



## Santiago Principles Self-Assessment

### Alaska Permanent Fund

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#### Pillar 1

#### Legal framework, objectives, and coordination with macroeconomic policies

##### Principle 1 Description:

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

##### Principle 1 Implementation:

The Alaska Permanent Fund ("Permanent Fund" or "Fund") is established under Article IX Section 15 of the Alaska Constitution.

The Permanent Fund is a pool of assets owned directly by the State of Alaska and can only be deployed in income-producing investments.

The Permanent Fund has no legal identity or organisational structure separate from the State of Alaska.

The Permanent Fund is established under Article IX Section 15 of the Alaska Constitution.

The Permanent Fund is managed by the Alaska Permanent Fund Corporation ("APFC" or "Corporation"), which is established in [Alaska Statutes 37.13.040](#) <sup>[4]</sup> as a "public corporation and government instrumentality in the [Alaska] Department of Revenue

managed by the board of trustees.”

The applicable sections of the Alaska Constitution, Alaska Statutes and Alaska Administrative Code that govern the APFC are all public documents. All of these documents are publicly available, including [www.apfc.org](http://www.apfc.org) [5].

### **Principle 2 Description:**

The policy purpose of the SWF should be clearly defined and publicly disclosed.

### **Principle 2 Implementation:**

Alaska Statutes 37.13.020 [4] includes the following Legislative findings regarding the Permanent Fund:

“The legislature finds with respect to the fund that

1. the fund should provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans;
2. the fund's goal should be to maintain the safety of the principal while maximising total return;
3. the fund should be used as a savings device managed to allow the maximum use of disposable income from the fund for purposes designated by law.”

### **Principle 3 Description:**

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

### **Principle 3 Implementation:**

The Permanent Fund does not currently engage in any activities that have significant direct domestic macroeconomic implications. Any future investment with the potential for such impact will be coordinated with Alaska governmental authorities.

### **Principle 4 Description:**

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

### **Principle 4 Implementation:**

Alaska's Constitution and Statutes clearly define the funds which must be deposited into the principal of the Permanent Fund, as well as how funds may be withdrawn.

Alaska's Constitution states that 25% of the mineral royalties received by the state will be deposited in the Permanent Fund. State law raises this deposit to 50% for certain oil fields. The Legislature, through its power of appropriation, may make additional appropriations to the principal of the fund. When it does so, the source of these funds is specified in the appropriation language in the corresponding legislation.

Alaska's Constitution provides that only income generated from the investment of fund assets is available for appropriation (i.e. expenditure by the State of Alaska).

**Principle 5 Description:**

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

**Principle 5 Implementation:**

Under current state law, the Permanent Fund's annual reports shall be completed by 30 September.

State law also requires that the Fund's financial statements be posted in four newspapers around the state and in the biennial statewide general election pamphlet.

The APFC promptly complies with requests from the Legislature or other State agencies for financial information. The information requested is not confidential under law.

**Pillar 2**

**Institutional Framework and Governance Structure**

**Principle 6 Description:**

6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

**Principle 6 Implementation:**

Alaska Statutes establish the APFC as a separate statutory agency to manage and invest the assets of the Permanent Fund. The Board of Trustees is created in state law to manage the APFC and oversee the Fund's investments.

**Principle 7 Description:**

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

**Principle 7 Implementation:**

The objectives of the Permanent Fund are defined in State law, specifically in Alaska

Statutes 37.13. State law gives authority to the governor to appoint the members of the APFC Board of Trustees and provides requirements for membership.

The Legislative Budget and Audit Committee is charged with oversight of the Permanent Fund, including performing an annual audit of the Fund.

Oversight is also achieved through the requirement that two members of the Board be cabinet officials, and the other four members may not hold any other state or federal office, position or employment, either elective or appointive.

In addition, the Corporation's budget must be submitted to the Legislature to the governor for approval.

**Principle 8 Description:**

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

**Principle 8 Implementation:**

The purpose of the APFC, according to State law, is to manage and invest the assets of the Permanent Fund. State law grants the APFC Board of Trustees the authority, among other things, to hire an executive director and any other necessary staff. Requirements for appointment to the Board are set out in State law, and Board members receive an honorarium for time spent on Board activities. The terms of office and conditions under which a Board member may be removed are clearly defined in State law.

**Principle 9 Description:**

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

**Principle 9 Implementation:**

The APFC Board has the full authority to make investment decisions, and the investment goals for the Fund are made clear in State law. Alaska Statutes currently require the APFC Board to make investment decisions to maximise return while minimising risk. The Board also has the authority, with some limitations, to make operational decisions regarding the APFC and hire staff as needed. The Governor and Legislature must approve the Corporation's budget

**Principle 10 Description:**

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

**Principle 10 Implementation:**

Alaska law requires that the APFC produce an annual report no later than 30 September of each year for the fiscal year ended on 30 June of the same year. State law also requires that the Permanent Fund's financial statements be posted in four newspapers around the

state.

The APFC is also subject to the provisions of the Alaska Public Records Act which, with certain exceptions, makes the Corporation's records available upon request.

While State law does not set specific performance guidelines, the APFC Board of Trustees sets benchmarks for the Permanent Fund and this performance is posted at [www.apfc.org](http://www.apfc.org) [5] on a monthly and annual basis.

**Principle 11 Description:**

11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

**Principle 11 Implementation:**

Alaska law requires that the APFC produce an annual report no later than September 30 of each year for the fiscal year ended on 30 June of the same year. These financial statements are prepared under U.S. Generally Accepted Accounting Principles, and published on the APFC website

**Principle 12 Description:**

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

**Principle 12 Implementation:**

Alaska law requires that on an annual basis the Permanent Fund's financial statements be audited by an external auditor. These audits are conducted in accordance with U.S. Generally Accepted Auditing Standards, and the auditor's opinion is included in the annual report.

**Principle 13 Description:**

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

**Principle 13 Implementation:**

The APFC Board and staff fall under the State of Alaska Executive Branch Ethics Act (Ethics Act). The Ethics Act, codified in State law, provides guidelines and regulations that promote ethical behaviour by state employees and board members. Each new Board member and employee is briefed on the Ethics Act requirements as part of their orientation, and updates are provided as needed.

**Principle 14 Description:**

14. Dealing with third parties for the purpose of the SWF's operational management should

be based on economic and financial grounds, and follow clear rules and procedures.

**Principle 14 Implementation:**

Alaska law outlines procedures for procuring and managing contracts with non-fiduciary contractors, and the APFC complies with these laws. The APFC's procurement of fiduciary contractors follows a written procedure that is posted on [www.apfc.org](http://www.apfc.org) [5] in the Corporation's Investments Policy and Practice Manual.

**Principle 15 Description:**

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

**Principle 15 Implementation:**

The APFC invests in markets outside of the U.S. through external investment managers as well as APFC staff working as investment managers (who receive initial and as-needed training on applicable regulatory and disclosure requirements). Contracts require any external managers and the local custodians to be knowledgeable of, and in full compliance with, all applicable laws and regulations.

**Principle 16 Description:**

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

**Principle 16 Implementation:**

Alaska law clearly places the day-to-day management of the Permanent Fund, which is owned by the State, under the authority of the APFC Board of Trustees. Two of the Trustees are members of the Governor's cabinet, and the Legislature retains the ability to influence Fund investments through statutory restrictions and approval of the APFC's budgets.

APFC's Board grants delegated authority for investment decision-making to APFC's Executive Director and investment staff which is subject to specific limits and is reviewed at regularly scheduled Board meetings.

**Principle 17 Description:**

17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

**Principle 17 Implementation:**

The Permanent Fund's target asset allocation is posted on [www.apfc.org](http://www.apfc.org) [5]. In addition, the Fund's benchmarks, actual allocation and performance are posted on a monthly basis.

## Investment and Risk Management Framework

### Principle 18 Description:

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

### Principle 18 Implementation:

The APFC Board has posted its Investment Policy at [www.apfc.org](http://www.apfc.org) [5]. This document states that the investment objective for the Fund is to achieve a 5 percent real rate of return or better, with risk levels that are broadly consistent with the Fund's peers. The Policy states that the Board will review the Fund's asset allocation on an annual basis and make necessary adjustments to meet the risk and return goals.

The APFC Investment Policy states that total portfolio risk for the Permanent Fund should be comparable to its peers. Alaska law prohibits the use of leverage overall unless it is structured to allow no recourse to the Fund.

The APFC Investment Policy specifically allows for internal management of the Permanent Fund's fixed income portfolio, selected Exchange-Traded Funds (ETFs), and selected private market investments. All other investments, by default, are managed by external managers. The Policy provides the process for conducting manager searches, monitoring manager performance and, when necessary, terminating managers.

The APFC Investment Policy and related Board resolutions are posted at [www.apfc.org](http://www.apfc.org) [5].

### Principle 19 Description:

19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

### Principle 19 Implementation:

The APFC Board of Trustees authorises and the staff makes investment decisions for maximising the risk-adjusted return. The Board and staff consider input regarding the current and projected market conditions provided by outside advisors and consultants and makes decisions regarding asset classes and managers using objective, long-term financial data.

Alaska Statutes currently require the APFC Board to authorise investment decisions to maximise return while minimising risk. State law does require that if two similar investments have the same risk and return profiles, but only one investment is in Alaska, the Board must select the Alaskan investment.

Alaska Statutes require that the APFC Board apply the standards of the prudent investor rule in making investment decisions, specifically stating that the care applied should be that of “an institutional investor of ordinary prudence.”

#### **Principle 20 Description:**

20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

#### **Principle 20 Implementation:**

The Alaska Permanent Fund is not owned by a sovereign government at the federal level. It does not have access to federally-privileged information that would give it an inappropriate advantage when competing with private entities. At the state level, APFC is committed to not using any state-level information to unfairly disadvantage private sector enterprise.

#### **Principle 21 Description:**

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

#### **Principle 21 Implementation:**

The APFC Board's stated policy for equity investments includes a policy for voting proxy ballots and is posted at [www.apfc.org](http://www.apfc.org) [5].

The policy requires external managers to vote these shares on behalf of the Fund, “in a manner so as to maximise the Fund's rate of return over the period the manager would likely hold the investment and promote the best financial interest of the Fund.”

#### **Principle 22 Description:**

22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.



22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

22.2. The general approach to the SWF's risk management framework should be publicly disclosed.

**Principle 22 Implementation:**

The APFC Board is concerned with operational and investment risk to the Alaska Permanent Fund. There is no single document that codifies a risk management framework, but there are various means by which the Board addresses risk.

The Fund's asset allocation is based on the risk profile of each asset type both separately and collectively as a portfolio. Reviews, that are conducted at least quarterly, and in some cases monthly or daily, ensure the Fund's investments are in compliance with the Board's stated policies.

To limit the risk of fraudulent actions, the custodian and the APFC have written policies and procedures that must be followed for all asset movements.

The APFC's employees have controlled access rights to the cash transfer system and all transfers must be created by one employee and authorised by at least one other employee. All cash flows are reconciled daily and monthly by various staff members.

The Fund's information technology network has security procedures and firewalls in place, and is regularly backed up.

There is a business continuity plan and contingency plans are in place for transferring the management of the Fund to other locations or outside managers on a temporary basis.

Investment reports are produced internally on a daily and monthly basis, both internally and by the APFC Board's consultant. The APFC's investments are regularly reviewed at the portfolio level for historical risk scenarios, stress tests, tracking error and value at risk among other measures. Individual asset class managers use specific measures for their asset classes to monitor duration, credit risk, etc. The duties of the APFC investments and accounting sections are kept separate, and each employee's duties are listed in their job description.

The APFC has system access controls with written policies and procedures, as well as monthly reconciliations. State law requires that an audit be performed annually by an external auditor.

The ethical conduct of the APFC staff falls under the Alaska Executive Branch Ethics Act, and APFC-specific statutes require APFC Board members and staff to report personal investments which are also held by the Permanent Fund.

The APFC Board regularly discusses its approach to risk management at public meetings, the minutes of which are posted at [www.apfc.org](http://www.apfc.org) [5].

**Principle 23 Description:**

23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

**Principle 23 Implementation:**

The APFC reports the performance of the Permanent Fund's investments in relationship to clearly defined benchmarks monthly and annually. These reports are posted at [www.apfc.org](http://www.apfc.org) [5].

**Principle 24 Description:**

24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

**Principle 24 Implementation:**

The APFC does not have a procedure in place for regular review of the implementation of the GAPP (Generally Accepted Principles and Practices).

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**Links**

[1] <http://www.ifswf.org/node/459>

[2] <http://www.apfc.org/home/Content/home/index.cfm>

[3] <http://www.ifswf.org/assessments>

[4] <http://www.apfc.org/home/Content/aboutAPFC/constAndLaw.cfm>

[5] <http://www.apfc.org>