

**Investment Policy
and Procedures**

**ALASKA STUDENT
LOAN CORPORATION**

December 1, 2019

ALASKA STUDENT LOAN CORPORATION
Investment Policy and Procedures

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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:

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

The preservation of principal and maintenance of adequate liquidity are of utmost importance to the Corporation. 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 exposure to credit risk. The diversification requirements are described in the section titled Requirements.

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. See Exhibit A, B and C for additional information related to investment of Pledged Funds.
- 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).

Pledged Funds

The Corporation's investment of Pledged Funds is subject to requirements described in the 2013 Trust Indenture dated March 28, 2013 (Exhibit C).

These investments represent specific securities, investment agreements, deposit accounts or balances in qualifying investment pools and money market accounts. The specific securities are held by the Corporation's Trustee or third-party custodian designated by the Executive Officer.

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Non-Pledged Funds

The Corporation's non-pledged funds may be invested in the various fixed-income pools managed by the State of Alaska's Department of Revenue, Treasury Division. Investments in the State's fixed-income investment pools are made in accordance with the State's General Investment Policy. These investments represent an ownership share of the pool's securities rather than ownership of specific securities themselves. The specific securities are held by Treasury's third-party custodian. Investment income is calculated daily based on the pro-rata share of the Corporation's invested balance and distributed at least monthly.

Non-pledged funds not invested in the State's fixed-income pools shall consist of:

- 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 current credit ratings on U.S. Treasury obligations and issued by federal agencies and instrumentalities of the United States which do not represent the full faith and credit of the U.S.;
- Bonds, notes or other evidences of indebtedness rated "A" or better and issued by domestic municipalities;
- Corporate bonds and convertible securities rated "A" or better;
- Collateralized mortgage obligations (CMOs) originated from a federal agency;
- Collateralized investment contracts and repurchase agreements, see the sections titled Collateral and Procurement Process;
- Uncollateralized investment contracts as long as the investment provider's long-term rating is at least AA on date of original agreement. If the credit rating falls to A or below, remaining principal and accrued interest must be collateralized with government securities at a minimum of 102%.
- Fixed income money or mutual funds if rated, rated "AAA," and if not rated, underlying holdings must be rated "AAA" or better;
- Certificates of deposits and deposits with U.S. domestic financial institutions or trust companies which are members of the Federal Deposit Insurance Corporation as long as collateralized at or above 100% of principal balance and accrued unpaid interest. Deposits and cash balances held with the Corporation's depository bank will be governed by the depository contract; and
- Short-term domestic corporate promissory notes (commercial paper) payable in U.S. dollars as long as the provider's short-term rating is "A1" or better by S&P, P1 by Moody's and/or F1 or better by Fitch throughout the investment term. If there is more than one short-term rating on an issue, no rating shall fall below the minimum. In addition, the Corporation shall seek to avoid any commercial paper that is on CreditWatch negative at the time of purchase.

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Limitations

Note: Investments made prior to December 1, 2018 are not subject to the limitations below.

The overall portfolio should be limited to a weighted average maturity not to exceed 24 months.

	Max Concentration	Maturity Limit
Treasuries	100%	3 years
Agencies	100%	3 years
By issuer	30%	
Municipal debt	20%	3 years
By issuer	10%	
Corporate bonds	25%	3 years
By issuer	10%	
Agency CMOs	10%	3 year avg. life
Collateralized fixed repo	25%	90 days
Collateralized flex repo	50%	3 years
By issuer	N/A	
Money market funds	50%	N/A
Mutual funds	10%	2 year duration
Bank CDs	10%	1 year
By institution	10%	
Commercial paper	25%	270 days
By issuer	10%	

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. In addition, references to specific ratings and investment providers are as follows:

- For primary dealers, the senior unsecured long-term debt rating of the primary dealer;
 Investment provider shall be a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York;
- For domestic banks, the senior unsecured long-term debt rating of the domestic bank;

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- For U.S. branches or domestic affiliates of foreign banks, the senior unsecured long-term debt rating of the Parent Company;
An enforceability opinion must be provided by both the domestic branch office issuing the agreement and the parent company's home office counsel.
- For insurance companies or corporations whose obligations are unconditionally guaranteed by an insurance company, the claims paying ability rating; and
- For insurance holding companies or corporations whose obligations are unconditionally guaranteed by an insurance holding company, the senior long-term debt rating of the holding company.

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.

Transactions

All purchases of securities will be made delivery-vs-purchase with the Corporation paying for securities in full at the same time they're delivered into the Corporation's safekeeping account by the broker/dealer. There will be no margin transactions, short sales, or direct commodity transactions.

Rating downgrades or withdrawals

If the rating of a provider or a security, falls below the required minimum or is withdrawn, the investment shall be liquidated in a timely fashion. Agreements/contracts must allow such liquidation without penalty. Reinvestment of funds will be in accordance with this investment policy.

Other Investment Types

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

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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.
- The benchmarks is the [BBARC 1-3 Yr Gov/CR](#) and [BBARC 1-3 Yr Govt Index](#).

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.

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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.

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EXHIBIT A, Continued

PLEDGED FUNDS

2013 Trust

The following funds have been established within the Trust created by the 2013 Trust Indenture dated March 1, 2013. The purpose of each fund is listed below:

<u>Account</u>	<u>Purpose</u>
Student Loan Fund	<ul style="list-style-type: none">• Trustee's security interest in the Financed Eligible Loans pledged to the Trust
Capitalized Interest Fund	<ul style="list-style-type: none">• Hold bond proceeds as required by the Indenture. Any balance remaining on March 25, 2014 will be transferred to the Collection fund
Collection Fund	<ul style="list-style-type: none">• Hold pledged receipts and investment income from all other funds until monthly disbursements are made to fund the Department SAP Rebate Fund and the Reserve Fund, pay monthly consolidation rebate, administrative and servicing costs and interest on debt. Any remaining balance becomes a principal payment on the debt.
Department SAP Rebate Fund	<ul style="list-style-type: none">• Hold SAP balance due to Federal Government. Pay quarterly SAP balance.
Reserve Fund	<ul style="list-style-type: none">• Hold bond proceeds as required by Indenture• Transfer funds, as necessary, to the Collection Fund

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EXHIBIT B

GeFONSI and Loan Receipts

The Corporation has established sub-accounts within the State's General Fund and Other Nonsegregated Investments (GeFONSI or AY01) investment pool to invest non-pledged Funds.

The Corporation has established a series of accounts, collectively referred to as the loan receipts account, with U.S. Bank. This account represents the main deposit account for loan payments and is transitional in nature.

These accounts and sub-accounts contain:

1. Loan payments collected by the Alaska Commission on Postsecondary Education. Pledged loan payments are pending transfer to a Trust account. Non-pledged loan payments are pending transfer to the Corporation's Operating Reserve account;
2. Monies to finance education loans;
3. Monies to fund Corporation expenditures including loan servicing costs incurred by the Alaska Commission on Postsecondary Education;
4. Monies returned (school refunds) by educational institutions for various reasons. Pledged loan refunds are pending transfer to a Trust account. Non-pledged loan refunds are pending transfer to the Corporation's Operating Reserve account; and
5. Earnings paid on these accounts pending transfer to either a Trust account or the Corporation's Operating Reserve account.

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EXHIBIT C, continued

INVESTMENT OF PLEDGED FUNDS

This Exhibit is an excerpt from debt instruments governing the Corporation's investment of Pledged Funds. If there are differences between this exhibit and the debt instruments, the debt instruments take precedence. See the section titled Requirements for applicability.

**INVESTMENT SECURITIES PERMITTED BY
THE 2013 TRUST INDENTURE DATED March 28, 2013**

- (a) direct obligations of, and obligations fully guaranteed as to timely payment by, the United States of America and having maturities of not more than 365 days;
- (b) senior bonds, debentures, notes, discount notes, short-term obligations or other evidences of indebtedness issued or guaranteed by any of the following agencies: Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation; the Export-Import Bank of the United States; the Federal National Mortgage Association; Federal Home Loan Banks; or any agency or instrumentality of the United States of America which shall be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefore; provided such obligation, or the issuer or guarantor of such obligation, is rated "AA+" by S&P and "AAA" by Fitch (if rated by Fitch) and, if applicable and/or available, rated "A-I +" by S&P and "FI +" by Fitch and having maturities of not more than 365 days;
- (c) demand deposits, time deposits or certificates of deposit of any depository institution or trust company incorporated under the laws of the United States of America or any State (or any domestic branch of a foreign bank) having maturities of not more than 365 days and subject to supervision and examination by federal or state banking or depository institution authorities (including depository receipts issued by any such institution or trust company as custodian with respect to any obligation referred to in clause (a) above or portion of such obligation for the benefit of the holders of such depository receipts); provided, however, that at the time of the investment or contractual commitment to invest therein (which shall be deemed to be made again each time funds are reinvested following each Monthly Distribution Date), the commercial paper or other short-term senior unsecured debt obligations (other than such obligations the rating of which is based on the credit of a Person other than such depository institution or trust company) thereof shall have a rating of "A-I +" from S&P and "FI +" from Fitch (if rated by Fitch); or deposits that are fully insured by the Federal Deposit Insurance Corporation;
- (d) domestic commercial paper having, at the time of the investment or contractual commitment to invest therein, a rating of "A-I +" from S&P and "FI +" from Fitch (if rated by Fitch) which matures not more than 365 days after the date of purchase;

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EXHIBIT C, continued

INVESTMENT OF PLEDGED FUNDS

- (e) investments in money market funds having a rating of "AAAm" or "AAAm-G" from S&P and a rating of "AAAmmf" from Fitch, if rated by Fitch, and each of the other Rating Agencies rating such fund, in the highest investment category granted by such Rating Agency applicable to money market funds (including funds for which the Trustee, the Servicer or the Corporation or any of their respective Affiliates is investment manager or advisor) and having maturities of not more than 365 days;
- (f) bankers' acceptances issued by any depository institution or trust company referred to in clause (c) above and having maturities of not more than 365 days;
- (g) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or any agency or instrumentality thereof the obligations of which are backed by the full faith and credit of the United States of America, in either case entered into with a depository institution or trust company (acting as principal) described in clause e rating thereon falls below a rating of "A" from S&P; and
- (h) any other guaranteed investment contract, repurchase agreement or investment agreement or any other investment made in connection with the original issuance of notes; provided that the Corporation shall provide prior written notice to Fitch (if rated by Fitch) and S&P at least 45 days prior to the execution of such other contract;

No obligation having an "r" highlighter affixed to its rating at the time of investment shall be considered an Investment Security. Investment Securities shall not include interest-only securities. Each Investment Security may be purchased by the Trustee or through an Affiliate of the Trustee.