

HB 251: BD OF TRUSTEES OF THE AK PERM. FUND CORP.

Sponsor: Representative Josephson

Referrals: House State Affairs, then Finance

Board of Trustees Consideration of HB 251

As an independent public corporation with the mandate to invest and manage the Alaska Permanent Fund, the work that APFC does and the manner in which we do it is of paramount importance to the Board of Trustees and APFC Staff. As the Legislature seeks to amend the current statutory structure from which the Fund is managed and invested, the Board of Trustees offers the following points for consideration while not providing a position on the legislation.

First and foremost, the Corporation and the Fund must retain the ability to operate independently and within a structure free from political influence and intervention. Any structural changes to the governance of the Permanent Fund must be done so with clear goals and objectives for enduring political independence and sound fiduciary practices.

The following aspects of the proposed bill may bring forth improved processes, such as:

- Six-year terms - There is merit to increased terms for Board seats, given the depth of knowledge acquired with time, the inefficiencies introduced with Board turnover, and the long-term investment horizon of the Fund.
- Seven-member Board - Though there hasn't been a tie vote in recent memory, increasing the composition of the Board would remove the possibility of a tie vote on Board matters.

Other aspects of the proposed bill warrant caution and concern, such as:

- One Trustee with experience in socially responsible investing - Reserving a Board seat to focus on anything other than following the Prudent Investor Rule could detract from the Fund's primary objective of maximizing risk-adjusted returns for all generations of Alaskans. It would be helpful if the bill's language made clear that this Board member is expected to follow the same investment standards and Fund objectives as all other members of the Board.
- Appointment and removal by Legislatively appointed committee – We understand the stated objective of this section of the bill is to reduce the risk of political influence when selecting Board members; however, by adding a layer of elected officials to the appointment process, it is possible the bill will inadvertently increase the risk of politicizing the appointment process rather than reduce it. Additionally, it is our understanding that the Alaska Constitution does not provide for the Legislature's involvement in the appointment of APFC Board members; thus, consultation with the Department of Law and Legislative Legal Services on this section of the bill may be warranted.

The Alaska Permanent Fund Corporation is governed by statutory mandates dating back to its establishment in 1980 by the Alaska Legislature. This Board of Trustees and staff have built a solid foundation of principled and diligent investment throughout the years - growing the Fund with trust, competency, consistency, and accountability into a more than \$80 billion renewable financial resource. Ultimately, any changes to the governance structure of this enduring resource must be done with care, understanding, and a long-term vision for ongoing success.