

**Investment Policy  
and Procedures**

**ALASKA STUDENT  
LOAN CORPORATION**

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**ALASKA STUDENT LOAN CORPORATION**  
**Investment Policy and Procedures**

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

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

**Statutory Authority**

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

**Purpose**

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

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

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

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

The Corporation will diversify investments to minimize risk.

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

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**Summary of Investible Assets**

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

**Requirements**

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

**Diversification**

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

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

**Safekeeping**

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

***Non-Pledged Funds***

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

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

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

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

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

#### Collateral

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

#### Other Investment Types

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

### **Investment Manager**

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

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

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

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

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

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

## **Procurement Process**

### *Request for Proposal*

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

### *Distribution*

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

#### *For the purpose of selecting Investment Managers*

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

#### *For the purpose of selecting Investment Providers*

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

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

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

### *Evaluation of Proposals*

#### *For the purpose of selecting an Investment Manager*

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

*For the purpose of selecting an Investment Provider*

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

**AY3S: FY22 DOR-Alaska Student Loan Corporation Investment Policy**

Investment Topic	Proposed Policy	Current Policy
Investment Objectives	Can tolerate high exposure of principal to loss in return for higher expected long-term returns. Limited current income requirement. Inflation protection desirable, but not required. Moderate liquidity requirement.	Tolerate moderate exposure to principal loss to target modestly higher returns than cash equivalents.
Policy Risk/Loss Range	10% Probable Annual Loss (10% cVaR) >5%	0-1.5%
Time Horizon	Long	Intermediate
Asset Allocation	Broad U.S. Equity 22% ± 5% International Equity 14% ± 5% U.S. REITs 3% ± 5% Core U.S. Fixed Income 60% ± 5% Cash Equivalents 1% - 1%/+2%	26% ± 10% 74% ± 10%
Expected Return - Long-Term	4.10%	1.20%
Risk - Standard Deviation	7.14%	0.98%
Probability of Loss - 1 Year	29.2%	33.3%
10% Probability of Annual Loss (10% cVaR)	-8.6%	-1.3%
Implementation	To avoid market timing risk, gradually increase the risk of the portfolio from the initial level to the full long-term level by the start of FY2024.  Reassess the investment policy and asset allocation annually.	

The proposed policy is effective 10/15/21 with execution as soon as possible.

*Julie Pierce*  
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 Approved

10/15/2021  
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 Date

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