



Alaska Permanent Fund - Governance

March 2018

1969: The Debate Begins

- Alaska receives \$900 million in Prudhoe lease sale bonuses.
- Debate on Use of Royalties
 - Fund State Infrastructure and Social Programs
 - Establish a Development Bank
 - **Create an Investment Fund**



The Alaska Constitution

Over four decades ago, in 1976, Alaskans in an historic vote amended the Constitution of the State of Alaska by a margin of 75,588 to 38,518 and created the Alaska Permanent Fund.

Alaska Constitution Article IX, Section 15

Section 15. Alaska Permanent Fund

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.



Governance

The Corporation

The Alaska State Legislature passed SB161 in 1980 establishing the Alaska Permanent Fund Corporation and providing:

- a sound management structure to maximize the Fund's ability to generate investment returns
- a Board of Trustees entrusted with fiduciary oversight.

APFC's Mission

To manage and invest the assets of the permanent fund and other funds designated by law.





Fiduciary

"relating to the responsibilities of a person or organization that manages property or money belonging to another person or organization"

Cambridge Dictionary

AS 37.13 .120 Investment Responsibilities Mandates Use of the Prudent Investment Rule

"The Rule requires the test of fiduciary conduct be undertaken from a portfolio formulation perspective without considering the subsequent performance of the portfolio. Formulation means assembling and maintaining a portfolio of assets with a risk tolerance suitable for the purposes, term, distribution requirements, and other conditions of the trust."

ACTEC Journal 166 (2004),
Modern Portfolio Theory and the Prudent Investor Act





APFC's Governance

Key determinates of APFC's governance success include:

- an effective independent management and organizational structure,
- the adherence to accountability measures,
- defined legal and regulatory responsibilities,
- established policies and procedures,
- being a leader in establishing best practice standards.

A wide-angle landscape photograph of a calm lake or fjord. In the background, a range of rugged, snow-capped mountains stretches across the horizon. The sky is a clear, bright blue, and a large, multi-pointed sunburst is visible in the upper right quadrant. The water in the foreground is dark and reflects the light from the sun. Several dark, rocky islands and peninsulas are scattered throughout the water. The overall color palette is dominated by blues and greys, with the white of the snow and the bright light of the sun providing contrast.

Perspective

The Pew Charitable Trusts Oct 2016

From Volatile Severance Taxes to Sustained Revenue

Key recommendations to improve state sovereign wealth funds

"Governments use sovereign wealth funds, so-called because they are established by a sovereign nation or U.S. state, to deposit a portion of revenue in an investment account intended to generate returns that will be used to achieve a specific public purpose or set of goals."

Pew Recommendations for US State Policy Makers

1. Identify the purpose of their state's sovereign wealth fund and clearly articulate its goals in law.
2. Establish policies for the governance, investment, and public disclosure of the fund's activities in law.
3. Provide statutory or constitutional guidance regarding withdrawals from the principal.
4. Be aware of volatility in interest earnings from the fund.



Best Practices

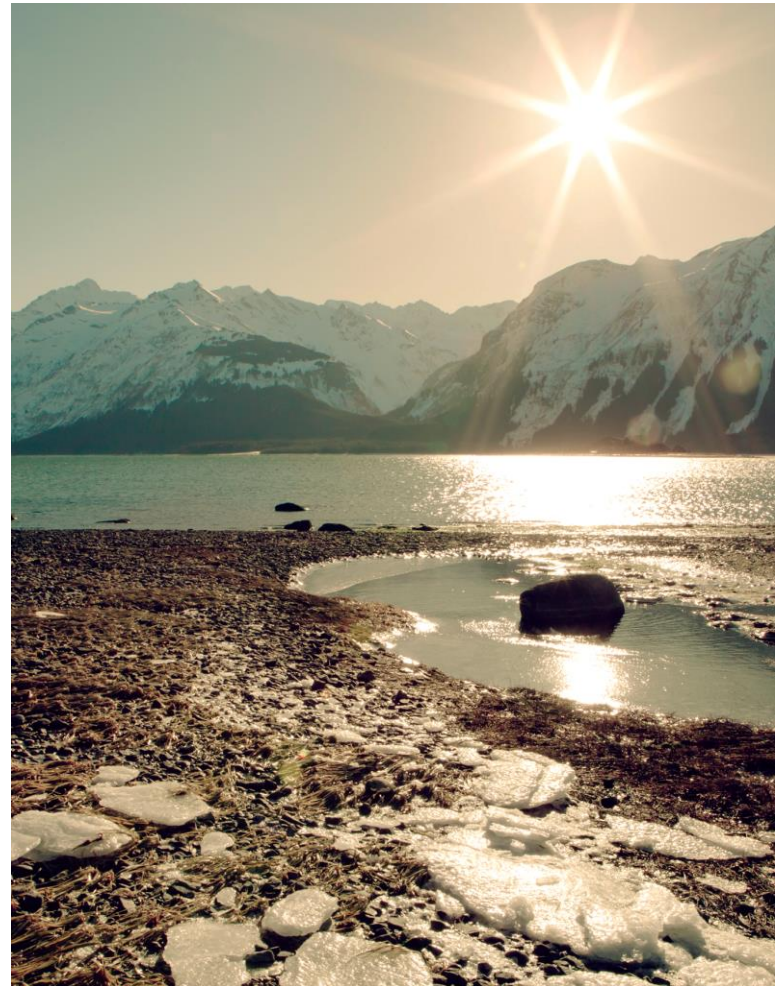
A brief from



THE PEW CHARITABLE TRUSTS

| Oct 2016

"By establishing independent entities to oversee their sovereign wealth funds, New Zealand and Alaska have ensured prudent governance, monitoring, and disclosure of their financials and management practices. They stand as examples of many of the best practices for sovereign wealth funds domestically or internationally."





Resolutions

Board of Trustees

Resolution 17-01 Inflation Proofing

- AS 37.13.145 (c) provides the inflation proofing mechanism which is calculated at the end of the fiscal year. Historically, the Legislature has included an estimated amount in the language of the operating budget to fulfill this statutory obligation.
- The Board of Trustees emphasized the importance of inflation proofing by unanimously adopting Resolution 17-01 during their September 2017 Annual Meeting.

Directing APFC to identify and pursue legislative support for inflation proofing the Principal of the Alaska Permanent Fund to preserve the purchasing power for all generations as stated in AS 37.13.020.



Resolution 18-01

Rules Based Legal Framework for Fund Transfers

"Alaska has a long tradition of following a rules-based system for Permanent Fund withdrawals and savings. Since the Fund's inception, with the exception of certain one time deposits into the corpus, the State has adhered to a combination of constitutional and statutory law to manage cash flows into and out of the Fund, as well as those between the corpus and earnings reserve. ..."

Resolution 18-01 Best Practices

"... Adherence to a rules-based system for Fund transfers is a basic element of best practices for management of sovereign wealth funds. The International Forum of Sovereign Wealth Funds, of which the Permanent Fund is a member, has adopted a set of Generally Accepted Principles and Practices, including that, "There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the fund's general approach to funding, withdrawal and spending operations on behalf of the government."¹ "Such a system helps provide a clear basis for deriving the expected time horizon and efficient investment policy for the savings, and promotes macroeconomic stability and accountability."² ..."

¹ International Working Group of Sovereign Wealth Funds, Sovereign Wealth Funds Generally Accepted Principles and Practices ("Santiago Principles") at 13 (October 2008) . ² Id. at 14

Resolution 18-01, be it resolved:

- 1) The Board of Trustees believes that adherence to a legally established rules-based framework governing Fund transfers is warranted and necessary, and such transfers should not occur ad hoc;
- 2) The Board of Trustees acknowledges and supports that with the fiscal challenges facing the State a new rules-based framework established in law for the Fund is likely necessary;
- 3) The Board of Trustees expresses appreciation to all stakeholders involved in the difficult and time-consuming task of proposing, evaluating, and deliberating a new rules-based framework to govern Fund transfers;
- 4) The Board of Trustees and staff of the Permanent Fund will continue to provide support to stakeholders to develop a new rules-based framework established in law to govern Fund transfers; and
- 5) That the Board of Trustees directs the Executive Director to distribute this Resolution and Resolution 2017-1 (regarding inflation-proofing) to the Members of the 30th Alaska State Legislature and offer to testify in support of the need to follow a rules-based framework.



Questions ?