



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Alaska Mental Health Trust Authority

Assets Managed by the State of Alaska Department of Revenue

Risk Management Process
January 2026

Steve Sikes, CFA
State Investment Officer

Presentation Objectives

- Define risk and risk management
- Provide overview of risk management process
- Identify resources used to help manage risk
- Describe trustee-level considerations

What is Risk?

- Risk is the uncertainty of investment return outcomes and the possibility that an investment's actual performance will deviate negatively from expectations, losing part or all of the invested capital.
- More broadly, from an organizational perspective, investment related risk is accompanied by other risks such as operational risk (including headline risk), and compliance risk.
- Risk assessment requires specific attention. The dimensions and intensity of individual risk factors is constantly changing with the environment and market conditions.



What is Risk Management?

- The iterative process of identifying, assessing, and mitigating risks that could negatively impact the value of an investment.
- **Goal is to manage risk not avoid risk.** Only accept minimum risk necessary to achieve objectives. Risks can be broadly categorized as Market Risk, Credit Risk, and Liquidity Risk. Project risks include Financial, Strategic, Performance, and External risks.
- Risk management strategies:
 - Diversification – spreading investments across assets with different characteristics
 - Asset Allocation – portfolio construction process to optimize risk and return across uncorrelated asset classes
 - Hedging – insurance positions to control potential losses.
 - Stress Testing & Scenario Analysis – methods to assess risk
 - Setting Risk Limits – methods to control risk



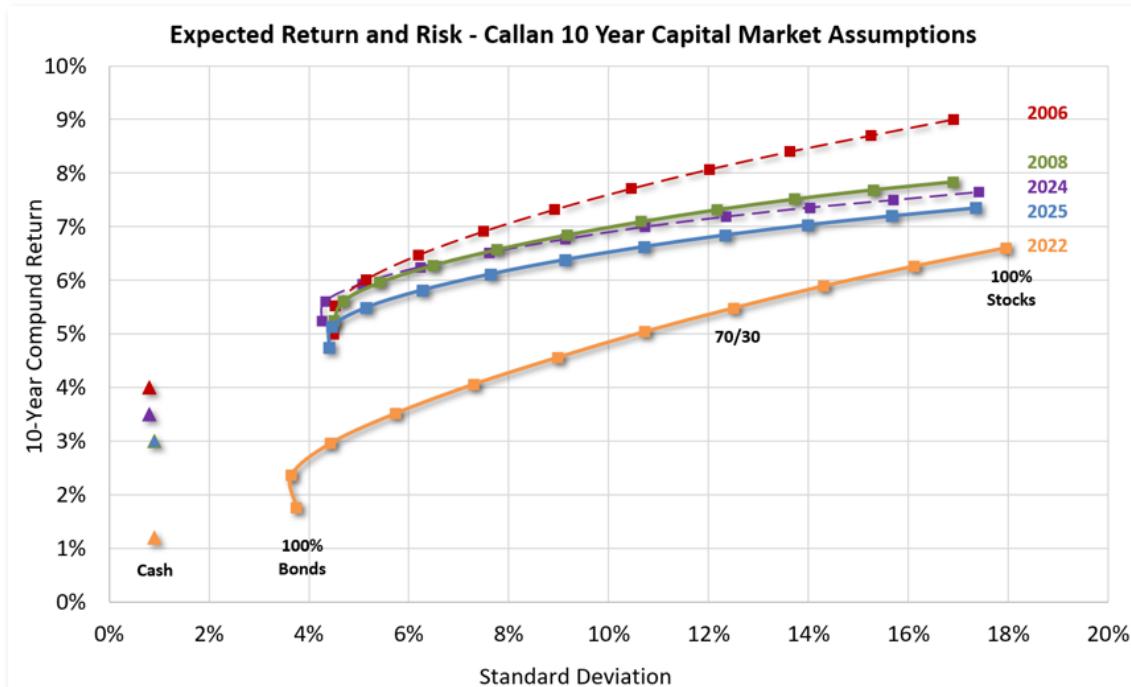
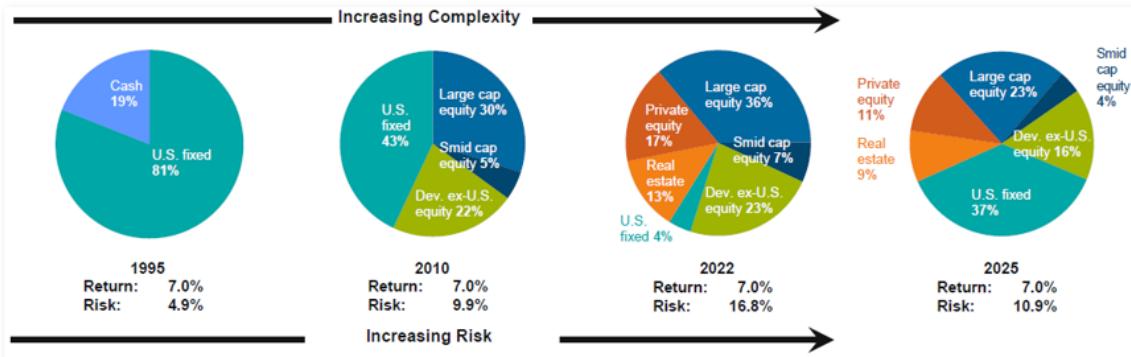
Risk Management Process – Set Objectives

- The State of Alaska manages 13 primary funds totaling ~\$9.6 billion that are invested in stocks and bonds, liquid market assets.
- Each fund has an Investment Policy Statement (IPS) which includes its asset allocation. The IPS is the primary framework for managing risk.
- The IPS is critical as it identifies constraints and sets the return objective and risk tolerance. IPS elements are as follows:
 - Investment Objective
 - Risk/Loss Tolerance
 - Time Horizon
 - Asset Allocation
 - Expected Return
 - Expected Risk



Risk Management Process – Select Asset Allocation

- Asset Allocation depends on risk tolerance.
- The “Efficient Portfolio” changes over time as market conditions evolve.
- While very quantitative, inputs and final decision requires judgement.



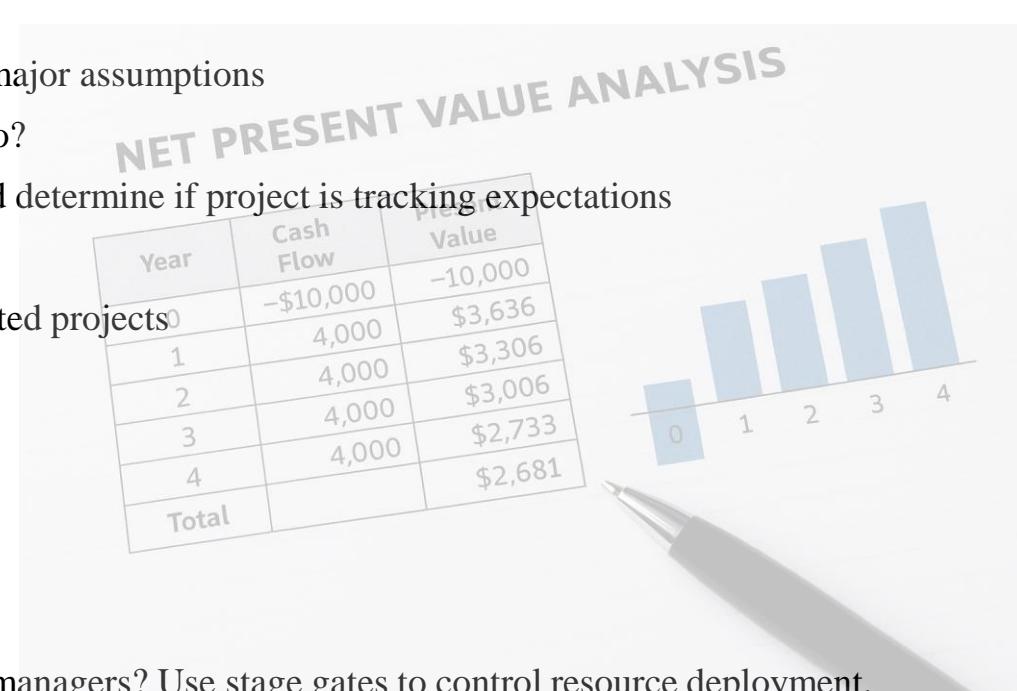
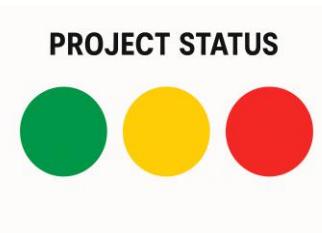
Risk Management Process – Monitoring

- Once portfolio is implemented, risk is managed through daily monitoring of performance and asset allocation. What are we looking for:
 - Large moves in absolute performance that deviate from general market behavior.
 - Large moves in relative performance compared to benchmark and asset class.
 - Asset allocation weights that are inconsistent with IPS targets.
- On a quarterly basis, fiduciary-level return and risk reports are prepared for upper management.



Risk Management Process – Project Level Process

- Ensure governance and oversight is well defined
 - Develop policy and process to promote disciplined due diligence process
 - Investment recommendations should be written and thorough
 - Establish reporting feedback loop – timing and required information?
- Develop project financial model
 - Includes cash flow projections and all major assumptions
 - Net present value analysis – go or no go?
 - Model provides ability to look back and determine if project is tracking expectations
 - Stress test major assumptions
 - Breakeven analysis for commodity related projects
 - Payback period
- Consider other risks and mitigation strategies
 - Regulatory/political risk
 - Insurance and hedging possibilities
 - Level of delegated authority to project managers? Use stage gates to control resource deployment.
 - Consider setting risk limits to ensure risk tolerance (i.e. maximum allowable debt)
 - Legal structuring to ensure fire walls are in place to protect broader Trust assets if litigation occurs
 - Consider bringing in expert joint venture partner and establish appropriate capital structure for risk/return objectives



Use of Third-Party Experts - ARMB

Alaska Retirement Management Board

- AS 37.10.270 creates an investment advisory council (IAC) for ARMB. The IAC is comprised of 3-5 members who serve staggered three-year terms. Duties of the IAC include:
 - review investments;
 - make recommendations concerning policy, strategy, and procedures;
 - advise on selection of consultants and form and content of annual reports;
 - make educational presentations upon request; and,
 - provide other advice as requested by the board;
- IAC candidates must possess experience and expertise in financial investments and management of investment portfolios.
- Currently, the ARMB has three members who are at the table for Board meetings and also participate in select committee meetings depending on the issues. They are available for Trustees to call on at anytime.
- IAC members are compensated.
- ARMB also uses a general consultant and specialty consultants where needed.

Use of Third-Party Experts – State Funds

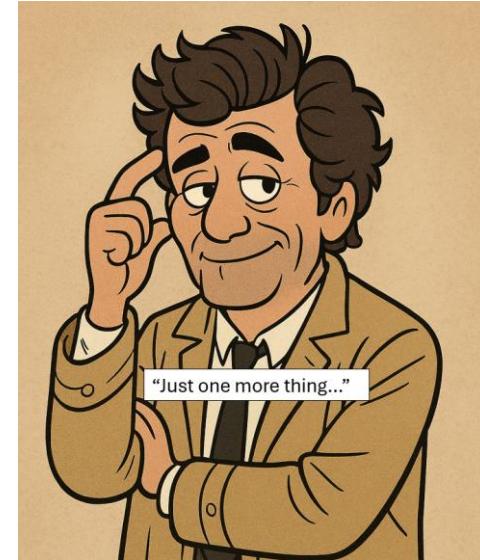
State of Alaska Funds under the fiduciary responsibility of the Commission of Revenue

- State Investment Review (SIR) committee was created to provide a similar role and function for State Funds as the ARMB IAC.
- Quarterly meetings include the Chief Investment Officer, Commissioner of Revenue, and SIR members.
- Provide advice on asset allocation, performance, portfolio structure, non-routine investments, and other matters that may require attention.
- Currently, the same ARMB IAC members also serve on the SIR committee.

Trustee-Level Considerations

Six Questions on New Investments

- What is it?
- What is the reward?
- What is the risk?
- Is the risk-reward tradeoff worthwhile?
- Is a disaster too painful?
- Is it worth our time?



Dr. William Jennings, ARMB March 19-20, 2020

Final Thoughts

- Risk assessment and management is a critical part of every investment decision.
- Goal is to manage risk, not avoid it. No risk, no reward.
- Establish good policies and procedures and follow them. This is your road map.
- Keep it simple (as possible).
- Use consultants and experts to assist committee and board in making decisions.



Questions?