



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 Constitution of the State of Alaska [4]. The mandate for the Fund is clearly stated calling for a minimum of 25% of all mineral royalties to be placed in the Fund and directs that the Principal shall be used only for income-producing investments as designated by law. Alaska Statutes 37.13 [5] provide the statutory framework for the objectives and management of the Fund.

The Permanent Fund is a pool of assets owned directly by the State of Alaska. The Permanent Fund has no legal identity or organizational structure separate from the State of Alaska.

Alaska Statutes 37.13 [5] establish the Alaska Permanent Fund Corporation ("APFC" or "Corporation") to manage and invest the assets of the Permanent Fund. APFC is a "public corporation and government instrumentality in the [Alaska] Department of Revenue managed by the board of trustees." The Board of Trustees acts as the Fund's fiduciary.

Alaska Statutes 37.13.120 outline the investment responsibilities and provide that the "prudent-investor rule shall be applied by the corporation" in the management and investment of Fund assets.

The applicable sections of the Alaska Constitution, Alaska Statutes and Alaska Administrative Code that govern APFC are all public documents. All of these documents are publicly available and posted on our website: www.apfc.org [6].

Principle 2 Description:

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

Principle 2 Implementation:

Alaska Statutes 37.13.020 includes the following Legislative findings pertaining to the Permanent Fund:

“The people of the state, by constitutional amendment, have required the placement of at least 25 percent of all mineral lease rental, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a 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 safety of principal while maximizing 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 an 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 the manner in which funds may be withdrawn. A percent of market value (POMV) methodology for withdrawals from the Fund was established in Alaska Statutes in 2018 by the adoption of Senate Bill 26, Chapter 16, SLA 18 [7].

Alaska's Constitution states that 25 percent of the mineral royalties received by the state

will be deposited in the Permanent Fund. State law raises this deposit to 50 percent for leases after 1979.

The Legislature, through its power of appropriation, may make additional appropriations to the principal of the fund, including inflation proofing the Principal as provided for in the statute. When it does so, the source of these funds is specified in the appropriation language in the corresponding legislation.

Alaska's Constitution provides that all income generated from the investment of fund assets "shall be deposited into the general fund unless otherwise provided by law." The Earnings Reserve Account has been established in statute ("provided by law") to hold the realized earnings of the Fund and is available for appropriation (i.e. expenditure by the State of Alaska).

In 2018 the Legislature passed a statutory percent of market value methodology to provide for structured withdrawals from the Fund based on AS 37.13.140 (b). The draw is subject to legislative appropriation.

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 Alaska Permanent Fund's annual reports shall be completed by September 30. 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.

APFC promptly complies with requests from the Legislature, other State agencies, and the public for financial information about the assets under management.

Current Fund values, monthly financial statements and performance reports, and historical data are routinely posted on our website at www.apfc.org [6].

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 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 APFC and oversee the Fund's investments.

APFC's Board of Trustee has established By-Laws, Governance, Investment Policies and Resolutions to provide a sound management structure.

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 APFC Board of Trustees, and provides requirements for membership.

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. The four public members of the board must have recognized competence and wide experience in finance, investments, or other business management-related fields.

The Legislative Budget and Audit Committee is charged with oversight of the Permanent Fund, and may provide for an annual post audit and evaluation of the Fund's investments and investment programs.

In addition, the Corporation's budget must be submitted to the Legislature through 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 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 maximize return while minimizing risk. The Board also has the authority, with some limitations, to make operational decisions regarding APFC and hire staff as needed. The Corporation's budget must be approved by the Governor and Legislature.

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

APFC is also subject to the provisions of the Alaska Public Records Act, which, with certain exceptions, makes the Corporation's records publicly 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 [8] 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 APFC produce an annual report no later than September 30 of each year for the fiscal year ended on June 30 of the same year. These financial statements are prepared under U.S.

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 the Permanent Fund's financial statements be audited on an annual basis 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 behavior 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 APFC complies with these laws within the State Procurement Code.

Guidance for APFC's procurement of fiduciary contractors is provided for in the Corporation's Investment Policy.

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:

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 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, quarterly 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 [8]. In addition, the Fund's benchmarks, actual allocation, and performance are posted on a monthly basis.

Pillar 3

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 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.

APFC's Investment Policy and related Board resolutions are posted at www.apfc.org [8].

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:

APFC's Board of Trustees authorizes the staff makes investment decisions for the purpose of maximizing the risk-adjusted return. Sharpe Ratios are tracked and monitored as provided for in the Investment Policy. The Board and staff consider input regarding the current and projected market conditions provided by outside advisors and consultants and make decisions regarding asset classes and managers using objective, long-term financial data.

Alaska Statutes currently require the APFC Board to authorize investment decisions to maximize return while minimizing 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 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,

and as a result, does not have access to federally-privileged information that would give it an inappropriate

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:

APFC's investment manager agreements impose a proxy vote requirement. External managers vote these shares on behalf of the Fund, to maximize 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:

APFC's Board of Trustees approved risk management framework is detailed in the APFC Investment Policy. The risk management framework covers salient investment risk parameters and thresholds, credit rating risk for fixed income securities, legal risk management, permitted use of leverage, and foreign exchange risk.

APFC's approach to compliance, monitoring, and reporting of risk measures are also detailed in the risk management framework. Risk dashboards are produced internally on a daily basis, and the Fund's Chief Risk Officer provides a risk update and overview report to the APFC Board each quarter at the public Board of Trustees meetings. 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 ethical conduct of 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.

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

APFC's employees have controlled access rights to the cash transfer system, and all transfers must be created by one employee and authorized by at least one other employee. All cash flows are reconciled daily and monthly by various staff members. The duties of APFC's investments and accounting sections are kept separate.

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.

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 APFC Board of Trustees regularly discusses its approach to risk management at public meetings, the board packets and minutes of which as well as the Investment Policy Statement are posted at www.apfc.org [8].

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:

APFC reports the performance of the Permanent Fund's investments in relationship to clearly defined benchmarks on a monthly basis and on an annual basis. These reports are posted at www.apfc.org [8].

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:

APFC, as a founding member of the Santiago Principles and a member of IFSWF, completes the self-assessment review of the implementation of the GAPP (Generally Accepted Principles and Practices).

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