

Alaska Student Loan Corporation

October 12, 2021



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Alaska Student Loan Corporation

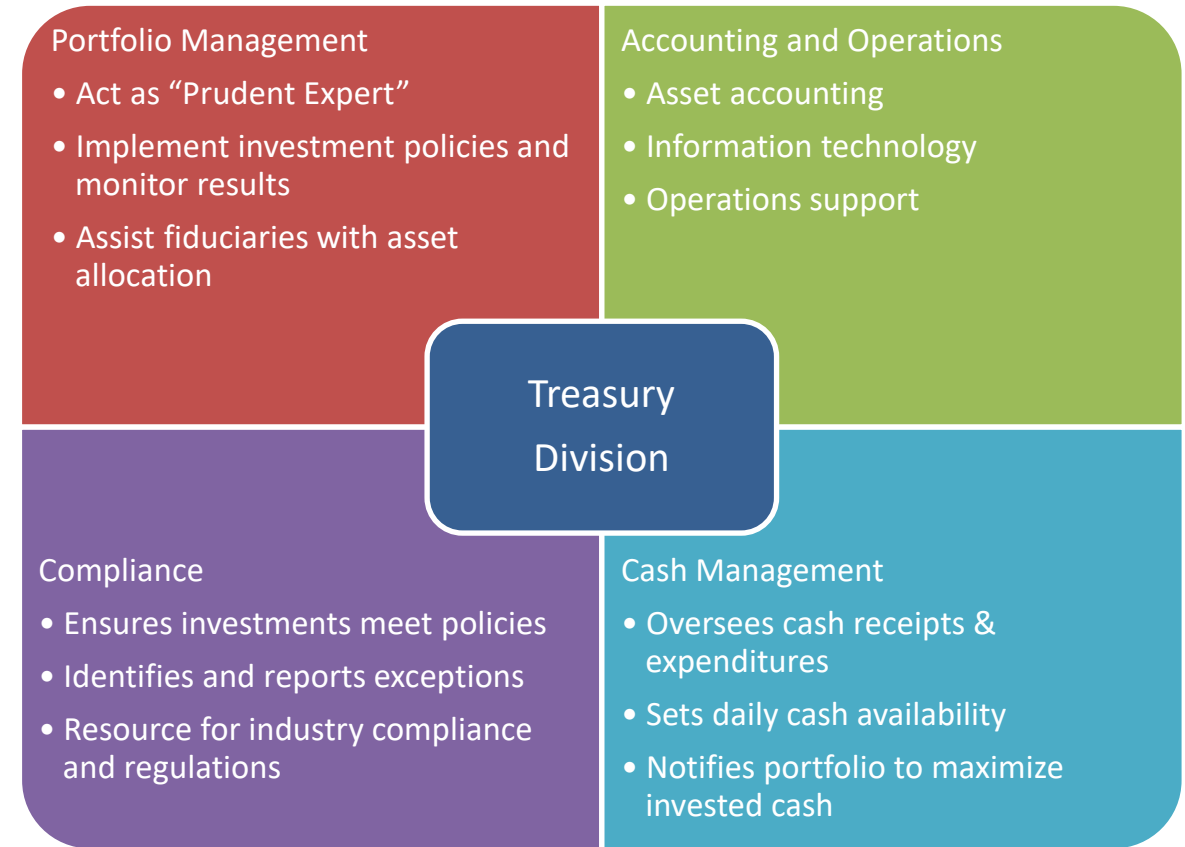
Portfolio Management and Asset Allocation

October 2021

Zachary Hanna, CFA
Chief Investment Officer
State of Alaska, Department of Revenue

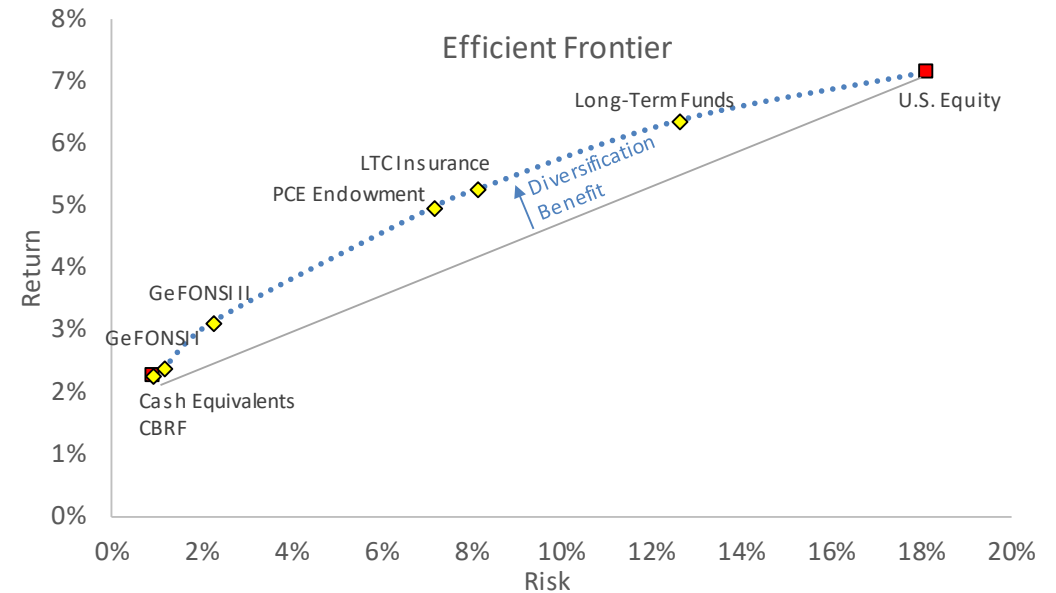
Portfolio Management – Treasury Division

- Portfolio management is run by 15 investment professionals based in Juneau, Alaska.
- The Treasury Division has an additional 25 professionals in accounting, operations, compliance, and cash management.
- \$51 billion in assets managed as of June 2021:
 - Alaska Retirement Management Board (ARMB): \$42.2 billion
 - Funds under Commissioner of Revenue: \$8.1 billion
 - Other Fiduciaries: \$262 million
- The Division is a resource to help state fiduciaries achieve investment objectives and understand risks.
- Treasury implements investment policy and produces results.



Investment Policy and Asset Allocation

- The department manages assets across 100+ accounts pooled into 25+ funds with similar assets or mandates.
- Setting investment policies and asset allocations are key fiduciary duties for these funds.
- Staff reviews and makes recommendations on the investment policy and asset allocation of each fund at least annually.
- Each investment program is designed to balance fund investment objectives, risk tolerance, and other attributes:
 - Time horizon
 - Nominal or real return objectives
 - Cashflows, liquidity, and income needs
 - Capacity for loss or volatility over short, medium, and longer time horizons



Risk Tolerance Assessment

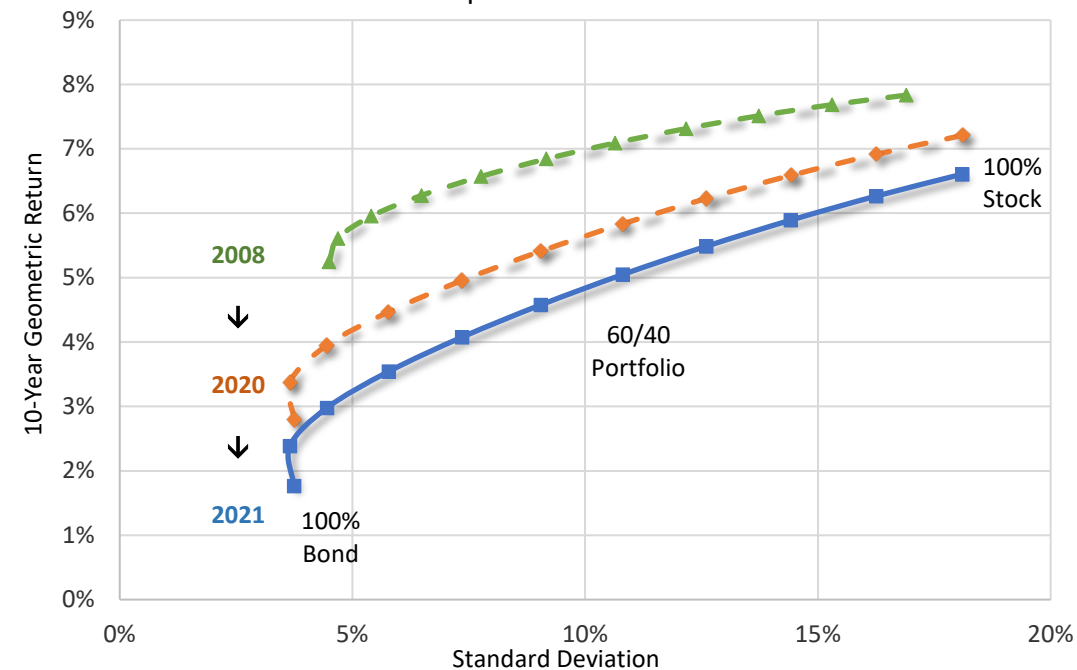
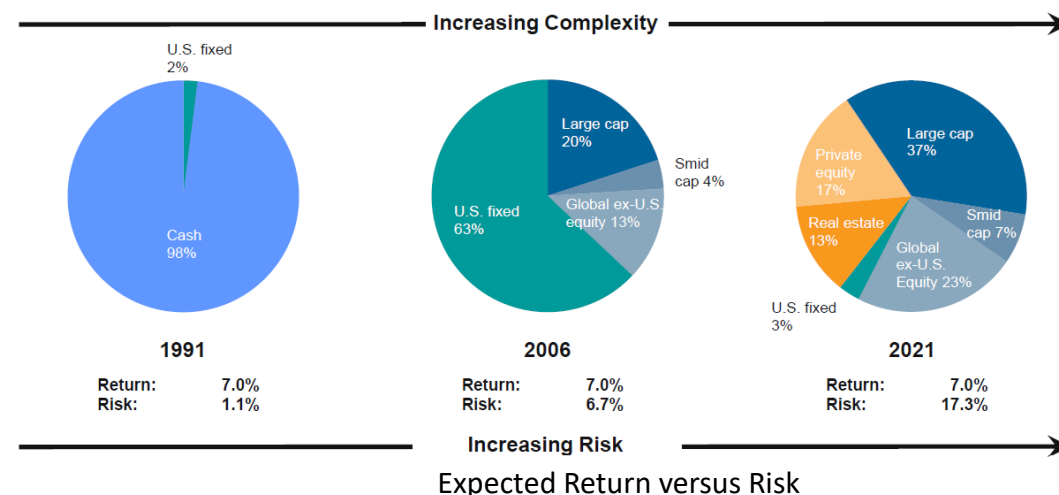
Risk and Time Horizon

Time horizon specification	Estimated time period before State will need funds	Risk categories	Probability of a loss over next one year period	Magnitude of Potential Loss			
Very short time horizon	less than 6 months	Low risk	< 1%	0 – 0.4%			
Short time horizon	6 months to 1 year	Moderate risk	1 - 5%	0 – 1.5%			
Intermediate time horizon	1 to 4 years	Moderately high risk	5 - 10%	1.5 – 5%			
Moderately long time horizon	4 to 8 years	High risk	>10%	5 – 20%			
Long time horizon	over 8 years						
Low risk tolerance	Unwilling to risk material short-term volatility because of the immediate need for the invested funds. Minimizing exposure of principal to loss is very important.						
Moderate risk tolerance	Willing to assume an average amount of market risk and volatility to achieve higher returns.						
Moderately high risk tolerance	Willing to assume an above average amount of risk, volatility and loss of principal to achieve higher returns.						
High risk tolerance	Willing to assume a material amount of risk, volatility and loss of principal to take advantage of higher return opportunities.						
		Fund - Account	Assets (6/30/21)	Risk	Tolerance	Policy 1yr Risk/Loss	Loss Magnitude
		Short-Term Funds	\$168,796,191	Low		<1%	0 - 0.4%
		CBRF - AY19	\$1,076,066,827	Low		<1%	0 - 0.4%
		GeFONSI - AY01	\$2,534,204,588	Moderate		1-5%	0 - 1.5%
		International Airport - AY04	\$194,964,063	Moderate		1-5%	0 - 1.5%
		GeFONSI II - AY3F	\$950,353,951	Moderate-High		5-10%	1.5 - 5%
		PCE Endowment - AY13	\$1,149,165,449	High		>10%	5 - 20%
		Retiree LTC - AY11	\$756,058,033	High		>10%	5 - 20%
		Public School Trust Fund - AY08	\$844,745,193	High		>10%	5 - 20%
		AK Higher Education - AY3L	\$416,411,394	High		>10%	5 - 20%
		Illinois Creek Mine - AY9J	\$1,473,432	High		>10%	5 - 20%
		Education Endowment - AY3G	\$599,686	High		>10%	5 - 20%
		Total	\$8,092,838,807				

Asset Allocation

- Financial consultant, Callan LLC, annually develops 10-year capital market assumptions for risk, return, and correlations using a building block approach.
- Return expectations have steadily declined over time due to lower growth and inflation expectations caused by global trade, technology, and the transition toward a service economy.
- Staff evaluates Callan's capital market assumptions and current market conditions to develop an asset allocation approach for each State fund.
- The goal is generally to maximize return or minimize risk consistent with investment objectives and risk tolerance using a combination of Modern Portfolio Theory and investment judgment.

7% Expected Returns Over Past 30+ Years



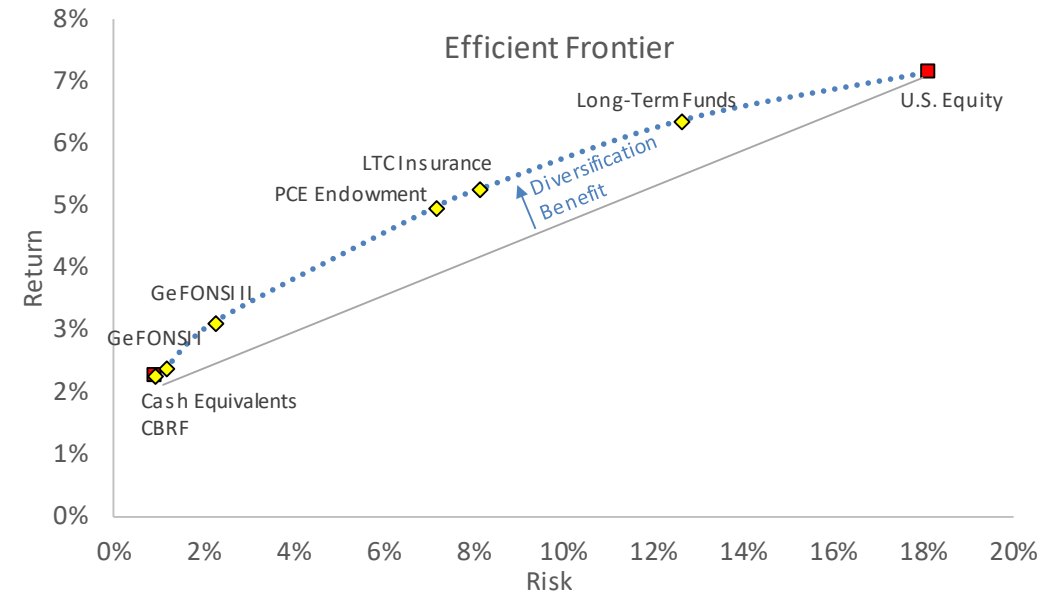
2021 Capital Market Assumptions

- Callan provided their 10-year capital market assumptions (CMAs) for 2021. All earnings assumptions decreased this year due to the global pandemic. Risk and correlation assumptions were largely unchanged.
- Staff selects a subset of these asset classes for use in state funds based on risk, return, diversification, complexity, and cost.
- For FY22, staff recommended the continued use of Broad U.S. Equities, International Equities, Core U.S. Fixed Income, and Cash Equivalents for state funds.
- This year, staff added REITs for additional yield and inflation protection and up to 20% of the fixed income allocation is to a tactical bond portfolio that opportunistically invests in high yield, TIPS, and other fixed income asset classes.

Asset Classes	1-Year Arithmetic Return	10-Year Geometric Return	Return Change	Standard Deviation	Projected Yield	Correlation to Domestic Equity	Real Return
Broad U.S. Equity	8.0%	6.6%	-0.55%	18.0%	2.0%	1.00	4.6%
Large Cap U.S. Equity	7.9%	6.5%	-0.50%	17.7%	2.0%	1.00	4.5%
Small/Mid Cap U.S. Equity	8.8%	6.7%	-0.55%	21.3%	1.8%	0.93	4.7%
International Equity	8.7%	6.8%	-0.45%	20.7%	2.8%	0.82	4.8%
Developed ex-U.S. Equity	8.3%	6.5%	-0.50%	19.9%	3.0%	0.78	4.5%
Emerging Market Equity	9.8%	6.9%	-0.35%	25.2%	2.4%	0.80	4.9%
Cash Equivalents	1.0%	1.0%	-1.25%	0.9%	1.0%	-0.06	-1.0%
Government 1-3 year Bonds	1.4%	1.3%	-1.15%	3.5%	1.6%	-0.25	-0.7%
Core U.S. Fixed Income	1.8%	1.8%	-1.00%	3.8%	2.5%	-0.10	-0.3%
TIPS	1.8%	1.7%	-0.70%	5.1%	2.4%	-0.08	-0.3%
Emerging Market Sovereign Debt	3.9%	3.5%	-0.85%	9.5%	6.0%	0.53	1.5%
High Yield	4.9%	4.4%	-0.30%	10.8%	6.7%	0.72	2.4%
Core Real Estate	6.6%	5.8%	-0.50%	14.1%	4.4%	0.71	3.8%
REITs	8.2%	6.3%	-0.45%	20.7%	4.7%	0.80	4.3%
Private Equity	11.5%	8.0%	-0.50%	27.8%	0.0%	0.80	6.0%
Hedge Funds	4.3%	4.0%	-1.00%	8.0%	0.0%	0.78	2.0%
Inflation		2.0%	-0.25%				
60/40 Portfolio		5.0%	-0.79%				

Investment Policy and Asset Allocation

- Setting investment policies and asset allocations are key fiduciary duties.
- DOR staff reviews and makes recommendations on the investment policy and asset allocation of each fund at least annually.
- Each investment program is designed to balance fund investment objectives, risk tolerance, and other attributes:
 - Time horizon
 - Nominal or real return objectives
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 - Capacity for loss or volatility over short, medium, and longer time horizons



ASLC Investment Policy Discussion

DOR has reviewed the ASLC financial forecast with ASLC staff.

Investment objectives and risk assessment:

- ASLS has a long time-horizon with low investment liquidity needs:
 - Assets are currently expected to grow in perpetuity with no forecasted need for significant withdrawals.
 - ASLC is expected to be increasingly cash flow positive over the next 10 years and has no significant investment liquidity needs.
- Investment Objectives:
 - ASLC seeks a minimum return to cover operational expenses and provide downside loan protection. A target return of 4.1% would be required to cover potential loan losses of \$3 million in a year.
 - Future ASLC programs could also benefit from inflation protection and growing assets over time.
- Capacity for loss:
 - ASLC should be able to tolerate short-to-mid-term losses for the potential of long-term returns.
 - ASLC may be sensitive to abrupt increases in risk profile.

Conclusion and recommendations:

- ASLC has the time horizon, investment objectives, and other attributes consistent with adopting a high risk tolerance.
- ASLC should consider adopting an asset allocation sufficient to cover downside loan experience and potentially increase assets.
- ASLC should consider gradually increasing investment risk to minimize market timing exposure.

ASLC Asset Allocation Spectrum - Full

Asset Classes	Low: CBR	Moderate: GF I	ASLC	Moderate+: GF II	20/80	30/70	40/60	50/50	60/40	High: PCE	Higher: LTC	Highest: Schools
Broad U.S. Equity	0%	0%	0%	4%	20%	30%	40%	50%	60%	32%	33%	39%
Global ex-U.S. Equity	0%	0%	0%	2%	0%	0%	0%	0%	0%	20%	21%	25%
U.S. REITS	0%	0%	0%	0%	0%	0%	0%	0%	0%	4%	4%	5%
U.S. Fixed Income	0%	15%	26%	26%	80%	70%	60%	50%	40%	43%	41%	30%
Cash Equivalents	100%	85%	74%	68%	0%	0%	0%	0%	0%	1%	1%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Optimization Results:												
Expected Return	0.05%	0.27%	0.42%	0.91%	2.96%	3.52%	4.06%	4.56%	5.04%	5.00%	5.10%	5.62%
Risk - Standard Deviation	0.05%	0.57%	0.98%	1.37%	4.43%	5.74%	7.30%	8.98%	10.72%	10.12%	10.50%	12.50%
Sharpe Ratio	(0.00)	0.38	0.38	0.63	0.44	0.44	0.42	0.40	0.38	0.39	0.39	0.37
Risk Statistics:												
10% Probable Annual Loss (10% cVaR)	0.0%	-0.7%	-1.3%	-1.5%	-5.1%	-6.8%	-8.9%	-11.3%	-13.9%	-12.9%	-13.5%	-16.4%
5% Probable Annual Loss (5% cVaR)	-0.1%	-0.9%	-1.6%	-1.9%	-6.4%	-8.5%	-11.2%	-14.1%	-17.2%	-16.0%	-16.7%	-20.3%
Probability of Loss - 1 Year	15.9%	32.0%	33.3%	25.3%	27.0%	28.2%	29.8%	31.1%	32.3%	31.6%	31.8%	32.9%
Prob. Return < -1%	0.0%	1.3%	7.3%	8.2%	20.1%	22.6%	25.2%	27.3%	29.0%	28.1%	28.5%	30.1%
Prob. Return < -2%	0.0%	0.0%	0.7%	1.7%	14.3%	17.7%	21.0%	23.7%	25.9%	24.9%	25.3%	27.4%
Prob. Return < -3%	0.0%	0.0%	0.0%	0.2%	9.8%	13.6%	17.3%	20.4%	23.0%	21.9%	22.4%	24.8%
Prob. Return < -5%	0.0%	0.0%	0.0%	0.0%	4.1%	7.4%	11.2%	14.7%	17.7%	16.5%	17.1%	20.0%
Prob. Return < -10%	0.0%	0.0%	0.0%	0.0%	0.2%	1.0%	2.9%	5.4%	8.2%	7.1%	7.7%	10.7%
Prob. Return < -20%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%	1.0%	0.7%	0.9%	2.1%
Probability of Loss - 10 Year	0.0%	0.0%	0.0%	0.0%	1.7%	2.6%	3.9%	5.4%	6.9%	5.9%	6.2%	7.8%
Asset Time Horizon Estimate	0.2	1.2	1.8	2.2	6.5	6.5	6.5	6.5	6.5	6.4	6.4	6.4
Return Statistics:												
Short-Term Expected Return	0.05%	0.27%	0.42%	0.91%	2.72%	3.31%	3.88%	4.41%	4.92%	4.86%	4.97%	5.52%
Long-Term Expected Return	1.00%	1.12%	1.20%	1.64%	2.96%	3.52%	4.06%	4.56%	5.04%	5.00%	5.10%	5.62%
Long-Term Real Return	-1.00%	-0.88%	-0.80%	-0.36%	0.96%	1.52%	2.06%	2.56%	3.04%	3.00%	3.10%	3.62%
Arithmetic Return	0.05%	0.27%	0.43%	0.92%	3.04%	3.66%	4.28%	4.90%	5.52%	5.43%	5.57%	6.28%
Dollars: (\$Millions)												
Assets	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Expected Annual Earnings	0.0	0.2	0.3	0.7	2.4	2.8	3.2	3.6	4.0	4.0	4.1	4.5
10% Probable Annual Loss (10% cVaR)	(0.0)	(0.6)	(1.0)	(1.2)	(4.0)	(5.4)	(7.1)	(9.1)	(11.1)	(10.3)	(10.8)	(13.1)
5% Probable Annual Loss (10% cVaR)	(0.0)	(0.7)	(1.3)	(1.5)	(5.1)	(6.8)	(8.9)	(11.3)	(13.8)	(12.8)	(13.4)	(16.2)

ASLC Asset Allocation Spectrum - Select

Conclusion and recommendations:

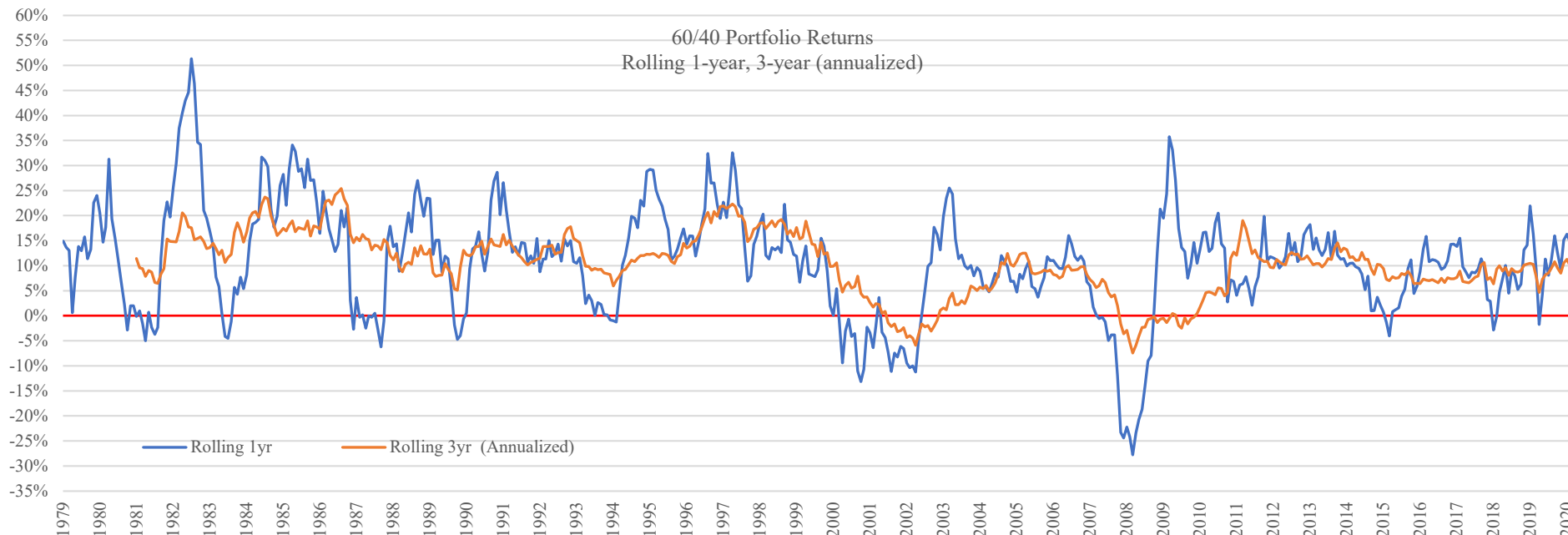
- ASLC has the time horizon, investment objectives, and other attributes consistent with adopting a high risk tolerance
- ASLC should at least consider adopting an asset allocation sufficient to cover downside loan experience – the minimum return portfolio.
- ASLC’s risk profile allows it to consider a risk profile as high as the maximum return and risk portfolio.
- A 60/40 allocation is a balance between these two that should allow ASLC to both cover downside loan experience and grow principle over time.
- Since this is a material change, ASLC should consider gradually increasing investment risk to minimize market timing exposure.

Asset Classes	Current ASLC	Minimum Return	60/40 Portfolio	Maximum Return
Broad U.S. Equity	0%	22%	34%	39%
Global ex-U.S. Equity	0%	14%	21%	25%
U.S. REITS	0%	3%	5%	5%
U.S. Fixed Income	26%	60%	39%	30%
Cash Equivalents	74%	1%	1%	1%
Total	100%	100%	100%	100%
Optimization Results:				
Expected Return	0.42%	4.10%	5.16%	5.62%
Risk - Standard Deviation	0.98%	7.14%	10.72%	12.50%
Sharpe Ratio	0.38	0.43	0.39	0.37
Risk Statistics:				
10% Probable Annual Loss (10% cVaR)	-1.3%	-8.6%	-13.8%	-16.4%
5% Probable Annual Loss (5% cVaR)	-1.6%	-10.8%	-17.1%	-20.3%
Probability of Loss - 1 Year	33.3%	29.2%	31.9%	32.9%
Prob. Return < -1%	7.3%	24.6%	28.7%	30.1%
Prob. Return < -2%	0.7%	20.4%	25.6%	27.4%
Prob. Return < -3%	0.0%	16.7%	22.7%	24.8%
Prob. Return < -5%	0.0%	10.6%	17.5%	20.0%
Prob. Return < -10%	0.0%	2.6%	8.0%	10.7%
Prob. Return < -20%	0.0%	0.0%	1.0%	2.1%
Probability of Loss - 10 Year	0.0%	3.5%	6.4%	7.8%
Asset Time Horizon Estimate	1.8	5.9	5.9	6.4
Dollars: (\$Millions)				
Assets	80.0	80.0	80.0	80.0
Expected Annual Earnings	0.3	3.3	4.1	4.5
10% Probable Annual Loss (10% cVaR)	(1.0)	(6.9)	(11.0)	(13.1)
5% Probable Annual Loss (10% cVaR)	(1.3)	(8.7)	(13.7)	(16.2)

Representative Portfolios – Historical Performance

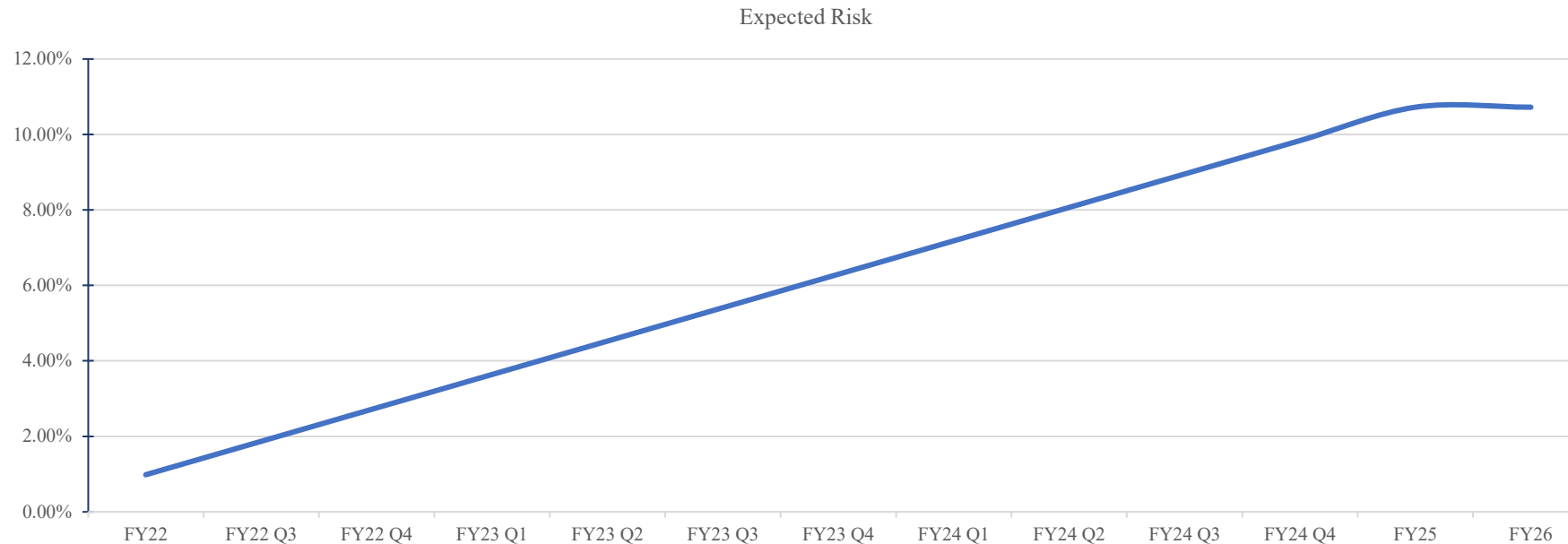
Largest Negative and Positive Absolute Returns

	<u>30%/70%</u>	<u>40%/60%</u>	<u>50%/50%</u>	<u>60%/40%</u>	<u>70%/30%</u>
Largest Loss - Monthly	-6.97%	-8.51%	-10.05%	-12.03%	-14.63%
Largest Gain - Monthly	9.44%	8.80%	8.72%	9.37%	10.02%
Largest Loss - Rolling 1yr	-13.84%	-18.69%	-23.32%	-27.75%	-31.98%
Largest Gain - Rolling 1yr	40.52%	44.06%	47.66%	51.33%	55.05%
Largest Loss - Rolling 3yr (Ann.)	-1.30%	-3.36%	-5.41%	-7.45%	-9.47%
Largest Gain - Rolling 3yr (Ann.)	21.83%	22.53%	23.93%	25.43%	26.93%



Gradually Increase Investment Risk

Increasing to 60/40	FY22	FY22 Q3	FY22 Q4	FY23 Q1	FY23 Q2	FY23 Q3	FY23 Q4	FY24 Q1	FY24 Q2	FY24 Q3	FY24 Q4	FY25	FY26
Asset Allocation													
Broad U.S. Equity		5%	7%	10%	12%	16%	19%	22%	25%	28%	31%	34%	34%
Global ex-U.S. Equity		3%	5%	6%	8%	10%	12%	14%	16%	17%	19%	21%	21%
U.S. REITS		1%	1%	2%	2%	3%	3%	3%	4%	4%	4%	5%	5%
Core U.S. Fixed	26%	26%	40%	54%	67%	71%	65%	60%	55%	49%	44%	39%	39%
Cash Equivalents	74%	65%	46%	28%	11%	1%	1%	1%	1%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Expected LT Return	1.20%	1.84%	2.27%	2.69%	3.08%	3.47%	3.80%	4.11%	4.39%	4.66%	4.91%	5.16%	5.16%
Expected Risk	0.98%	1.87%	2.75%	3.64%	4.52%	5.41%	6.29%	7.18%	8.06%	8.95%	9.83%	10.72%	10.72%



Proposed Investment Policy

AY3S: FY22 DOR-Alaska Student Loan Corporation Investment Policy

Investment Topic	Proposed Policy	Current Policy															
Investment Objectives	Can tolerate high exposure of principal to loss in return for higher expected long-term returns. Limited current income requirement. Inflation protection desirable, but not required. Moderate liquidity requirement.	Tolerate moderate exposure to principal loss to target modestly higher returns than cash equivalents.															
Risk Tolerance	High	Moderate															
Policy Risk/Loss Range	10% Probable Annual Loss (10% cVaR) of >10%	0-1.5%															
Time Horizon	Long	Intermediate															
Asset Allocation	<table> <tr> <td>Broad U.S. Equity</td> <td>34% ± 5%</td> <td></td> </tr> <tr> <td>International Equity</td> <td>21% ± 5%</td> <td></td> </tr> <tr> <td>U.S. REITs</td> <td>5% ± 5%</td> <td></td> </tr> <tr> <td>Core U.S. Fixed Income</td> <td>39% ± 5%</td> <td>26% ± 10%</td> </tr> <tr> <td>Cash Equivalents</td> <td>1% - 1%/+2%</td> <td>74% ± 10%</td> </tr> </table>	Broad U.S. Equity	34% ± 5%		International Equity	21% ± 5%		U.S. REITs	5% ± 5%		Core U.S. Fixed Income	39% ± 5%	26% ± 10%	Cash Equivalents	1% - 1%/+2%	74% ± 10%	
Broad U.S. Equity	34% ± 5%																
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U.S. REITs	5% ± 5%																
Core U.S. Fixed Income	39% ± 5%	26% ± 10%															
Cash Equivalents	1% - 1%/+2%	74% ± 10%															
Expected Return - Long-Term	5.16%	1.20%															
Risk - Standard Deviation	10.72%	0.98%															
Probability of Loss - 1 Year	31.9%	33.3%															
10% Probability of Annual Loss (10% cVaR)	-13.8%	-1.3%															
Implementation	<p>To avoid market timing risk, gradually increase the risk of the portfolio from the initial level to the full long-term level by the start of FY2025.</p> <p>Reassess the investment policy and asset allocation annually.</p>																

Appendix

June 2021 Capital Market Update

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	C19 5Q	FYTD 2021	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
TIPS 13.6%	REITs 19.7%	Broad U.S. Equity 33.6%	REITs 28.0%	REITs 2.8%	High Yield 17.1%	International Equity 27.2%	Cash Equivalents 1.9%	Broad U.S. Equity 31.0%	Broad U.S. Equity 20.9%	Broad U.S. Equity 24.6%	Broad U.S. Equity 33.2%	Core U.S. Fixed Income 3.1%	Broad U.S. Equity 22.0%	Broad U.S. Equity 9.2%	International Equity 17.0%	REITs 8.3%	REITs 12.0%
REITs 8.3%	International Equity 16.8%	International Equity 15.3%	Broad U.S. Equity 12.6%	Core U.S. Fixed Income 0.5%	Broad U.S. Equity 12.7%	Broad U.S. Equity 21.1%	Core U.S. Fixed Income 0.0%	REITs 28.7%	TIPS 11.0%	International Equity 13.4%	International Equity 28.7%	TIPS 1.7%	International Equity 16.1%	International Equity 6.3%	Broad U.S. Equity 14.7%	Broad U.S. Equity 6.3%	Broad U.S. Equity 8.2%
Core U.S. Fixed Income 7.8%	Broad U.S. Equity 16.4%	High Yield 7.4%	Core U.S. Fixed Income 6.0%	Broad U.S. Equity 0.5%	REITs 8.6%	REITs 8.7%	TIPS (1.3%)	International Equity 21.5%	International Equity 10.7%	REITs 9.9%	REITs 18.5%	Cash Equivalents 0.6%	REITs 13.2%	High Yield 4.6%	REITs 8.1%	International Equity 3.5%	International Equity 5.5%
High Yield 5.0%	High Yield 15.8%	REITs 2.9%	TIPS 3.6%	Cash Equivalents 0.1%	TIPS 4.7%	High Yield 7.5%	High Yield (2.1%)	High Yield 14.3%	Core U.S. Fixed Income 7.5%	TIPS 8.4%	High Yield 12.3%	High Yield (12.7%)	High Yield 10.2%	TIPS 3.0%	High Yield 6.5%	High Yield 0.8%	TIPS 3.2%
Broad U.S. Equity 1.0%	TIPS 7.0%	Cash Equivalents 0.1%	High Yield 2.5%	TIPS (1.4%)	International Equity 4.5%	Core U.S. Fixed Income 3.5%	REITs (4.0%)	Core U.S. Fixed Income 8.7%	High Yield 7.1%	High Yield 7.2%	TIPS 3.2%	Broad U.S. Equity (20.9%)	TIPS 4.2%	REITs 1.2%	TIPS 1.6%	Cash Equivalents 0.0%	High Yield 2.7%
Cash Equivalents 0.1%	Core U.S. Fixed Income 4.2%	Core U.S. Fixed Income (2.0%)	Cash Equivalents 0.0%	High Yield (4.5%)	Core U.S. Fixed Income 2.6%	TIPS 3.0%	Broad U.S. Equity (5.2%)	TIPS 8.4%	Cash Equivalents 0.7%	Core U.S. Fixed Income 3.8%	Cash Equivalents 0.1%	International Equity (23.4%)	Core U.S. Fixed Income 2.9%	Core U.S. Fixed Income 0.6%	Core U.S. Fixed Income 0.7%	TIPS (1.5%)	Core U.S. Fixed Income 1.8%
International Equity (13.7%)	Cash Equivalents 0.1%	TIPS (8.6%)	International Equity (3.9%)	International Equity (5.7%)	Cash Equivalents 0.3%	Cash Equivalents 0.9%	International Equity (14.2%)	Cash Equivalents 2.3%	REITs (5.1%)	Cash Equivalents 0.5%	Core U.S. Fixed Income (2.1%)	REITs (23.4%)	Cash Equivalents 0.0%	Cash Equivalents 0.0%	Cash Equivalents 0.0%	Core U.S. Fixed Income (3.4%)	Cash Equivalents 0.0%

**Investment Policy
and Procedures**

**ALASKA STUDENT
LOAN CORPORATION**

ALASKA STUDENT LOAN CORPORATION
Investment Policy and Procedures

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ALASKA STUDENT LOAN CORPORATION

Investment Policy and Procedures

This investment policy provides the Executive Officer or the Chief Finance Officer the authority to enter into:

- contracts with outside investment providers/managers;
- investment agreements with the State's Department of Revenue, Treasury Division; and/or
- direct investment transactions.

Statutory Authority

Alaska Statutes (AS) 14.42.100 – 14.42.990 create the Alaska Student Loan Corporation (Corporation) and set out the Corporation's authorized powers. These statutes provide the Corporation: (1) the power to invest its funds, subject to agreements with bondholders, and (2) the powers and responsibilities established in AS 37.10.071 (the prudent investor rule) with respect to the investment of amounts held by the Corporation (AS 14.42.200 (8)).

Purpose

This investment policy will provide Corporation board members, staff, and financial consultants with investment parameters to implement the authority granted in AS 14.42.100 - 14.42.990. The investment goals of the Corporation are to:

- grow long-term financial assets;
- maintain adequate liquidity to ensure timely payment of obligations;
- comply with federal arbitrage requirements;
- maximize earnings; and
- maintain diversification of investments.

The Corporation must invest its monies to provide for the timely payment of debt, operating costs and education loan commitments. To meet education loan commitments, the Corporation must have the ability to accelerate or decelerate draws from certain accounts without subjecting itself to prepayment penalties or market risk.

The Corporation desires to maximize earnings while achieving its other investment goals.

The Corporation will diversify investments to minimize risk.

To ensure a market rate and to comply with federal requirements regarding investment of tax-exempt bond proceeds, the Corporation will utilize the competitive procurement process for investment contracts, unless otherwise provided for in this policy. The Corporation will follow the process described in the section titled Procurement Process.

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Summary of Investible Assets

- Assets pledged to bond indentures or other debt instruments (collectively referred to as Pledged Funds) for which investments are governed by related debt instruments and/or a credit provider, if any.
- Assets not pledged (non-pledged funds).

Requirements

The Board will review this investment policy annually to determine the policy's effectiveness and to make adjustments to reflect changes in investment strategy and goals.

Diversification

All investment contracts must meet the Corporation's diversification standards at the time the investment is made. Investment agreement providers will be limited to providing investments to the lesser of \$50,000,000 or 5% of the Corporation's total invested assets. These diversification standards are not applicable to investments in direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S., or bonds, notes or other evidences of indebtedness rated "AAA/Aaa" and issued by FNMA or FHLMC, or to acquisition funds (monies held in an account designated for education loan originations) that will be reduced to a maximum of \$50,000,000 in the first six months of the agreement.

Bank deposits or sweep accounts held in U.S. domestic financial institutions or trust companies which are members of the Federal Deposit Insurance Corporation are also excluded from the diversification standards. These holdings will be utilized as investments only when the return on such holdings is expected to be higher than the return on other allowable securities or when the risks associated with such holdings are deemed lower relative to other allowable securities.

Safekeeping

Unless otherwise indicated, the Executive Officer shall appoint independent third-party trustee(s) to act as safekeeping and custodial agent(s).

Non-Pledged Funds

The Corporation's non-pledged funds may be invested in the various investment pools managed by the State of Alaska's Department of Revenue, Treasury Division

Non-pledged funds not invested in the State's investment pools but still managed by the State of Alaska's Department of Revenue, Treasury Division shall be invested in the manner directed by ASLC (see Appendix A).

Non-pledged funds not invested in the State's investment pools and not managed by the State of Alaska's Department of Revenue, Treasury Division shall consist of:

ALASKA STUDENT LOAN CORPORATION

Investment Policy and Procedures

- Fixed income money market funds if rated, rated “AAA,” and if not rated, underlying holdings must be rated “AAA” or better.

All references to ratings contained herein are to the ratings of nationally recognized rating agencies including, but not limited to, Standard & Poor's Ratings Group (S&P), Moody's Investors Service (Moody's), and Fitch. The highest rating of the nationally recognized rating agencies is the rating that will be used to determine compliance with this policy.

Collateral

- Direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.
- Bonds, notes or other evidences of indebtedness rated no lower than “AAA/Aa+” or no lower than current credit ratings on U.S. Treasury obligations and issued by federal agencies which do not represent the full faith and credit of the U.S.
- Collateral requirements: 102% when using direct obligations of the U.S. Treasury or 103% when using agency securities.
- Collateral shall be held by a third-party custodian acting solely as an agent for the Corporation, if not held by the Corporation directly.
- Collateral shall be valued at least monthly by a third-party custodian, and marked-to-market at current price.

Other Investment Types

Any investment types not specifically authorized by this policy are not permitted.

Investment Manager

If the Corporation chooses to contract with an investment manager to assist with investment activities, such services shall be obtained through the competitive process described in the section titled Procurement Process. The investment manager must be a registered investment advisor with the SEC, and must be registered to do business in the State of Alaska at contract signing. The manager shall provide SEC form ADV II on an annual basis as evidence of ongoing SEC registration. The investment manager shall, at all times, operate within the Corporation’s investment policy and any specific instructions (more limiting than the policy) provided by the Corporation.

In addition to the Corporation’s investment policy and specific instructions, the following requirements apply to all investments managed by external investment managers:

- In the event that the rating of a provider or security purchased by the investment manager is withdrawn or downgraded below that required in this policy, it will no longer be an eligible security under this policy. The Investment Manager will report the situation to the Corporation within five business days of learning of the downgrade. The investment manager will include, in the report to the Corporation, a plan for monitoring and timely liquidation of the security.

- The investment manager will use duration as a means of managing the interest rate risk associated with the investment portfolio. Specific duration limits will be set based on the portfolio's liquidity and investment goals.
- Performance will be evaluated quarterly and compared to the performance of a predetermined benchmark based on the particular account's liquidity and investment requirements.

Managers are expected to achieve total returns, net of fees, which at a minimum match that of the benchmark.

The Investment Manager will not charge commissions, take spread revenue or offer any soft dollar arrangements associated with the account. The Investment Manager will strive to use non-load funds; however, in the rare situation that a no-load fund is not available, the Investment Manager will fully disclose all revenue sharing details with the Corporation.

Procurement Process

Request for Proposal

The Corporation, in consultation with the Financial Advisor, will develop a request for proposal (RFP) outlining the scope of services, minimum experience requirements, compensation structure, reporting requirements, and the process by which a proposal will be accepted and evaluated.

Distribution

RFPs will be widely distributed using means that reach the intended population of entities interested in providing the services requested.

For the purpose of selecting Investment Managers

RFP's will be distributed to Investment Managers expressing interest and RFP will be posted on the State's Online Public Notice web site.

For the purpose of selecting Investment Providers

The Corporation shall select which brokers/providers will receive the applicable RFP based on the following:

- businesses that have provided past quality service to the Corporation,
- businesses that have been active in the market as determined in consultation with the financial advisor and
- businesses that have requested a copy of the RFP.

The number of providers/brokers to solicit proposals from will be determined for each RFP by the Executive Officer or the Chief Finance Officer. The number of RFPs released will be sufficient to ensure the market is fairly represented.

Evaluation of Proposals

For the purpose of selecting an Investment Manager

An evaluation committee consisting of the Chief Finance Officer (or his/her designee) and staff of the Corporation's financial advisory firm will evaluate and summarize the proposals. The committee will submit a recommendation along with the proposals, evaluations, and related summaries to the Executive Officer for review and final selection.

For the purpose of selecting an Investment Provider

All proposals will be summarized and evaluated by the Chief Finance Officer (or his/her designee) and staff of the Corporation's financial advisory firm. Proposals and related summaries will be submitted to the Executive Officer (or his/her designee) for review and final selection.

ALASKA STUDENT LOAN CORPORATION
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Appendix A – DOR-ASLC Investment Policy

AY35: FY22 DOR-Alaska Student Loan Corporation Investment Policy

Investment Topic	Proposed Policy	Current Policy
Investment Objectives	Can tolerate high exposure of principal to loss in return for higher expected long-term returns. Limited current income requirement. Inflation protection desirable, but not required. Moderate liquidity requirement.	Tolerate moderate exposure to principal loss to target modestly higher returns than cash equivalents.
Risk Tolerance	High	Moderate
Policy Risk/Loss Range	10% Probable Annual Loss (10% cVaR) of >10%	0-1.5%
Time Horizon	Long	Intermediate
Asset Allocation	Broad U.S. Equity 34% ± 5% International Equity 21% ± 5% U.S. REITs 5% ± 5% Core U.S. Fixed Income 39% ± 5% Cash Equivalents 1% - 1%/+2%	26% ± 10% 74% ± 10%
Expected Return - Long-Term	5.16%	1.20%
Risk - Standard Deviation	10.72%	0.98%
Probability of Loss - 1 Year 10% Probability of Annual Loss (10% cVaR)	31.9% -13.8%	33.3% -1.3%
Implementation	To avoid market timing risk, gradually increase the risk of the portfolio from the initial level to the full long-term level by the start of FY2025. Reassess the investment policy and asset allocation annually.	

The proposed policy is effective _____

Approved

Date