



ALASKA ADMINISTRATIVE CODE

15 AAC 137

## CHAPTER 137

### RECEIPT, CUSTODY, INVESTMENT, AND MANAGEMENT OF STATE FUNDS

#### ARTICLE 1

##### Alaska Permanent Fund Corporation

15 AAC 137.010. Scope of 15 AAC 137.010 - 15 AAC 137.200 Repealed.

15 AAC 137.020. Federally guaranteed loans and mortgages Repealed 8/5/82.

15 AAC 137.030. Conventional residential mortgages Repealed 7/12/92.

15 AAC 137.040. General terms and conditions for loans and mortgages Repealed 7/12/92.

15 AAC 137.050. General terms and conditions for certificates of deposit Repealed.

15 AAC 137.060. Accounting practices Repealed 7/12/92.

15 AAC 137.200. Definitions Repealed.

#### ARTICLE 2

**Treasury Surplus** - Repealed 12/26/86

#### ARTICLE 3

##### Alaska Permanent Fund Corporation Investment Activities

##### **15 AAC 137.410. Purpose of 15 AAC 137.410 - 15 AAC 137.530**

The purpose of 15 AAC 137.410 - 15 AAC 137.530 is to implement the authority granted the APFC board of trustees under AS 37.13.120(a) to specifically designate the income-producing investments eligible for permanent fund investments.

##### **15 AAC 137.420. Permanent fund investments; institutional quality**

All permanent fund investments must be of a quality considered acceptable by other prudent institutional investors, including endowments, foundations, sovereign wealth funds, or public and private pension funds.

##### **15 AAC 137.430. Fixed-income investments**

(a) The assets of the permanent fund may be invested in the following fixed-income investments:

- (1) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;
- (2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;
- (3) certificates of deposit and term deposits of United States domestic banks that are members of the Federal Deposit Insurance Corporation and that may be readily sold in a secondary market at prices reflecting fair value or that are fully secured at all times as to payment of principal and interest as described in (b) of this section;
- (4) certificates of deposit and term deposits of federally chartered savings and loan associations in the state that are fully secured at all times as to payments of principal and interest as described in (b) of this section;

- (5) certificates of deposit and term deposits of mutual savings banks in the state that are fully secured at all times as to payments of principal and interest as described in (b) of this section;
- (6) fixed-term certificates of indebtedness of federally insured credit unions in the state that are fully secured at all times as to payments of principal and interest as described in (b) of this section;
- (7) debt instruments that have been issued by domestic entities and that are rated investment grade, or debt instruments of comparable quality issued by nondomestic entities;
- (8) debt instruments that have been issued by domestic or nondomestic entities that are rated below investment grade or are unrated;
- (9) short-term
  - (A) promissory notes that have been issued by domestic entities and that are rated investment grade; or
  - (B) promissory notes of comparable quality issued by nondomestic entities;
- (10) short-term promissory notes that have been issued by domestic or nondomestic entities that are rated below investment grade or are unrated;
- (11) bankers' acceptances drawn on and accepted by United States banks each of which has a combined capital and surplus aggregating at least \$200,000,000;
- (12) repurchase agreements and reverse repurchase agreements, the securities underlying the agreements being any of the items listed in (1) - (6) of this subsection;
- (13) the portions of business and industrial loans made under the Rural Development Act of 1972 that are guaranteed by the Farmers Home Administration;
- (14) the guaranteed portion of Farmers Home Administration loans;
- (15) certificates of deposit, term deposits, or bankers' acceptances, that are issued by a United States or nondomestic bank or trust company located outside of the United States and are denominated in United States or nondomestic currency if either
  - (A) those instruments may be readily sold in a secondary market at prices reflecting fair value; or
  - (B) the issuing bank or trust company has capital, surplus, and retained earnings at the date of issue equaling at least \$500,000,000;
- (16) securities of nondomestic governments and nondomestic government agencies, the principal of, or interest on, which is payable in either United States dollars or nondomestic currencies;
- (17) taxable or tax-exempt municipal or state debt instruments whether supported by revenues, general obligations, or guarantees;
- (18) shares in a money market, exchange traded fund (ETF), or short-term investment fund that has either collateral securities of a type authorized elsewhere in this section as acceptable collateral or securities of similar quality to those authorized elsewhere in this section as acceptable collateral;
- (19) fixed-income derivatives, including forwards, futures, options, collateralized securities, structured notes, and swaps, including credit default swaps;
- (20) debt instruments issued by an entity described in 15 AAC 137.450(a)(3).

- (b) Except for investments made under (a)(15) of this section, certificates of deposit or the equivalent instruments that are not of a quality that may be readily sold in a secondary market at prices reflecting fair value must be secured by a pledge as collateral of
- (1) investments authorized for the permanent fund under (a)(1), (2), or (4) of this section;
  - (2) obligations of the State of Alaska or instrumentalities of the state that are rated at least "A" by a major bond rating service and have a demonstrated secondary market; or
  - (3) letters of credit issued by an agency of or enterprise sponsored by the United States government, including the Government National Mortgage Association, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation.
- (c) Investments or obligations pledged as collateral under (b) of this section must have value at least equal to the face value of the certificates of deposit being secured. The APFC may require substitution of collateral in order to ensure continued satisfaction of the requirements set out in (b) of this section.
- (d) Repealed 12/10/2014.

**15 AAC 137.440. Publicly traded equity investments**

The assets of the permanent fund may be invested in the following publicly traded equity securities:

- (1) preferred and common stock and other equity interests in entities organized in the United States and elsewhere, including ordinary shares, convertible debt securities, initial public offerings (IPO's), exchange traded funds (ETF's), American depository receipts (ADR's), American depository securities (ADS's), global depository securities (GDS's), and grantor trusts;
- (2) equity derivatives, including forwards, futures, options, swaps, collateralized securities, and structured notes.

**15 AAC 137.450. Real estate investments**

(a) The assets of the permanent fund may be invested in the following real estate investments:

- (1) equity interests in, debt obligations secured by mortgages granting a lien on, and other structured investment forms to finance, real estate that is located in the United States, is professionally managed, and is
  - (A) improved by completed and substantially rented buildings;
  - (B) located within the market area of real property in which the permanent fund holds an existing interest and is acquired
    - (i) for the purpose of creating or adding to a portfolio of similar properties; or
    - (ii) to retain or service the needs of existing tenants; or
  - (C) timberland or other agricultural land;
- (2) equity interests in, debt obligations secured by mortgages granting a lien on, and other structured investment forms to finance, real estate that is located outside the United States, so long as the property otherwise meets the requirements of (1)(A) or (B) of this subsection;
- (3) equity interests in entities formed to develop for commercial purposes vacant or underdeveloped real estate that, when completed and occupied, would meet the requirements of (1)(A) of this subsection;

- (4) interests in a titleholding entity, real estate investment trust, real estate investment trust exchange traded fund, real estate operating company, or other entity whose assets consist predominantly of
  - (A) property of a type in which the APFC is otherwise permitted to invest permanent fund assets under (1), (2), or (3) of this subsection; or
  - (B) interests in other entities in which the APFC is permitted to invest permanent fund assets under (A) of this paragraph.
- (b) Repealed 12/10/2014.
- (c) Repealed 12/10/2014.

**15 AAC 137.460. Alternative investments; other investment types and strategies**

- (a) The assets of the permanent fund may be invested in the following additional investment types and strategies:
  - (1) limited liability private equity investment entities and funds-of funds whose investments and investment strategies include one or more of the following approaches:
    - (A) acquisitions, including buyouts, growth buyouts, platform add-ons, and industry consolidation;
    - (B) venture capital, including seed, early, middle, late, expansion, and diversified;
    - (C) debt, including mezzanine/subordinated debt, distressed debt, and venture leasing/debt;
    - (D) special situations, including industry-focused, turnaround, and diverse;
    - (E) other, including secondaries;
  - (2) co-investments with entities and funds-of funds described in (1) of this subsection;
  - (3) limited liability hedge fund investment entities and funds-of funds whose investments and investment strategies include one or more of the following approaches:
    - (A) relative value, including equity market neutral, fixed income arbitrage, and convertible arbitrage;
    - (B) event-driven, including merger arbitrage, distressed securities/discounted bank debt, and special situations;
    - (C) directional/tactical/opportunistic, including long-short equity, managed futures, and global macro;
  - (4) commodities and commodity-linked securities and derivatives, including forwards, futures, options, swaps, and structured notes;
  - (5) hybrid investments and strategies; these investments may include domestic, nondomestic, public and private market equity, or fixed income securities, financial derivatives, and short positions in publicly traded domestic and international equity and fixed income securities;
  - (6) managed futures funds.
- (b) An investment under (a) of this section may be made only
  - (1) through a manager of permanent fund assets with demonstrated skill and experience investing in the specific investment type or strategy authorized under (a) of this section; or

- (2) on the written analysis of a consultant, with demonstrated skill and experience evaluating the specific investment type or strategy, retained by the APFC to evaluate a specific proposed investment or investment strategy.

**15 AAC 137.470. Interests in collective or commingled investment funds**

The assets of the permanent fund may be invested in shares or other interests in collective and commingled investment funds that invest predominantly in investments otherwise permitted under 15 AAC 137.410 - 15 AAC 137.530.

**15 AAC 137.480. Foreign currency transactions**

A manager of permanent fund assets may, with the prior approval of the executive director or the chief investment officer, utilize foreign exchange transactions. Such transactions include currency forwards, futures, swaps, options, and exchange traded funds, as well as currency strategies, including hedging, cross-hedging, and long or short directional strategies.

**15 AAC 137.490. Short-selling**

In addition to the specific authority for the use of short-selling strategies granted under 15 AAC 137.460, a manager of permanent fund assets may, with the prior approval of the executive director or the chief investment officer and consistent with the limitations on the use of leverage provided under 15 AAC 137.500, utilize short-selling as a part of the manager's overall investment strategy.

**15 AAC 137.500. Leverage**

(a) A manager of permanent fund assets may, with the prior approval of the executive director or chief investment officer, utilize leverage as part of the investment strategy for the portfolio for which the manager is responsible, so long as the creditor's recourse on the leverage amount is

(1) not a general obligation of the permanent fund or the APFC; and

(2) is limited to either

(A) the permanent fund assets for which the manager acts as manager; or

(B) other specific assets of the permanent fund.

(b) A manager of permanent fund assets shall use leverage, if at all, in a prudent manner that is consistent with leverage applied by professional asset managers using similar investment strategies.

**15 AAC 137.510. Lending of permanent fund-owned securities**

Securities purchased by or otherwise held for the permanent fund may be loaned to securities dealers or financial institutions, if the loan is collateralized by cash or securities having a market value of at least 102 percent of the market value of securities loaned.

**15 AAC 137.520. Form of asset holdings**

Unless otherwise provided in 15 AAC 137.410 - 15 AAC 137.530, the APFC may invest permanent fund assets directly in the name of the permanent fund, through a limited liability entity, including a corporation, limited

partnership, limited liability partnership, or limited liability company, or through a collective or commingled investment fund, including a fund-of-funds.

**15 AAC 137.530. Investments not otherwise permitted**

- (a) The permanent fund may hold assets not otherwise authorized under 15 AAC 137.410 - 15 AAC 137.520 that
- (1) were held by the permanent fund before January 1, 2006;
  - (2) are distributed to the permanent fund as the result of a liquidation of other assets held by the fund; or
  - (3) are acquired by a manager of permanent fund assets because the assets are included in an investment index that is applied by the APFC to measure that manager's investment performance.
- (b) The permanent fund may hold an asset described in (a) of this section so long as holding the asset satisfies the prudent-investor rule stated in AS 37.13.120(a).
- (c) The APFC must liquidate, restructure, or otherwise bring into compliance a permanent fund investment that ceases to satisfy the prudent investor rule stated in AS 37.13.120(a) within six months after the asset first fails to satisfy that rule.

**ARTICLE 4**

**Alaska Permanent Fund Corporation Operational Activities**

15 AAC 137.610. Confidential records Repealed.

**ARTICLE 5**

**General Provisions**

**15 AAC 137.990. Definitions**

Unless the context requires otherwise, in 15 AAC 137.610 - 15 AAC 137.990,

- (1) "APFC" means the Alaska Permanent Fund Corporation established in AS 37.13.040;
- (2) "chief investment officer" means the chief investment officer of the APFC;
- (3) "co-investment" means a direct investment of permanent fund assets in an entity at the same time and on the same or better economic terms as an investment of permanent fund assets in that entity made through a private equity or hedge fund permitted under 15 AAC 137.460;
- (4) "collective or commingled investment fund" means an entity whose purpose is to direct the collective investment of assets, including a common trust fund, a collective trust fund, a unit investment trust, an open-end or closed-end mutual fund, an open-end or closed-end registered investment company, or any other collective or commingled investment vehicle that is engaged primarily in the purchase and sale of securities or other assets;
- (5) "commodities" means (A) materials, such as gold, copper, silver, and petroleum; (B) timber and other agricultural crops; (C) foods; (D) other natural resources; and (E) products of the items identified in (A) - (D) of this paragraph;

- (6) "derivative" means an instrument whose value, usefulness, and marketability is dependent upon or derives from an underlying asset; classes of derivatives include futures contracts, options, forward contracts, including currency forward contracts, swaps, and options on futures;
- (7) "derivative based strategy" means an investment strategy used by investors that invest in markets typically dominated by derivative instruments;
- (8) "executive director" means the executive director of the APFC;
- (9) "hybrid investment or strategy" means a multi-part investment that may include any investment otherwise allowable, including private equity funds, hedge funds, arbitrage funds, derivative-based strategies, strategic block investment funds, or crossover funds where the underlying investments consist of both public and private investments, including both debt and equity instruments;
- (10) "includes" or "including" has the same meaning given in [AS 01.10.040](#);
- (11) "investment grade" means a Standard & Poor's Corporation rating BBB or better, or Moody's Investors Service, Inc., rating of Baa or better, including a rating with a "+" or "-" designation or other variations that occur within these ratings, or a comparable rating by another nationally recognized rating organization or by a recognized rating service in the jurisdiction of the issuer;
- (12) "leverage" means the use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment;
- (13) "manager of permanent fund assets" means an individual, firm, or other entity that, either by contract or employment with the APFC, has responsibility for the investment and management of a portion of the assets of the permanent fund;
- (14) "permanent fund" has the meaning given "fund" in [AS 37.13.900](#).
- (15) "security" means an instrument that signifies an ownership position in a corporation or other private entity, a creditor relationship with a corporation, other private entity, or governmental body or entity, or rights to ownership such as those represented by an option, future or forward contract, subscription right, or subscription warrant; "security" includes
- (A) stocks, bonds, convertible bonds, bills, notes, debentures, bankers acceptances, commercial paper, certificates of deposit, and shares of a real estate investment trust or real estate operating company;
  - (B) the types of securities identified under (A) of this paragraph purchased on a when issued basis; and
  - (C) combinations of the types of securities identified under (A) and (B) of this paragraph issued as a single instrument;
- (16) "short-selling" means
- (A) the selling of a security that the seller does not own; or
  - (B) any sale that is completed by the delivery of a security borrowed by the seller.