Alaska Airlines
Approach to Corporate Cash and Short Term Investments

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Mike Rodgers – Managing Director, Wells Capital Management
Overview of Approach to Managing Corporate Cash

<table>
<thead>
<tr>
<th>Alaska Airlines</th>
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<tbody>
<tr>
<td>• Historical Program</td>
</tr>
<tr>
<td>• Current Structure</td>
</tr>
<tr>
<td>• Outsourcing Process</td>
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</tbody>
</table>

<table>
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<tr>
<th>Wells Capital Management</th>
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<tbody>
<tr>
<td>• Approach to managing corporate cash</td>
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<tr>
<td>• Conclusions about the ways to optimize the management of each pool</td>
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</table>

Key Take-Aways
Alaska Evaluated Our Corporate Cash and Investment Structure in 2006

<table>
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<tr>
<th>Prior to Evaluation</th>
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<tbody>
<tr>
<td>One set of investment guidelines</td>
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<td>One external investment manager</td>
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<td>Daily cash in DDA accounts and money market funds</td>
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Alaska Evaluated Our Corporate Cash and Investment Structure in 2006

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<th>Prior to Evaluation</th>
<th>After Evaluation</th>
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<tbody>
<tr>
<td>One set of investment guidelines</td>
<td>Two sets of investment guidelines</td>
</tr>
<tr>
<td>One external investment manager</td>
<td>Four external investment managers</td>
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<td>Daily cash in DDA accounts and money market funds</td>
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Cash Needs Were Analyzed

Corporate cash analysis assessed liquidity needs and risk profile.
Corporate Cash Was Segmented into Three Distinct Pools

**Operating: Meet Daily Cash Needs**
- Purpose is safety of principal and liquidity
- Vehicle is DDA account, money market fund, or combination

**Liquidity: Meet Projected and Unexpected Cash Needs**
- Purpose is safety of principal, liquidity and yield
- 3 year maximum maturity; 1.5 year average duration
- A- minimum credit quality; AA- average credit quality

**Strategic: Reserve Account with No Forecasted Cash Flows**
- Purpose is safety of principal and yield
- 7 year maximum maturity; 3.5 year average duration
- BBB- minimum credit quality; AA- average credit quality
Why Outsource Investment Management?

Alaska has a history of outsourcing where it makes sense:

- It is cost-effective
- It leverages outside investment expertise
- It provides solid risk management
- It is a way to grow relationships with financial partners

Proper third-party oversight is vital:

- A custodian acts as safe-keeper
- A reporting provider consolidates data and monitors compliance
- An independent consultant assists with hiring and ongoing evaluation
Due Diligence Begins with Our Investment Consultant

The consultant assists with guideline construction and vendor selection.

Factors assessed include:

- Organizational structure and people
- Philosophy and process
- Credit research capabilities
- Historical performance
- Assets under management
- Fees
- Thoughtful and detailed proposal response
Alaska Considers Our Own Criteria

Will communication be effective?

- Have we met the people and do we understand the organization?
- Is commentary timely, straight-forward and useful?

Will the manager offer support beyond managing the portfolio?

- Recommend guideline updates
- Share best practices
- Offer risk assessments
- Provide ad-hoc resources

Will the relationship add value over the long-term?
Evaluation is Ongoing

<table>
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<tr>
<th>Informal Evaluation</th>
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<tbody>
<tr>
<td>• Communication effectiveness</td>
</tr>
<tr>
<td>• Relationship value</td>
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<table>
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<tr>
<th>Formal Evaluation</th>
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<tr>
<td>• Quarterly portfolio reviews</td>
</tr>
<tr>
<td>• Consultant evaluations</td>
</tr>
<tr>
<td>• On-site visits</td>
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WellsCap’s Approach to Corporate Cash

Philosophical Fit

• Investment advisor vs. broker
  – Directed investments vs. outsourcing
• Separate account vs. mutual fund
  – Customizing risk profile
  – Disciplined investment philosophy and process
• Risk Management
  – Proprietary credit research
  – Firmwide independent risk management review
  – Internal guidelines more conservative than client guidelines
WellsCap’s Approach to Corporate Cash

Knowing the Client

- What is their business?
  - Background of decision maker and key contacts?
  - Key to communication
- What does the pool of money represent?

<table>
<thead>
<tr>
<th>Operating Cash</th>
<th>Working Capital (Liquidity)</th>
<th>Investment Assets (Strategic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Day to 30-Days</td>
<td>1-Month to 12 Months</td>
<td>1-Year to 5-Years</td>
</tr>
<tr>
<td><strong>Overnight/Cash</strong></td>
<td><strong>Enhanced Cash</strong></td>
<td><strong>Limited Duration</strong></td>
</tr>
<tr>
<td>Taxable 3-Month</td>
<td>Taxable 6-Month Taxable Ultra Short Plus Taxable 1-Year</td>
<td>Taxable 1- to 3-Year Taxable Plus 1- to 3-Year Taxable 1- to 5-Year Montgomery U.S. Short Duration</td>
</tr>
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# WellsCap’s Approach to Corporate Cash

## Knowing the Client

- What are their investment guidelines?
  - What was their experience during the credit crisis?
  - Recommended changes
- Reporting requirements?
  - Anything special beyond normal monthly statements
  - Attribution, pricing analytics, etc.
WellsCap’s Approach to Corporate Cash

- We work with clients from the onset of the relationship in the development of portfolio guidelines. Through a personalized consultative approach, we establish and review policies, guidelines, and performance benchmarks in conjunction with client needs.

**Needs Analysis**
- Risk Tolerance
- Return Objective
- Additional Client Considerations
  - Liquidity Needs
  - Time Horizon
  - Policy/Regulations
  - Tax Considerations
  - Accounting Requirements
  - Gain/Loss Sensitivity
  - Unique Preferences

**Investment Policy Statement**
- Investment Objectives
- Acceptable Investments
- Benchmark
- Maturity Parameters
- Diversification
- Credit Quality

**Investment Management**
- Security Selection
- Sector Allocation
- Duration Decision
- Yield Curve Positioning
- Guideline Compliance
- Risk Management Oversight

**Reassess Client Needs**
WellsCap’s Approach to Corporate Cash

Value Added Beyond Portfolio Management

- We understand that managing institutional cash is a service sensitive business due to the unique needs of each of our clients.
- We serve as an extension of our client’s staff by providing other value add financial resources.

Client Experience

Investment Guidelines
Investment Reporting
Compliance
Market Updates/Events
Investment Strategy
Credit Research
Performance Reviews
Best Practices
Other

Relationship Manager
(Portfolio Specialist)

Client
Investment Management Take-Aways

Key Take-Aways

• Understand cash needs and risk tolerance
• Document a prudent process
• Consider staffing levels and expertise
• Focus on building good relationships
• Does your structure stand the test of time?
Questions?