



Board of Trustees

Governance Committee Meeting

May 9, 2023

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# Governance Committee Meeting

**May 9, 2023**

**Time: 1:00 – 5:00 p.m.**

## Virtual

### Webinar Access (click link to join webinar)

Join via WebEx and enjoy the ability to listen on your computer and follow presentations:

<https://apfc.org/bot-governance-committee>

Event Password: GovCom

If you are unable to join via webinar, the teleconference information is:

Phone: 1-844-740-1264      Access Code: 2634 101 3482

Numeric Password (if needed): 468266

**\*Please sign-up for public testimony by emailing [jloesch@apfc.org](mailto:jloesch@apfc.org) by noon on Monday, May 8\***

## AGENDA

Tuesday, May 9, 2023

- 1:00 p.m.      CALL TO ORDER
- ROLL CALL (Action)
- APPROVAL OF AGENDA (Action)
- APPROVAL OF MINUTES (Action)
  - December 5, 2022
- SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION
- 1:15 p.m.      FUNSTON PRESENTATION (Information)
  - Rick Funston, Funston Advisory Services LLC
  - Keith Johnson, Funston Advisory Services LLC
- DISCUSSION OF GOVERNANCE REVIEW (Information)
  - Trustees and Staff
- 3:00 p.m.      BREAK
- 3:15 p.m.      PRESENTATION & DISCUSSION CONTINUED
- 4:45 p.m.      OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS
- 5:00 p.m.      ADJOURNMENT

**NOTE: TIMES MAY VARY AND THE CHAIR MAY REORDER AGENDA ITEMS  
(Please telephone Jennifer Loesch at 907.796.1519 with agenda questions.)**

SUBJECT: Approval of Minutes

ACTION:   X  

DATE: May 9, 2023

INFORMATION:

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**BACKGROUND:**

Staff & Trustees reviewed the following Governance Committee meeting summary minutes. Draft copies are attached for your approval.

- December 5, 2022 Governance Committee Meeting

**RECOMMENDATION:**

The Chair of Governance Committee should ask whether any member has any questions or corrections regarding the minutes from the December 2, 2022 Governance Committee Meeting. If there are not corrections, The Board Chair should announce, “that there being no corrections the minutes are hereby approved”. A formal motion to approve the minutes is not required under §41 of Robert’s Rules of Order.

**ALASKA PERMANENT FUND CORPORATION  
GOVERNANCE COMMITTEE MEETING  
WEBEX/TELECONFERENCE**

December 5, 2022

9:00 a.m.

Originating at:

Alaska Permanent Fund Corporation  
801 West 10<sup>th</sup> Street  
Juneau, Alaska 99801

Trustees Present:

Steve Rieger, Chair  
Ellie Rubenstein  
Craig Richards  
Jason Brune

Trust Staff Present:

Deven Mitchell, CEO  
Val Mertz, Acting CFO  
Chris Poag, General Counsel  
Jennifer Loesch  
Paulyn Swanson  
Nellie Metcalfe  
Norix Mangual  
Adam Kane  
Alex Smith  
Larissa Murray  
Chad Brown  
Cody Graves  
Adam Kane  
Jedediah Smith  
Lacey Sanders  
Julia Mesdag  
Sebastian Vadakumcherry

Other Participants:

John Springsteen

## PROCEEDINGS

### CALL TO ORDER

CHAIR RIEGER called the Governance Committee to order and asked for a roll call.

MS. LOESCH called the roll and stated that Trustees Rubenstein, Richards, Brune, and Chair Rieger were present.

CHAIR RIEGER stated there was a quorum and moved to approval of the agenda.

### APPROVAL OF AGENDA

CHAIR RIEGER asked if there were any objections to the agenda as presented.

*There being no objections, the AGENDA was APPROVED.*

### APPROVAL OF MINUTES

CHAIR RIEGER moved to the Minutes of May, 2 2022 and asked for a motion.

**MOTION: A motion to approve the minutes from May 2, 2022, was made by TRUSTEE RUBENSTEIN; seconded by TRUSTEE BRUNE.**

TRUSTEE BRUNE stated that both he and Trustee Rubenstein were not present for the meeting and were going on faith that what occurred was reflected in the May minutes.

CHAIR RIEGER asked Mr. Poag if only two of the trustees were present at the May meeting, were they adequate to approve the minutes.

MR. POAG explained that the bylaws adopt Robert's Rules of Order to govern procedure. After reviewing Robert's Rules regarding approval of minutes, he noted that although it is a tradition of the committee and the board to approve the minutes through a formal vote, it was not necessary. The minutes come before the board for the purpose of insuring that they are correct and accurate. He added that a motion to allow the board members the opportunity to correct any misstatements was certainly appropriate if there was a correction to be noted, and that issue could be debated. Unless there were any corrections to the minutes, then they are just adopted by unanimous consent, and a formal motion and vote is not required.

CHAIR RIEGER asked if there were any objections to the minutes as presented.

TRUSTEE RUBENSTEIN stated that the minutes say that there were things that needed to get submitted and she was nervous about adopting things that predated some of the trustees.

CHAIR RIEGER deferred approval of the minutes for further review and approval at the next meeting.

MR. POAG indicated that it did not matter that members present today were not present at that meeting, and it did not matter that they cannot identify any corrections. He stated that the point is that the committee is supposed to approve at its very next meeting minutes from the prior meeting unless there were corrections to be noted.

CHAIR RIEGER asked for any further objections to approve the minutes.

*There being no objections, the MINUTES were APPROVED.*

### **GOVERNANCE REVIEW**

CHAIR RIEGER stated that the next item on the agenda was a discussion of governance review. He continued that in the meeting materials was a copy of the charter of the Governance Committee. The Governance Committee Charter states that it would review its own charter, and also review the other charters in the time frame prescribed in those individual charters. He added that there had been some interest in hiring an external consultant to do that. The action item would be to discuss hiring an external consultant and then launching that process by directing staff to get going on a procurement process.

TRUSTEE RICHARDS asked about the scope of what the external consultant would do.

CHAIR RIEGER stated that he envisioned hiring someone with experience in governance policies to look at what we were doing, and then comment on whether it was consistent. It would be to have the benefit of the assistance of someone who had seen different governance policies, for them to give feedback on whether ours need anything.

TRUSTEE RICHARDS stated that a complete policy overview was done sometime in the early 2010s, which brought the policies to where they are now. And unless there was a specific, particular policy to look at, he did not see the need. He continued that the one policy that needed review was the executive director review policy. The Alaska laws require confidentiality, and because of the lack of confidentiality of the process, there was a need for change.

TRUSTEE RUBENSTEIN stated appreciation for the history. She explained that having an unbiased review would give the Legislature the trust and confidence that the board or commissioners would not do something to try to take away the power from the board. She continued that one of the ways to do that was to work with a consultant that does work with pension funds, and that it would not need to be a massive governance overhaul. Helping to strengthen the executive director review process and strengthen this gap needed to be taken on by the committee.

TRUSTEE RICHARDS was in total agreement on the executive director review piece and the need that it be overhauled to return confidence in that limited piece.

TRUSTEE RUBENSTEIN stated that it would be best to review the Governance Committee structure and do it thoroughly so that in a year it is not the same situation. Since it had not been looked at since 2010, it is a fiduciary responsibility to look at strengthening.

TRUSTEE BRUNE agreed with respect to the executive director evaluation process, and that it would not be that big of a deal to have a look at other components, and he stated support for that.

CHAIR RIEGER agreed, and he liked the idea of having someone look at all of the policies from the outside to see if there was anything that they would want to bring to our attention. He added that he expected this would be a small procurement and not a huge contract.

TRUSTEE RUBENSTEIN reaffirmed that having a consultant versus the pressure on the board to do this was a good way to de-risk the process.

CHAIR RIEGER asked Mr. Poag if a motion was needed.

MR. POAG asked if the committee was planning to participate in the process for procuring the consultant, or whether the committee was directing staff to conduct the process.

CHAIR RIEGER stated that administratively the committee would direct staff to handle the procurement. He was hoping to have one or more board members serve on the selection committee.

MR. POAG replied that a motion was appropriate, and it would be good to have the vote on the record.

TRUSTEE RICHARDS suggested providing some scoping for the contract, and giving a maximum amount for the consultant.

CHAIR RIEGER asked Mr. Poag what the limits were for a small procurement.

MR. POAG explained that there were different categories in the regulations. He suggested a \$10,000 to \$50,000 level.

**MOTION: A motion that authorized a procurement in the \$10,000 to \$50,000 range for a consultant with experience with governance policies coming back to the Governance Committee for approval before the award was given was made by TRUSTEE RICHARDS; seconded by TRUSTEE BRUNE.**

*After the roll-call vote, the MOTION was APPROVED. (Trustee Richards, yes; Trustee Brune, yes; Trustee Rubenstein, yes; Chair Rieger, yes.)*

TRUSTEE BRUNE stated that he and Chair Schutt received an e-mail addressed from a citizen indicating that she was unable to access the WebEx meeting. She is questioning the transparency of the group. He did not know if other members of the public were on the Webex, and asked to make sure that if the public wants to engage, they were able to.

MS. LOESCH stated that staff was aware of this, and IT was working with the citizen.

TRUSTEE BRUNE apologized for interrupting.

MR. POAG asked if there were other public participants participating in the meeting.

MS. LOESCH replied that there is one member from the public online.

MR. POAG asked if there was any contact from any other members of the public that would like to participate besides the one individual.

MS. LOESCH replied that there was that one, and noted that staff had tested it from nonAPFC accounts, and it worked.

CHAIR RIEGER asked Mr. Poag if there was any problem proceeding with the meeting.

MR. POAG replied that it sounded like the public in fact has access and could log in. He stated that there were no other difficulties, and the meeting could proceed.

CHAIR RIEGER apologized to the person who could not get on and invited that person to submit any comments. He moved to the second part of the agenda item and extended an invitation to any committee member who wished to be a liaison or participate on the selection committee to contact him. He hoped that one or more would volunteer. He moved to the Acting Executive Director review and stated that would be best handled in Executive Session.

### **ACTING EXECUTIVE DIRECTOR REVIEW**

CHAIR RIEGER asked for a motion.

**MOTION: A motion was made by TRUSTEE BRUNE to go into Executive Session to discuss the previous Acting Executive Director's evaluation.**

MR. POAG stated that the executive director evaluation process involved a discussion of whether the acting executive director did a good job, bad job or in between. The discussion of the merits and successes at the position of executive director could be possibly harmful to her reputation or character, and, therefore, the Open Meetings Act provides an avenue for the board to have that discussion. It should take place in Executive Session because it is personal to her and her reputation or character. That is the traditional grounds for proceeding to Executive Session.

TRUSTEE RICHARDS asked why this review was being conducted.

CHAIR RIEGER replied that there was an informal discussion with staff, and his conclusion was that every employee at the Permanent Fund Corporation had a personnel file with regular periodic reviews of performance from that employee's supervisor, and that constituted a personnel record. The purpose of this was to participate in the process of getting her a review.

TRUSTEE RICHARDS asked about staff getting reviewed, and if she would be doing them.

MR. BROWN stated that staff reviews were completed for the year; they were reviewed in May and November.

MR. POAG highlighted the issue that this Governance Committee's role in the executive director evaluation process was as a coordinator and a facilitator. Traditionally, the discussion of the actual evaluation survey results and whether the executive director had any comments or concerns would take place in Executive Session at the Full Board meeting and not typically at the Governance Committee level.

CHAIR RIEGER believed that there existed an aggregate summary of responses that came in from the trustees, and he would like to have a chance for the committee to look at that

aggregation that was prepared to make sure that the committee members were comfortable with that being sent on to the Full Board.

MR. POAG stated that that seemed appropriate.

CHAIR RIEGER noted that Trustee Brune made a motion, and he asked for a second.

The motion was seconded by TRUSTEE RUBENSTEIN.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Brune, yes; Trustee Richards, yes; Trustee Rubenstein, yes; Chair Rieger, yes.)*

(Executive Session from 9:58 a.m. until 10:20 a.m.)

CHAIR RIEGER called the meeting back into regular session and stated that while in Executive Session the trustees considered only the matters mentioned in the motion and took no action. He directed staff to forward the summary of comments received to Ms. Mertz in preparation for action at the Full Board meeting later this week. He concluded the Acting Executive Director review, and proceeded to other matters, future agenda items, or trustee comments. Hearing none, he asked if there was anyone who would like to participate and comment.

MS. LOESCH stated that there was no public comment.

CHAIR RIEGER asked for a motion to adjourn.

**MOTION:** A motion to adjourn the meeting was made by TRUSTEE BRUNE.

*There being no objection, the meeting was adjourned.*

CHAIR RIEGER thanked all.

(Alaska Permanent Fund Corporation Governance Committee meeting adjourned at 10:22 a.m.)



ALASKA PERMANENT  
FUND CORPORATION



*Discussion Draft Final Report*  
Best-in-class Governance  
Policy Recommendations

May 9, 2023

# Purpose & Scope of Project

- Funston Advisory Services (FAS) selected in RFP Process
  - Work began Feb 1, 2023.
- Review APFC bylaws, charters, governance policies & related practices
  - Evaluate compared to best-in-class governance practices at peers
  - Identify & prioritize improvement opportunities
  - One size fits one - “Best in class” is a matter of opinion
  - APFC Board to make final determinations on what best fits its circumstances
- Iterative Process
  - Review governance documents
  - Interview trustees and executives
  - Obtain executive feedback on preliminary recommendations
  - Obtain Governance Committee feedback

# Brief Introduction of Funston Advisory Services

Boutique advisory firm focused on governance, strategy, risk and operations at public pension systems and sovereign wealth funds

- Network of senior industry experts, each with decades of experience
- Customized staffing of projects to fit each client's unique needs
- Proprietary public investment entity governance practices benchmarking database
- National repository of public investment entities' policies

<https://www.funstonadv.com>



Rick Funston



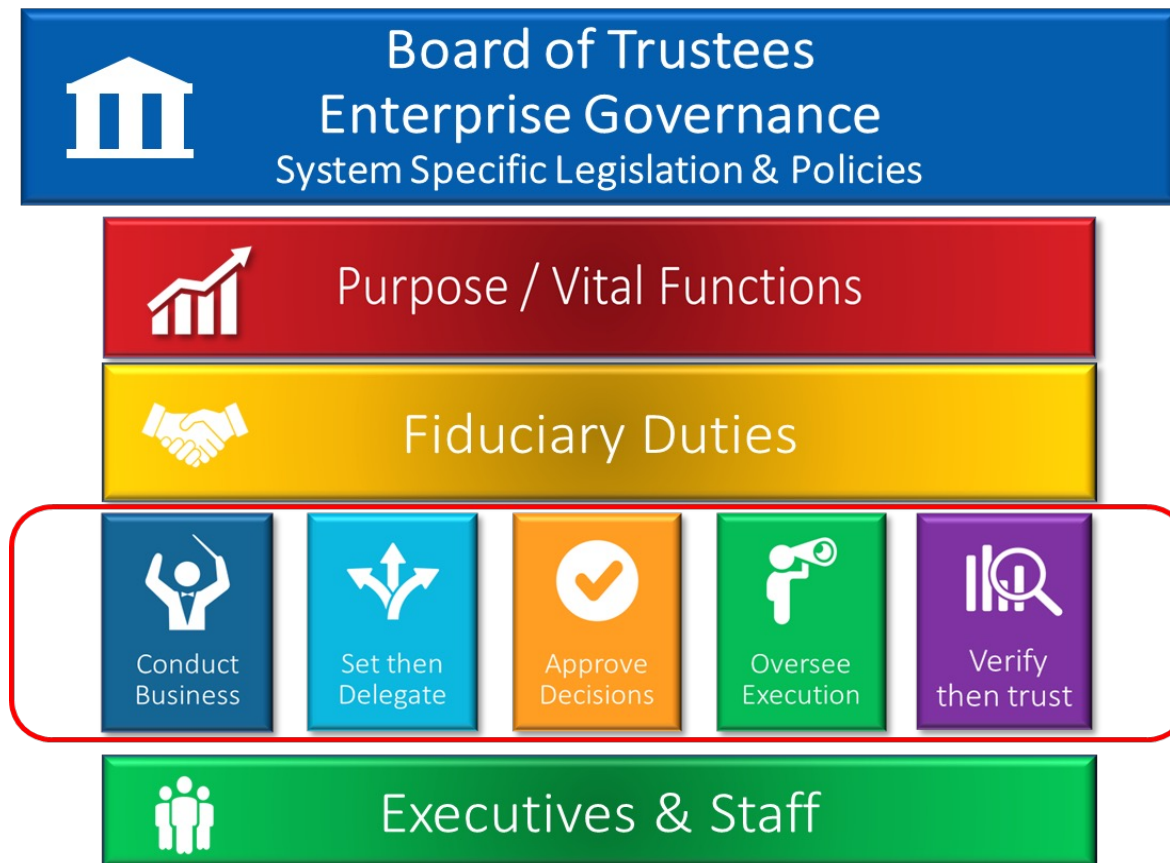
Keith Johnson



Randy Miller

# Context for Recommendations

Fiduciary and statutory duties set the context for APFC Board to prudently exercise its powers



# High Priority / Critical Board Recommendations

- Simplify ED evaluation process within applicable legal constraints
  - Prioritize ED/CIO succession plans; ED confer with Board on CIO evaluations
- Work with the Legislature to:
  - Recognize confidentiality of CEO & Board evaluation work papers
  - Expand size of Board; Establish Board member term limits
- Initiate Board/committee self-evaluations
  - Identify areas for improvement and coordinate with trustee education plans
- Revise policy on trustee requests for information from staff and on referral of investments or vendors

# High Priority / Critical Board Recommendations Cont'd

- Extend strategic planning time horizon and expand issues covered
  - Include long-term goals, metrics and annual implementation plans
- Improve stakeholder communications and crisis management plans
- Establish an Enterprise Performance Risk Management Program
  - Formalize policies, reporting processes, staff and committee responsibilities
- Develop clear and expanded compliance monitoring and reporting responsibilities
  - *Address pay to play, insider trading, placement agent use, front running, etc.*

# Necessary / Medium Priority Board Recommendations

- Develop investment beliefs to further guide planning and policies
- Formalize due diligence processes and related compliance reporting
- Develop a Board multi-year calendar with key action and education topics
- Schedule Board/committee consultations with executive staff and the IAG on new IAG tasks
- Standardize formats for Board reports
  - Consider summaries, exception-based dashboards and trends reporting
- Formalize Internal CIO Investment Committee structure, duties and reporting practices

## Necessary / Medium Priority Board Recommendations Cont'd

- Provide greater clarity on trustee duties and role expectations
- Spell out Board Standards Policy discipline options and procedure
- Improve the Trustee Education Policy
  - Create continuing education attendance and curriculum standards
  - Develop individualized trustee continuing education plans
  - Consider adding online education
  - Provide for attendee reporting on and rating of external education events
  - Spread new trustee orientation training over several months with initial focus on legal mandate and how to navigate and locate materials

## Necessary / Medium Priority Board Recommendations Cont'd

- Consider development of internal audit capabilities using external or internal resources
- Revise the Audit Committee Charter to provide for:
  - Committee monitoring of compliance with audit report recommendations
  - Audits of investment and operations reports for accuracy and reliability
- Incorporate the Alaska Whistleblower Law into HR policy and personnel practices

# Technical and Other Important Recommendations

- Consolidate all governance bylaws, charters and policies into Manual
  - Use the Enterprise Governance Framework for organizing policies
  - Include electronic links to supporting documents and laws
  - Post in a visible location on the APFC website
- Review existing policies, resolutions and practices for consistency
  - Address all key Board approvals and resolutions in charters or policies
- Provide secure laptops or tablets to trustees for APFC business
  - Consider use of a secure online portal for Board materials using a Microsoft Sharepoint platform
- Explore new joint education opportunities with other State entities

# Next Steps

- Governance Committee action on Final Draft Report?
- FAS to update and finalize Report for submission to Board



ALASKA PERMANENT  
FUND CORPORATION

# Best-In-Class Governance Policy Recommendations

Discussion Draft  
*May 3, 2023*

DRAFT



Funston Advisory Services LLC



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## 1. Background

### **APFC Purpose and Functions**

The Alaska Permanent Fund Corporation (APFC) was created by the Alaska Legislature in 1980 as a quasi-independent state entity tasked with the important mission of prudently investing and managing the assets of the Alaska Permanent Fund. The APFC was one of the first sovereign wealth funds and is the largest state-level fund of its kind in the United States. The APFC has 59 staff in investment management, accounting, information technology and administration.

The APFC operates as an independent state corporation under the oversight of a Board of Trustees that serves as fiduciary of the APFC. The APFC Board of Trustees sets investment policy, reviews the portfolio's performance, and works together with management to determine the Corporation's strategic direction.

The Board is composed of six governor-appointed Trustees. Two of the members must be heads of principal departments of state government, one of whom must be the commissioner of revenue. Four public members fill the remaining seats, which have staggered, four-year terms. The four public members of the Board must have recognized competence and wide experience in finance, investments, or other business management-related fields.

The Alaska Permanent Fund was established by [Article IX, Section 15](#) of the Alaska Constitution, while the objectives and investment guidelines of the Fund are defined in Chapter 37.13 of the Alaska Statutes. The Statutes contain legislative findings that the Fund was established to conserve a portion of the state's revenues from mineral resources to benefit all generations of Alaskans. (AS 37.13.020) Among other things, [AS 37.13.120](#) requires that Fund investments be made in accordance with the prudent investor rule and be reasonably diversified. The APFC Board of Trustees is required to draft and maintain a list of allowed investments in regulations. This list is maintained in [Alaska Administrative Code 15 AAC 137](#).

## 2. Purpose of the Review

In January 2023, the Board requested the Governance Committee seek the assistance of an external governance consultant in the review of its governance policies. The purpose of the review was to ensure that the Board’s existing governance policies remain consistent with best governance practices for an endowment fund of similar size and purpose to the Alaska Permanent Fund (Fund). This included the APFC Board of Trustees (Board) annual performance review process for the APFC executive director (ED).

After a competitive RFP process, Funston Advisory Services (FAS) was selected to undertake the review. The goal of the project is to identify and recommend practical improvements to the governance policies that guide how APFC conducts its business; sets direction and prudently delegates authorities and resources; approves key decisions; oversees the execution of its direction within policy; and verifies reliability of the information that it receives and it reports to stakeholders.

## 3. Policy Review Process

### *Iterative Consultation*

The following report presents our draft recommendations to achieve "best-in-class" improvements in APFC’s Bylaws, Charters, Governance Policies and related practices. This draft was prepared after an evaluation of current APFC policies by FAS and interviews with trustees and executives. It provides recommendations on improvements that should be considered by APFC but does not address how to implement those recommendations. The implementation step will require deliberations by APFC which are likely to take time, as well as additional staff or external resources, which are beyond the scope of this project.<sup>1</sup>

The review has been an iterative process of consultation with APFC trustees and executives which recognizes that “one size fits one” and that what constitutes “best-in-class” is a matter of opinion. This may vary between investment organizations, depending on differences in liabilities, size, governance structure, resources, time horizons, legal authority, stakeholder expectations and other distinguishing factors. What is best for APFC will need to be determined by APFC with a view to the long-term. The recommendations were developed with the intent that underlying practices remain appropriate well into the future, beyond changes in current staff and Board membership.

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<sup>1</sup> FAS would welcome being considered by APFC for a follow-on project to provide further assistance for the deliberation and implementation process phases.

## Prioritized Implementation Roadmap

Once feedback on the recommendations has been provided by the Governance Committee, FAS will prepare a Final Report with a prioritized implementation roadmap (see Appendix B) that includes criteria such as:

- Criticality
- Degree of difficulty
- Resources required
- Responsibility

The next step is to seek Governance Committee feedback on the following draft recommendations. A final report will be developed by FAS based on that feedback. FAS will make a virtual presentation on the final report to the Board upon request.

### *Staff Input*

At the request of the Governance Committee to facilitate its review, comments from APFC staff are included after each recommendation in this Draft Report and after Exhibit B. Staff input appears in red.

## 4. Enterprise Governance Framework

To promote role clarity between the APFC Board, executives and staff and its auditors and advisors, as well as assist in aligning the exercise of the Board's powers with its fiduciary responsibilities, our governance policy recommendations are organized into the Enterprise Governance Framework shown below in Figure 1.<sup>2</sup>

The Framework structures the Board's five governance powers into five categories: Conduct the business of the board; set direction then prudently delegate; approve key decisions; oversee execution; and verify then trust.

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<sup>2</sup> The Enterprise Governance Framework. ©Copyright 2022. All rights reserved. Funston Advisory Services LLC

Figure 1 – Powers Reserved for the APFC Board



5. Proposed governance policy improvements organized by Board powers

While current APFC policies appear to be generally reasonable, appropriate and consistent with prevailing peer practices, there are always improvement opportunities at any institutional investor. Recommendations in this report focus on provisions not fully covered in existing APFC governance documents, opportunities for improving clarity or completeness and governance practices we consider best-in-class.

In most instances, the rationale for the recommendation should be self-evident. In others, further discussion and explanation may be needed. Governance Committee feedback is invited. Recommendations that involve only changes within purview of the staff or that are limited to clarification of existing policy or formalization of established practice have been separated from those that are likely to require Board deliberation and are set forth in Appendix B.

## Conduct the Business of the Board

The first power reserved to the Board to fulfill its fiduciary duties is to conduct the business of the Board and its committees. This includes, for example, governance policies and the selection, evaluation and planning for the succession of the ED.

### Bylaws, Charters and Governance Policies

1. Add a section on trustee duties and role expectations (e.g., meeting preparation and attendance, time commitment, asking questions, forming independent conclusions, meeting behavior expectations, commitment to skills development, etc.) to the Board Standards Policy or in the Charter for the Board of Trustees. **APFC Staff Input: This is primarily a policy call for the Board, but Staff supports this recommendation and thinks it fits better in Board Standards Charter.**
2. Develop an annual or multi-year calendar of key Board meeting agenda topics, along with corresponding Board continuing education sessions as a new provision in the Monitoring and Reporting Policy. **APFC Staff Input: Staff supports this but recognizes that only certain recurring agenda items can be calendared years in advance. For example, annual edits to Investment Policy Statement, Annual Fiduciary Training, Annual Executive Director performance evaluation are items that can be advanced calendared. That said, Staff thinks setting out these dates in advance can prove helpful, especially for new Board Members, regarding when certain decisions need to be made and approved by the Board.**
3. Clearly reference the powers reserved for the Legislature, those delegated to the Board and those delegated by the Board to the Executive in the Board Charter. **APFC Staff Input: This is primarily a policy call for the Board, but Staff supports this recommendation.**
  - a. The Board Charter could also include a provision which recognizes that the Board may, from time to time, request legislative changes where circumstances have changed; authority or resources assigned to the APFC are inadequate for the Board to perform its duties or meet its obligations; or other amendments would be appropriate. **APFC Staff Input: This is primarily a policy call for the Board, but Staff supports this recommendation. Staff could create an annual list of legislative proposals for the Board to consider at the annual meeting and then the Board could vote on such proposals at the December meeting before the start of session.**
  - b. The Board should consider requesting legislation that:
    - i. Confirms APFC may withhold from public access under the Open Records Law work papers related to evaluation of the ED or to self-evaluation of the Board, a committee or individual trustee. **APFC Staff Input: This is primarily a policy call for the Board, but Staff supports this recommendation.**

- ii. Expands the number of Board members to be more consistent with Boards for similar size institutional investors with an uneven number of members to avoid tie votes (median =9). **APFC Staff Input: This is a policy call for the Board.**
  - iii. Establishes a limit on the number of consecutive terms that a Board member may serve. **APFC Staff Input: This is a policy call for the Board.**
4. Reorganize existing governance documents and Board meeting agendas using the Enterprise Governance Framework shown in Figure 1 above to provide greater governance role clarity. **APFC Staff Input: Staff does not currently support this recommendation. Staff's reluctance is to go from a system we know well to a system which may have the same information but with a very different organizational system.**

CEO/ED Selection, Evaluation and Succession Planning

5. Simplify the ED evaluation policy and adjust it to reflect any enacted legislation establishing related confidentiality standards to encourage candor in the evaluation process; or, if no legislation is adopted, adjust the policy to encourage candor by allowing oral communication of sensitive personal information conveyed in the process of developing a final publicly available ED evaluation document. **APFC Staff Input: This is primarily a policy call for the Board, but Staff supports this recommendation with emphasis placed on the Board providing clear annual guidance to the Executive Director what his/her goals and objectives are for the short and long-term. Staff thinks this discussion might fit well with an annual discussion of the Boards goals and objectives for the upcoming year (i.e. annual review of strategic plan).**
6. Benchmark evaluation practices used by other Alaskan state agencies for “at will” employees (i.e., those who serve at the pleasure of the employer) if those practices reflect the same public access status as accorded to APFC evaluations. **APFC Staff Input: The other state agencies face the same public records issue as APFC.**
- a. To the extent practicable, develop and adhere to an annual ED evaluation process that includes (a) mutual agreement prior to beginning of the performance period on the ED’s performance goals and objectives (both annual and longer-term), (b) a component of the evaluation that compares the ED’s actual performance over the period to the expected objectives/goals, (c) identifies strengths and opportunities for improvement, and (d) provides constructive feedback to the ED. **APFC Staff Input: This is primarily a policy call for the Board, but Staff supports this recommendation.**
  - b. The process should be led by the Board Chair based on oral or written input received from the trustees using Board-approved criteria. **APFC Staff Input: This is primarily a policy call for the Board, but Staff supports this recommendation.**
  - c. The Board may elect to use a third-party facilitator to gather the input or otherwise assist in the evaluation process. **APFC Staff Input: This is primarily a policy call for the Board, but Staff supports this recommendation.**

- d. To avoid conflicts, employees who report to the ED should not be used to gather trustee input or convey evaluation results to the ED. **APFC Staff Input: This is primarily a policy call for the Board, but Staff supports this recommendation.**
7. Consider including provisions in the ED's charter to improve APFC's ability to attract and retain qualified candidates and clarify legal rights (e.g., provide for compliance with "at will" employee discipline due process rights, use Enterprise Governance Framework to provide clarity of board and ED governance roles, retention bonus). **APFC Staff Input: This is a policy call for the Board.**

#### Governance Committee

8. Include in the Charter of the Governance Committee, a mandate to review the format and content of reports in the Monitoring and Reporting Policy to identify improvements in format and content, including use of exception reporting, compliance dashboards and additions to a consent Board meeting agenda section, for recommendation to the CEO and Board. See also recommendation 2. **APFC Staff Input: This is primarily a policy call for the Board, but Staff supports this recommendation.**

#### Audit Committee

See below: Verify then Trust

#### Investment Advisory Group

9. Consider an amendment to the Governance Committee Charter or Board Charter to provide for periodic trustee consultation with the Investment Advisory Group (IAG), ED and CIO about IAG assistance to the Board on new or timely topics (e.g., review of Philosophy/Investment Beliefs and/or Strategic Planning). **APFC Staff Input: The IAG is the Board's advisor, so staff defers to the Board on the role of the IAG.**
  - a. Include on the Board calendar an annual/biennial agenda item to discuss with the IAG ways to improve its contribution (or delegate this task to the Governance Committee). **APFC Staff Input: The IAG is the Board's advisor, so staff defers to the Board on this issue.**

#### Onboarding and Continuing Education

10. Revise the Trustee Education Policy to set minimum continuing education requirements and provide for development of personalized annual trustee development plans that are based on the individual expertise and experience of each trustee, consider Board self-evaluation results in planning education and coordinate education with upcoming Board agenda items. **APFC Staff Input: This is a policy call for the Board, but staff is prepared to help with any/all education efforts that the Board chooses to pursue.**

11. Provide a list of key topics on which education should be provided (e.g., biennial fiduciary duty and ethics refreshers, regular key investment and risk management topics) and the number of attendance hours required, with compliance tracked and reported to the Board. **APFC Staff Input: This is a policy call for the Board, but staff is prepared to help with any/all education efforts that the Board chooses to pursue.**
12. Consider requiring trustees to rate and report on externally provided educational events to assist in prioritizing high quality programs. **APFC Staff Input: This is a policy call for the Board, but staff supports this recommendation.**
13. Consider offering on-line continuing trustee education in addition to education at Board meetings and external conferences.<sup>3</sup> **APFC Staff Input: This is a policy call for the Board.**

#### Trustee discipline

14. Expand the Board Standards Policy provisions on trustee discipline to specify due process rights and identify sanctions that could be imposed by the Board (e.g., reprimand, referral to external enforcement agency, remedial training, notice to appointing authority). **APFC Staff Input: This is primarily a policy call for the Board with the caveat that the removal of any Board member is a power vested with the Governor under AS 37.13.070.**

#### Board Self-Evaluation

15. Conduct regular (annual or biennial) self-evaluations of the entire Board and/or each committee. Focus on the exercise of the powers reserved for the Board (i.e., how effectively does the Board conduct its business and that of its committees, set direction and policy and then prudently delegate, approve key decisions, oversees the execution of direction within policy and verify the reliability of information and reports). **APFC Staff Input: Staff recommends the Board annually review the strategic plan to see how much progress was made in the prior year on the goals identified in the plan. Staff thinks annual review of the strategic plan is an important board task.**
  - a. Identify areas for improvement and coordinate any training recommendations with trustee education. **APFC Staff Input: Staff defers to Board on this issue.**

#### Stakeholders and Communications

16. Given the extraordinary scrutiny APFC receives due to its statewide importance, develop an annual stakeholder communications plan that sets priority goals for two-way communications with important stakeholder groups on issues of concern. **APFC Staff Input: There already exists opportunities for the public to provide feedback at board meetings and**

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<sup>3</sup> In full disclosure, this is a service offered by Board Smart LLC (a FAS affiliated company) in addition to several other providers.

through the website. That said, Staff supports providing more formal opportunities for input from the Legislature and Governor's Office, which could include invitations to attend specific Board meetings. For example, Staff from the Governor's Office could be invited to attend the annual meeting when the upcoming budget is reviewed/approved and the Legislature could be invited to attend the February meeting when session is underway.

- a. Develop crisis management capabilities with identification of staff and/or consultants to implement crisis management plans. **APFC Staff Input: This plan already exists and is still in the process of being refined by Staff.**

#### Referrals and Access to Staff

17. Revise the Communications Policy to designate the ED as the single point of contact for communications from trustees to staff, outside of Board or committee meetings, for purposes of coordination, prioritization, accountability, and workload control. This should include referrals of investment opportunities or service providers and requests for information from staff. **APFC Staff Input: Staff supports this recommendation. The current method of communication between Board members and Staff makes it difficult to provide transparent and uniform information/advice to all board members and to keep the Executive Director and Board Chair in the loop on communications between staff and Board members.**
  - a. Responses to trustee requests for APFC business information should be provided to all trustees. **APFC Staff Input: Staff supports this recommendation.**
  - b. Investment-related requests may be made directly to the CIO, and legal inquiries may be made to the General Counsel, with contemporary notice given in each case to the ED and furthermore provided that privileged legal communications may be treated as confidential with consent of the General Counsel. **APFC Staff Input: Staff supports this recommendation.**
  - c. An exception to the sole source of contact rule may be provided for ordinary course inquiries (e.g., travel reimbursements, conflicts questions, education/training issues and requests for APFC forms, meeting items, scheduling, public reports, etc.) made to other assigned staff members. **APFC Staff Input: Staff supports this recommendation.**
  - d. A "referrals and request for information" log should be kept that documents all trustee-staff business contacts, referrals, and requests made outside of Board or committee meetings, other than ordinary course administrative or ministerial requests. **APFC Staff Input: Staff supports this recommendation.**
  - e. A quarterly report should be provided to the Board or Audit Committee on the request log entries. **APFC Staff Input: Staff supports this recommendation.**
  - f. The Investment Policy and Board Charter should explicitly state that all trustee referrals of investments and vendors must go through APFC standard due diligence processes applying established evaluation criteria. **APFC Staff Input: Staff supports this recommendation.**

## Set Direction and Policy then Prudently Delegate

The second power reserved for the Board to fulfill its fiduciary duties is to set direction and policy include setting goals, risk appetite, tolerance ranges, compensation, investment policy, authority and providing related authority and resources.

### Strategic Planning

18. To be consistent with legislative findings in [AS 37.13.020](#) regarding the long-term purpose of the Fund being to benefit all generations of Alaskans, amend the Strategic Planning and Budgeting Policy to require the strategic planning time horizon to be at least five years ahead and provide for identification of strategies to develop critical capabilities (e.g., people, process, systems), to address impediments to achieving APFC objectives, develop long-term action plans with metrics to determine outcome success and prepare an annual plan with implementation action initiatives, all in coordination with the Board or a Board Committee (e.g., Governance). **APFC Staff Input: Staff supports this recommendation.**

### Investment Beliefs

19. Consider expanding the APFC Investment Philosophy to guide strategic planning and investment policies (e.g., on use of passive investments; importance of managing fees and costs; the role of private market transactions; unique APFC advantages and disadvantages; appropriate time horizon(s) for investment strategies; importance of asset allocation decisions; views on investment and enterprise risk management, etc.). **APFC Staff Input: Staff supports this recommendation. We could include a section in the Investment Policy Statement that reflects the investment philosophy that supports the current asset allocation, which, although reviewed annually, the asset allocation is usually set based on a five-year term.**
  - a. Also consider engaging the IAG in providing input on investment philosophy. **APFC Staff Input: this is a policy call for the Board.**

### Enterprise Performance Risk Management Process

20. The APFC should establish an Enterprise Performance Risk Management process with corresponding policies, reporting requirements and assigned responsibilities. See also Exception-based reporting Recommendations 21 and 25. **APFC Staff Input: We already have this framework in place but only investment risk is outlined in the Investment Policy. The other risk management components exist in stand-alone documents, like the business continuity disaster recovery plan. If the Board would like, a stand-alone Enterprise Risk Management Policy could be created that would include the operational risk components that do not belong in the Investment Policy.**

## Compliance

21. Develop a consolidated list of compliance requirements ranked as critical, necessary or important. **APFC Staff Input: Staff supports this recommendation. A monthly compliance meeting and report already exist. These reports can be modified to remove proprietary information and allow for the disclosure of these reports to the Board or Audit Committee (whichever the Board prefers).**
  - b. Require quarterly exception reports to the Audit Committee on compliance. **Staff Input: Staff supports this recommendation but thinks it makes more sense for this report to go the full board in the Board meeting packet.**
  - c. Provide for immediate escalation of non-compliance with critical requirements to the ED and the Audit Committee. **APFC Staff Input: Appendix B to the Investment Policy Statement outlines the green, yellow, and red zones of authority which include the escalation to the ED and Board when certain risk measures are out of compliance with their identified zones. So, it might make sense to simply augment this existing Appendix to cover any additional areas the Board identifies as needing to be reported on.**
  - d. Confirm assignment of operational policy compliance (e.g., ethics, continuing education, budget) and reporting duties. **APFC Staff Input: Staff supports this recommendation.**

## Approve Key Decisions

The third power reserved for the Board to fulfill its fiduciary duties is to approve key decisions and require appropriate due diligence as well as to identify those authorities which can be wholly delegated to management versus those retained by the Legislature.

### Decisions requiring Board approval.

22. Clarify in the Board charter the key decisions which require Board approval - such as asset allocation, portfolio benchmarks, risk parameters and budgets. **APFC Staff Input: Staff supports this recommendation.**
23. Determine whether there are duties assigned to the Board which are not actually being performed (e.g., approval of custodian, periodic evaluations of Board service providers, compliance of Board, Chair and ED with their charters) and either amend the Board charter or bring practices into compliance. **APFC Staff Input: Staff supports this recommendation. The last three-year review of the Governance Policies did much of this work already but the exercise can be repeated again in this three-year review.**

24. Require formalization of investment due diligence processes and compliance reporting in the Investment Policy. **APFC Staff Input: Staff supports this recommendation. Much of this framework already exists in the Investment Policy but additional details can be provided on both the due diligence process and compliance reporting.**

### Oversee Execution of Direction within Policy

The fourth power reserved for the Board to fulfill its fiduciary duties is to oversee the execution of approved direction within policy. This includes monitoring vital signs of vital functions to ensure performance remains within established policy ranges and in compliance with policies.

#### Insight for Oversight

25. Consider formally adopting standard formats for board reports that use exception-based reporting and emphasize use of summary APFC dashboards which compare trends in expected performance (for example, as described in the investment policy statement) to actual performance and that highlight exceptions together with related policy implications. **APFC Staff Input: Staff supports this recommendation. The daily risk dashboard already sets out the framework for this concept and can be further refined as the Board sees fit. Additionally, the Callan quarterly performance report provides the Board with a lot of detail on how each asset class is performing against all Board assigned Benchmarks.**
- e. Establish a reporting process that provides electronic links/exhibits to underlying data and operational policies to help streamline the flow of information and to clarify the Board's governance policy setting and oversight responsibilities versus day-to-day management. **APFC Staff Input: Staff supports this recommendation. But Board members do not currently have a direct link to APFC networks, so this will require close work with the IT section to achieve this safely.**
  - f. Modify the format of Board meeting reports as necessary to provide for use of consent agendas, exception reporting and concise summaries of key information or decision options. **APFC Staff Input: Staff supports this recommendation. To some extent this already happens with a host of quarterly reports being provided to the Board in the Board packet that only get discussed if Board members have specific questions.**
  - g. Consider delegating oversight of the development of improved report formats to the Governance Committee, in coordination with the ED, CIO and IAG. **APFC Staff Input: Staff supports this recommendation.**

### Compliance Monitoring

26. Formalize compliance monitoring and reporting processes for investment and ethics policy provisions that identify compliance obligations for matters such as Pay to Play Prohibitions, Federal Insider Trading Regulations, APFC transaction Front Running, Personal Trading with Confidential Information, Use of Placement Agents and misuse of confidential information. **APFC Staff Input: Staff supports this recommendation. Each of these areas is already being monitored internally and many have policies to guide them but having a centralized report that outlines them would be helpful.**

### Verify then Trust

The fifth power reserved for the Board to fulfill its fiduciary duties is to verify the reliability of the information it receives and the reports it issues. This power includes obtaining independent internal and external audit, advice and verification that the system of internal controls is effective.

27. Add responsibility for monitoring compliance with audit report recommendations to the Charter for the Audit Committee. **APFC Staff Input: Staff supports this recommendation.**
28. Include a provision in the Audit Committee Charter that audit plans include (in addition to financial audits) periodic audits of the reliability of the investment and operational information presented to the Board for decision-making and oversight. **APFC Staff Input: Staff supports this recommendation but will need to work with the external auditor to flesh out how this would take place.**
29. Consider development of internal audit capabilities using either internal or external resources. **APFC Staff Input: Staff supports this recommendation but is not sure if there is sufficient work here to justify a full-time position so it might make sense to start with trying this with the use of external resources.**

## Appendix A

### Staff Actions, Policy Clarifications and Formalization Recommendations

The following recommendations relate to items within the purview of staff to take action under authority that has already been delegated, formalize current APFC practices or more clearly describe existing policy. In some instances, Board approval of new or revised bylaw, policy or charter language may be required.

#### Conduct the Business of the Board

1. The Governance Manual containing APFC's Bylaws, Board Charters, Governance Policies, and Investment Policy should also be made available in a highly visible location on the website and kept up-to-date for electronic access by the public and trustees. **APFC Staff Input: Staff supports this recommendation. This information is already on the website but Staff plans to add a new window/tab to the website entitled "Governance" to make these files and policies easier to locate.**
  - a. Relevant APFC governance statutes, board resolutions and other source documents should be made more user friendly in the electronic version by embedding links to those source documents in the policy text where they are referenced. **APFC Staff Input: Staff supports this recommendation and will work with IT to determine how to achieve this task.**
  - a. Policy provisions contained in Board resolutions should be incorporated into the relevant policy or charter (or a link to an electronic version of the resolution inserted) so that related governance provisions are all in one place and easily located. **APFC Staff Input: Staff supports this recommendation and will work with IT to determine how to achieve this task.**
2. Staff should consider establishing a long-term goal to leverage use of Microsoft Sharepoint (or a similar program) as a secure online portal for Board meeting and reference materials, in addition to hard copies of the Governance Manual that are already distributed. This should provide a more user-friendly and less expensive alternative to conventional off-the-shelf board portals. **APFC Staff Input: Staff supports this recommendation and will work with IT to determine how to achieve this task.**
  - a. Consider providing a dedicated and secure APFC tablet to each trustee to enable access to confidential APFC documents and email without using personal systems to proactively address security and public records concerns associated with personal devices and emails. **APFC Staff Input: Staff supports this recommendation and will work with IT to determine how to achieve this task.**
3. The APFC mission statement and a short overview of fiduciary duties (as important governance guidance provisions) should be incorporated into the Charter of the Board of

Trustees near the beginning with links to more detailed explanatory material as needed. **APFC Staff Input: Staff supports this recommendation.**

4. A short description of the process for submission of trustee travel expense reimbursements should be included in the Charter of the Board of Trustees. **APFC Staff Input: Staff supports this recommendation.**
  - a. Relevant forms and related source documents could be referenced via electronic links or attached exhibits. **APFC Staff Input: Staff supports this recommendation and will work with IT to determine how to achieve this task.**
5. Duties assigned in the Charter of the Executive Director should be identified as delegations of authority from the Board consistent with the Bylaws. **APFC Staff Input: Staff supports this recommendation.**
6. Both emergency and long-term succession plans for the ED and CIO should be developed and communicated by the ED to the Board to address key person risk. **APFC Staff Input: Staff supports this recommendation. There is already a delegation in place that covers emergency succession planning for the ED. But, the additional layers will still need to be developed and implemented.**
7. References to indemnification and representation of trustees by the Attorney General or outside counsel should be Included in the Board Charter. **APFC Staff Input: Staff supports this recommendation.**
8. New trustee orientation training should be spread over several months to accommodate the learning curve but should include an early introduction on how to locate key policies and other resources. **APFC Staff Input: This is a policy call for the Board, but staff is prepared to spend more time providing trustee orientation and training as the Board sees fit.**
9. As provided in the Trustee Education Policy, staff should explore joint training opportunities with other Alaskan state corporations and agencies. **APFC Staff Input: Staff supports this recommendation.**

#### Set Direction and Policy then Prudently Delegate

10. Incorporate reference to applicability of the Alaska Whistleblower Law into APFC policies and adjust personnel practices accordingly. **APFC Staff Input: Staff supports this recommendation.**
11. Formalize reporting practices for reports on tracking compliance with “pay to play” restrictions and payment of placement fees, with exception reports provided to the Audit Committee. (See also Compliance Monitoring.)

12. The ED should confer with the Board for input on the evaluation of the CIO. **APFC Staff Input: This is a policy call for the Board but notes that the CIO reports to the ED.**
13. Formalize internal CIO investment committee membership structure and duties in more detail in the Investment Policy and provide for meeting minutes (or reports on actions/approvals) of the internal CIO investment committee to be provided to trustees. **APFC Staff Input: Staff supports this recommendation but the meeting minutes often contain proprietary information so this information will need to be shared via the Intranet or some other secure portal.**
- a. Also formalize the process for distribution of investment pipeline reports to the trustees. **APFC Staff Input: Staff supports this recommendation but these reports contain proprietary information so this information will need to be shared via the Intranet or some other secure portal.**

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## Appendix B

### Implementation Roadmap

Recommendation	Criticality <sup>4</sup>	Difficulty	Resources Required	Responsibility
<b>Conduct Board Business</b>				
Trustee Duties	Necessary			
Annual Calendar	Necessary			
Legislative Changes	Critical			
Governance Framework	Important			
CEO Evaluation	Critical			
Evaluation Process	Critical			
CEO Retention	Important			
Report Format Improvements	Necessary			
IAG Tasks	Necessary			
Continuing Education Standards	Necessary			
Education Topics	Necessary			
External Education Ratings	Necessary			
Online Education	Necessary			
Trustee Discipline	Necessary			
Board Self-Evaluation	Critical			
Stakeholder Communications	Critical			
Trustee-Staff Contacts	Critical			
<b>Set Direction &amp; Delegate</b>				
Strategic Planning	Critical			
Investment Beliefs	Necessary			
Risk Management	Critical			
Compliance	Critical			
<b>Approve Key Decisions</b>				
Board Approval Tasks	Important			
Board Duties Performed	Important			
Investment Due Diligence	Necessary			
<b>Oversee Execution</b>				
Exception Reporting Format	Necessary			
Compliance Reporting	Necessary			
<b>Verify</b>				
Compliance with Audit Recommendations	Necessary			
Audit Plan Contents	Necessary			
Internal Audit Capability	Necessary			

<sup>4</sup> Prioritization is ranked Critical, Necessary, Important (i.e., High, Medium, Low priority).

## Staff Implementation Roadmap<sup>5</sup>

Recommendation	Criticality	Difficulty	Resources Required	Responsibility
<b>Conduct Board Business</b>				
Trustee Duties	3			
Annual Calendar	3			
Legislative Changes	3			
Governance Framework	1			
CEO Evaluation	5			
Evaluation Process	4			
CEO Retention	2			
Report Format Improvements	2			
IAG Tasks	3			
Continuing Education Standards	3			
Education Topics	3			
External Education Ratings	2			
Online Education	2			
Trustee Discipline	2			
Board Self-Evaluation	3			
Stakeholder Communications	4			
Trustee-Staff Contacts	5			
<b>Set Direction &amp; Delegate</b>				
Strategic Planning	5			
Investment Beliefs	3			
Risk Management	3			
Compliance	3			
<b>Approve Key Decisions</b>				
Board Approval Tasks	3			
Board Duties Performed	2			
Investment Due Diligence	1			
<b>Oversee Execution</b>				
Exception Reporting Format	2			
Compliance Reporting	4			
<b>Verify</b>				
Compliance with Audit Recommendations	3			
Audit Plan Contents	3			
Internal Audit Capability	3			

<sup>5</sup> Staff Input is in red, using scoring of 1-5, with 5 being most critical.