

# Callan



August 13, 2021

**AIDEA**

Back Testing Performance and  
Portfolio Holdings Analysis

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**Alex Ford**  
Vice President

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# AIDEA

## Meeting Agenda

- I. Investment Performance
- II. Forward-Looking Capital Market Assumptions
- III. Portfolio Holdings Analysis

Callan

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**Investment Analysis**

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# Principles of Asset Allocation

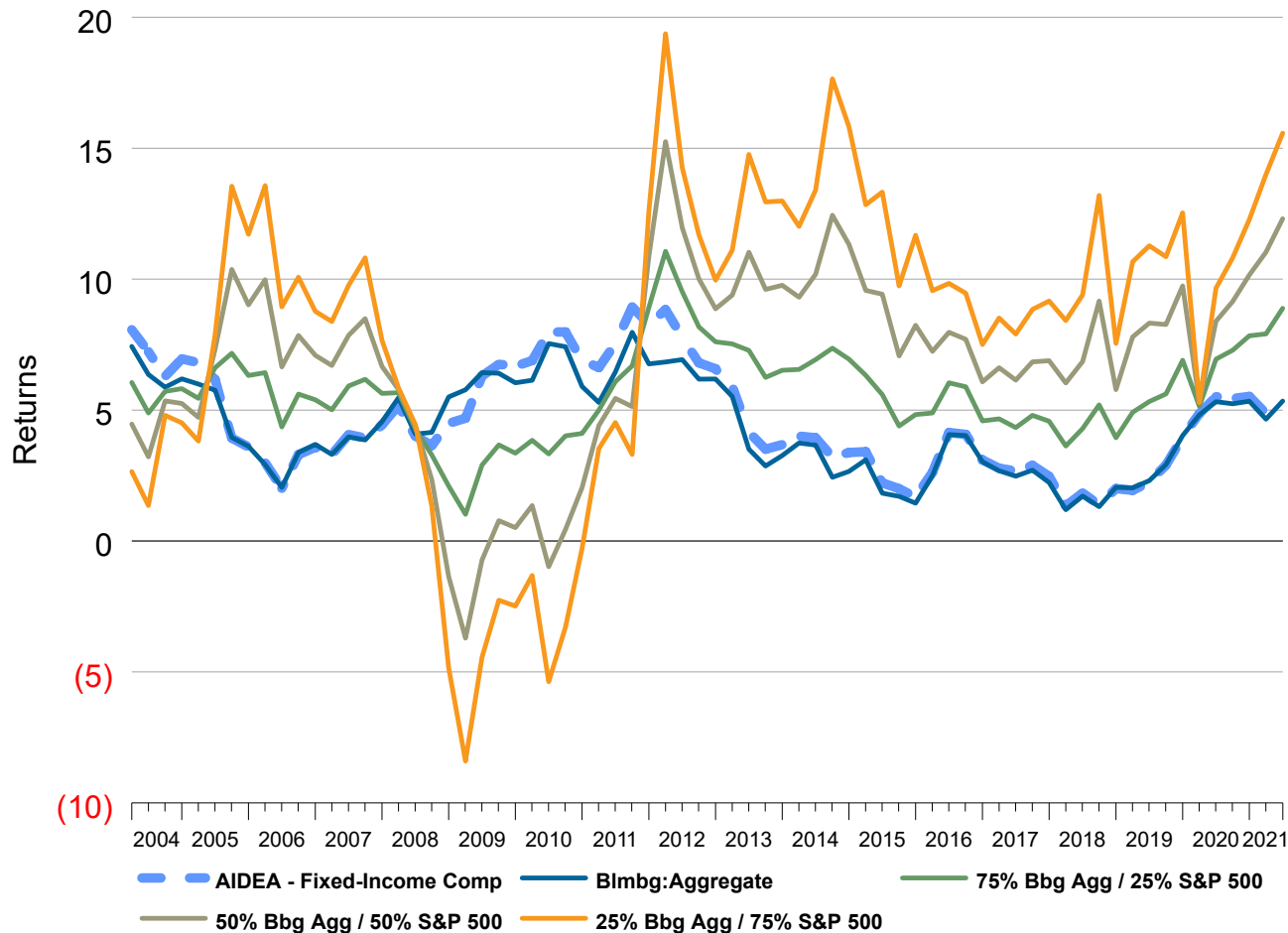
## Risk tolerance and investment time horizon will shape an appropriate asset allocation

- Asset allocation is the ultimate expression of an investment fund's tolerance for risk and is the single greatest determinant of both return and volatility over time.
- Asset Allocation is defined by an investor's expectations and tolerance in three critical areas:
  1. Potential return;
  2. Risk exposure. "Risk" may be expressed as price volatility or the potential loss of capital; and
  3. Liquidity, meaning the ability – or lack thereof – to readily convert assets to cash
- Investors with an effective time horizon measured in days or months have little tolerance for downside risk (i.e. loss of capital) and do not invest in volatile assets or strategies.
- Investors with effective time horizons measured in decades can tolerate volatility since their investment priority is long-term capital appreciation *rather than* short-term loss aversion.
- An investment fund's stated purpose and its asset allocation should match. To do otherwise introduces fiduciary risk.

# AIDEA Investment Analysis

## Back-Testing: Performance

### Rolling 3-Year Returns



Performance shown is for AIDEA's external investment managers  
 Data: Quarterly return series, June 30, 2004 – June 30, 2021

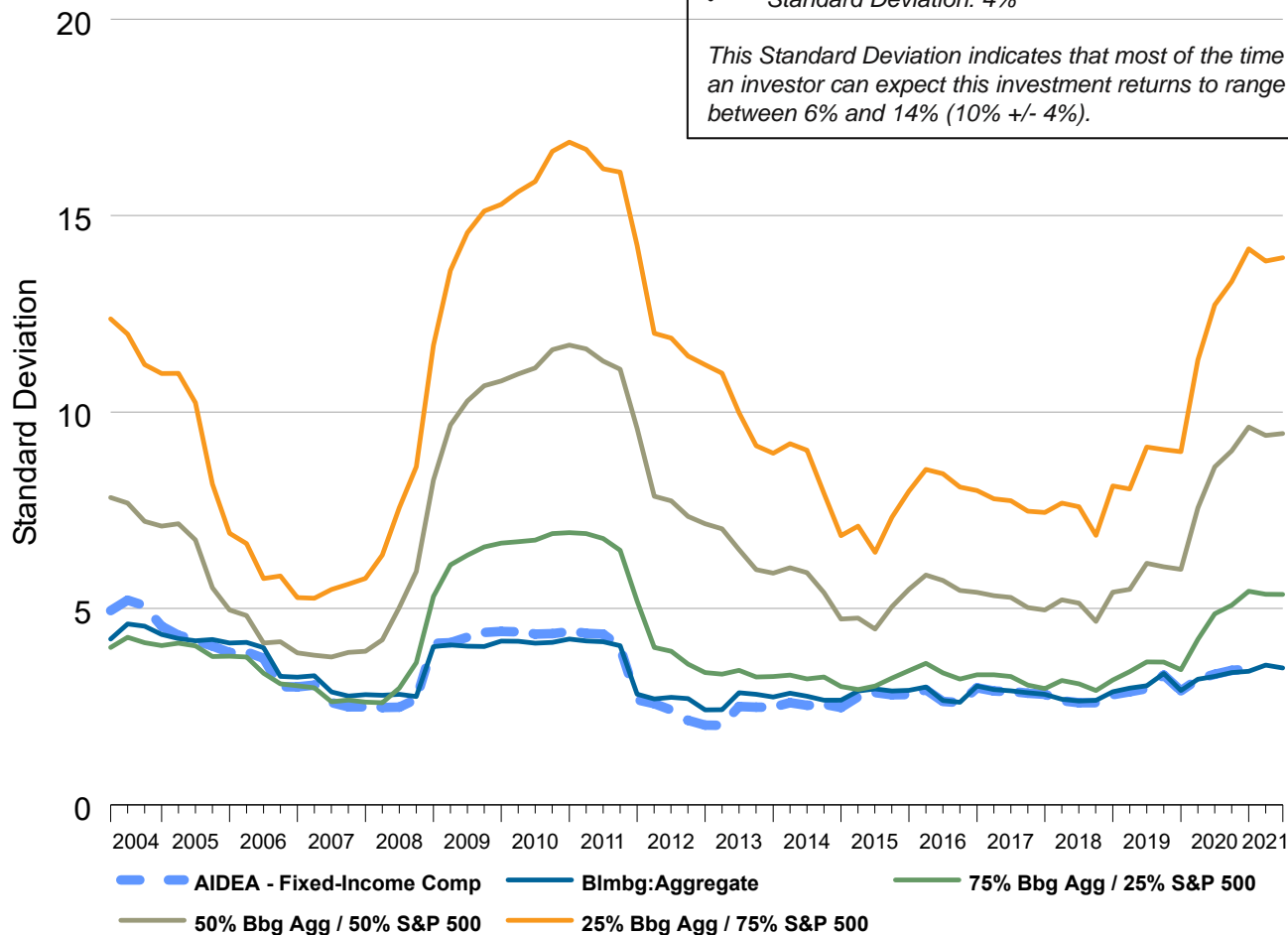
### Observations:

- Rolling three-year returns are used to smooth out short-term market volatility
- The past decade has been a period of strong equity market performance, often led by large-capitalization and growth-oriented companies (i.e. big tech)
- However, the prior period was a stressed environment marked by a deep recession which saw equity-linked portfolios post negative returns over consecutive rolling three-year periods
- Fixed income portfolios have lagged equity returns more recently, but outperformed during periods of market stress and did not experience negative returns over any three-years during the observation period

# AIDEA Investment Analysis

## Back-Testing: Risk

### Rolling 3-Year Standard Deviation



### Observations:

- Observing the dispersion of returns around their sample mean provides a measure of portfolio risk, known as standard deviation
- The more standard deviation, or volatility, a portfolio has, the greater the investment risk
- The higher returns for equity-linked portfolios shown on the prior page come with increased levels of risk, which can surge dramatically during periods of market stress
- This scenario can present liquidity challenges when an investment program is obligated to meet financial liabilities despite risk assets (i.e. equities) having sold off
- The volatility exhibited by fixed income portfolios has been lower on an absolute basis and also more stable through time

Performance shown is for AIDEA's external investment managers

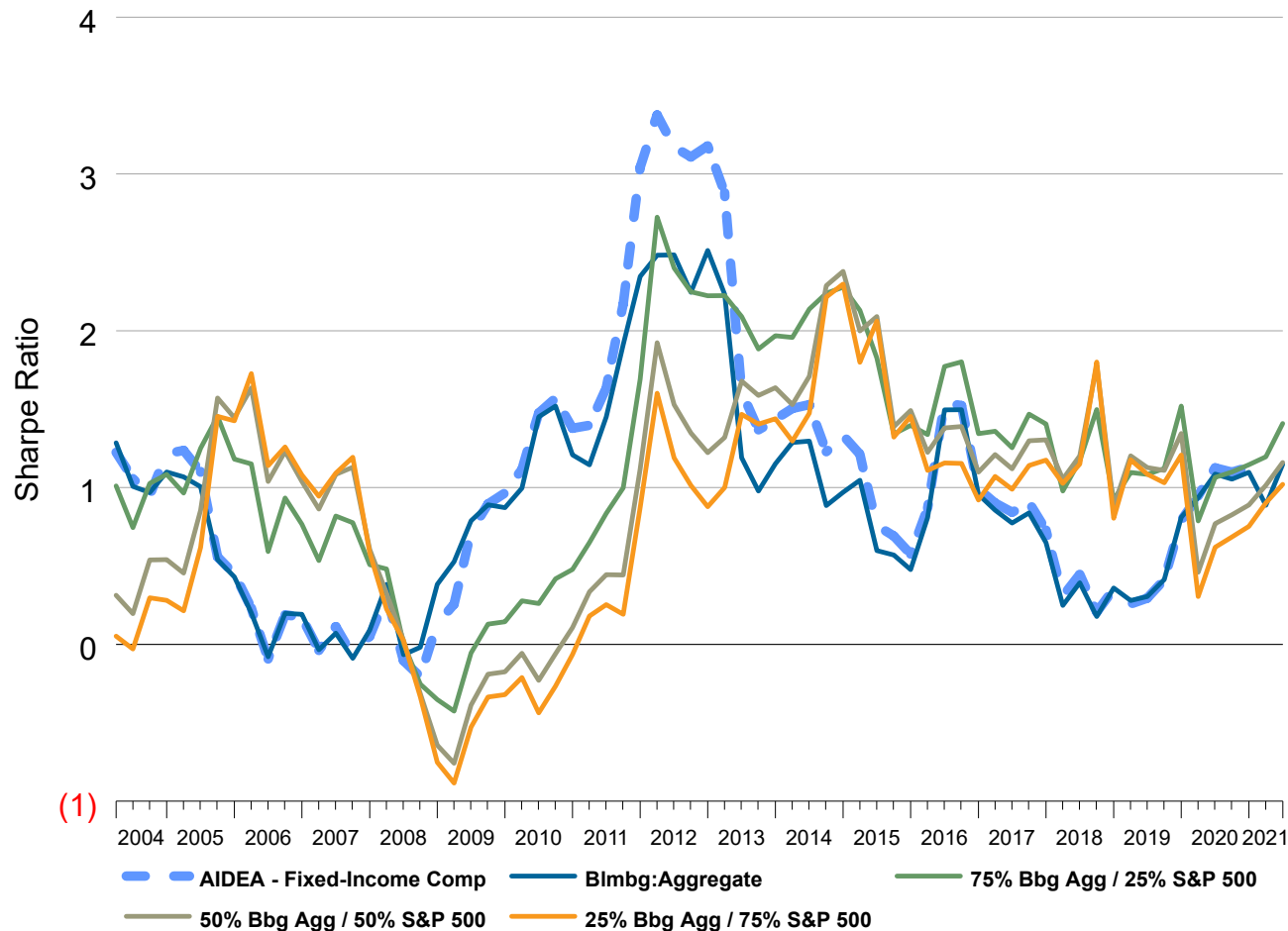
Data: Quarterly return series, June 30, 2004 – June 30, 2021

**Standard Deviation** is a statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically is. The wider the typical range of returns, the higher the standard deviation of returns, and the higher the portfolio risk.

# AIDEA Investment Analysis

## Risk-Adjusted Performance

### Rolling 3-Year Sharpe Ratio



### Observations:

- It is important to consider the returns earned within the context of the risk taken
- Generally, the greater the value of the Sharpe ratio, the more attractive the risk-adjusted return
- The Sharpe ratio can be a useful tool in understanding whether a portfolio's returns are the result of smart investment decision-making or taking on too much risk
- Although the equity-linked portfolios have often delivered higher returns than fixed income, the Sharpe ratio is frequently lower
- This indicates poorer risk-adjusted performance

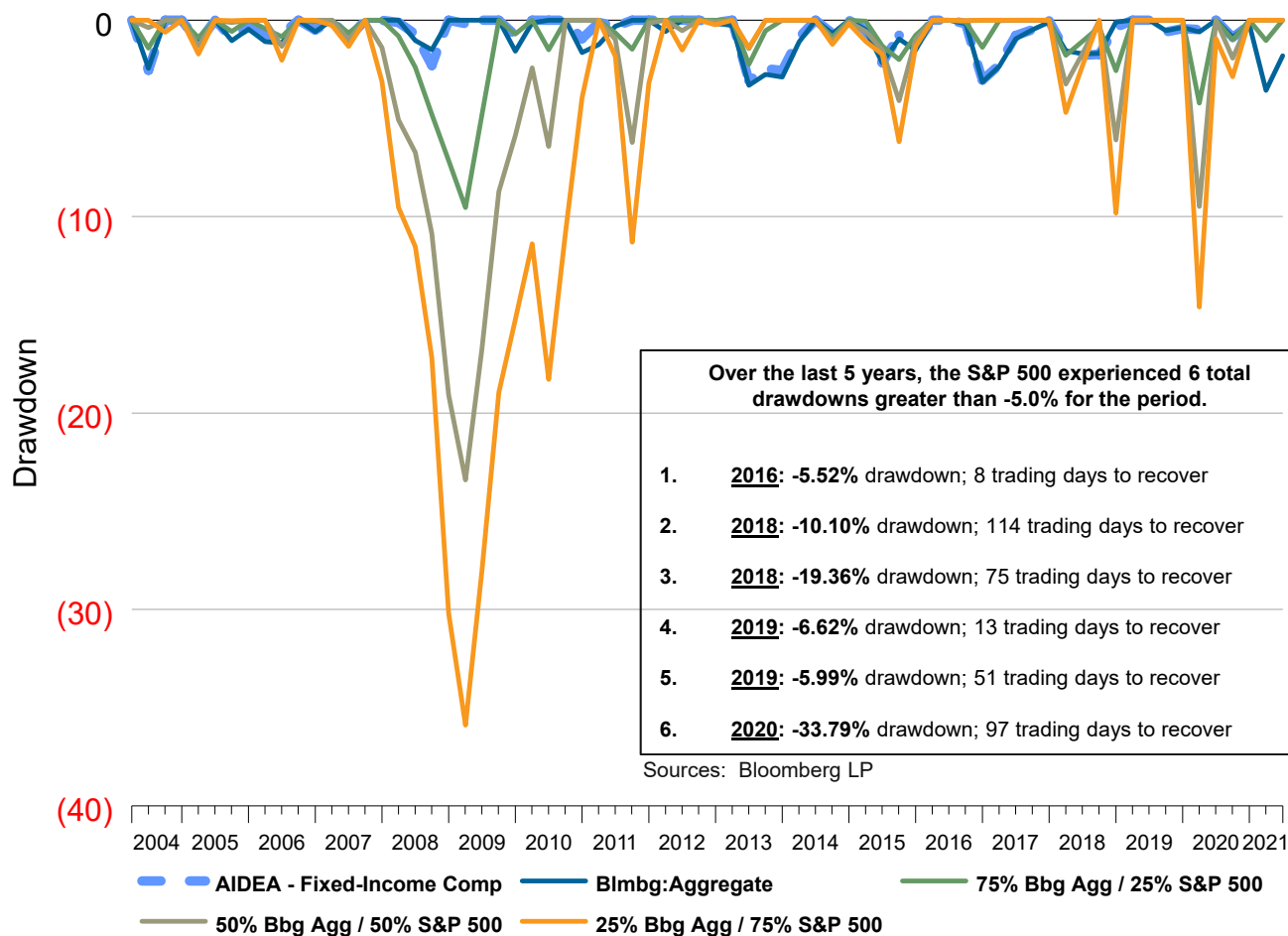
Data: Quarterly return series, June 30, 2004 – June 30, 2021

**Sharpe Ratio** is a commonly used measure of risk-adjust return. It is calculated by subtracting the “risk-free” return from the portfolio return, and dividing the resulting “excess return” by the portfolio’s risk level (standard deviation). The result is a measure of return gained per unit of risk.

# AIDEA Investment Analysis

## Drawdown

### Rolling Drawdown



### Observations:

- Drawdown is a measure of downside volatility, and reflects the maximum loss to a portfolio from its prior peak
- Both the depth of the loss and time to recover are important considerations
- Volatility and drawdown can pose liquidity challenges for investment programs that have financial obligations (i.e. cash flows) irrespective of the prevailing market environment
- *Beware the impact of negative returns:* a 20% drawdown requires a 25% return to reach the prior peak (“get back to even”); a 50% drawdown requires a 100% increase!

Performance shown is for AIDEA’s external investment managers  
 Data: Quarterly return series, June 30, 2004 – June 30, 2021

A **Drawdown** is a peak-to-trough decline in a portfolio’s value before it recovers back to the prior peak, typically quoted in percentage terms. The time it takes to recover should also be considered when assessing drawdowns. Drawdowns are a measure of “downside volatility”



# AIDEA Investment Analysis

## Historical Risk, Return, and Sharpe Ratio

- AIDEA's external fixed income managers typically lagged equity-linked portfolios in terms of return, but have delivered far less volatility in most calendar years. The external managers delivered superior returns in calendar years 2018 and 2008.
- AIDEA's external fixed income managers have delivered **superior risk-adjusted returns more than half of the time over the last 15 years.**

Date	Return (net of fees)				Volatility (Standard Deviation)				Sharpe Ratio			
	AIDEA Ext. Managers	75% Bonds 25% Equity	50% Bonds 50% Equity	25% Bonds 75% Equity	AIDEA Ext. Managers	75% Bonds 25% Equity	50% Bonds 50% Equity	25% Bonds 75% Equity	AIDEA Ext. Managers	75% Bonds 25% Equity	50% Bonds 50% Equity	25% Bonds 75% Equity
12/31/20	8.39	10.74	13.66	16.22	3.56	7.58	13.53	19.71	2.17	1.33	0.96	0.79
12/31/19	8.76	14.25	19.89	25.64	3.47	3.31	6.03	9.39	1.87	3.62	2.92	2.49
12/31/18	-0.33	-0.87	-1.90	-3.07	2.99	3.93	7.41	11.32	-0.74	-0.70	-0.51	-0.44
12/31/17	3.66	7.88	12.37	17.02	1.54	1.43	2.04	2.94	1.82	4.91	5.65	5.50
12/31/16	2.73	5.03	7.38	9.69	3.60	3.36	5.08	7.57	0.67	1.40	1.39	1.24
12/31/15	1.02	0.94	1.21	1.36	3.10	3.54	6.59	10.07	0.31	0.25	0.18	0.13
12/31/14	5.59	7.91	9.85	11.77	2.20	2.99	4.54	6.36	2.52	2.63	2.16	1.85
12/31/13	-1.47	5.77	14.08	22.94	2.90	3.69	5.00	6.67	-0.53	1.54	2.80	3.43
12/31/12	6.21	7.18	10.13	13.07	1.78	2.49	4.97	7.72	3.42	2.83	2.02	1.68
12/31/11	6.53	6.64	5.28	3.77	2.17	3.75	7.64	11.76	2.96	1.74	0.68	0.31
12/31/10	6.99	9.03	11.29	13.30	2.29	3.96	8.86	14.03	3.00	2.25	1.26	0.94
12/31/09	11.39	11.16	16.34	21.45	3.42	7.42	12.27	17.25	3.27	1.48	1.31	1.23
12/31/08	2.47	-6.90	-17.94	-27.95	6.49	8.07	11.91	16.35	0.06	-1.11	-1.68	-1.84
12/31/07	6.36	6.71	6.38	5.97	2.28	2.35	4.41	6.98	0.59	0.73	0.31	0.14
12/31/06	4.71	7.13	9.97	12.86	2.45	2.78	3.45	4.47	-0.06	0.82	1.48	1.79

AIDEA- External Managers	Fixed Income	Fees	Blended Fee	SMA/Pooled
Barrow Hanley	100%	0.21%	0.16%	SMA
Alaska Permanent Capital	100%	0.11%		

### SMA vs Pooled:

**Separately Managed Account (SMA)** is a portfolio of individual securities managed by an asset management firm that directly owns all securities in the account. This can provide the investor more control and transparency of the investments.

**Pooled Investment Vehicles** collect money from multiple investors and puts it in one managed portfolio. Pooled investment funds allocate the combined funds over a variety of investments that are professionally managed by one company. Other investor contributions and withdrawals can affect all pooled investor returns.

**Standard Deviation** is a statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically is. The wider the typical range of returns, the higher the standard deviation of returns, and the higher the portfolio risk.

**Sharpe Ratio** is a commonly used measure of risk-adjust return. It is calculated by subtracting the "risk-free" return from the portfolio return, and dividing the resulting "excess return" by the portfolio's risk level (standard deviation). The result is a measure of return gained per unit of risk.

# AIDEA Investment Analysis

## 10 Year Correlation Matrix

	AK Trans. GDP	AK Govt. GDP	AK Edu. GDP	AK Min. GDP	Crude (CL)	ANS Crude
S&P 500	-0.08	0.03	0.05	-0.05	0.44	0.16
Barclays US Aggregate	-0.54	-0.43	-0.37	-0.01	0.10	-0.27

Sources: AIDEA, Bloomberg LP, [www.statista.com](http://www.statista.com)

### Largest Components of Alaska's GDP

- Mining, Oil and Gas Extraction (*AK Min. GDP; Crude(CL); & ANS Crude*)
- Government and Government Enterprises (*AK Govt. GDP*)
- Transportation and Warehousing (*AK Trans GDP*)
- Education Services (*AK Ede. GDP*)

### Observations:

- Correlation is measured on a scale of -1.0 to 1.0.
  - A value near 1.0 indicates a strong positive correlation
  - A value near -1.0 indicates a strong inverse correlation
  - A value near 0.0 indicates very little or no correlation
- Correlation measures the strength of the linear relationship between two variables
- Relationships between asset classes are as important as standard deviation
- This matrix exemplifies the hedge like performance of the Barclays US Aggregate against the main economic drivers of the Alaskan economy

**Standard Deviation** is a statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically is. The wider the typical range of returns, the higher the standard deviation of returns, and the higher the portfolio risk.

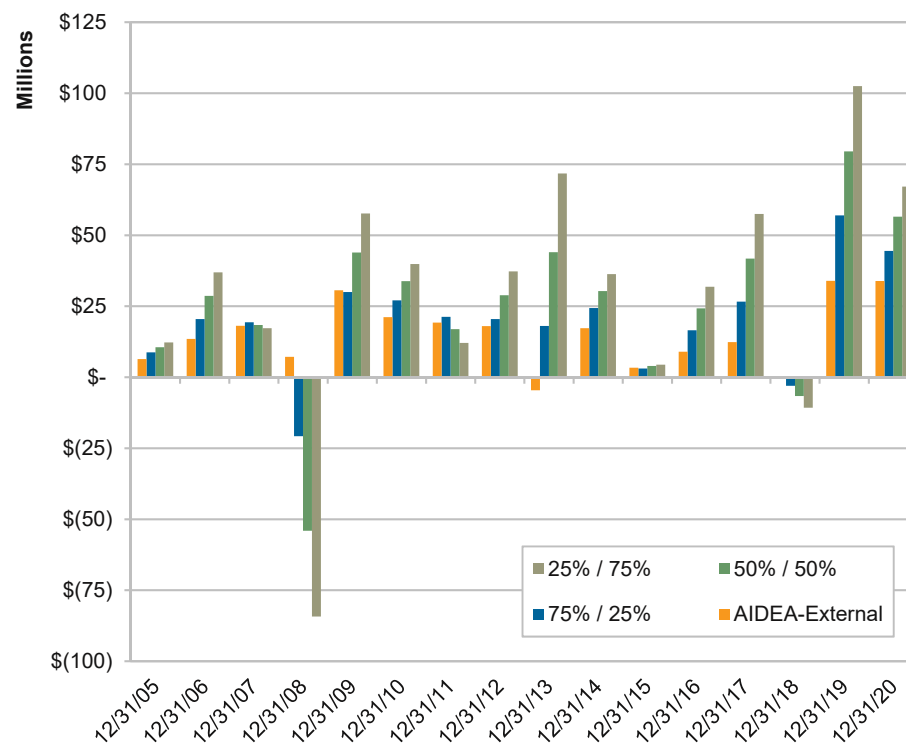
# AIDEA Investment Analysis

## Dollar returns through time

Year	AIDEA Ext Managers	75% AIDEA / 25% Equity	50% AIDEA / 50% Equity	25% AIDEA / 75% Equity
12/31/20	\$ 33,843,098	\$ 44,434,232	\$ 56,491,567	\$ 67,084,123
12/31/19	\$ 33,897,937	\$ 56,933,404	\$ 79,493,114	\$ 102,475,251
12/31/18	\$ (302,833)	\$ (3,040,020)	\$ (6,632,611)	\$ (10,735,081)
12/31/17	\$ 12,357,913	\$ 26,598,243	\$ 41,758,850	\$ 57,454,878
12/31/16	\$ 8,984,553	\$ 16,522,739	\$ 24,239,113	\$ 31,836,530
12/31/15	\$ 3,333,127	\$ 3,064,089	\$ 3,940,055	\$ 4,418,534
12/31/14	\$ 17,219,260	\$ 24,364,119	\$ 30,328,384	\$ 36,264,924
12/31/13	\$ (4,602,019)	\$ 18,028,778	\$ 44,019,069	\$ 71,733,043
12/31/12	\$ 17,995,172	\$ 20,425,102	\$ 28,837,162	\$ 37,219,333
12/31/11	\$ 19,215,017	\$ 21,269,059	\$ 16,906,808	\$ 12,064,847
12/31/10	\$ 21,118,743	\$ 27,025,192	\$ 33,788,824	\$ 39,824,488
12/31/09	\$ 30,600,695	\$ 29,978,223	\$ 43,909,889	\$ 57,651,296
12/31/08	\$ 7,132,550	\$ (20,808,881)	\$ (54,106,830)	\$ (84,297,139)
12/31/07	\$ 18,107,667	\$ 19,353,492	\$ 18,396,867	\$ 17,228,491
12/31/06	\$ 13,478,987	\$ 20,449,952	\$ 28,602,724	\$ 36,896,992
12/31/05	\$ 6,377,834	\$ 8,744,461	\$ 10,549,760	\$ 12,229,898

Total	\$ 238,757,700	\$ 313,342,184	\$ 400,522,744	\$ 489,350,409
	△ \$ 74,584,484	\$ 161,765,044	\$ 250,592,708	

## Investment Earnings

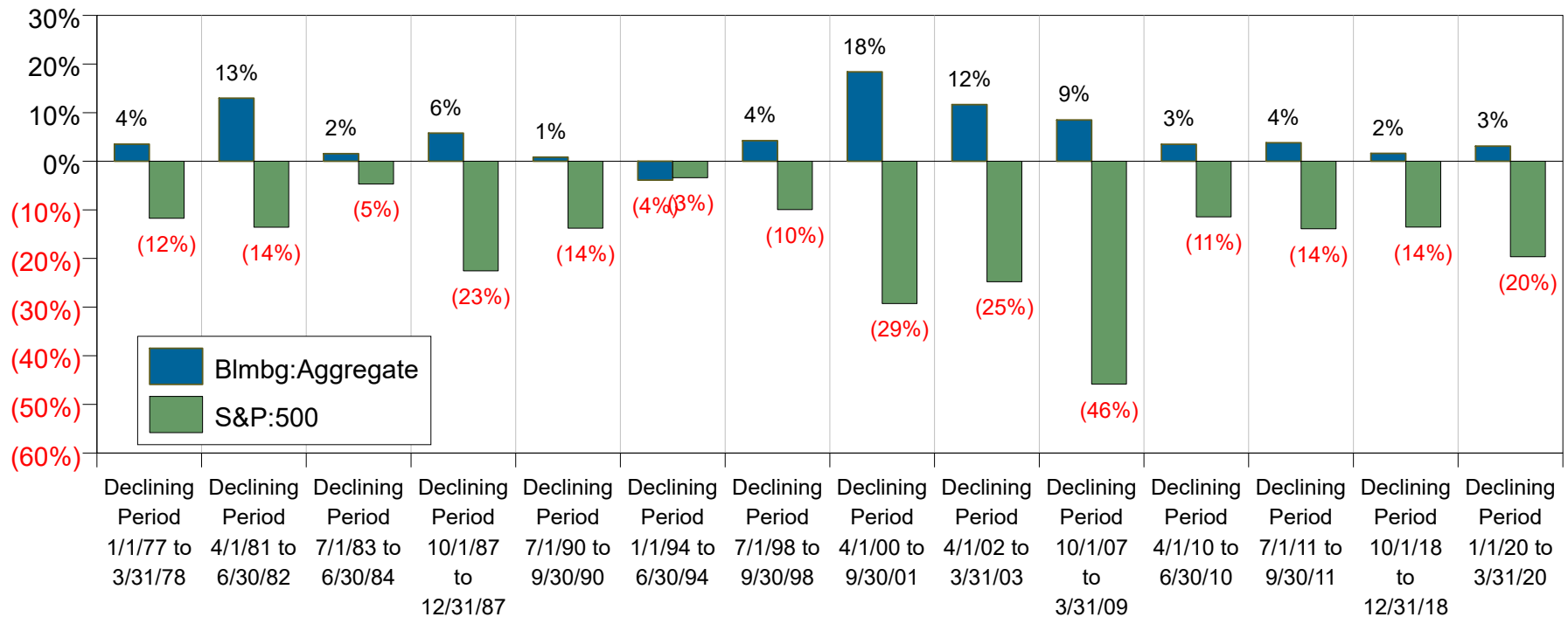


- Since 2005, AIDEA's external fixed income managers have delivered cumulative earnings of nearly \$240 million to the investment program.
- Hypothetical blended portfolios with increasing equity exposure would have delivered more earnings, with the exceptions being 2008 and 2018.

# Fixed Income

## Role as the “Anchor to Windward”

### Cumulative Returns for Domestic Equity Declining Periods



- Within calendar years, equity portfolios can see steep drawdowns. During these periods, fixed income portfolios tend to deliver positive returns.
- For example, during the first quarter of 2020 equity markets were down over 20%; meanwhile, fixed income was positive by 3%.

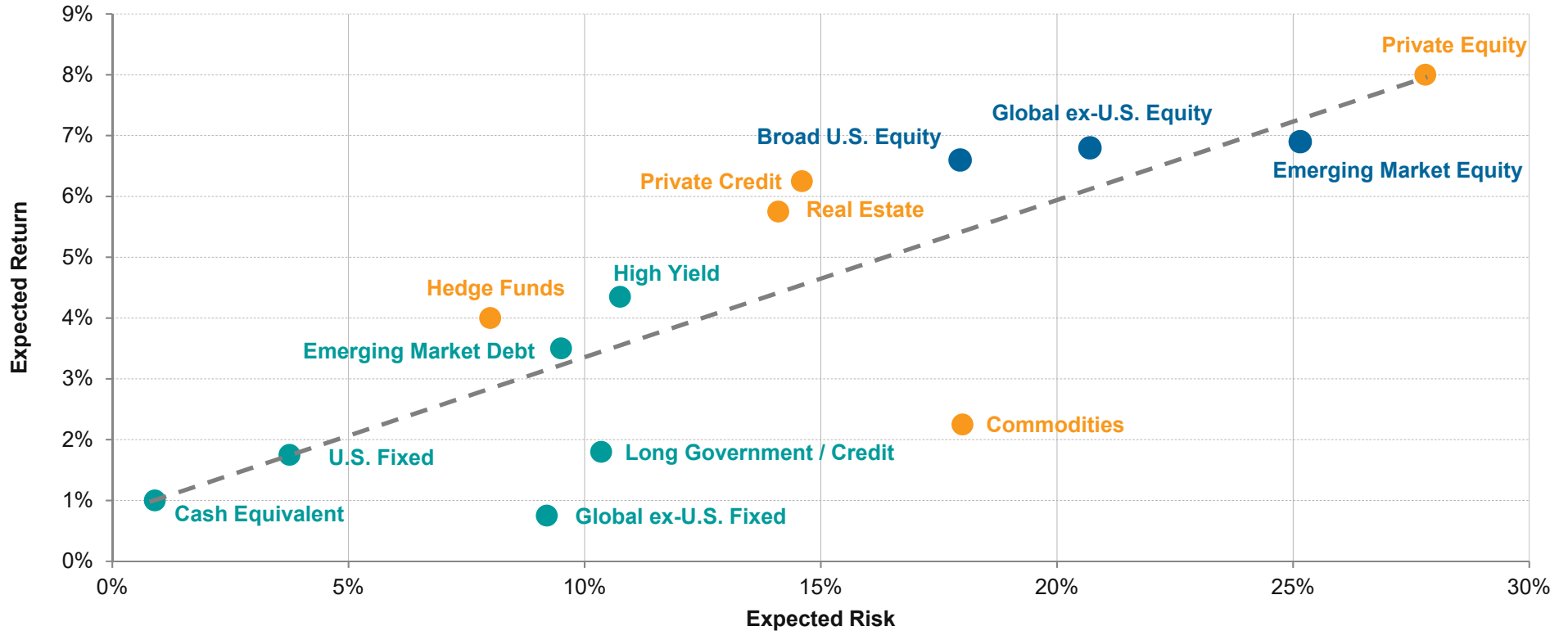
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**2021 Capital Markets Assumptions**

# Relationship Between Expected Return and Risk – Capital Market Line

Visualizing Callan's 2021–2030 capital markets assumptions



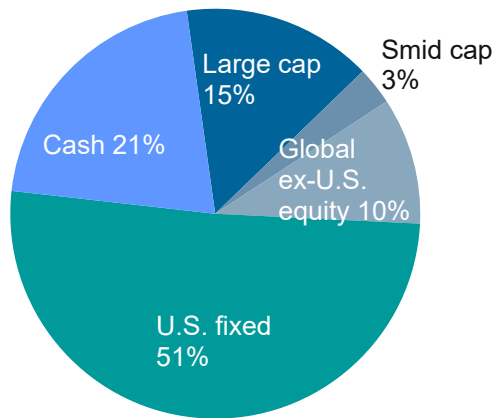
## Our forecasts link expected return to risk

For example, investors demand a greater return from private equity than public equity as compensation for higher risk

Source: Callan

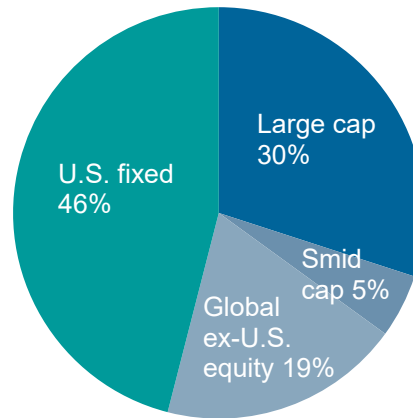
# 5% Expected Real Returns Over Past 30+ Years

Increasing Complexity →



**1991**

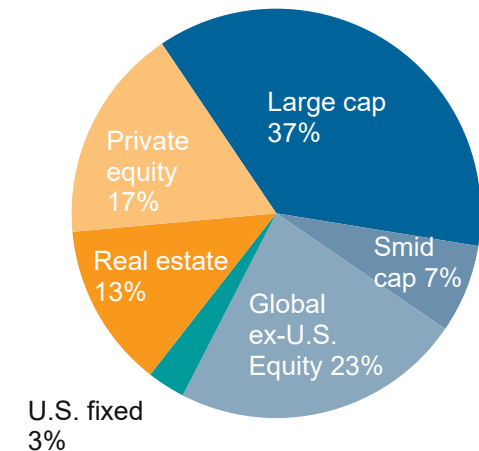
**Inflation: 5.00%**  
**Real Return: 5.0%**  
**Risk: 6.6%**



**2006**

**Inflation: 2.75%**  
**Real Return: 5.0%**  
**Risk: 9.3%**

Increasing Risk →



**2021**

**Inflation: 2.00%**  
**Real Return: 5.0%**  
**Risk: 17.3%**

Despite a 5% inflation projection, an investor could have almost three-quarters of the portfolio in low-risk assets (cash and fixed income) and still earn a 5% projected real return in 1991

15 years later, an investor would have needed over half of the portfolio in public equities to achieve a 5% projected real return

Today an investor must have 97% in return-seeking assets to earn a 5% projected real return at over 2.5x the volatility compared to 1991

Source: Callan

Callan

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**Portfolio Holdings Analysis**



# AIDEA Portfolio Holdings Analysis

## Restricted List

This is an AIDEA generated list that was provided to Callan for the historical portfolio holdings analysis. This is a non-exhaustive list of companies that have been publicly identified as having commentary, business practices or policies against Arctic drilling and development.

350 Colorado	Central Sierra Audubon Society	Earth Ministry/Washington Interfaith Power & Light	InterAmerican Clean Energy Institute	Northern Arizona Audubon Society	Sisters of the Presentation of the BVM
350 Eastside	Central Sierra Environmental Resource Center	Earthworks	Interfaith Center on Corporate Responsibility	Nuclear Information and Resource Service	Skandinaviska Enskilda Banken (SEB)
350 Maine	Cetacean Society International	EcoFlight	Interfaith Power & Light	Oakland Audubon Society	Skye Advisors LLC
350 Seattle	Charlton-Pollard Historical Neighborhood Association	Ecology Center of Southern California	Iowa Audubon	Olympic Climate Action	Société Générale
350 Silicon Valley	Chequamegon Audubon Society	EEEECHO	Izaak Walton League Mangrove Chapter	Olympic Forest Coalition	South Umpqua Rural Community Partnership
350 Vermont	Chicago Audubon Society	EGG350.org, Elgin Green Groups350.org	JP Morgan Chase	Omni Center for Peace, Justice & Ecology	Southern Maine Conservation Collaborative
350.org	Christian Council of Delmarva	Endangered Species Coalition	Juniata Valley Audubon Society	Onondaga Audubon	Southern United Neighborhoods
350Brooklyn	Citi	Environment America	Keeper of the Mountains Foundation	OUT There Adventures	Stand.earth
350NH	CitiBank	Environment Council of Rhode Island	Kentucky Interfaith Power & Light	OVEC-Ohio Valley Environmental Coalition	Standard Chartered
350NYC	Citizen's Committee for Flood Relief	Environmental Protection Information Center	Kern Audubon Society	Pennsylvania Council of Churches	Staten Island Coalition for Wetlands and Forests
A Community Voice	Citizens Local Energy Action Network	Evansville Audubon Society, Inc.	Kids Speak For Parks	Perpetual Motion NW	Staten Island Urban Center, Inc.
ABN AMRO	Clean Energy Action	Everence and the Praxis Mutual Funds	Klamath Forest Alliance	Physicians for Social Responsibility Maine Chapter	Stockbridge Audubon Chapter
Acadia Center	Clean Energy Action - Colorado	Eyak Preservation Council	Labor Network for Sustainability	Polly Dyer Cascadia Great Old Broads for Wilderness	Sunrise Movement
Al Carter Consulting	Clean Yield Asset Management	Fairbanks Climate Action Coalition	Lake Co. Audubon Society	Project Coyote	Sustaining Way
Alaska Community Action on Toxics	Climate Action Now!	Families for a Livable Climate	Laughing Whitefish Audubon Society	Protect Our Winters	SustainUS
Alaska Wilderness League	Climate Action Rhode Island	Figure 8 Investment Strategies	LBC Action	Pueblo Action Alliance	Swedbank
Alaska Wildlife Alliance	Climate Generation: A Will Steger Legacy	First Peoples Worldwide	Leadership Team of the Felician Sisters of NA	Rabobank	TD
Alaskans For Wildlife	Climate Hawks Vote	Florida Division of the Izaak Walton League of America	League of Conservation Voters	Rachel Carson Council	Tennessee Wild
Alaskans Take A Stand	Coalition for Wetlands and Forests	Florida Keys Chapter of the Izaak Walton League of America	Lloyds Banking Group	Rainforest Action Network	The American Alpine Club
Alternatives North	Commerzbank AG	Fox Valley Citizens for Peace & Justice	Lloyd's of London	Rapid Shift Network	The Climate Center
Amazon Watch	Commonwealth Bank of Australia	Franciscan Action Network	Local 100, United Labor Unions	Raptors Are The Solution	The Climate Museum
American Bird Conservancy	Conejos Clean Water	Franciscan Peace Center	LPESM Riau	Region VI Coalition for Responsible Investment	The Land Institute
American Packrafting Association	Congregation of Sisters of St. Agnes	Franciscan Sisters of Perpetual Adoration	Maine Audubon	RESTORE: The North Woods	The Lands Council
Anthropocene Alliance	Conservation Alabama	Friends of Alaska National Wildlife Refuges	Maine Conservation Voters	Rio Grande Indivisible	The Mountain Pact
Arctic Audubon Society	Conservation Congress	Friends of Great Salt Lake	Market Forces	Rivers & Birds, Inc.	The Wilderness Society
Arctic Treks LLC	Conservation Northwest	Friends of the Earth	Michigan League of Conservation Voters	Rocky Mountain Recreation Initiative	Trustees for Alaska
Arctic Wild	Conservationist Wilderness Com	Fund Our Future	Minnesota River Valley Audubon Chapter	Rocky Mountain Wild	Turtle Island Restoration Network
Artic Solar Inc	Conservatives for Responsible Stewardship	Georgia Interfaith Power and Light	Morgan Stanley	Royal Bank of Canada (RBC)	UBS
Audubon Society of Omaha	Cottonwood Institute	Glasswaters Foundation	Movement Rights	Safe Alternatives for our Forest Environment	UniCredit Group
AXA Insurance Company	Crédit Agricole	Global Urban Solutions	Mt. Zion Community Outreach, Inc.	San Diego Audubon Society	Unitarian Universalist Service Committee
Bank of America	Crédit Mutuel	Goldman Sachs	National Audubon Society	San Juan Citizens Alliance	US Bancorp
Bank of Montreal (BMO)	Credit Suisse Group	Great Basin Resource Watch	National Australia Bank	San Luis Valley Ecosystem Council	Utah Physicians for a Healthy Environment
Barclays	Cultural Survival	Great Old Broads for Wilderness	National Wildlife Refuge Association	Santander	Vermont Conservation Voters
Basin and Range Watch	Cypress Chapter of the Izaak Walton League of America	Green America	Native American Rights Fund	Save Our Canyons	Voices for Earth Justice
BBVA	Danske Bank	Green Chalice of the Christian Church (Disciples of Christ)	Native American Rights Fund	Save Our Illinois Land	Vote Climate
Bernstein Construction	Decatur Audubon Society	Green Latinos	Natixis	Scotiabank	Washington Wild
BNP Paribas	Defenders of Wildlife	GreenFaith	Natural Resources Council of Maine	Scott Community College Environmental Club	Wells Fargo
Braided River	Detroit Audubon	Greenpeace USA	Natural Resources Defense Council	Seventh Generation Interfaith	Western Environmental Law Center
Brighter Green	Deutsche Bank	Green-Rock Audubon Society	Nature Abounds	Sheep Mountain Alliance	Western Watersheds Project
Bucks County Audubon Society	DNC Environment and Climate Crisis Council	Gwich'in Steering Committee	NatWest	Sierra Club	Westpac
Caixabank	Dominican Sisters ~ Grand Rapids	Harrington Investments, Inc.	NDN Collective	Sierra Club Foundation	Wild Heritage
Californians for Western Wilderness	Dominican Sisters of Sinsinawa Peace and Justice Office	HBCUs Outside	New Energy Economy	Sierra Forest Legacy	WildEarth Guardians
Call to Action Colorado	Dominican Sisters of Sparkill	Hip Hop Caucus	New Jersey Sierra Club, Ocean Group	Sisters of Bon Secours USA	Wilderness in the City
Canadian Arctic Resources Committee	Dominican Sisters of the Roman Congregation	Hispanic Access Foundation	New Mexico Horse Council	Sisters of Charity of Saint Elizabeth	Wilderness Watch
Canadian Imperial Bank of Commerce (CIBC)	DownRiver Alliance	Hrrrl Scouts	New Mexico Sportsmen	Sisters of Mary Reparatrix	Wildlife Adventures
Canadian Parks and Wilderness Society, Yukon Chapter	Dunes-Calumet Audubon Society	HSBC	New Mexico Voices for Children	Sisters of Mercy of the Americas Justice Team	Winter Wildlands Alliance
Cass County MN Chapter, Izaak Walton League of America	Duval Audubon Society	Illinois Division of the Izaak Walton League	North Cascades Audubon Society	Sisters of St. Dominic of Blauvelt, New York	Wintu Audubon Society
Catholic Network US	Earth Action, Inc	Indigenous Environmental Network	Northcoast Environmental Center	Sisters of St. Dominic of Tacoma and Associates	Wisconsin Conservation Voters
Center for Biological Diversity	Earth Ethics, Inc.	Information Network for Responsible Mining	Northeastern Wisconsin (NEW) Audubon Society	Sisters of St. Francis-Dubuque	Wisconsin Metro Audubon Society
Central Colorado Wilderness Coalition	Earth Island Institute	ING	Northern Alaska Environmental Center	Sisters of the Holy Names, U.S.-Ontario Province	Women's Earth and Climate Action Network (WECAN)
					Zumbro Valley Audubon
					Zurich Insurance Group

# AIDEA Portfolio Holdings Analysis

## Barrow Hanley

### Findings:

- As of June 30, 2021 Barrow Hanley identified 21 issues (12 distinct companies) held in the investment portfolio that are on the potential restricted companies list provided by AIDEA
- All of the issues are banks, and cumulatively represent 7% of the portfolio or a market value of \$13.4 million
- Barrow Hanley has historically had an overweight allocation to banks, which has varied over time and ranged from a 2.6% o/w three years ago to a 3.5% o/w on June 30.
- Currently, the Financials sector makes up 8.1% of the Bloomberg Aggregate Bond Index, and Bank make up 5.5% of that total.

Cusip	Security	Coupon	Maturity Date	Pct Assets (%)	Market Value Plus Accrual (\$)
06051GFC8	Bank of America	5.000	1/21/2044	0.6	1,162,929.27
06051GJS9	Bank of America	1.734	7/22/2027	0.5	879,931.34
06051GJZ3	Bank of America	2.087	6/14/2029	0.1	287,732.45
06367WHH9	Bank of Montreal	3.300	2/5/2024	0.4	731,842.87
06739GCR8	Barclays	1.700	5/12/2022	0.2	319,289.25
172967MP3	Citigroup Inc	4.412	3/31/2031	0.8	1,587,557.30
38141GYA6	Goldman Sachs Gp	1.431	3/9/2027	0.4	716,474.33
38141GYB4	Goldman Sachs Gp	2.615	4/22/2032	0.2	308,309.83
38141GYG3	Goldman Sachs Gp	1.542	9/10/2027	0.3	574,250.58
46625HRY8	JPMorgan Chase	3.782	2/1/2028	0.3	647,819.88
46647PAJ5	JPMorgan Chase	3.882	7/24/2038	0.3	583,976.00
46647PBF2	JPMorgan Chase	2.301	10/15/2025	0.5	1,051,635.77
6174468R3	Morgan Stanley	0.864	10/21/2025	0.1	220,300.52
6174468U6	Morgan Stanley	1.794	2/13/2032	0.3	571,578.53
61744YAK4	Morgan Stanley	3.591	7/22/2028	0.3	668,244.80
78015K7C2	Royal Bank of Canada	2.250	11/1/2024	0.3	672,836.80
902674YA2	UBS AG London	1.750	4/21/2022	0.2	339,868.95
91159HJA9	US Bancorp	1.375	7/22/2030	0.2	469,428.94
94974BGU8	Wells Fargo Co	4.750	12/7/2046	0.2	393,131.06
95000U2J1	Wells Fargo Co	2.572	2/11/2031	0.5	941,283.70
961214ER0	Westpack Banking	1.150	6/3/2026	0.2	300,480.75
				6.9	\$ 13,428,902.92

# AIDEA Portfolio Holdings Analysis

## Barrow Hanley

### Attribution:

- Over a 1-year period through June 30, 2021 the return differential between the existing portfolio and the portfolio that excludes the restricted companies is **+12 bps**.
- The return differential over a 3-year period is **+8 bps**.
- The analysis assumes an increase in the remaining credit holdings within the portfolio, as banks were reduced, in order to keep the portfolio equally allocated to credit as the composite strategy.

Portfolio 1yr Return	0.15%
Portfolio 1yr Return ex holdings list	0.27%
Differential	0.12%

Portfolio 3yr Return	6.00%
Portfolio 3yr Return ex holdings list	6.08%
Differential	0.08%

### Forward-Looking Assessment:

- As of June 30, 2021 Banks represented 5.5% of the Bloomberg Barclays Aggregate Index and nearly 18% of the Bloomberg Barclays U.S. Investment Grade Index. Having little or no exposure to the subsector can certainly impact performance over time.
- Although the period under evaluation shows that excluding banks would have helped, there will likely be a point in time when their contribution to excess returns is meaningful. One such example would be a more normalized interest rate environment.
- Since the GFC there has been greater regulatory oversight on money center banks and also unprecedented monetary stimulus which has resulted in extremely low interest rates.
- Barrow Hanley continues to be supportive of banks:
  - Banking subsector less likely to experience M&A activity which can be harmful to bond holders
  - Prefer the cyclical outlook for Financials, in general, over Industrials; Banks' partial hedge against higher rates is favorable
  - Banks are higher quality issues due to their strong capital ratios
  - Banks provide liquidity to the portfolio
- If AIDEA decides to restrict these companies, Barrow Hanley's Charles River Compliance System can be hardcoded so that the portfolio does not receive an allocation to these specific issues.

# AIDEA Portfolio Holdings Analysis

## Alaska Permanent Capital Management

### Findings:

- As of June 30, 2021 APCM identified 7 issues held in the investment portfolio that are on the potential restricted companies list provided by AIDEA
- All of the issues are banks, and cumulatively represent 5.7% of the portfolio or a market value of \$10.5 million. This exposure has been roughly stable over the past three years.

Security	Percent of Portfolio	Market Value
BNS 1 5/8 05/01/23	0.38%	\$715,372
GS 3 5/8 01/22/23	0.85%	\$1,574,715
JPM 3 7/8 02/01/24	1.16%	\$2,166,260
WFC 3.3 09/09/24	0.58%	\$1,078,130
MS 3 7/8 04/29/24	0.61%	\$1,128,950
BAC 4.443 01/20/48	1.00%	\$1,859,670
C 4.281 04/24/48	1.07%	\$1,990,128

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# AIDEA Portfolio Holdings Analysis

## Alaska Permanent Capital Management

### Attribution:

- The combined annualized return for the seven issuers owned by APCM was approximately **16 basis points** to the portfolio taken in account at the time of purchase. This compares to similar Treasuries over the same time periods of **10 basis points**.
- The holdings on the restricted list drove approximately **6 basis points** of outperformance cumulatively versus treasuries since the time of purchase.
- Looking at other financial names (such as regional banks) with similar durations, the outperformance driven by the holdings on the restricted list drops to a few basis points, becoming effectively negligible.

### Forward-Looking Assessment:

- Most of these names are highly liquid and generally come to market with new issues throughout the year. These names commonly have a higher credit rating than regional banks within the index.
- Exiting the positions should not have an effect on the portfolio corporate duration over time. The duration of the combined restricted list securities is similar in duration to that of banking sector of the Bloomberg aggregate.
- Currently when corporate spreads are at historical tights, the impact to the performance moving forward would be low over the near future. Very little outperformance will be gained from companies on the restricted list compared to other options.
- There may be slight challenges in finding more financial names as the names represented on the restricted list are very liquid, but overall, APCM believes there are enough credit names and spread product to make up for yield that may be lost.
- If it is the desire of the AIDEA board to remove these names the immediate impact on the portfolio would be rotating out of these into more regional bank names and/or pushing up exposure to other financial names and/or sectors already in the portfolio.

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## Disclaimers

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This report is for informational purposes only and should not be construed as legal or tax advice on any matter. Any decision you make on the basis of this content is your sole responsibility. You should consult with legal and tax advisers before applying any of this information to your particular situation.

This report may consist of statements of opinion, which are made as of the date they are expressed and are not statements of fact.

Reference to or inclusion in this report of any product, service or entity should not be construed as a recommendation, approval, affiliation or endorsement of such product, service or entity by Callan.

Past performance is no guarantee of future results.

The statements made herein may include forward-looking statements regarding future results. The forward-looking statements herein: (i) are best estimations consistent with the information available as of the date hereof and (ii) involve known and unknown risks and uncertainties such that actual results may differ materially from these statements. There is no obligation to update or alter any forward-looking statement, whether as a result of new information, future events or otherwise. Undue reliance should not be placed on forward-looking statements.



## Hypothetical Investment Analysis

Prepared for the Budget and Audit Subcommittee Meeting on June 8, 2021

*Provide a hypothetical historical return assessment of the externally managed investments using various weighted allocations to US equities.*

### Assumptions and Inputs

- Only external managers were used in the analysis for the period from 12/31/2015 to 12/31/2020.
- The Standard & Poor's 500 Index (S&P 500) was used due to its underlying construction, its ability to accurately represent the state of the US economy and its mass market utilization as the equity benchmark. The SPDR S&P 500 ETF Trust (SPY) was used to represent the equity allocation due to construction and design to closely track the S&P 500 Index
- The Bloomberg Barclays US Aggregate Bond Index is the documented benchmark for AIDEA's externally managed investments. The iShares Core US Aggregate Bond ETF (AGG) was used to replicate this index due to its constructions and design to closely track the Bloomberg Barclays US Aggregate Bond Index
- The 3-month Treasury Bill was used as the benchmark for a risk-free rate of return. The ICE BofA US 3-month Treasury Bill Index metrics were used in reflect a constant maturity allocation for the analysis period.
- Hypothetical weightings are assumed to remain balanced throughout analysis
- Transaction cost was not factored into the analysis
- Information taken from sources deemed to be accurate



## Standard Deviation

Standard Deviation is a statistical measurement in finance that, when applied to the annual rate of return of an investment, sheds light on that investment's historical volatility. Standard deviation rises as prices become more volatile. As price action calms, standard deviation heads lower.

### Example:

- Average Investment Returns for 5 years: 10%
- Standard Deviation: 4%

*This Standard Deviation indicates that most of the time an investor can expect this investment returns to range between 6% and 14% (10% +/- 4%).*

## Sharpe Ratio

Sharpe Ratio is the average return earned in excess of the risk-free rate per unit of total risk. The ratio assumes risk is equal to volatility. A high Sharpe ratio is good when compared to similar portfolios or funds with lower returns. This has become the most widely used method for calculating the risk-adjusted return.

### Example:

- Investment A generates a return of 15%,
- Investment B generates a return of 12%.
- The risk-free rate is 5%
- Investment A has a standard deviation of 8%
- Investment B has a standard deviation of 5%.

Investment A has a Sharpe Ratio of 1.25

Investment B has a Sharper Ratio of 1.4

*Based on this example, even though Investment A had a higher return, Investment B was able to generate a higher return on a risk-adjusted basis.*

# Returns and Risk Adjusted Return Metrics for Trailing One, Three and Five Year Periods Ended December 31, 2020

Trailing 1 Year Performance as of 12/31/2020	Cumulative Return	Annualized Return	Standard Deviation	Sharpe Ratio
AIDEA	8.39%	8.39%	3.23%	2.39
Barclays US Aggregate	7.47%	7.47%	8.50%	0.80
S&P 500	18.89%	18.89%	34.83%	0.51

*Since 1990, the worst year for the Barclays US Aggregate Index was -2.9% in 1994 and -38.0% for the S&P 500 in 2008.*

Trailing 3 Year Performance as of 12/31/2020	Cumulative Return	Annualized Return	Standard Deviation	Sharpe Ratio
AIDEA	17.50%	5.52%	3.31%	1.18
Barclays US Aggregate	16.68%	5.26%	4.84%	0.75
S&P 500	48.82%	14.17%	21.65%	0.58

**The S&P 500 experienced 6 total drawdowns greater than -5.0% for the period.**

1. **2016:** -5.52% drawdown; 8 trading days to recover
2. **2018:** -10.10% drawdown; 114 trading days to recover
3. **2018:** -19.36% drawdown; 75 trading days to recover
4. **2019:** -6.62% drawdown; 13 trading days to recover
5. **2019:** -5.99% drawdown; 51 trading days to recover
6. **2020:** -33.79% drawdown; 97 trading days to recover

Trailing 5 Year Performance as of 12/31/2020	Cumulative Return	Annualized Return	Standard Deviation	Sharpe Ratio
AIDEA	25.12%	4.58%	3.35%	1.01
Barclays US Aggregate	23.74%	4.35%	4.14%	0.76
S&P 500	102.96%	15.21%	16.85%	0.83

Sources: Bloomberg LP; Callan LLC

# Hypothetical Blended Return and Risk Adjusted Metrics for Trailing One, Three and Five Year Periods Ended December 31, 2020

	S&P 500 Weighting			
	10%	30%	50%	
<b>Trailing 1 Year</b>				<b>AIDEA</b>
AIDEA/S&P Blended Annualized Return	9.39%	11.39%	13.39%	8.39%
Standard Deviation	6.39%	12.71%	19.03%	3.23
Sharpe ratio	2.20	1.83	1.45	2.39
Superior Risk Adjusted Returns	No	No	No	
<b>Trailing 3 Year</b>				<b>AIDEA</b>
AIDEA/S&P Blended Annualized Return	6.39%	8.12%	9.85%	5.52%
Standard Deviation	5.14%	8.81%	12.48%	3.31%
Sharpe ratio	1.12	1.00	0.88	1.18
Superior Risk Adjusted Returns	No	No	No	
<b>Trailing 5 Year</b>				<b>AIDEA</b>
AIDEA/S&P Blended Annualized Return	5.65%	7.77%	9.90%	4.58%
Standard Deviation	4.70%	7.40%	10.10%	3.35%
Sharpe ratio	0.99	0.96	0.92	1.01
Superior Risk Adjusted Returns	No	No	No	

**Analysis:**

AIDEA external manager returns for the 1, 3 and 5 year periods were blended with a weighted equity allocation ranging from 10% to 50%. This produced hypothetical historical annualized returns and risk adjusted metrics.

**Conclusion:**

Any allocation weighting to equities does increase total returns but also dramatically increases volatility while reducing the overall risk adjusted return profile when benchmarked against AIDEA external managers.

Sources: Bloomberg LP; Callan LLC; AIDEA

# Correlation Matrix: 10 Year Period from 12/31/2010 to 12/31/2020

Correlation measures the strength of the linear relationship between two variables and it can be used to help construct investment diversification. The S&P 500 is representing an equity allocation and the Barclays US Aggregate is representation AIDEA’s external manager allocation due to the strong correlation in long-term performance and portfolio construction.

	AK Trans. GDP	AK Govt. GDP	AK Edu. GDP	AK Min. GDP	AK Hlth. GDP	Crude (CL)	ANS Crude
<b>S&amp;P 500</b>	-0.08	0.03	0.05	-0.05	-0.34	0.44	0.16
<b>Barclays US Aggregate</b>	-0.54	-0.43	-0.37	-0.01	-0.42	0.10	-0.27

- AK Trans GDP: Alaska Transportation and Warehousing GDP
- AK Govt. GDP: Alaska Government GDP
- AK Ede. GDP: Alaska Education Services GDP
- AK Min. GDP: Alaska Mining GDP
- AK Hlth. GDP: Alaska Health Care and Social Assistance
- Correlation is measures on a scale of -1.0 to 1.0.
- A value near 1.0 indicates a strong positive correlation
- A value near -1.0 indicates a strong inverse correlation
- A value near 0.0 indicates very little or no correlation

### Largest Components of Alaska’s GDP

- Mining, Oil and Gas Extraction
- Government and Government Enterprises
- Transportation and Warehousing
- Education Services

Sources: Bloomberg LP, [www.statista.com](http://www.statista.com)

# Department of Revenue (DoR) Fiduciary Assets 12/31/2015 to 12/31/2020

DoR Fiduciary Assets		Cash	Fixed Income	US Equity	Intl. Equity	Fee/ Operating Expenses		SMA/Pooled
Internally Managed		47.50%	28.52%			0.17%		Pooled
Externally Managed				14.42%	9.58%			
AIDEA- External		Cash	Fixed Income	US Equity	Intl. Equity	Fee/ Operating Expenses		SMA/Pooled
Barrow Hanley			100%			0.21%	0.16%	SMA
Alaska Permanent Capital			100%			0.11%		

### SMA vs Pooled:

Separately Managed Account (SMA) is a portfolio of individual securities managed by an asset management firm. As an investor in an SMA, you directly own all securities in the account. This can provide the investor more control and transparency of the investments. Pooled Investment Vehicles collect money from multiple investors and puts it in one managed portfolio. Pooled investment funds allocate the combined funds over a variety of investments that are professionally managed by one company. Investor contributions and withdrawals can affect all pooled investor returns.

Annualized Returns (net)		Cash	Fixed Income	US Equity	Intl. Equity
1 Year	DoR Internal	0.80%	8.20%	-	-
	DoR External			20.66%	10.56%
	AIDEA		8.38%		
3 Year	DoR Internal	1.76%	5.60%	-	-
	DoR External			14.41%	5.07%
	AIDEA		5.52		
5 Year	DoR Internal	1.44%	4.68%	-	-
	DoR External	-	-	-	-
	AIDEA		4.58%		

The Commissioner of Revenue is responsible for all deposits and investments of the state's money except where the Legislature has delegated that responsibility to other individuals or boards responsible for separate subdivisions or component units of the state. These quasi-independent corporations issue revenue bonds to support and promote various activities. Treasury has the responsibility for managing all of the state's money except money held by the following component units:

- Alaska Permanent Fund Corporation
- Alaska Energy Authority
- Alaska Housing Finance Corporation
- **Alaska Industrial Development and Export Authority**
- Alaska Mental Health Trust Authority
- Alaska Municipal Bond Bank Authority
- Alaska Railroad Corporation
- Alaska Student Loan Corporation

AIDEA's statutes strictly regulate the relationship between the authority and the State. Alaska Statutes, under Chapter 88. Alaska Industrial and Export Authority, enforces separate and legal independence of the authority that defines the parameters of AIDEA's financial autonomy and facilitates AIDEA's ability to work in and with the private financial markets.

Sources: Bloomberg LP; <https://treasury.dor.alaska.gov/Investments.aspx>; Callan LLC

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY  
AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

\_\_\_\_\_ *INVESTMENT MANDATE*

**THIS AGREEMENT (“AGREEMENT”)**, dated \_\_\_\_\_, is by and between X (“Manager”) and the Alaska Industrial Development and Export Authority (“AIDEA”). This Agreement establishes and governs the responsibilities and obligations of the parties with regard to the management and investment of a certain portion of the assets of AIDEA for which AIDEA has investment management responsibility.

**RECITALS**

AIDEA under the direction and control of its Board is given complete authority for the management of the Fund and the investment of its assets by virtue of Alaska Statutes 44.88.060 and Alaska Statute 44.88.155; and

The Boards have the authority to enter into this Agreement by virtue of Alaska Statutes 44.88.060 and 37.10.071; and

The Boards have delegated such authority to enter into agreements of this nature to the Executive Director by and through Article II, Section 4(a) of AIDEA Bylaws; and

AIDEA desires to appoint the Manager to manage and invest the Cash, publicly traded securities, and other assets held in the Custody Accounts as provided in this Agreement; and

The Manager is willing to undertake performance of this Agreement under the terms provided in this Agreement;

**NOW, THEREFORE**, in consideration of the recitals above (which are hereby incorporated into and shall be considered part of this Agreement), and of the premises and of the mutual promises and covenants contained in this Agreement, the receipt and sufficiency of which consideration is hereby acknowledged, AIDEA and the Manager (the parties hereto) agree as set forth below.

**ARTICLE 1**  
**DEFINITIONS**

All references herein to “**Articles**,” “**Sections**,” and “**Exhibits**” refer to Articles, Sections, and Exhibits of this Agreement, unless otherwise indicated.

AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

As used in this Agreement (including the Exhibits), the following terms have the following respective meanings:

**“Advisers Act”** means the Investment Advisers Act of 1940, as amended (15 U.S.C. Sections 80b-1 *et. seq.*) and the rules and regulations thereunder.

**“Agent”** means each agent, contractor, subcontractor, and/or other provider to the Manager of services that are related to the Manager’s performance of its duties under this Agreement, including brokerage firms.

**“Agreement”** means this *Agreement for Investment Management Services* and all Exhibits attached hereto and documents specifically incorporated by reference.

**“AIDEA”** means the Alaska Industrial Development and Export Authority, a public corporation of the State of Alaska established by Title 44, Chapter 88 of the Alaska Statutes to manage and invest the assets of the Fund.

**“AIDEA Investment Policy”** means the investment policy (originally adopted by the Board on \_\_\_\_\_, XXXX through Resolution XX-XX, and the most recent version as of the effective date hereof is dated \_\_\_\_\_, XXXX), as the same may be updated from time to time.

**“Average Market Value of the Property”** means the sum of the Market Value of the Property at the end of each month of a calendar quarter, divided by three (3).

**“Benchmark”** has the meaning given in Section 4.7.

**“Board”** means the membership of the Alaska Industrial and Development Authority established by Alaska Statute 44.88.030

**“Cash”** means U.S. and non-U.S. currency, U.S. Treasury debt obligations that have a term on the date of purchase of one (1) year or less, any balance held for the Manager in the Unitized Cash Fund, and any balance held for the Manager in the Custodian’s short-term investment fund.

**“Claim”** includes demands, claims, causes of action, losses, fines, penalties, judgments, damages (including punitive and consequential damages, if awarded by the final judgment of a court of competent jurisdiction), or liabilities of any nature and kind whatsoever (including attorney’s fees and other legal fees and expenses).

**“Custodian”** means AIDEA’s custody and safekeeping agent designated and identified by Instruction of AIDEA who is responsible for the physical custody and safekeeping of the Property, as provided in Section 3.2.

AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

**“Custody Accounts”** means the accounts where certain assets of the Fund are held by AIDEA’s Custodian in the name of and on behalf of the Fund and which is identified at Exhibit I.

**“Dollars”** or **“\$”** means U.S. dollars.

**“Effective Cash Exposure”** means the Net Cash Position in the applicable Custody Account plus Cash held in the Manager’s futures account minus the combined Notional Value of all exchange traded stock index futures.

**“Effective Date”** means the date this Agreement is effective, which is the date the Management Accounts are funded.

**“ETF”** means an exchange traded fund including, by way of example, shares of the SPDRs, Standard & Poor’s Depository Receipts, an S&P 500 Index exchange traded fund.

**“Executive Director”** means the executive director of AIDEA as identified in Alaska Statute 44.88.050 (c). **“Executive Director”** includes a person designated as Executive Director by the Board or under an applicable resolution of the Board to act during periods that the position of Executive Director is vacant or that the Executive Director is incapacitated or otherwise unavailable.

**“Fail”** has the meaning given in Section 4.6.

**“FDIC”** means the Federal Deposit Insurance.

**“Fund”** means the Alaska Industrial Development and Export Authority (AIDEA) revolving fund under AS 44.88.060 and the enterprise development fund under AS 44.88.155.

**“Instruction”** means communication in Writing to the Manager signed on behalf of AIDEA by the Executive Director. In addition, if the Executive Director, by Instruction and for purposes of all or specified provisions of this Agreement, notifies the Manager that an Instruction may be signed on behalf of AIDEA by one or more specified officers or employees of AIDEA, the term includes any communication In Writing signed on behalf of AIDEA by such officer or employee, so long as the communication is, on its face, within the scope of authority granted to the officer or employee by the Executive Director by Instruction. Unless a different period is specified in the Agreement, an Instruction may be oral if subsequently confirmed in Writing within five (5) business days. An Instruction shall remain in full force and effect until revoked, amended, or otherwise affected by a subsequent Instruction. In the event of a conflict between any provision of this Agreement and any Instruction, the provision of this Agreement shall prevail.

**“In Writing”** means any transmission of written content, whether by mail, private carrier, courier, facsimile transmission, or e-mail, including, for purposes of Section 5.2, another form of electronic transmission utilized by the Manager.



AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

**“Investment Guidelines”** means the guidelines, limitations, restrictions and other provisions set forth in Exhibits \_\_\_\_\_.

**“Management Accounts”** means the investment management accounts to be opened and maintained by the Manager pursuant to Section 3.1.

**“Manager”** means X, a registered investment advisor.

**“Market Value of the Property”** means the sum of the market value on a trade date basis of all Property held in a Custody Account. The market value will be established by the Custodian.

**“Market Value of Securities”** means the sum of the market value on a trade date basis of all Property, minus the Net Cash Position, held in a Custody Account. The market value will be established by the Custodian.

**“Net Cash Position”** means the market value on a trade date basis of all Cash plus pending security sales minus pending security purchases in a Custody Account. The market value will be established by the Custodian.

**“Notional Value”** for exchange traded stock index futures contracts, is computed as the product of the contract’s underlying index spot price, quantity of contracts held, contract multiplier, and appropriate currency conversion rate.

**“Property”** means the Net Cash Position, plus all publicly traded securities and other assets of the Fund held or reported in a Custody Account.

**“SEC”** means the U.S. Securities and Exchange Commission.

**“U.S.”** means the United States of America.

**ARTICLE 2  
APPOINTMENT**

Subject to the terms and conditions of this Agreement and applicable law, AIDEA hereby appoints the Manager as investment manager of all Property held in each Custody Account with the investment mandates described in Exhibits \_\_\_\_\_.

The Manager hereby accepts such appointment and agrees to act in such capacity with regard to such Property in accordance with the terms and conditions set out in this Agreement. The Manager is hereby authorized to invest and reinvest the Property (including all income, proceeds and profits derived therefrom), select brokers and dealers, and buy and sell securities for the account of the Fund in accordance with the terms and conditions of this Agreement and applicable law without Instruction from AIDEA and without obligation on its part to give prior notice to AIDEA. The amount of such Property held or to be held in a Custody Account is entirely at the discretion of AIDEA and may be

## AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

changed in whole or in part at any time by AIDEA without obligation on its part to give prior notice to the Manager and without the necessity of amending or otherwise modifying this Agreement. AIDEA will notify the Manager promptly of any changes by AIDEA in the amount of such Property. The Manager hereby expressly acknowledges that AIDEA is using or may use other investment advisers to manage Fund assets and that AIDEA has made no representation or guaranty as to a specific level or percentage or amount of Property that will be initially placed in or thereafter maintained in a Custody Account.

### ARTICLE 3 ACCOUNT

**Section 3.1. Management Accounts.** The Manager is hereby authorized and directed to, and shall, open and maintain Management Accounts in such names as AIDEA may direct. Each Management Account shall be used solely for record-keeping purposes and shall not be used to hold the Property, in whole or in part. A separate Management Account shall be opened and maintained with respect to each of the investment mandates described in Exhibits \_\_\_\_\_ . For the avoidance of doubt, the Management fee shall be determined separately with respect to each Management Account. Each Management Account and the Property reflected therein shall be segregated and set apart on the books of the Manager at all times from other investment management accounts of the Manager and from all other persons, firms, and corporations. Such Property shall at all times be and remain the property of the Fund, and the Manager shall not be entitled to make use of such Property except pursuant to the terms and conditions of this Agreement.

**Section 3.2. Custody Accounts.** The duties and responsibilities of the Manager are solely those set out in this Agreement, and it shall not be obligated to perform any services or take any actions not provided for in this Agreement, including those duties and obligations set out in the custody agreement between AIDEA and the Custodian, unless specifically agreed to by the Manager in Writing. Exclusive responsibility for the physical custody and safekeeping of the Property that is reflected in a Management Account shall at all times be and remain with such Custodian as may be designated by Instruction of AIDEA.

### ARTICLE 4 SERVICES TO BE PERFORMED

**Section 4.1. General Investment Powers.** Subject to and in accordance with the terms and conditions of this Agreement, applicable law, and AIDEA's Instructions, the Manager, as AIDEA's fiduciary, solely for the purposes set out in this Agreement and on behalf of the Authority, shall, and is hereby authorized and empowered to, invest, reinvest and dispose of the Property that is held in the Custody Accounts, without distinction between principal and income and in such a manner as the Manager, in its full discretion and without obligation on its part to give prior notice to AIDEA, may consider advisable, but within the terms and conditions of this Agreement. Without limiting the generality of the foregoing, and subject to the limitations imposed by the foregoing, the Manager is authorized and empowered to:

AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

- (a) buy, sell, exchange, convey, transfer, or otherwise acquire or dispose of any Property authorized by Section \_\_\_\_\_ of Exhibits \_\_\_\_\_ at any time for or held in the Custody Accounts;
- (b) sell or exercise any conversion privileges, subscription rights, warrants, options, bonds, receipts, and convertible securities (and such other securities or assets that may be received in connection with corporate actions) incidental to those investments authorized by Section \_\_\_\_\_ of Exhibits \_\_\_\_\_ and consent to or otherwise participate in reorganizations, mergers, consolidations, rights to tender, or other changes affecting securities in the Custody Accounts; and
- (c) invest and reinvest Cash balances in the Custody Accounts.

**Section 4.2. Investment Guidelines.** The Manager's authority to invest the Property held in each Custody Account is subject to the relevant Investment Guidelines set forth as Exhibits \_\_\_\_\_.

**Section 4.3. Administrative Powers.** Subject to and in accordance with the terms and conditions of this Agreement, applicable law and AIDEA's Instructions, the Manager, as AIDEA's fiduciary and for the account of the Fund, is authorized and empowered in its sole discretion to:

- (a) act as AIDEA's attorney-in fact, and solely for the purposes set out in this Article 4, make, execute, acknowledge, and deliver any and all lawful documents, instruments and contracts with brokers, dealers, futures commission merchants, banks, issuers or any other agent or counterparty that the Manager may select from time to time as necessary in the Manager's reasonable discretion;
- (b) consult with, and obtain advice from, suitable professional consultants qualified in the field as to which their counsel is sought, including auditors and legal counsel to AIDEA or to the Manager or other advisers; and
- (c) exercise all other rights and powers and take any appropriate action that it considers necessary in carrying out the purposes of this Agreement; provided, however, that the only borrowings that the Manager may cause AIDEA to enter into are short-term borrowings of Cash to facilitate execution and settlement of transactions in the Custody Accounts.

For the avoidance of doubt, Manager is not authorized (i) to use its power of attorney granted in Section 4.3(a) to exercise any power not accorded to, or in excess of, the powers and authority granted to AIDEA by Alaska law; or (ii) to employ legal counsel on AIDEA's behalf without AIDEA Instructions and any consultation of legal counsel under the permission granted in

Section 4.3(b) shall have no effect on matters of privilege, client status, duties to clients, conflicts or other ethical obligations of the legal counsel consulted.

**Section 4.4. Transaction Execution.**

(a) In carrying out its duties and responsibilities hereunder, the Manager shall use its best efforts to obtain best execution of orders at the most favorable prices reasonably obtainable.

(b) To the extent practicable and not inconsistent with its obligations and responsibilities hereunder and its own policies governing best execution and commission recapture, the Manager is hereby encouraged, but not at any time or under any circumstances required, to participate in AIDEA's commission recapture program established pursuant to Board resolution; provided that, in the judgment of the Manager with respect to commission recapture, the securities prices and overall execution quality of broker/dealers participating in AIDEA's program are competitive with non-program affiliated broker/dealers. Furthermore, in carrying out its duties and responsibilities hereunder, the Manager shall consider a number of factors including –

- (1) the overall direct net economic result to the Fund including, where applicable, commissions, which might not be the lowest available, but which ordinarily will not be higher than the generally prevailing competitive range;
- (2) the financial strength and stability of the broker/dealer;
- (3) the efficiency with which transactions can be executed;
- (4) the ability to execute a transaction involving a large block of securities;
- (5) the availability of the broker/dealer to execute possibly difficult transactions in the future; and
- (6) the availability and quality of transaction and research services as defined in and in compliance with Section 28(e) of the Securities Exchange Act of 1934, as amended, and regulations thereunder.

(c) After receipt of an Instruction authorizing the Manager to do so, the Manager may execute cross orders to the extent possible with other funds or accounts maintained by the Manager and for which the Manager serves as investment manager. In doing so, the Manager shall seek the most efficient execution with no market impact for the orders at the time such orders are made. Any such actions taken under this Section 4.4(c) shall be consistent with this Agreement, applicable law and regulation, and the

internal policies and procedures of the Manager in effect at the time. Further, with respect to such actions,

- (1) the Manager shall allocate shares purchased or sold in such actions on a pro-rata basis across all accounts included in the order;
- (2) the Manager shall effect such orders at prices determined pursuant to guidelines established by the SEC in connection with similar transactions between investment companies and their affiliates, which generally are based on closing prices for exchange-ordered securities or the mean of the highest independent bid and lowest independent offer for certain other types of transactions; and
- (3) AIDEA may terminate any trade authorization given to the Manager under this Section 4.4(c) at will and at any time by Instruction; provided that such termination will not affect the completion of transactions already initiated prior to receipt of the Instruction.

**Section 4.5. Voting and Other Actions.**

(a) Pursuant to its agreement with the Custodian, AIDEA will use its best efforts to ensure that the Custodian shall promptly deliver, or cause to be delivered, to the Manager all reports, notices, proxies, and proxy soliciting materials received by the Custodian with respect to the Property.

(b) Unless Instructions to the contrary have been provided by AIDEA, the Manager, as AIDEA's agent solely for the purposes set out in this Agreement and for the account and in the name of the Fund, shall vote the securities held in the Custody Accounts in accordance with the Boards' policies on the voting of proxies, as stated in AIDEA Investment Policy (in the section entitled Public Equity Guidelines), as the same may be updated from time to time. The Manager acknowledges receipt of a copy of the Public Equity Guidelines that addresses the voting of proxies that is in effect at the time of execution of this Agreement. As and when the Board's policies on the voting of proxies are amended or superseded by subsequent action of the Board, the Manager shall thereafter comply with those policies as amended or superseded of which the Manager has been apprised by AIDEA in Writing.

(c) The Manager shall annually furnish to AIDEA copies of the Manager's written policies with respect to voting proxies and at least annually report to AIDEA how the Manager voted all proxies on behalf of AIDEA.

**Section 4.6. Settlement Failures.**

(a) Upon the failure of any securities transaction to settle or otherwise be completed when and as contractually required, including the failure of a securities broker/dealer or its agent to deliver physical securities in good form or with such evidence of ownership as agreed upon by seller and buyer to the buyer or the buyer's agent on the contractual settlement date (hereinafter referred to as a "Fail" for purposes of this Agreement), the Manager shall take all reasonable steps available to it to determine the cause of the Fail. Not later than the close of the next business day after becoming aware of the Fail, the Manager shall initiate such steps as are within the Manager's authority or control to remedy the Fail and cooperate with all parties to remedy the Fail. If the Manager, after taking such steps, is unable to remedy the Fail, the Manager shall notify AIDEA of all material facts surrounding the Fail as soon as practicable under the circumstances.

(b) If the Fail is the result of action or inaction of the Manager or is otherwise the Manager's responsibility, the Manager shall reimburse and indemnify the Fund or AIDEA, as the case may be, for any Claim resulting from or associated with the Fail including

- (1) interest, at the one-month LIBOR rate, on money not timely received because of the Fail;
- (2) costs incurred in connection with the buy-in of a failed security or similar costs; and
- (3) interest or other payments owed to other parties because of the Fail;

provided, however, the Manager shall not be liable to AIDEA, the Fund, or the State of Alaska for such Claim, so long as (i) the Manager establishes to AIDEA's reasonable satisfaction that the Fail was not the result of the Manager's failure to comply with the standard of care set forth in Section 7.1 (including with respect to the selection of broker/dealers) or other breach of this Agreement, (ii) is not otherwise the Manager's responsibility under Section 7.2, and (iii) if the Fail was the result of an action or inaction by an Agent, Section 4.6(d) applies.

(c) Notwithstanding the foregoing, the Manager shall have no liability for a Fail that results from (i) insufficient Property being held in a Custody Account due to the removal of Property from such Custody Account by AIDEA pursuant to Article 2 without prior notice to the Manager, or (ii) loaned securities not timely retrieved by the Custodian under a securities lending program despite the Manager's timely notification to the Custodian of a trade.

(d) If the Fail is the result of the action or inaction of an Agent, the Manager shall take such actions as are required under (a) of this Section 4.6, but shall not be liable to AIDEA, the Fund, or the State of Alaska for any loss so incurred, so long as the Manager establishes to AIDEA's reasonable satisfaction that, in selecting such Agent, the Manager acted in accordance with the standard of care set out in Section 7.1.

**Section 4.7. Performance Benchmark.** The benchmark against which the investment management performance of the Manager with respect to each Custody Account shall be measured during the term of this Agreement is set out in Exhibit \_\_\_\_\_ (the "**Benchmark**"). AIDEA and the Manager may change the benchmark by amending Exhibit \_\_\_\_ as provided Section 10.2.

## ARTICLE 5 GENERAL AUTHORIZATIONS AND INSTRUCTIONS

**Section 5.1. Cooperation.** The Manager shall, and hereby agrees to, cooperate with AIDEA and the Custodian in all matters pertaining to the Manager's performance hereunder and under the agreement between AIDEA and the Custodian, including –

- (a) timely reporting of all transaction information to the Custodian;
- (b) reconciling transaction, position, and other information and reports with AIDEA and the Custodian;
- (c) cooperating in the identification and remedy of each Fail; and
- (d) responding in a timely manner to all reasonable requests for information from AIDEA and the Custodian.

**Section 5.2. Instructions to Custodian.** All instructions given by the Manager to the Custodian shall be In Writing and issued by an authorized representative, employee, or officer of the Manager. Upon request of AIDEA by Instruction, a copy of all such instructions shall be given to AIDEA simultaneously with and in substantially the same manner as those given to the Custodian. Notwithstanding the foregoing, any instruction given by the Manager to the Custodian may be oral, but shall be subsequently confirmed in Writing within the time period generally applicable to the settlement period for the market to which the instruction applies.

**Section 5.3. General Authorizations.**

- (a) The Manager may act as agent for, provide investment advisory, investment management, and other services to, and generally engage in any kind of business with, others (including, without limiting the generality of the foregoing, issuers of securities, of money market instruments, or of other Property purchased for and on behalf of the Fund) to the same extent as if the Manager were not an investment manager hereunder, provided that such services do not contravene any applicable law, rule, or

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regulation or the CFA Institute (“CFAI”) *Asset Manager Code of Professional Conduct* or materially interfere with the interests of the Fund or AIDEA or the obligations of the Manager to the Fund or AIDEA as provided in this Agreement.

(b) Nothing in this Agreement shall limit or restrict the Manager or any of its officers, directors, employees, or affiliates from legally buying, selling, or trading in any securities for its or their own account or accounts. AIDEA acknowledges that the Manager, its officers, directors, employees, or affiliates and its other clients may at any time have, acquire, increase, decrease, or dispose of positions in investments that are at the same time being acquired or disposed of for the account of the Fund. However, such actions by the Manager or its officers, directors, employees, or affiliates must comply with applicable provisions of the CFA Institute *Code of Ethics and Standards of Professional Conduct*. The Manager shall have no obligation to acquire for the Fund a position in any Property which the Manager, its officers, directors, employees, or affiliates of any of them may acquire for its or their own accounts or for the account of another client.

(c) The Manager shall maintain written policies and procedures with respect to conflicts of interest by the Manager or its employees, officers, or directors and shall promptly furnish to AIDEA a copy of those policies and procedures upon execution of this Agreement and following any revisions thereto.

(d) It is understood that the Manager or affiliates of the Manager may be dealers in equity and debt securities and from time to time may be underwriters or dealers of securities that may be bought for, held in, or sold from a Custody Account. With respect to each such instance,

- (1) the Manager represents that all transactions that are effected for a Custody Account will be made solely in furtherance of the best interests of the Fund and the fact that the Manager or the Manager’s affiliate is acting as an underwriter or dealer will not be a factor in the investment decision; and
- (2) the Manager must receive permission in Writing from AIDEA prior to transacting a purchase or sale of such a security with the Manager’s affiliate when the affiliate is acting as an underwriter or dealer of that security.



**Section 5.4. Additional Required Notices.** In addition to any other notice that may be required under this Agreement,

(a) the Manager shall promptly notify AIDEA whenever and at any time that the Manager –

- (1) has Effective Cash Exposure in a Custody Account, excluding temporary Cash reserve increases associated with factors beyond the Manager's control such as additions to or distributions from such Custody Account, that, based upon the reported market value received from the Custodian, exceeds five percent (5%) of the Market Value of the Property in such Custody Account; or
- (2) wishes to increase the Effective Cash Exposure in a Custody Account by five percent (5%) or more of the Market Value of the Property in such Custody Account for a period of thirty (30) days or more;

(b) the Manager shall notify AIDEA In Writing of any material or substantial change in the personnel listed in Exhibit IV, which sets out the names, telephone and facsimile numbers, job titles, and duties and responsibilities of the initial personnel who shall have a significant role in the management or disposition of the Property prior to the effective date of such change (or, if prior notification is not possible, promptly and as soon as practicable after such change has occurred); a change of which notice is required includes a change in duties that would materially reduce the amount of time spent by a listed individual in the management or disposition of the Property; and

(c) Subject to the restrictions on assignment in Section 10.7 and under the Advisers Act, the Manager shall notify AIDEA in Writing of any change or pending change in the control or ownership of the Manager, including, as applicable, merger with or acquisition by another entity, changes in the Manager's legal form of organization, and changes in the membership of the Manager's general partners, controlling shareholders, or controlling members promptly after –

- (1) such change or contemplated change is binding on the affected parties; and
- (2) the Manager is not required under applicable law or regulation to hold information regarding such change or contemplated change confidential.

## ARTICLE 6 CONSIDERATION AND PAYMENT

**Section 6.1. Management fee.**

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- (a) In consideration of the services to be provided by the Manager pursuant to this Agreement, AIDEA will pay the Manager a management fee with respect to each Custody Account for each calendar month during the term of this Agreement (the “Management fee”) in an amount equal to the product obtained by multiplying the Average Market Value of the Property in such Custody Account for that month (as defined in § 6.1(c)) by the quotient obtained by dividing: (1) \_\_\_\_\_% by twelve (12) for the Domestic Fixed Income Investment Mandate described in Exhibit \_\_\_\_\_, and (2) \_\_\_\_\_% by twelve (12) for the Non-US Fixed Income Investment Mandate described in Exhibit \_\_\_\_\_. The Management fee for any month will be payable at the time specified in § 6.1(b).
- (b) The Management fees for all months during any calendar quarter will be calculated by the Manager as soon as reasonably practicable after the end of such quarter, and will be payable in arrears within thirty (30) days after the date after AIDEA’s receipt of the invoice, upon proper billing following the end of such calendar quarter.
- (c) For purposes of this Article 6, the “Average Market Value of the Property” with respect to a Custody Account for a calendar month means the Market Value of the Property in such Custody Account as of the end of that month, subject to the following adjustments:
- (1) If the Effective Cash Exposure in a Management Account as of the end of a calendar month (excluding new Cash transferred to the management of the Manager within five (5) trading days immediately preceding the end of that month, Cash proceeds from Securities liquidated within five (5) trading days immediately preceding the end of that month, Cash held in connection with the withdrawal of Cash or Property from the management of the Manager or the termination of such Management Account) is more than two percent (2%) of the Market Value of the Property in such Management Account as of the end of that month, the Average Market Value of the Property in the Management Account shall (subject to further adjustment as provided in clause (2) below) be the sum of (i) one hundred two percent (102%) of the Market Value of Securities in that Custody Account as of the end of that month and (ii) the net Notional Value of all long and short exchange traded stock index futures for the month.
- (2) In addition, if assets are transferred to or from the management of the Manager during a month, the Average Market Value of the Property in the applicable Custody Account for that month shall be adjusted as follows:
- (A) if assets are transferred to the management of the Manager (including the first funding of the Management Accounts) on any day other than the first day of the month, the Average Market Value of the Property in the applicable Custody Account for the month shall be reduced by the product obtained by multiplying the amount of the transfer by the quotient obtained by dividing the number of days in the month prior to and including the day on which the transfer is made by the total number of

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days in the calendar month (regardless of whether all days of that calendar month fall within the term of this Agreement); and

- (B) if assets are transferred from the management of the Manager (including the final withdrawal from the Management Accounts) on any day other than the last day of the month, the Average Market Value of the Property in the applicable Custody Account for the month shall be increased by the product obtained by multiplying the amount of the transfer by the quotient obtained by dividing the number of days prior to and including the day on which the transfer is made by the number of days in the month (regardless of whether all days of that calendar month fall within the term of this Agreement).

**Section 6.3. Compensation Following Termination of Agreement.** Notwithstanding other provisions of this Article 6 regarding method of payment and provided that the Manager is not in breach of the terms and conditions of this Agreement, following termination of this Agreement the Manager shall continue to be entitled to receive any compensation payable to the Manager that has accrued with respect to periods prior to termination.

### **Section 6.4. Most Favored Rates.**

- (a) Subject to (b) and (c) of this Section 6.4, the Manager shall promptly inform and offer to AIDEA any lower percentage rates of consideration (including performance-based fees) for substantially similar investment management services provided or offered by the Manager to any other client for a management account with a substantially similar investment mandate that is comparable to or smaller in size than a Management Account maintained under this Agreement.
- (b) The requirement of (a) of this Section 6.4 shall apply only with respect to rates of consideration provided or offered by the Manager to another client with respect to which
  - (1) the total value of all assets managed by the Manager for that other client is comparable to or less than the total value of all assets managed by the Manager for AIDEA; and
  - (2) the total amount of fees payable to the Manager by the other client on an annual basis under a substantially similar investment mandate is comparable to or less than the total amount of fees payable by AIDEA to the Manager under this Agreement on an annual basis.
- (c) The requirement of (a) of this Section 6.4 does not apply with respect to offering to AIDEA rates of consideration provided or offered by the Manager for a substantially

similar investment mandate to eleemosynary, affiliated or subadvisory clients of the Manager. The Manager will promptly disclose upon request by AIDEA, however, any lower rate of consideration provided or offered for a substantially similar investment mandate to an eleemosynary client of the Manager.

- (d) If AIDEA accepts the Manager's offer of lower percentage consideration rates under (a) of this Section 6.4, the parties shall immediately amend the Agreement to incorporate such rates beginning with the effective date of such amendment.
- (e) At the request of AIDEA, the Manager shall promptly furnish to AIDEA information relating to rates of consideration provided or offered to other clients of the Manager for substantially similar investment management services, including the market value of assets managed for such other clients and the total amount of fees payable by each such other client on an annual basis. The Manager shall not be required to disclose the identity of any such other client.

**Section 6.6. Offset.** If AIDEA in good faith determines that the Manager is required to reimburse or indemnify the Fund or AIDEA pursuant to this Agreement, AIDEA may offset any amounts owed by the Manager to AIDEA under this Agreement against amounts that AIDEA is otherwise obligated to pay the Manager pursuant to this Article 6.

## ARTICLE 7 LIABILITY AND INDEMNIFICATION

**Section 7.1. Standard of Care.** In managing the Property under this Agreement, the Manager shall exercise the care, skill, judgment, and diligence under the circumstances then prevailing that a prudent professional investment manager for hire acting in a like capacity and familiar with the matters for which the Manager has responsibility under this Agreement would exercise in the management of large investments having like character and like aims entrusted to that manager.

### **Section 7.2. Manager's Liability.**

(a) The Manager shall be liable to AIDEA for any expense or damage (including attorney's fees and other legal fees and expenses) to the Fund or AIDEA for breach of this Agreement, including breach of the Manager's standard of care provided in Section 7.1 and of its indemnification obligations under Section 7.3. Additionally, the Manager shall be fully liable to AIDEA for loss, damage, or expenses (including attorney's fees and other legal fees and expenses) to the Fund or AIDEA with respect to matters other than those relating to management of the Property in accordance with the standard of care set out in Section 7.1 or to the Manager's indemnification obligations under Section 7.3 to the extent caused by or resulting from the negligent or reckless acts or omissions or the willful misconduct of the Manager or its own officers, directors, employees, or Agents, including its failure to enforce on a good-faith, best efforts basis

such rights as it may have against any such Agent. However, while in no way limiting the Manager's standard of care under this Agreement, the Manager shall not be liable to the Fund or to AIDEA and shall not be required to indemnify either of them under Section 7.3 for any action taken or omitted by it or by any Agent in good faith, in accordance with applicable law, and without imprudence, negligence, recklessness, misfeasance, or willful misconduct and strictly in accordance with Instructions of AIDEA that it reasonably believed to be genuine and valid. Further, so long as the Manager or its Agent shall pursue all rights and remedies reasonably available to them in the situation, neither the Manager nor any Agent of the Manager shall incur any liability to the Fund or AIDEA, including indemnification liability under Section 7.3, if,

- (1) by reason of any provision of any present or future law or regulation or order of the U.S. or any other country, or of any state or political subdivision of those governments, or of any court of competent jurisdiction of any of the foregoing, it shall be prevented or forbidden from doing or performing any act or thing that this Agreement provides or warrants shall be done or performed; or
- (2) by reason of the causes described at (1) of this Section 7.2 (a) or any act of God or war or any other circumstance beyond the Manager's or its Agent's control, except as such are caused by its or its Agent's imprudence, negligence, recklessness, misfeasance, or willful misconduct, it shall be delayed in the performance of any act or thing that this Agreement provides or warrants shall be done or performed.

(b) The presence of exculpatory language in this Agreement shall not be considered by AIDEA, the Fund, the Manager, or any other party appointed pursuant to this Agreement, including any Custodian, as in any way limiting causes of action and remedies that may, notwithstanding such language, be available to the Fund or AIDEA either under common law or statutory law principles applicable to fiduciary relationships or under the federal securities laws.

(c) AIDEA shall have, at its election, the right to enforce, to the extent permitted by any applicable agreement and applicable law, the Manager's rights against any of its Agents for loss, damage, or expenses caused to the Fund or AIDEA by such Agent and shall be entitled to be subrogated to the rights of the Manager with respect to any Claim against such Agent that the Manager may have as a consequence of any such loss, damage, or expenses if and to the extent that the Fund or AIDEA has not been made whole for any such loss, damage, or expenses.

**Section 7.3. Indemnification by Manager.**

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(a) The Manager hereby agrees to indemnify the State of Alaska, the Fund, AIDEA, and the employees, officers, Board, and agents of each and to defend and hold each of them harmless from and against any and all Claims incurred in connection with or resulting from or arising out of or in any way related to

- (1) any failure of the Manager to exercise the standard of care set out in Section 7.1 and, with respect to other matters, the negligent or reckless acts or omissions or the willful misconduct of the Manager or its officers, directors, employees, or Agents;
- (2) any breach of this Agreement or violation of law by the Manager or its officers, directors, employees, or Agents; or
- (3) misappropriation of any Property managed or maintained by or under the direction of the Manager by the Manager or its officers, directors, employees, or Agents.

(b) With respect to any Claim for which the Manager is required to provide indemnification under this Section 7.3,

- (1) AIDEA shall give the Manager prompt notice in Writing of any expected, threatened or actual Claim;
- (2) the party to be indemnified shall at all times cooperate with the Manager in defending against any indemnifiable Claim, including cooperating in document production and devotion of time and resources; and
- (3) in the event that Manager specifically acknowledges In Writing that it is required to provide indemnification under this Section 7.3 with respect to a Claim, the Manager shall have the right to hire and direct counsel in defense of the party claiming indemnification and to make all decisions regarding that Claim; provided, however, that any settlement or compromise that requires AIDEA to take any affirmative action other than payment of money for which the Manager will provide indemnification hereunder shall require the prior approval In Writing of AIDEA.

### **Section 7.4. Indemnification by AIDEA.**

(a) Except as prohibited by law, or as otherwise provided in this Agreement or by applicable law, AIDEA agrees to indemnify the Manager, its directors, officers, employees, and Agents, and to defend and hold each of them harmless from and against any and all Claims against any of them incurred in connection with the negligent or reckless acts or omissions, willful misconduct, or breach of this Agreement by AIDEA or its employees, officers, Board, or agents, provided that

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- (1) in connection with such Claim, the party to be indemnified has met the standard of care provided in Section 7.1;
- (2) the Manager has not breached any applicable law or any material term or condition of this Agreement or acted contrary to any Instruction; and
- (3) in connection with such Claim, the Manager is not required to indemnify, defend, or hold harmless the Fund, AIDEA or its employees, officers, Board, or agents, or the State of Alaska under Section 7.3.

(b) With respect to any Claim for which AIDEA is required to provide indemnification under this Section 7.4,

- (1) the Manager shall give AIDEA prompt notice in Writing of any expected, threatened, or actual Claim;
- (2) the party to be indemnified shall at all times cooperate with AIDEA in defending against any indemnifiable Claim, including cooperating in document production and devotion of time and resources; and
- (3) to the extent that AIDEA specifically acknowledges In Writing that it is required to provide indemnification under this Section 7.4 with respect to a Claim, AIDEA shall have the right to hire and direct counsel in defense of the party claiming indemnification and to make all decisions regarding that Claim; provided, however, that any settlement or compromise which requires the Manager to take any affirmative action other than payment of money for which AIDEA will provide indemnification hereunder shall require the prior approval In Writing of the Manager.

(c) Notwithstanding (a) of this Section 7.4, AIDEA and the Fund shall not be responsible for actions taken by the Manager or its Agents, including their respective officers, directors, and employees, in violation of federal or state laws applicable to investment advisers, or in violation of the applicable laws or regulations of a foreign country or political subdivision of those governmental entities, regardless of whether such actions are taken in accordance with an Instruction or otherwise. Upon notice to AIDEA in Writing, the Manager may refuse at its sole discretion to act upon an Instruction where the Manager has been advised by its counsel that acting upon the Instruction may involve the Manager violating an applicable law or regulation, whether local or foreign.

(d) Any indemnification by AIDEA under this Section 7.4 is subject to a specific appropriation of money for that purpose by the Legislature of the State of

Alaska. The parties to this Agreement recognize and agree, however, that (1) AIDEA has no appropriation currently available to it to indemnify the Manager under this Agreement; (2) enactment of an appropriation in the future to finance a payment under this provision remains at the sole discretion of the Legislature; and (3) the Legislature's failure to make such an appropriation creates no further liability of AIDEA, the Fund or the State of Alaska. As a precondition of the payment of any indemnification by AIDEA under this Section 7.4, the Manager shall furnish AIDEA with a detailed estimate of any expected Claim for AIDEA's use in seeking such appropriation.

**Section 7.5. Litigation.** No litigation, proceeding, or other action shall be initiated by either party or by an Agent of the Manager (each, respectively, an "Initiating Party") on behalf of the other party (the "Non-Initiating Party") without the prior approval of the Non-Initiating Party in Writing. Whenever the Manager, due to its status as AIDEA's investment manager, becomes a party-defendant to an action, AIDEA shall have the right to hire and direct counsel in the defense and may settle such action insofar as AIDEA's or the Fund's interests therein are concerned, so long as the Manager is indemnified and held harmless with regard to indemnifiable claims pursuant to Section 7.4. In all cases where out-of-pocket expenses or legal fees may be charged to the Manager under Section 7.3 or to AIDEA under Section 7.4 or otherwise to either party, AIDEA and the Manager, respectively, agree that, to the extent possible, they will consult with and obtain the approval of the other party before incurring such expenses. Further, each party agrees to take all reasonable steps to control out-of-pocket expenses and legal fees, provided such steps do not compromise or impair the rights or obligations of the other party.

**Section 7.6. Representations of Manager.**

- (a) The Manager hereby represents and warrants that
  - (1) it is, and X and X are, registered as an investment adviser under the Advisers Act, and is/are subject to, and not exempt from, the requirements imposed by such Act, including registration under the Act, and that this Agreement is an "investment advisory contract" as such term is defined in 15 U.S.C. Section 80b-5(d), which is governed by and not exempt from the requirements of the Act;
  - (2) it has, and X and X have, completed, obtained, and performed all registrations, filings, approvals, authorizations, consents, or examinations required by any government or governmental authority for acts contemplated by this Agreement including those registrations required of an investment adviser or manager under applicable state and federal law and will continue to maintain and comply with all such requirements during the term of this Agreement;



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- (3) it is not, and X and X are not, currently subject to any censure, denial, or suspension of registration or to any other penalty or order imposed by any federal or state regulatory authority or any regulatory authority of a foreign country or a political subdivision thereof –
  - (A) arising out of or otherwise related to its/their activities, functions, or responsibilities as an investment adviser or investment manager; or
  - (B) that would otherwise have a material effect on its/their ability to perform its/their obligations under this Agreement;
- (4) it is a duly organized, validly existing limited partnership in good standing under the laws of X and this Agreement has been duly authorized, executed, and delivered on its behalf and constitutes a legal, valid, and binding obligation against the Manager;
- (5) the execution, delivery, and performance of this Agreement by the Manager does not and will not violate any applicable law or regulation and does not require the consent of any governmental or other regulatory body except for such consents or approvals as have been obtained and are in full force and effect;
- (6) it qualifies as an “investment manager” as that term is defined in the Employee Retirement Income Security Act of 1974, as amended, and it will discharge its duties with respect to the Property solely in the best interests of the Fund and AIDEA;
- (7) unless prohibited from doing so under federal law, it has either disclosed in Writing to AIDEA or there are not currently pending against it –
  - (A) any matters, which, if concluded adversely to the Manager, could result in an outcome described in paragraph (3) of this Section 7.6(a); or
  - (B) any Claim by third parties for compensation or damages (however denominated) which, if concluded adversely to the Manager and as viewed by a prudent professional investor, could have a significant financial impact on the Manager;

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- (8) the Manager's personnel who will be responsible for carrying out its responsibilities under this Agreement (see Exhibit IV) are individuals reasonably experienced in the performance of the various functions contemplated by this Agreement and, in carrying out its responsibilities under this Agreement, the Manager will at all times and at its expense maintain a staff of trained and competent personnel to enable it to fulfill such responsibilities;
- (9) the personnel identified in Exhibit IV have not, to the best knowledge of the Manager, been (i) convicted of or pleaded guilty of or nolo contendere to any felony; (ii) convicted of or pleaded guilty of or nolo contendere to any misdemeanor involving investment related business, including breach of trust or fiduciary duty, fraud, or securities law violations; or (iii) found liable in a civil or administrative proceeding involving investment related business, including breach of trust or fiduciary duty, fraud, or securities law violations;
- (10) in compliance with SEC Rules 204-2, 206(4)-3, and 206(4)-5 (and using the definitions set forth in subsection (f) of Rule 206(4)-5 for the capitalized terms below), it and its Covered Associates have not directly or indirectly -
  - (A) received compensation from AIDEA within two (2) years of it or its Covered Associates making Contributions to any Official who has authority to appoint the AIDEA Board;
  - (B) paid or agreed to pay third parties not registered under the Advisers Act to solicit AIDEA's or the Fund's business; or
  - (C) coordinated, or solicited any person or political action committee to make, Contributions to (A) any Official who has authority to appoint the AIDEA Board or (B) any political party of the State of Alaska; and
- (11) its information systems used in support of its performance under this Agreement, including all hardware, software, and firmware products or items have the ability to accurately and timely record and retain all necessary and appropriate data and perform all analyses and computations required under this Agreement.

(b) The representations and warranties of the Manager made in (a) of this Section 7.6 are continuing in nature. If, at any time during the term of this Agreement, including any extensions thereto, any representation or warranty by

the Manager under (a) of this Section 7.6 is no longer accurate or operable, the Manager shall promptly notify AIDEA in Writing and provide full disclosure of the underlying facts giving rise to the change or ineffectiveness of the representation or warranty, as the case may be.

**Section 7.7. Representations of AIDEA.** AIDEA hereby represents and warrants that

(a) this Agreement has been duly authorized, executed, and delivered on its behalf and constitutes the legal, valid, and binding obligation of AIDEA;

(b) the execution, delivery, and performance of this Agreement by AIDEA do not and will not violate any applicable law or regulation and do not require the consent of any governmental or other regulatory body except for such consents or approvals as have been obtained and are in full force and effect;

(c) it is a public corporation that is responsible for the investment and management on a discretionary basis of at least \$100 million in securities;

(d) in accordance with SEC Rule 204-3 issued under the Advisers Act, the Manager has, not less than forty-eight (48) hours prior to entering into this Agreement, delivered to, and AIDEA hereby acknowledges receipt of, a copy of Part 2 of the Manager's Form ADV (and Part 2 of Form ADV for X and X);

(e) it is a "qualified institutional buyer" as that term is defined in Rule 144A of the Securities Act of 1933; and

(f) it is a "qualified client" as that term is defined under Rule 205-3 under the Advisers Act.

**ARTICLE 8  
REPORTS**

**Section 8.1. Transmission.** All reports required by or provided for under this Agreement shall be delivered to AIDEA by computer data transmission as provided in Exhibit V or by other means agreed upon by the parties to this Agreement and specified by Instruction.

**Section 8.2. Account Reconciliation Report.** For the Management Accounts, the Manager shall deliver to AIDEA and the Custodian, or any person or persons designated by AIDEA, a monthly inventory report of all Cash, securities, and other assets and liabilities of the Management Accounts held at month-end and related information for the account of the Fund within one (1) business day (for domestic mandates) or two (2) business days (for international mandates) following the last day of the month for which the report is made. The report must be in a format and include the reconciling components specified by the Custodian or AIDEA. The Manager must track the book value of all securities on an average cost basis. The Manager must

work with the Custodian and AIDEA to identify and correct differences between the Manager's books and the Custodian's books.

**Section 8.3. Performance Measurement Report.** The Manager shall deliver to AIDEA, or any person or persons designated by AIDEA, a monthly report of its investment management performance for each Management Account. The report shall be prepared in conformity with the CFAI standards for calculating and reporting investment performance including a performance attribution analysis and a comparison with the benchmark set out in Exhibit III. Such report shall further reflect the measurement of performance on a monthly, fiscal year-to-date, rolling 12 month, and inception-to-date basis for such Management Account.

**Section 8.4. Narrative Analysis.** The Manager shall deliver to AIDEA, or any person or persons designated by AIDEA, an analysis of the past quarter's market conditions and the Manager's activity during the quarter, including its strategic and tactical plans, and an evaluation of performance as compared with the benchmark set out in Exhibit III.

**Section 8.5. Use of Commissions.** Unless the Manager receives an Instruction from AIDEA to the contrary, the Manager shall deliver to AIDEA, or any person or persons designated by AIDEA, a monthly report of the commissions paid to commission recapture program broker/dealers and the soft dollar credits derived from transactions for the Fund's account. The report must include the broker/dealer, trade date, security, security identifier, shares or par traded, and commission paid. For those transactions where the Manager derived soft dollar credits, the soft dollar ratio and estimated total dollar value accrued to the Manager must also be included. The report must further explain how the soft dollar credits were used by the Manager for the benefit of the Fund or AIDEA.

**Section 8.6. Form ADV, Part 2.** The Manager shall deliver to AIDEA a copy of the then-current Part 2 of the Manager's Form ADV promptly following each occasion on which the form is updated.

## ARTICLE 9 TERM AND TERMINATION

**Section 9.1. Term.** The term of this Agreement commences on the Effective Date, as defined in Article I, and continues until the date of termination as set forth in Section 9.2.

**Section 9.2. Termination.** Notwithstanding any other provision of this Agreement, this Agreement may be terminated by AIDEA at any time for any reason or for no reason, with or without cause, immediately upon notice to the Manager by the Executive Director or by the Manager upon sixty (60) days prior notice in Writing to AIDEA. Notice of termination from AIDEA may be communicated orally by the Executive Director and shall be effective immediately if confirmed in Writing within twenty-four (24) hours. The obligations of the parties hereto as provided in Article 7 and with respect to insurance as provided in Section 10.10 and confidentiality as provided in Section 10.11 shall survive any termination of this Agreement.

**ARTICLE 10  
MISCELLANEOUS**

**Section 10.1. Notices.**

(a) Except as otherwise provided in this Agreement, all notices, requests, and consents required by this Agreement shall be in Writing and delivered, as in this Agreement after provided, to the following address:

if to AIDEA to

Alaska Industrial Development and Export Authority  
813 W Northern Lights Blvd.  
Anchorage, Alaska 99503  
Telephone: (907) 771-3000  
Facsimile: (907) 771-3044  
Email: XXXXXX@AIDEA.ORG  
Attn: Chief Investment Officer

if to the Manager, to

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

or to such other address of either party as may be provided to the other party from time to time in Writing and in accordance herewith.

(b) Any notice, request, or consent In Writing required by this Agreement that is –

- (1) sent by courier shall be considered delivered upon receipt;
- (2) sent by mail or via a nationally recognized private carrier of correspondence shall be sent by registered or certified mail, postage prepaid, or by a comparable level of delivery service by the private carrier and shall be considered delivered upon receipt;
- (3) sent by facsimile transmission, e-mail, or other teleprocess or electronic data transmission shall be considered delivered upon confirmation of transmittal by such transmission device.

**Section 10.2. Amendments.** This Agreement, together with Exhibits III and IV, may not be amended or modified except by an instrument in Writing signed by both the Manager and AIDEA. Exhibits I, IIA, IIB and V may be revised or modified by AIDEA at its sole discretion

and (i) in the case of Exhibits I, \_\_\_\_\_, shall become effective upon delivery of an amended Exhibit I or IIA or IIB to the Manager and (ii) in the case of Exhibit V, shall become effective five (5) business days after delivery of an amended Exhibit V to the Manager, unless the Manager sooner notifies AIDEA In Writing that it is not capable of complying with the changed requirements. Notwithstanding the foregoing, in the event Alaska law or regulations, are amended or superseded and such amendments or other changes conflict with the terms of this Agreement, such amendments or other changes shall, from and after the Manager is given notice in Writing of such amendments or changes, be considered to be an amendment to this Agreement without any further action required of either party.

**Section 10.3. Severability.** If any provision of this Agreement or the application of such provision to any person or circumstance is held invalid by a court of competent jurisdiction, the remainder of this Agreement or the application of such provision to persons or circumstances other than those with respect to which it is held invalid shall not be affected thereby and shall continue to be binding and in force.

**Section 10.4. Reliance.** Subject to the terms and conditions of this Agreement and applicable law, AIDEA and the Manager may rely on any document or other communication in Writing, including an Instruction, from the other that it reasonably believes in good faith to be genuine and valid. In addition, during the period before such an Instruction must be confirmed in Writing under this Agreement, the Manager may also rely on an oral Instruction that it reasonably believes to be genuine and valid.

**Section 10.5. Headings.** Headings in this Agreement are for convenience of reference only and shall not expand, limit, or otherwise affect the meaning of this Agreement.

**Section 10.6. Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.

**Section 10.7. Delegation or Assignment.** Performance by the Manager of its duties and obligations under this Agreement may not be delegated except as expressly permitted under the terms of this Agreement. Provided that, for all purposes of this Agreement, including applying the standard of care and provisions on settlement failures and other Manager liability and indemnification provisions, the Manager will be treated as having directly performed all the duties performed and services provided by the Manager's investment adviser delegees, the Manager may delegate its duties under this Agreement to X, X, each an investment adviser registered with the Securities and Exchange Commission, or X, X, and any other current or future affiliated investment advisor of the Manager that has entered into a participating affiliate arrangement with the Manager (or with a participating affiliate of the Manager), and may provide information about AIDEA to such affiliates. The Manager's use of Agents selected by the Manager to provide non-fiduciary and other ancillary services will not be a prohibited delegation under this Section 10.7, and the Manager may provide information about AIDEA to

such Agents. This Agreement may not be assigned by either party without the prior consent In Writing of the other and any purported assignment without such consent shall be null and void and of no force or effect. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of each party to this Agreement and its successors, delegees, and permitted assigns.

**Section 10.8. Governing Law.** This Agreement and the rights of the parties thereunder shall be governed by and construed in accordance with the laws and rulings of the State of Alaska, except that any of Alaska's laws or rulings on choice of forum or conflicts of laws shall not apply, regardless of the location of any Property held for AIDEA or the Authority or of any action or omission that may be the subject of any legal dispute or Claim. In particular, but not by way of limitation, the legal standards for determining the responsibilities and obligations of the Manager and its officers, directors, employees, or Agents and their respective officers, directors, and employees as set out in this Agreement shall be interpreted, governed, and enforced under the laws and regulations of the State of Alaska, irrespective of the location of any Property, of the Manager or its Agents, or of the acts or omissions giving rise to any dispute or Claim.

**Section 10.9. Waivers.** Failure or delay to exercise any right, power, or remedy provided for in this Agreement does not constitute a waiver of the right, power, or remedy, nor shall any single or partial exercise of any right, power, or remedy hereunder preclude any other or further exercise of the right, power, or remedy, or the exercise of any other right, power, or remedy.

**Section 10.10. Professional Liability Insurance.** The Manager shall, at its sole cost and expense, procure and maintain professional liability insurance (which includes errors and omissions and fiduciary liability coverages) with limits of liability of not less than \$15,000,000 in the aggregate. The Manager shall also be covered under a Fidelity Bond for certain employee and third party dishonest or fraudulent acts. All insurance required under this Section 10.10 shall be fully paid for and be non-assessable. Each such policy shall be issued by an insurer that has an A.M. Best Company Financial Strength Rating of A- or better and a Financial Size Category of X or larger, or that is approved in Writing by AIDEA. Upon execution and delivery of this Agreement, and on or before each January 31 thereafter and at such other times as AIDEA may request in Writing, the Manager shall deliver a certificate of insurance evidencing such insurance and provide or cause to be provided such additional information as AIDEA may request regarding any aspect of such insurance to determine whether such policy complies with the requirements of this Section 10.10. Any such certificate or policy shall provide that the insurer shall endeavor to notify AIDEA at least 30 days prior to cancellation. The Manager shall promptly notify AIDEA of its receipt of any notice of cancellation or threatened cancellation of any such policy. Upon termination of this Agreement, the Manager shall take all steps necessary to maintain insurance coverage as required under this Section 10.10 for a period of at least one (1) year following the date of termination.

**Section 10.11. Manager Records.**

## AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

(a) All records created or maintained by the Manager relating to its activities and obligations under this Agreement shall be the property of AIDEA and, except as necessary to permit supervision or review of the Manager's operations by state or federal regulatory agencies or as required by court order, shall not be released or disclosed by the Manager to any person, other than its internal and external accountants, auditors, and counsel and any other person as to whom the Manager is advised by its counsel that the Manager may be liable for a failure to do so, without the express permission of AIDEA In Writing. The Manager shall direct any request for access to AIDEA records by third persons other than those described in the preceding sentence to AIDEA.

(b) The Manager shall comply with the requirements of 15 U.S.C. Section 80b-4a (including amendments thereto) and any applicable regulations with respect to the prevention of misuse of material, non-public information and shall upon request of AIDEA provide with a copy of all written policies and procedures (and amendments thereto) as required by such statute and applicable regulations.

(c) Upon request of AIDEA, the Manager shall ensure that all records and other documents of AIDEA, or copies thereof, are immediately delivered or returned to AIDEA following termination of this Agreement.

(d) Information furnished by the Manager to AIDEA may only be preserved as confidential according to the provisions of AS 44.88.215 (Confidentiality of Records and Information).

### **Section 10.12. General Rules of Construction.**

(a) Where the words "includes" or "including" are used in this Agreement, they shall be construed as though followed by the phrase "but not limited to."

(b) Words in the singular number include the plural and words in the plural number include the singular.

**Section 10.13. Incorporation by Reference.** All Exhibits to this Agreement are incorporated by this reference and made a part of this Agreement. To the extent of any direct conflict or inconsistency between the terms of this Agreement and the terms set out in any Exhibit, the terms of this Agreement shall govern.

**Section 10.14. Entire Agreement.** This Agreement, including the Exhibits hereto, constitutes the entire agreement between the parties with respect to the matters addressed in this Agreement and supersedes any prior or contemporaneous verbal or written communication.

**Section 10.15. Disputes.** Any disagreement or lawsuit arising out of this Agreement shall be brought in the Superior Court of the State of Alaska in the Third Judicial District at Anchorage, and the Manager hereby consents to such jurisdiction. The Manager acknowledges that AIDEA and the Fund are both instrumentalities of the State of Alaska and that they may be



sued only as provided for actions against the State of Alaska in Alaska Statute 09.50.250 and other applicable statutes and rules of court.

**Section 10.16. Inspection.** AIDEA or its designated agents may, at reasonable times and with reasonable notice, inspect the Manager's facilities and activities that are related to the performance of this Agreement and audit the Manager's services to determine whether they conform to the requirements of this Agreement. The Manager agrees to act in good faith and cooperate and assist AIDEA and/or its designated agents with respect to any such inspection and audit.

**Section 10.17. Annual Questionnaire.** As part of its continuing due diligence efforts, AIDEA will annually deliver to the Manager a questionnaire seeking information about the Manager's operations, business activities, regulatory status, and performance. The Manager shall complete the questionnaire and return it to AIDEA within 30 days after receipt.

**Section 10.18. Manager Access and Appearances.**

(a) The Manager shall use its best efforts to provide to AIDEA timely and responsive access to those Manager officers and employees responsible for providing services to AIDEA under this Agreement.

(b) At the request of AIDEA, the Manager shall appear before and orally present to the Board the reports and analyses required under Sections 8.3, 8.4, and 8.5. The time, place, and date of such appearance shall be communicated to the Manager in Writing. The Manager's costs for such appearances shall be borne by the Manager.

**Section 10.19. Remote Conferencing Capabilities.** The Manager shall have or have reasonably available to it, for each location where it maintains an office from which the Manager provides services under this Agreement, both video-conferencing and telephone-conferencing capabilities that are compatible with those used by AIDEA.

**Section 10.20. AIDEA as Client.** AIDEA authorizes the Manager, in the normal course of its business activities, to disclose to others that AIDEA is an investment advisory client of the Manager and the amount of Property under management, and acknowledges and agrees that the Manager may use its investment performance under this Agreement on an undisclosed basis in its composite presentations.



AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

**IN WITNESS WHEREOF**, and intending to be legally bound, the parties have executed this Agreement by their respective authorized representatives.

**X**

**ALASKA INDUSTRIAL DEVELOPMENT AND  
EXPORT AUTHORITY**

By: **X**

\_\_\_\_\_

Name:  
Title:

\_\_\_\_\_  
Alan Weitzner  
Executive Director

Date: \_\_\_\_\_

Date: \_\_\_\_\_

AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

**EXHIBIT I**

**CUSTODY ACCOUNTS**

This Exhibit I of the Agreement for Investment Management Services, dated \_\_\_\_\_ (“Agreement”), by and between X (“Manager”) and the Alaska Industrial Development and Export Authority (“AIDEA”) identifies the Custody Account in which the Property of the Fund that is managed and invested by the Manager is held by AIDEA’s Custodian in the name of and on behalf of the Fund.

\_\_\_\_\_ ***INVESTMENT MANDATE***

<i>Custodian</i>	<i>Account Name</i>	<i>Account Number</i>
_____	_____	_____

AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

**EXHIBIT IIA**

**INVESTMENT GUIDELINES**

AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

**EXHIBIT IIB**

**INVESTMENT GUIDELINES**

AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

**EXHIBIT III**

**INVESTMENT BENCHMARK**

This Exhibit III of the Agreement for Investment Management Services, dated \_\_\_\_\_ (“Agreement”), by and between X (“Manager”) and the Alaska Industrial Development and Export Authority (“AIDEA”) sets out the benchmark returns against which the investment management performance of the Manager shall be measured during the term of the Agreement with respect to each Custody Account.

AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

**EXHIBIT IV**

**MANAGER PERSONNEL**

This Exhibit IV of the Agreement for Investment Management Services, dated \_\_\_\_\_ (“Agreement”), by and between X (“Manager”) and the Alaska Industrial Development and Export Authority (“AIDEA”) identifies the Manager’s personnel who shall have a significant role in the management, investment, or disposition of the Property for the \_\_\_\_\_ Investment Mandate

<b>Name</b>	<b><u>Title</u></b>	<b><u>Responsibilities</u></b>	<b><u>Telephone</u></b>	<b><u>Email</u></b>
		Coordinates day to day management, investment and disposition of the Property		
		Coordinates day to day management, investment and disposition of the Property		

**EXHIBIT V**

**DATA TRANSMISSION PROTOCOLS**

This Exhibit V of the Agreement for Investment Management Services, dated \_\_\_\_\_ (“Agreement”), by and between X (“Manager”) and the Alaska Industrial Development and Export Authority (“AIDEA”) establishes and specifies the data transmission protocols that are to be used by the Manager for the transmission of all reports, statements, data files, electronic mail, and other information to AIDEA.

The Manager shall maintain required telecommunications hardware and software at the Manager’s own expense to facilitate the use of methods of communication enumerated herein. This will include a connection to the Internet (with sufficient bandwidth and redundancy) to facilitate the daily electronic communications and interaction of the Manager with AIDEA staff.

AIDEA periodically updates its information technology facilities and methods in order to most effectively meet its mission. Occasionally, these updates will necessitate a revision to the protocols originally specified in this exhibit. AIDEA reserves the right to revise the protocols in this exhibit by providing the Manager with thirty-calendar days (30) notice in Writing of the changes. The Manager agrees to comply with the revised protocols by the end of the thirty-day notice period.

**E-Mail Communications to AIDEA Staff:**

All E-mail communications to AIDEA staff shall use Internet Standard SMTP as the e-mail transfer protocol. Attachments should be MIME encoded.

**Report Files, Financial Statements, and Other Management, Performance or Informational Publications:**

The Manager is required to maintain World Wide Web or non-anonymous FTP sites with current and historical information specific to AIDEA’s account. A secured (https with user id and password) web-site is preferred. The Manager is encouraged to maintain as current as feasible portfolio and status information for AIDEA staff at this site, but in no event less than the most recent 90 days of data. All materials must be accessible using the most current releases of the Microsoft web browsers.

All published (non-editable) materials must be made available in one or more of the following standard formats: ASCII text file, ASCII CSV file, hypertext markup language (html), or Adobe Acrobat (.pdf). Other formats are not acceptable.



AGREEMENT FOR INVESTMENT MANAGEMENT SERVICES

For the production of reports, the use of paper is strongly discouraged, and the use of compatible electronic reporting is strongly encouraged.

All editable documents (documents intended for purposes other than strictly viewing) must be delivered as Microsoft Office documents. Currently, Microsoft Office 2007 formats are preferred.

E-mail (MIME attachments) is strongly encouraged for the delivery of documents to AIDEA. FTP is the only other acceptable delivery mechanism.

## I. Investment Policy for Outside Advisor–Managed Investment Assets

The intent of the following policy is that the Executive Director will enter into an Investment Management Agreement ~~a contract~~

~~or contracts~~ with outside investment advisors (“Investment Manager(s)”).

A. The Board authorizes the Executive Director to provide for investment in the specific instruments set forth in this section at his discretion and within the prohibitions and descriptions set forth. The Executive Director is authorized to enter into ~~contracts~~ Investment Management Agreements on such terms and conditions as he considers necessary to carry out the purposes of this section. In addition to the authorized investments presented herein, the ~~contracts~~ Investment Management Agreement will provide guidelines relating to, among other things, the maximum non-U.S. dollar denominated currency exposure permitted. Such non-U.S. dollar denominated investments are permitted provided that the greater of \$200 million or 60% of the externally managed investment portfolios in aggregate shall be invested in U.S. dollar denominated investments. The ~~contracts~~ Investment Management Agreement will also provide guidelines relating to cost, minimum safekeeping requirements and reporting requirements.

B. Authorized debt investments for U.S. dollar denominated portfolios include:

1. *Eligible long term securities*

Investment Managers may invest in debt instruments issued or guaranteed by the U.S. Government, its agencies and instrumentalities, and Government Sponsored Enterprises (GSEs). Investment Managers may also purchase dollar-denominated debt instruments that have been issued by domestic and non-domestic entities. Eligible corporate investments include cumulative capital securities, Real Estate Investment Trust (REIT) debt obligations, equipment trust securities, enhanced equipment trust securities, and pass-through securities.

Investments must carry a average rating of ~~BBB-~~ or above, at the time of purchase (subject to the BBB- weighted average credit quality of the portfolio). ~~(investment grade), or, or if any investment is unrated or becomes unrated, be deemed by the Investment Manager must deem the investment to~~ be of

investment grade credit quality (BBB- or above). The total of unrated investments may not exceed five percent (5%) of the Investment Manager's portfolio value and the unrated investments of a single issuer may not exceed 2% of the Investment Manager's portfolio value.

Investment Managers shall assign a rating for purposes of determining compliance with quality guidelines which will be the middle rating if ratings are provided by Moody's, Standard & Poor's, and Fitch; the lower rating if only two ratings exist; and the rating provided if only one rating exists. If a security is unrated, the Investment Manager shall assign an internal rating for compliance purposes. In the event that the rating of a security is downgraded below investment grade while the security is owned by AIDEA (including an unrated investment assigned a rating by the Investment Manager), it will no longer be eligible for purchase if the weighted average credit quality of the portfolio falls below BBB- (investment grade). If the security that is downgraded causes the weighted average credit quality of the portfolio to fall below BBB- (investment grade) –and– the Investment Manager will immediately report the downgrade to AIDEA with a plan of action for monitoring the security and its orderly disposition within a six month period. If the Investment Manager believes that the security is undervalued, the Investment Manager may request that the Executive Director grant an additional six months in which to liquidate the security; the request shall be in writing and support the Investment Manager's position that the investment is undervalued. In either case, the Investment Manager will reposition the portfolio within 6 months to represent a minimum weighted average credit quality of BBB-.

Mortgage-backed securities issued or guaranteed by Federal agencies or GSEs are permitted, as are asset backed securities, including collateralized mortgage backed securities (CMBS) and collateralized mortgage obligations (CMOs). CMOs are limited to the more stable classes, including (but not limited to) Planned Amortization Class (PAC(1)s), Very Accurately Defined Mortgages (VADM), Accretion Directed (AD), Z (accrual) tranches, and Sequential Pay CMOs. Prohibited CMO classes include those where principal and interest

components are separated or where leverage is employed; examples include Interest Only, Principal Only, and inverse floating rate notes.

2. *Certificates of Deposit and Term Deposits*

Certificates of deposit and term deposits of United States domestic financial institutions which are members of the Federal Deposit Insurance Corporation provided that such entities have the highest credit rating assigned by a nationally recognized rating service and which may be readily sold in a secondary market at prices reflecting fair value.

3. *Money Market Instruments*

- a. short-term domestic corporate promissory notes payable in United States dollars of the highest rating assigned by a nationally recognized rating service;
- b. repurchase agreements with U.S. Treasury securities and agencies of the U.S. Government as collateral;
- c. bankers' acceptances drawn on and accepted by United States banks which have a capital and surplus aggregating at least \$200 million and that also have the highest credit rating assigned by a nationally recognized rating service;
- d. bankers' acceptances which are issued by a United States bank or trust company located in a foreign country and are denominated in United States currency, if either (i) they may be readily sold in a secondary market at prices reflecting fair value, or (ii) the issuing bank or trust company has capital and surplus at the date of issue equaling at least \$500 million and also has the highest credit rating assigned by a nationally recognized rating service; and
- e. Investments in cash equivalent collective investment vehicles (money market funds) that have a primary objective of stability of principal and ready liquidity and that have been approved by staff for use by the external managers.

- C. Authorized debt investments for use in portfolios permitted to invest in non-U.S. dollar denominated securities:

1. All the U.S. dollar denominated investments permitted in B of this document.

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2. Non-U.S. dollar denominated obligations of foreign governments, sovereign states (including local currency emerging markets) and supranational entities.
3. No more than 20% of any portfolio's maximum permitted non-U.S. dollar investments, measured on the date of purchase, may be invested in non-U.S. dollar denominated corporate debt obligations. Corporate debt obligations must be rated investment grade or better by a recognized credit rating agency. In the event a split rating exists, the lower of the ratings shall for evaluating credit quality.
4. No more than 20% of any portfolio's maximum permitted non-U.S. dollar investments, measured on the date of purchase, may be invested in obligations denominated in currencies not included in the Citigroup World Government Bond Index ex US.
5. Managers are not allowed to hold a net short position in any currency and may not participate in hedging other than defensive hedging which is defined for purposes of this section as hedging of foreign currency exposure directly into the U.S. dollar.
6. Futures and forward contracts for the purchase or sale of currencies may be entered into only to facilitate securities transactions or for defensive hedging described in (5) above.

D. Duration – The duration of each externally managed fixed income portfolio ~~shall be within plus or minus~~ may not exceed 25% of the duration of the Barclays Capital Aggregate Bond Index for domestic fixed income portfolios and ~~between .5 (1/2 year) and 125% of~~ the contractual non-U.S. dollar denominated benchmark for the portfolios (or sub-portfolio component) available for investment in non-U.S. dollar denominated instruments.

E. Portfolio Quality – ~~Each externally managed fixed income portfolio will be a high quality portfolio.~~ The weighted average quality rating shall be A-ABBB- (investment grade) or better, using the methodology described in Section I.B.1 to assign a rating for compliance purposes.

- F. Diversification – The exposure of each Investment Manager portfolio to any one issuer, other than securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, or GSEs, or collateralized by securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, or GSEs, shall not exceed 5% of the market value of the portfolio at the time of purchase.
- G. Performance Standards – Performance will be ~~evaluated~~reviewed quarterly and evaluated annually and compared to the performance of the appropriate benchmark index and peer groups. The Barclays Capital Aggregate Bond Index is the appropriate index for domestic only external fixed income portfolios. The Citigroup World Bond Index Ex-US is the appropriate benchmark for a non-US bond portfolio. A blended index comprised of both primary indexes weighted in accordance with the manager ~~contract~~Investment Management Agreement shall be the appropriate index for an individual portfolio that expected to invest in both U.S. and non-U.S. denominated securities. Over rolling 3 – 5 year periods, Investment Managers are expected to achieve total returns, net of fees, which at a minimum match that of the market benchmark and rank at or above the median of the peer group.

## **II. Investment Policy for Direct Authority-Managed Investment Assets**

- A. This policy applies to all funds managed directly by the Authority excluding those assets held by trustees for investment under bond covenants. Such assets shall be invested in accordance with the controlling instruments.
- B. The primary investment objective of direct Authority-managed investments is to safe keep Authority funds while providing for adequate liquidity to meet immediate expenditure needs. Individual investments within the portfolio are diversified as to type of security, duration, and source in order to maintain a balanced portfolio and meet Authority bond covenants.

Investments shall be made with the exercise of that judgment and care, under circumstances then prevailing, that an institutional investor of ordinary professional prudence, discretion, and intelligence exercises in managing large investments with consideration for the purpose of the funds, the investment

objectives, the continuing disposition of the fund's investments, and the probable safety of the capital as well as the probable investment returns.

Security purchases shall be based on their merits as an investment. All investments made in the internal portfolios shall be made with a primary objective of preserving principal and achieving income returns consistent with that primary objective.

- C. Such Authority-managed investments shall be made by the Executive Director, and/or those person(s) assigned by the Executive Director which include, but are not limited to, the ~~Deputy Director — Finance~~ Chief Investment Officer
- D. Allowable Investments:  
The Executive Director and/or those person(s) assigned by the Executive Director shall invest money only in the following investment instruments:
1. Debt instruments issued or guaranteed by the U.S. Government and its agencies and instrumentalities, and GSEs.
  2. Shares/units of cash equivalent collective investment vehicles (money market funds) that are authorized to invest only in assets or securities described in I.B. of this resolution and further provided that such investment vehicles shall have a primary objective of stability of principal and ready liquidity.
  3. Repurchase agreements with U.S. Treasury securities and agencies of the U.S. Government as collateral.
  4. Units in the investment pool or any series of the investment pool of the Alaska Municipal League Investment Pool, Inc., or any successor to that entity, or any other investment pool for public entities of the State of Alaska that is established under the Alaska Investment Pool Act. AS 37.23.010 – AS 37.23.900.
- E. Any investment other than those defined in D above must be specifically approved by the Board prior to any commitment being made.
- F. Duration – The portfolio duration for internally managed assets available for longer-term investments shall be 24 months or less. The maximum maturity of any issue shall be 36 months from the date of purchase. Investments released from



pledges to bondholders which have maturities of more than 36 months from the date of release may be retained.

- G. Performance Standards – Performance shall be evaluated quarterly and compared to the 90-day Treasury bill and a 1-year Treasury instrument. The unrestricted liquidity portfolio is expected to produce a total return, over rolling 3 – 5 year periods that at a minimum matches that of the 90-day market benchmark.

### **III. Safekeeping of Securities**

The Executive Director shall appoint trustee(s) to act as safekeeping and custodial agent(s) for the Authority. All investment securities will be held by the trustee(s).

### **IV. Movement of Funds Among Accounts**

The Executive Director shall determine the level of funds to be managed internally and shall have the authority to move funds in excess of this amount to the externally managed portfolios. The amount of funds managed internally should be sufficient to meet the Authority's expected liquidity requirements for the succeeding two years. Similarly, the Executive Director shall have the authority to move funds from the externally managed portfolios to the internal portfolio when the balance in the internal portfolio is insufficient to meet anticipated liquidity requirements.

### **V. Reporting**

Each quarter the Executive Director shall cause a report to be prepared and provided to the members of the Board which sets forth amounts invested in the externally managed bond portfolios and the internally managed unrestricted liquidity portfolio. The quarterly reports shall include information regarding the diversification and performance of each portfolio in relation to appropriate market indices. The report shall include comparative performance information that enables the reader to evaluate whether the portfolios are achieving returns that are consistent with objectives and market conditions.

Each year-end the Executive Director shall cause a report to be prepared and provided to the members of the Board which satisfies all appropriate accounting requirements.

Additionally, a year-end report will be prepared and presented to the Board that identifies the components of the total investment portfolio by the externally managed portfolios, the internally managed unrestricted liquidity portfolio and the remaining investments, identified by restriction.

## **VI. Manager Selection**

The Authority will select appropriate Investment Managers to manage its assets. A selection committee comprised of senior management shall utilize the Authority's investment consultant to conduct a manager search assignment. This selection process shall include the establishment of specific search criteria and documentation of analysis and due diligence on potential candidates. All Investment Manager candidates must meet the following minimum criteria:

1. Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940 or be the State of Alaska, Department of Revenue.
2. Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style.
3. Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel and demonstrate financial and professional staff stability.
5. Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
6. Selected firms shall have no outstanding legal judgments or past judgments that may reflect negatively upon the firm.

## VII. Further Restrictions

- A. The Authority may not buy investments on margin.
- ~~B. Without prior written approval by the Authority, the assets of the Authority may not be used for the purchase of bonds of a corporation upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.~~
- C.B. The Authority may enter into future contracts for the sale of investments only for the purpose of hedging an existing equivalent ownership position in these securities.

## VIII. Effective Date

~~This Resolution amending Resolution G01 14A shall take effect immediately upon its adoption.~~

~~DATED at Anchorage, Alaska, the 11<sup>th</sup> day of October 2001, amended the 21<sup>st</sup> day of June, 2006, amended the 19<sup>th</sup> day of July 2011, amended the 6<sup>th</sup> day of December 2012, and further amended this 1<sup>st</sup> day of October, 2013.~~