>	<u>2017</u>	<u>2016</u>
KPMG LLP	Auditing services	\$ 23	25
State Street Bank and Trust	Custodial banking services	299	173
Alaska IT Group	Data processing services	73	45
Applied Microsystems Incorporated	Data processing services	27	36
Interactive Intelligence Group	Data processing services	10	—
International Business Machines	Data processing services	1	2
SHI International Corporation	Data processing services	33	—
Sungard Availability Services	Data processing services	2	2
State of Alaska, Department of Law	Legal services	21	42
The Segal Company Incorporated	Management consulting services	16	—
		<u>\$ 505</u>	<u>325</u>

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

See accompanying independent auditors' report.