



Board of Trustees

Regular Meeting

July 12, 2023

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BOARD OF TRUSTEES MEETING July 12, 2023

Atwood Conference Center 102/104
550 W 7th Avenue
Anchorage, AK 99501

***Please sign-up for public testimony by
emailing jloesch@apfc.org by noon July 11***

**Wednesday, July 12, 2023
8:30 a.m. – 4:00 p.m.**

Webinar Access: <https://apfc.org/bot-meeting-day1>
Event Password: APFCDay1

Teleconference Option
Phone: 415-655-0003
Access Code: 2634 127 1168
Password (if needed): 27323291

**Please note, if you plan to give public testimony by phone,
you must sign-up with Jennifer as described above**

AGENDA

WEDNESDAY, JULY 12, 2023

- 08:30 a.m. CALL TO ORDER
- ROLL CALL (Action)
- APPROVAL OF AGENDA (Action)
- APPROVAL OF MINUTES (Action)
 - April 12, 2023 – Regular Meeting
- SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION (please see note above)
- 08:45 a.m. CHIEF EXECUTIVE OFFICER’S REPORTS (Information/Standard Reports)
Pending Board Matters, Trustee Education Report, ERA Report, Financial Update, Financial Report, APFC History & Projections, FY23 Budget Update
- 09:15 a.m. CHIEF INVESTMENT OFFICER REPORT (Information)
Marcus Frampton, Chief Investment Officer
- 09:45 a.m. CHIEF OPERATIONS OFFICER REPORT (Information)
Mike Barnhill, Chief Operations Officer
 - COO Report (IT, HR, Procurement, Budget, Admin, & Middle Office)
 - Status of the Anchorage Office
- 10:15 a.m. BREAK

- 10:30 a.m. PMP UPDATE INCLUDING COMPENSATION BANDS & ALTERNATIVE WORK POLICIES
(Information)
Chad Brown, Human Resources Director
Mike Barnhill, Chief Operations Officer
- 12:00 p.m. LUNCH
- 12:30 p.m. INVESTMENT ADVISOR CANDIDATE DISCUSSION & SELECTION (Action)
(Executive Session as needed)
Trustees and Staff
- 2:00 p.m. BREAK
- 2:15 p.m. STRATEGIC PLANNING DISCUSSION (Information)
Trustees and Staff
- 3:15 p.m. INVESTMENT ADVISOR COMMENTS (Information)
John Skjervem
- 3:30 p.m. TRUSTEE PAPER (Action)
Trustee Craig Richards
- 3:45 p.m. CLOSING COMMENTS (Information)
FUTURE AGENDA ITEMS
- 4:00 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: July 12, 2023

INFORMATION:

BACKGROUND:

Staff reviewed the following Board of Trustees meeting summary minutes, draft copies are attached for your approval.

- April 12, 2023 Regular Meeting

RECOMMENDATION:

The Chair should ask whether any member has any questions or corrections regarding the minutes. If there are not corrections, The 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
BOARD OF TRUSTEES MEETING**

April 12, 2023
8:30 a.m.

Originating at:
Atwood Conference Center, Rooms 102/104
550 West 7th Street
Anchorage, Alaska 99501

Trustees Present:

Ethan Schutt, Chair
Jason Brune
Craig Richards

Ellie Rubenstein
Steve Rieger
Adam Crum

APFC Staff Present:

Deven Mitchell, CEO
Marcus Frampton, CIO
Chad Brown
Paulyn Swanson
Tim Andreyka
Allen Waldrop

Val Mertz, CFO
Chris Poag, General Counsel
Jennifer Loesch
Sebastian Vadakumcherry
Fawad Razzaque

Investment Advisors:

George Zinn (Virtual)
Ken Frier

John Skjervem

Callan:

Greg Allen (Virtual)

Presenters:

Richard Bernstein, Richard Bernstein Advisors
Maureen Reilly, McLagan

Lisa Kirschner, Richard Bernstein Advisors

PROCEEDINGS

CALL TO ORDER

CHAIR SCHUTT called the meeting to order and requested a roll call.

MS. LOESCH called the roll and stated that there was a quorum.

APPROVAL OF AGENDA

CHAIR SCHUTT stated that there was an agenda that was distributed, and asked for a motion.

MOTION: A motion to approve the agenda was made by TRUSTEE BRUNE; seconded by TRUSTEE RIEGER.

There being no objection, the MOTION was APPROVED.

SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION

CHAIR SCHUTT moved to scheduled appearances and public participation.

MS. LOESCH stated that there was no public testimony requested in the room or online.

CHAIR SCHUTT asked if there was anyone in the room who would like to make a public comment. Hearing none, he moved on to the chief executive officer's report.

CHIEF EXECUTIVE OFFICER'S REPORT

CEO MITCHELL began with a survey done on the Anchorage office. The initial results indicated that there was interest in an Anchorage office; and after looking into it, he determined that there was a need to look at the organization and establish what the rules of engagement would be for the staff. He stated that he had tasked the new chief operating officer, Mike Barnhill, to put together a research paper to present at the next board meeting. The hope was to try to resolve the underlying issues with folks saying that they would like flexibility within the organization. Is the answer an Anchorage office, or the ability to work remotely; and would that be located inside or outside of Alaska. The process of evolution has been with living with COVID for the past three years.

TRUSTEE RUBENSTEIN asked for some elaboration on the levels of seniority that wanted to be in Anchorage.

CEO MITCHELL replied that it was across the range, but it trended toward folks that had less ties within the community of Juneau.

TRUSTEE RICHARDS stated that his thought is this is not just a retention tool, but also a recruitment tool.

TRUSTEE RUBENSTEIN agreed with the need to do something because people were still leaving, and the policies are unclear. She added that it was not the Board's position to weigh in, and that it was at the manager's discretion. She stated the need for a clear policy.

TRUSTEE BRUNE looked forward to seeing the study. He added that it is important to have a consistent policy implemented from the top down. He agreed about it being used as a retention

and recruitment tool. He also offered space in his building, and he would be happy to accommodate.

CEO MITCHELL, not hearing any other comments, stated that Mr. Barnhill was taking notes and would incorporate the board's thoughts into the research paper that would be provided at the next meeting. He moved on and highlighted the history and projections that were on the website. He explained that the statutory net income projection for the fiscal year was based on the experience to date through January, combined with Callan's projections through the end of the year. The statutory net income is how money transferred from the unspendable portion of the Permanent Fund for the earnings reserve account where it cannot be expended. The generation of that income was significantly reduced in the current fiscal year from both the projections, as well as last year and the prior year. He added that there was still realized income coming in from that portfolio, but it was a diminished level from what it has been historically.

TRUSTEE RICHARDS asked how the discussions around inflation-proofing were doing.

CEO MITCHELL replied that was a challenge because of the realization within the Legislature that the earnings reserve account may not have the durability that was desired, and the high inflationary environment results in oversized transfers for inflation-proofing. The House had not included inflation-proofing in the FY 2024 budget. He stated that it would be a challenge to have that inflation-proofing at the statutory standard because of the diminished statutory net income experiences now.

TRUSTEE RUBENSTEIN talked about attending the Callan conference and how helpful it was. She stated that it was great to meet a lot of the public equities managers. It was also great to see Callan outside of this environment. She thanked all for the trustee education section.

CHAIR SCHUTT thanked CEO Mitchell and moved to the CIO's report.

CIO REPORT

CIO FRAMPTON began with an update on personnel and stated that they had been actively recruiting four positions in the investment department in the last quarter. He continued that Sarah Clark is an internal hire, leaving Sebastian's team. There was also an offer accepted for a senior associate for real estate. He was happy with the internal hire and the external one. The third position was a fixed income credit analyst, and it has made some progress, with a candidate coming up to interview. He added that a search was started in private equity for a junior position. He moved to talking about performance and positioning and added that March performance would be covered at the May Board meeting. He stated that there had been a pretty strong performance across the board and, as of today, we are 2 percent underweight public equity. He noted that we are kind of on target with real estate; absolute return; underweight the publics; and overweight the privates. He then summarized the investment actions taken from January 1 through two weeks ago. He talked about developers and stated there was a good mix of partners and geography.

TRUSTEE CRUM shared that it is a pretty sophisticated real estate portfolio, which was nice to hear.

MR. ZINN stated for the record that a 186-bp relative outperformance in public equities on the previous slide, being underweight, is a great work.

CIO FRAMPTON thanked Mr. Zinn, and continued that there was a proposed resolution and responses to questions from Trustee Richards. He asked Allen Waldrop to continue.

MR. WALDROP stated that some of the questions that were addressed: How did the program compare, in an aggregate basis, to different benchmarks other than private equity, credit and infra? What are some of the things that went right, and other things that might need improvement going forward? He continued that both managers were outlined, and then the information and the aggregate. The program is still in its early stages, and these types of private equity programs take time to evolve.

CIO FRAMPTON noted that the market value was subjective.

MR. WALDROP stated that they spent time with each manager building a communication process which gives a regular pipeline of calls and updates with each. Because of the sensitivity of the program, the names of the companies and what they do was provided, and that information went up on the website.

MR. POAG stated that he had been involved with this program from the beginning. He continued that one of the important lessons learned and what needs to be thought about in going forward is this private market space is a space that demands that information be confidential because it is proprietary. There is a State statute that the Fund follows that requires the confidentiality of this information. The thought behind this is that it is another private market program, and he did not think there would be a lot of public dialogue in the Lower 48. Alaskans, across the board, are very interested in knowing, when investing in their backyard, what is being invested in. The managers were asked to share the information with Alaskans, and the companies and managers were able to accommodate that to some extent. He stated that, going forward, if this program was to exist, there was a need to demand more transparency and to eliminate the allegations. There is the need for confidentiality to operate in the private market space.

TRUSTEE CRUM stated the need for more educational aspects, possibly tutorials online, on the website, to clear up the misunderstanding with private equity and alternatives. The corporation should consider this.

TRUSTEE RIEGER agreed and added that the problems were pretty much inevitable for the reasons stated. The expectations of disclosure were more than what the private equity market generally has as an industry standard, as witnessed. He suggested rewording some of the language in the resolution because the resolution, as drafted, made it sound as though this is still an experiment in progress. He added that this was the time to take the action voted on in the last meeting. The staff had declared, basically, that this is not the highest and best use of APFC capital, and the Board should follow that.

TRUSTEE RICHARDS disagreed and stated that he had been involved in this resolution five years ago. He reminded all that the purpose of this exercise that led to this program was a State statute that gave two investment mandates: the prudent investor rule; and we were supposed to invest in-state if it could be done at like returns with like risk. He continued that this program was very purposefully and thoughtfully designed to bring the Permanent Fund into compliance

with its investment mandates. He added that the draft resolution did an excellent job of striking the middle ground of seeing where this was in a year or two.

TRUSTEE RIEGER stated he had an alternative draft of the resolution which was more in line with the motion he made at the last meeting. Basically, the difference between the resolution drafted in the packet and his was how the freeze that was being put on this program was characterized. He explained that it was a freeze because of the determination of a lot of problems that had already been witnessed, and we are reconsidering the wisdom of it.

MR. ZINN pointed out that this discussion, relative to the previous discussion, pointed out that the investment staff was not directing the managers explicitly, and that the managers have full discretion.

CHAIR SCHUTT asked for any more discussion, and noted that Trustee Rieger had circulated a proposed edit to the resolution that was in the packet.

MOTION: A motion to move this resolution was made by TRUSTEE BRUNE; seconded by TRUSTEE RIEGER.

CHAIR SCHUTT disclosed that he had a potential family-related conflict to this program. He asked his ethics supervisor at the State for an opinion about whether or not he could participate in this vote. He shared that he is a Doyon shareholder, and his brother is president and CEO of Doyon. He explained that Doyon was now invested in a second Alaska-focused fund that was not the fund that the Permanent Fund was invested in, but it is with the same management group. He disclosed all of the relevant potential conflict facts, and he was advised that because they are distinct entities -- the Permanent Fund is not invested in and not considering investment in the second fund -- he could participate in the discussion and vote on the program.

CEO MITCHELL asked to have the resolution read into the record to ensure that it is clear what is being proposed.

TRUSTEE RIEGER stated that he or the maker of the motion would read it.

TRUSTEE BRUNE stated that the maker of the motion would happily yield to the seconder.

TRUSTEE RIEGER read:

“On September 27, 2018, the Alaska Permanent Fund Corporation Board of Trustees (“Board”) directed in Resolution No. 18-03 that the Permanent Fund target a portion of its private equity and venture capital investments at opportunities within Alaska that provide a rate of return on investment consistent with the expected risk/return profile (sic) of similar investments outside of Alaska. The Board’s allocation of capital to this program was \$200 million, and this allocation was to be sourced from the Permanent Fund’s private equity portfolio, and its performance was to be measured against the benchmarks used to evaluate the performance of the private equity portfolio.”
Following the adoption of Resolution No. 18-03 in 2018, two external private equity managers were selected and have since invested their respective allocations into roughly 20 investments. These investments are still in the early stages of the lifecycle of a private market investment, and any near-term liquidations or other disposition of the assets other than in the ordinary course of business could cause an impairment of the value of any

realizations. However, the wisdom of expanding or continuing the program has been reassessed. Accordingly, it is the Board's intention not to allocate additional capital to this program while avoiding causing any premature liquidations or dispositions, recognizing that normal liquidations and dispositions may take a number of years. "Now, therefore, be it resolved, that the Alaska In-State Emerging Managers Programs' existing investments, inclusive of any reserved funds, are to be allowed to continue under the normal course of business with the two external managers, solely through to realization or other disposition event. The Executive Director will notify the Board when material realizations of the investments in this program have occurred. No additional moneys are to be committed to the Alaska In-State Emerging Manager Program, and staff is directed to conform any policy documents accordingly."

CHAIR SCHUTT stated that the resolution is on the floor via motion and a second. He asked for any comments or questions regarding this resolution.

TRUSTEE BRUNE questioned the conflict that was declared and stated that another board member has a potential conflict. He continued and thought that all should declare conflicts if they had them and be allowed to vote, just like the Legislature. He just wanted to know if the person could participate in the discussion.

MR. POAG stated that he was familiar with the Alaska Executive Branch Ethics Act, but he is not an expert. He continued that the definitions of "official action" in 39.52.960 meant "advice, participation, or insistence, including, for example, a recommendation, decision, approval, disapproval, vote or similar action, including inaction by a public officer." In his reading of this definition, it would include participation today, and that was what the statute seemed to indicate. That was the best advice he could provide. This is an effort to comply with the Executive Branch Ethics Act that was enforced by the Department of Law.

CHAIR SCHUTT stated that the question is regarding the motion on the floor with the substitute resolution draft read into the record, and asked for any further comments or discussion.

TRUSTEE RICHARDS restated his fundamental disagreement, and noted that that was where he stood.

TRUSTEE CRUM pointed out that this is not an indication of the Board of Trustees' will for economic development in the state of Alaska. He continued that it is the unique position that Alaskans have with the expectations of Alaskans, and there are a lot of recusal actions that have to occur.

CHAIR SCHUTT asked for a roll-call vote.

After the roll-call vote, the MOTION was APPROVED. (Trustee Brune, yes; Trustee Richards, no; Trustee Crum, yes; Trustee Rieger, yes; Trustee Rubenstein, recused; Chair Schutt, yes.)

CHAIR SCHUTT called a break.

(Break.)

CHAIR SCHUTT stated that the meeting was back on the record and moved to the public equities and asset class update with Fawad Razzaque.

PUBLIC EQUITIES, ASSET CLASS UPDATE

MR. RAZZAQUE stated that he is the director of public equities and had been overseeing public equities since March, 2012. He continued that he was responsible for overseeing all aspects of public equities, including the almost complete restructuring of the external manager program in several stages over the last ten years. The entire active management program involves allocation, stock selection and rebalancing. He talked about it in more depth beginning with the performance of public equities versus the MSCI All Country World Index. The near-term performance had been much stronger probably because of the lagged effect of allocation decisions. This was the performance for the three main categories that make up public equities: global, international, and domestic. He added that the portfolio construction was put together to mitigate volatility without compromising the Alpha, making that an important aspect of it. He moved to the global equity which outperformed international and domestic almost twice across all time periods, mainly because the global equities included the internally managed global tactical and strategies. The tacticals had been extremely strong over the last five years. He continued with the framework for active management, and discussed the two ways of outperforming the benchmark in public equities. He noted that the risk budget allocation was relatively stable in the active stock selection which had been a more consistent source of outperformance. Valuation was the focus in the allocation decision: the bigger the valuation gap exists on different parts of the market, which improved the probability that the valuation spread would revert and get paid valuation. He continued talking about allocation which also emphasized diversification. He then went through the optimal mix of the stock allocation. He moved to a few characteristics on how the public equity portfolio ranks on valuation relative to its benchmark, MSCI All Country World Index. He talked about the top ten underweight positions owned that were less than the benchmark: Apple, then Microsoft, Alphabet, Amazon, NVIDIA, and Tesla, which were six of the top ten underweights were the Nasdaq 100; pretty challenging valuations. He talked about the external management program and then moved to the manager performance skew and the manager selection success rate. He continued with the fee outperformance and how strategies were optimized.

MR. SKJERVEM amplified two points. One was in response to the outperformance relative to decades of empirical evidence that suggested the futility of active management, especially in the large cap space. He talked about the most esteemed empirical research, probably Fama and French 2004, which acknowledged the presence of managers with sufficient skill. The importance of that paper was how infinitesimally small the number of managers in that study was. Second, he amplified that the trustees deserved some credit for this because the governance model was really important in sustaining a program through the cycles. He encouraged the trustees to take a bit of credit for a governance model that enabled staff to sustain this approach, which has been very successful.

CIO FRAMPTON pointed out that he became CIO after fiscal 2018, and he did not have an opinion. What he did know was that Mr. Razzaque was smart. There was real pressure to really rein this in, and that had added some value. He added that the pressure was not to do this.

MR. RAZZAQUE stated that the fear of key-person risk should not preclude an organization to never even attempting it; and if the skill of the people shows good results, then keep doing it. He summarized that the objective was to outperform whether through allocation or stock selection;

whether done externally or internally. The objective is to optimize what can be done best externally and internally. Allocation was dependent on market opportunities, and the outperformance was more volatile and less consistent to allocation. Staying committed, the allocation should help public equities outperform over the long term.

CIO FRAMPTON asked Mr. Razzaque to provide some information on Richard Bernstein and why he was chosen.

MR. RAZZAQUE stated that there was a manager presentation coming up from Richard Bernstein Advisors. He continued that Richard Bernstein manages multi-asset strategies with a focus on equities, fixed income and commodities. They were hired in 2017 to manage a piece of the global equity allocation and were part of the external manager program. He explained that they are unique among the external manager program in that they are the only manager that looks at things from the top down, and they make portfolio-positioning decisions based on their forward-looking view on a number of things. Their specialization is to identify profit cycles, and they have a range of indicators across the liquidity parameters, investment sentiment parameters, and fundamentals. He added that they use their models to project what an earnings picture will look like, and then they position their portfolios rather aggressively or defensively based on that. He recognized Mr. Richard Bernstein and Lisa Kirschner.

EXTERNAL MANAGER PRESENTATION

MR. BERNSTEIN stated that they had three themes in their portfolios for 2023. Theme 1 was basically to play defense, which lasts for years, and to worry later about playing offense. No. 2, diversify geographically; investors seem to have become a little geographically myopic. No. 3, a longer-term theme, is accepting that the world is changing and we need to balance the cyclical with the secular within the portfolios right now. He continued that all three themes are embedded in the portfolio mentioned by Mr. Razzaque. He added that the heart and soul of what they do is looking at profit cycles. Their research way back in the early 1990s showed that profit cycles drive these cycles; not economic cycles. He explained that profit cycles around the world drive the rotations that are talked about.

MS. KIRSCHNER explained that when looking at the global profit cycle they break it down by country, who is accelerating and decelerating, and who has actually dropped into profits recessions. She stated that 42 of the countries in ACWI are actually in profits recessions right now. The UK and Europe are the only major regions that are not in profits recession right now. She added that they are simply looking to see if things are getting better or worse. Right now, things are bad, with 41 percent in profits recession. She continued that, looking at who is getting better or worse, it is actually even worse. She explained more fully that there is improvement from very low levels, but most of the major countries around the world are weakening.

MR. BERNSTEIN stated that markets tended to respond to the notion of better or worse more than the absolutes of good or bad. He went into this more fully looking at profits and liquidity, and then talked about inflation and whether it was better or cooling. He moved to the percent of countries with inverted yield curves and followed the liquidity condition in about 40 or 45 countries around the world. Just under half of those Central Banks and countries had engineered an inverted yield curve, which stymied bank lending. He added that it is not a good environment for speculation. Theme No. 1 is to play defense. Next, theme No. 2, is to diversify geographically, which he explained. He moved to the third pillar, which is that valuation shows the valuation of markets around the world. Theme No. 3 is to accept that the world is changing.

He stated that inflation is a simple concept. When demand is greater than supply, prices go up. When demand is greater than supply for an extended period of time, it is called inflation. Globalization opens markets around the world, which expands competition, and prices go down. It increased competition. Deglobalization means that competition is reduced, which means secular inflation. He stated that they pride themselves on being incredibly transparent, and they would be happy to answer any questions in the future.

CHAIR SCHUTT thanked them for the presentation and stated appreciation for the insight. He called for the lunch break.

(Lunch break.)

CHAIR SCHUTT called the meeting back on the record. He stated that the next item on the agenda was the asset allocation discussion, and asked CIO Frampton to lead.

ASSET ALLOCATION DISCUSSION

CIO FRAMPTON stated that this presentation was a collaboration between himself, Mr. Vadakumcherry and Rachel Price. He added that Ms. Price was not present, but will be presenting some of the work she is doing in May. He continued that the investment policy would be opened up then, and any changes that the board supports would be reflected there. He stated that the stakeholders expect a long-term return of CPI plus 5. That was the most important thing done to generate that over time.

MR. ZINN asked if that is a realistic topline goal.

CIO FRAMPTON replied that Callan's score in today's portfolio equates to CPI plus 4.55. Callan did not think so on the current portfolio. He stated that the one thing they knew for sure is that it would not be exactly CPI plus 5, and would be either above or below.

MR. ZINN stated that the important thing is not to construct a portfolio that reaches for that; it is a target, not a requirement.

CIO FRAMPTON explained that there is a current plan that goes through fiscal '25 and there is a different plan that they would discuss that could be adopted. He continued that they were talking about it because it gets to a similar place but with a lower risk. This alternate portfolio lays out Callan's capital market expectations for the asset classes; our expectations for the asset classes; how the current portfolio looks under both; and how the alternate looks under both. This alternate has an arithmetic 10-year return of nominal before inflation of 6.65. He continued that the whole asset allocation exercise is how to mix those asset classes to get the return you would like. Callan has inflation at 2.5 percent over the next 10 years, which would be a little below CPI plus 5. With outperformance of this portfolio, they think they could hit CPI plus 5 and get a little outperformance. It could achieve the stakeholder objectives, although it is not a slam dunk without some active management. He also pointed out that there were two things that made the mathematical theory of asset allocation a little difficult versus what the equation may say. The other point is that the input to the asset allocation optimization are expected returns, volatilities, and correlations of asset classes. The model assumes that those variables are static across size. He added that, in the alternative asset classes, the bigger they get, the worse the execution is. The last point was to beware of false precision in allocation models. He then talked about the

five snapshots that were being focused on. He proposed eliminating risk parity, which was 1 percent of the Fund, and explained the recommendation.

MR. ALLEN continued that we should not be ascribing too much importance or statistical significance to the estimates. He also commented on the changes CIO Frampton was proposing, and stated that they were pretty small. We are not talking about giant shifts. His third comment was on the asset class with a lot of tracking error, that it got a lot more attention than it deserved when underperforming.

MR. VADAKUMCHERRY highlighted that they ran two sets of simulations: one using the risk return and correlation numbers; and the other, the return numbers were tweaked to staff expectations, using the Aladdin correlation and risk numbers. He stated that slightly lower return expectations were received for public equities by about 110 basis points, and a slightly lower expectation for private equity, as well, by about 50 basis points. There was a higher expected return for absolute returns on the hedge fund portfolio by close to 220 basis points. Risk parity is an outcome of the first two. When public equity and private equity were reduced, risk parity had to be recalibrated. He explained the Aladdin estimates and how the correlations change. The key highlight was that the proposed new allocations had almost the same level of return but a significantly lower, about 100 basis points lower, to the existing investment policy allocations.

CIO FRAMPTON recommended the revised asset allocation plan that had been laid out, and then the recommendation is that the S&P 500 be the benchmark for Special Opportunities. He added that that would be an action item in May.

MR. SKJERVEM suggested using the Fund's benchmark, CPI plus 5, to recognize the opportunity cost.

CIO FRAMPTON stated that he did not like CPI plus 5 as a benchmark because it was so aspirational and so uninvestable. He added that the magnitude of tracking error at a total fund level was totally manageable.

TRUSTEE RUBENSTIEN asked for a breakdown within each asset class before voting on it. She stated concern about the private markets, and then asked for an actual breakdown of the risk bands.

CHAIR SCHUTT moved to the Investment Advisor presentation, and recognized Ken Frier.

INVESTMENT ADVISOR PRESENTATION

MR. FRIER thanked all for having him to talk about management and portfolio strategy. He stated that he had been an advisor for three years, and he really believed in making an investment in portfolio strategy. He continued that he would try to convey in his remarks three main points: One was that an allocator can productively manage portfolio strategy and get a benefit from it. Second, for an allocator who is really good at other aspects of implementation, was great at investment manager selection, that asset class implementation was the next step as a way to get additional return from the investment portfolio. The third point was the mindset of managing portfolio strategy, always thinking about what was happening, what it was doing and what could be done about it. That pays off over time, and it is worthwhile to have that kind of mentality in running an institutional fund. He moved to the high-level choices: how much risk was being taken; how much investment risks are they willing to take; and how was that risk among

investment choices being allocated. He added that people who are good at managing portfolio strategy went through some of those things. First, they adapt to what is happening, work the big issues, mine the expert network, and question the underlying assumptions. The two key things were to have deep discussions about the asset allocation on portfolio structure and to challenge it. The second thing was about operating within policy: everyone has a policy with ranges, which he talked about. In summing up this part of his presentation, the most important things were inflation and the economy. He stated that an attentive management of portfolio strategy could be beneficial and will lead to a higher return for the portfolio. He clarified that going through the weather was not about predicting investments, but just about observing the current state using the weather to observe economic data.

CHAIR SCHUTT thanked Mr. Frier and called a break.

(Break.)

PEER GROUP DEFINITION UPDATE, ANALYSIS & CONSIDERATION OF PROPOSED RESOLUTION

CHAIR SCHUTT called the meeting back on record and recognized Chad Brown to go through peer group definition and analysis.

MR. BROWN thanked all for the opportunity to be present, and noted that every one of us are trying to get the corporation to the best place that it could possibly be. Our core values are the core of who we are. He continued that they act in an honorable, respectful, professional manner that completely justifies the trust and confidence of each other and those that are served. He added that they are committed to wisely investing and protecting the assets, resources, and information with which they have been entrusted, which includes compensation. They want to make sure that they improve, innovate and provide for future generations of Alaskans. He stated that along with the core values, the vision is to deliver outstanding returns for current and future generations of Alaskans. He talked about the attributes and, in terms of compensation, to identify and outline their compensation philosophy and to align those with the long-term objectives of the corporation. He noted that the goal is to make sure to have consistent comp data that reflects best-in-class practices and comp analysis. According to the Harvard Law School Forum on Corporate Governance, the four most used criteria for compensation peer groups in the financial sector were industry, talent, revenue, and competitors. He explained each of them, and then continued to the costs. The first one would be if incentive compensation was fully earned, and two-thirds funded. The other one is if incentive compensation is fully funded and fully earned that there is an obvious reduction in cost. He added that once the peer group was adopted, then they could work with the board to develop a glide path and update the personnel management plan, which includes the compensation structure to be presented at the July 12th board meeting. He stated that in order to proceed, there was the need to formally adopt the peer group and the target for each of the three divisions.

TRUSTEE RICHARDS pointed out that they did not need to have a peer group, had not had one for 45 years, and it has worked. He stated that the adoption of a peer group would be a change to something different which would normally only be adopted if it created a better outcome. His opinion was that adoption of this peer group would create a worse outcome. He added that, for him, it all just came down to the numbers. He continued that adopting a benchmark that had the practical consequence of dramatically increasing this limited pool of folks' salaries was not an improvement over doing what they were already doing. His view was that they would be better

off sticking to the system they had, and to give the discretion to staff to allocate the merit increase as they deemed appropriate. He thanked the staff and stated appreciation for the great work and the data that he had requested.

CHAIR SCHUTT stated that there was a draft resolution in the packet that they went through. Staff has stated the need for something to move forward.

TRUSTEE RIEGER stated that Point No. 2 in the draft resolution was hanging him up, and he wanted to know if what was being paid was realistic or not. He wanted to know if they were managing well, and he would like to trust staff to set the individual pay raises established for each employee. He was worried about the way it was worded, suggesting a bit of rigidity that was beyond what he felt was needed.

MR. BROWN stated that his hope was to accomplish this, to build the structure and operate within that structure. He continued that having the target, the median, having the data to build the structure and operated within that structure was critical to the operations of the corporation.

CEO MITCHELL stated that the intent of the resolution was trying to get some clear direction because this has been a very long-lived issue.

CHAIR SCHUTT talked about what would happen if this resolution was not adopted, or some other action item was taken, and asked about the practical consequence.

CEO MITCHELL replied that, as an alternative to adopting the resolution, staff could just plow forward assuming there was a potential of the PMP being revised with this data and trying to be cognizant of some of the Board's and staff's concerns, and then to present that at a future meeting.

MR. BROWN asked for it to be clear, on the record, that the Board would like him to build a structure for the PMP, rooted in this 75/25 peer group, for the Board to review.

The trustees agreed.

CHAIR SCHUTT thanked Mr. Brown, and recognized Pauly Swanson with the Legislative Update.

LEGISLATIVE UPDATE

MS. SWANSON stated that in the past three months there has been significant progress made in establishing and reestablishing their legislative relationships, forwarding the leadership role of the corporation, including that of the new executive director; also offering ongoing education and providing relevant information to support the policy decisions associated with the Permanent Fund Corporation. She stated there were three areas that she wanted to talk about: budget resources; legislative proposals relating to the corporation's management; and the Fund structure and the ERA durability. She added that they had talked about the budget resources and a little about the appropriations. It was exciting to see the \$1.2 million coming through in the Governor's first round of amendments for incentive compensation. The merit for all staff came through later as a partial funding; basically, for the investment support staff, for merit, and also some support for targeted base salary judgments. She added that the incentive comp piece was in the House's budget which is currently being debated on the House floor. She noted that the

House version of the budget did not have inflation-proofing in it, which is an important element for the Board and for the intergenerational benefit of the Fund to continue to grow and maintain its purchasing power. She stated that she would keep the board briefed on that issue.

TRUSTEE RICHARDS commented that something to recognize is the need for a long-term plan that gets to full inflation-proofing over the long term, notwithstanding the current ERA balance.

MS. SWANSON thanked Trustee Richards and highlighted a couple of bills with regard to the corporate management. Senate Bill 98 called for the Alaska Permanent Fund Corporation to manage the Power Cost Equalization Endowment Fund, and that would not be a separate asset allocation. That was backed by the three co-chairs of Senate Finance: Senators Stedman, Hoffman, and Olson. She stated that this bill had a lot of support behind it, and we have been working with the Senate Finance Committee to make sure that the language was clarified so it would work. She continued that it would be managed as a single fund, like the Alaska Mental Health Trust Authority. There would not be a separate asset allocation. She added that Senator Hoffman appreciated Callan's presentation about the diversified portfolio in both public and private markets. She moved to the other bill, HB 110. It was sponsored by Representative Carpenter, the chair of the House Ways and Means Committee, who wanted to move the Permanent Fund Dividend Division over to the corporation. She added that she did not believe that this bill would be moving at this time, but she made sure to highlight it because it does impact the corporation, that it was fully vetted, and that we look at all of the implications. It would affect IT, accounting, human resources. She added that there were a lot of other bills that are being monitored.

COMMISSIONER CRUM stated that it had been a very busy legislative session with a lot of ideas involving the Permanent Fund Corporation. We worked very well with Mr. Mitchell and Ms. Swanson on responses. He continued that the legislative teams worked very well together. He thanked Ms. Swanson.

MS. SWANSON stated that it was a great team that provided so much input. She continued her presentation with slides that had been shared with the Legislature. She added that the POMV went into effect for draws in FY19. With regard to Resolution 20-01, the board wanted to make sure that there was a periodic review of the rate over a three-year period. It had not been mandated in statute, nor was a process adopted to look at this issue. She stated that on Friday, CEO Mitchell and CIO Frampton would be presenting to the Senate Finance Committee on the earnings reserve account and also on realized and unrealized gains and statutory net income. She invited all to tune in to a great discussion.

CHAIR SCHUTT thanked Ms. Swanson and moved to Closing Comments. He gave the floor to the advisors.

CLOSING COMMENTS

MR. FRIER waived his comments.

MR. ZINN stated that it is terrific that the incentive compensation had been approved for the investment staff. In the wake of the SVB crisis, he had concerns about IT infrastructure and operations. He suggested, from a compensation perspective, to get the Legislature to pick up the IC for the operations staff.

MR. SKJERVEM stated he had some additional comments on the state investment program, but those are now moot. He did register his support for the proposed asset allocations changes which he thought were sensible. He continued that the public equity portfolio presentation was as impressive as it was last year, and he added that the numbers spoke for themselves.

CHAIR SCHUTT thanked the advisors, and recognized Trustee Rubenstein.

TRUSTEE RUBENSTEIN thanked all for the healthy discussions. The items that were action were longer than anticipated. She added that the intent of the board was to try to solve things. She continued that it felt like a much more equal power balance between the board and the staff with the willingness to integrate solutions.

TRUSTEE CRUM stated appreciation for the discussion and for the public equity presentation. He thought that a lot of Alaskans should pay attention to the atmosphere, the overall approach, and the life for Alaskans. He looked forward to the board meeting next month where he had a few more items to address.

TRUSTEE RICHARDS stated that he had some frustration with the way the process occurred on the program the last two meetings. He added that he was going to take some time to cool off and address it at the next meeting. The second item was the adoption of this new process and having six board meetings a year. He stated that a year from now people would be advocating against it because it was too much work for staff to do six versus four meetings. He suggested finding a balance to the extent of having as much participation of staff as we used to. The third item referred to doing a strategic plan, and a key part of that strategic plan should be addressing key person risks by asset class. He added that every asset class should have some continuation plan as to how to handle what would happen if a CIO and the portfolio manager left within a couple months of each other.

TRUSTEE RIEGER had no further comments. He stated that it was a great meeting.

TRUSTEE BRUNE agreed.

CHAIR SCHUTT stated that in his leadership roles he always looks for what you can really be the best at. Clearly, there are things that the Fund and its staff are best in class: like the public-equities portfolio and its internal management. He came to the understanding better today that staff had done something that was viewed in the professional investment world as basically impossible: To outperform the equity market management, through active management net of fees, over and over again, which is basically a unicorn. It made him proud to have an institution and staff that could achieve that. He thanked everybody involved. He added that we saw it and appreciated it as your trustees, and on behalf of our stakeholders, every resident in the state of Alaska, he thanked them very much. He asked for a motion to adjourn.

MOTION: A motion to adjourn the meeting was made by TRUSTEE RICHARDS;
seconded by TRUSTEE RUBENSTEIN.

There being no objection, the MOTION was APPROVED.

(Alaska Permanent Fund Corporation board meeting adjourned at 5:30 p.m.)

SUBJECT: Chief Executive Officer's Report ACTION: _____

DATE: July 12, 2023 INFORMATION: _____X_____

BACKGROUND:

The CEO's report provides reports detailing Board matters, disclosures, staffing and budget updates, and financial reports.

STATUS:

CEO, Deven Mitchell, will present highlights from the following reports:

- Pending Board Matters
- Trustee Education Report
- IT Update
- ERA Report
- Securities Litigation Update
- Financial Update
- Financial Report
- APFC History & Projections
- FY23 Budget Update



SUBJECT: Pending Board Matters

ACTION:

DATE: July 12, 2023

INFORMATION: X

BY	TASK	CAPTURED	TARGET	COMPLETED
Vadakumcherry	Coordinate with the Governor's office to establish essential employee status	9/22	5/23	5/23
Barnhill/Brown	Peer Group Definition	7/22	7/23	
Barnhill/Brown	New Compensation Structure	12/22	7/23	
Barnhill/Brown	Anchorage Office Survey	2/23	ongoing	
Barnhill/Mitchell	Anchorage Office Analysis	2/23	ongoing	

SUBJECT: Trustee Education

ACTION:

DATE: July 12, 2023

INFORMATION: X

BACKGROUND:

The Board of Trustees of the APFC has established a Trustee Education Policy with the following objectives:

- To ensure that the members of the Board have access to the knowledge and information necessary for them to fulfill their fiduciary duties as trustees of the Alaska Permanent Fund; and
- To assist them in becoming well informed in all matters pertaining generally to the management of a large institutional fund, both public and private, and more specifically to the management and investments of the APFC.

In accordance with the Trustee Education Policy, the following is a list of conferences and seminars that Trustees may wish to attend.

TRAINING OPPORTUNITY	TOPIC	LOCATION	DATES
Callan	Fall Conference	Monterey	September 10, 2023
	October Workshop	New York	October 24, 2023
	October Workshop	Chicago	October 26, 2023
	2024 National Conference	San Francisco	April 8, 2024
ILPA	Varies – please see website	https://ilpa.org/master-calendar/	See Website

ALASKA PERMANENT FUND

Earnings Reserve Scenarios

Total Return 0.80%	Total Return 0.80%	Total Return 0.80%	Total Return 0.80%
Realized Return 2.49%	Realized Return 5.10%	Realized Return 5.10%	Realized Return 5.10%
Inflation \$1.41b	Inflation 2.50%	Inflation 2.50%	Inflation 2.50%

(millions)	FY24 Lo	FY25 Lo	FY26 Lo	FY27 Lo
Earnings Reserve				
Committed Earnings Reserve:				
CY+1 POMV Transfer to General Fund	\$ 3,643	3,720	3,778	0
Total committed earnings reserve	<u>3,643</u>	<u>3,720</u>	<u>3,778</u>	<u>0</u>
Uncommitted Earnings Reserve				
Realized earnings	\$ 1,397	(287)	(2,225)	0
Unrealized appreciation on invested assets	851	411	113	0
Total uncommitted earnings reserve	<u>2,248</u>	<u>124</u>	<u>(2,112)</u>	<u>0</u>
TOTAL EARNINGS RESERVE	<u>\$ 5,891</u>	<u>3,844</u>	<u>1,666</u>	<u>0</u>

IP underfunded by
\$600m and no POMV
commitment

Assumptions

FY24 beginning balances are actuals as of 4/30/23.
 Realized return for FY24 is FY23 actual through 4/30/23.
 Callan's return projections are used for all other returns and time periods.
 FY24 inflation proofing is as appropriated.
 Callan's inflation projection is used for all other time periods.
 Mineral deposits from 2023 Spring Revenue Forecast.
 No ad hoc appropriations from ERA.

ALASKA PERMANENT FUND

Earnings Reserve Scenarios

Total Return 7.00%	Total Return 7.00%	Total Return 7.00%	Total Return 7.00%
Realized Return 2.49%	Realized Return 6.40%	Realized Return 6.40%	Realized Return 6.40%
Inflation \$1.41b	Inflation 2.50%	Inflation 2.50%	Inflation 2.50%

(millions)	FY24 Mid	FY25 Mid	FY26 Mid	FY27 Mid
Earnings Reserve				
Committed Earnings Reserve:				
CY+1 POMV Transfer to General Fund	\$ 3,643	3,766	3,918	3,922
Total committed earnings reserve	<u>3,643</u>	<u>3,766</u>	<u>3,918</u>	<u>3,922</u>
Uncommitted Earnings Reserve				
Realized earnings	\$ 1,397	899	312	(219)
Unrealized appreciation on invested assets	1,220	1,126	1,020	893
Total uncommitted earnings reserve	<u>2,617</u>	<u>2,025</u>	<u>1,332</u>	<u>674</u>
TOTAL EARNINGS RESERVE	\$ 6,260	5,791	5,250	4,596

Assumptions

FY24 beginning balances are actuals as of 4/30/23.
 Realized return for FY24 is FY23 actual through 4/30/23.
 Callan's return projections are used for all other returns and time periods.
 FY24 inflation proofing is as appropriated.
 Callan's inflation projection is used for all other time periods.
 Mineral deposits from 2023 Spring Revenue Forecast.
 No ad hoc appropriations from ERA.

ALASKA PERMANENT FUND

Earnings Reserve Scenarios

Total Return 14.10%	Total Return 14.10%	Total Return 14.10%	Total Return 14.10%
Realized Return 2.49%	Realized Return 7.95%	Realized Return 7.95%	Realized Return 7.95%
Inflation \$1.41b	Inflation 2.50%	Inflation 2.50%	Inflation 2.50%

(millions)	FY24 Hi	FY25 Hi	FY26 Hi	FY27 Hi
Earnings Reserve				
Committed Earnings Reserve:				
CY+1 POMV Transfer to General Fund	\$ 3,643	3,820	4,077	4,249
Total committed earnings reserve	<u>3,643</u>	<u>3,820</u>	<u>4,077</u>	<u>4,249</u>
Uncommitted Earnings Reserve				
Realized earnings	\$ 1,397	2,455	3,768	5,480
Unrealized appreciation on invested assets	1,644	2,331	3,272	4,484
Total uncommitted earnings reserve	<u>3,041</u>	<u>4,786</u>	<u>7,040</u>	<u>9,964</u>
TOTAL EARNINGS RESERVE	\$ 6,684	8,606	11,117	14,213

Assumptions

- FY24 beginning balances are actuals as of 4/30/23.
- Realized return for FY24 is FY23 actual through 4/30/23.
- Callan's return projections are used for all other returns and time periods.
- FY24 inflation proofing is as appropriated.
- Callan's inflation projection is used for all other time periods.
- Mineral deposits from 2023 Spring Revenue Forecast.
- No ad hoc appropriations from ERA.

ALASKA PERMANENT FUND

Uncommitted Earnings Reserve Walkforward

(millions of dollars)	FY24			FY25			FY26			FY27		
	Lo	Mid	Hi	Lo	Mid	Hi	Lo	Mid	Hi	Lo	Mid	Hi
Uncommitted Earnings Reserve												
Beginning Balance	\$ 4,601	4,601	4,601	1,397	1,397	1,397	(287)	899	2,455	(2,225)	312	3,768
Statutory Net Income	1,849	1,849	1,849	3,503	4,735	6,345	3,354	4,845	6,904	3,199	4,954	7,524
Inflation Proofing	(1,410)	(1,410)	(1,410)	(1,467)	(1,467)	(1,467)	(1,514)	(1,514)	(1,514)	(974)	(1,563)	(1,563)
POMV Transfer to General Fund CY+1	(3,643)	(3,643)	(3,643)	(3,720)	(3,766)	(3,820)	(3,778)	(3,918)	(4,077)	0	(3,922)	(4,249)
Ending Balance uncommitted earnings reserve	\$ 1,397	1,397	1,397	(287)	899	2,455	(2,225)	312	3,768	0	(219)	5,480

Assumptions

FY24 beginning balances are actuals as of 4/30/23.

Realized return for FY24 is FY23 actual through 4/30/23.

Callan's return projections are used for all other returns and time periods.

FY24 inflation proofing is as appropriated.

Callan's inflation projection is used for all other time periods.

Mineral deposits from 2023 Spring Revenue Forecast.

No ad hoc appropriations from ERA.

SUBJECT: FY23 Year-to-Date Financial Update ACTION:

DATE: July 12, 2023

INFORMATION: X

KEY TAKEAWAYS:

- Total return year-to-date through May 31 of 2.56%, -0.86% over the previous twelve months
- Accounting net income year-to-date of \$2.4 billion, a \$381 million loss since the end of the third quarter
- Realized (statutory) net income year-to-date of \$2.1 billion, significantly below Callan's low forecast and \$2.8 billion below the level at the same time in the prior year
- Net asset value as of May 31 of \$76.1 billion, a reduction of \$296 million since the end of the third quarter
- No transfers to the General Fund during the two months ended May 31
- \$85 million of mineral deposits transferred in during the two months ended May 31
- Committed Earnings Reserve balance of \$7.7 billion for FY24 General Fund transfers (\$3.53 billion), FY23 inflation proofing (\$4.18 billion), and the transfer to ACIF (\$12 million)

Financial results for the first two months of the fourth quarter were reflective of the volatility experienced in the public markets. The fixed income and public equity portfolios experienced small gains during April which were offset by significant write-downs in the private equity and direct real estate portfolios. The public portfolios lost nearly \$1 billion in value in May offset by small gains in other asset classes. Overall, the fund recorded unrealized losses of \$885 million between the end of March and the end of May. This brought year-to-date total fund return down to 2.56% from 3.12% as of March 31.

Net assets decreased by \$296 million since the end of the third quarter, bringing net asset value \$252 million below the ending value for FY22. This is the result of net loss of \$381 million offset by \$85 million received in mineral royalty deposits. Corporate operating expenses and other appropriations for the two months ended May 31 totaled \$29 million.

No transfers to the General Fund were made during the first two months of the fourth quarter of FY23. The transfers through May 31st totaled \$3.0 billion with the remaining \$380 million to transfer in June. Staff is in communication with the cash managers at the Department of Revenue to ensure that amounts designated for the General Fund remain invested in the Fund as long as possible, while being available to meet the liquidity needs of the State.



**Financial Report
May 31, 2023**

Fiscal Year 2023 Net Assets

Balances through May 31, 2023

(in millions)

Total assets	\$ 77,895.4
Less liabilities	(1,810.3)
Net assets	<u>76,085.1</u>
Fund Balances:	
Non-spendable	
Permanent Fund corpus—contributions and appropriations	52,217.4
Not in spendable form—unrealized appreciation on invested assets	9,137.2
Total non-spendable fund balance	<u>61,354.6</u>
Committed	
General Fund Commitment	3,526.1
Current FY inflation proofing	4,177.4
Current FY AK Capital Income Fund	11.9
Committed fund balance	<u>7,715.4</u>
Assigned for future appropriations	
Realized earnings	4,821.4
Unrealized appreciation on invested assets	2,193.7
Total assigned fund balance	<u>7,015.1</u>
Total fund balances	<u>\$ 76,085.1</u>

Fiscal Year 2023 Income

For the eleven months ending May 31, 2023

(in millions)

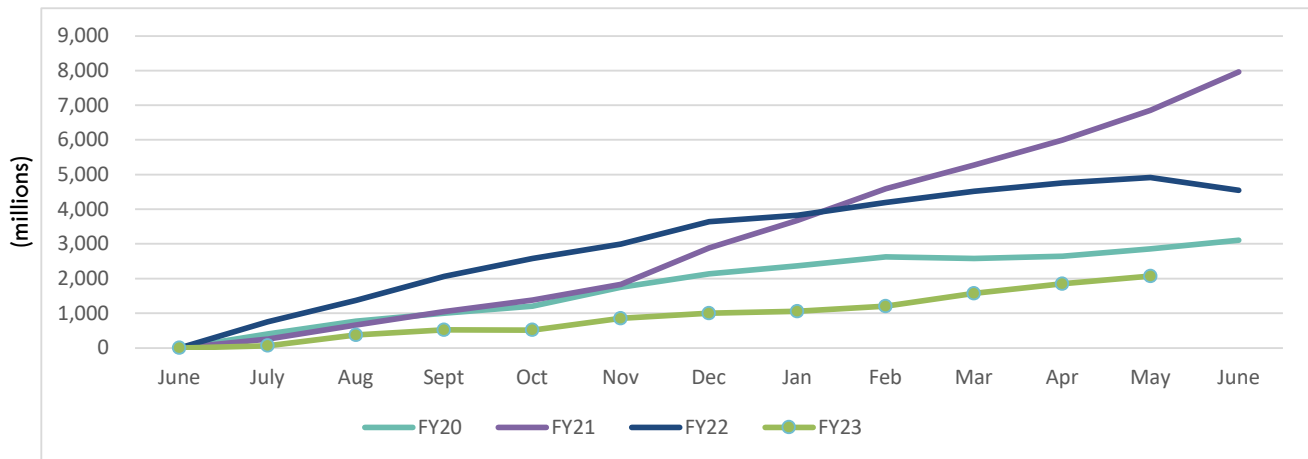
Statutory (Realized) Net Income

Interest, dividends, real estate, and other income	\$ 1,467.4
Realized gains on the sale of invested assets	773.7
Less operating expenses/legislative appropriations	(158.8)
Less Alaska Capital Income Fund committed realized earnings	(11.9)
Statutory net income	<u>2,070.4</u>

GAAP (Accounting) Net Income

Statutory net income	2,070.4
Unrealized gain on invested assets	296.2
Alaska Capital Income Fund committed realized earnings	11.9
Accounting net income	<u>\$ 2,378.5</u>

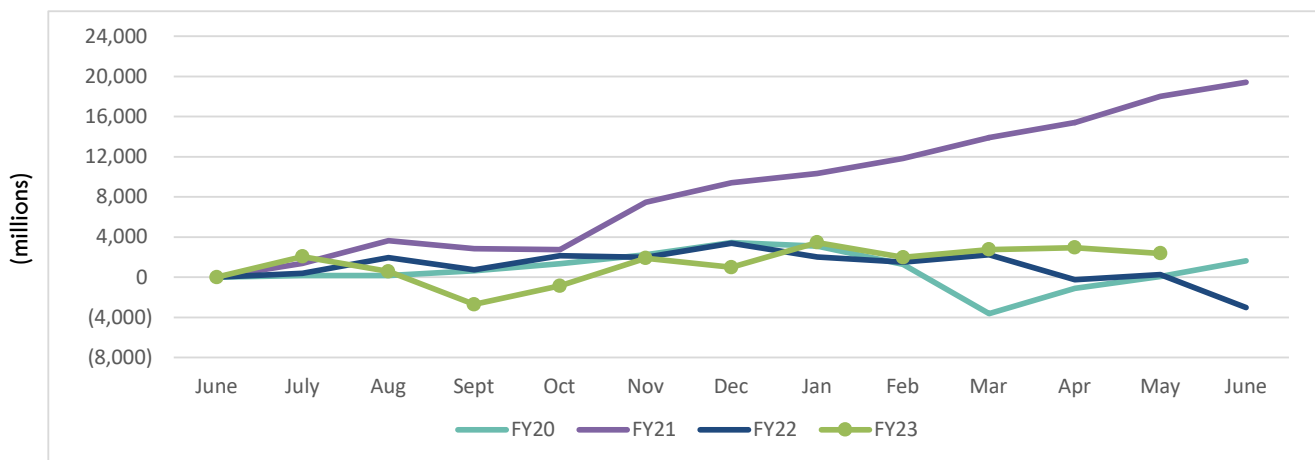
Statutory Net Income, Fiscal Years 2020 - 2023



- Comprised of receipts from interest on fixed income, real estate rentals, stock dividends, and all realized gains and losses on the sales of invested assets, less AK Capital Income Fund committed amounts and operating expenses.

- FY20 statutory net income was \$3,106.0 million.
- FY21 statutory net income was \$7,962.4 million.
- FY22 statutory net income was \$4,543.6 million.
- FY23 statutory net income is \$2,070.4 million to date.

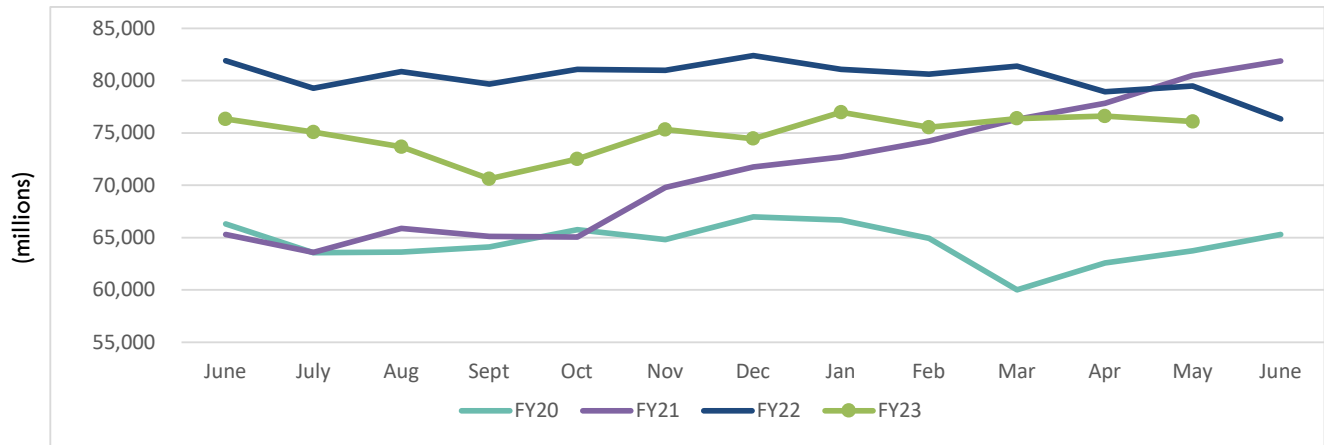
GAAP Accounting Net Income, Fiscal Years 2020 - 2023



- Accounting net income is the same as statutory net income, except it includes unrealized gains and losses.

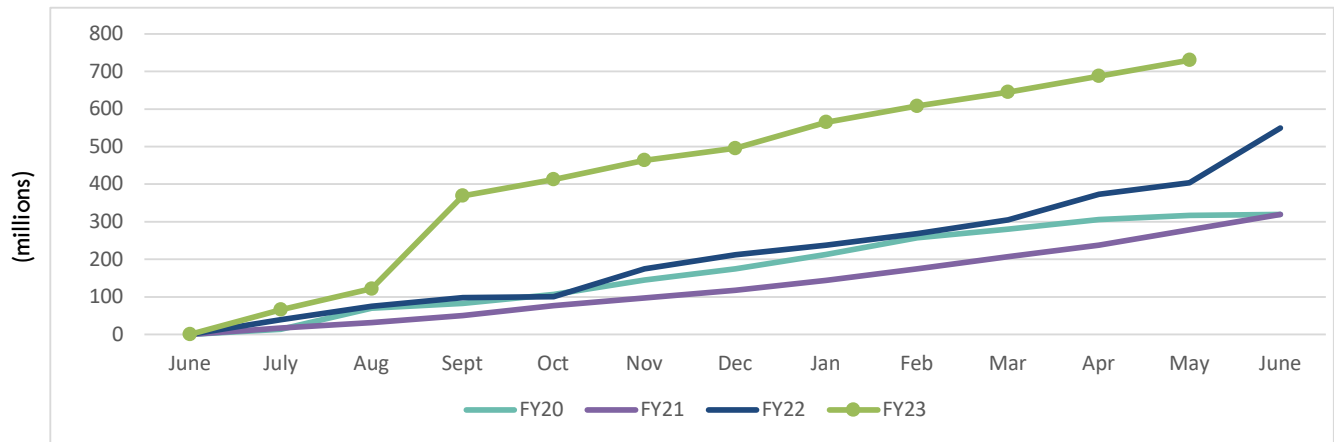
- Accounting net income for FY20 was \$1,636.5 million.
- Accounting net income for FY21 was \$19,416.6 million.
- Accounting net loss for FY22 was \$3,015.2 million.
- Accounting net income for FY23 is \$2,378.5 million to date.

Market Value of Fund Net Assets, Fiscal Years 2020 - 2023



- FY20 net assets as of June 2020 were \$65.3 billion, a decrease of \$1 billion over the FY19 ending balance.
- FY21 net assets as of June 2021 were \$81.9 billion, an increase of \$16.6 billion over the FY20 ending balance.
- FY22 net assets as of June 2022 were \$76.3 billion, a decrease of \$5.6 billion from the FY21 ending balance.
- FY23 net assets as of May 2023 were \$76.1 billion, a decrease of \$0.2 billion from the FY22 ending balance.

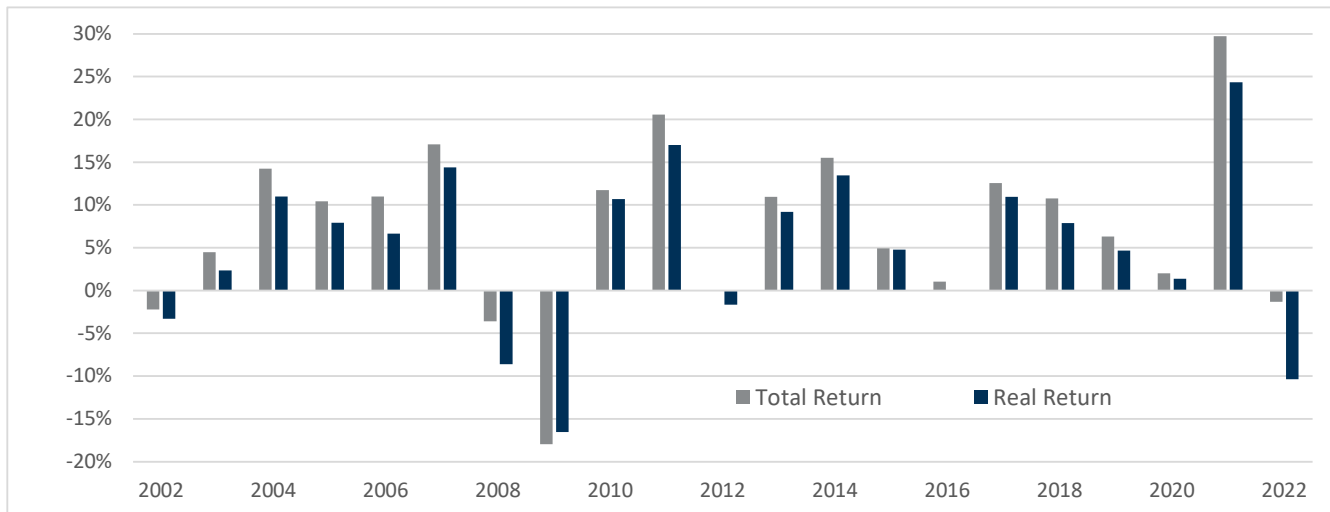
Dedicated Mineral Revenues, Fiscal Years 2020 - 2023



- FY20 mineral revenue was \$319.0 million.
- FY21 mineral revenue was \$319.6 million.
- FY22 mineral revenue was \$548.9 million.
- FY23 mineral revenue is \$730.0 million to date.

Alaska Permanent Fund Historical Returns, Fiscal Years 2002 - 2022

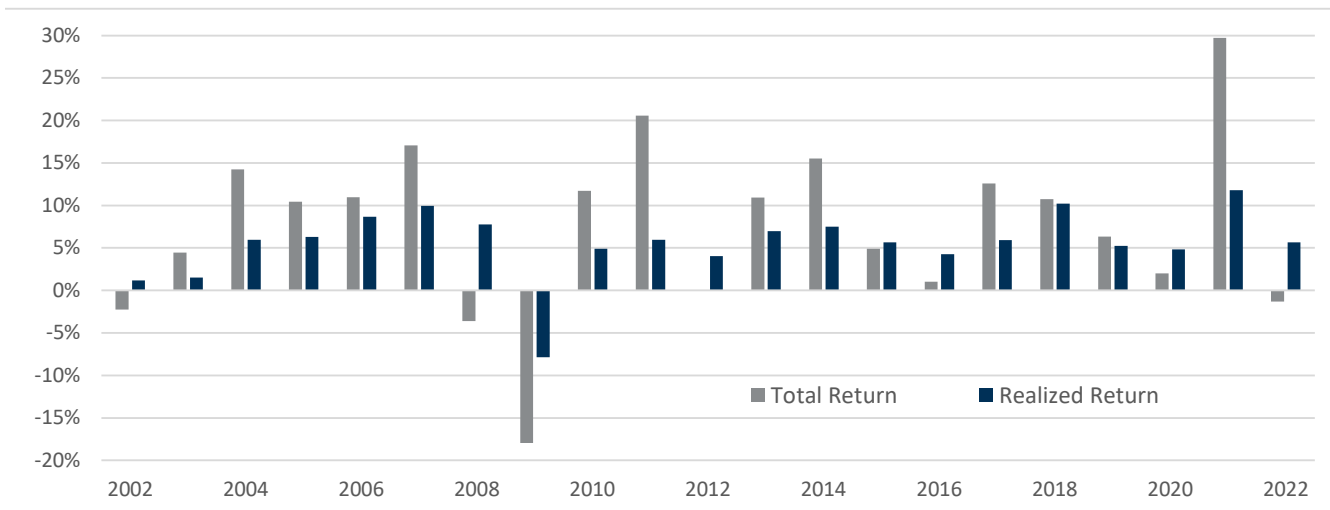
Total return minus inflation equals real return



- Total return annualized over 38 years is 8.91%
- Real return annualized over 38 years is 6.11%

Alaska Permanent Fund Historical Returns, Fiscal Years 2002 - 2022

Total return minus unrealized gains/losses equals realized return



- Total return annualized over 38 years is 8.91%
- Realized return annualized over 38 years is 7.5%

ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS

as of May 31, 2023

Projections extend ten years, and are based on best available information (\$ in millions)

FY	Nonspendable Fund Balance - Principal							Assigned Fund Balance - Earnings Reserve										TOTAL FUND FY-End Balance
	FY-Begin Contrib. Balance	Dedicated State Revenues	Inflation Proofing & Special Approp.	FY-End Balance Contributions	Unrealized Gain (Loss) FY-End Balance	FY-End Nonspendable Balance	Acct. Net Income	Statutory Net Income	Distributions			FY-End Balance Realized	Unrealized Gain (Loss) FY-End Balance	FY-End Assigned Balance	FY			
									Div/POMV Transfer	Inflation Prfg & Spec Approp.	ACIF							
77-13	0	14,510	22,105	36,615	4,184	40,799	45,873	43,276	20,395	18,807	481	3,486	567	4,054	77-13	44,853		
14	36,615	779	546	37,940	7,062	45,002	6,848	3,531	1,235	546	32	5,236	975	6,212	14	51,214		
15	37,940	600	624	39,165	6,473	45,638	2,384	2,907	1,373	624	24	6,147	1,016	7,163	15	52,800		
16	39,165	284	0 ⁽⁶⁾	39,449	4,750	44,199	398	2,198	696 ⁽⁵⁾	0 ⁽⁶⁾	18	7,649	921	8,571	16	52,769		
17	39,449	365	0 ⁽⁶⁾	39,814	7,155	46,969	6,676	3,214	0	0 ⁽⁶⁾	25	10,862	1,952	12,816	17	59,785		
18	39,814	353	0 ⁽⁶⁾	40,167	5,863	46,030	5,526	6,324	726	0 ⁽⁶⁾	43	16,460	2,403	18,864	18	64,894		
19	40,167	385	989	41,542	6,278	47,821	3,766	3,305	2,723	989	22	16,052	2,426	18,481	19	66,301		
20	41,542	319	4,758 ⁽⁸⁾	46,619	5,789	52,408	1,637	3,106	2,933	4,758 ⁽⁸⁾	21	11,469	1,424	12,894	20	65,302		
21	46,619	320	0 ⁽⁶⁾	46,939	13,810	60,749	19,417	7,962	3,091	0 ⁽⁶⁾	50	16,341	4,807	21,148	21	81,897		
22	46,939	549	4,000 ⁽⁶⁾⁽⁸⁾	51,488	8,700	60,188	(3,015)	4,544	3,069	4,000 ⁽⁶⁾	24	13,816	2,334	16,150	22	76,337		
Lo 23	51,488	727	4,177	56,391	8,038	64,429	444	2,211	3,361	4,177 ⁽⁹⁾	22	8,490	1,210	9,700	23	74,129		
Mid 23	51,488	727	4,177	56,391	11,996	68,387	5,096	2,287	3,361	4,177 ⁽⁹⁾	27	8,566	1,822	10,388	23	78,775		
Hi 23	51,488	727	4,177	56,391	16,513	72,904	10,422	2,377	3,361	4,177 ⁽⁹⁾	34	8,656	2,535	11,191	23	84,095		
24	56,391	445	1,421	58,257	8,183	66,439	4,957	4,819	3,526	1,421	29	8,362	1,175	9,537	24	75,976		
25	58,257	429	1,467	60,152	8,331	68,483	5,079	4,938	3,618	1,467	29	8,215	1,138	9,352	25	77,836		
26	60,152	423	1,514	62,090	8,484	70,574	5,202	5,058	3,715	1,514	29	8,044	1,099	9,143	26	79,717		
27	62,090	438	1,563	64,091	8,645	72,736	5,326	5,180	3,841	1,563	29	7,820	1,055	8,874	27	81,610		
28	64,091	502	1,615	66,208	8,797	75,005	5,458	5,308	3,819	1,615	29	7,695	1,022	8,717	28	83,722		
29	66,208	499	1,668	68,375	8,948	77,323	5,599	5,447	3,871	1,668	29	7,602	995	8,597	29	85,920		
30	68,375	491	1,722	70,588	9,102	79,689	5,745	5,590	3,967	1,722	29	7,503	967	8,470	30	88,160		
31	70,588	502	1,777	72,866	9,259	82,125	5,895	5,736	4,067	1,777	29	7,395	940	8,334	31	90,460		
32	72,866	545	1,835	75,247	9,421	84,668	6,049	5,887	4,170	1,835	29	7,277	911	8,187	32	92,855		
Cumulative Totals																		
Proj. for FY23-FY32							5,000	18,759					54,406	50,251	37,955	18,759	291	

Assumptions:		Total Return - Inflation = Total Real Return			Statutory Return	
Lo	FY23	0.80%	8.00%	-7.20%	Lo	5.10%
Mid	FY23 ⁽³⁾	7.00%	8.00%	-1.00%	Mid	6.40%
Hi	FY23	14.10%	8.00%	6.10%	Hi	7.95%
FY24-FY32 ⁽⁴⁾		7.05%	2.50%	4.55%	6.90%	

Notes related to financial history and projections:

⁽¹⁾ Dedicated State Revenues in current and future fiscal years are based on the Spring 2023 Department of Revenue forecast.

⁽²⁾ Accounting net income is based on United States Generally Accepted Accounting Principles (GAAP).

⁽³⁾ Current year returns and inflation are based on 2022 Callan capital market assumptions. Actual results will vary.

⁽⁴⁾ Future returns are based on 2022 Callan capital market assumptions and median expected returns (the mid case). Actual results will vary.

⁽⁵⁾ The dividend transfer reported for FY16 was paid out in dividends during FY17.

⁽⁶⁾ There was no appropriation for inflation proofing in FY16, FY17, FY18, FY21, and FY22.

⁽⁷⁾ Per AS 37.13.140, beginning in FY19, transfers are based on a percent of market value (POMV) calculation and are to the General Fund. In previous years, transfers were based on an earnings calculation and were to the Dividend Fund.

⁽⁸⁾ In FY20 and FY22, an additional \$4 billion was appropriated from the ERA to principal.

⁽⁹⁾ Due to significant increases in CPI, the inflation proofing estimate has been updated to reflect actual CPI through December.

⁽¹⁰⁾ All transfers out of the Earnings Reserve are subject to Legislative appropriation.

⁽¹¹⁾ FY23 statutory net income includes actual results through March and Callan's projected realized return for the remainder of the year.

Income Year-to-Date as of May 31, 2023

FY23 YTD Statutory Net Income	
Interest, dividends, real estate & other income	\$ 1,467.4
Realized gains (losses) on the sale of assets	773.7
Less operating expenses	(158.8)
Less AK Capital Income Fund realized earnings	(11.9)
	\$ 2,070.4

FY23 YTD Accounting (GAAP) Net Income	
Statutory net income (loss)	\$ 2,070.4
Unrealized gains (losses) on invested assets	296.2
AK Capital Income Fund realized earnings	11.9
Accounting (GAAP) net income (loss)	\$ 2,378.5

FY23 POMV Distribution (actual) ⁽¹⁰⁾		FY23 Statutory Dividend Transfer (actual) ⁽¹⁰⁾	
Ending Fund Value (ex Am Hess)			
FY21	\$ 81,472.1	FY21	\$ 4,544.0
FY20	64,877.1	FY20	7,962.0
FY19	65,876.4	FY20	3,106.0
FY18	64,469.5	FY19	3,305.0
FY17	59,360.4	FY18	6,324.4
Average Value \$ 67,211.1			
Statutory Distribution \$ 3,360.6		Avail for Dist (21%) \$ 5,300.7	
		Statutory Trnsfr Amt \$ 2,650.3	

FY24 POMV Distribution (actual) ⁽¹⁰⁾		FY24 Statutory Dividend Transfer (projected)	
Ending Fund Value (ex Am Hess)			
FY22	\$ 75,912.1	FY23	\$ 2,211.4
FY21	81,472.1	FY22	4,544.0
FY20	64,877.1	FY21	7,962.0
FY19	65,876.4	FY20	3,106.0
FY18	64,469.5	FY19	3,305.0
Average Value \$ 70,521.5			
Statutory Distribution \$ 3,526.1		Avail for Dist (21%) \$ 4,437.0	
		Statutory Trnsfr Amt \$ 2,218.5	



FY2023 Budget-to-Actuals and Projected Expenditures

FY2023 BOY PF Balance		\$76,337,171,000						
Corporate Operations	F2023 Mgmt Plan	bps	Expenditures (as of 5/31)	Projected June	Est. Total Expend.	Projected Unspent	% Expended	
Personal Services	\$ 17,813,700	2.33	\$ 13,845,332	\$ 1,397,851	\$ 15,243,183	\$ 2,570,517	85.57%	
Staff Salaries and Benefits	16,189,276	2.12	12,225,100	1,397,851	13,622,951	2,566,325	84.15%	
Incentive Compensation	1,600,000	0.21	1,600,000	-	1,600,000	(0)	100.00%	
Board: Honoraria	24,424	0.00	20,232	-	20,232	4,192	82.84%	
Travel	\$ 800,000	0.10	\$ 454,540	\$ 63,134	\$ 517,674	\$ 282,326	64.71%	
Staff	602,000	0.08	395,840	45,000	440,840	161,160	73.23%	
Trustees	18,000	0.00	26,369	-	26,369	(8,369)	146.49%	
Moving and Non-Employee	180,000	0.02	32,332	18,134	50,466	129,534	28.04%	
Contractual Services	\$ 3,389,800	0.44	\$ 2,266,559	\$ 758,309	\$ 3,024,868	\$ 364,932	89.23%	
Audit, Legal, Consulting	632,550	0.08	302,473	447,038	749,511	(116,961)	118.49%	
Public Communications	343,745	0.05	110,514	75,000	185,514	158,231	53.97%	
Board Support and Meetings	79,100	0.01	45,085	5,557	50,642	28,458	64.02%	
Information Technology	1,340,000	0.18	1,102,649	149,634	1,252,282	87,718	93.45%	
HR and Recruitment	63,000	0.01	18,504	33,347	51,850	11,150	82.30%	
Training and Education	150,250	0.02	36,719	549	37,268	112,982	24.80%	
Office Support	781,155	0.10	650,616	47,185	697,801	83,354	89.33%	
Office Lease	515,995	0.07	524,671	-	524,671	(8,676)	101.68%	
Commodities	\$ 195,900	0.03	\$ 144,480	\$ 32,576	\$ 177,056	\$ 18,844	90.38%	
Equipment	\$ 450,000	0.06	\$ 439,751	\$ 5,606	\$ 445,357	\$ 4,643	98.97%	
Corporate Operations Total	\$ 22,649,400	2.97	\$ 17,150,663	\$ 2,257,475	\$ 19,408,139	\$ 3,241,261	85.69%	
Investment Management								
Investment Systems	\$ 8,891,700	1.16	\$ 4,822,002	\$ 2,060,809	\$ 6,882,810	\$ 2,008,890	77.41%	
Investment Due Diligence	\$ 5,763,390	0.75	\$ 2,403,008	\$ 296,750	\$ 2,699,758	\$ 3,063,632	46.84%	
Custody Fees	\$ 1,900,000	0.25	\$ 1,123,216	\$ -	\$ 1,123,216	\$ 776,784	59.12%	
Investment Manager Fees	\$ 179,312,910	23.49	\$ 125,350,483	\$ -	\$ 125,350,483	\$ 53,962,427	69.91%	
Public Equities	137,457,595	18.01	97,168,967	-	97,168,967	40,288,628	70.69%	
Fixed Income	8,464,907	1.11	219,062	-	219,062	8,245,845	2.59%	
Real Estate	3,594,200	0.47	2,953,751	-	2,953,751	640,449	82.18%	
Alternative Markets	29,796,208	3.90	25,008,703	-	25,008,703	4,787,505	83.93%	
Investment Management Total	\$ 195,868,000	25.66	\$ 133,698,710	\$ 2,357,558	\$ 136,056,268	\$ 59,811,732	69.46%	
APFC Appropriation	\$ 218,517,400	28.63	\$ 150,849,373	\$ 4,615,034	\$ 155,464,407	\$ 63,052,993	71.15%	
Legislative Appropriation	\$ 9,512,800	1.25	\$ 9,512,800	\$ -	\$ 9,512,800	\$ -	100.00%	
AmHess Capital Inc. Acct.	\$ 9,000,000	1.18	\$ -	\$ 9,000,000	\$ 9,000,000	\$ -	100.00%	
POMV Distribution	\$ 3,360,567,100	440.23	\$ 2,980,267,100	\$ 380,300,000	\$ 3,360,567,100	\$ -	100.00%	
Total Appropriation	\$ 3,597,597,300	471.28	\$ 3,140,629,273	\$ 393,915,034	\$ 3,534,544,307	\$ 63,052,993	98.25%	
5 year real rate of return (FY18-FY22):		5.86%						

Personal Services Detail	
Budgeted Salaries and Benefits	\$ 16,189,276
Actual Salaries and Benefits	\$ 13,622,951
Experienced Excess Vacancy	15.85%
Lapse	\$ 2,566,325
--6 positions vacant all year (5 inv, 1 ops)	
--18 positions partially vacant (5 inv, 13 ops)	
--various salary savings (vacancies filled at less than budgeted; maternity leave, etc.)	



SUBJECT: Chief Investment Officer’s Report

ACTION: _____

DATE: July 12, 2023

INFORMATION: X

BACKGROUND:

The Chief Investment Officer’s report provides an overview of Fund positioning, performance, investment actions taken during the reporting period, and other current topics in the Investment Department.

STATUS:

Marcus Frampton, CIO, will present Fund positioning, asset class performance, and investment actions taken during May and June 2023.



ALASKA PERMANENT
FUND CORPORATION

CIO Report
Marcus Frampton, Chief Investment Officer
July 12, 2023

Investment Department Current Topics

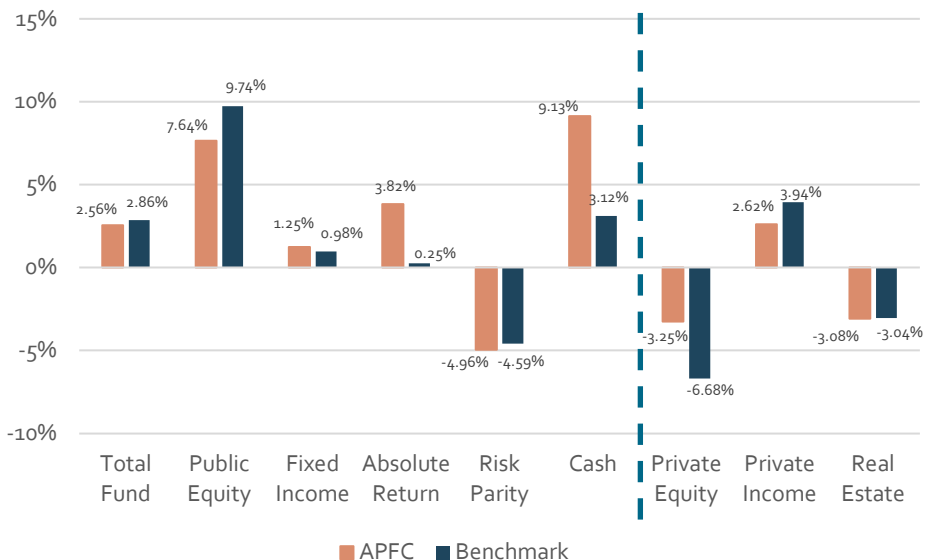
- Fiscal Year 2023 performance updates
- Fund positioning
- Investment actions taken during the quarter



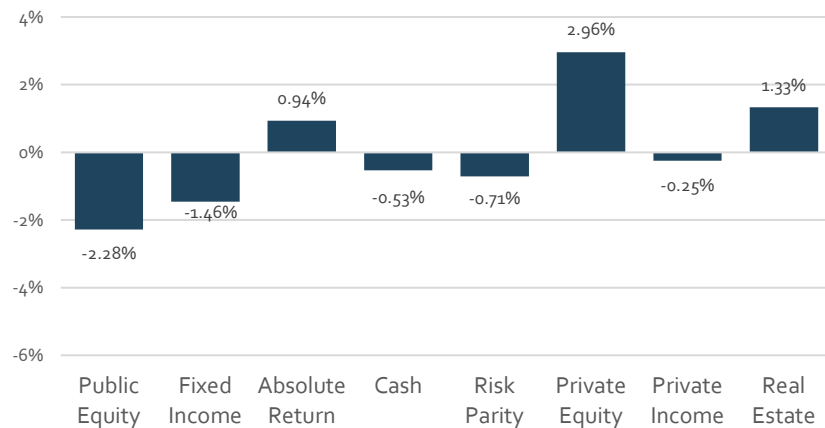
Part 1: Performance and Positioning

Total Fund Positioning and Performance

FY' 23 Performance as of 5/31/23 ⁽¹⁾



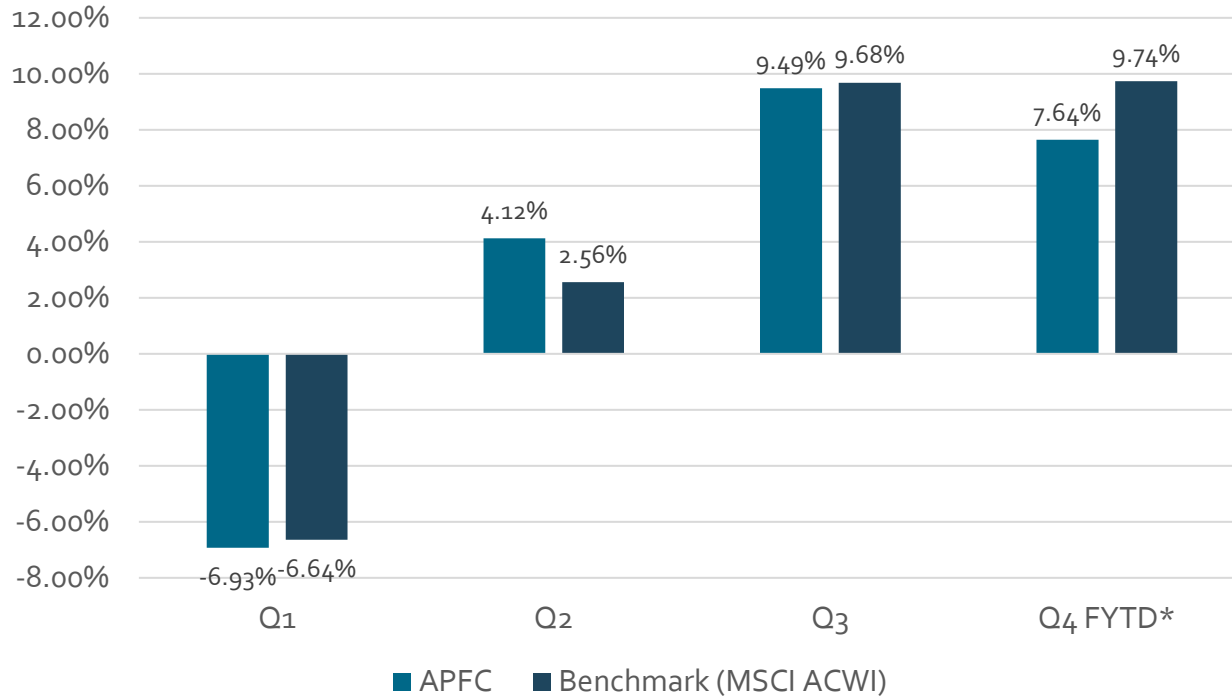
Positioning as of 5/31/23 ⁽¹⁾



Note: Private Equity, Private Income, and Real Estate performance shown as of 3/31/23 as accurate quarterly performance not yet available on 5/31/23

Source: APFC Monthly Performance Report – May 31, 2023

Public Equity Performance through FY '23



*Fiscal year-to-date through May

38 of 199

Source: APFC Monthly Performance Reports – September '22, December '22, March '23 & May '23



Part 2: Investment Actions Taken during May & June 2023

Investment Actions (continued)

May & June 2023

Real Estate

During June, Staff took the following actions in the Real Estate portfolio:

- \$55 million equity commitment to a multifamily development in Sarasota, FL as part of an existing JV.

Absolute Return

During June, Staff took the following actions in the Absolute Return portfolio:

- \$50 million add-on investment in an existing portfolio long-short equity market neutral hedge fund.
- \$200 million new investment in a multi-strategy hedge fund.

Risk Parity

During June, Staff fully redeemed \$206 million from both Risky Parity managers.

Private Equity

Fund commitments closed in May & June:

- \$16 million VC-seed & VC-diversified
- \$67 million special situations large-cap buyout
- \$25 million special situations mid-cap buyout
- \$65 million upstream oil and gas
- \$50 million large-cap buyout
\$223 million

Co-investments closed in May & June:

- \$25 million energy co-investment
\$25 million

Investment Actions (continued)

May & June 2023*

Public Equity

In June, Staff redeemed **\$500 million** from external Public Equities accounts and moved the amount to Total Fund Cash. Details are below:

June 7th - 8th	<u>Redemption from</u>	<u>Amount</u>
	Voya (AGI) US LCG	-\$100 million
	Mellon S&P 500	-\$50 million
	Mellon R3000	-\$50 million
	JPM Intl. Growth	-\$50 million
	MCM World exUS	-\$50 million
	Arrowstreet Global	-\$50 million
	Mckinley Global	-\$50 million
	WCM Global	-\$50 million
	SSGA MSCI ACWI IMI	-\$50 million

*Note: Date of production of this report is June 23rd, 2023. Additional investment actions may be taken prior to end of June due to market conditions.

APFC Operations					
FY2023 Results: Key Performance Indicators					
Info Technology		Admin and Travel		Investment Operations (Middle Office)	
IT Staff	7	Admin Staff	3	Inv. Ops. Staff	2.5
IT Budget Actuals	\$2,960.0	Admin Budget Actuals	\$317.1	Inv. Ops. Budget Actuals	\$155.5
Helpdesk Tickets	524	Trips Planned	330	Equities Trade Count	5,552
Verified Model Breaches	126	Credit Card Reconciliations	2,009	Fixed Income Trade Count	4,636
Staff IT Trainings	7	Travel Lunch n Learns	2	Foreign Exchange Trade Count	1,109
				Total Trade Value	\$132.9B
Human Resources		Procurement		<i>FX Countries/Zones (24) : Australia, Canada, Chile, China, Colombia, Czechia, Denmark, Eurozone, Hungary, Indonesia, Israel, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, Peru, Singapore, Supranational, Switzerland, Thailand, United Kingdom, United States</i>	
HR Staff	2	Procurement Staff	1		
HR Budget Actuals	\$385.1	Procurement Budget Actuals	\$97.4		
Recruitments Posted	20	Procurements	9		
Recruitments Filled	14	Contracts and Data Subscriptions	49		
HR Trainings	5				
Immersion Program Sessions	85	Totals			
Social Events	7	Total Staff	15.5		
Monthly Newsletters	12	Total Budget Actuals	\$3,915.1		
HR Projects (PMP Update, Comp Bands, etc.)	14	bps	0.51		

Barnhill, 7/11/2023



ALASKA PERMANENT
FUND CORPORATION

Personnel Management Plan (PMP) Update 2023

Aligning Policy with Culture



“When policy aligns with and enhances organizational culture, everyone wins”

Charla Brown Ph.D.
Expert in Organizational Design

Key Changes

Clarifications

Policies already included in the PMP, have been modified to provide additional clarification.

Integrations

Policies currently outside the PMP that have been integrated to create a more comprehensive document.

Additions

Policies identified as needed, but not currently in the PMP

Enhanced Alternate Work Policy

Updated Compensation Structure

Notable Changes - Clarification

- APFC Core Hours and visitors in the workplace
- APFC Technology and Security expectations
- Emergency Procedures
- Weapons Policy
- Disclosures Gifts
- Company Sponsored Events
- Letters of Recommendation
- Employee Concern Resolution

Notable Changes - Integrations

- IT Security & Training
- Travel
- Professional Development Training

Notable Changes - Additions

- Community Volunteer Involvement
- APFC Ambassadors
- Staff Relationship Policy
- Vehicle Use and Driver Safety
- Alternative Work Policies
 - See Memo in Board Packet
- Business and Investment Referrals

Changes – Universal

In addition to the Clarifications, Integrations and Additions the following changes were made.

- Reordered to align with employment lifecycle
- Grammatical and punctuational fixes
- Structural formatting consistency

Compensation Philosophy

APFC strives for competitive pay within the pay band structure, when appropriate and possible. Compensation decisions are rooted in a multi-factor review of each candidate/staff member that may include some or all the following:

- Experience
- Education
- Performance
- Internal Equity
- Labor Market
- Cost of Living
- Budgetary Authorization
- Market Data

Compensation Structure

Goal:

To provide significant flexibility to be able to hire and retain staff.

PMP now outlines annual CPI market adjustment to the structure, using the same formula as inflation proofing of the fund in years market data is not used.

Updated Compensation Structure

Minimum Range = 25th percentile of Base Salary Data

Maximum Range = 75th percentile of Total Cash Data

Ranges apply to all positions excluding the Executive Director & Chief Investment Officer whose salaries will be reviewed annually. Adjustments will be made using the criteria outlined in the Compensation Philosophy.

Compensating staff below or above their pay range is acceptable and requires ED approval.

- ED salary is to be set by the Board of Trustees
- CIO salary is to be set by the Executive Director

Both ED and CIO data is provided for informational purposes. See Memo in Board Packet.



ALASKA PERMANENT
FUND CORPORATION

Memo

To: APFC Board of Trustees

Through: Deven Mitchell, Executive Director

From: Mike Barnhill, Chief Operations Officer

Date: June 26, 2023

Re: Proposed Compensation Bands

We are proposing the following approach to APFC compensation bands.

Comparable Pool of Peer Entities

McLagan has compiled a pool of comparable peer investment organizations consisting of 17 public funds, and 244 private sector firms. These entities have assets under management ranging from \$50B-\$150B.

The public sector funds include:

APFC's Public Pension Fund Comparator Group			
	12/31/21		12/31/21
	AUM		AUM
Washington State Investment Board	\$146.5	Texas Treasury Safekeeping Trust Company	\$87.0
Virginia Retirement System	107.2	Tennessee Consolidated Retirement System	70.6
Massachusetts PRIM	101.5	CO Public Employees' Retirement Assoc.	66.1
State of Michigan Retirement System	100.6	Maryland State Retirement Agency	65.9
Oregon Public Employees' Retirement Fund	100.4	Public Employees' Retirement System of Nevada	62.1
State of New Jersey Pension Fund	99.3	Public Schools Retirement System of Missouri	59.5
State Teachers Retirement System of Ohio	96.7	Arizona State Retirement System	52.3
Minnesota State Board of Investment	94.1	Alaska Retirement Management Board	52.2
Ohio Public Employees Retirement Sys	92.1		
		HighQ	\$100.4
		Median	92.1
		LowQ	65.9
		Alaska Permanent Fund Corporation	\$81.9

McLagan has kept the identity of the 244 private sector firms confidential, but has provided the following information:

APFC's Private Sector Pay Comparators (AUM <\$150B)				
	# Firms	12/31/21 AUM (\$Billions)		
		LowQ	Median	HighQ
Investment Management Firms	83	\$14.5	\$35.4	\$74.0
Banks (Investment Management Department)	16	8.0	19.0	26.4
Insurance Companies (Investment Management Departments)	40	22.7	49.1	68.2
Endowments, Foundations, & Corporate Plan Sponsors	105	3.0	8.1	27.2
Total	244	\$7.4	\$22.7	\$52.7

McLagan has advised that one of our closest peers, University of Texas Investment Management Co. (UTIMCO) is not in the peer group.

Weight of Comparable Funds

We are proposing that the public funds have 75% weight, and the private firms have 25% weight, in the calculation of the peer benchmarks.

Benchmarks

Initially, McLagan provided benchmarks based on data from the above peer group for most of the APFC positions. These benchmarks provided base salary at the 25th, 50th, and 75th percentiles of the comparable position in the peer group, and total cash compensation also at the 25th, 50th, and 75th percentiles of the comparable position in the peer group.

Following the April Board meeting, we requested McLagan to provide these benchmarks from the peer group for all APFC positions. We also requested McLagan provide a closer fit for some comparable positions. This resulted in McLagan providing benchmarks for additional position types, including the Investment Trader category, and Portfolio Accountant positions at the Intermediate level.

McLagan was unable to provide benchmark data for an administrative position above Admin Officer II. As such, we found Alaska benchmark data for Admin Services Manager.

Compensation Bands Structure

McLagan ultimately proposed a “hybrid” compensation bands structure with 9 compensation ranges for investment staff, and 10 compensation ranges for operations staff. The majority of the proposed ranges, however, were not directly

based on the actual benchmark data for the positions McLagan proposed to put in the ranges. Instead, McLagan used an algorithm to space the ranges evenly apart. In some cases, the hybrid structure resulted in the proposed compensation bands being higher than the benchmark data; in other cases, the hybrid structure resulted in the proposed compensation bands being less than the benchmark data.

After review of the McLagan proposal, I recommended that the compensation bands that would provide the closest fit to the benchmark data, was the benchmark data itself. As noted, we then requested benchmark data on all APFC positions to complete the compensation band structure.

As shown below, the proposed compensation bands for each position range from the 25th percentile of base salary on the low end, to the 75th percentile of total cash compensation on the high end. This produces two sets of midpoints (for base salary and total cash compensation).

Note that while our peer group has a practice of paying incentive compensation for investment staff and senior management, there are very few peers that pay incentive compensation for non-management operations staff. This is evidenced by the relatively similar midpoints for base salary and total cash compensation for operations staff below the senior management level.

We are proposing that these compensation bands be both informational and aspirational in nature, but not binding. We also propose that we increase these benchmark bands by the rate of annual inflation. We would make the first inflation adjustment on July 1, 2024.

For the most part, current APFC salaries fit within these bands. In some cases, current salaries fall below the bottom edge of the bands, and this provides opportunities to consider increasing salaries on a case-by-case basis.

In terms of aspirational goals, we would propose that APFC continue to work towards the midpoint of total cash compensation. In aggregate, the FY24 max salary for investment staff lags the midpoint of total cash compensation by about \$800k. In aggregate, the FY24 max salary for operations staff (not including the Executive Director and 4 senior executives) lags the midpoint of total cash compensation by about \$400k.

We have included the compensation bands for the executive director simply as information for the Board. We acknowledge the Board's plenary control over setting the salary for the executive director.

Finally, at Chad Brown's request, McLagan benchmarked a number of additional positions that are not currently filled. The purpose of these benchmarks is to

provide promotion paths for staff as they gain experience and expertise. This will help guide APFC salary decisions when staff are promoted.

APFC Investment Staff Compensation Structure	McLagan Data (75% Public Employers / 25% Private Employers)						FY2024 APFC Investment Staff				
	Salary			Total Cash Compensation			# of Positions	Min Base Salary	Max Bonus Rate	Max Total Cash	% Positions in Band
APFC Job Title	25th %ile Base	50th %ile Base	75th %ile Base	25th %ile TCC	50th %ile TCC	75th %ile TCC					
Chief Investment Officer	332.9	\$403.4	510.1	574.8	\$781.9	1,384.6	1	\$434.070	50%	\$677.149	100%
Director of Investments	252.8	\$288.8	354.0	424.0	\$607.3	924.7	5	\$192.541	50%	\$610.929	80%
Senior Portfolio Manager	220.2	\$244.9	282.4	365.6	\$486.5	719.2	7	\$236.200	50%	\$394.791	100%
Trader III	134.6	\$206.0	201.9	193.8	\$312.2	357.5	1	\$200.200	50%	\$312.312	100%
Portfolio Manager	173.4	\$200.5	226.3	191.4	\$241.6	374.4	7 (3 vac.)	\$183.695	50%	\$332.023	100%
Trader II	113.5	\$179.7	156.6	174.0	\$250.5	311.8	2	\$142.188	25%	\$191.007	100%
Investment Analyst III / Investment Associate	140.0	\$182.9	220.3	172.5	\$205.6	271.3	5 (2 vac.)	\$125.000	25%	\$213.268	80%
Trader I	133.8	\$154.5	175.5	154.1	\$190.0	243.1	1	\$92.820	25%	\$121.594	0%
Investment Analyst II	113.4	\$128.5	169.8	121.4	\$163.7	237.4	1	\$113.017	25%	\$148.052	0%
Investment Analyst I	93.0	\$107.0	117.0	97.2	\$117.2	157.4	2	\$110.053	25%	\$144.169	100%

Version: 6/26/2023 (Barnhill)

APFC Operations Staff Compensation Structure	McLagan Data (75% Public Employers / 25% Private Employers)						FY2024 APFC Executive Director			
	Salary			Total Cash Compensation			# of Positions	FY24 Salary Min	FY24 Salary + 6% Max	% Positions in Band
	25th %ile Base	50th %ile Base	75th %ile Base	25th %ile TCC	50th %ile TCC	75th %ile TCC				
Executive Director (CEO)	264.6	\$325.4	436.8	492.0	\$750.8	1,336.4	1	\$350,000	\$371,000	100%

APFC Identified Job Title	McLagan Data (75% Public Employers / 25% Private Employers)						FY2024 APFC Senior Management			
	Salary			Total Cash Compensation			# of Positions	FY24 Salary Min	FY24 Salary + 6% Max	% Positions in Band
	25th %ile Base	50th %ile Base	75th %ile Base	25th %ile TCC	50th %ile TCC	75th %ile TCC				
Chief Risk & Compliance Officer	229.4	\$275.0	327.6	248.7	\$371.5	524.1	1	\$286,319	\$303,498	100%
Chief Financial Officer	173.0	\$217.6	257.6	251.7	\$321.1	430.9	1	\$286,320	\$303,499	100%
General Counsel	177.9	\$221.4	233.5	233.0	\$308.0	356.3	1	\$286,319	\$303,498	100%
Chief Operating Officer	184.0	\$218.3	259.9	228.1	\$299.1	383.7	1	\$207,020	\$219,441	100%

APFC Identified Job Title	McLagan Data (75% Public Employers / 25% Private Employers)						FY2024 APFC Operations Staff			
	Salary			Total Cash Compensation			# of Positions	FY24 Salary Min	FY24 Salary + 6% Max	% Positions in Band
	25th %ile Base	50th %ile Base	75th %ile Base	25th %ile TCC	50th %ile TCC	75th %ile TCC				
<i>IT</i>										
Director of Information Technology	185.1	\$207.9	249.7	286.9	\$355.4	423.4	1	\$201,592	\$213,688	100%
IT Specialist Lead	138.4	\$158.7	190.2	143.5	\$174.0	218.6	1	\$142,117	\$150,644	100%
Systems Engineer	117.2	\$133.7	160.2	118.9	\$142.3	175.1	1	\$115,763	\$122,709	0%
Information Security Analyst	96.3	\$118.5	131.9	96.6	\$119.6	136.7	1	\$94,500	\$100,170	0%
Senior Systems Administrator	80.1	\$88.8	100.7	79.9	\$89.1	101.0	1 (vacant)	\$85,000	\$90,100	100%
IT Specialist Helpdesk	60.6	\$71.9	80.3	60.5	\$72.1	81.7	2	\$65,050	\$69,018	100%
<i>Human Resources</i>										
Director of Human Resources	137.9	\$166.0	187.4	163.5	\$207.7	256.1	1	\$145,648	\$154,387	100%
Human Resources Generalist I	57.0	\$65.8	74.6	57.1	\$67.0	75.9	1	\$68,250	\$72,345	100%
<i>Communications</i>										
Communications Director	138.0	\$172.5	207.0	143.0	\$200.0	250.0	1	\$168,317	\$178,416	100%
Communications Officer I	78.9	\$85.2	88.6	83.3	\$88.3	92.7	1 (vacant)	\$84,751	\$89,836	100%
<i>Risk</i>										
Risk Officer	102.7	\$118.6	129.0	107.5	\$126.0	183.3	1	\$110,000	\$116,600	100%
Risk/Compliance Analyst	96.1	\$101.0	111.6	99.8	\$106.1	120.1	1 (vacant)	\$88,825	\$94,155	0%
<i>Finance</i>										
Senior Portfolio Accountant II	117.6	\$123.4	154.9	122.9	\$133.9	162.8	2	\$120,000	\$150,558	100%
Portfolio Accountant II	82.6	\$91.8	98.5	85.6	\$95.2	103.4	1	\$78,734	\$83,458	0%
Portfolio Accountant I	80.5	\$84.3	94.7	81.5	\$87.3	96.6	3	\$62,000	\$72,209	0%
Accounting Tech	62.6	\$70.5	79.3	61.5	\$69.4	80.2	1	\$58,477	\$61,986	0%
<i>Procurement</i>										
Procurement Officer	77.7	\$86.6	96.9	79.4	\$88.2	99.8	1	\$85,000	\$90,100	100%
<i>Middle Office</i>										
Senior Investment Operations Manager	104.6	\$120.0	136.0	107.9	\$134.3	158.5	1	\$120,000	\$127,200	100%
Investment Operations Analyst	66.0	\$87.1	87.1	66.7	\$74.2	88.8	2 (1 vac.)	\$70,284	\$84,800	100%
<i>Admin</i>										
Admin Services Manager (Milliman AK Data)	96.0	\$114.0	133.0	96.0	\$144.0	133.0	1	\$90,000	\$95,400	100%
Project Manager (no data requested)							1 (vacant)	\$88,825	\$94,155	
Administrative Officer II	58.9	\$66.1	74.3	60.0	\$68.3	78.5	3 (1 vacant)	\$66,300	\$77,245	100%
Administrative Specialist I	48.3	\$56.6	65.0	49.1	\$57.4	67.4	1	\$60,000	\$63,600	100%

Version: 6/27/2023 (Barnhill)

Memo

To: APFC Staff

Through: Deven Mitchell, Executive Director

Copy: APFC Board of Trustees

From: Mike Barnhill, Chief Operations Officer *MAB*

Date: June 27, 2023

Re: Proposed Alternative Work Policies

Prior to the pandemic, the Corporation adopted a telecommuting policy. Having an alternative work policy in place was pivotal to helping the Corporation quickly shift into remote work for the duration of the pandemic. During the pandemic our alternative work practices evolved substantially.

Now that the pandemic is over we would like to put in place a set of documented alternative work policies. What follows is a proposal that is somewhat similar to the practices that we adopted during the pandemic.

While it is unlikely that we can construct a set of policies that is ideal to everyone, your views are important. We think attempting to seek input from everyone and building consensus is important.

But please recognize that there are legitimate competing interests within the Corporation. We know that access to remote work can improve morale as well as retention because of the increased flexibility for staff. But we also know that working in the physical office as a team is important for professional development, building and maintaining office culture and a sense of teamwork, and producing superior results for APFC and the people of the State of Alaska.

Implementation of these policies will not resolve these competing interests—but hopefully we can find and strike a healthy balance that can work.

You are welcome to comment and offer suggestions. Your comments will be considered. We will provide a mechanism to comment anonymously. We will also be seeking comment from the Board. We are seeking your comments by July 7, but will consider comments that come in after that date. Our hope is to put something final in place early in FY2024.

We are also requesting that if you are interested within the next two years in working in an Anchorage office or in working remotely from anywhere in Alaska, that you let Mike Barnhill know by July 7. We are seeking this information now for planning purposes—we will be notifying supervisors of your interest.

While we think it is important to have a common understanding of what our policies are today, we also acknowledge that the world of work is undergoing an upheaval in workplace practices. Whatever we decide today, we will need to revisit and update periodically. We plan to fully document these policies in the APFC Personnel Management Plan (PMP).

Today, we are proposing six alternative work policies:

- Professional Flexibility
- Hybrid Work Week
- Work from Anywhere—Alaska
- Re-locating to Anchorage Office
- Team-Based Custom Flexibility
- Work from Anywhere—Outside of Alaska

What we seek to do here is identify a reasonable default approach for each of these policies. But we are providing flexibility in every case to adjust the default where needed.

These policies are listed in order of accessibility, with the policy having the lowest hurdle of accessibility being listed first.

Professional Flexibility.

Professional Flexibility is an arrangement where the employee may work remotely from anywhere for a temporary period of time. A common reason for professional flexibility is when an employee wants or needs to be closer to family member(s) outside of Juneau but is still planning to work regular hours. Professional Flexibility should not be used in lieu of Personal Leave if the employee is unable to work during this time.

- **Approval:** Supervisor
- **Eligibility:** Minimum 6 months work in the office*
- **Timing:** Up to 45 business days per year*
- **Travel:** No travel reimbursement
- **Availability:** All staff

*Executive Director authorized to adjust eligibility and timing.

Hybrid Work Week.

Hybrid Work Week is an arrangement where the employee works a certain number of days in the office and a certain number of days at home, each week.

- **Approval:** Supervisor through Exec. Dir.
- **Eligibility:** Minimum 6 months work in the office*
- **Timing:** Minimum 3 days per week in office*
- **Travel:** No travel reimbursement
- **Availability:** Staff who live within 50 miles of APFC office

*Executive Director authorized to adjust eligibility and timing.

Work from Anywhere—Alaska.

Work from Anywhere—Alaska is an arrangement where the employee may live and work from home within Alaska but outside of Juneau. At this time, the duty station for all APFC positions is in Juneau.

- **Approval:** Supervisor through Exec. Dir.
- **Eligibility:** Minimum 1 yr work in the office*
- **Timing:** Minimum of 4 weeks/year in the office*
- **Travel:** Travel costs reimbursed for minimum time required to spend at the office.
- **Availability:** Case by case. A supervisor may document in advance the business rationale for restricting access to WFA—Alaska.

*Executive Director authorized to adjust eligibility and timing.

Note: If this is of interest to you at this time or within the next two years, we are requesting that you let Mike Barnhill know by July 7.

Re-locating to Anchorage Office.

- **Approval:** Supervisor through Exec. Dir.

- **Eligibility:** Case by case
- **Timing:** Case by case
- **Travel:** Case by case
- **Relocation Costs:** Case by case

A supervisor may document in advance the business rationale for restricting access to moving to the Anchorage office.

Note: If moving to the Anchorage office is of interest to you at this time or within the next two years, we are requesting that you let Mike Barnhill know by July 7.

Team-Based Custom Flexibility.

Team-Based Custom Flexibility is an arrangement where the staff of an APFC team develops and submits an annual plan for an alternative work arrangement for the entire team. The plan may deviate from the other alternate work policies set out in this memo. The plan must be documented in writing and provide for times when the team will regularly meet and collaborate, as well as provide for how the team will measure both team and staff productivity.

- **Approval:** Supervisor through Exec Dir.
- **Eligibility:** TBD by the plan
- **Timing:** TBD by the plan
- **Travel:** TBD by the plan
- **Availability:** Case by case. A supervisor may document in advance the business rationale for restricting access.

Work from Anywhere—Outside of Alaska.

Work from Anywhere is an arrangement where the employee may live and work from home outside of Alaska. At this time, the duty station for all APFC positions is in Juneau.

- **Approval:** Supervisor through Exec Dir.
- **Eligibility:** Minimum 1 yr work in the office*
- **Timing:** Minimum of 4 weeks/year in the office*
- **Travel:** Travel costs reimbursed for minimum time required to spend at the office.
- **Availability:** Case by case. A supervisor may document in advance the business rationale for restricting access to WFA—Outside of Alaska.

*Executive Director authorized to adjust eligibility and timing.



To: APFC Board of Trustees

Through: Deven Mitchell, Executive Director

From: Chad Brown, HR Director

Date: June 26, 2023

Re: Summary of Proposed Changes to Personnel
Management Plan (PMP)

We are proposing the following updates to the APFC Personnel Management Plan (PMP).

BACKGROUND:

In addition to the updating of the APFC Compensation Structure, APFC staff have revamped their Personnel Management Plan (PMP / Employee Handbook). The first step was to arrange the document in a manner that reflected the lifecycle of staff, from Recruitment to Separation. This change alone made the redline copy impossible to follow. To provide as much information as possible without having to read the entire document below is a comprehensive list of updates. Please note this is a draft, subject to final approval.

STATUS:

RECRUITMENT OVERVIEW

- Updated with current processes.

EMPLOYMENT CATEGORIES

- Simplified to categories used at APFC, referenced SoA for others.

INTRODUCTORY PERIOD

- Removed

WORK HOURS, OVERTIME AND LEAVE

- Delineated, Corporate Hours, Core Hours, Employee Hours, and Flex Workday Schedule

COMPENSATORY

- Clarified eligibility during travel.

ALTERNATIVE WORK

- Delineated and added Alternative Work Options (See Memo)

LEAVE

- Included Community Volunteer clarification as Personal Leave

CODE OF CONDUCT & PROFESSIONAL PRACTICES

- Enhanced to include Public Communications and SoA Whistleblower policy (previously only in SoA onboarding paperwork process)

DISCLOSURE REQUIREMENTS

- Updated to reflect Board Approved APFC policy.

GIFTS

- Updated to include considerations for acceptance of gifts, and separated types of gifts into three (3) categories for clarification.

EMPLOYEE ENGAGEMENT EVENTS

- Added to ensure staff understand employee engagement events are not mandatory and not paid for by APFC. This section also provides additional information in terms of candidate recruiting events.

BUSINESS & INVESTMENT REFERRALS

- New – Policy pulled from UTIMCO, outlines best practices in Business and Investment Referrals.

PERFORMANCE MANAGEMENT

- Updated to reflect new procedures & change to three (3) factor Merit Scale (previously 5 factor) & clarify opportunity for staff to provide written response to performance evaluation.

COMPENSATION

- Updated Compensation Philosophy that recognizes the goals as well as constraints we have

Page 3 — Summary of Proposed Updates to PMP

- Updated Structure Calculation to reflect new calculation methodology.
- Draft of New Salary Structure included.
- Addition of Standard Annual Adjustment (Step Increase) to balance the need for providing staff with an annual increase vs. performance merit increase. (If approved)

PROFESSIONAL TRAINING AND CONTINUING EDUCATION

- Current Policy – added to PMP.

EMPLOYEE CONCERNS

Process Streamlined and removed Peer Review Committee

PERSONNEL RECORDS

- Updated to reflect new technology & security.

ADMINISTRATIVE POLICIES

- Added Travel – Current Policy added to PMP.
- IT Security & Training – Policy added to PMP.
- Updated Visitors in the workplace expectations and communication

APFC VEHICLE USE AND DRIVER SAFETY

- Included Policy around APFC company vehicle use.

WORKPLACE SAFETY

- Enhanced to include.
 - Emergency Procedures in the PMP
 - Threats to Persons or Locations
 - Threats to other State Agencies
 - Clarification of Weapons Policy

LETTERS OF RECOMMENDATION & EMPLOYMENT REFERENCES

- Clarified for consistency.

DEFINITIONS

Added Definitions section at end vs. within individual sections.

RECOMMENDATION:

This is not an action item. Should the board be inclined to provide feedback, staff will be more than happy to work to integrate recommendations.



PMP - EMPLOYEE HANDBOOK
2023

DRY

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PMP EMPLOYEE HANDBOOK RECEIPT AND “EMPLOYMENT-AT-WILL” STATUS ACKNOWLEDGMENT 64

DRAFT

Mission, Vision & Values

Mission

To manage and invest the assets of the permanent fund and other funds as designated by law.

Vision

To deliver outstanding returns for the benefit of all current and future generations of Alaskans.

Values

Integrity: We act in an honorable, respectful, professional manner that continually earns and justifies the trust and confidence of each other and those we serve.

Stewardship: We are committed to wisely investing and protecting the assets, resources, and information with which we have been entrusted.

Passion: We are driven to excellence through personal improvement, innovative solutions, and an open creative culture; and are energized by the challenges and rewards of serving Alaskans

Introduction

The PMP formalizes in policy important corporate employment practices, initially developed with input from Alaska Permanent Fund Corporation (APFC) employees, Trustees, and a consultant. The Executive Director is responsible for PMP implementation.

This Employee Handbook (Handbook) outlines those elements of the PMP with which all employees must be knowledgeable to effectively carry out their job responsibilities and contribute appropriately to the APFC mission. As support for employees, the PMP establishes an obligation for APFC to provide each employee the most appropriate opportunity to perform effectively.

Open and timely communication and understanding at all levels of APFC employment is vitally important to PMP implementation. The value of teamwork is critical to the success of the PMP and each employee; teamwork extends employees' understanding of job responsibilities, supervisory roles, and other work-related relationships. Each employee's individual contribution adds to the success of the entire APFC organization.

No employee manual can anticipate every circumstance or question about policy. As APFC continues to grow, the need to change policies may arise. Therefore, APFC reserves the rights to revise, supplement, or rescind any policies or portion of this manual. Human Resources will notify employees as soon as is practicable of changes to the Handbook.

In order to retain necessary flexibility in the administration of policies and procedures, APFC reserves the rights to revise any of the policies and/or benefits described in this handbook.

Employment-at-will Status

APFC is an at-will employer and neither the employee nor APFC is obligated to continue the employment relationship if either chooses, at will, to end the relationship at any time for any or no reason. The protection of general employment laws applies to APFC employees.

Employment Overview

This section provides a general overview of employment at APFC

Organizational Chart

APFC Organizational charts are updated periodically as needed and available through the HRIS system or by request.

Equal Employment Opportunity

APFC provides equal employment and advancement opportunities to all. APFC follows all applicable laws and does not discriminate in employment opportunities or practices on the basis of race, color, religion, sex, national origin, age, disability, or any other class protected by law.

Employees with questions or concerns about discrimination in the workplace are encouraged to bring these issues to the attention of their immediate supervisor, any department head, or the HR Manager. Employees can raise employment-related concerns and make reports without fear of reprisal. APFC prohibits employment decisions based on whether or not an employee files or does not file a discrimination complaint regarding himself/herself or a coworker. Anyone found engaging in unlawful discrimination will be subject to disciplinary action, up to and including termination of employment.

Disability Accommodations

APFC is committed to complying with the Americans with Disabilities Act (ADA) and ensuring equal opportunity in employment for qualified persons under this Act. All employment practices and activities are conducted on a nondiscriminatory basis. APFC also prohibits discrimination against qualified employees or applicants because they are related to or associated with a person with a disability.

Recruitment Overview

APFC's recruitment program offers an innovative streamlined process for filling vacant positions; encourages internal applicants; promotes APFC values; reflects a sense of urgency to reduce impact on other employees.

APFC is a State of Alaska entity exempt from the Personnel Act, with no requirement to follow a set recruitment procedure. A vacancy provides a unique opportunity to review the organization's needs outside of the normal budget cycle organizational review process. APFC recruitment generally follows the process outlined below.

Process

1. Determine organizational need for position
2. Align KSAs with current and future needs
3. Develop Recruitment Approval / Plan
4. Create Recruitment Advertising
5. Implement Recruitment Plan
6. Interview Process
7. Final Selection
8. Personnel Action
9. Onboarding and Immersion

The Governor may re-direct the recruitment and hire process of exempt positions at her/his discretion. The Executive Director retains the authority to change the following process.

Employment Categories

Employment categorizations provide a framework for staff appointments consistent with APFC mission, vision, values, and goals. They establish a framework for necessary position types requisite to APFC mission; they create standards for planning and budgeting for APFC position appointments.

APFC is exempt from the State Personnel Act and associated regulation per AS 39.25.110s. APFC conforms to the Executive Budget Act (AS 37.07) which means that legislative approval is required for new positions of more than one-year duration.

A position must be established prior to an appointment. Full time, regular appointment categories require prior approval by the Alaska Legislature. APFC may directly establish others. Except for short-term temporary appointments, the Board of Trustees must approve the establishment of all positions (AS 37.13.100).

A position established in one of APFC's categories of appointment refers to the position in APFC organizational structure and to the budget. These terms categorizing position appointments do not alter the APFC "employment-at-will" status. Either the employee or APFC may terminate the employment relationship at any time, for any or no reason.

Regular Full-Time Appointments

Regular full-time position must be approved by the legislature through the executive budget process and is the primary category of Appointment at APFC. Employees working in a full-time position are scheduled to work 30 or more hours per week.

Characteristics

- Compensation may be hourly or annualized
- Overtime eligibility defined by FLSA
- SBS eligible (annuities & select benefits)
- Full PERS accrual
- May participate in Deferred Compensation
- Full health insurance
- Full basic life insurance
- Full leave accrual
- All paid holidays

Regular Part-Time Appointments

A regular part-time position must be approved by the legislature through the executive budget process. An employee working in a part-time position is scheduled to work at least 15 hours but less than 30 hours per week.

Characteristics

- Compensation based on an annualized hourly rate
- Overtime eligibility defined by FLSA
- SBS eligible (annuities & select benefits)
- PERS accruals are prorated by hours worked
- May participate in Deferred Compensation
- Employee may elect health insurance by paying portion premium rate
- Employee may elect basic life insurance by paying portion of premium rate (if electing health insurance)
- Leave and holiday accruals are prorated based on a 37.5 hour work week

In-House Intern Appointments

APFC established an intern classification to provide substantive training experience in varied occupations designed to enhance and complement a student's course of study. An internship of 120-calendar days' duration or less shall be treated as a temporary short-term appointment. APFC does not provide for internships lasting more than 120 calendar days. Interns are distinguished from other temporary employees because their work is part of an applied academic program. The Executive Director must approve the decision for an internship to exceed one semester.

Additional Considerations for Intern Appointments

- Intern positions are Temporary Short-Term
- Candidates must meet the APFC Intern Program qualifications.
- Interns are compensated on an hourly basis as defined by FLSA

Additional categories of appointment may apply and are guided by State of Alaska policies.

WORK HOURS, OVERTIME AND LEAVE

This guidance is intended to maintain consistent office hours and employee scheduled attendance. APFC recognizes that we are an organization of professionals whose body of work does not always adhere to standard work times and days.

Corporate Headquarters Office Hours

- Official APFC office hours are 8:00 a.m. through 4:30 p.m., Monday through Friday.

Employee Work Hours

- Typical standard work week is Monday through Friday
- It is expected that all FLSA Exempt staff will work a minimum of 37.5 hours per week
- It is expected that all FLSA Non-Exempt staff work 37.5 hours per week
- Due to the responsibilities of some teams, some schedules are tied to the capital markets
 - This includes both hours and holidays
- Supervisors may approve employee requests to flex from their regular work schedule
- All staff are expected to keep their work schedules are updated in APFC's Human Resources Information System

Core Hours

- To ensure consistent communication with staff who work outside Corporate Headquarters Office Hours must overlap corporate office hours by a minimum of two (2) hours.

Attendance and Absence

- APFC requires daily on-time employee attendance
- Employees must notify their supervisors as soon as possible if they have an unexpected absence or are going to be late for work
- Planned employee absences (leave) require advance supervisory approval

Flexible Workday Schedule

- APFC employees may use the option of "flexing" their workday outside the Corporate Headquarters office hours with the approval of their supervisor and department/division head
- "Flexing" within a workday or for short-term periods is allowed with supervisory approval

Compensatory - Overtime

Upon hire all APFC employees are advised of APFC's use of Compensatory – Overtime.

FLSA Overtime Eligible Employees – Leave Earning

For APFC employees who are FLSA overtime eligible and leave earning, Compensatory (Comp) Time accrual and usage is the standard compensation for overtime work.

For these employees:

- Comp time is accrued for any work over 37.5 hours per week
- Comp time is accrued hour for hour for work between 37.5 hours and 40 hours per week, and 1.5 hours for hours worked beyond 40 hours per week
- Overtime requires supervisory pre-authorization
- Overtime eligible employees must claim overtime worked, in accordance with the FLSA
- Comp time must be used prior to personal leave

FLSA Overtime Eligible Employees – Non-Leave Earning

- Employees are paid at the overtime comp time rate only when they work over 40 hours per week

All Staff – Travel

- Employees who travel for APFC business during non-business hours (evenings/weekends) shall be provided Comp Time equivalent to the personal time spent in transit

Holidays

APFC follows the State of Alaska Holiday as outlined in AAM 270.020. On occasion the SIFA and NYSE Market holidays do not line up with State Holidays. Based on business need, managers of employees work on those days are expected to plan appropriate staff coverage to ensure safe and effective operations.

State of Alaska Holiday List					
New Year's Day	Jan	1 st	Labor Day	Sept	1 st Monday
MLK Jr.'s Birthday	Jan	3 rd Monday	Alaska Day	Oct	18 th
President's Day	Feb	3 rd Monday	Veteran's Day	Nov	11 th
Seward's Day	Mar	Last Monday	Thanksgiving Day	Nov	4 th Thursday
Memorial Day	May	Last Monday	Christmas Day	Dec	25 th
Independence Day	July	4 th			

Work Status on APFC Holidays

APFC is required to follow State of Alaska employee leave and holiday rules. However, some State holidays occur when the financial markets are open and therefore, APFC operations must continue. Because certain employees are directly responsible for these mission-critical operations, they are required to be at work on some State holidays.

Typically, only certain employees in the Investments, Finance and IT Departments are required to work on a State holiday. The head of these departments will determine which staff members are necessary to ensure seamless operations.

FLSA Overtime Exempt: FLSA Overtime Exempt employees required to work on a State holiday may take another supervisor-approved day off in lieu of their holiday, but within 30 calendar days after having worked the holiday. The holiday must accrue to the employee before taking off a day from work.

FLSA Overtime Eligible: Typically, Fair Labor Standards Act (FLSA) overtime eligible employees will not be required to work on State holidays. However, if an employee is FLSA overtime eligible, and is required to work on a holiday, that employee will be paid for their time worked and will accrue comp time at 1.5 hours per hour worked.

Documentation/Approval: This leave is requested through the APFC HRIS system and documented as a Floating/Market Holiday.

Alternative Work

APFC's Core Values are Integrity, Stewardship and Passion and as such each member of our team is expected to act with the highest level of integrity and stewardship regarding the resources with which we have been entrusted. This means we act with care with our resources while providing Alaskans and the State of Alaska the results they are expecting from our organization. We extend this trust to our employees and empower them to shape their work so that they can achieve the best possible results. This paradigm motivates our employees while improving the company's performance capabilities and enhances our market position as a flexible and attractive employer which directly impacts our ability to generate top investment returns.

These policies are provided in accordance with the State of Alaska's Telecommuting Policy and Guidelines.

Reorder - Prof Flex, Hybrid, WFA – AK, Relocating to ANC Office, Team Flexibility, WFA - Outside

Hybrid

Hybrid work is the most used type of flexible work and is in recognition that many positions have responsibilities that benefit from in office collaboration as well as individual project driven work where quiet, less interrupted space can benefit the individual and corporation.

Key Attributes of Hybrid

- Consistent
- Can be longer term (initially 6-month increments, may be approved for up to 1 year)
- Planned with immediate supervisor
- Must have support and approval of supervisor and Division Chief
- Minimum of three (3) days in office
- Applies only to staff within fifty (50) miles of an APFC owned/leased property for corporation use

Approval for Hybrid:

1. Employee submits request to HR for Hybrid Work Agreement (HWA)
2. Employee fills out their portion of the HWA which is then routed to their immediate supervisor, manager, and Division Chief
3. Upon approval/denial the employee will be notified
4. Copies of the approved documentation will be saved to the employee file
5. The Supervisor and Employee review the HWA at least annually to evaluate the Employee's performance in a Hybrid arrangement. If the Employee is meeting or exceeding expectations, the HWA can be extended for an additional year

Contents of the HWA

The HWA sets out the specifics for the individual circumstance of the Hybrid arrangement including state and personal equipment to be used, days/hours of work, location of work, general duties to be performed and method(s) of assessing Hybrid Work performance.

Renewing the HWA

1. The HWA must be discussed and renewed at least annually, or whenever there is a major change in job duties
2. The HWA may be canceled by the employee with fifteen (15) calendar days written notice
3. The supervisor may cancel this agreement and instruct the employee to resume working at any time

Required Documentation

- Hybrid Work Agreement (HWA)
- Technology Agreement (TA)

Process

- Annually all staff who intend to participate in Hybrid work are asked to sign the General Remote Work Agreement (GRWA), effective July 1 - June 30
- In addition to the GRWA, staff fill out a Hybrid Work Agreement (HWA). Initial approval is for six (6) months and can be renewed for up to one (1) year

Example – Employee would like to work 3-4 days per week in the office (1-2 from home) within fifty (50) miles of a Corporately owned/leased property.

Professional Flexibility

Professional Flexibility is in recognition that there are circumstances where having the ability to work remotely for a period of time is a critical recruitment and retention tool, while acknowledging that we operate with a culture of professionalism and integrity.

Key Attributes of Professional Flexibility

- Variable – 45 Business Day maximum (Additional time may be approved by Executive Director)
- Tends to be shorter term (one day - a couple weeks) *
- Ad hoc (If leave is to exceed two (2) days it should be planned as far in advance as possible.)
- At the manager's discretion
- Available to all staff

Approval Process

1. Annually all staff who intend to participate in Hybrid work are asked to sign the General Remote Work Agreement (GRWA), effective July 1, -June 30
2. Leave submitted in HRIS as either
 - Remote – Duty Station
 - Remote – Away from Duty Station
3. Human Resources provides managers with quarterly reports to monitor usage
4. Copies of the approved documentation will be saved to the employee file

Required documentation

- General Remote Work Agreement (GRWA) – Renewed Annually
 - The GRWA sets out the expectations of staff who wish to work remote for any period.
- Technology Agreement (TA)
 - The TA outlines what technology is provided by AFPC

Example – Employee is going on to be out of the office primarily on Personal Leave but has a transaction that is nearing its close and so they will be working remotely part of the time. They have clearly communicated with their team about the

timeline and how they can be reached. Their calendar is updated so their team can see what hours (AKT) they will be available when away from the office.

Example – Employee has business leave the first and third weeks of a month, they would like to bridge the two trips with remote work. The cost of this would be equal to or less than the Most Direct Business Route (MDBR) for travel back and forth to Juneau, so there is no additional cost to the corporation. This deviation is considered personal and not paid for by APFC.

*Remote work leave greater than thirty (30) consecutive days must be reported to the Department of Administration Payroll Services for tax purposes.

Work From Anywhere (WFA)

Work From Anywhere is offered on a limited basis, is dependent upon the compatibility of duties and responsibilities of the employee with the needs of the corporation and benefit to the Fund.

Key Attributes of Work from Anywhere

- Consistent
- Can be longer term (initially 6-month increments, may be approved for up to 1 year) *
- Must have support and approval of supervisor, Division Chief, and Executive Director
- Available only in locations not within fifty (50) miles of APFC owned/leased office space for corporation use

Example – Employee would like to work from Nashville, Tennessee and come to Juneau as required. The value to the Fund and APFC is that they would be in the same time zone and able to respond in real time to issues arising with their portfolio. It will also allow them to evaluate and analyze numerous investment opportunities that if based in Alaska would require significantly longer travel. Travel costs and time to New York City and Boston for in-person meetings will be significantly reduced, generating budget savings, and making staff more productive. The commitment to recognize I also need to ensure I have sufficient time available for my team in Alaska and I am committed to being in Juneau as required.

Required Documentation

- WFA Request Form
- General Remote Work Acknowledgement
- Technology Addendum

Policy

WFA is an arrangement to permit employees to perform their job duties at work location away from Corporately owned/leased space, with a pre-approved agreement. WFA is not an employee benefit or right. Employee participation in the WFA program is voluntary and is entirely subject to management decision, and continued support from key stakeholders.

WFA Guidelines:

- WFA is available to employees when approved by supervisors.** These guidelines do not apply to employees who work at home as a temporary or permanent reasonable accommodation approved under the Americans with Disabilities Act.
- WFA arrangements may be on a part-time or full-time basis.** Initial WFA arrangements may only be approved for a period up to 6 months, and then must be reviewed prior to extending. Once an arrangement has been shown to be successful, it may be approved for up to 12 months at a time.

- C. **Employees must have written approval from his/her supervisor prior to beginning a WFA arrangement.** An employee must have an approved WFA Request Form (WFARF) as well as an approved WFA Agreement between the Executive Director, employee, and supervisor before beginning a WFA arrangement.
- D. **Management retains the right to approve or deny requests based on established criteria.** WFA should only be considered if mutually beneficial for the agency and the employee. In deciding whether to approve an employee's request for WFA, the supervisor shall consider the following factors:
1. The position's suitability for WFA;
 2. The employee's suitability for telecommuting; and
 3. The mutual benefits to the Fund, APFC and the employee.
- F. **Employees must be available during work hours established in their WFARF.** Employees must account for all time worked and use leave, as appropriate, with prior management approval only.
- G. **Employees are expected to be in the Juneau office as mandated by their supervisor and Executive Director.** Supervisors, Division Chiefs with the approval of the Executive Director will determine the schedule of time required in the APFC Corporate Headquarters.
- H. **The WFA location will require adequate workspace, light, telephone service, power, and temperature control.** The employee will provide worksite furniture and equipment and should maintain a clean and safe workspace. APFC will not pay operating costs, maintenance, system upgrades, or other incidental costs (e.g., utilities, telephone, or Internet access) associated with the use of an employee's telecommuting site.
- I. **It is the responsibility of the WFA Employee to determine any income tax implications of maintaining a home office area.** APFC will not provide tax guidance nor will APFC assume any additional tax liabilities.

Employee Eligibility

WFA shall be considered an option at the exclusive discretion of management, not an employee benefit or right. APFC management has the right to initiate, terminate or suspend a WFA arrangement for an individual employee or group of employees at any time. Management may designate any group or unit of employees not eligible for telecommuting at any time. Management shall utilize the following criteria in evaluating if an individual employee or group of employees may be eligible for WFA Agreements:

1. Whether the employee consistently demonstrates work habits that are well-suited to telecommuting, including but not limited to: self-motivation, self-discipline, the ability to work independently, manage distractions, meet deadlines, and a demonstrated record of meeting established performance expectations; and
2. Whether the employee has the technical capacity to work remotely, including consistent internet connection, electricity, phone reception, ability to keep sensitive or confidential materials secure, etc.

An employee may **not** be eligible to participate in Remote work if:

1. The employee has received formal discipline for performance or conduct or a Performance Improvement Plan (PIP), during the previous 12 months; or
2. The employee is not meeting expectations in their current position. This requirement may be waived with approval from the Executive Director, as appropriate.

Procedures

Written requests for WFA arrangements shall be submitted to Human Resources and approved by the Executive Director.

Approval flow for WFA:

1. Employee submits request to HR for WFA Request Form (WFARF)

2. Employee fills out their portion of the WFARF which automatically routes to their immediate supervisor, Division Chief, up to the Executive Director for approval.
3. If the ED approves the request, HR will send the Supervisor and employee a WFA Agreement (WFAA). Both the employee and supervisor must sign the WFAA prior to the implementation of the telecommuting arrangement.
4. Copies of the approved WFARF and signed WFAA will be saved to the employee file.
5. The Supervisor and Employee review the WFAA at least annually to evaluate the Employee's performance while telecommuting. If the Employee is meeting expectations while telecommuting, the WFAA can be extended for an additional year.

Contents of the WFARF

The TRF sets out the specifics for the individual circumstance of the telecommuting arrangement including state and personal equipment to be used, days/hours of work, location of work, general duties to be performed and method(s) of assessing WFA performance.

Renewing the WFAA

1. The WFAA must be discussed and renewed at least annually, or if there is a major change in job duties.
2. The WFAA may be canceled by the employee with 15 calendar days written notice.
3. APFC may cancel this agreement and instruct employees to resume working at the Corporate or a Satellite Office at any time.

Interoffice Move

Approval flow

1. Employees submit request to Human Resources for Office Transfer Request Form (OTRF)
2. Employees complete their portion of the OTRF which automatically routes through their supervisory chain up to the Executive Director for approval.
3. Upon approval copies of the approved OTRF will be saved to the employee file.
4. If not approved the rejecting member of the supervisory chain will call a meeting to discuss the reasoning behind the decision. This meeting will include all members of the supervisory chain and Human Resources.
5. If the immediate supervisor and employee will be in separation locations, they will meet at least annually to evaluate the Employee's performance. If the Employee is not meeting expectations while working from Satellite Office, APFC may request the employee return to work under direct supervision of their supervisor.

Leave

APFC is governed by AS 39.20.200 – 39.20.350 regarding leaves of absence. These statutes outline leave and leave usage requirements. In addition, APFC has the following policies regarding leave:

APFC Leave Categories

Personal Leave

Business Leave/Business Leave Day Trip

Remote Work at Duty Station/Away from Duty Station

Market/Floating Holiday

Other

Administrative Absence from Work

Administrative absence from work allows the Executive Director the option to grant employees absence from work on an individual or corporate level that does not affect the employee's leave balance. An Administrative Absence is not typically a leave-type that may be requested but may be offered to an employee by the Executive Director who recognizes a reason to provide them with time off from work that does not affect the employee's leave balance. Administrative absences typically do not require a time sheet report.

Short-Term Leave of Absence

APFC recognizes that allowing a short-term absence strengthens employee morale and increases productivity. The goals of this leave type are to provide employees an opportunity for an extended leave/sabbatical of up to three months without loss of position and/or to allow short-term leave to assist employees seeking professional or personal endeavors.

- Short-term leave is not granted automatically; APFC needs must be the priority.
- Short-term leave is approved by the Executive Director for a period of not more than three months.
- Examples of uses for short-term leaves are to finish an academic degree or certification, to complete a professional licensing requirement, mission work, or travel. This list is meant merely as an example; other reasons may be approved.
- If the employee terminates during short-term leave, the termination date is retroactive to the first day of leave.
- All employee benefits are frozen and accrual ceases while on leave. In accordance with state policy and regulations medical benefits coverage may continue if the employee pays for coverage.
- Use of this leave option is without pay. However, with Executive Director approval, accrued personal leave may be used for all or as part of the short-term leave period.

Community Volunteer Involvement

APFC supports employee involvement in the community through volunteer efforts and encourages employee time contributions to community service organizations. Volunteer involvement is done on an employee's personal time.

CODE OF CONDUCT & PROFESSIONAL PRACTICES

APFC expects staff to always conduct themselves in a professional manner, reflecting APFC values in their interactions with others, ever cognizant of their responsibilities to the public as managers of Fund assets.

Professional Code of Conduct

APFC business operations and its reputation are built upon the principles of fair and ethical conduct of its employees. APFC complies with all applicable laws and regulations and expects employees in all positions to conduct business in accordance with all relevant laws and to refrain from illegal, dishonest, and unethical conduct or practices.

APFC success depends upon Alaskans' trust and we are dedicated to preserving it. Employees have an obligation to APFC and Alaskans to act in a manner that merits continued public trust and confidence. APFC expects employees to use their best judgment, based on high ethical principles, as a guide to acceptable conduct. In a situation that is difficult to determine the proper course of action, openly discuss the matter with your immediate supervisor and, if necessary, with the Human Resources for advice and consultation.

Compliance with this policy of business ethics and conduct is the responsibility of every APFC employee. Disregard of or failure to comply with this standard of business ethics and conduct could lead to disciplinary action, including immediate termination of employment.

Code of Conduct Associated with Professional Designations

Members of staff who have pursued and obtained professional designations (ex. CFA, CPA etc.), will provide signed copies of their professional code of conduct/ethics to the Human Resources team, to be kept as part of their personnel file.

Whistleblower Policy

The Alaska Whistleblowers Act (AS 39.90.100 — 39.90.150) prohibits public employers from discharging, threatening, or otherwise discriminating against employees for reporting matters of public concern to a public body. The whistleblower protection extends to those who have made — or are about to make — reports on matters of public concern, as well as those who participate in court actions, investigations, hearings, or inquiries on matters of public concern.

A "matter of public concern" means a violation of state, federal, or municipal law, regulation, or ordinance; a danger to public health or safety; gross mismanagement, substantial waste of funds, or clear abuse of authority; a matter that the office of the ombudsman has accepted for investigation; or interference or failure to cooperate with the Legislative Budget and Audit Committee.

A "public body" means an officer or agency of the federal government, the state, a political subdivision of the state, a public or quasi-public corporation or authority established by state law, or the University of Alaska. Consequently, whistleblower protection could apply to a state employee's report to his or her own employer. Whistleblower protection applies only when the reporting person reasonably believes that the information reported is or is about to become a matter of public concern and the person reports the matter in good faith. The protection does not apply if the matter of public concern is the result of the reporting person's own conduct unless the reporting person's employer required that conduct.

Interpersonal Communications

APFC strives for open, two-way communications between all authority levels. Communications must be professional and respectful so that each employee feels free to express divergent thoughts and concerns. Active communication involves taking responsibility for contributing your ideas respectfully and clearly and listening carefully to the ideas of others.

APFC expects professional relationships within and outside the Corporation using professional communication. Hurtful communications, such as malicious gossip, name-calling, slurs, spoken, circulated in hard copy or via an electronic device, are unacceptable and will not be tolerated. An employee using hurtful communication may be disciplined up to and including termination of employment.

APFC encourages employees to bring disputes or conflicts with other employees to the attention of their supervisors, the Executive Director, Human Resources, or to follow the Employee Resolution Procedure included in this Guide, if appropriate. APFC is eager to assist in the resolution of employee disputes.

Public Communications

APFC employees are sometimes called upon to make public presentations on APFC or other topics. APFC strives for open public communications and has responsibility as a public trust. This responsibility requires us to clearly communicate APFC goals, mission, values, and corporate activities.

The Board Chair, the Executive Director, and Director of Communications act as the official spokespersons for the organization. Questions about the Corporation from outside sources that require an official response should be directed to these official spokespersons.

APFC Ambassadors

APFC encourages staff to share their expertise as an ambassador of the organization.

Speaking Engagements

All public speaking engagements, interviews, panels, etc. must be submitted to the communications team in advance of the event.

Staff are required to use their Official Title when approved for a public speaking engagement. Exceptions may be requested and must be approved in writing by the Division Chief, and Executive Director.

Online Professional Presence

Staff online use of Title should be consistent with their Official Title in the Experience section. Personalizing the 'Headline' for accuracy to their global audience is also acceptable.

Dress Code

APFC expects a high degree of professionalism in all aspects of work including dress and grooming that recognizes a diverse workforce.

When representing APFC, employees are required to present a neat and clean appearance. Everyday wear should project a professional image and should be chosen to fit the occasion.

- Each employee is responsible for following the dress code
- The Executive Director or designee reserves the right to define the dress code
- Department heads are responsible for ensuring the employees they supervise follow the dress code

Disclosure Requirements

To ensure APFC maintains the highest level of transparency employees are required to disclose in writing any items identified in [AAMXX.XX. \(SITE HERE\)](#) Additional information may be found APFC Administrative Policy relating to Personal Investments Conduct and Reporting Conflict of Interest Law Alaska Executive Branch Ethics Act.

Financial

Alaska Public Offices Commission (APOC)

Investment officers, Trustees and the Executive Director must additionally submit – online – conflict of interest statements to the Alaska Public Offices Commission (APOC) through the APOC website.

APFC Internal

APFC employees are required to disclose financial investments in writing on an annual basis and within 30 days of a transaction for holdings they control an interest in whether they are a beneficiary of those investments or not. They must also disclose investments for household members and others they exercise a role as power of attorney or trustee. These disclosures are public documents.

Conflicts of Interest

As a condition of employment, both APFC and the State of Alaska require employees to disclose conflicts of interest. Per State Branch Ethics Act.

Gifts

Business associates, contractors, vendors, or others doing business, or wishing to do business with APFC, occasionally offer APFC employees gifts, services, or other items. APFC employees are strictly prohibited from accepting gifts that benefit the employee's personal or financial interest if it can be reasonably inferred the gift is intended to influence the employee's action or judgment. APFC employees are strictly prohibited from soliciting gifts. APFC employees must follow AS 39.52.130 and are required to read this statute.

This policy outlines the guidelines for accepting meals, gifts, and gifts of entertainment for all APFC employees.

As public servants, we are bound by the Alaska State Ethics Act ([Insert Link](#)) which requires strict adherence to ethical and professional standards. All gifts to APFC staff are perceived as an attempt to influence business decisions.

Considerations for Accepting Gifts

- If the gift is offered to or includes other investors (multiple people/entities), or if it is for an individual / APFC

- If the gift is from or relates to a new investment/manager or an existing investment/manager
 - Note that given the nature of some investments, which require new investment decisions with the same manager on a regular basis, the difference between a new and existing investment may not be clear.
- Is the timing of the gift and whether it is immediately in advance of or during a due diligence or evaluation process
- Is there any business benefit to the gift that would serve to benefit APFC's investments, such as the ability to learn more about the team, strategy, investment performance, market outlook, etc.
- Will acceptance of the gift create any actual or perceived conflicts of interest
- Are there mitigating factors such as paying out of pocket for some or all the cost of the gift
- Could the public perception of the gift differ if it were to be disclosed broadly under different scenarios (investment performs well versus poorly) and any potential negative publicity for APF
- Are you comfortable having the specifics of this gift published in the paper

Gifts - Meals

Employees must avoid accepting gifts that could be perceived as excessive or inappropriate. The following guidelines apply to providing and accepting meals.

- Employees may accept reasonable entertainment in the course of conducting business, such as lunch or dinner. The value of any meal is not to exceed \$150 in value
- Meals as part of a conference that are provided as part of that experience are to be disclosed to the admin team so it can be deducted from staff per diem

Gifts – Physical

Employees must avoid accepting gifts that could be perceived as excessive or inappropriate. The following guidelines apply to providing and accepting physical gifts.

- Employees may accept gifts of nominal value, such as promotional items, food, or beverages that are provided during a meeting or event
- Gifts of any value that are intended to influence business decisions are strictly prohibited
- Employees may not accept cash or cash equivalents, such as gift card
- Any gifts that are received must be disclosed to the employee's manager and documented in the company's gift log

Gifts - Entertainment

Employees must avoid accepting entertainment that could be perceived as excessive or inappropriate. The following guidelines apply to providing and accepting entertainment:

- Entertainment should be provided or accepted only when it is consistent with the company's business objectives and is not excessive or inappropriate
- Employees should not accept entertainment from clients, customers, or vendors that could be perceived as an attempt to influence business decisions
- Employees may not provide or accept entertainment that is lavish, such as tickets to a major sporting (professional or college) event or a luxury cruise

Conclusion

APFC Staff must maintain ethical and professional standards in all their business dealings. Accepting gifts or entertainment that could be perceived as excessive, or an attempt to influence business decisions must be reviewed and documented according to all applicable policies to ensure staff maintain the trust and respect of the people of Alaska.

Employee Engagement Events

Throughout the year APFC provides opportunities for staff to connect outside work hours. These events are not mandatory and are fully funded by staff.

Candidate Recruiting Meals

As part of the recruiting process, final candidates are asked to visit Corporate Headquarters for extensive in-person interviews. It is routine for the hiring manager to take the candidate to lunch or dinner, with a small group representing their team and APFC. The following guidelines apply to candidate entertainment and meals:

- Location should be suitable for the situation, not lavish nor ascetic
- Should provide adequate opportunity to have thoughtful discussion

Nepotism

APFC adheres to the State Executive Branch ethics act and all Alaska Statutes regarding Nepotism.

Hiring of Immediate Family Members

The Executive Director must preauthorize all APFC hires. Immediate family members of APFC employees may be hired only if: (1) Executive Director approval is obtained, (2) they will not work directly for or supervise a relative, and (3) they will not work in the same department within APFC.

For the purposes of this policy, a relative or immediate family member includes the spouse of the employee, another person cohabiting with the employee in a conjugal relationship that is not a legal marriage, a child, including a stepchild and an adoptive child of the employee, a parent, sibling, grandparent, aunt, or uncle of the employee, and a parent or sibling of the employee's spouse.

APFC prohibits hiring APFC Board of Trustee members (per AS 37.13.100). Additionally, APFC prohibits hiring immediate family members of current APFC Trustees. If a Trustee is appointed to the APFC Board and is also related to a current employee, the Boards and Commissions Office within the Office of the Governor is notified. APFC will then follow appropriate recommendations made by the Boards and Commissions Office.

Before finalizing a decision to hire an employee's immediate family member, APFC may require both family members to sign a nepotism waiver, stating that both members understand the policy and limitations for potential future career advancement due to the position held by the other family member. APFC does not accommodate organizational movement of an immediate family member for the sole purpose of allowing career advancement for the other family member.

In other cases where a conflict or the potential for conflict arises, even if there is no supervisory relationship involved, the parties may be separated by reassignment or terminated from employment.

Staff Dating Policy

APFC strongly believes that a work environment where employees maintain clear boundaries between employee personal and business interactions is necessary for effective business operations. Although this policy does not prevent the development of friendships or romantic relationships between co-workers, it does establish boundaries as to how relationships are conducted during working hours and within the working environment.

Individuals in supervisory or managerial roles, and those with authority over others' terms and conditions of employment, are subject to more stringent requirements under this policy due to their status as role models, their access to sensitive information, and their ability to affect the employment of individuals in subordinate positions.

This policy does not preclude or interfere with the rights of employees protected by the National Labor Relations Act or any other applicable statute concerning the employment relationship.

- During working time and in working areas, employees are expected to conduct themselves in an appropriate workplace manner that does not interfere with others or with overall productivity.
- During nonworking time, such as lunches, breaks, and before and after work periods, employees engaging in personal exchanges in nonwork areas should observe an appropriate workplace manner to avoid offending other workers or putting others in an uncomfortable position.
- Employees are prohibited from engaging in physical contact that would in any way be deemed inappropriate in the workplace by a reasonable person while anywhere on company premises, whether during working hours or not.
- Employees who allow personal relationships with co-workers to adversely affect the work environment will be subject to APFC's disciplinary policy, up to and including termination. Failure to change behavior and maintain expected work responsibilities is viewed as a serious disciplinary matter.
- Employee off-duty conduct is generally regarded as private, as long as such conduct does not create problems within the workplace. An exception to this principle, however, is romantic or sexual relationships between supervisors and subordinates.
- Any supervisor, manager, executive or other company official in a sensitive or influential position with APFC must disclose to Human Resources the existence of a romantic or sexual relationship with another co-worker. APFC will review the circumstances to determine whether any conflict of interest exists.
- When a conflict-of-interest or potential risk is identified due to a company official's relationship with a co-worker, APFC will collaborate with the parties involved to consider options for resolving the problem. If possible APFC may look to make sure the parties no longer work together on matters where one is able to influence the other or take action for the other. Matters such as hiring, firing, promotions, performance management, compensation decisions and financial transactions are examples of situations that may require reallocation of duties to avoid any actual or perceived reward or disadvantage. If one or both parties refuse to accept a reasonable solution, such refusal will be deemed a voluntary resignation.
- Failure to cooperate with APFC to resolve a conflict or problem caused by a romantic or sexual relationship between co-workers or among managers, supervisors, or others in positions of authority in a mutually agreeable fashion may be deemed insubordination and result in disciplinary action up to and including termination.
- The provisions of this policy apply regardless of the sexual orientation of the parties involved.
- Where doubts exist as to the specific meaning of the terms used above, employees should make judgments based on the overall spirit and intent of this policy.
- Any concerns about the administration of this policy should be addressed to Human Resources.

Relationships including the required reporting of relationships with "immediate family members" and "second degree of kindred" as defined in AS 39.52.960 (11) including conjugal relationships are to be disclosed in writing to Human Resources.

Outside Employment

Employees may hold employment outside in accordance with the Alaska Executive Branch Ethics Act (AS 39.52.170).

Nondisclosure of Confidential Information

As a public corporation, APFC is also subject to Alaska's Public Records Act and federal Freedom of Information Act, whereby citizens may rightfully request information from the Corporation.

However, the protection of APFC confidential business information and trade secrets is vital to its interests and success. Such confidential information may include, but is not limited to, the following examples: (update to include use of Artificial Intelligence AI)

- investment information
- financial information
- personnel information
- computer processes
- computer programs and codes
- pending projects and proposals
- building or equipment security information

APFC sometimes presents at public forums featuring employee panelists that provide information regarding APFC and staff opinions on economic and market trends and other topics. APFC employees are sometimes guest speakers for public and community organizations. Employees who improperly use or disclose trade secrets or confidential business, security, or personnel-related information will be subject to disciplinary action, up to and including termination of employment, even if they do not benefit from the disclosed information.

Business & Investment Referrals

The state of Alaska branch ethics act states, undue influence in state contracts...etc.

Business Referrals

Employees should avoid all appearance of conflict of interest relating to APFC's operational business functions. APFC employees who receive a referral of information related to any firm to which from an APFC Trustee, Investment Advisory Group member, or APFC employee (outside the normal course of APFC business) must forward the referral to the APFC Executive Director, CIO, and General Counsel. General Counsel will maintain a log of such referrals and seek full disclosure from the individual making the referral whether the potential business relationship involves any potential economic benefit to the individual making the referral or to an individual related within the second degree of affinity or third degree of consanguinity to the individual making the referral. The referral log will be submitted to the Board with the executive director's report.

Investment Referrals

Employees should avoid all appearance of conflict of interest relating to APFC's investment opportunities. APFC employees who receive a referral of information related to an investment opportunity from an APFC Trustee, Investment Advisory Group member, or APFC employee (outside the normal course of APFC business) must forward the referral to the APFC Executive Director, CIO, and General Counsel. General Counsel will maintain a log of such referrals and seek full disclosure from the individual making the referral whether the potential investment opportunity involves any potential economic benefit to the individual making the referral or to an individual related within the second degree of affinity or third degree of consanguinity to the individual making the referral. The referral log will be submitted to the Board with the executive director's report.

Political Activities

While APFC encourages employees to exercise their constitutional rights and civic responsibilities in the political process by voting, supporting candidates and issues, and expressing personal views, some basic guidelines and restrictions apply. In addition, a clear separation must be established between state-related functions performed with state resources and private political activities, which cannot be supported with public funds.

APFC employees must follow AS 39.25.160 regarding political activities and AS 39.52, the Alaska Executive Branch Ethics Act. Upon hire, all APFC employees are provided copies of AS 39.25.160 and the Executive Branch Ethics Act and acknowledge receipt, and commitment to abide by the standards and expectations outlined in these documents.

PERFORMANCE MANAGEMENT

Performance Management is an integrated approach that provides opportunities for official recognition of an employee's achievements, accomplishing of goals, provide suggestions for performance improvement, and provide the opportunity for employee career counseling. Performance appraisals relay APFC work expectations, develop performance objectives, and evaluate work performance.

APFC supervisors are encouraged to regularly review employee work performance on an informal basis. Biannually, supervisors conduct a formal Employee Work Performance Appraisal/Evaluation. This is the official documentation of an

employee/supervisor discussion of employee work performance for the scheduled review period. The performance appraisal process or rating does not alter the “at will” status of APFC employees.

Performance Elements

Job Description	Reflects what the person in the position does, changes with the person, and provides criteria against which the employee is evaluated.
Monthly Coaching	Monthly Coaching are intended to provide consistent iterative feedback between staff and their supervisor. Monthly Coaching is highly encouraged, but not a required part of the performance management process
Biannual Performance Evaluation	Documents the formal process using a performance measurement system that focuses on competencies and goals. (See “Performance Appraisal Process” for details.)

It is upon the completion of the performance appraisal, and based on work performance, that pay adjustment or position movement is based. The appraisal is also a planning tool that details the next year’s work performance objectives, the employee development plan, and measurable goals.

Biannual **Performance Evaluation** includes

Looking back by:

- Conducting a comprehensive review of the employee’s performance during the performance review period to compare expectations to actual performance
- Reviewing and documenting changes in duties since hire or since the last position review

Looking forward by:

- Determining measurable goals and/or projects for the next year
- Identifying specific performance areas needing concentrated effort during the next year and developing Professional Development Plan (PDP) to meet those new goals

Process

Standard questions – Provide valuable insight about performance, engagement, value, and work.

Custom questions – Focus on APFC’s Core Values and efforts to embrace a cohesive and collaborative team culture

Rating question(s) – Identifies rating on Merit Scale.

Reviews are done in a double-blind manner to minimize rating bias.

Employee Self-Evaluation

Self-evaluations are an opportunity for staff to formally document

1. How APFC recognizes their value
2. What would have the greatest impact on their ability to do their best work more often

3. Areas they could improve
4. Areas they are having success
5. How their performance has Not Met, Met, or Exceeded expectations.

Manager Evaluation

Manager Evaluations are an opportunity for managers to discuss areas staff are having success and areas they could improve.

Peer Reviews

Available up to four (4) times per year

Timing

April & October 2nd of each year
All staff are given 30 days to complete their portions of the evaluation

Monthly Coaching (optional)

Formal monthly coaching provides a structured means of planning assessing and following up throughout the year. It is 360 in nature as it provides members of staff to discuss openly what they need from their supervisor.

Compensation adjustments

Typically, effective January 1, of the year following the performance evaluation period. The Executive Director may elect to change the salary adjustment date, as needed and are subject to approved budget.

Recommendation for pay action

Upon completion of performance evaluations, the following steps are taken

1. Department Heads (whole document) meet with their Divisional Chief to discuss individual and team performance.
 - a. This meeting includes review of proposed salary increases for each team, whose performance warrants an increase.
2. Once a Division Chief has met with all Department Directors, they make a final determination as to pay increases given any budgetary limitations.
3. Division Chief meets with Executive Director to go over recommendations and overall APFC personnel services budget.

HR initiates a pay action, once that pay action has been completed, HR notifies the supervisor. A copy of the pay action is placed in the employee's personnel file. HR notifies employees of upcoming changes to their compensation.

Change of supervisor

Outgoing supervisors should conduct change of supervisor performance appraisals for employees under supervision who have not received an appraisal within the past six (6) months.

Merit Scale

Along with evaluating engagement of and value to the organization, APFC uses a Three Factor scale as outlined below.

Detailed definitions of the Three Factor Scale

Exceeded expectations; this year's contribution is clearly identifiable.

Employees with this overall rating correctly complete and exceed the requirements in the majority of areas of their position. Their supervisor and other staff easily recognize the employee's consistent high achievements. Employees with this overall rating work with co-workers/supervisor to assist the high achievements of others and may seek or take on work from other employees, or perform the tasks of their position, but at a higher level.

Fully met expectations in all key areas, minimal errors of execution or strategy.

Employees with an overall rating correctly complete the requirements of their position. Rating means that the employee completed the requirements of that competency or goal.

Did not meet expectations in a majority of areas, repeated errors of execution or strategy. Employees with an overall rating in this area are not completing the requirements of their position and likely others must complete the work or the work is going undone or is incorrect. This rating also may indicate that the employee lacks the skill set, ability, or initiative for improvement. Rating at this level means that performance was repeatedly discussed with the employee, the employee did not take steps to improve or did not improve.

Employee Rebuttal to Performance Evaluation

Upon receiving their performance evaluation, staff may write a written rebuttal if they feel anything in the performance evaluation is inaccurate. This documentation will be placed in the employee performance review file.

Compensation

APFC Market Guided Classification/Benchmarking Method

Elements of the APFC Market Guided Classification (MGC) method are:

- Authority, scope, and responsibility for making decisions
- Level of risk and ability to add value to the Corporation
- Supervisory and/or expert knowledge as well as decision-making complexity and difficulty as defined by mental and physical effort and required job skills

The Executive Director may consider corporate equity within the classification process. Under MGC, positions performing similar work are grouped under one broad classification where possible to provide classification flexibility while maintaining objectivity and discipline.

Job Descriptions

- Reflects what the person in the position does
- Determines where the person fits in the class specification
- Changes with the person
- Serves as the basis of evaluation

Supervisors and employees are encouraged to annually review job descriptions to ensure they continue to fit the actual duties. Human Resources and the supervisor review any revisions to ensure the job description fits the class specs and is consistent with the corporate structure. Both parties periodically review the class specs to ensure current relevance.

Compensation Philosophy

APFC strives for competitive pay within the pay band structure, when appropriate and possible. Compensation decisions are rooted in a multi- factor review of each candidate/staff member that may include some or all the following:

- Experience
- Education
- Performance
- Internal Equity
- Labor Market
- Cost of Living
- Budgetary Authorization
- Market Data

Compensation Structure

APFC's salary structure identifies the position hierarchy and the resulting salary ranges for each classification. The basis for calculating competitive pay is achieved through:

- Market compensation surveys conducted periodically
- A thoughtful and consistent approach rooted in market data is the foundation for effort to place APFC's salary range midpoint based on the 50th percentile of market where feasible and consistent with the classification plan

Market Surveys and Standard Increases– align with automatic step increases for personal services

APFC tries to achieve external parity in compensation a combination of annual Standard increases, periodic market surveys and other appropriate techniques. As a rule, the Human Resources oversees scheduling market surveys every other year. Circumstances may dictate a departure from this schedule. In years where market surveys are not completed structure **will be adjusted using the same calculation the corporation uses for inflation proofing to ensure structure does not become outdated due to inflation.**

Structure Calculation

Minimum	Based on 25th% of Base Salary Data
Midpoint	TBD
Maximum	Based on 75th percentile of Total Cash Compensation

APFC Salary Structure

Classification & Compensation Authority

AS 37.13.100

Provides that the Executive Director may, with board approval, select and employ additional staff, as necessary.

APFC Bylaws, Article II, Section 4

Provides that the Executive Director shall provide for execution of all corporate operational and administrative functions.

APFC Bylaws, Article II, Section 8

Provides that the Executive Director shall employ personnel he/she deems necessary to exercise his/her powers, duties, and functions under AS 37.13; determine employee compensation; and makes these decisions within APFC budget limitations as approved by the Board in compliance with polices established by the Board.

placeholder for line by line structure

Authority for Position Classification & Compensation Actions

Classification / Compensation Action	Approval Authority
<ul style="list-style-type: none"> Hiring Executive Director Establishing and adjusting Executive Directory compensation Amending the compensation structure 	Board of Trustees
<ul style="list-style-type: none"> Amending position classification structure Hiring employees (within Board approved budgeted appropriation) Establish pay rates for new hires Promoting staff Adjusting staff compensation for performance based increases (excluding ED) Adjusting staff compensation outside the evaluation cycle and merit increase provisions but within existing classification and compensation structure Reclassifying positions within existing classification structure 	Executive Director

Administrative Guidelines for Classification & Compensation

The administrative guidelines provide definitions and directions for implementing and maintaining the classification and compensation structures. Any substantive change to the compensation structure requires Board review and approval.

Review of Classification and Compensation Structures

APFC will periodically review class specifications to update the type and level of work described in the class specification for each position, or to reclassify the position.

- One of the purposes of the review is to check the internal balance of the compensation structure
- The supervisor and the Human Resources conduct class specification reviews
- Human Resources periodically obtains a professional market compensation survey
- The Executive Director has final approval of all changes to class specs within the existing classification and compensation structures

Compensation Considerations at Hire

APFC salary administration strives to balance the need to attract strong talent while maintaining a fiscally responsible approach to the hiring process. Each hire will be extensively evaluated and offers will be made with a commitment to ensure we provide compelling compensation commensurate with positional responsibilities and candidate experience.

Appointment below the minimum may be allowed as an under-fill option. This option allows APFC to hire individuals who lack the minimum qualifications for the position. There are many reasons this may occur, including but not limited to lack of candidates fully qualified for a position. Individuals hired below the minimum qualifications must meet the minimum qualifications within that position's introductory period.

Post-Survey Salary Adjustments

Employee compensation shall not be less than the minimum or exceed the classification's salary range maximum. After a market survey (normally scheduled every other year) is completed and the compensation structure is adjusted, an employee's salary may fall outside the new range. If (a) the salary is below the minimum, it may be adjusted upward to fall within the range; if (b) the salary is above the maximum the salary may be frozen, however will not be reduced to fall within the range. The Executive Director may approve salaries above or below the pay bands at their discretion.

Promotion and Reclassification

Promotion

Employee promotion is defined as when an employee accepts the offer extended from APFC to move into an existing position within the same occupational area at a higher-level class specification. The higher position may have a different "personnel classification number" (PCN), however, the PCN is not a criterion defining a promotion. Among other considerations, promotion offers are based on an employee's current performance. At the time of offer, or by the end of the introductory period, an employee must meet the minimum qualifications of the position offered. A promoted employee's salary must be at least the minimum of the higher position's salary range. Other general Guidelines are that the salary may remain the same if it is at or above the new position's minimum or may be increased to typically 10% over the promoted employee's current salary; but if over 10% it usually does not exceed the midpoint of the higher position's range. Promotions may be below the minimum with Executive Director approval.

Reclassification

Reclassification occurs when a significant change in the responsibilities of a position warrants moving the position to another classification. This change can be to a higher, lateral, or lower classification level. Reclassification may or may not be to an already existing job class spec. Reclassification of a position may or may not warrant a change in the reclassified position's salary grade, and subsequently compensation

Pay Increases

Standard Annual Adjustment

As part of a holistic approach to compensation APFC pursues a budget for Standard Annual Adjustments (Step Increase). When approved by OMB and appropriated this increase is given uniformly across the organization. The granting of Standard Annual is not a guarantee of continued employment and does not alter the "at will" status of APFC employees.

Merit Salary Increases (not incl. promotions and reclassifications)

Decisions to extend a performance-based salary increase are based on merit and positive work contribution; not tenure. The granting of merit increases is not a guarantee of continued employment and does not alter the "at will" status of APFC employees.

The appropriate times to offer performance-based salary increases are:

1. **Typically, upon January 1 for performance during the prior year**, in accordance with the performance appraisal process and merit scale (see following section). An employee who has worked an incomplete year in a position may receive a pro-rated performance-based salary increase on January 1 based upon the amount of time worked between their new position starting date and December 31, the end of the performance review period. Executive Director may alter the timing based on organizational need.
2. **One-time allowance** (with controls in place to ensure that it is not awarded a second time during the fiscal year annual review). A one-time allowance is a percentage increase to the base salary for a specific period:
 - For an employee who assumes full authority, for at least a month, to execute all job responsibilities for a supervisor or coworker whose class specification is at a higher classification level, while the supervisor or coworker is absent from work (e.g., family leave), or while the position is vacant. The employee's salary may be temporarily increased.
 - For an employee, whose work performance results in a work product that adds value to the ongoing operations of the APFC. The work product belongs to the corporation when the employee leaves. APFC allows for one-time recognition of performance that would not otherwise be compensated, except as part of the employee's base pay.
3. **Other:** The Executive Director has the authority to adjust compensation to assure internal equity

Professional Training and Continuing Education

The APFC recognizes that skilled employees bring added value to the workplace and encourages employee participation in higher and continuing educational pursuits, and education relating to some professional designations. The APFC Employee Training Policy covers details about employee eligibility, types of training eligible for employer-covered costs, and training types that are employee cost reimbursable. This policy is intended to increase the retention of APFC employees.

Authority

Alaska Statute 39.25.050	Personnel Regulation 2 AAC 07.300
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Background

It is the policy of APFC to encourage all employees to maintain the essential skills necessary to maximize their effectiveness in performing their current duties and to increase their potential for upward mobility. This policy shall be administered at APFC's discretion, subject to available funds, work requirements, and other relevant factors.

At-Will Employment

APFC is an "at-will" employer, which means there is no specified length of employment. Either the employee may end the employment relationship at will – any time, with or without reason – or APFC may end the employment relationship at will – any time, with or without reason. This employee training policy in no way lessens the at-will status of affected APFC employees. The policy provides no guarantees for length of employment up to or beyond taking or completing any training or achieving any degrees, designations, certifications, etc. earned through training while employed at APFC.

Approval Process

To initiate the approval process, a Training Approval Form will need to be completed by the employee requesting training along with an explanation to justify how the proposed training relates to current job duties or job enhancement, along with stating the added value to APFC. The employee's Department Manager will validate the request considering the

employee's training needs, work schedule, and APFC's budget and submit the training for additional approvals as noted below.

Note: Any training registration and commitment of funds by the employee before obtaining the required APFC approval is made at the sole risk of the employee.

Categories of Training with Provisions

Conferences and Seminars

This type of educational opportunity is offered to professional-level employees whose role will benefit from the exchange and discussion of information and ideas amongst professional peers and/or industry colleagues. A conference or seminar may involve travel and will normally occur during work hours; as such, approval should be granted only for employees and only if the event is specifically job-related or job-enhancing.

PAYMENT:	Typically paid for directly by APFC
REPAYMENT:	Typically not required
TRAVEL:	Typically paid for by APFC
TIME OFF FOR TRAINING:	Business Leave
APPROVALS (Local)	Direct Supervisor through Division Chief
APPROVALS (Out of Town)	Direct Supervisor through Executive Director

Extended Formal Education

University Courses

This type of training is requested by an employee generally as a means of supplementing or extending their formal education. It is generally longer-term in nature, and is offered through an accredited college, university, or training institute whose main purpose is providing degrees, certificates, or continuing education endorsements for students. For reimbursement, this type of training must be job-related or job-enhancing. Additionally, all related expenses are to be entirely paid for directly by the employee and may be reimbursed after successful completion per the terms of the Training Reimbursement Agreement. The University of Alaska system is used as a benchmark for course reimbursement; courses taken at other institutions may not be reimbursed fully.

PAYMENT:	Upon completion of the approved course(s), the employee will need to submit the completed Training Approval Form, all receipts (not a canceled check), documentation indicating completion of the course with a "B" or better (unless the course is designated pass/fail, in which case a "pass" grade is required), and a completed Training Reimbursement Agreement within 30 days of the course end date.
REPAYMENT:	Subject to the Training Reimbursement Agreement
TRAVEL:	Not applicable
TIME OFF FOR TRAINING:	Personal Leave
APPROVALS:	Direct Supervisor through Executive Director

Professional Certifications

This type of training is requested by an employee as a means of pursuing certification through professional organizations such as CFA, CPA, SPHR or any other widely recognized professional certification.

PAYMENT:	When possible, APFC will pre-pay for formal exam prep courses and exams
REPAYMENT:	Subject to the Training Reimbursement Agreement

TRAVEL:	May be paid for by APFC
TIME OFF FOR TRAINING:	Personal Leave
APPROVALS:	Direct Supervisor through Executive Director

Training Reimbursement Agreement

APFC requires employees to submit a Training Reimbursement Agreement for all training that is approved for Extended Formal Education. The agreement must be signed by the employee and the Executive Director. If the employee terminates employment with the State in less than two (2) years after completion of the training, unless termination is the result of death, prolonged illness, disability, unacceptability of the employee to the State, or other circumstances beyond the control of the employee, the employee will reimburse the State the amount of the itemized expenses in accordance with the following schedule:

- 100% if termination occurs before completing 12 months.
- 50% if termination occurs after 12 months and before 24 months.

Termination for cause shall not excuse the employee from liability for reimbursement within the limits specified above. The State has the right to deduct from the employee's final paycheck any monies owed in accordance with the above terms or to recover such monies by other legal means.

Time off for Training

Any leave required by the employee to sit for an exam will be classified as personal leave. All leave for approved preparation courses must be scheduled, pre-approved by the department director, and appropriately documented.

Maintaining Professional Certifications

APFC recognizes the direct benefit of professional certifications. Memberships including CFA, CPA, Bar Association Dues, and all widely recognized Professional Certifications will be paid by APFC.

PAYMENT:	Reimbursement
REPAYMENT:	Not Subject to Training Reimbursement Agreement
APPROVALS:	Divisional Chief

Overtime / Flextime Eligibility and use of State Time and Resources

If it is mandated that an overtime eligible employee must attend training outside of normal working hours, overtime compensation must be paid if the employee's hours of work and training time exceed the minimum work week. Supervisors can alter an employee's normal work schedule to minimize financial liability.

A flexible work schedule related to undertaking educational opportunities that primarily benefit the employee may be allowed provided that APFC is not adversely affected. The employee must indicate on the Training Approval Form that he/she is requesting flextime and the reason. The Direct Supervisor through the Executive Director must pre-approve such a schedule change prior to implementation and a written agreement must be placed in the employee's personnel file.

Study time or homework that is necessary for approved Extended Formal Education type courses shall not be done during an employee's normal working hours unless the time has been pre-approved by the Department Manager and appropriately documented. Reasonable use of APFC equipment is allowable on APFC premises after the employees normal working hours given it does not interfere with any APFC business use of such equipment.

Income Tax Ramifications

Reimbursements under this plan may be considered taxable income and may be subject to both employment taxes and withholding.

Employee Concerns

The goals of this policy are to resolve employment concerns before more serious problems develop; to provide a channel for APFC employees to voice employment concerns or complaints in an appropriate manner; and to provide a procedure that employees may use without fear of reprisal.

Concerns Defined

In this guide, an employee concern means an employee's expressed feeling of dissatisfaction with aspects of working conditions, environment, relationships with supervisors and other employees, a disciplinary action, and the official manner of execution of the personnel policies established or interpreted by the Executive Director.

Employee Concern and the Resolution Process

The existence of the Employee Complaint and Resolution Process does not alter APFC's "at will" status. Successful completion of the process does not guarantee continued employment. Employees in management positions and other positions which the Executive Director may designate to be excluded from the disciplinary and the Employee concern processes.

Employee Complaints

Misunderstandings and conflicts are often best addressed directly between the parties involved before more serious problems develop. APFC encourages ongoing, two-way communication between coworkers, employees, and supervisors to alleviate misunderstandings and conflict. APFC provides employees the opportunity for training in respectful workplace, interpersonal skills, and related topics as one of several ways it demonstrates commitment to employees and value for communication.

When direct communication with the involved party does not resolve an employee's employment-related concern, or if direct communication is not appropriate, the next step involves taking the complaint to the next authority level within the department. APFC strongly advocates personal responsibility in all aspects of work roles and at all authority levels. Therefore, in most instances the supervisor or department head may provide guidance for complaint resolution rather than directly managing the process, unless he/she determines that direct involvement is the most appropriate method for resolution. If necessary, the supervisor, department head, or Human Resources may mediate a discussion between the involved parties.

Employee Concern Procedures

Eligible employees who have a concern related to their position, working conditions, or employment over which the Executive Director may lawfully exercise discretion, may file an employee concern as follows:

1. The employee discusses the Employee concern with his/her supervisor.
2. If the employee is dissatisfied with the outcome of the discussion, the employee may file a written complaint to his/her supervisor (and a copy to the Human Resources) as soon as possible to retain accuracy of detail, but no later than ten (10) days from the incident causing concern. If the Employee concern involves the employee's supervisor, an alternate channel is the department head. If the Employee concern involves the department head, an alternate channel is Human Resources. The written Employee concern must include:
 - Name, title, signature of the author, and date

- Full description of the complaint, including full names and direct quotes, if applicable, date(s) and time(s) of incident(s), names of witnesses, if any, location(s) of incident(s)
 - Desired outcome to relieve the Employee concern
 - Attachment of related documents
3. The supervisor receiving the employee concern must respond in writing within five working days of receipt of the Employee concern. A complete investigation within a five-day period may not be possible due to many factors such as witness travel, records search etc. Therefore, within the five-day period, the responding management staff provides a status report on the investigation phase and provides an expected completion date. The response includes:
- Name, title, signature of the author, and date
 - Summary of the Employee concern
 - Steps taken to investigate the Employee concern
 - Findings of the investigation
 - Recommended resolution

Appeal Process

1. If the aggrieving employee is dissatisfied with the written response, the decision may be appealed in writing to the next level of authority.
 - i. The written appeal must be made within five workdays of receipt of the response and must be attached to the original Employee concern and the APFC management response and must include the reasons for the employee's appeal.
2. If the Employee concern:
 - i. first went to the employee's supervisor, the appeal is to the department head
 - ii. was filed with the department head, the appeal is to the Human Resources
 - iii. was filed with the Human Resources, the appeal is to the Executive Director
3. The final appeal may be filed with the Executive Director who has the authority to offer final determination for resolution.
4. Each level of appeal has five days to respond in writing to the aggrieved party. If no written appeal is made within this time frame, APFC considers the matter resolved to the employee's satisfaction.

Filing a Complaint of Sexual Harassment or Unlawful Harassment or Discrimination

APFC follows Alaska Administrative Order No. 81 regarding the State's policy on discriminatory harassment. Employees believing, they have been subjected to sexual harassment or other forms of discriminatory harassment should contact their supervisor, department head, the Human Resources for immediate assistance in the Employee concern process.

Unlawful Harassment Prevention

APFC commits to providing a work environment free from unlawful discrimination and harassment. Therefore, APFC observes a "Zero Tolerance" policy of unlawful discrimination and harassment.

Employee Protection

Employees covered by these procedures may seek resolution to their concerns without fear of constraint, interference, or reprisal.

This policy is to provide uniform guidelines for employee discipline when that is the chosen option of the supervisor. Employee discipline actions may be used typically for work performance issues when an employee is out of compliance with APFC standards and is not meeting position requirements. Termination of the employment relationship may be the outcome of the employee disciplinary action.

At-Will Employment Status

All APFC employees are “at will” employees. Employment at APFC is not for a fixed period. Either an employee or APFC may terminate the employment relationship at any time, with or without cause or notice. Thus, the following disciplinary measures do not guarantee continued employment or entitlement of the discipline process by the employee. There is no requirement that any or all the described disciplinary procedures be followed in any order, or at all, before termination. Depending on the circumstances, any or all the disciplinary actions or steps noted below may be omitted at any time. Employees in management positions are all excluded from the disciplinary and the Employee concern processes.

Disciplinary Overview

An open disciplinary process is one way in which APFC strives to attain its goal of enhancing the best work performance of employees and supervisors. Supervisors should immediately (or as soon as practicable) address employee problems to minimize misunderstandings. APFC encourages employees to inform their supervisors of challenges or obstacles that impede deadlines, expectations, or other work-related concerns. APFC encourages supervisors to maintain ongoing contact with employees under their supervision to better assist them in allocating time, energy, and resources towards the highest priority projects, and to help minimize the need for disciplinary action. APFC expects employees to be responsible for their own actions and to maintain standards of performance and behavior that reflect APFC’s status as a premier organization.

There are many standards upon which an employee’s performance and behavior are guided. APFC mission, Vision, and Core Values, PMP policies, job descriptions, class specs, performance objectives and measures, and ethics and disclosure policies are some of the standards to which supervisors determine desired conduct. These standards aid supervisors in determining misconduct that warrants disciplinary actions. When an employee’s work performance or behavior on the job becomes inconsistent with APFC standards, APFC reserves the right to take action necessary to resolve the problem.

Disciplinary Procedure

Supervisor Assesses When to Use Disciplinary Action

Ongoing, two-way communication between supervisors and employees often mitigates the need for disciplinary actions. Under certain circumstances, formal corrective disciplinary action may be appropriate. Dependent upon the severity of the offense, these actions may occur at any time and in any order. Depending on the circumstances, any or all the disciplinary measures may be omitted at any time, and termination of employment may be the first option. Employment at APFC is “at will,” and there is neither a requirement nor a prescribed order to follow any or all the described disciplinary procedures prior to termination.

Possible Disciplinary Options

The actions below serve as examples of disciplinary actions, this is not an exhaustive list, additional disciplinary actions or immediate termination may be taken as APFC determines.

Verbal Warning

The supervisor informs the employee of the work-related problem, poor performance, offense, breach of policy, breach of standards of conduct, etc. The two discuss the problem, and the supervisor advises the employee of the necessary

corrective measures and provides a timeline for completion of the corrections. The reasons for the verbal warning and any required follow-up are documented in a memo, signed by the employee and supervisor and retained in the supervisor's working file.

Written Warning

At the supervisor's discretion, an initial offense may warrant a written warning to the employee. The written warning summarizes previous warnings of a similar nature, the nature of the current problem, the method, and actions necessary to correct the problem, a reasonable time period within which the problem must be corrected, and the outcome (termination, demotion, etc.) should the employee prove unable or unwilling to correct the problem. The written warning requires a review by the Human Resources, the department head, and the Executive Director before its delivery to the employee. After management review, the supervisor (and the Human Resources, if desired) meets with the employee to discuss the written warning. The warning memo must be dated and signed by both supervisor and employee to verify that the supervisor informed the employee of the work-related problem(s), and that the employee understands the issues and recommendations for correction. The employee is provided a copy, and HR retains the original for the employee's permanent personnel file.

Recommendation for Suspension/Termination

If the problem has not been corrected within the period specified in the written warning or if within 60 days after completion of the specified period, the employee commits a similar offense, further disciplinary action up to and including termination of employment may be recommended. At the supervisor's discretion, immediate termination without verbal or written warning may be recommended. The termination recommendation must be in writing that includes a supervisory summary outlining the reasons for dismissal and an outline of actions, if any, already taken to correct the problem. The department head must review the recommendation before it is forwarded to both the Human Resources and the Executive Director for approval.

Suspension

Department heads and the Executive Director have the authority to suspend employees. Other supervisors may suspend employees under their supervision, but typically suspension results from consultation with a department head or the Executive Director. However, if immediate action is necessary, at their discretion, supervisors may suspend an employee.

Termination

Only the Executive Director has the authority to terminate an employee. In accordance with the "exempt" and the "employment at will" status of all APFC employees, the Executive Director has the right to discharge an employee at any time, with or without reason or notice regardless of whether disciplinary (corrective) action has been taken.

Supervisor Authority to Impose Disciplinary Action

For purposes of disciplinary action, the employee's direct supervisor per the organizational chart is the individual who supervises the day-to-day work of the employee and provides direction regarding work projects. The employee may occasionally work on projects or perform regularly assigned duties for a coworker who is not the employee's supervisor. However, no one other than the supervisor, the department head, or the Executive Director is authorized to impose disciplinary action on employees.

Disciplinary Actions and Performance Appraisals

If an employees regularly scheduled annual performance appraisal date falls within the period for complying with corrective measures specified in a disciplinary action, the appraisal proceeds as scheduled. In such an instance, the supervisor judges the severity of the problem, while also considering the employee's yearlong conduct and performance,

including the problem's effect on job performance. The supervisor may recommend a salary adjustment commensurate with performance, regardless of the employee's current disciplinary action status. The fact that an employee is under disciplinary action must be noted in the performance evaluation.

First-time Discharge Offenses

Certain types of employee behavior are serious enough to warrant immediate termination of employment without benefit of the corrective disciplinary steps. It is not possible to list all the forms of behavior that are considered unacceptable in the workplace and warrant immediate termination; however, this list provides broad examples:

- Theft
- Violence
- Dishonesty, i.e., falsification of a record
- Possession, distribution, sale, transfer of illegal drugs, or substance abuse in the workplace, while on duty, or while operating employer-owned vehicles or equipment
- Sexual or other unlawful harassment or discrimination
- Possession of dangerous or unauthorized materials, such as explosives or firearms in the workplace
- Unauthorized disclosure of confidential business information
- Gross negligence in the performance of duties

Employment with APFC is "at will," and either party may terminate the work relationship at any time, with or without reason or advance notice.

PERSONNEL RECORDS

The goals of this policy are to prescribe procedures that help ensure the maintenance of accurate, timely, secure, and complete personnel records and to inform employees and applicants which records are maintained and where they are stored.

RECORDS MAINTENANCE

Personnel Records

Personnel records are documents relating to an individual's employment, the purpose of which is to accurately record employment histories for every APFC employee. APFC is required to follow the State of Alaska Records Retention Schedule and Guidelines regarding personnel records.

File Locations

HR Personnel File(s)

Official hard copy personnel record usually includes employment application/resume and salary & benefit records, normally located in three central files, at: 1) the Department of Revenue, Division of Personnel, 2) Department of Administration, Division of Retirement and Benefits, and 3) APFC HR Offices. Only the APFC personnel file and online secure software contains performance appraisal documents. APFC also keep files on site of personal investment and other disclosure reporting documents.

Departmental Personnel File(s)

APFC employees involved in an employee's hire/termination (immediate supervisor, oversight department head, or the Executive Director) may establish/maintain a department personnel file for that individual. Should a member of APFC

Confidentiality and Access to Personnel Files

The APFC Human Resources maintains personnel records. These records are confidential to the extent they include an analysis, evaluation, or critique of an employee's performance. Access to these records is ordinarily limited to the employee, the supervisor, the department head, and the Executive Director. With advance notice, employees may review their own personnel files in the presence of the Human Resources (or the custodian of the department personnel file). Employees may receive copies of any documents in their personnel files with a written request. Employees can include their written comments about each document in their personnel files if the written comments are provided within two weeks of the originating document's completion or within two weeks of reading the file. Employees may not change or remove documents in their file. Employees may access their performance evaluations at any time through logging into APFC's secure online performance evaluation software system. Department of Law has provided direction that certain personnel files are not confidential including Executive Director and Chief Investment Officer. APFC nevertheless will maintain the confidentiality of all personal files unless directed otherwise through legal processes.

Employee Complaint Procedure re: Personnel Files

If an employee disagrees with anything in his/her personnel file, in addition to speaking with Human Resources and writing a note for the file, the employee may also appeal to that employee's supervisor. If necessary, the employee may appeal to the head of his/her department. The final appeal authority is the Executive Director.

Release of Information from Personnel File

Ordinarily, personal information will not be released from a personnel file over the objection of the employee. An employee may provide a written authorization that allows APFC to release information from the file.

Recruitment Files

Position Recruitment Documents are maintained in the HRIS – Applicant Tracking System (ATS). APFC follows protocol for maintaining the search file in accordance with the state records retention schedule.

ADMINISTRATIVE POLICIES

Administrative Polices are designed to provide a safe, secure, healthful work environment for employees, customers, vendors, and visitors. Ensure critical operational functions are maintained during an emergency. Ensure the professional appearance of APFC public and shared areas. Assign appropriate accountability and a sense of ownership in all staff. Encourage recycling and waste management in everyday business practices. Enhance the spirit of community, both inside and outside of APFC

Travel

Approval Process:

1. Travelers are responsible for starting the approval process at least 3 weeks in advance for domestic and at least 4 weeks in advance for international trips.
 - a. Request Business Leave in Bamboo HR – once approved by the supervisor, a travel coordinator will send a travel booking request form through Bamboo HR.
 - b. If there is a personal deviation, make sure to differentiate between personal leave and business leave. Personal deviations **MUST** be included in the travel approval. Travelers are responsible for paying the difference between the most direct business route and the requested route.
 - c. Approval for international travel follows the same approval process as domestic travel.
 - d. Complete the travel booking request form in Bamboo HR.
 - i. Considerations when completing the form:
 1. The State of Alaska requires lodging costs to be \$500/night or less (before taxes or fees). If the preferred hotel exceeds the limit, the traveler must provide two (2) additional

examples of equivalent hotels in the area or provide a justification for the supervisors' approval.

2. Travelers must determine the most direct business route. If the traveler has a personal deviation, it must be detailed on the Travel Request Form.
 3. Travelers are responsible for paying the difference between airfare and the most direct business route for personal deviations. Travelers will be charged for the amount that exceeds the most direct business route ticket upon return or it will be deducted from the traveler's reimbursement.
 4. Make sure to reflect all estimated costs on the Travel Request Form. Include items such as airfare, lodging, ground transportation (ride share, taxi, rental car, fuel, bus passes, train tickets, etc.), parking, airline Wi-Fi, and any other costs.
- ii. Other Notes:
1. APFC does not purchase first-class tickets. If the traveler would like a first-class ticket, the traveler can purchase the ticket and APFC will reimburse the most direct business route. Alternatively, the traveler can use airline miles, airline status, or pay for the upgraded ticket with a personal card after the ticket has been purchased.
 2. APFC will purchase premium economy class tickets for flights in excess of six (6) hours, including layovers.
 3. APFC will purchase business class tickets when the destination is outside of North America and will be reimbursed by an approved third party.
 4. For travel related to training, contact the travel coordinator to request a Training form. The travel coordinator will send the form via Bamboo HR.

During Travel

2. Last Minute Changes to Itinerary and Flights

- a. Deviations during travel status must be approved 48 hours prior to newly requested departure time, when possible.
- b. Before changing flight reservations, the traveler must have approval from their supervisor and the CEO. If the request is being made after regular business hours, contact the airline directly to make changes and notify the travel coordinator as soon as possible. Ensure a receipt is emailed to travel@apfc.org.
- c. If dates of travel change, please also notify HR, so the status in the Bamboo HR calendar is reflected accurately.
- d. If an unauthorized deviation, personal or business, is taken, the traveler will be held responsible for all trip expenses, including the business portion, and will be required to submit personal leave for the unauthorized portions of the trip.

3. Airlines

- e. Lounge Passes will only be reimbursed for very specific instances and must be approved in advance by a supervisor. For example, the traveler has an extended layover between flights and is required to attend a business meeting during the layover.
- f. In-flight Wi-Fi is reimbursable when a traveler is working during a flight. Please submit the receipt at the end of the trip.

4. Ground Transportation

- g. Personal Vehicle –
 - i. When using a personal vehicle to get to and from the airport, APFC will reimburse mileage based on the State of Alaska's mileage rate (currently \$0.655/mile) and up to five business days of airport parking. Travelers are responsible for any additional days. For longer trips, travelers are encouraged to take a taxi to/from the airport to avoid additional costs.
- h. Rental Cars –
 - i. Business rental cars are booked using a pre-negotiated State contract which includes excess auto liability coverage for authorized business travel. All liability insurance offered by car rental

- companies must be declined by travelers.
- ii. Travelers are responsible for refueling rental cars prior to returning them to the rental car companies. If the rental car company refuels the car, a justifiable business purpose must be provided for incurring the additional cost or it will be deducted from the traveler's reimbursement.
- iii. Business rental cars must be returned before entering personal status. Travelers must purchase their own rental car if they wish to transport friends/family. The traveler will be reimbursed what the State would have paid upon return.

5. Lodging

- i. Hotel/Commercial Lodging –
 - i. Closely review the folio before leaving so that corrections can be made if needed. If there is an error afterward, let the travel coordinator know immediately. Common errors include charging tax for in-State hotels and charging the wrong credit card.
 - ii. If there is a personal deviation, but the traveler plans to stay at the same hotel as the business portion of the trip, please request the stays be separately invoiced. A corporate credit card should not be used to pay for any personal expenses.
- j. Non-commercial Lodging –
 - i. Travelers are entitled to lodging reimbursement for non-commercial stays (for example, staying with friends or family). The rate is \$30/day, and this reimbursement is reported as taxable income.

6. Payments

- k. A corporate credit card can only be used for lodging, rental cars, and ground transportation (taxis, trains, etc.). If the use of a personal credit card is required, reimbursement of business expenses will be made upon return as long as receipts are provided.
- l. A daily allowance known as per diem is provided to the traveler to cover the cost of meals and incidental expenses (M&IE). These are calculated based on local rates and paid upon return. Please keep careful track of your meals, as those provided by a third party (for example, conference dinner or breakfast) must be deducted from the per diem allowance.

7. Other Notes

- m. If traveling internationally, please contact IT when making travel arrangements. IT will address any potential issues with cell phones or laptops.
 - i. If you have a company-issued cell phone with a GCI plan, you will not be able to use it for international travel.
- n. APFC does not pay for incidentals such as laundry, food, movies, or tips/ gratuities.

Returning from Travel

- 8. Please be sure to save all your receipts from your travels (ex: gas, rental car receipt, hotel receipt, ground transportation, Wi-Fi, etc.). All receipts must be submitted within five days of your return. A photo or email of the receipt is acceptable. Please email everything (including whether any meals were provided) to travel@apfc.org and cc your travel coordinator. This will help the Admin Team ensure timely processing if a coordinator is out of the office.
 - o. Travelers who do not submit their receipts timely will have delayed reimbursement and may be required to relinquish their corporate credit card.

Visitors in the Workplace

Reoccurring Visitors – Short Term

Reoccurring visitors may include but are not limited to vending machine company, building management, secure document shredding, etc.

Admin Team will send an all-staff email informing staff a vendor will be in the building.

- Email will include who there are and where they will be working. When feasible, Admin will stay with the vendor or request staff monitor them as they complete their tasks
- Visitors will be provided a Visitor Badge and must check in and out with the Admin Team

Vendors/ Managers – Short Term

Frequently APFC will have Vendors or Managers who will be in the office for a few hours up to a day for meetings. Vendors and Managers may include but are not limited to Investment Managers, Technology or building contractors, Auditing firms, etc.

- The Administrative Team will alert appropriate employees that a visitor has arrived and will request the employee to escort the authorized visitor, or the Admin Team will escort the visitor to the appropriate location
- Once visitors have been guided to the reserved room, it becomes the employee/department responsibility to ensure their guests are escorted when in the office
- Visitors will be provided a Visitor Badge/Guest Pass
- Upon completion of the visit, badges will be collected by the department representative and returned to the Admin Team

Vendors/Managers – Long Term

Occasionally APFC will have Vendors or Managers who will be in the office for extended periods of time. Vendors and Investment Managers may include but are not limited to: Investment Managers, Technology or building contractors, Auditing firms, etc. In these cases, the hosting department will work with the Administrative Team to send an all-staff email with the following information.

- Name(s)
- Company
- Length of Visit / Dates
- Pictures of those who will be working in the office
- Visitors will be given limited access Visitor Badges/Guest Passes to access areas of the office as needed to complete their necessary work.

Staff/Department Responsibilities for all guests

- Employees are responsible for the conduct and safety of their visitors
- Employees may request assistance from management if their visitor becomes unruly, disruptive, or violent
- Employees are responsible for removal of any food or beverage items from visitor meetings in common areas

If an employee observes an unauthorized individual in the office, the employee should inquire whether the individual needs assistance and escort them to the reception area.

APFC Technology

Workplace Monitoring

To ensure quality control, employee safety and security, APFC management may conduct workplace monitoring. APFC is responsible for all employee workstations. Your use of the station and the equipment is as an employee and not owner. All resources furnished to employees are APFC property. APFC is obliged to ensure that equipment and employee time are

used for business purposes. Therefore, computer use, and files may be monitored or accessed, and other equipment use justified to APFC satisfaction. APFC makes every effort to conduct workplace monitoring ethically and respectfully. Through the practice of this policy, APFC disallows any expectation of employee privacy of workstations, email, electronic and hard copy files.

Computer Rooms/Access to Network

- IT Staff ensure server rooms are always secured
- IT Staff update the electronic systems security periodically and review security to ensure only authorized staff members have access
- IT staff immediately relay systems security concerns to APFC management
- IT staff remain current in security technology to apply necessary upgrades
- All employees are required to follow IT staff recommendations regarding systems security

Employee Responsibilities

- Follow IT staff instructions for the safe use of computer networks
- Follow all applicable laws regarding use of digital devices while driving. The same policy applies for avoiding other driving distractions
- Keep technology devices that are under your care within your control
- Safeguard data integrity with strong passwords
- Follow IT staff recommendations regarding care in opening email attachments and Internet downloads to keep computer systems secure and virus-free
- Learn to correctly use the technology in your care to safeguard against damage and privacy breaches
- Bring questions about the use of APFC technology resources to APFC IT staff

Annual Training

- Annual security training required for all staff

IT Security

Technical security controls are a vital part of our information security framework but are not in themselves sufficient to secure all information assets. Effective information security also requires the awareness and proactive support of all staff, supplementing and making full use of the technical security controls. This is obvious in the case of social engineering attacks and other current exploits being used, which specifically target vulnerable humans rather than IT and network systems.

Lacking adequate information security awareness, staff are less likely to recognize or react appropriately to information security threats and incidents and are more likely to place information assets at risk of compromise. To ensure protection of information assets, all staff/contract staff must be informed about relevant, current information security matters, and motivated to fulfill their information security obligations.

Objective

This policy specifies the APFC internal information security awareness and training program to inform and assess all staff regarding their information security obligations.

Scope

This policy applies throughout the organization since all staff are expected to protect all forms of information assets including computer data, written materials/paperwork, and intangible forms of knowledge and experience. This policy also applies to third party employees working for the organization whether they are explicitly bound (e.g., by contractual terms

and conditions) or implicitly bound (e.g., by generally held standards of ethics and acceptable behavior) to comply with our information security policies.

Audience

In general, this policy applies to all APFC employees and contractors with access to APFC systems, networks, APFC information, nonpublic personal information, personally identifiable information, and/or customer data.

Document Changes and Feedback

This policy will be updated and re-issued in conjunction with the PMP at least annually to reflect, among other things, changes to applicable law, update, or changes to APFC requirements, technology, and the results or findings of any audit.

Referenced Documents

Documents that are relevant to this policy include the following:

Policy	Policy Owner
Information Security Policy (ISP)	Information Security

Training Requirements

All training must fulfill the requirements for the security awareness program as listed below:

- The information security awareness program should ensure that all staff achieve and maintain at least a basic level of understanding of information security matters, such as general obligations under various information security policies, standards, procedures, guidelines, laws, regulations, contractual terms, and generally held standards of ethics and acceptable behavior.
- Additional training is appropriate for staff with specific obligations towards information security that are not satisfied by basic security awareness, for example Information Risk and Security Management, Security Administration, Site Security, and IT/Network Operations personnel. Such training requirements must be identified in departmental/personal training plans and funded accordingly. The training requirements will reflect relevant prior experience, training and/or professional qualifications, as well as anticipated job requirements.
- Security awareness and training activities should commence as soon as practicable after staff joins the organization, generally through attending information security induction/orientation as part of the on boarding process. The awareness activities should continue on a continuous/rolling basis thereafter to maintain a reasonably consistent level of awareness.
- Where necessary and practicable, security awareness and training materials and exercises should suit their intended audiences in terms of styles, formats, complexity, technical content, etc. Everyone needs to know why information security is so important, but the motivators may be different for workers focused on their own personal situations or managers with broader responsibilities to the organization and their staff.
- The APFC will provide staff with information on the location of the security awareness training materials, along with security policies, standards, and guidance on a wide variety of information security matters.

APFC Information Security Awareness Training

The APFC Information Security (IS) department requires that each employee upon hire and at least annually thereafter successfully complete IT Security Training provided by the APFC. Certain staff may be required to complete additional training modules depending on their specific job requirements upon hire and at least annually. Staff will be given a reasonable amount time to complete each course to not disrupt business operations.

Simulated Social Engineering Exercises

The APFC IT department will conduct periodic simulated social engineering exercises including but not limited to phishing (e-mail), vishing (voice), smishing (SMS), USB testing, and physical assessments. The APFC IT department will conduct these tests at random throughout the year with no set schedule or frequency. The APFC IT department may conduct targeted exercises against specific departments or individuals based on a risk determination.

Remedial Training Exercises

From time-to-time APFC staff may be required to complete remedial training courses or may be required to participate in remedial training exercises with members of the APFC IT department as part of a risk-based assessment.

Compliance & Non-Compliance with Policy

Compliance with this policy is mandatory for all staff, including staff augment contractors and executives. The APFC IT department will monitor compliance and non-compliance with this policy and report to the executive team the results of training and social engineering exercises.

The penalties for non-compliance are described in Appendix A of this policy.

Non-Compliance Actions

Certain actions or non-actions by APFC personnel may result in a non-compliance event (NCE).

A NCE includes but is not limited to:

- Failure to complete required training within the time allotted
- Failure of a social engineering exercise
- NCE of a social engineering exercise includes but is not limited to:
 - Clicking on a URL within a phishing test
 - Replying with any information to a phishing test
 - Opening an attachment that is part of a phishing test
 - Enabling macros that are within an attachment as part of a phishing test
 - Allowing exploit code to run as part of a phishing test
 - Entering any data within a landing page as part of a phishing test
 - Transmitting any information as part of a vishing test
 - Replying with any information to a smishing test
 - Plugging in a USB stick or removable drive as part of a social engineering exercise
 - Failing to follow APFC policies in the course of a physical social engineering exercise

Certain social engineering exercises can result in multiple Failures being counted in a single test. The maximum number of Failure events per social engineering exercise is two.

The APFC IT department may also determine, on a case-by-case basis, that specific Failures are a false positive and should be removed from that staff member's total Failure count.

Compliance Actions

Certain actions or non-actions by APFC personnel may result in a compliance event (Pass).

A Pass includes but is not limited to:

- Successfully identifying a simulated social engineering exercise(s)
- Not having a Failure during a social engineering exercise (non-action)
- Reporting real social engineering attacks to the IS department

Removing Failure Events through Passes

Each Failure will result in a Remedial training or coaching event as described in Appendix A of this document. Subsequent Failures will result in escalation of training or coaching. De-escalation will occur when three consecutive Passes have taken place.

Responsibilities and Accountabilities

Listed below is an overview of the responsibilities and accountabilities for managing and complying with this policy program.

Head of Information Technology in partnership with IT Security Team is accountable for running an effective information security awareness and training program that informs and motivates workers to help protect the organization's and the organization's customer's information assets.

The Information Security Management Council is responsible for developing and maintaining a comprehensive suite of information security policies (including this one), standards, procedures and guidelines that are to be mandated and/or endorsed by management where applicable. Working in conjunction with other corporate functions, it is also responsible for conducting suitable awareness, training, and educational activities to raise awareness and aid understanding of staff's responsibilities identified in applicable policies, laws, regulations, contracts, etc.

All Managers are responsible for ensuring that their staff and other workers within their responsibility participate in the information security awareness, training, and educational activities where appropriate and required.

All Staff are personally accountable for completing the security awareness training activities, and complying with applicable policies, laws, and regulations at all times.

Schedule of Failure Penalties

The following table outlines the penalty of non-compliance with this policy. Steps not listed here may be taken by the APFC IT team to reduce the risk that an individual may pose to the APFC.

Failure Count	Resulting Level of Remediation Action
First Failure	Mandatory completion of additional Training
Second Failure	Mandatory completion of additional Training - Face to face meeting with their manager
Third Failure	Mandatory completion of additional Training - Face to face meeting with their manager and Human Resources <ul style="list-style-type: none"> • Possibility that additional administrative and technical controls will be implemented to prevent further Failure events
Fourth Failure	Meeting with CEO, Head of Information Technology, and Head of Human Resources <ul style="list-style-type: none"> • Possibility that additional administrative and technical controls will be implemented to prevent further Failure events
Fifth Failure	Formal review of employment with Head of Human Resources <ul style="list-style-type: none"> • Possibility that additional administrative and technical controls will be implemented to prevent further Failure events

Generative Artificial Intelligence (AI) Chatbot Usage Policy – SHRM policy

With the increasing popularity of generative AI chatbots such as OpenAI's ChatGPT and Google's Bard, it has become necessary to outline the proper use of such tools while working at APFC. While we remain committed to adopting new technologies to aid our mission, when possible, we also understand the risks and limitations of generative AI chatbots and want to ensure responsible use. Our goal is to protect employees, and the company from harm.

Overview

While AI chatbots can be used to perform a variety of functions, this policy addresses only the use of a web-based interface to ask or “prompt” the chatbot in a conversational manner to find answers to questions or to create or edit written content.

Some examples of what could be created using an AI chatbot include:

- Emails and letters
- Blog posts, reports, and other publication
- Sales and advertising copy
- Policies and job descriptions
- Spreadsheet calculations
- Foreign language translations
- Coding development or debugging
- Document or information sorting
- Outlines or summaries of internal or external information

There are, however, risks in using this technology, including uncertainty about who owns the AI-created content and security/privacy concerns with inputting proprietary company information or sensitive information about an employee, client, customer, etc., when interacting with the chatbot. Additionally, the accuracy of the content created by these technologies cannot be relied upon, as the information may be outdated, misleading or—in some cases—fabricated.

Eligibility

This policy applies to all employees of APFC and to all work associated with APFC that those employees perform, whether on or off company premises.

Policy

Limited use of generative AI chatbots will be allowed while performing work for APFC. Company email addresses, credentials or phone numbers can NOT be used to create an account with these technologies. No company data of any kind may be submitted (copied, typed, etc.) into these platforms.

Employees wishing to use generative AI chatbots must inform the Head of Information Technology and IT Security Team *in writing* how the chatbot will be used.

All AI-generated content must be reviewed for accuracy before relying on it for work purposes. If a reliable source cannot be found to verify factual information generated by the chatbot, that information cannot be used for work purposes.

Acceptable uses include:

- For general-knowledge questions meant to enhance your understanding on a work-related topic
- To brainstorm ideas related to projects you are working on
- To create formulas for Excel spreadsheets or similar programs
- To develop or debug code, to be verified before deployment
- To draft an email or letter
- To summarize online research or to create outlines for content projects to assist in full coverage of a topic. Only content written by employees may be included in a final product
- *[Insert additional uses here.]*

Unacceptable uses include:

- Using any text created by an AI chatbot in final work products of any kind
- Copying and pasting, typing, or in any way submitting company content or data of any kind into the AI chatbot
- Failing to properly cite an AI chatbot when used as a resource *[Include examples from your company style guide on proper citations.]*

- *[Insert additional uses here]*

Any violation of this policy will result in disciplinary action, up to and including termination.

Training

All employees using generative AI chatbots for work purposes must attend training on the proper use of these technologies before doing so.]

Ethical Use

Employees must use generative AI chatbots in accordance with APFC's Code of Professional Conduct, State of Alaska Executive Branch Ethics Act, and antidiscrimination policies. These technologies must not be used to create content that is inappropriate, discriminatory, or otherwise harmful to others or the company. Such use will result in disciplinary action, up to and including termination.

Monitoring

APFC's Technology Use Policy and relevant monitoring policies still apply when using generative AI chatbots with company equipment.

Methods for Determining Staff Risk Ratings

The following is a list of situations that may increase a risk rating of a APFC staff member. Higher risk ratings may result in an increased sophistication of social engineering tests and an increase in frequency and/or type of training and testing.

- Staff member email resides within a recent Email Exposure Check report
- Staff member is an executive or VP (High value target)
- Staff member possesses access to significant APFC confidential information
- Staff member is using a Windows or Apple-based operating system
- Staff member uses their mobile phone for conducting work-related business
- Staff member possesses access to significant APFC systems
- Staff member personal information can be found publicly on the internet
- Staff member maintains a weak password
- Staff member has repeated APFC policy violations

Personal Use of APFC Resources

APFC'S mission is accomplished through efficient use of time and resources. To that end, APFC provides employees with the technology and resources necessary to perform their jobs and requests employees to make the best use of the resources provided. APFC requires legitimate business use of employee time and resources. APFC is governed by the Alaska Executive Branch Ethics Act, AS 39.52 and by the State Policy on Employee Use of State Technology. Employees must acknowledge the Employee Use Policy in writing.

Common Areas

All staff share responsibility for the upkeep of APFC shared areas. A tidy and presentable appearance is necessary to represent APFC as a professional organization. All areas should be left in the same or better condition than you found it. Periodically the Administration Team will coordinate team-cleaning efforts.

Break Room

The break room is for employees needing a break from job duties and a place to prepare and eat food. Break room upkeep operates on the honor system.

- Clean up after yourself
- Be mindful of what you are heating up in the microwave, this is Alaska...we eat fish but be conscientious.
- The dishwasher will be run nightly
- When dishes are running, do not interrupt the washing cycle, hand wash your dishes and leave on drying rack
- When emptying food into the sink, please run the garbage disposal so the sink does not stink or get clogged
- Rinse out the sink after you have poured out your drink
- Wipe down counters after you are done

Copy/Supply Area

The copy/supply area contains bulk office supplies or occasional-use items. This area is open to all staff, and it is expected that staff will only use supplies they need.

Conference Rooms

- Please remember to book conference rooms for meetings by including the Room Name in the calendar appointment
- The wall tablets allow you to book 'walk-up meetings' up to an hour at a time and will allow you to book time between already scheduled meetings
- If you think a meeting might go long, book an extra 15 minutes
- The Think Tank is better suited for multi person team meetings, not for one-on-one meetings or phone calls
- Wipe down and tidy up the room before you leave for the next person/group

Phone Rooms

Phone rooms were designed for staff who would prefer to take a phone call (business or personal) in a quiet space. Personal phone calls should be made in a phone room.

APFC Vehicle Use and Driver Safety

The purpose of this policy is to ensure the safety of employees who drive APFC vehicles and to provide guidance on the proper use of APFC company vehicles. Vehicle accidents are costly to APFC, but more importantly, they may result in injury to you or others. It is the driver's responsibility to operate the vehicle in a safe manner and to drive defensively to prevent injuries and property damage. Employees are expected to drive in a safe and responsible manner and to maintain a good driving record. If needed, APFC's Management Committee is responsible for reviewing records, including accidents, moving violations, etc., to determine if an employee's driving record indicates a pattern of unsafe or irresponsible driving, for suspension or revocation of driving privileges.

Background Checks

The Human Resources team will conduct a motor vehicle record check as part of the standard background check for all final job candidates. Thereafter, checks will be run annually for all employees whose job function necessitates access to a company vehicle.

Driver Criteria & Administration

APFC's Human Resources Team will review motor vehicle records and decide as to drivers' status for applicants and employees according to the APFC classification system listed below, should an employee's record indicate anything that would be deemed as Probationary or Unacceptable according to the list below, the HR Team will request the information to be reviewed by APFC's Management Committee.

Satisfactory

The individual is eligible to drive while conducting APFC business. The individual's driving record indicates not more than one moving violation in the past 12 months.

Probationary

The individual is eligible to drive while conducting APFC business with the stipulation that the individual's motor vehicle record will be checked periodically over a period of probation. The individual's driving record indicates more than one moving violation in the past 12 months but no more than two moving violations in the past 24 months. Any violations during the probationary period may result in termination of employment or other disciplinary action.

Unacceptable

Examples of unacceptable infractions include but are not limited to:

- Must be currently privileged to drive a passenger vehicle
- No more than two (2) or more moving violations in the past 36 months
- No more than two (2) accidents in the past 36 months
- No more than one (1) or more moving and one (1) accident in the past 36 months
- No major violation in the past 5 years, included but not limited to:
 - Violations involving drugs, alcohol, controlled substances, etc.
 - Leaving the scene of an accident, reckless driving
- No cell phone or distracted driving violation in the past 36 months

* Violations include any ticket, charge, or other law enforcement proceeding relating to these, as well as independent evidence of violations deemed relevant by APFC.

Procedure for Existing Employees

APFC will check the motor vehicle records annually for all current employees with driving responsibilities. Any covered employee without a valid driver's license will not be allowed to operate an APFC vehicle or drive on APFC business. If driving is an essential job function and the employee cannot be reasonably accommodated, employment may be terminated.

If an existing employee has a valid driver's license but the employee's driving record falls at or below probationary status criteria (defined above), the employee will be placed on probationary status and will be subject to the requirements of that status until the end of the probation. If a subsequent periodic motor vehicle record check reveals further violations, APFC will review the specific circumstances and determine appropriate action.

Any employee who has a driver's license revoked or suspended shall immediately notify the security and company offices by 9 a.m. AKT the next business day, and **immediately discontinue operation of the APFC vehicle**. Failure to do so may result in disciplinary action, including termination of employment.

Vehicle Equipment

APFC Owned or Leased Vehicles Before any vehicle is assigned to a department, Admin will ensure that it is properly equipped with at least the following items:

- ✓ First Aid Kit
- ✓ Vehicle owner's manual
- ✓ Tire jack
- ✓ Spare tire
- ✓ Gloves
- ✓ Flares/Reflection Triangles
- ✓ Accident Kit
 - Copy of Registration

- ✓ Lug Wrench
- ✓ Flashlight
- ✓ Jumper cables

- Proof of Insurance
- Copy of this Policy
- Name of Admin Contact

Driver Safety Rules

1. Driving on APFC business and/or driving a APFC vehicle while under the influence of drugs or alcohol is prohibited and will result in immediate termination of employment.
2. No driver shall operate an APFC vehicle when his/her ability to do so safely has been impaired by illness, fatigue, injury, or prescription medication.
3. Cell phone use while driving is discouraged. If necessary, drivers must use hands-free devices when making or receiving phone calls while driving.
4. Texting while driving is prohibited and under no circumstances may drivers send or read text messages while operating a vehicle for APFC business.
5. All drivers and passengers operating or riding in an APFC vehicle must wear seat belts.
6. No unauthorized individuals can ride in APFC vehicles.
7. Drivers are responsible for the security of APFC vehicles assigned to them. The vehicle engine must be shut off, ignition keys removed, and vehicle doors locked whenever the vehicle is left unattended.
8. All State and local laws must be obeyed.

Incident Procedures

Accident

When an accident occurs, the Driver must immediately take the following actions:

1. Call the police and your supervisor if there is any damage to any vehicle, person, or property. The Supervisor will in turn notify the COO, Admin and HR. If a police officer investigates the accident, get a copy of the traffic accident report (this should be available within three days of the accident).
2. Provide insurance/other information:
 - a. If driving an APFC vehicle provide the other driver or property owner with the name of APFC's Admin contact. (The information may be found in the vehicle's "Accident Kit" located in the glove box.)
 - b. If driving a rented vehicle, call Admin for assistance with providing insurance and other information to the car rental agency.
3. Obtain the other driver's or property owner's name, driver's license number, address, telephone number, and name of insurance carrier. Also obtain the license plate number of all vehicles involved in the accident.
4. Obtain names and telephone numbers of other witnesses to the accident.
5. If you have a camera, take photographs of:
 - a. All damage and/or injury
 - b. All vehicles (including license plate numbers)
 - c. Any/all other parties involved in the accident

After leaving the accident scene:

1. The driver must meet with his/her supervisor as soon as possible, but not later than 24 hours after leaving the scene. The supervisor will in turn notify the COO, Admin and HR.
2. The driver will assist the supervisor in preparing an Incident Report to forward to Admin. The report must include all information about the accident, a description of the damage, an estimate of the cost to repair, and report of other property damage or injuries, if any. The Incident Report must be filed with Admin within 24 hours of the accident/incident. Failure to timely report may compromise APFC's position with its insurer and/or APFC's ability to appropriately follow up with injured parties.
3. The driver and/or the supervisor will take pictures of the damage to all vehicles and/or property and will forward the pictures to Admin.

- The driver may be asked to bring the vehicle by the nearest office for inspection of damages. Admin will handle all matters related to the repair of APFC owned or leased vehicles and/or all other property, as well as personal injury claims. If the Driver is injured, HR will administer the coordination of the worker's compensation claim.

Violation

Drivers must report all ticket violations received during the operation of an APFC vehicle, or while driving a personal vehicle on APFC business, within 72 hours to the Supervisor, who will notify the COO, Admin and HR.

Using Rented Vehicles for APFC Business

Drivers shall meet all the requirements in the "Driver Criteria" section found in this Policy. Drivers shall decline all additional insurance coverage offered by the car rental company.

Management Committee Review

When necessary APFC's Management Committee will oversee:

- Reviewing accidents and the employer's overall safety record to determine if there should be changes in policy or procedure; or if other corrective action (such as training, equipment changes, etc.), should be implemented to enhance the safe operation of APFC vehicles, and/or personal vehicles on APFC business
- Reviewing driving records of individual employees when driving privileges should be suspended or revoked
- Reviewing all other issues that arise with respect to compliance with this policy

WORKPLACE SAFETY

Emergency Procedures

If you are the first person to answer the phone:

- Quickly assess the situation and dial 9-911 for police assistance if you feel police assistance is needed; and
- After you have hung up with the emergency dispatcher, immediately proceed to the lobby to act as a witness or to potentially come to the aid of an APFC staff member.

Emergency Contact Numbers

Juneau Fire Department	9-911	State Troopers Non-Emergency	465-4000
Juneau Police Department	9-911	Juneau Police Non-Emergency	586-0600
Emergency Medical Aid	9-911		
Poison Information Center	586-8427	Building Management	907-540-2990

Accident or Illness

- Call 911; dial 9-911
- Remain calm
- Give the following information:
 - Your name
 - The building address: 801 West 10th Street – Michael J Burns/Goldbelt Building
 - The exact locating of the emergency: 3rd floor, Suite 302; and
 - Any details regarding the nature of the emergency (apparent heart attack, injury, etc.).
- Do not move the victim

- Reassure the victim that emergency assistance is on the way
- Have someone meet the emergency personnel at the elevators on your floor
- Notify Building Management

Fire, Fire Drills and Building Evacuation

In case of a fire, call 9-911 and pull the fire alarm. Alert the Safety Officers and direct others to assist in the effort. If feasible, use a fire extinguisher to put the fire out only if others are calling 9-911 and helping to sound the fire alarm to evacuate the building.

In case of any emergency all employees and visitors will exit the building until the building has been determined safe by the proper authorities and we are given the 'all clear' to return. Upon hearing and/or seeing the alarm, you will immediately gather your belongings and quickly head to the meeting point outside in the parking lot via the safest route possible, regardless of the situation being a drill or actual emergency.

All staff and visitors need to check in with a member of the Safety Committee so they can report that you have exited the building. If you do not check in, first responders will be directed to sweep the building for you potentially putting them in harm's way unnecessarily.

All individuals within the office are required to immediately evacuate the building when the alarm sounds or when there is evidence of fire in the building according to the APFC Emergency Procedures below:

- Leave the area of the fire, closing the door behind you, and report it immediately to one of the Safety Captains, or your supervisor
- Pull the nearest fire alarm to begin evacuation of the building
- Leave the building immediately, utilizing the building's evacuation procedures
- Stay calm
- Immediately terminate calls or work activities
- Take your personal belongings if they are immediately available
- Leave your office door open for quicker verification by Safety Captains and emergency personnel that the office is empty
- Walk rapidly – DO NOT RUN
- Exit using either stairwell – DO NOT USE ELEVATORS
- Turn right immediately after exiting the building and walk on the sidewalk between the fire station and the building to the Michael J. Burns/Goldbelt parking lot to assemble and wait for further instructions. Check-in with a member of the Safety Committee
- DO NOT RE-ENTER THE BUILDING unless instructing to do so by authorized personnel

If a fire is more than 1 foot in diameter the better choice is to close the door(s), leave the building as quickly as possible, and let the Juneau Fire Department do their job.

Staff should always inform someone on their team when leaving the office to ensure at least one person at APFC is informed about employees' whereabouts. In case of fire, one of the members of the Safety Committee informs authorities of the estimated employee headcount. If you are not in the parking lot and the reporting member of the Safety Committee is uninformed of your whereabouts, it will be presumed that you are still in the building.

Earthquake

Most earthquakes are generally minor in nature, causing little or no damage. Regardless of the magnitude, employees should exhibit caution at the onset of an earthquake. In the event of a major earthquake, the following actions are required:

During the Earthquake

- Stay calm
- Take cover under a desk, in a doorway, or against an inside wall
- Stay clear of bookcase, file cabinets, glass doors and windows
- If possible, turn off electrical equipment
- Grab anything handy (coat, newspaper, cardboard box, etc.) to shield your head and face from falling debris or broken glass
- If you are inside the building, stay there
- If you are outside the building, do not go inside
- If you are in the elevator, stop at the nearest floor and exit the elevator. If you are trapped inside the elevator, use the phone to communicate your whereabouts

After the earthquake:

- Follow the directions of emergency personnel
- Be prepared for “after-shocks”
- Assist with any injured personnel as needed
- Avoid possible dangers such as broken glass, fallen objects, or exposed electrical wiring

Threats to persons or locations

Threats targeted at other State Division/Department

APFC takes threats very seriously and will take immediate measures to ensure the safety of all State of Alaska personnel.

Phone

- Use Threat Prospective Situation (TPS) Report to document any pertinent information
- Phone number of caller is of tremendous importance
- All pertinent information is to be provided immediately to the Safety Committee
- Safety Committee will contact appropriate division and inform them of the threat

In Person

- Add Info

Active Shooter

Evacuation

If there is an accessible escape path, attempt to evacuate the premises. Be sure to:

- Have an escape route and plan in mind
- Evacuate regardless of whether others agree to follow
- Leave your belongings behind
- Help others escape, if possible
- Prevent individuals from entering an area where the active shooter may be
- Keep your hands visible
- Follow instructions from any police officer
- Do not attempt to move wounded people
- Call 911 when you're safe.

Hide Out

If evacuation is not possible, find a place to hide where the active shooter is less likely to find you.

Your hiding place should:

- Be out of the active shooter's view
- Provide protection if shots are fired in your direction; and
- Not trap you or restrict your options for movement. To prevent an active shooter from entering your hiding place:
- Lock the door
- Silence your cell phone and/or paper
- Turn off any source of noise
- Hide behind large items (i.e., cabinets, desks)
- Remain quiet

Act against the active shooter

As a last resort, and only when your life is in imminent danger, attempt to disrupt and/or incapacitate the active shooter by:

- Acting as aggressively as possible against him/her
- Throwing items and improvising weapons
- Yelling; and
- Committing to your actions

Bomb Threat

If you receive a bomb threat, you should:

1. Keep the caller on the line as long as possible
2. Use Threat Perspective Situation Document to record as many details about the call as possible.
3. Have one or more persons listen in, if possible
4. Report this information to the Safety Committee or supervisor immediately after the caller hangs up
5. Member of the Safety Committee will call Juneau Police Department 9-911 and remain with the person who received the call near-by to speak to police when they arrive
6. Member of the Safety Committee will call Building Management
7. Evacuation is not an automatic response to a bomb threat. Evacuation routes need to be searched prior to egress. Follow instructions of Emergency personnel

If you find a suspicious object you should:

1. Not touch or disturb the object in any way
2. Notify Safety Committee who will contact Emergency personnel
3. Do not use cellular phones or radio around the suspicious object

The police department, building management, and APFC management will assess the situation and determine evacuation requirements.

In general, APFC will telephone the Juneau Police Department to report the threat and will follow safety recommendations including assisting with searching the building, securing IT operations, and evacuating the building.

APFC has additional policies intended to: provide a safe, secure, healthful work environment for employees, customers, vendors, and visitors. Ensure critical operational functions are maintained during an emergency. Ensure the professional appearance of APFC public and shared areas. Assign appropriate accountability and a sense of ownership in all staff. Encourage recycling and waste management in everyday business practices. Enhance the spirit of community, both inside and outside of APFC

General Office Safety

The APFC safety program addresses what to do in the event of a fire, threat targeted at staff or property, earthquake, medical emergency, and other types of emergency situations. Certain employees are designated as safety officers.

Medical Emergencies

When a medical emergency occurs, direct another employee or individual to call 9-911, for the Juneau Fire Department. The caller provides the nature and location of the emergency while assisting as necessary with the emergency. APFC schedules CPR certification training periodically for all interested staff. First Aid Kits and AED are clearly marked and located throughout the office.

Workplace Safety Hazards

The Administrative Officer is the building liaison for ongoing maintenance issues and coordinates an internal safety evaluation to identify and correct potential safety hazards. The Human Resources ensures work areas meet ADA accessibility codes.

Personal Safety while in Travel Status

- The APFC Travel Officer recommends, schedules, or provides periodic personal safety training
- Consult with the Travel Officer and/or supervisor regarding questions about personal safety while on travel status
- Your hotel front desk or security personnel may address hotel safety concerns

Workplace Violence Prevention

APFC has “Zero Tolerance” for violence in the workplace. A safe and secure work environment is of utmost importance. All employees, visitors, vendors, contractors, and business associates are always treated with courtesy and respect. Employees are expected to refrain from fighting, “horseplay,” or other misconduct that may be dangerous to others.

In the case of threats or actual violence committed at the APFC work site, or against an APFC employee offsite, outside authorities may be called to intervene and investigate. This policy applies to employees and non-employees. Any APFC employee threatened with violence or who has a violent act committed against him/her while at the APFC office, or while representing APFC offsite, must report the incident to their supervisor or any APFC department head as soon as possible. Your report of violence, threats of violence, or suspicions of violence is the first step in halting further occurrences. Retaliation against an employee for making a good faith report is forbidden.

Weapons in the Workplace

Firearms

APFC prohibits firearms of any kind in the workplace. APFC employees who bring firearms to the workplace – even if they have permits to carry a concealed weapon – are subject to employee discipline, up to and including immediate employment termination.

Pocket Knives / Multi Tools

Pocket knives / Multi Tools with a blade length under three (3) inches are considered utilitarian not weapons and may be carried in the office. All other weapons are prohibited.

Building Security

- The Michael J. Burns Building management contracts with a local firm for building security. Contact APFC Administration or management staff to report security or safety-related problems or concerns regarding the building or APFC offices
- Inform your supervisor, the receptionist, and others whom you trust if you will be working after normal office hours so that others know you are in the building
- Use the elevator to enter or exit the APFC floor if you are working beyond posted work hours
- Your key fob opens doors to both the building and APFC office suites during non-business hours
- Do not prop the office suite door open, even if you are in the office
- Shut the main office suite door behind you to ensure security of the office in your absence when exiting the office suites for any length of time
- Park your car in the well-lit areas of the parking lot
- Be aware of individuals near the building entrance when entering or exiting after hours
- Do not enter or exit the building if you are concerned for your safety
- Do not prop the building exterior doors open for any reason
- If you are concerned for your safety after hours and are in the office alone, call the Juneau Police to check building security or to escort you to your car. If two or more employees are working after hours, ask your coworker to escort you to your car or leave together
- Locks to all APFC doors are monitored by the APFC IT and Operations Teams
- At hire and when necessary, key fobs are issued to employees and are collected at separation
- Immediately report a lost key fob to Administration to guard against unauthorized access

Emergency Office Closing

At times, emergencies such as severe weather, fires, power failures, or earthquakes can disrupt company operations. Extreme circumstances may require APFC to close the office.

In the event of an emergency that affects all State of Alaska employees in Juneau or statewide during work or nonworking hours, APFC follows the Executive Branch's announcement. Upon receiving notification, APFC employees require no further verification from APFC management about office closure.

A separate emergency closing process is required for investment-related responsibilities in conjunction with management and appropriate IT staff. Investment staff may be required to work in another location at the direction of the Executive Director or the Chief Investment Officer or a designee. If appropriate, employees may need to follow the Business Continuity Plan.

If an emergency occurs and affects only APFC employees or Michael J. Burns Building workers and the APFC office must be closed, APFC will observe the following procedures:

- The Executive Director, Human Resources, or any other department head in the absence of these two, announces the APFC office closure
- APFC follows procedures required by the Executive Branch emergency closure announcement

If an emergency closure is called either through an order of the Executive Branch or through APFC management, employees are compensated in accordance with State rules and regulations regarding such events. In cases where an emergency office closure is not authorized, employees who fail to report for work will be required to submit a leave slip.

Waste Reduction and Recycling

APFC complies with state statutes requiring and encourages recycling.

Smoking

APFC abides by AS 18.35.300-18.35.365 and CBJ laws regarding smoking. Smoking, which includes E-Cigarettes, is prohibited in the Michael J. Burns Building complex and within ten feet of the building exterior except in a designated covered smoking shed. This policy applies to all employees, customers, and visitors.

Solicitation

Employees may not solicit business, interest, recognition, or distribute literature or promotional items concerning non-work activities during working time. Working time does not include lunch periods or other periods in which employees are not on duty. For more information see the State Employees Ethics Handbook.

EMPLOYEE SEPARATION FROM APFC EMPLOYMENT

The goal of this policy is to aid in developing an individual separation plan that helps ensure uninterrupted workflow, work product integrity, and completion of all necessary employee separation documentation.

APFC employees are “at will” employees. APFC employment is not for a fixed period. Either an employee or APFC may terminate the employment relationship at any time, with or without cause or notice.

Types of Separation

Voluntary

Resignation - Voluntary employment termination initiated by the employee

Retirement - Voluntary employment termination for eligible staff that meet the specific provisions for retirement eligibility as governed by the State of Alaska Public Employees Retirement System and as administered by the Division of Retirement and Benefits.

Involuntary

Dismissal / Discharge - Involuntary employment termination initiated by APFC

Presumed Resignation - Unauthorized absence from work for a period of five consecutive working days may be considered an abandonment of duties and a presumed resignation

Layoff - Separation initiated by APFC for management reasons outside an employee’s control and not relating to an employee’s service or performance, e.g., abolition of position, shortage of work, budgetary constraints, etc.

Separation Process

Many APFC employees have access to sensitive information, resources, systems, or have significant decision-making authority affecting the Fund. To safeguard APFC and the employee, the employee’s supervisor is responsible for completing a checklist of items upon receipt of the employee’s notice of intent to separate. The exact events and their timing are determined on a case-by-case basis by circumstances of the departure. In all cases however, both the Head of Human Resources and Executive Director require immediate notification of an employee’s intent to separate.

Steps of the Separation Process:

- Remove the employee from normal job duties and access to sensitive areas
- Review the employee’s job duties and specifically authorize level of access the employee is to retain, up to and including normal working access
- Review possibility of immediate departure
- Executive Director may authorize severance pay

- Review whether to grant severance pay as determined by the Executive Director
- Provide the employee a copy of the written exit interview questionnaire
- Conduct a face-to-face exit interview with the Head of Human Resources
- Conduct an employee Separation Performance Evaluation (SPE). The appraisal period covers the date of the last appraisal to the separation date.
- Provide the employee with the all required State of Alaska separation documentation.

Resignation Notice

All APFC employees are “at will” and may resign their employment at any time for any or no reason. As a courtesy from the employee, APFC will ordinarily expect at least two weeks advance notice from employees resigning from a position designated from support positions and least four weeks advance notice from employees resigning from all other positions.

Immediate Acceptance of Resignation

If an employee provides APFC with notice of resignation and requests, or states, a future effective date, the Executive Director may determine that an immediate departure is appropriate and elect to accept the resignation effective immediately.

Salary and benefits

Regardless of when an employee’s salary terminates, the employee’s benefits (medical, retirement, paid leave accrual, etc.) are based on the last day actually worked.

Severance Pay

The Executive Director may recommend severance pay to employees involuntarily separated from APFC. All APFC employees are “at will” and may be discharged at any time, for any reason, without notice. APFC has no obligation to provide severance pay to any employee or group of employees. APFC guarantees no length of employment.

Exit Interviews

APFC requests all departing employees to participate in an exit interview, or when that is not possible, to complete an exit interview form. The exit interview is designed to provide employees an opportunity to relay their job-related experiences. APFC strives to elicit honest and candid responses and may use the interview data as suggestions for improvements. Whenever possible, supervisors provide the form to the employee at least two weeks before his/her exit date. The exit interview form may be completed during regular office hours. If departure occurs without warning, the employee may be requested to complete and return the exit interview form on his/her own time. The exit interview form may be used as a guideline for the departure interview. Ideally, it should be completed before the departing employee’s final day on the job.

Separation Performance Evaluation (SPE)

If/when a departing employee provides separation notice, the supervisor will ordinarily complete a Separation Performance Appraisal if the last performance appraisal occurred longer than six months before their last day of employment. If the exiting employee’s supervisor decides a Separation Performance Appraisal is unnecessary, the Executive Director must approve that decision.

Separation Performance Appraisal is the basis upon which APFC makes future re-hire decisions and employment references.

Reference Authorization Form (RAF)

At departure, APFC provides a Reference Authorization Form to the employee that authorizes release of his/her personnel record information. Except for information ordinarily available to the public, the APFC will not release any information about the employee's work performance unless APFC has a signed employee release authorization form. It is advisable that ex-employees make a separate written request for release of reference information every time they require information to be released.

Letters of Recommendation

APFC does not provide letters of recommendation.

Employment References

All requests for employment references for previous employees are routed to Human Resources. Through a signed Reference Authorization Form the separating employee authorizes a release of information, Human Resources provides the requested employment information. The primary source of information for reference checks comes from the Separation Performance Appraisal.

Use of Personal Leave during Notice Period

APFC limits the use of leave time during the notice period. Leave approval must follow the normal leave request process. The Executive Director must approve any exception to this policy.

Lay Offs

To the extent permitted by circumstances and available funding, APFC will provide notice of layoffs due to reorganization or budgetary reasons with at least four weeks advance notice or with as much advance notice as feasible.

Authorizations, References and Definitions

Authorizations

18.35.100 - 18.33.365 Regulation of Smoking in Public Facilities

AS 37.07 Executive Budget Act

It may be construed from AS 37.07 that the legislature must approve all new positions of more than one-year duration.

AS 37.13.100 Alaska Permanent Fund Corporation / Staff

Provides that the Executive Director may, with board approval, select and employ additional staff, as necessary.

AS 39.20.110-350 Compensation, Allowances and Leave

Provides that State travel and leave rules apply to APFC

AS 39.25.110(11)(B) State Personnel Act / Exempt Service

Exempts APFC from the State Personnel Act AS 39.25, thereby authorizing APFC to design and implement rules and a salary program that provides a framework for salary, hiring and related personnel decisions.

AS 39.25.160 State Personnel Act

Prohibitions Generally: Includes exempt service in subsection regarding political activities and other topics

AS 39.52 Executive Branch Ethics Act

Addresses: Outside Employment Restrictions, Gifts, and other topics

APFC Bylaws

Article II, Section 4

Provides that the Executive Director shall provide for execution of all corporate operational and administrative functions.

Article II, Section 8

Provides that the Executive Director shall employ personnel s/he deems necessary to exercise her/his powers, duties, and functions under AS 37.13; determine employee compensation; and that those decisions shall be made within APFC budget limitations as approved by the Board and in compliance with policies established by the Board.

Administrative Order 81 Regarding unlawful harassment**Definitions**

Nominal Value

Less than \$5.00 USD in value

Official Title

Title used on your signed offer/promotion letter

Hurtful Communication

Hurtful communication is interaction that causes the receiver to feel marginalized. Types of hurtful communication include relational denigration, humiliation, aggression, intrinsic flaw, shock, tasteless humor, misunderstood intent, and discouragement as probable causes of hurt feelings.

Workplace

Any offices paid for by APFC, including all building common. Workplace does not constitute a private vehicle.

Training: Job-Related

Deemed directly related to the duties the employee performs in his/her current job.

Training: Job-Enhancement

Provides knowledge or skills not necessarily required in the employee's current job, but which would be helpful to the employee in assuming more complex duties from his/her supervisor or increasing the employee's potential for upward mobility.

PMP Employee Handbook Receipt and "Employment-At-Will" Status Acknowledgment

Employees are required to acknowledge receipt of the Employee Guide and the "at will" status of employment, through signing this page.

The Personnel Management Program (PMP) Employee Guide describes important information about APFC, employment policies, employee benefits, and employee and employer obligations. I understand that I should contact and request clarification from my supervisor, the Human Resources or the Executive Director regarding any questions not answered in the Guide.

I have entered into my employment relationship with APFC voluntarily and acknowledge there is no specified length of employment. Employment is considered "Employment-At-Will." Accordingly, either APFC or I can terminate the employment relationship "at will," with or without reason, at any time.

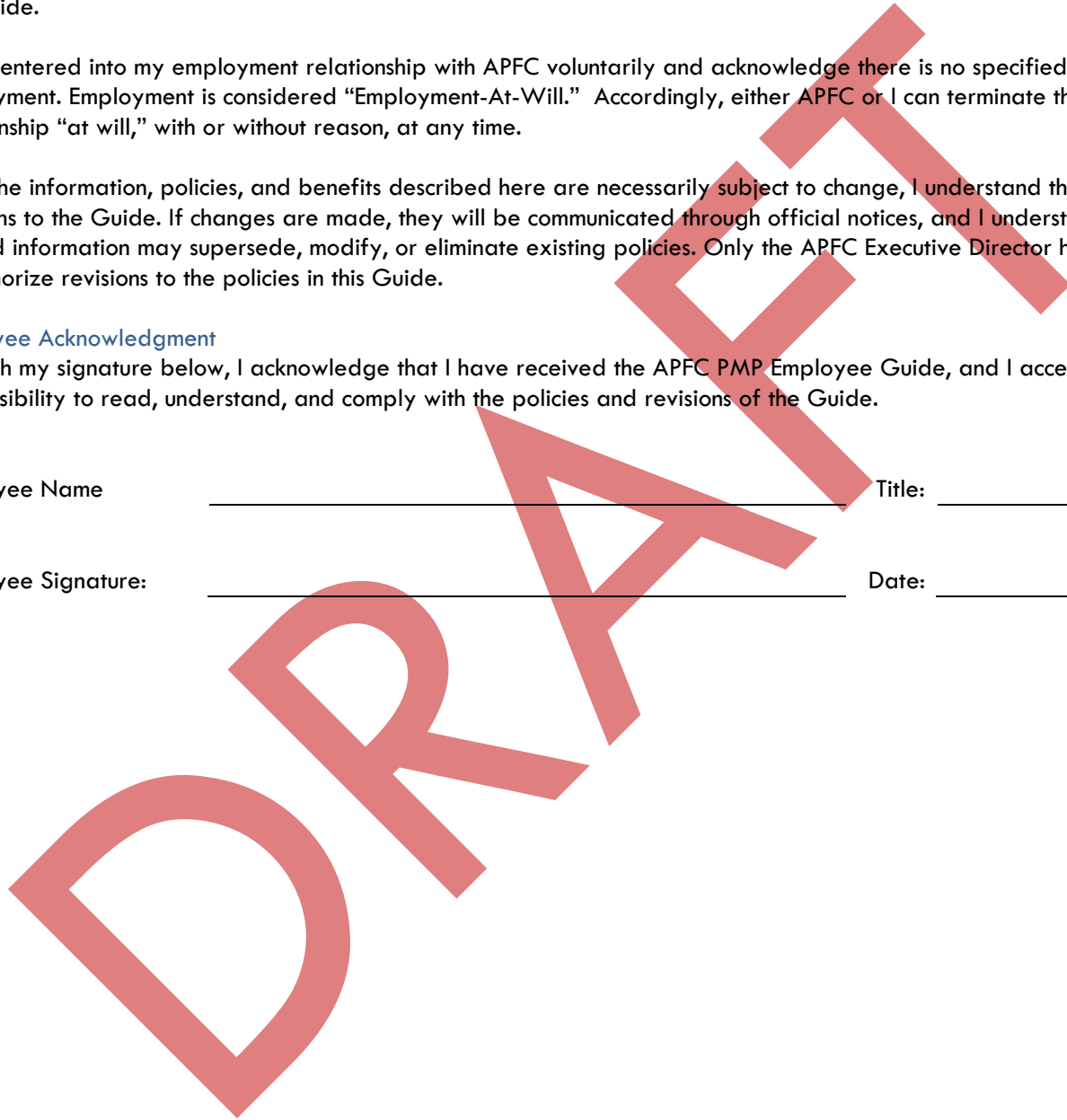
Since the information, policies, and benefits described here are necessarily subject to change, I understand there may be revisions to the Guide. If changes are made, they will be communicated through official notices, and I understand that revised information may supersede, modify, or eliminate existing policies. Only the APFC Executive Director has the ability to authorize revisions to the policies in this Guide.

Employee Acknowledgment

Through my signature below, I acknowledge that I have received the APFC PMP Employee Guide, and I accept responsibility to read, understand, and comply with the policies and revisions of the Guide.

Employee Name _____ Title: _____

Employee Signature: _____ Date: _____



DRAFT

SUBJECT: Investment Advisory Group (IAG) Candidates ACTION: X

DATE: 7/12/2023

INFORMATION: IAG member selection

As the board packet will be compiled in advance of the process for selecting finalists for the IAG, there will be supplementary information provided prior to the meeting. The schedule calls for the following to occur:

- June 27, 2023 proposals were due by 4 p.m. AK time
- June 30, 2023 selection committee met and narrowed candidates for interview pool to no more than three.
- July 5 or 6, 2023 if needed to narrow candidates to three finalists the selection committee will interview candidates to narrow Board interview pool to three finalist candidates
- July 12, 2023 Board interviews and selection of new IAG member



Attachment 1
Terms of Agreement between the
State of Alaska,
Alaska Permanent Fund Corporation and
xxxxxxxxxxxxxxxx, Investment Advisor

This agreement is entered into between the Alaska Permanent Fund Corporation (“APFC”) and xxxxxxxxxxxxxxx (“Appointee”) regarding a position as an Investment Advisor pursuant to the terms and conditions set out herein.

1. **Term.** The term of this agreement is for a three-year contract starting July 24, 2023. The APFC in its sole discretion may reappoint the Appointee for an additional term.
2. **Performance.** Appointee will serve as an Investment Advisor appointed by the Board as a member of the Investment Advisory Group. Responsibilities include, but are not limited to:
 - a. Advising the Board on best practices in the management of large institutional funds.
 - b. Advising the Board, as requested, on the following major policy issues:
 - a. The long-term or strategic asset allocation policy of the Fund;
 - i. The risk management framework of the Fund;
 - ii. Any changes to the investment policy statement of the Fund;
 - iii. Anchor proposed investment in new asset classes;
 - iv. Any proposed investment in new or innovative investment products or strategies, particularly those involving alternative or non-traditional asset classes, excluding traditional publicly traded stocks, bonds and short-term assets;
 - v. Any significant changes to the investment management structure of the Fund, including, but not limited to, the following:
 - i. The relative proportion of assets in an asset class managed by external investment managers versus internal staff;
 1. The relative proportion of assets in an asset class managed using active versus passive investment strategies;
 2. The total number of active investment managers or portfolios in an asset class.
 - vi. Any other issue at the discretion of the Investment Advisory Group or as requested by the Board.
 - c. Attending at least three board meetings a year in Alaska which normally last two days. Meetings may be held via teleconference at the Board’s discretion.

3. Meeting Attendance. Appointee shall make best efforts to attend three meetings of the Board annually and such other meetings as the Appointee may be requested to attend by the APFC. If circumstances prevent attending in person, attendance by teleconference may be acceptable if approved in advance by the APFC. A presumption in favor of termination of this agreement shall exist if the Appointee fails to attend three meetings of the Board during any 12-month period.
4. Fiduciary Relationship. The Appointee acknowledges that while performing the services under this agreement, the Appointee will be acting under a delegation of investment powers or fiduciary duties conferred on the Board under state law and is thus in a fiduciary relationship with the Board and the State of Alaska.
5. Fees Paid. In full consideration of the Appointee's performance, the APFC shall pay the Appointee a sum not to exceed \$30,000 annually during the term of this contract consisting of:
 - a. \$1,000/month as a retainer fee;
 - b. \$1,000 per meeting day of participation at Board meetings;
 - c. \$1,000 travel time payment per meeting attended to compensate for time spent traveling to and from the meeting; and
 - d. Travel expenses, including coach airfare, hotel, and per diem meal expense reimbursement at the approved State rate (expenses must be paid by the Appointee, subject to reimbursement).

Payments under this agreement are contingent upon legislative appropriations for funding each year. The APFC is liable only for payment in accordance with this section for services rendered before the effective date of any termination. The APFC assumes no liability for work done, even in good faith, prior to the effective date of this agreement, or during periods of suspension. This agreement is valid upon the signature of the APFC Chief Executive Officer.

6. Termination or Suspension.
 - a. Appointee serves at the pleasure of the APFC, and the term of this agreement may be terminated or suspended at any time by the APFC. The decision of the APFC respecting termination or suspension is final. The Appointee may terminate this agreement upon sixty days' written notice to the APFC.
 - b. A suspension under this agreement is a period of time during which the Appointee shall not be required to perform services. Suspension occurs upon direction of the APFC for periods during which the Appointee's performance, issues of conflict or fitness are being evaluated or investigated by the APFC. A suspension does not operate to extend the term of this agreement set out in Section 1.
 - c. In the event of a termination or suspension, the Appointee shall have no rights to compensation for services or costs arising after the date of the termination or during the period of suspension.

- d. In the event of a termination or suspension, the APFC may, in its sole discretion, allow or request the Appointee to present the Appointee's position respecting such action. Such presentation shall be in executive session of the Board of Trustees of the APFC ("Board") to the extent permitted by law.
 - e. The Appointee shall notify the chair of the Board within twenty days of any of the following:
 - i. any lawsuit filed by or against the Appointee;
 - ii. cancellation of a professional license or certificate held by the Appointee;
 - iii. any financial investigation to which the Appointee is a party;
 - iv. arrest of the Appointee on a felony or misdemeanor charge; or
 - v. termination of the Appointee's employment at any firm or agency or a request that the Appointee resign from such employment.
7. Ownership of Work Product. Work performed by the Appointee for the APFC shall become the property of the APFC, provided, however, that such materials as the Appointee provides to the APFC which have been otherwise published or which have copyright or other trademark rights shall remain the property of the creator of such work or the owner of such rights.
8. Confidentiality. The Appointee shall maintain as confidential the work performed by the Appointee for the APFC to the extent required by law when necessary to preserve confidentiality, privacy, or trade secrets. The Appointee shall direct any request for access to the Appointee's APFC-related work or files to the APFC.
9. Disclosure. To avoid conflicts or the appearance of conflicts, no later than thirty days after the effective date of this agreement, the Appointee shall file with the APFC a disclosure statement identifying all clients advised by the Appointee, entities in which investments are held by the Appointee, other appointments of the Appointee as an investment advisor and such other matters as may be from time to time required by state law or the APFC. The Appointee shall update the disclosure statement annually during the term of this agreement, or state in writing that there are no material changes to disclose over the course of the year.
10. Conflicts. Appointee shall disclose to APFC any material beneficial interest held in businesses or employment by businesses for whom APFC is a potential customer or client. Unless this Conflicts provision is expressly waived by APFC, members of the IAG are not permitted to solicit business or market in any way to APFC.
11. Notices. Notices by and between the parties to this agreement shall be as follows:

Alaska Permanent Fund Corporation
Deven Mitchell, Executive Director
801 W 10th Street, Suite 302
Juneau, AK 99801
Telephone (907) 796-1500

IRFP - APFC-FY23-010
STATE OF ALASKA
ALASKA PERMANENT FUND CORPORATION
INVESTMENT ADVISORY GROUP

Background

The Alaska Permanent Fund was created to save a portion of the state's mineral revenue for the future and is currently valued at over \$77 billion. In 1980, the Alaska State Legislature created the Alaska Permanent Fund Corporation (APFC) to manage the investments of the Permanent Fund outside of the State Treasury. The APFC has 60 full-time employees (including 26 investment professionals) and is governed by a six-member Board of Trustees. The Board of Trustees has established an Investment Advisory Group to provide advice to the Board.

The Fund is invested in a diverse portfolio of assets, including U.S. and non-U.S. fixed income, public equity and real estate, as well as infrastructure, absolute return and private equity investments. Historically, APFC has relied on external managers to handle the direct investment of Permanent Fund assets. However, the Corporation has been and continues to expand its in-house capabilities. At present, the fixed income portfolio is entirely managed in-house, co-investments and direct investments in private equity and infrastructure have been added, and the Corporation has also brought certain managed public equities in-house.

The Alaska Permanent Fund Corporation (APFC) is soliciting applications from those interested in serving on the Investment Advisory Group (IAG). The IAG consists of three people appointed by and serving at the pleasure of the APFC Board of Trustees.

Materials Included in this Solicitation

In addition to this document, Terms and Conditions for Appointment to the Investment Advisory Group, this application package consists of:

- Attachment 1 – Investment Advisory Group Application
- Attachment 2 – Standard Agreement Form (including General Provisions and Terms of Agreement – Appendix A and Appendix B)

More information about APFC, including our investment policy and governance charters can be found online at apfc.org.

Service on the Investment Advisory Group

The IAG shall:

1. The Investment Advisory Group (or “IAG”) members are expected to attend all of the six Board meetings per year (unless excused by the Board chair) and present at least one topic annually for the Board’s consideration on:

- (a) current market events or strategies impacting the management of large institutional funds, or

- (b) based on Board input or request for specific topic coverage,

with all topics approved by the Board chair.

IAG members shall attend at least three of the Board meetings in person, and may attend the remaining three meetings virtually. APFC will work with IAG members to stagger scheduling of in-person attendance to promote consistent in-person attendance by the IAG at board meetings.

IAG members will attend other meetings as requested by the Board, including additional meetings that are scheduled during the evening of Day 1 of a two-day Board meeting.

The time commitment for this position is estimated to be 10-15 hours/month.

2. The IAG will provide comments to the Board on the following issues:

- (a) The long-term or strategic asset allocation of the Fund;

- (b) The risk management framework of the Fund;

- (c) Any changes to the investment policy;

- (d) Any proposed investment in new asset classes;

- (e) Any proposed investment in new or innovative investment products or strategies, particularly those involving alternative or non-traditional asset classes;

- (f) Any significant changes to the investment management structure of the Fund, including the following:

- i) The relative proportion of assets in an asset class managed by external investment managers versus internal staff;

- ii) The relative proportion of assets in an asset class managed using active versus passive investment strategies;

- iii) The total number of active investment managers or portfolios in an asset class;

- (g) Appropriate content for trustee education;

- (h) Other investment, operational and strategic planning issues that arise in the normal course of APFC business for which IAG perspective would be useful; and Any other

issue at the discretion of the Investment Advisory Group or as requested by the Board.

3. IAG members should seek to collaborate with APFC senior management through contact with the Chief Investment Officer and/or Chief Executive Officer prior to each quarterly Board meeting to discuss topics on the agenda for the upcoming meeting, including:
 - (a) Fund performance for the quarter;
 - (b) Changes being considered or implemented to the asset allocation or investment policy; and
 - (c) Any special topics that are to be discussed at the upcoming Board meeting.
4. Each member of the Investment Advisory Group shall annually visit the Juneau office of the APFC, and if directed by the Board, shall attend in-person an investment committee meeting of the APFC Staff.

Qualifications

To be considered for this seat on the IAG, a candidate shall:

- possess experience and expertise in financial investments and management of investment portfolios for public pension, corporate or union benefit funds, family offices, foundations or endowments, and;
- have provided similar services or acted as a CIO, CEO or trustee to a large sovereign wealth fund, endowment or trust fund (AUM greater than \$1B).

APFC Board members will participate in the interviews with candidates for the IAG position.

Term

The selected IAG member would serve at the pleasure of the Board for a three-year contract that will begin July 24, 2023. Payment will be contingent upon legislative appropriations for funding each year.

Remuneration

In full consideration of the Appointee's performance, APFC shall pay the appointee, pursuant to a written agreement, as follows:

1. \$1,000/month as a retainer fee;
2. \$1,000 per meeting day of any meeting you are requested to attend on behalf of APFC;
3. \$1,000 travel payment per meeting to compensate for time spent traveling to and from a meeting; and
4. Expenses, including coach airfare, hotel, and a meal per diem reimbursed at the approved State rate: Expenses must be paid by the Appointee, subject to reimbursement.

Payments will be contingent upon legislative appropriations for funding each year. The APFC is liable only for payment in accordance with this section for services rendered before the effective date of termination. The APFC assumes no liability for work done, even in good faith, prior to the effective date of the agreement, or during periods of suspension.

Selection Process

A committee comprised of at least three members of the APFC will evaluate applications for appointment to the IAG. This committee may select a person or persons to be interviewed by the full board for final appointment. APFC may schedule oral interviews of candidates either in person or telephonically.

Upon completion of the evaluation process, the candidate selected for appointment will be notified and an agreement covering the term of the appointment will be negotiated. If negotiations with the selected candidate fail, APFC may negotiate with the next highest ranked candidate or terminate this solicitation.

The following is a proposed calendar for this selection process. APFC reserves the right to alter or amend this schedule as necessary:

IRFP is posted to the Online Public Network – June 13, 2023
Application Period Closes – 4:00 p.m. AKST, June 27, 2023
Evaluation Committee Meeting - June 30, 2023
Semi-finalists Interviews – July 5-6, 2023
Evaluation Results Presented to the Board for final decision - July 12, 2023
Notice of Intent to Award Issued – C.O.B., July 13, 2023
Contract Start – July 24, 2023

Basis of Selection

Semi-finalists will be selected based on an “adjectival scoring system” given to their applications by the Evaluation Committee, using the following evaluation factors:

Application Evaluation Factors:

- Exceptional
- Marginal
- Acceptable
- Unacceptable

Application

To apply for appointment, the application packet must be addressed as follows:

Alaska Permanent Fund Corporation
Attention: Jedediah Smith, Procurement Officer
Application for Appointment – Investment Advisory Group
801 W. 10th St., Ste 302,
Juneau, AK 99801

Application packets may be emailed to: procurement@apfc.org

To be considered, completed applications must be received before 2:00 p.m., Alaska Time, June 27, 2023. Applications must be signed.

All costs incurred in the preparation and submission of an application shall be the sole responsibility of the applicant and shall not be reimbursed by APFC. If an in-person interview is

scheduled, APFC will reimburse an applicant for travel and per diem at the approved State rate (coach airfare, hotel, and meals).

All applications and other material submitted become the property of the State of Alaska and may be returned only at the state's option. AS 40.25.110 requires public records to be open to reasonable inspection. All application information will be held in confidence during the evaluation process and prior to the time a Notice of Intent to Award is issued. Thereafter, proposals will become public information.

Agreement

The appointment will be evidenced by a written agreement between the Alaska Permanent Fund Corporation and the appointee for the term of office (Attachment 2), subject to further negotiations that do not materially deviate from the terms and conditions set forth in this application package and applicable law. Please note the terms and conditions obligating the parties as set forth in the Solicitation for Applications, Terms and Conditions for Appointment, and the Standard Agreement Form with Attachments A and B. Appointee is required to and must agree to purchase an Alaska Business License for the term of this appointment.

STATE OF ALASKA

Department of Revenue
Alaska Permanent Fund Corporation



Investment Advisory Group

IRFP #APFC-FY23-010

Amendment #1

June 15, 2023

This Amendment is being issued for informational purposes only. This document does not need to be returned with your proposal. Only the IRFP terms and conditions referenced in this amendment are being changed. All other terms and conditions of the RFP remain the same.

Jedediah Smith
Title: Procurement Officer
Phone: (907) 500-3831
Email: procurement@apfc.org

Change to the IRFP:

Selection Process

The schedule for the selection process is amended as follows:

The results of the Evaluation Committee Meeting and semi-finalist interviews will be presented to the board for final decision at its July 12th Board Meeting, during which final interviews may be conducted.

STATE OF ALASKA

Department of Revenue
Alaska Permanent Fund Corporation



Investment Advisory Group

IRFP #APFC-FY23-010

Amendment #2

June 21, 2023

This Amendment is being issued for informational purposes only. This document does not need to be returned with your proposal. Only the IRFP terms and conditions referenced in this amendment are being changed. All other terms and conditions of the RFP remain the same.

Jedediah Smith
Title: Procurement Officer
Phone: (907) 500-3831
Email: procurement@apfc.org

Change to the IRFP:

Application:

For the purposes of this procurement, "application" is intended to consist of a Cover Letter and a Curriculum Vitae.

SUBJECT: Strategic Planning

ACTION:

DATE: 7/12/2023

INFORMATION: X

The last strategic plan was developed in calendar year 2019 for FY 20 through FY 25. This update replaced a plan developed in 2013 for FY 2014 through FY 2019. The Board has directed staff to review the existing strategic plan and coordinate a strategic planning session in calendar year 2023 to update the current plan.

Historically the process of strategic planning has been coordinated by a consulting facilitator. In both 2013 and 2019 Dr. Glenn Cobb was used to facilitate and we anticipate procuring for a consulting facilitator for the 2023 strategic planning session.

The general timeline we anticipate following is:

- * July obtain consulting facilitator.
- * August/September Staff review of FY 20-FY25 Strategic Plan to determine goals met/goals still outstanding
- * August/September Identify and vet current priorities and goals with staff.
- * August/September educate consultant and develop agenda for strategic planning session.
- * October conduct strategic planning session with staff and management staff and Board
- * November produce written strategic plan with identified over-arching and sub goals, implementers, progress requirements, and observations
- * December ask Board to approve updated Strategic Plan

Initial topics that we anticipate discussing include the following list. Generally, for each one of the topics we believe it is critical to identify why a particular goal is established and how it is anticipated to improve APFC, a path to achieving the goal, and key staff responsible for the goal.

- Review goals of FY20-25 Strategic Plan.
- Establish direction and tone for the Corporation. APFC is sometimes referred to as “quasi government”, recognizing the current constraints should we be pushing to operate more like a private or governmental organization. Seek to identify peer organizations that we are attempting to mirror.
- Should APFC pursue more direct investing options rather than using managers. What does this vision look like from an organizational perspective.
- Identify the risk limits for the portfolio. Is the appropriate portfolio construction target 5% plus inflation or should it be higher?
- Are there functions that we should add to APFC such as a research/economics team.
- State reliance on POMV. Should portfolio construction be contemplating the POMV transfer requirement within the confines of the current two account system, statutory net income impacts of different asset classes, and short runway to depletion of Earnings Reserve Account in certain scenarios.
- Is one team approach viable or should we embrace multiple team approach?
- How to manage perceived succession issues. Maintain status quo or pursue staff redundancy.
- Should APFC develop legislative short-term initiatives or remain reactive?

ALASKA PERMANENT FUND CORPORATION FY20 - FY25 STRATEGIC PLAN WORKSHEET

PURPOSE/MISSION

To manage and invest the assets of the Permanent Fund and other funds designated by law.

VISION

To deliver outstanding returns for the benefit of all current and future generations of Alaskans.

VALUES

- **Integrity:** *We act in an honorable, respectful, professional manner that continually earns and justifies the trust and confidence of each other and those we serve.*
- **Stewardship:** *We are committed to wisely investing and protecting the assets, resources, and information with which we have been entrusted for the benefit of current and future generations of Alaskans.*
- **Passion:** *We are driven to excellence through self-improvement, innovative solutions, and an open, creative culture. We are energized by the challenges and rewards of serving Alaskans.*

CORPORATE STAKEHOLDERS

(ordered according to the degree to which APFC is obligated to serve and directly impact key APFC decisions and policies)

- All Alaskans
- Alaska Permanent Fund
- Executive and Legislative Branches
- Mental Health Trust Authority
- Investment Partners

EXPECTATIONS

- The inflation-adjusted principal of the Permanent Fund will always be protected
- The fund will outperform the CPI +5% long-term return objective with adequate liquidity
- We will professionally and prudently manage the assets and resources with which we are entrusted
- We are fully accountable for our decisions and strive to ensure appropriate information is readily available and shared
- We will fulfill all commitments and obligations
- We attract and retain top talent throughout APFC
- We will invest in attractive Alaskan opportunities

FUND STAKEHOLDERS

(ordered according to the degree to which fund stakeholders are impacted by or vested in APFC's success or failure)

- All Alaskans (including future generations)
- State Government
- Investment Managers

EXPECTATIONS

- The inflation-adjusted principal of the Permanent Fund will always be protected
- Net earnings of the Permanent Fund are available for appropriation
- We will fulfill all commitments and obligations
- We will do our jobs professionally

STRENGTHS

(ordered according to the degree to which each is projected to be a significant strength during the period covered by this plan)

- Passionate, talented, and diverse staff
- A long-term investment horizon
- Proclivity to be nimble and flexible
- Size of the fund
- Proven record of sustained success
- Trustees' confidence and trust in the organization
- Knowledgeable, engaged Trustees
- Public purpose
- Location (AK)

WEAKNESSES

(ordered according to the degree to which each is projected to be a significant weakness during the period covered by this plan)

- Uncertainty regarding the implementation of the ongoing POMV draw (potential shift to liability manager model?)
- Lack of trust, confidence, communication between stove-piped groups
- Vulnerabilities of being a government cost center
- Lack of an incentive compensation plan
- Lack of effective means to ensure continuity of proven strategies and practices to overcome gaps
- Impact of location (AK) on recruiting, accessing market opportunities
- Systems and integration lag behind the organization's needs

ALASKA PERMANENT FUND CORPORATION FY20 - FY25 STRATEGIC PLAN WORKSHEET

OPPORTUNITIES

(ordered according to their potential emergence and impact on APFC goals during the period covered by this plan)

- Potential to add greater value through increased internally managed investments
- Market demand for large scale and long-term investors
- Changing political directions, expectations, and requirements
- The value of established brand equity (of APFC)
- Increasing unique access to growing global investment opportunities and partnerships

THREATS

(ordered according to their potential emergence and impact on APFC goals during the period covered by this plan)

- Lack of political clarity regarding the purpose and structure of the fund (expectations for future performance; impact of the POMV)
- Uncertain, uneven support for resources and budget for operations
- Lower expected returns and higher risks (market cycles)
- Increased threat of digital disruption and cyberattacks
- Limited pool of qualified applicants and challenge of retaining experienced employees
- External consequences resulting from negative reactions to APFC decisions and actions

STRATEGIC PRIORITIES

1. Position the organization and fund for implementation of annual POMV draw
2. Develop and implement comprehensive risk management for the organization
3. Integrate best-in-class investment management capabilities to maximize investment returns
4. Enhance talent and staff across APFC

KEY ASSUMPTIONS

- Key staff will not turnover in the next 5yrs

ALASKA PERMANENT FUND CORPORATION FY20 - FY25 STRATEGIC PLAN WORKSHEET

Goal	Objectives	Strategies
Goal	Objectives	Strategies
1. (P1) Gain a clear statutory investment mandate for earning reserve account (ERA) by the end of the 31 st Legislature.	(P1,G1) Obj 1: Working with the Board of Trustees, develop a consensus position on the mandate for the earning reserve account (ERA) by the end of the Dec 2019 Board meeting.	<p>(P1,G1,O1) S1: Develop and frame APFC’s position and recommendations on the ERA mandate by 14 Sep 19 to be included in the annual meeting’s packet of materials. (POC/Lead: CIO, CFO)</p> <p>(P1,G1,O1) S2: Present APFC’s position and recommendations on the ERA mandate to the Board during the Sep 2019 meeting. (POC/Lead: CEO)</p> <p>(P1,G1,O1) S3: Refine and develop a consensus of APFC Board and staff position on the ERA mandate to be provided to legislature by the end of the Dec 2019 meeting. (POC/Lead: CEO)</p>
	(P1,G1) Obj 2: Gain a clear statutory investment mandate for earning reserve account (ERA) by the end of the 31 st Legislature.	<p>(P1,G1,O2) S1: Using the Board’s inputs during the Dec 2019 meeting, develop and implement an information/educational strategy for distributing and presenting the consensus position to key legislators prior to and during the 31st Legislature. (POC/Lead: Communications Manager)</p> <p>(P1,G1,O2) S2 Gain support for statutory revised position/recommendations for submission to and action by appropriate legislative leaders/committees prior to and during the 31st Legislature. (POC/Lead: CEO, Board)</p> <p>(P1,G1,O2) S3: Develop and release public focused information and materials to educate/inform the public on the APFC’s position prior to and during the 31st Legislature. (POC/Lead: Communications Manager)</p> <p>(P1,G1,O2) S4: Implement approved legislative actions/plans. (POC/Lead: CEO, Board)</p>

**ALASKA PERMANENT FUND CORPORATION
FY20 - FY25 STRATEGIC PLAN WORKSHEET**

Goal	Objectives	Strategies
<p>2. (P1, P2) Develop and implement a comprehensive risk management plan by start of FY2024.</p>	<p>(P1-2,G2) Obj1: Develop and implement a risk management plan for operational risk by start of FY2021.</p>	<p>(P1-2,G2,O1) S1: Develop a new business continuity plan to address organizational contingencies by the end of FY2020. (POC:/Lead: Chief Risk & Compliance Officer, Director of IT)</p> <p>(P1-2,G2,O1) S2: Gain approval for plan and its implementation by the start of FY2021. (POC/Lead: Chief Risk & Compliance Officer)</p> <p>(P1-2,G2,O1) S3: Implement the continuity plan by start of FY2021 and assess its effectiveness (ongoing). (POC/Lead: Chief Risk & Compliance Officer, Director of IT)</p>
	<p>(P1-2,G2) Obj2: Develop and implement a risk management plan for financial assets by July 2023.</p>	<p>(P1-2,G2,O2) S1: Develop risk metrics for private assets, building on the results of an assessment of the risks in the current portfolio, by the end of CY2020. (POC:/Lead: Chief Risk & Compliance Officer)</p> <p>(P1-2,G2,O2) S2: Implement, test, and refine developed risk metrics during Q1CY2021. (POC/Lead: Chief Risk & Compliance Officer)</p> <p>(P1-2,G2,O3) S3: Incorporate refined metrics into a comprehensive risk management plan for financial assets, including an assessment of additional budgetary and personnel resources required by the plan, for presentation to the Board in May 2022. (POC/Lead: Chief Risk & Compliance Officer)</p> <p>(P1-2,G2,O2) S4: Refine plan based on Board inputs and implement approved plan with ongoing monitoring and reassessments by July 2023. (POC/Lead: Chief Risk & Compliance Officer)</p>

ALASKA PERMANENT FUND CORPORATION FY20 - FY25 STRATEGIC PLAN WORKSHEET

Goal	Objectives	Strategies
3. (P3) Refine and integrate best-in-class asset allocation and asset class investment capabilities to produce target long-term returns of at least CPI+5% through the end of FY2025.	(P3,G3) Obj 1: Integrate best-in-class Asset Allocation strategies versus the benchmark with a total value added of 5bps annually, while managing liquidity through FY2025.	<p>(P3,G3,O1) S1: Create a separate allocation for cash with defined benchmark by May 2020. (POC/Lead: Director of Asset Allocations Investments)</p> <p>(P3,G3,O1) S2: Adjust and modify the asset allocation strategies benchmark by May 2020. (POC/Lead: Director of Asset Allocations Investments)</p> <p>(P3,G3,O1) S3: Assess if the asset class would benefit from additional internal management; identify additional resources requirements, by the start of FY2022. (POC/Lead: Director of Asset Allocations Investments)</p>
	(P3,G3) Obj 2: Integrate best-in-class Public Equities program with a total value-added versus the MSCI ACWI IMI benchmark of 50bps annually through FY2025, while remaining in green zone on tracking error.	<p>(P3,G3,O2) S1: Value-Added Manager Selection— Deliver an average of 30-50bps (net-of-fees) annually relative to the MSCI-ACWI-IMI benchmark through manager selection through 2025. (POC: Director of Public Equities)</p> <p>(P3,G3,O2) S2: Value-Added Portfolio Positioning— Deliver an average 10-25bps (net-of-fees) annually relative to the MSCI-ACWI-IMI benchmark through sector and country allocations through 2025. (POC: Director of Public Equities)</p> <p>(P3,G3,O2) S3: Value-Added Internal Management— Deliver an average 5-20 bps (net-of-fees) annually relative to the MSCI-ACWI-IMI benchmark through internal management and security selection through 2025. (POC: Director of Public Equities)</p> <p>(P3,G3,O2) S4: Assess if the asset class would benefit from 5-20% internal management and identify additional resources requirements by the start of FY2022. (POC/Lead: Director of Public Equities)</p>
	(P3,G3) Obj 3: Integrate best-in-class Fixed Income with a target average value-added of 15bps annually compared with Fixed Income composite benchmark through FY2025, while remaining in green zone on tracking error.	(P3,G3,O3) S1: Adjust and modify the Fixed Income benchmark by May 2020. (POC/Lead: Director of Fixed Income Investments)

**ALASKA PERMANENT FUND CORPORATION
FY20 - FY25 STRATEGIC PLAN WORKSHEET**

		(P3,G3,O3) S2: Assess if the asset class would benefit from additional internal High Yield management and identify additional resources requirements by the start of FY2022. (POC/Lead: Director of Fixed Income Investments)
	(P3,G3) Obj 4: Integrate best-in-class Private Equity & Special Opportunities program with an average value-added of 100bps annually greater than the applicable Cambridge benchmark through FY2025.	(P3,G3,O4) S1: Assess if the asset class would benefit from additional internal management and identify additional resources requirements by the start of FY2022. (POC/Lead: Director of Alternative Investments) (P3,G3,O4) S2: Identify and implement robust portfolio management tools that integrate with APFC risk management systems by start of FY2022. (POC/Lead: Director of Alternative Investments) (P3,G3,O4) S3: Identify and implement robust private equity market tools by start of FY2022. (POC/Lead: Director of Alternative Investments)
	(P3,G3) Obj 5: Integrate best-in-class Real Estate program with a target average value-added of 50bps annually greater than the NCREIF Property benchmark through 2025.	(P3,G3,O5) S1: Target REOC's or other investment platforms for multi-family and industrial properties by the start of FY2025. (POC/Lead: Director of Real Estate) (P3,G3,O5) S2: Continue with "build-to-core" investments with two projects completed by end of 2025. (POC/Lead: Director of Real Estate) (P3,G3,O5) S3: Assess if the asset class would benefit from additional internal management and identify additional resources requirements by the start of FY2022. (POC/Lead: Director of Real Estate)
	(P3,G3) Obj 6: Integrate best-in-class Hedge Funds program with a target long-term return of CPI+5% and a Sharpe Ratio of 0.5 through 2025.	(P3,G3,O6) S1: Maintain and monitor portfolio of 15-25 funds delivering CPI+5% with a correlation to overall fund of less than 0.5 through 2025. (POC/Lead: Director of Alternative Investments) (P3,G3,O6) S2: Implement and maintain a rigorous evaluation process of direct manager relationships by June 2020. (POC/Lead: Director of Alternative Investments)

**ALASKA PERMANENT FUND CORPORATION
FY20 - FY25 STRATEGIC PLAN WORKSHEET**

	<p>(P3,G3) Obj 7: Integrate best-in-class Infrastructure & Private Income program with a total average value-added of 50bps annually greater than the Infrastructure and Private Income Composite benchmark through 2025.</p>	<p>(P3,G3,O7) S1: Evaluate alternative benchmarks for implementation subject to Board approval in May 2020. (POC/Lead: Director of Alternative Investments)</p> <p>(P3,G3,O7) S2: Assess if the asset class would benefit from additional internal management and identify additional resources requirements by the start of FY2022. (POC/Lead: Director of Alternative Investments)</p>
	<p>(P3,G3) Obj 8: Assess current budgeted resources, capabilities, and manpower and identify any support and staff shortfalls needed to accomplish Objectives 1-7 (above) for Goal 3.</p>	<p>(P3,G3,O8) S1: Assess currently available, approved (budgeted) resources, capabilities, and manpower in light of projected and emerging resource and support requirements of planned strategies to accomplish Goal 3. (POC/Lead: Administrative Operations Manager)</p> <p>(P3,G3,O8) S2: Define and gain approval for acquisition of additional resources and support needed to address identified shortfalls associate with strategic plan’s needs through 2025. (POC/Lead: Administrative Operations Manager)</p>

**ALASKA PERMANENT FUND CORPORATION
FY20 - FY25 STRATEGIC PLAN WORKSHEET**

Goal	Objectives	Strategies
<p>4. (P4) Enhance staff motivation and talent recruitment/retention across APFC through 2025.</p>	<p>(P4,G4) Obj 1: Gain approval for and implement incentive compensation plan by 1 Jan 2025.</p>	<p>(P4,G4,O1) S1: Work with senior leaders to refine incentive compensation plan in order to be presented to Board in Sep 2019. (POC/Lead: Human Resources Manager)</p> <p>(P4,G4,O1) S2: Present revised incentive compensation plan to Board for approval by annual meeting in Sep 2019. (POC/Lead: CEO, Human Resources Manager)</p> <p>(P4,G4,O1) S2: Identify additional resource requirements, including potential contract support, implementing approved incentive compensation plan by 1 Jan 2025. (POC/Lead: Human Resources Manager)</p>
	<p>(P4,G4) Obj 2: Identify potential additional office location(s) for APFC that would add value to APFC mission and operations to Board during annual meeting in Sep 2019.</p>	<p>(P4,G4,O2) S1: Identify and compare potential office location(s) for APFC that would add value to APFC mission and operations. (POC/Lead: Human Resources Manager)</p> <p>(P4,G4,O2) S2: Define resourcing and staffing requirements for selected office location option(s). (POC/Lead: Human Resources Manager)</p> <p>(P4,G4,O2) S3: Present options with recommendations, including associated additional resource and staffing requirements, to the Board during the Sep 2019 annual meeting. (POC/Lead: Human Resources Manager, CEO)</p>

**Alaska Permanent Fund Corporation
DRAFT FY2024 STRATEGIC PLAN WORKSHEET**

APFC MISSION

To manage and invest the assets of the Permanent Fund and other funds designated by law.

APFC VISION

To deliver outstanding returns for the benefit of all current and future generations of Alaskans.

APFC Values

Integrity: We act in an honorable, respectful, professional manner that continually earns and justifies the trust and confidence of each other and those we serve.

Stewardship: We are committed to wisely investing and protecting the assets, resources, and information with which we have been entrusted for the benefit of current and future generations of Alaskans.

Passion: We are driven to excellence through self-improvement, innovative solutions, and an open, creative culture. We are energized by the challenges and rewards of serving Alaskans.

APFC Expectations

The inflation-adjusted principal of the Permanent Fund will always be protected.

The fund will outperform the CPI +5% long-term return objective with adequate liquidity.

We will professionally and prudently manage the assets and resources with which we are entrusted.

We are fully accountable for our decisions and strive to ensure appropriate information is readily available and shared.

We will fulfill all commitments and obligations.

We attract and retain top talent throughout APFC.

We will invest in attractive Alaskan opportunities.

Net earnings of the Permanent Fund are available for appropriation.

We will do our jobs professionally.

FY 2024 Board Objectives

<u>Draft Strategic Objectives (new, for Board consideration)</u>	<u>Owner</u>	<u>Target Date to Complete</u>	<u>Status/Date Completed</u>	<u>Notes</u>
<u>Legislative Initiatives</u>				
<u>Governance Committee Items</u>				
<u>Current Adopted Strategic Plan Objectives</u>	<u>Owner</u>	<u>Target Date to Complete</u>	<u>Status/Date Completed</u>	<u>Notes</u>

FY 2024 Investment Team Objectives

<u>Item</u>	<u>Owner</u>	<u>Target Date to Complete</u>	<u>Status/Date Completed</u>	<u>Notes</u>
<u>Item</u>	<u>Owner</u>	<u>Target Date to Complete</u>	<u>Status/Date Completed</u>	<u>Notes</u>

FY 2024 Finance Team Objectives

<u>Item</u>	<u>Owner</u>	<u>Target Date to Complete</u>	<u>Status/Date Completed</u>	<u>Notes</u>

FY 2024 Risk Team Objectives

<u>Item</u>	<u>Owner</u>	<u>Target Date to Complete</u>	<u>Status/Date Completed</u>	<u>Notes</u>

FY 2024 General Counsel Objectives

<u>Item</u>	<u>Owner</u>	<u>Target Date to Complete</u>	<u>Status/Date Completed</u>	<u>Notes</u>

FY 2024 Communications Team Objectives

<u>Item</u>	<u>Owner</u>	<u>Target Date to Complete</u>	<u>Status/Date Completed</u>	<u>Notes</u>

FY 2024 Administration Team Objectives				
<u>Item</u>	<u>Owner</u>	<u>Target Date to Complete</u>	<u>Status/Date Completed</u>	<u>Notes</u>
<u>Procurement</u>				
<u>IT</u>				
<u>Administration</u>				
<u>Human Resources</u>				
<u>Budget</u>				
<u>COO Projects</u>				
FY 2025+ Objectives				
<u>Item</u>	<u>Owner</u>	<u>Target Date to Complete</u>	<u>Status/Date Completed</u>	<u>Notes</u>
FY 2020-FY2025 Completed Items				
<u>Item</u>	<u>Owner</u>	<u>Target Date to Complete</u>	<u>Status/Date Completed</u>	<u>Notes</u>

SUBJECT: Trustee Paper No. 10

ACTION: Motion to develop Trustee Paper

DATE: 7/12/2023

INFORMATION:

Trustee Richards has suggested that a Trustee Paper should be developed around the following general topic:

1. History of permanent fund
2. History of why there are two accounts
3. History of trust law moving away from the earnings/principal distinction in the early 1980s when trusts diversified to appreciating assets. That includes discussion of amendments to state trust laws that get rid of the principal/earnings distinction even for prior existing trusts.
4. History of adoption of inflation proofing
5. Need for inflation proofing
6. Explanation of ERA durability problem
7. Overview of modeling of ERA durability and what that shows
8. Discussion of need to constitutionally combine accounts to solve durability problem and to bring Permanent Fund in line with modern trust theory
9. Alternatives to constitutional amendment to both ensure inflation proofing and address durability problem.

If the Board elects to proceed the process to develop the Trustee Paper would initiate with engaging staff to procure a consultant to draft the paper. In the development of Trustee Paper No. 9, there was a two-trustee committee that worked with two or three staff members and the consultant that worked collaboratively to develop the content of the paper. This content is then be integrated into a document designed to provide clarity of message and ease of readability.

For those that weren't with APFC when the last Trustee Paper was developed it is a significant undertaking. The end product is similar to an annual report and becomes an anchor of the Alaska Permanent Fund and APFC's policy direction and history. Trustee Paper No. 7 is attached for reference.

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The Trustees' Papers, Volume VII Making the case for complete and protected inflation-proofing

Letter from the Chair



Jim Sampson

July 29, 2002

Dear Alaskans:

It is with great pleasure that I present Volume VII of The Trustees' Papers: "Making the case for complete and protected inflation-proofing."

Inflation-proofing has been – and will continue to be – a key component of the Fund's success. It is a topic deserving of special attention.

Under the Trustees' proposal, the Fund can be expected to produce more than \$40 billion in income available for appropriation over the next 25 years. Oil revenues, the state's second largest revenue source, are projected to total less than half that amount. If the Fund is inflation-proofed over the next 25 years, the \$40 billion of appropriable Fund income will be there. If the Fund is not inflation-proofed, that income stream will be cut in half in real terms and Alaska's ever-growing Permanent Fund will have become Alaska's ever-declining temporary fund.

To accomplish the desired results – and avoid the continuing diminishment of the Fund's purchasing

power – it is only necessary to make sure that the Fund retains income sufficient to permanently offset inflation. With inflation projected to average 3 percent annually, and investments projected to earn 8 percent compounded over the long term, that means that each year's payout of Permanent Fund earnings must be limited to the "real" income, i.e., Fund income earned in excess of inflation.

In simple terms:

8 percent long-term return
- 3 percent average inflation
<hr/>
= 5 percent sustainable payout.

Alaskans are proud of how their Fund has grown over its first quarter century. It is a great success story. From an initial deposit of \$734,000 twenty-five years ago, the Fund has become one of the 100 largest savings accounts in the world. The challenge facing us now is no longer how to build a public trust, but how to keep it secure.

It was the people of this state who made the momentous decision in 1976 to begin saving a portion of our one-time oil wealth and that decision

has proven visionary. Now, 25 years later, oil revenues are in decline and Fund income promises to become Alaska's dominant source of income for all of the future.

Now, in the Trustees' view, is the time for the people of Alaska to make another far-sighted decision if we want assurance that the Fund will realize its promised income. Although there are differing points of view about how Fund income ought to be used – whether for dividends or public services – there is general agreement that protecting the real value of that income stream is paramount. The best way to accomplish that is to approve the constitutional amendment proposed by the Trustees.

In addition to the 5 percent limit on annual payout, the proposal is based on the Fund's market value rather than income and includes a five-year averaging mechanism to smooth annual distributions. This is a modern, proven mechanism used by most endowment funds designed to provide benefits for generations.

The basic concept, as applied to Alaska, is that a 5 percent payout from a \$25 billion Permanent Fund is \$1.250 billion. This is how much can be appropriated from a fully inflation-proofed Fund each year on a sustainable basis for all public purposes including dividends. The amount will grow over time at the rate of inflation plus a little extra due to income earned on new constitutionally or statutorily dedicated mineral revenues added to principal. If the current dividend formula is maintained, an additional \$175 - \$300 million would be available annually to help fill the fiscal gap.

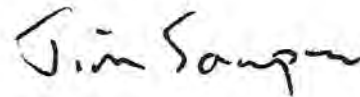
This Trustees' Paper makes the case for inflation-proofing. It provides simple, illustrative examples to prove the soundness of the underlying eco-

omic theory. It educates about the importance of managing volatility. It includes statements of support from a wide cross-section of Alaskans and explains why 5 percent is the right payout in terms of balancing Permanent Fund benefits between current and future generations of Alaskans.

Alaskans interested in receiving additional information regarding the Permanent Fund or this proposal are encouraged to visit the Corporation's web site at www.apfc.org

Thank you for your interest in the Permanent Fund.

Sincerely,



Jim Sampson

Chair, Board of Trustees

A proposal by the Board of Trustees

Testimony before House Judiciary Committee
Trustee Clark S. Gruening October 19, 2001



Clark S. Gruening

Chairman Rokeberg, thank you. In February of this year, HJR 15 and SJR 13, a proposed constitutional amendment for inflation-proofing the Alaska Permanent Fund, were introduced in both houses of the legislature at the request of the Board of Trustees.

For 21 of the Fund's 25 years of existence, the APFC has been governed by a six-member Board of Trustees. Protecting the Fund against inflation has been the highest public policy priority of the Trustees since the original Board was appointed in 1980. The first Board testified to the legislature that the greatest threat to the permanence of the Fund is inflation. In response, the legislature adopted statutory inflation-proofing in 1982.

In more recent years, the Board has examined the use by various large endowments and public funds of a formula approach to determine the method and size of payouts from these funds while still providing protection against inflation. This approach is generally referred to as "percentage of market value" payouts, or "POMV" for short.

POMV – A new approach for the Permanent Fund

The purpose of this formula is to protect the long-term viability of the Fund and to provide consistent distributions for the beneficiaries. It also provides a spending limit on what can be currently spent or, in legislative parlance, appropriated. Existing law prohibits the appropriation of principal. In other words, anything but "principal" is income and can be spent. Principal does not vary or move up or down with the market. Instead, principal is a notional number that simply equals the sum of the constitutionally mandated 25 percent of mineral deposits and the non-mandated (or voluntary) deposits the legislature has chosen to make.

It is no surprise to you, but perhaps to the public in general, that two-thirds of that \$21 billion deposited to the principal of the Fund was made voluntarily by the legislature as inflation-proofing and as extra deposits to principal. The remaining one-third came from the mandated 25 percent of mineral proceeds.

In the past year, Alaska has lost three former Trustees who had a great deal

Testimony before House
Judiciary Committee
Clark S. Gruening
October 19, 2001

to do with the formation and success of the Permanent Fund: Elmer Rasmuson, Hugh Malone and Oral Freeman. Two of them, Oral Freeman and Hugh Malone were legislators and like the Fund's first Chair, Elmer Rasmuson, were totally committed to inflation-proofing the Fund.

Complete inflation-proofing protects the entire Fund, not just the principal

What Elmer Rasmuson said about inflation is as true today as it was when he was chair of the Board of Trustees 21 years ago: "Inflation is like a thief in the night." What has changed is that principal is now a much smaller percentage of the Fund than it was in 1982, when inflation-proofing was first adopted.

In fact, if we count all the years from the first deposit in 1977 through 1995, income (or the Fund's earnings reserve) averaged only eight percent of the Fund. Despite the recent stock market retreat, the earnings reserve still makes up some 15 percent of the market value of the total Fund. Assuming no significant appropriations out of the Fund, except for dividends, the earnings reserve is projected to grow larger in proportion to the principal.

Unlike the present statutory provision for inflation-proofing, HJR 15 provides for inflation-proofing of the entire Fund. But clearly, one of the most important reasons to support the

proposal is that it would maximize distributions over the long term.

This is significant because since 1982, Alaska's fiscal picture has changed dramatically. The Alaska Permanent Fund has produced, and will again in the future produce, more state revenue than any single Alaska resource – more than oil, more than fishing, more than tourism and more than a natural gas pipeline.

Similar to the concept of sustainable yield

The Board's proposal for inflation-proofing doesn't require any changes in statute, including the dividend statute. Whatever future decisions are made by the legislature or the voters regarding the use of Fund earnings, the five percent payout of market value limit will assure complete and protected inflation-proofing while providing a maximum sustainable payout over the long term.

In managing fishery stocks, the only sensible choice is to avoid taking too



Testimony before House
Judiciary Committee
Clark S. Gruening
October 19, 2001

much of any stock so that, over the long term, the harvest is maximized. Of course, over-harvesting can reap short-term rewards of more fish, more money, but the inevitable result is, at best, fewer fish, less money and, at worst, permanent impairment or destruction of a fisheries stock. The same is true for managing distributions from a large investment fund like the Alaska Permanent Fund.

I want to close with two key points. The first point is that if Alaska is going to have a Fund that is truly permanent, we must take those steps necessary to ensure permanence. This will require commitment to basic principles of long-term investing.

What is long term? The long-term is more than a "business" or "political" cycle. The long-term should include, at a minimum, the time in which our children, grandchildren and our grandchildren's children grow into adulthood. The critical flip side of a sound long-term investment strategy is a sound and sustainable distribution plan – a plan that will sustain and maximize the benefits to each generation of Alaskans. The form in which those benefits should flow is going to be the subject of much debate in the years ahead.

The second and last point I want to leave you with is a fact of life that I hope has become obvious – and that is that the Permanent Fund cannot do it all. Certainly, the Fund can and probably will play a role in any fiscal plan this or a subsequent legislature may pass, but it cannot do it all.

What we want to avoid, at all costs, is defaulting to the position where the Constitutional Budget Reserve (CBR) is today. Within the next few years, the CBR is destined for extinction. As the investment horizon of the CBR steadily shortens, it will be necessary to keep the assets of the CBR in very short-term and less-profitable investments.

I am concerned that in the event of the demise of the CBR, the trustees may have to adopt a shorter investment horizon for a significant portion of the Fund.

Whether we liken the Alaska Permanent Fund to a whole resource industry like Alaska's fisheries or to some kind of perpetual money machine, one thing is clear: the Alaska Permanent Fund imports big money into our state year after year. Legislative passage and voter approval of the Board's proposed amendment would protect the ability of the Fund to be managed for the long-term and to continue to pour money into the Alaska economy for the long-term.

Succeeding generations will rightly view this proposed amendment with the same degree of appreciation and admiration as the original one Alaskans overwhelmingly approved 25 years ago. The Trustees believe that this proposal for complete and protected inflation-proofing makes ultimate good sense for Alaska's Permanent Fund and for Alaska's future.

APFC analysis of SJR 13 dated May 5, 2001**The proposal**

The Board of Trustees of the Alaska Permanent Fund Corporation (APFC) unanimously recommends that the legislature approve Senate Joint Resolution 13 or House Joint Resolution 15 which would place before the voters a constitutional amendment to permanently inflation-proof the Fund.

SJR 13/HJR 15 (hereinafter referred to as SJR 13) accomplishes inflation-proofing by limiting the annual payout of Fund income to no more than 5 percent of the Fund's five-year average market value. This methodology protects the purchasing power of the entire Fund and provides the maximum amount of sustainable income to benefit current and future generations.

It also conforms with the Board's asset allocation which is designed to earn a total rate of return 5 percent in excess of inflation.

The benefits

1. Provides constitutional protection against inflation for the total Permanent Fund, thereby more effectively safeguarding the Fund and increasing the amount protected.
2. Maximizes the total amount of Fund income which can be paid out in the future, at least as compared to higher payout rates, and does so in a way that balances the Fund's benefits

fairly between the current generation and future generations.

3. Increases the likelihood that both the Fund's principal and its income will continue to grow in perpetuity in both nominal and real, inflation-adjusted dollars.

4. Makes available, beginning in 2003, \$175-\$300 million per year, depending on the Fund's market value, for purposes other than inflation-proofing and dividends. This amount will grow over time as the Fund grows.

5. Uses the percent of market value (POMV) payout methodology which smoothes volatility, treats realized and unrealized income equally as investment return, and is consistent with generally accepted accounting principles and modern endowment practice.

6. Lets lawmakers know in advance, within a relatively narrow range, how much Fund income will be available for appropriation each year.

The analysis**Principal and inflation-proofing.**

Under SJR 13, both the Fund's principal and the earnings reserve account would be inflation-proofed by constitutional mandate. In addition, there would be two constitutional limits on Permanent Fund spending: (1) principal would continue to be unavailable for appropriation; and (2) appropriations from the earnings reserve account in the future would be limit-

APFC analysis of SJR 13
dated May 5, 2001

ed to no more than 5 percent of the Fund's average market value for the past five years.

Earnings reserve. All income not appropriated under the 5 percent payout limit would be retained in the earnings reserve account to offset inflation over the long term and to provide a cushion for future payouts in periods of extended down markets.

5 percent payout. The 5 percent limit is chosen for three reasons: (1) 5 percent is on the high end of sustainable payout rate that still maintains the Fund's real value; (2) 5 percent allows greater distributions over time than a higher payout; and (3) 5 percent is what the majority of endowments pay out; e.g., 85 percent of all public endowment funds pay out 5 percent or less, and the median payout of endowments, according to a 1999 Greenwich Associates study, is 4.9 percent.

Five-year averaging. Under SJR 13, the annual payout may not exceed 5 percent of the Fund's market value averaged over the prior five years, including the fiscal year just ended. This methodology is chosen to dampen volatility in annual payouts.

Dividends. This proposal does not affect the existing dividend program. It should be noted, however, that any future public policy decision to use an additional portion of Fund income for any purpose will affect the dividend, as will market volatility, but

under SJR 13, these impacts would either be equal or diminished compared to the status quo.

Residual income available for appropriation. Except in the case of extraordinarily good financial markets, the 5 percent limit set by SJR 13 is above what is required to pay dividends per current law, leaving a residual amount available for appropriation. If the entire 5 percent were paid out, the residual amount is expected to range from \$175-\$300 million per year in a median case, growing over time as the Fund grows. Because of the mechanics of the existing statutory dividend formula, however, if the dividend in any year is extraordinarily high, the amount of the residual could be reduced to zero.

SENATE JOINT RESOLUTION NO. 13

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Introduced: 2/14/01

Referred: State Affairs, Judiciary, Finance

A RESOLUTION

1 Proposing amendments to the Constitution of the State of Alaska relating to inflation-
2 proofing the permanent fund.

3 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. Article IX, sec. 15, Constitution of the State of Alaska, is amended to read:
5 Section 15. Alaska Permanent Fund. (a) At least twenty-five per cent of all
6 mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing
7 payments and bonuses received by the State shall be placed in a permanent fund, the
8 principal of which shall be used only for those income-producing investments
9 specifically designated by law as eligible for permanent fund investments. All income
10 from the permanent fund shall be deposited in the permanent [GENERAL] fund
11 [UNLESS OTHERWISE PROVIDED BY LAW].

12 (b) For any fiscal year, appropriations from the permanent fund shall be
13 limited to five percent of the average of the year-end market values of the
14 permanent fund for the last five fiscal years, including the fiscal year just ended.
15 No other appropriations from the permanent fund may be made.

1 * Sec. 2. The amendments proposed by this resolution shall be placed before the voters of
2 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the
3 State of Alaska, and the election laws of the state.

Inflation-proofing the Alaska Permanent Fund

Juneau Empire
Editorial
May 6, 2001

The trustees of the Alaska Permanent Fund are proposing a constitutional change for the purpose of protecting the fund against inflation. Any time there is discussion about changes to the fund, Alaskans wonder about their dividends - the relationship between the size of recent dividends vs. the size of future dividends. And when they hear certain words or phrases, such as "limit the annual payout," they may become wary of the proposed changes.

Thus, it is critically important to the future of the fund and to Alaska's current and future residents to understand the proposed changes, which the Empire supports.

The proposal is built on the premise that less can be more. That's not doubletalk nor the latest example of fuzzy math. If the payout from the fund is limited to 5 percent of its average year-end market value over a five-year period. And if the fund's investments continue, on average, to outpace inflation, as they have for the past 17 years. And if all income from the fund's investments are constitu-

tionally required to be deposited in the permanent fund, rather than the general fund. And if no other appropriations beyond the 5 percent of the fund's average year-end market value over a five-year period can be made. Then the principal of the fund should continue to grow and 5 percent of an ever-larger fund becomes an ever-larger amount of money.

Bottom line: 5 percent of a \$30 billion fund is more than 5 percent of a \$20 billion fund.

Five percent is not a figure the trustees pulled out of the air. It is a figure that, when combined with five-year averaging, offers the best chance for inflation-proofing.

The Legislature, not the trustees, will decide on the formula to be applied to the payouts permitted within the proposed 5 percent cap. They cannot spend more - for dividends or for any other purpose - than the 5 percent. And neither the trustees nor the legislators will do anything at all without the approval of a majority of Alaskans. That is why the trustees of the fund have asked the members of the Legislature to approve a constitutional amendment for the 2002 ballot.

The Empire supports the request because we believe the

trustees of the permanent fund are acting in the best interest of current and future generations of Alaskans. Their proposal deserves the approval of the required two-thirds majorities of each house of the Legislature. Then it will be up to the voters of the state. The fund is a complex financial organism. The proposed changes can be simplified only to a point. But the trustees are not saying: "Just trust us." Their information and education efforts have begun. It will be in the interest of all Alaskans to pay attention. When the information is understood widely, when questions have been asked and answered, then doubts can be dismissed and the people of our state can take this historically important step to protect our very special savings account.

Questions and answers about the constitutional amendment (SJR 13) to inflation-proof the Permanent Fund

#1. *What is the purpose of the proposed constitutional amendment?*

The Board is supporting an amendment to the Alaska Constitution to provide constitutional – not just statutory – assurance that a portion of Fund income will always be retained each year to offset the effects of inflation. As Trustee Clark Gruening points out, this proposal puts emphasis on the word ‘permanent.’ The amendment would accomplish this by providing that annual payouts from the Fund can be up to but no more than 5 percent of the five-year average market value of the Fund.

#2. *How does a payout of no more than 5 percent inflation-proof the Fund?*

The Board’s best estimate is that, over the long term, the Fund will earn an inflation-adjusted, “real” rate of return of 5 percent. For example, the Board’s current 5-year target asset allocation is designed to earn an average, annual rate of return of 8 percent with an expected inflation rate of 3 percent. This proposal sets the maximum payout at 5 percent – the difference between what the Fund earns and what it loses to inflation – to ensure that the Fund’s growth will at least keep up with inflation.

#3. *Why is the Board taking this action now?*

After many years of study and analysis, the Board is convinced that a constitutional amendment is the best way to protect the Fund against the effects of inflation. It is also fitting that this debate should take place during the time while Alaskans will be celebrating the 25th anniversary of the Alaska Permanent Fund’s creation in 1976.

#4. *Does the legislature have to approve this?*

Yes. Before any constitutional amendment can be voted on by the people, it first has to win the support of a super majority, that is, two-thirds of the legislature.

#5. *Do the people get to vote on this issue?*

Yes. Once the legislature gives its two-thirds approval, the proposed constitutional amendment would be placed before the voters at the next general election.

#6. *Why 5 percent?*

The Board has been studying percent of market value (POMV) payout limits diligently since 1996 and has found that the majority of large foundations and endowments set payouts of no more than 5 percent of their funds’ market value. The Board also reached two important and related conclusions. First, 5 percent is the maximum that a fund can pay out and still maximize its long-term distributions; and second, 5 percent is the maximum sustainable payout rate, beyond which the real value of the Fund would begin to erode.

#7. *How does SJR 13 differ from the status quo?*

The major difference is that this amendment provides constitutional inflation protection for the entire Fund whereas the status quo provides statutory inflation protection only for the principal. It also limits withdrawals from the Fund by the legislature – currently all of the earnings reserve is available for appropriation.

#8. *Does SJR 13 change the way principal is treated?*

No. Principal cannot be spent under existing constitutional and statutory law. It would continue to be unavailable for appropriation under SJR 13. In addition, a portion of the earnings reserve account would also become unavailable for appropriation: that amount in any given year which is in excess of that required under the 5 percent of average market value limit. So, for example, if the principal in the future were \$22 billion and the earnings reserve were \$10 billion, and the five-year average market value of the Fund were \$30 billion, only \$1.5 billion

Questions and answers about the constitutional amendment (SJR 13) to inflation-proof the Permanent Fund

of the money in the earnings reserve account would be available for appropriation that year (5 percent x \$30 billion = \$1.5 billion.)

#9. How does SJR 13 affect the dividend program?

It doesn't. The Board has modeled this proposal and come to two fundamental conclusions: (1) the constitutional amendment will have no impact on the dividend program vis-à-vis the status quo; and (2) volatility in the financial markets may impact the dividend program, but the impact will be the same under either the status quo or SJR 13.

#10. Is the Board sure that 5 percent is the right number?

The Board's best estimate is that, over the long term, the Fund will earn an inflation-adjusted, "real" rate of return of 5 percent – which can be safely paid out without the Fund losing ground to inflation. There will be short-term periods when earnings are too low and inflation too high and the Fund will not be protected against inflation. However, over the long term, such periods should be offset by periods of strong asset growth.

2002 APFC Board of Trustees

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Chair Jim Sampson

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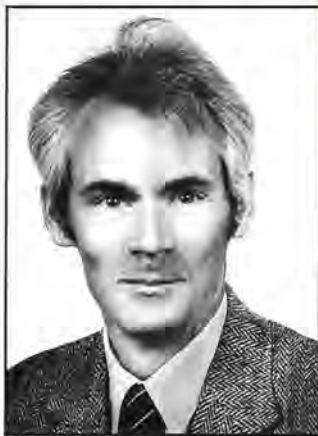
Clark S. Gruening



Why complete and protected inflation-proofing is a good idea

Arguments in support of a percent of market value (POMV) distribution of Fund income

First recommended by Trustee Hugh Malone in the late 1980s, recommended for further study by the Commission on the Future of the Permanent Fund in 1990, recommended by the Long-Range Financial Planning Commission in 1995, recommended by the Board of Trustees in 1996, approved by the House of Representatives in 1999, this is a well-considered idea which has been thoroughly studied and enjoys wide support. What follows are excerpts from papers written on the subject over the past 11 years.



Hugh Malone

“A Payout Rule for the Alaska Permanent Fund,” Commissioner of Revenue Hugh Malone, December 8, 1989

The problem to be solved is how to (1) preserve the real value of the assets under your care; (2) pay out good, consistent earnings, and (3) not disrupt or distort investment decisions in order to achieve (1) and (2).

One solution, much discussed, is a payout rule – developed at Harvard in the 1960s and since adapted in one form or another by other endow-

ments. A payout rule involves spending each year a fixed percent of the market value of assets; market value is averaged over a number of years, commonly five, to bring stability in the amount of spending.

The fixed percent should be no more than the long-term real income of the Fund on a total return basis, i.e., adding interest, stock dividends and any other cash receipts to net capital gains in equities, real estate and bonds. The capital gains do not have to be realized in order to be counted.

In order to win public confidence in this long-term approach, and more to remove the temptation to increase the payout rate unwisely, the number should not be in a bare statute. It should be set in a constitutional amendment and placed before the public who, in truth if not in law, are the owners of the Permanent Fund. The following language, for instance, replacing the present wording on the disposition of income, could serve the purpose:

ART. IX, Sec. 15. All income from the permanent fund shall be retained in the permanent fund, except that the legislature may each year appro-

Arguments in support of a percent of market value (POMV) distribution of Fund income

priate no more than five percent of the average market value of the permanent fund over the past five years.

Advantages of the new rule:

- Gives the Fund’s managers five years to meet or exceed inflation, rather than asking them to do it each year.
- The new approach will, over time, keep payouts within the real income of the Permanent Fund.
- As for its impact on investment decisions, the payout rule is a valuable aid and safeguard.
- This new approach allows the Fund to hold more investments, chiefly equities, which need more time.
- Most importantly, a long-term payout will help teach the public to look at the Fund’s performance long term – not year to year or, worse, quarter to quarter. This is key to having a public of sufficiently patient investors.

Long-Range Financial Planning Commission’s Recommended Plan, October 1995

The Commission believes the best method for preserving current capital wealth for current and future generations of Alaskans is to follow traditional endowment principles. For our Permanent Fund those principles include preservation of the Fund, the best possible level of performance for

the Fund, and the preservation of Alaska’s oil wealth for future generations of Alaskans.

Our plan calls for the Permanent Fund to grow as an endowment for the State.

- The plan establishes the Permanent Fund as an endowment (by amendment to the Constitution) that pays up to four percent of the Fund’s five-year average market value to the general fund for the dividend program and State service. The Commission recommends a four percent payout based on the experience of other endowment funds in the United States, and takes into account the Permanent Fund’s earning experience, asset allocation and need to protect the principal.
- Earnings of the Permanent Fund in excess of this four percent payout rate are retained in the Fund. Years with good investment performance will, over the long run, balance years with poor investment performance to more than fully inflation-proof the Fund.

“A Primer on Endowment Management,” Callan Associates, November 27, 1995

The goal of the Permanent Fund’s Board of Trustees is to (1) preserve the purchasing power of principal and (2) produce a stable flow of



Michael O’Leary

Arguments in support of a percent of market value (POMV) distribution of Fund income

income available for appropriation. These two basic goals inherently conflict. Most institutions achieve the balance by determining a sensible long-term target rate of spending and applying that rate to a moving average of endowment market value.

**Letter from Michael O'Leary,
Callan Associates,
August 6, 1996**

Shifting to this endowment type model, in my view, would better enable the Board to focus investment policy on the long term and not be as concerned with consistency in the shorter term. This longer-term focus, combined with greater flexibility arising from the prudent expert standard, should result in higher earnings.

**"Discussion Paper," Investment Policy
Options Subcommittee of the Board of
Trustees, Chair, Eric Wohlforth
September 10, 1996**

The subcommittee strongly urges full consideration of a statutory change to provide for a modified annual payment provision for the Fund: based upon a percentage of a moving average of the market value of the Fund. The primary considerations favoring this recommended change:

Shifting to a market value distribution formula will permit focus on a long-term investment policy and recognize that a dollar of realized gains and a dollar of unrealized gains each have the same value.

Continuing the present realized return formula may lead to distortions of good investment policy if gains are taken or asset allocation decisions are made, primarily to maintain annual dividends.

Employing a market value distribution formula and setting a real rate of return target above the

amount produced by that formula will give inflation-proofing of the Fund first priority and assure that the principal of the Fund is protected.

A market value distribution formula will allow the legislature, as it presently does, to set the dividend level in statute.

A percent of average of market value policy should permit a more level distribution program consistent with accepted methods of measuring Fund performance and with the market value accounting requirement now mandated by the Governmental Accounting Standards Board (GASB).

**At the heart of APFC investment
planning for the future will be
the attempt to mediate among
these conflicting objectives:**

1. Maximize long-term total return.
2. Maximize annual spending distributions.
3. Preserve the *real* (i.e. inflation-adjusted) value of the Fund and the distributions.
4. Maximize the stability and predictability of spending distributions.

**"Comments regarding Discussion Paper,"
Callan Associates, August 8, 1996**

Major endowments have a primary goal of supporting current operations to the maximum extent possible provided that such distributions are consistent with making the same relative contribution over the long term. In other words, distribute as much as currently possible provided that the future distributions reasonably can be expected to grow with inflation.

Arguments in support of a percent of market value (POMV) distribution of Fund income

In order for this objective to be achieved, distributions must be limited to 4-5 percent of average market value. Over the long term, diversified investment pools can expect to earn a 4-5 percent real return. By limiting distributions to this amount, the purchasing power of the corpus can be maintained.

Alaska's existing statutes and practices (combination of inflation-proofing, earnings reserve account, averaging for determination of earnings, etc.) strive to achieve the same objective (i.e., preservation of purchasing power and an equitable distribution policy). The current approach, in my judgment, is potentially more complex than it need be.

The concept of "realized earnings" as opposed to total return affects decision-making. A dollar of income or realized gains is more valuable than a dollar of unrealized gains. In fact, both have the same value. The need to realize gains results in costs (both explicit and implicit) that need not be incurred.

Even with a five-year averaging period, limiting distributions to a function of earnings (whether realized or unrealized) will result in distribution volatility that need not occur. Attention is shifted from long-term earnings maximization toward greater consistency in shorter-run earnings.

Minutes, Board of Trustees Meeting, September 25-26, 1996

Mr. Wohlforth: We recognize the primacy of the legislature and the people of the state of Alaska in identifying and enacting into law those programs deemed appropriate for Permanent Fund earnings. However, when proposals are advanced, as they have been and increasingly will be, that would affect the investment goals or portfolio of the Fund, we think the Permanent Fund is well suited,

if not legally obligated, to bring to the attention of public officials, elected officials, all significant Fund investment and management issues that arise from fiscal proposals.

"Issues related to establishment of an endowment/market value distribution model for the Permanent Fund," Ron Lorensen, APFC legal counsel, November 8, 1996

The payout rate for an endowment is typically set at or slightly below the fund's expected real rate of return over the longer term. In looking to a fund's real rate of return, the distribution formula automatically provides for preservation of the fund's purchasing power by leaving the inflationary component of its nominal rate of return untouched.

Under present AS 37.13.145(c), an amount is transferred annually from the earnings reserve account to the Fund's principal "to offset the effects of inflation on principal." The operation of this provision is commonly referred to as "inflation-proofing." However, to permit an endowment concept to operate fully and predictably, the regular transfer of Fund income to principal would almost certainly have to be discontinued. This is particularly so in the early years when it will be necessary to allow the amount available for distribution to grow large enough to cover distributions during periods when asset values may have declined substantially due to general weaknesses in the markets.

In considering moving the Fund to an endowment model, it is important to assure that the endowment is structured adequately to assure its ability to "weather" periods of market decline. With respect to the Permanent Fund, because of the constitutional proscription against "invading" principal, this primarily means assuring that sufficient

Arguments in support of a percent of market value (POMV) distribution of Fund income

assets are retained in the Fund's non-principal account to satisfy distributions during markets downturns.

**A presentation to the
"Principles and Interests
Conference," Chair of the
Board of Trustees
Eric Wohlforth,
November 21, 1997**

It is hard to imagine any major spending decision of the state in the future which will not involve some consideration of the use of Fund income. The very first action, therefore that should be taken is adoption of a modern and rational means of determining what distributable Permanent Fund income is on an annual basis. Only then can intelligent and rational decisions be made on the use of income.

The legislature can take this action without amendment of the Alaska Constitution so long as the payout does not exceed actual income. On a longer-term basis, we should consider a constitutional amendment to achieve this goal.

Legislative action would amount to an affirmation of the Fund's asset allocation model and acceptance of an appropriate level of risk and volatility. It would give stability and certainty to annual permitted payouts. It would recognize that capital gains, at least in part, are real additions to

income. It would put the Fund in sync with the new GASB rules.

"Alaska Permanent Fund Long-Term Investment Considerations," An APFC presentation to Senate Finance, March 31, 1999

In the Trustees' view, it is not likely that the existing investment and distribution structures will work as well for Alaska in the next 20 years...and here's why: (1) increased volatility in capital markets; (2) GASB 31, the new financial accounting standard, changes the way the APFC reports income in the earnings reserve account...and that causes an inconsistency between current Generally Accepted Accounting Practices and state law, according to Morrison & Foerster and KPMG; (3) the crossing of Fund income and state oil revenues lines in 1998.

At the heart of APFC investment planning for the future will be the attempt to mediate among these conflicting objectives:

- Maximize long-term total return;
- Maximize annual spending distributions;
- Preserve the real (i.e., inflation-adjusted) value of the Fund and the distribution; and
- Maximize the stability and predictability of spending distributions.



Eric Wohlforth

Arguments in support of a percent of market value (POMV) distribution of Fund income

Advantage of POMV:

- Provides more predictability and stability in annual distributions.
- Disconnects investment decisions from short-term spending considerations.
- Spending provision becomes part of long-term investment strategy rather than tactical response to market cycles.

“Questions and Answers About the September 14 Ballot Proposition,” APFC Position Paper, June 14, 1999

The Plan adopts a new payout methodology based on a percentage of market value distribution of Fund income. This methodology, which is used by most endowments and foundations – and which is supported in principle by the Board of Trustees – is designed to preserve the purchasing power of the corpus by limiting the annual distributions to a rate lower than the expected long-term rate of return minus the rate of inflation. The income not distributed remains in the fund to offset the effect of inflation.

As the percentage of Fund assets invested in equities is increased, there will be increased short-

term volatility (risk) as well as increased long-term returns. One of the reasons why the Trustees favor a percentage of market value distribution methodology is to moderate the effects of that increased volatility. For Alaskans, it highlights the need to very carefully balance the three conflicting objectives of preserving purchasing power, maximizing income, and providing stable, reliable and predictable annual payouts.

Q. *How much can be distributed while still preserving the real (i.e., inflation-adjusted) value of the Fund?* A. If you want to preserve the real value of the Fund, you must not spend more than the real rate of return on your investments over the long term.

Q. *Isn't a payout based on a percentage of market value going to be more volatile than one based on income?* A. No, distributions under the Plan will be more stable, reliable and predictable than the status quo distribution which is based solely on realized income. This is one of the features of the Plan which is a clear improvement. Calculating annual distributions on market value rather than income means that a dollar of unrealized income will be treated no differently than a

dollar of realized income. This will bring the Fund completely into conformity with generally accepted accounting principles.

*Compiled by Jim Kelly
APFC Director of
Communications
January 11, 2000*



Jim Kelly

Importance of managing volatility

Managing volatility: A key element in Alaska's public finances,
— Excerpt from Fall 2001 Revenue Sources

Investment Revenue Volatility

The lesson that many people have relearned recently is that investments can lose money. Although the state manages many of its funds to avoid volatility, the state also manages some funds, such as the Permanent Fund, for the purpose of making money over the long term. To meet this long-term goal requires taking risk; taking risk means that at times the Fund will make money and at times it will lose money.

Does this volatility cause a problem? Potentially, it does. If the state is relying on a steady stream of income from an endowment to fund a program, the volatility of investment returns can wreak havoc with the program's budget.

It's easy to find examples of this. Section VII of this forecast describes Alaska's endowment funds, all of which invest money in order to live off the investment income. One example is the Alaska Science and Technology Fund. This fund makes grants from the income of its investments, and also provides funding for certain other programs. The fund has existed since 1988. Although the fund would occasionally stockpile some earnings, it had no formal earnings reserve account.

As long as the Science and Technology Fund made money, it could deal with volatility simply by making fewer grants in lean years. Between FY 1992 and FY 2000, its realized income ranged

from a low of \$7.3 million to a high of \$14 million; its spending ranged from \$1.5 million to \$25.7 million . . . With the large losses experienced by fund managers in 2002, however, the fund now faces a dilemma. Unless the legislature spends some of the principal of the fund, not only will the fund be unable to meet its obligations in this year, but it must face the question of whether future earnings will have to first restore losses before any additional spending can take place. This situation is made even more complex for the fund because it has unrealized losses, which, with no shock absorber, eat further into its value.

The Permanent Fund, on the other hand, has avoided this problem because it does have an earnings reserve in which excess revenue is deposited. In years such as this one, in which the Permanent Fund loses money, it can still pay out dividends from the reserve fund.

As with the CBRF (the Constitutional Budget Reserve Fund), over the years people have proposed various ideas regarding the Permanent Fund's earning reserve. One of the most common is the suggestion that the earnings reserve — or a large portion of it — be appropriated back into principal, where it could not be spent without a vote of the people. If this were to happen, however, the Permanent Fund would be in the same shoes as the Science and Technology Fund. It would be at the mercy of the volatile financial

Managing volatility: A key element in Alaska's public finances — Excerpt from Fall 2001 Revenue Sources

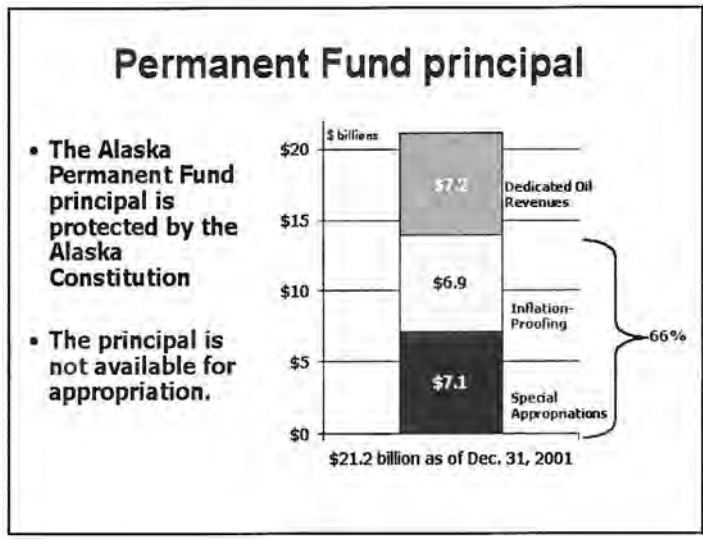
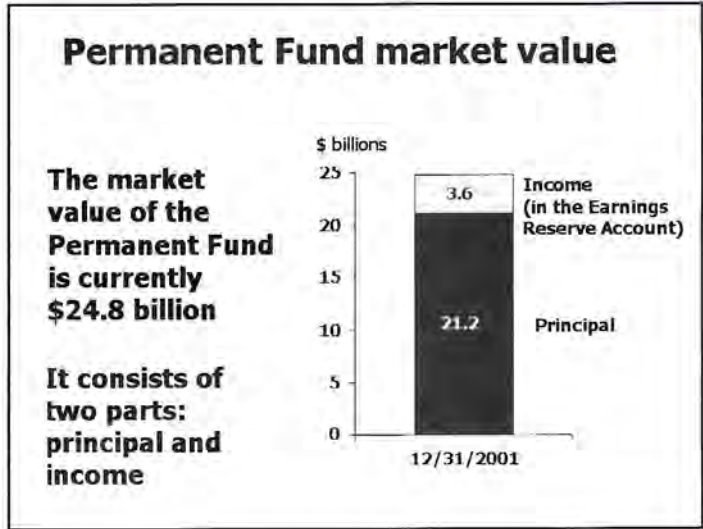
markets, and, if it had no reserves, unable to meet its obligations — currently, dividend payments and inflation proofing — in years when it did not make money. Indeed, if the Permanent Fund lost money, it would show a negative balance in its earnings reserve, and would have to wait for that balance to return to a positive number before it could pay out any amount at all . . .

The most prevalent payout structure for most modern university and hospital endowments allows a yearly payout based on a percent of the market value of the entire fund. If the payout is set at the right number — usually around 5 percent per year — the endowment can provide a relatively steady source of revenue for its programs, while still growing enough to offset the effects of inflation. Year-to-year volatility can be dampened even further if the payout is based on a rolling average of the fund's market value over three to five years.

One interesting aspect of endowments with payouts based on a percent of market value is that they do not usually distinguish between principal and income. Instead, they treat the fund as a whole. Therefore, these endowments do not need an earnings reserve account. The endowment managers are comfortable with the idea that the fund as a whole will grow or retain its value over time. If in a period of low or negative earnings the fund eats into what would be traditionally considered "principal," the managers do not panic because they know that, over time, financial markets will make money and that the fund will return to the black.

It is possible, however, to hybrid the "percent-of-market-value" concept with the traditional notion of protecting the principal of an endowment fund.

For example, the Permanent Fund has recently proposed using the percent-of-market-value methodology, while keeping intact the constitutional restriction on spending principal. When these two approaches are combined, the Fund must retain a healthy earnings reserve account. An account with a ban on spending of principal would have no way to make any payout — that is no dividends — during lean years if it had no earnings reserve.



Volatility 101: Using simple examples to demonstrate how volatility affects returns



DONNA COVENEY / MIT

Allan S. Bufferd, Ph.D.

At the February 15, 2001 Board of Trustees meeting, one of the Alaska Permanent Fund Corporation's (APFC's) investment advisors – Allan S. Bufferd, Ph.D., Treasurer of the Massachusetts Institute of Technology – gave a demonstration using a series of four examples to illustrate the math of volatility. The APFC's Executive Director Robert D. Storer later added four examples of his own to further illustrate the point.

The first four examples, A, B, C and D all assume that you begin with a \$100 investment and at the end of each year you pay out 5 percent of the ending market value (no smoothing by averaging). You do this for three years. All four examples have identical one-year returns – 10 per-

cent, -10 percent and 20 percent. The only difference between them is when that return is earned.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
A	20 %	-10 %	10 %
B	-10 %	10 %	20 %
C	10 %	-10 %	20 %
D	20 %	10 %	-10 %

In all four examples, the arithmetic and geometric mean returns are identical: 6.67 percent and 5.91 percent respectively. But, the combined three-year payout varies in each case, from a low of \$14.56 to \$15.56 to \$16.49 to \$17.63.

Looking only at examples A and B for illustration, here's how to read the tables. In A, the fund goes up 20 percent in the first year, then goes

The sequence in which returns are earned matters.

5% payout – End-of-year market value				
Annual return	Year 1	Year 2	Year 3	
	20%	-10%	10%	
	Arithmetic mean		6.67%	
	Geometric return		5.91%	
	<u>Value</u>	<u>Price Appreciation</u>	<u>5% payout</u>	
Year 1	100.00	120.00	6.00	
Year 2	114.00	102.60	5.13	
Year 3	94.47	107.22	<u>5.36</u>	
Final Value	101.86		16.49	

A

5% payout – End-of-year market value				
Annual return	Year 1	Year 2	Year 3	
	-10%	10%	20%	
	Arithmetic mean		6.67%	
	Geometric return		5.91%	
	<u>Value</u>	<u>Price Appreciation</u>	<u>5% payout</u>	
Year 1	100.00	90.00	4.50	
Year 2	85.50	94.05	4.70	
Year 3	89.35	107.22	<u>5.36</u>	
Final Value	101.86		14.56	

B

Examples by Allan S. Bufferd, Ph.D

Volatility 101: Using simple examples to demonstrate how volatility affects returns

down 10 percent, and then goes up 10 percent. In B, it goes down 10 percent, up 10 percent, and then up 20 percent. In an arithmetic sense, it turns out pretty simple, plus 20 and plus 10 is 30, minus 10 is 20, divided by 3, equals approximately 7 percent arithmetic mean – the same for both examples.

To do the calculation for the geometric or the average annual compound return, in A, you multiply 1.2 (20 percent) times 0.9 (-10 percent) times 1.1 (10 percent), take the cube root of that, and it comes out to 5.9 percent. You do the calculation on B, it also comes out to 5.9 percent. So notice the situation. You have the same arithmetic mean, you have the same geometric mean, albeit lower.

But, look at the different payouts these identical arithmetic and geometric mean returns produce. In example A, you start out with 100 units, it goes to 120. It went up 20 percent. You pay out 5 percent of that equals minus 6. You then start at 114 (120-6), it then goes down 10 and goes to 106. Your ending point after a three-year distribution is 101.86. But, look at the income produced: example A has produced 16.49, example B 14.56. That is the effect of volatility.

This series perfectly illustrates how sensitive a fund is to the sequence in which returns are earned. The lesson: in successive years of up and down performance, it is much better to have the up years first, more income will be produced.

5% payout – End-of-year market value			
	Year 1	Year 2	Year 3
Annual return	10%	-10%	20%
	Arithmetic mean		6.67%
	Geometric return		5.91%
	Value	Price Appreciation	5% payout
Year 1	100.00	110.00	5.50
Year 2	104.50	94.05	4.70
Year 3	89.35	107.22	5.36
Final Value	101.86		15.56

5% payout – End-of-year market value			
	Year 1	Year 2	Year 3
Annual return	20%	10%	-10%
	Arithmetic mean		6.67%
	Geometric return		5.91%
	Value	Price Appreciation	5% payout
Year 1	100.00	120.00	6.00
Year 2	114.00	125.40	6.27
Year 3	119.13	107.22	5.36
Final Value	101.86		17.63

Examples by Robert D. Storer

Volatility 101: Using simple examples to demonstrate how volatility affects returns

The second series of examples, E, F, G, H, shows a more dramatic impact using actual NASDAQ and S&P 500 data for the two years, 1999 and 2000.

In 1999, the NASDAQ was up plus 86 percent and then in 2000, minus 39 percent. The S&P 500 had a 21 percent return, and then a minus 9 percent. If you do the arithmetic average between those two years, the S&P 500 was up an average 5.97 percent per year. The NASDAQ, on the other side was 86 percent minus 39 percent, or 47 divided by 2, or 23 percent per year on average.

The average annual compound return, the geometric return, calculates out to 4.89 percent for the S&P 500 and 6.39 percent for the NASDAQ.

Notice in example E, what happens if you have that same 5 percent payout rule. Again, with no smoothing, so taking the full impact of the volatility, 100 goes to 121, you take out the 5 percent, and you're left with 115, etc., and you end up with 99.30. So even though you are reporting a 4.89 percent annual return, the fund actually has depreciated in value. Forgetting about the inflation adjustment. It has just depreciated in value.

Volatility in annual payouts can be dramatic; smoothing matters.

S & P 500	Year 1	Year 2		
Annual return	21%	-9%		
	Arithmetic mean		5.97%	
	Geometric return		4.89%	
		Price	5% payout	
	Value	Appreciation		
Year 1	100.00	121.04	6.05	
Year 2	114.99	104.52	5.23	
Final Value	99.30		11.28	

E

NASDAQ	Year 1	Year 2		
Annual return	86%	-39%		
	Arithmetic mean		23.46%	
	Geometric return		6.39%	
		Price	5% payout	
	Value	Appreciation		
Year 1	100.00	186.10	9.31	
Year 2	176.80	107.53	5.38	
Final Value	102.15		14.68	

F

Examples by Allan S. Bufferd, Ph.D

Volatility 101: Using simple examples to demonstrate how volatility affects returns

Now, on the other side, the NASDAQ side, where the volatility was enormous, you have paid out 14.68 and you end up with 102.15, but you have had big swings in annual income. These examples show why an averaging methodology to smooth out volatility makes sense.

One last observation. In all cases in which there is actual, observed volatility, the geometric mean return is always lower than the arithmetic mean return – and the greater the volatility, the wider the spread.



Robert D. Storer

S & P 500	Year 1	Year 2		
Annual return	-9%	21%		
	Arithmetic mean		6.00%	
	Geometric return		4.93%	
		Price	5% payout	
	Value	Appreciation		
Year 1	100.00	91.00	4.55	
Year 2	86.45	104.60	5.23	
Final Value	99.37		9.78	

G

NASDAQ	Year 1	Year 2		
Annual return	-39%	86%		
	Arithmetic mean		23.50%	
	Geometric return		6.52%	
		Price	5% payout	
	Value	Appreciation		
Year 1	100.00	61.00	3.05	
Year 2	57.95	107.79	5.39	
Final Value	102.40		8.44	

H

Examples by Robert D. Storer

Endowment Distribution Background by Callan Associates

The Board of Trustees held a workshop in Anchorage on June 9, 1999 to learn more about how other large endowments manage their spending policies.

As part of that workshop, Michael O'Leary, Executive Vice President for Callan Associates, Inc., made a presentation on the then-most current study of endowments which was released by the National Association of College and University Business Officers (NACUBO) in 1997.

Mr. O'Leary's PowerPoint presentation (herein included) provides an at-a-glance comparison of how other funds, like the Alaska Permanent Fund, make their pay outs each year.

Specifically, his presentation:

- reviewed actual distributions as reported by the endowments;
- summarized spending policies for the top 25; and
- reproduced, by institution, the reported spending policies.

Actual Distributions As Percent of Market Value

*Note that these numbers reflect distributions not the basis for spending
They were taken directly from the 1997 NACUBO Study*

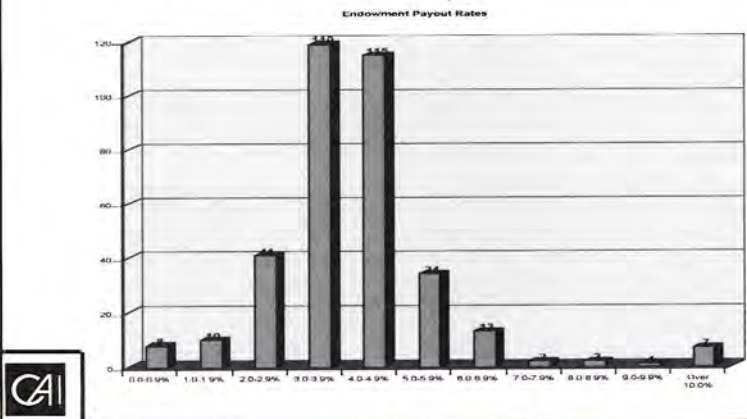
The following table represents the average withdrawals made by the endowments on an annual basis. Withdrawals are expressed as a percentage of the average of beginning and ending endowment market values.

Responding Institutions	Endowment Payout	Investment Expenses	Other	Total
In aggregate:				
Dollar Weighted Mean	3.9%	0.5%	0.6%	5.0%
Equal-weighted Mean	4.2%	0.6%	0.9%	5.7%
By endowment size				
\$25 million and under	4.6%	0.7%	1.1%	6.3%
\$25 - \$100 million	4.2%	0.7%	1.1%	6.0%
\$100 - \$400 million	4.1%	0.6%	0.8%	5.5%
Over \$400 million	4.0%	0.5%	0.4%	4.9%



Actual Distributions As % Of Average Market Value

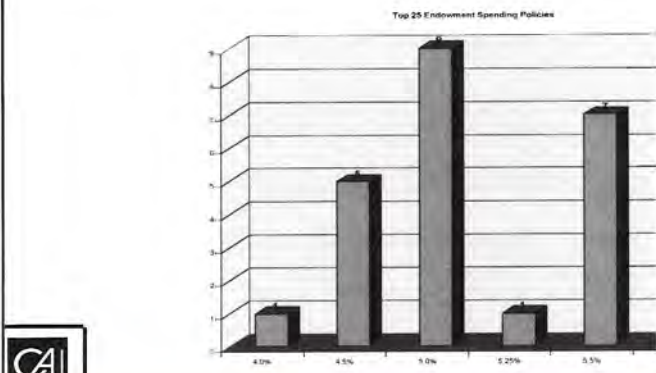
This chart illustrates the breakdown of the various percentages that the institutions pay-out on an annual basis. Note: this graph excludes investment expenses and other distributions



Slide 2

Summary of Top 25 Endowments With A Spending Policy Linked To Market Value

We wanted to isolate the specific spending policies of the top endowments in terms of asset size. While the study done by NACUBO did not specifically address this issue, they provided the necessary data to complete the analysis. The following data examines the spending limit policies of the top 25 endowments by asset size. Those endowments who did not list a specific percentage were not included. For those endowments listing a range of spending guidelines, we used the upper limit.



Slide 3

Why a 5 percent payout rate

Endowment Distribution
Background by
Callan Associates

Top 25 Endowment Spending Policies

- **Harvard University** - An appropriate rate is determined on an annual basis to provide current income and long-term protection against inflation.
- **University of Texas** - The Board of Regents has adopted a policy to hold payout constant until the distribution stream reaches a base payout equal to 4.5% of the fund's average market value. At that point, the payout rate will be adjusted each year by the consumer price index subject to a maximum payout of 5.5% and a minimum of 3.5% of the fund's average market value.
- **Yale University** - A long-term spending rate of 5% is used with a smoothing rule which reduces the volatility of spending levels. Spending for a given year is equal to 30% of the long-term spending rate of 5% applied to the endowment's current market value, plus 70% of spending in the previous year, adjusted for inflation.
- **Princeton University** - Spend a portion of investment income earned by the primary pool in the previous fiscal year. Net income available per unit is increased by 5.5% over the previous year. Income earned in excess of spending is reinvested quarterly in principal.
- **Stanford University** - Stanford's endowment payout policy uses a smoothed payout rate applied to the endowment's beginning year market value. Fluctuations in market performance are managed by smoothing the payout rate, rather than the fund's market value. This is accomplished by multiplying the projected beginning year fund market value by the smoother payout rate which is a weighted average of (1) the target payout rate (currently 5.25%) and (2) the actual endowment payout rate used in the prior fiscal year. The weights used are 40% of the target payout rate and 60% of the prior year's actual payout rate.



This summary identifies the top funds by size regardless of spending policy

Slide 4

Top 25 Endowment Spending Policies

- **Emory University** - Spend percentage of a three-year moving average of market values, with a floor of 4% and a ceiling of 6%; the increase over the previous year's spending is not to exceed the University's expected long-term inflation rate of 4.5%.
- **University of California** - Spend all current income coupled with a goal to produce a growing level of annual income that matches or exceeds inflation.
- **Massachusetts Institute of Technology** - Spend an amount equal to real investment returns over time relative to inflation. This amount should be determined in a manner that will meet the need for minimum fluctuations in distribution growth relative to both the rate of inflation and past distributions.
- **Columbia University** - Spend the lesser of (a) 4.5% of the average market value of the merged pooled funds for the previous three-year period or; (b) a 5% to 7% increase over the previous year's spending.
- **Texas A&M University** - Income distribution will be, excluding fees, no more than 5% of the last 12 quarter rolling average of market values.
- **Washington University** - Spending must fall within 3% to 5.5% of the unit value of the pooled endowment based on a five-year moving average of market values. Within this parameter, the spending rate will increase at the rate of the CPI plus 0.5% calculated on a three-year moving average.



Slide 5

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Top 25 Endowment Spending Policies

- **University of Pennsylvania** - Spend 4.7% of a three-year moving average of market values for investment pool.
- **Rice University** - For planning purposes, increase endowment distribution by 5% for fiscal year 1996; 4.9% for fiscal year 1997; 4.95% for fiscal year 1998. Projected distribution should fall within a band defined by minimum of 4% and a maximum of 7% of a three-year moving average of beginning market values. The long-term target is to distribute 5% to 5.5% of the three-year moving average endowment market value.
- **Cornell University** - Spending is limited to the difference between the total return on investments and the Higher Education Price Index average over a five-year period.
- **University of Chicago** - Spend 5% of a 12-quarter moving average of unit market values, on a two-year lag, with declines limited to 4% below the prior year's payout.
- **University of Michigan** - Spend 5% of the one-quarter lagged 12-quarter average share value, provided that distributions do not exceed 5.3% of current share value.
- **Northwestern University** - Allocate on a per unit basis last year's amount increased by the CPI, unless the total is more than 6% or less than 3.5% of a three-year moving average of the Long-Term Balanced Pool 750 market value per unit (lagged by one year).
- **Notre Dame** - The University has a constant growth rate rule where spending per unit is increased annually by 4%. A collar (4% to 6%) is also in place to ensure that spending keeps pace with investment results.



Slide 6

Top 25 Endowment Spending Policies

- **Vanderbilt University** - Spend 5.2% of a five-year moving average of market values.
- **Dartmouth College** - Increase per unit spending by an inflation increment approved by the trustees, providing that the resulting distribution is between 4.25% and 6.5% of a 12-quarter moving average of market values.
- **University of Southern California** - Increase spending up to 5% each year. Spending must range between 4% and 6% of a 12-quarter moving average of market values as of December 31 of the previous year.
- **Case Western Reserve** - Spend no more than 5.5% of a four-year moving average of market values.
- **Johns Hopkins University** - Objective is to spend only 4.5% to 5% by the year 2002 by reducing the rate of increase in the payment to 1.5% per year.
- **Duke University** - A decreasing rate is applied to a three-year moving average of market values, converging to a 5.5% net spending rate.
- **University of Virginia** - The Pooled Endowment Fund is divided into two classes of shares according to the applicable spending rate. Distributable income per share should represent approximately 4% for Class A shares and 6% for Class B shares of the previous June 30 market value and grow at a rate of 4% per year. If in October of any given year the projected distribution is greater than 5.5% or less than 3.5% for Class A shares and greater than 6.5% or less than 5.5% for Class B shares of the previous June 30 market value, the distribution may be adjusted.



Slide 7

Why a 5 percent payout rate

Permanent Fund distribution issues by Wilson L. Condon

In March of 2000, the Board of Trustees debated the advisability of seeking legislation to create a percent of market value (POMV) distribution policy for the Permanent Fund. As part of the educational process, Commissioner of Revenue Wilson Condon developed a PowerPoint presentation to

provide his colleagues with his perspective on the issues as they relate to the annual distribution of Permanent Fund income. That presentation, which is duplicated in this section, is an excellent summary of the major issues, from a mechanical as well as philosophical viewpoint.

Permanent Fund Distribution Issues – 2000

Commissioner of Revenue Wil Condon
March 2000

Slide 1

Points Covered

- How much will the Fund earn?
- Inflation-Proofing – Why, How and How Much?
- Distributable Income Mechanics
- How Distributable Income is Used
- POMV? POMV Now?

Slide 2

How Much Will the Fund Earn?

- **The Expected Long-Term Rate: 5% Plus Inflation**
 - Investing at the maximum risk level I believe the public will accept (60% in stocks and 40% in bonds and real estate), the Permanent Fund should earn 5% per year plus inflation.
 - (The Purdue Endowment, with much the same investment policy, has a 4% per year expected real earnings rate.)

Slide 3

How Much Will the Fund Earn?

- If inflation is 1% per year over the long term, the Fund should earn about 6% per year.
- If inflation is 6% per year, the Fund should earn about 11% per year.
- This means the Permanent Fund should earn an annual real rate of return of about 5%.

Slide 4



Wilson L. Condon

Why Inflation-Proof?

- If you don't, both the real earning power of the Fund and the purchasing power of the Fund's earnings will decline.
- With inflation at 3% per year and Fund earnings at 8% per year (the real return – 5% – plus inflation), why not spend the whole 8%? Because while you'll have more to spend now, you'll have lots less to spend in the future.
- If you spend only the "real" annual earnings – 5% – you'll preserve both the purchasing power of the Fund's annual earnings as well as the real earning power of the Fund itself.

Slide 5

Inflation-Proofing – How?

- Two ways to do it -- Explicitly and Implicitly
 - Explicit Inflation-Proofing
 - 1) Measure the inflation in the economy each year.
 - 2) Multiply that rate times the Fund balance and make sure you don't spend the resulting amount.

Slide 6

Inflation-Proofing – How?

- Implicit Inflation-Proofing
 - 1) Set a spending rate at or below the "real" earnings rate.
 - 2) The residual rate of annual earnings should equal the average inflation rate over time.

The "real" annual earnings of the Fund should average 5%; that should be the maximum spending rate. Earnings in excess of that amount should be retained for inflation-proofing rather than spent if you want to preserve the real value of the Fund over the long run.

Slide 7

Inflation-Proofing and the Permanent Fund Today

- Provided by Formula In Statute
 - Formula explicitly inflation proofs
 - Expressly inflation-proofs only the principal – a policy choice to preserve the purchasing power of only the constitutionally protected portion of the Fund
 - On average, the Fund has consisted of about 85% principal and 15% earnings reserve; it is 70% principal and 30% earnings reserve today

Slide 8

Permanent Fund
distribution issues
by Wilson L. Condon

Inflation-Proofing and the Permanent Fund Today

- **Has the Fund been over- or under-inflation-proofed?**
 - **Under** if you only consider the results of applying the statutory formula.
 - **Over** if you count the earnings in excess of the statutory amount that have been appropriated into the principal or left in the earnings reserve.

Slide 9

Inflation-Proofing and the Permanent Fund Today

- **A Dilemma and a Lurking Unpleasant Surprise are the Product of requiring the appropriation of inflation-proofing into the principal.**
 - Some believe the requirement is absolutely necessary; if it's not constitutionally protected, they argue, the Legislature will spend it.
 - **But** appropriating inflation-proofing to principal instead of leaving it in the earnings reserve makes it much more likely there will be years when little or no money is available for distributions/dividends.

Slide 10

Distributable Income Mechanics

Earnings Distribution – Dealing with Year-to-Year Variability

- Some years the Fund will earn a lot more than the expected 5% real return and some years it will earn a lot less. Some years it will have negative earnings.
- It makes sense to find some way to smooth the earnings distribution to avoid the boom and bust that would otherwise occur.
- An average of either the Fund's earnings or the total Fund value for the current year and the two, three, or four previous years (called a three-, four- or five-year moving average) would provide a basis for averaging the distribution rate to substantially reduce volatility. The longer the period, the more it will reduce the volatility.

Slide 11

Distributable Income Mechanics

Moving Average of What?

- A moving average of "Realized Earnings" or "Total Return" or a "Percentage of Market Value," if correctly calibrated, should all yield the same amount of earnings for distribution over the long term.
- However, each of the moving averages would differ in any one year.
- Distributions calculated on a moving average of "Percentage of Market Value" would be the least volatile from year to year.

Slide 12

Distributable Income Mechanics

How Used?

- Some of the earnings are used each year to pay the Permanent Fund Dividend.
- Some of the earnings are used each year to inflation-proof the Fund.
- Some of the earnings are available – but so far have never been used – to help pay for public services.

Slide 13

POMV (Percent of Market Value) Distribution – Is it Time?

- Earnings distribution based on POMV would establish an earnings target for the Fund and consequently clarify the guidelines for prudently investing the Fund.
 - Whether an investment policy is prudent or not depends on the earnings requirement and risk tolerance for a fund.
 - You would not invest 100% in stocks unless you needed an average annual 6% real return with the possibility of many bad years in a row.
 - If you need 5% real, something like 60% in stocks and 40% in bonds and real estate would be prudent.
 - If you only need 4% real, you might consider investing all your funds in TIPS (Treasury-Inflation-Protected Securities).

Slide 14

POMV (Percent of Market Value) Distribution – Is it Time?

- How much should the Trustees try to earn? The Legislature has not established an explicit earnings target for the Permanent Fund. By implication they may have established a 5% annual real return goal.
 - The statute governing the Permanent Fund tells the Trustees “to maintain safety of principal while maximizing total return...”
 - By authorizing the investment of up to 60% of the Fund in stocks, the Legislature may be suggesting an annual earnings goal of 5% real.
 - Explicit directions from the policy makers about what they want from the Fund would be preferable. Prudent Trustees would then have the job of figuring out how to get there.

Slide 15

POMV – Other Reasons to Do it

- Besides assisting the Fund’s investment policy by establishing a specific return goal, what are the other advantages of POMV?
 - POMV more effectively smoothes the year-to-year volatility in earnings distributions than do distribution procedures based on realized or total return. This would be very important if earnings were used to pay for public services.
 - POMV simplifies the inflation-proofing procedure. However, because inflation-proofing is implicit rather than explicit, it is much less visible.

Slide 16

Two independent studies on optimal endowment payout rates

At the June 8, 2001 meeting of the Fiscal Policy Caucus, APFC staff testified that a 5 percent payout is on the high end of doable for the Permanent Fund in terms of a sustainable payout rate that still maintains the Fund's real value. This is the policy reason that the Board of Trustees is seeking to limit future payouts of Fund income to no more than five percent of the Fund's market value, averaged over the prior five years.

Essentially, 5 percent is the most the Fund can pay out each year and still accomplish full inflation-proofing over time, given the statutory management framework and asset allocation limits established by the legislature.

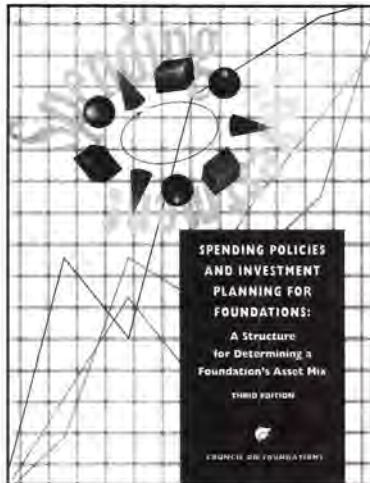
The Alaska Permanent Fund Corporation (APFC) has reviewed two independent studies which support this position: in the long term, lower initial spending results in higher aggregate spending over time. Thus, a 5 percent payout would allow greater distributions over time than a 6 percent payout rate and a 4 percent payout rate would allow a greater distribution over time than a 5 percent payout.

In both cases, it would take approximately 17-19 years for the lower payout rate to begin to produce higher annual distributions than the higher payout rate. Eventually, the cumulative distributions of the lower payout rates become larger than those of the higher payout rates.

Setting the level of the payout rate is clearly a legislative prerogative. As the following excerpts from the two studies indicate, the payout rate acts as a balancing device between current and future spending. Making that determination is the public policy responsibility of the legislature.

The Board of Trustees has a fiduciary responsibility, however, to point out that a payout rate that is overly high will initially produce high levels of distributions, but will, over time, erode the value of both the Fund and the absolute level of dollars being paid out.

Two independent studies on optimal endowment payout rates



SPENDING POLICIES AND INVESTMENT PLANNING FOR FOUNDATIONS, Third Edition

This excerpt is reprinted with permission from Spending Policies and Investment Planning for Foundations - A Structure for Determining a Foundation's Asset Mix, by the Council on Foundations. For further information, please visit www.cof.org

Table E-1 examines three different spending policies. Each of the three scenarios starts with an initial portfolio of \$1 million in 1950. To determine the investment returns for each policy, we have used representative asset allocations for foundations as determined by Greenwich Associates surveys. We have made five adjustments in the

Table E-1 Summary Analysis of Different Spending Policies

Spending Level* (in Thousands of Dollars)

	5.5%	6.5%	7.5%
1950 Asset value	1,000	1,000	1,000
1998 Nominal asset value	13,756	8,604	5,357
1998 Real (inflation-adjusted) asset value	1,982	1,239	772
1950-1998 percentage growth (loss)	98.2%	23.9%	-22.8%
1950 Total spending	55	65	75
1998 Total spending	684	510	370
1950-1998 Total spending	9,698	8,392	7,202

* Spending is defined as (1) qualifying distributions; plus (2) taxes paid (excise tax and any unrelated business income tax); plus (3) 0.5 percent for investment management expenses.

Two independent studies
on optimal endowment
payout rates

portfolio over time. First, we looked at the period from 1950 to 1970, then from 1970 through 1972, 1973 through 1989, 1990 through 1994, and finally 1995 through 1998.

The results of the analysis are dramatic. For example, Table E-1 shows that over the 49-year period from 1950 to 1998, a foundation spending 5.5 percent every year distributes \$1,306,000 more than it would have if it had been spending 6.5 percent per annum and \$2,496,000 more than if it had been spending 7.5 percent. This analysis confirms the study done by Alicia Meckstroth, "Private Foundations and Charitable Trusts 1990," published by the Internal Revenue Service in the *Statistics of Income Bulletin*. Both studies suggest that in the long term, lower initial spending results in higher aggregate spending over time. More specifically, our analysis indicates that by 1968 (19 years), a foundation spending 5.5 percent begins spending more each year than if it had been spending 6.5 percent. The 5.5 percent policy overtakes the 7.5 percent policy in 1967, or in a total of 18 years.

One can also determine the impact of different spending policies by comparing the total dollars paid out today under each policy. For example, under a 5.5-percent spending policy, \$684,000 was spent during 1998 (Table E-1). Under the 6.5 percent spending policy, on the other hand, \$510,000 was spent. Thus, the 5.5 percent policy results in 34.1 percent more spending than the 6.5 percent policy. Compared with the 7.5-percent spending policy, 84.9 percent more is spent under the 5.5 percent policy.

... This study yields several observations. First and foremost, a foundation's asset allocation and spending policies are interrelated. Spending policy set at a level greater than the real returns a portfolio is capable of producing suggests that the foundation will effectively undergo a liquidation.

Second, the asset allocation policy, usually set by the foundation's governing board, is critical to long-term portfolio performance. Therefore, each board has a responsibility to consider its asset mix decisions carefully in a structured, disciplined manner, together with the implications these decisions have on spending policy.

Third, based on the analysis of historical asset class returns used in this study, foundations cannot maintain current spending rates at 7.5 percent or above if they also wish to maintain their portfolio's purchasing power. Foundations will require fairly aggressive asset mixes to achieve real returns that will even support 5.5 percent spending.

Fourth, over a long period, a more aggressive spending policy today will lead to lower nominal dollars available for spending in the future. Organizations must balance short-term needs against long-term goals.

Finally, one should be cognizant of near-term returns and the potential impact on conclusions reached when developing an asset mix policy. Financial markets experiencing abnormally high or abnormally low returns for a fairly extended period (15 years) can have a significant impact on the conclusions. Therefore, foundations should focus on "normal" term (25+ years) return assumptions when developing an asset mix strategy.

Two independent studies on optimal endowment payout rates



SUSTAINABLE PAYOUT FOR FOUNDATIONS

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Excerpted from Section II

Past returns using passive allocations: effects of changes in payout rate

In this section we first posit a simple portfolio invested 65 percent in the S&P 500 Index and 35 percent in the Lehman Brothers Government/Corporate Index. We then show the effects of changes in the spending rate over the past 30 years on this simple, passively-invested portfolio. This 65/35 allocation approximates the average asset allocation for diversified Michigan foundations during the study's 1973-97 time frame.

As a simplifying assumption, spending was assumed to occur at a constant percentage of a four-quarter moving market value. In this model, cash disbursements (at the rate of one quarter of the constant percentage of a four-quarter moving average) are also recognized and accounted for.

Results of 4 percent, 5 percent, 6 percent, and 7 percent payout rates over time

Exhibit 1 models the level of real spending and real market values after spending for the 65/35 hypothetical portfolio described above for the 30-year period 1969 - 98. This 30-year period was selected because it includes both unfavorable and favorable market conditions. In each case, a beginning market value of \$100 million was assumed.

- Real fund market value increased under a 4 percent spending rule, with the corpus of the hypothetical endowment growing from \$100 million in 1969 to \$160.43 million by the end of 1998. Real spending was also enhanced, and grew from \$4 million in 1969 to \$5.07 million in 1998.
- Under a 5 percent spending rule, the purchasing power of the foundation grew from \$100 million in 1969 to \$119.52 million at the end of 1998. The purchasing power of the distributions declined to \$4.78 million at the end of the period (from \$5 million at the beginning of the period).
- A 6 percent spending rule would have eroded the purchasing power of the foundation's endowment, with the real ending market value dropping to \$88.58 million at the end of the period. Spending also dropped from an initial level of \$6 million at the beginning of the period to \$4.30 million by its end. This represents a decline of more than 25 percent in terms of the real purchasing power of the foundation's payout.
- Under a 7 percent spending rule, the declines in real fund market value and levels of spending are more dramatic, with the level of real spending dropping nearly in half over the 30-year period, and fund market value declining over a third in real terms.

Why a 5 percent payout rate

Two independent studies
on optimal endowment
payout rates

- Real payout and real market value of the portfolios declined steeply in the early years of this period irrespective of the payout rate being modeled. At the 4 percent and 5 percent levels, real ending market values only regained their initial value by virtue of the extraordinarily strong financial markets of the 1990s. Only the 4 percent payout rate ever fully regained the inflation-adjusted level of the initial amount of payout in 1968.

Why the reliance on real values (for both payout and fund market value) instead of a calculation reporting nominal values? Some donors may anticipate, or even encourage, the foundations they endow to spend themselves out of existence over time by disproportionately benefiting current programming at the expense of future programming. Such donor intent, when it exists, is compatible with the current federal rule which mandates a minimum level of payout and permits a foundation to set itself on a course where its future role will be less than its present role. Many donors, however,

establish foundations to provide for both current and future needs and maintain comparable levels of programming. That objective can only be achieved by maintaining the real value of the payout.

Exhibit 1A illustrates the way in which the level of prescribed payout acts as a balancing device between current and future spending. A spending rate that preserves purchasing power of both the fund market value and payout stream holds constant the scope of programming that a foundation can fund over time. Put another way, a payout rate that is too low allows a foundation to accumulate assets and provide greater resources in the future at the expense of current programming, while a payout rate that is too high has the opposite result.

Exhibit 1B graphically illustrates that the lowest initial level of payout rises to the highest future real payout, while the highest initial level of payout results in the lowest future real payout. A payout rate that is overly high will initially produce high levels of payout, but will, over time erode the

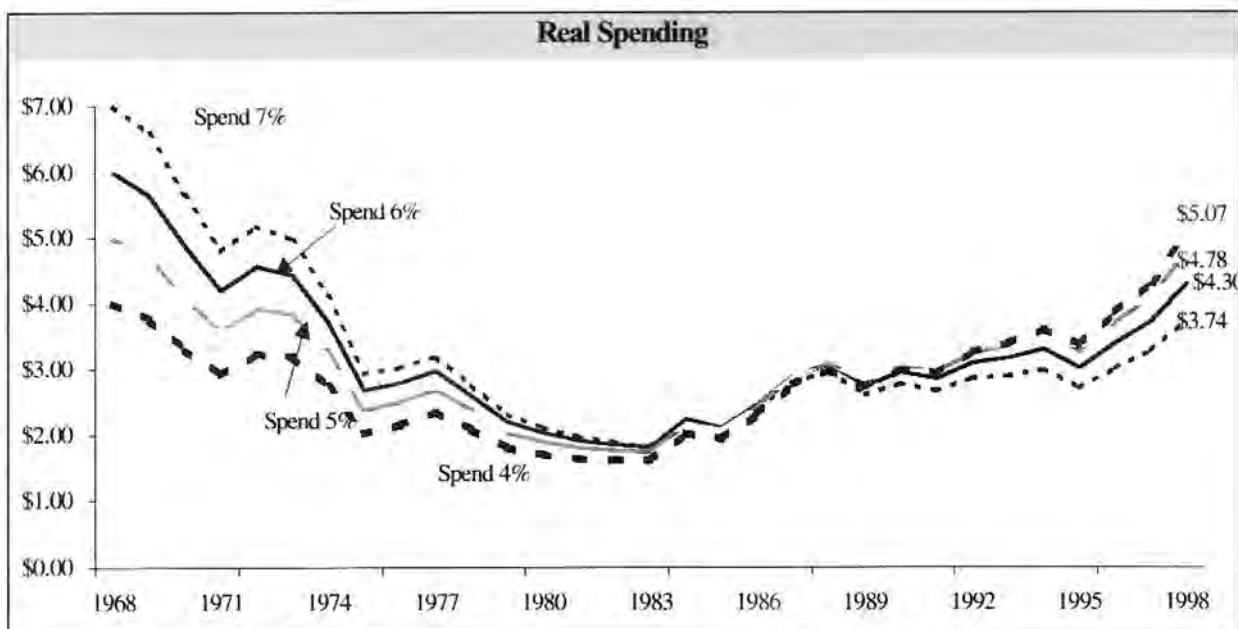


Exhibit 1A

Why a 5 percent payout rate

Two independent studies on optimal endowment payout rates

value of both the fund and the absolute level of dollars being paid out from that fund. A lower payout rate will enable the fund to accumulate value and will result in higher absolute levels of real payout in the future. Only the 5 percent payout rule comes closest to preserving purchasing power and level of payout for the hypothetical portfolios in this period.

The period shown here begins towards the end of the great bull market of the 1950s and 1960s. By 1968, the diversified Michigan foundations we surveyed had over 50 percent of their assets allocated to equities, virtually all invested in U.S. stocks. In the decade of the 1970s that followed, stocks posted anemic nominal returns and had a negative real return.

Whatever the period, however, the following holds true: the more you spend today, the less you will be able to spend tomorrow because a higher rate of spending eats more rapidly into the market value of the fund. Note that by the end of 1998,

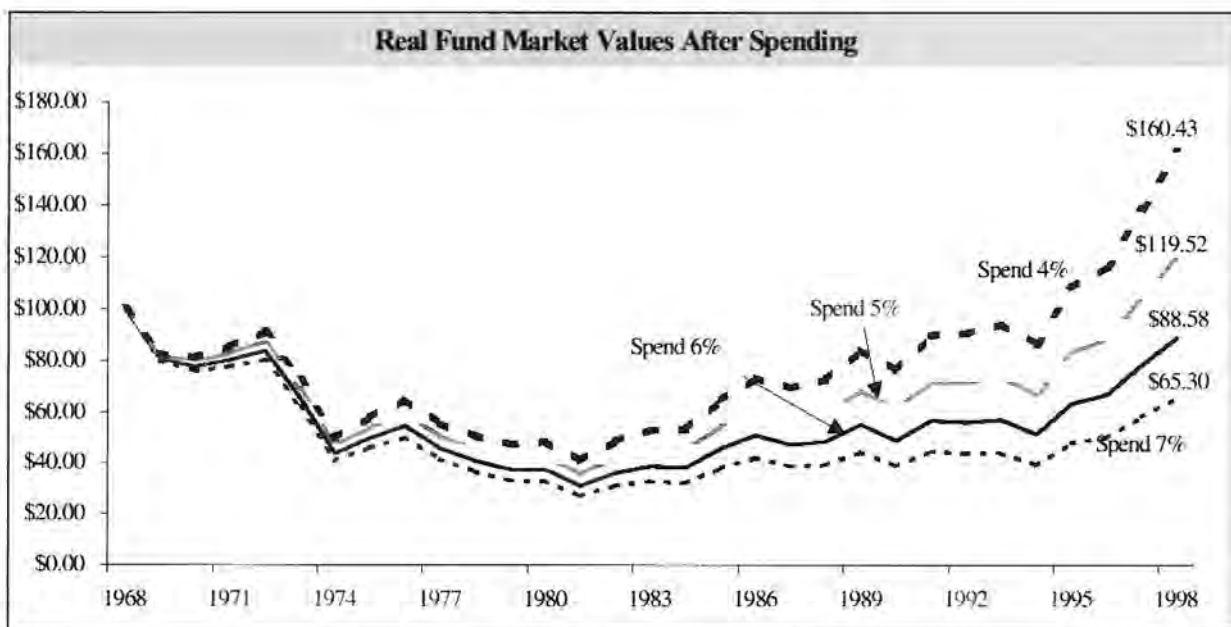
real spending (i.e., after inflation) for each of these funds remains below the 1969 level, with the sole exception of the fund spending 4 percent.

In addition, only the funds spending 4 percent and 5 percent have succeeded in preserving their real value over this period. Those spending 6 percent and 7 percent remain substantially poorer than they were in 1969.

Finally, these illustrations pre-suppose a disciplined, long-term investor that rebalances to the target asset allocations each year. Any investor that failed to rebalance, or bailed out of stocks after the 1973-74 decline, or employed active managers that underperformed the market indexes, would have had worse results than those shown here.



Exhibit 1B



Alaskans in support of the Board of Trustees' proposed constitutional amendment

Public statements of support from Alaskans around the state

Proposal for fund is important step

Anchorage Daily News
January 8, 2001
Arliss Sturgulewski

The state has been wrestling with the fiscal issue big time since the first oil hit the pipeline in the late 1970s. Solutions will be complex and controversial. Progress won't always come in one universally accepted approach. As someone who believes the beginning of a journey is important, I offer some thoughts on one proposal to deal with what must be a cornerstone of any fiscal plan: the Alaska Permanent Fund.

Alaskans have spoken with a very loud, clear voice that they want the Alaska Permanent Fund to be just that, permanent. A whole lot of Alaskans who had or are having a hand in the establishment and continuing protection of the fund have worked and are working to make that clear message a reality.



Arliss Sturgulewski

Kudos to the board of trustees for its wise proposal to make the fund permanent. On Dec. 8, after four years of study, the board recommended that the Alaska Legislature, in consultation with the governor and the board, consider and approve a constitutional amendment that would provide for permanent inflation-proofing of the fund. The amendment would state that the annual payout from the fund would be no more than 5 percent of the average fiscal year-end market value of the fund over the immediately preceding five fiscal years. Currently, we have statutory protection for inflation-proofing. According to the board, providing for inflation-proofing in a constitutional amendment as proposed would strengthen and extend the existing statutory provision for inflation-proofing the principal of the fund by putting inflation-proofing into the constitution and apply it to total fund assets, including principal.

The late Elmer Rasmuson, the first chairman of the board, was a great student of the fund. During devastating national inflation, 13.5 percent in 1980, he became concerned that in order to protect the fund it was absolutely imperative that inflation-proofing be provided.

Elmer convinced those of us in the Legislature of this wisdom, and in 1982 we passed a statutory amendment to inflation-proof. Lest you think this wasn't such a big deal, take a look at the slip of paper that accompanied your 2000 dividend of \$1,963.86. You will see that \$620.37 (32 percent) of the payout was due to inflation-proofing.

Alaskans are fiercely protective of the dividend. No doubt the first question they will ask is "How does this proposal affect my dividend?" The board's response is, "It doesn't." In modeling of the proposal, it came to two fundamental conclusions: "(1) The constitutional amendment will have no impact on the dividend program vis-à-vis the status quo; and (2) Volatility in the financial markets may impact the dividend program but the impact will be the same under either the status quo or the proposal."

What do other large public endowment funds do? I personally am connected with three endowment programs that use the University of Alaska Foundation, the Presbyterian Church (USA) Foundation or the YMCA of the USA Fund as managers of the funds. All use payout plans very similar to the board's recommendation. The latest report from the National Association of Colleges and University Business Offices shows that some 72 percent of the respondents, 320-plus institutions, used a pre-specified percentage of a moving average of market values. Good company to keep.

Our fund will have a 25th birthday in November, and we can truly say, "You've come a long way, baby." With a constitutional mandate to inflation-proof the fund, we can do even better.

Arliss Sturgulewski is a former state senator and candidate for governor of Alaska.

Public statements of
support from Alaskans
around the state



Jay Hammond

Governor Hammond supports Board's proposal

Anchorage Daily News
Excerpt from an Editorial
January 19, 2001
Jay Hammond

Two proposals from Juneau could do much to protect the Permanent Fund and its dividend program.

The first came from the Permanent Fund Board proposing a constitutional amendment requiring inflation proofing. Currently there is statutorily mandated inflation proofing, but this could be abolished at the whim of the Legislature, which then could spend all fund earnings, including those required for inflation proofing and dividends, without voter approval. I strongly support the board's proposal for the same reason I insisted the fund itself be enshrined

in our constitution and its invasion permitted only with voter consent.

While a constitutional amendment would protect the fund, it alone does not necessarily prevent devastation of dividends. However, hand in hand with the second proposal (that of the governor to set a target level beneath which our Constitutional Budget Reserve may not be depleted without automatically imposing a tax) it would erect a formidable barrier to those who'd like to get their hands on your dividends. While such a barrier may not have been either proponent's major objective, I commend both for proposals that could provide the "dividend insurance" coverage I believe absolutely necessary if the program is to remain viable.

*Jay Hammond served as
governor of Alaska
from 1974 to 1982.*



Marc Langland

Fiscal Policy Council of Alaska

March 28, 2001
Excerpt from a letter by
Marc Langland

Dear Legislator:

The Fiscal Policy Council of Alaska, Inc. is dedicated to promoting the state's long-term fiscal certainty through research and providing objective information about Alaska's

finances. This has involved advancing Alaskans' understanding of the state's finances and the long-term implications of the choices our elected officials make-and don't make. We believe the state's economic future rests on stable state spending and revenue policies

To that end, we urge the Legislature to take action this legislative session that will bring fiscal certainty a step closer. This includes support for the

Public statements of support from Alaskans around the state

passage of HJR 15/SJR 13, the constitutional amendment that will provide for permanent inflation proofing of the Permanent Fund.

Three shortcomings in the present management of the Permanent Fund could be overcome with simple technical changes in the state law covering the method for determining earnings available for distribution each year. These shortcomings are:

1. **Conflicting Management Objectives.** Management of the portfolio of the Fund to maximize long term earnings may come into conflict with the need to generate realized income to fund payment of the Dividend.

2. **Unstable Flow of Income.** Permanent Fund realized income, which becomes available for appropriation each year, might be unstable from year to year since it depends upon portfolio management decisions.

3. **Uncertain Inflation Proofing.** Since inflation proofing is paid out of fund income after the Dividend, there is no guarantee that enough money will be left over in any year to fully inflation proof the Fund.

These problems would be eliminated by converting from the current method of determining

annual income to the method used by most large managed funds.

That method is to make available for distribution each year a fixed percentage — typically 5 percent — of the market value of the fund averaged over a long interval — typically the last 5 years.

A fixed percentage distribution would free Permanent Fund managers from the need to cash out investments in order to fund the Dividend at a time when holding the investments would maximize long term earnings.

A fixed percentage distribution would stabilize the annual income available for distribution by severing its tie to the realized income of the Fund and by dampening its connection to fluctuations in the stock and bond markets. The longer the time period over which the market value of the Fund is averaged, the greater the stability in the annual distribution.

A fixed percentage distribution would automatically inflation proof the Fund and guarantee its value over time. A fixed percentage distribution of 5 percent, used by many large funds, reflects the expectation that the Fund can, over time, earn a real rate of return of 5 percent, over and above inflation.

We believe the “5 x 5 Rule” will maximize the growth of the Permanent Fund, stabilize its annual earnings, and guarantee inflation proofing of its principal.

We urge prompt action of this legislation and look forward to working with the Legislature as it faces the critical decisions that will chart the course of Alaska’s fiscal future.

Sincerely,
Marc Langland
President
Fiscal Policy Council
of Alaska



Public statements of
support from Alaskans
around the state

Permanent Fund Earnings Phase II — A Cornerstone for Fiscal Certainty

Excerpt from Commonwealth
North's Permanent Fund Report
May 1999

Inflation proofing is a crucial aspect of the health of the Permanent Fund. Inflation transforms part of Permanent Fund principal each year so that it appears to be income. Spending some or all of this inflation-created "income" would, in effect, constitute a withdrawal from the Fund's real principal. Returning the inflation-created "income" to the

Fund corpus (i.e. inflation-proofing) is necessary to keep the corpus whole. Redefining the principal as the original corpus plus earnings reserve and unrealized gains yields a larger basis for investment allocation and calculation of the 5% earnings. Sound long-term investment policy will be the main engine of earnings as fund managers strive to achieve a return greater than the defined endowment rate of 5%.

Asset allocation should be the foundation of the investment process. Commonwealth North urges use of a real total return concept in defining Permanent Fund earnings. Earnings above

the anticipated long-term level of inflation can be available for distribution. Most large college endowments and foundations use this concept. The earnings available for all uses would be defined as 5.0 % of the average total value of the Permanent Fund for the last five years. While investment returns will vary from year-to-year, under this endowment concept historical perspective indicates that in the long run the real earnings of the Permanent Fund will be sufficient to make the 5% payout and also inflation-proof the Fund.

Keep it permanent — 5 percent limit protects Alaska Permanent Fund

Anchorage Daily News
Excerpt from an Editorial
April 17, 2001

Trustee Clark Gruening said the 5 percent-limit is the "best way to ensure the Permanent Fund is permanent."

The 5 percent rule has another advantage. Without affecting the current dividend formula, and

while strengthening the fund against inflation with the force of the state constitution, the limit would leave a projected \$175 million-\$300 million in earnings available for state spending. This amount could be used to help cover the state's spending shortfalls. That residual amount is projected, not guaranteed — the proposed constitutional amendment puts inflation-proofing and dividends first — but the soundest proposals for ways to square state spending and revenue have

included some use of Permanent Fund earnings along with other revenue and economics.

Whether or not the Legislature would decide to use leftover earnings that way, the proposed constitutional amendment would be as close as Alaskans can come to having the fund's protection written in stone. That would guarantee a growing fund to serve Alaskans yet to be born, as well as those of us alive now.

Public statements of support from Alaskans around the state

Time to use Permanent Fund

Anchorage Daily News
Editorial
April 12, 2002

It's time to see the Alaska Permanent Fund for what it is: A blessing of riches to use, not worship, for the public good of Alaskans today and generations to come. It's time to use some of its earnings to pay for public services and make the principal as permanent as we can.

Alaska voters created the Permanent Fund in 1976; beginning in 1982, Alaskans have received a Permanent Fund dividend check. Over 20 years, we've built the fund into a machine churning out bigger and bigger dividends that topped out at almost \$2,000 in 2000.

The Permanent Fund has earned \$25 billion since the first deposit in February 1977, according to Deputy Revenue Commissioner Larry Persily. We've saved \$14 billion and paid out \$11 billion in dividends.

Is that all the Permanent Fund is for?

No.

In 1999, Department of Revenue Commissioner Wilson Condon made a short speech announcing that year's dividend. He reminded Alaskans of Article 1, Section 1 of the Alaska Constitution. There we affirm our natural rights to life, liberty, the pursuit of happiness and the enjoyment of the rewards of our own industry. But Mr. Condon pointed out that the Declaration of Inherent Rights includes responsibilities:

"All persons have corresponding obligations to the people and to the state."

Good stewardship of the \$25 billion Permanent Fund is a vital part of meeting those obligations to one another and to our children. To that end, Alaskans need to see the fund as more than a dividend machine.

First, we should guarantee the fund's permanence by approving a constitutional amendment that would make the fund an endowment, paying out no

more than 5 percent of a five-year market value average each year.

Second, we should devote some of those earnings to public services.

THE UPSIDE

Clark Gruening, one of the Permanent Fund's trustees, has said the endowment plan is the best way to guarantee the fund's permanence. Historically, lawmakers have been scrupulous in not only inflation-proofing the fund, but in loading it with extra deposits to speed its growth. Inflation-proofing is protected only in statute, however, and that would be easy for a future Legislature to change.

Embodied in the Constitution, the 5 percent payout limit would be as close as we can get to written in stone. Given an average annual return of about 8 percent and an inflation rate likely to average about 3 percent, the amendment would protect the fund from inflation for keeps. It would continue to benefit Alaskans long after this generation was gone.

Public statements of
support from Alaskans
around the state

If we spend some of the earnings of the Permanent Fund to provide state services, to maintain and enhance our roads, schools, public safety and university, we'd be investing in a society that doesn't blunt free enterprise and the private sector but provides the foundation for it. As Mr. Condon said, we must recognize "the need to spend money as a community to protect our freedom as individuals."

THE DOWNSIDE

There's no getting around it: We'd all see a dip in dividends and the joys they bring — not only individual spending or saving, but also less cash circulating in the economy. Those costs are real, and use of fund earnings is a regressive tax that takes a bite from Alaskans too young to crawl and too old to walk. But that regressiveness can be tempered with a graduated income tax.

THE UNCERTAINTIES

The endowment principle is sound — provided averages calculated over 75 years of investment history continue to hold true. We can't know that for sure.

We can't know for sure what other income sources Alaska may have in future years. Will we continue to need a share of Permanent Fund earnings in the hundreds of millions of dollars, or more?

We can't completely chart the future, nor should we try to handcuff Alaskans who will make future decisions. We can act based on what we know, anticipate variables as best we can and share the burden of risk fairly.

THE BOTTOM LINE

Make the Permanent Fund an endowment, and we make it permanent. Spend some of the earnings on state government to fill the fiscal gap, and we draw from all Alaskans to build and maintain a better Alaska. Coupled with a progressive income tax, use of Permanent Fund earnings asks everyone to give, but asks more from those who have more.

Yes, this use of earnings breaks the spell of the fund as untouchable. It's time. That spell is a crippling illusion that weakens us in the long run. The Permanent Fund is not an end in itself, but a powerful means to the end of a more prosperous, stable Alaska. Together, an endowment and wise spending give us the means to provide for ourselves, our children and their children. We'll still have dividends, a benefit no other state in the Union enjoys. And we'll keep Alaska's economy sound. That's no illusion. That's good sense and good stewardship.



2024 ADOPTED BOARD OF TRUSTEES MEETING CALENDAR

With suggested changes in red

Date	Location	Type of Meeting	Recurring Topics
February 15, 2024 Thursday	Juneau	Quarterly	<ul style="list-style-type: none"> CEO/CIO/CRO/COO reports Performance for quarter ending 12/31 update Asset Class Update/Review TBD opportunity to discuss CIO recommendations and provide input/concerns. Legislative Update – Opportunity for Board to weigh in on Legislative Strategy, pending legislation affecting APFC, or process.
April 10, 2024 Wednesday	Anchorage	Regular	<ul style="list-style-type: none"> CEO/CIO/CRO/COO reports Legislative Update – update and feedback Discuss Investment Policy ahead of May meeting, final discussion before the revised policy is provided in May.
May 22-23, 2024 Wed/Thurs CONFLICT FOR TRUSTEE CRUM ALTERNATE DATES: May 15-16, 2024 May 28-29, 2024	Juneau	Regular Audit Committee	<ul style="list-style-type: none"> CEO/CIO/CRO/COO reports Investment Policy review and adoption – policy is functionally finalized Legislative Update/end of session review Asset Class Update/Review TBD Performance for quarter ending 3/31 – Callan Budget Review Private Markets Pacing approval Review YTD financials and coming year audit plan
July 17, 2024 Wednesday	Anchorage	Regular	<ul style="list-style-type: none"> CEO/CIO/CRO/COO reports No regular topics

<p>September 3, 2024* Tuesday</p> <p>ALTERNATE DATE DUE TO LABOR DAY HOLIDAY</p> <p>September 5, 2024 Thursday</p>	Juneau	<p>Audit Committee</p> <p>Budget Planning Session</p>	<ul style="list-style-type: none"> • CEO/CIO/CRO/COO reports • Review Audit process • Budget Discussion ahead of annual meeting ask for adjustment to budget to meet goals.
<p>September 25-26, 2024 Wed/Thurs</p>	Anchorage	Annual Meeting	<ul style="list-style-type: none"> • CEO/CIO/CRO/COO reports • Budget Approval – This is the budget that will be submitted to the Governor’s Office for consideration. • Performance for FY end 6/30 - Callan • Asset Class Update/Review TBD • Report of Annual Audit • Election of Corporate Officers – Chair and Vice-Chair • Calendar of meetings for next two years
<p>December 11-12, 2024 Wed/Thurs</p> <p>ALTERNATE DATES DUE TO BUDGET RELEASE</p> <p>DECEMBER 10-11, 2024 TUES/WED</p>	Juneau	Regular	<ul style="list-style-type: none"> • CEO/CIO/CRO/COO reports • Performance for quarter end 9/30 - Callan • CEO Evaluation – Chair coordinates – executive session • Asset Class Update/Review TBD

Committee Meetings and Special or additional APFC board meetings will be scheduled as needed.

*The Audit Committee Meeting in September must be scheduled in advance to coordinate with the release date for the Audited Statements and the Annual Report as required in statute.

Standard Topics for Quarterly Meetings include Callan Updates and Asset Class Updates. Asset Class Updates are scheduled throughout the year and will rotate through the Asset Classes