

Alaska Permanent Fund Corporation

**RESOLUTION OF THE BOARD OF TRUSTEES OF THE ALASKA PERMANENT
FUND CORPORATION SUPPORTING ADHERENCE TO A RULES BASED LEGAL
FRAMEWORK FOR FUND TRANSFERS**

RESOLUTION 18-01

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. The Board of Trustees acknowledges the fiscal challenges facing the State have resulted in multiple stakeholders proposing and analyzing new rules-based frameworks to change how Fund transfers occur, and that this process of examination and evaluation takes time. Nonetheless, the Board of Trustees believes that consistently adhering to a rules-based framework established in law to govern Fund inflows, outflows, and internal transfers is critical to the success of the Fund.

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

A rules-based system improves the likelihood that the Permanent Fund will be sustainable over time. Having a holistic framework rationalized by policymakers regarding the rules for savings, withdrawals, and growing the real value of the Fund results in a consistent approach to transfers over the long-term. This is a core element to ensuring sustainability. Conversely, the reliance on *ad hoc* draws to support government spending would substantially increase the chance of a non-sustainable withdrawal in any one year and the risk of nonformulaic draws compounding in an unsustainable manner over multiple years.

¹ International Working Group of Sovereign Wealth Funds, *Sovereign Wealth Funds Generally Accepted Principles and Practices* ("Santiago Principles") at 13 (October 2008) <available at http://www.ifswf.org/sites/default/files/santiagoprinciples_0_0.pdf>.

² *Id.* at 14.

This holds true as to maintaining the real value of the Fund over time, as well as the durability of the earnings reserve to meet each annual draw.

The Board of Trustees also believes a rules-based system for Fund transfers will provide it with certainty as to the annual liquidity demands on the Fund, thereby allowing the APFC Investment Team to prudently invest all of the Fund's assets while simultaneously having a plan in place to meet distributions for dividends and government spending. Absent the adoption of a replacement rules-based system that results in known annual draws, the Board may be obligated to use a separate, more liquid and risk averse asset allocation for the earnings reserve account to meet the State's unknown annual revenue demands. This allocation would likely generate lower returns for this portion of the Fund.

The Board of Trustees has publicly supported, through legislative proposals and the adoption of board resolutions (*e.g.*, Resolution Nos. 03-05 and 04-09), a percent of market value amendment that would provide for predictable payouts from the Fund. The Board could support other meritorious proposals to redefine how withdrawals from and savings into the Fund occur. However, the hallmark of any plan must be that it is sustainable, occurs through a legally adopted rules-based framework, and not be *ad hoc*.

NOW THEREFORE 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.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation, this 15th day of March, 2018.

/s/
Bill Moran
Chairman, Board of Trustees
Alaska Permanent Fund Corporation

ATTEST:

/s/
Angela M. Rodell, Corporate Secretary