

Natural Resource Funds



Alaska

Alaska Permanent Fund



Market Value

Alaska Permanent Fund
\$46.35 billion

Santiago
Compliance
Index

83 / 100

Resource
Governance Index
Natural Resource
Fund Score

Not Yet Rated

Truman Sovereign
Wealth Fund
Scoreboard

91 / 100

Good Governance Fundamentals

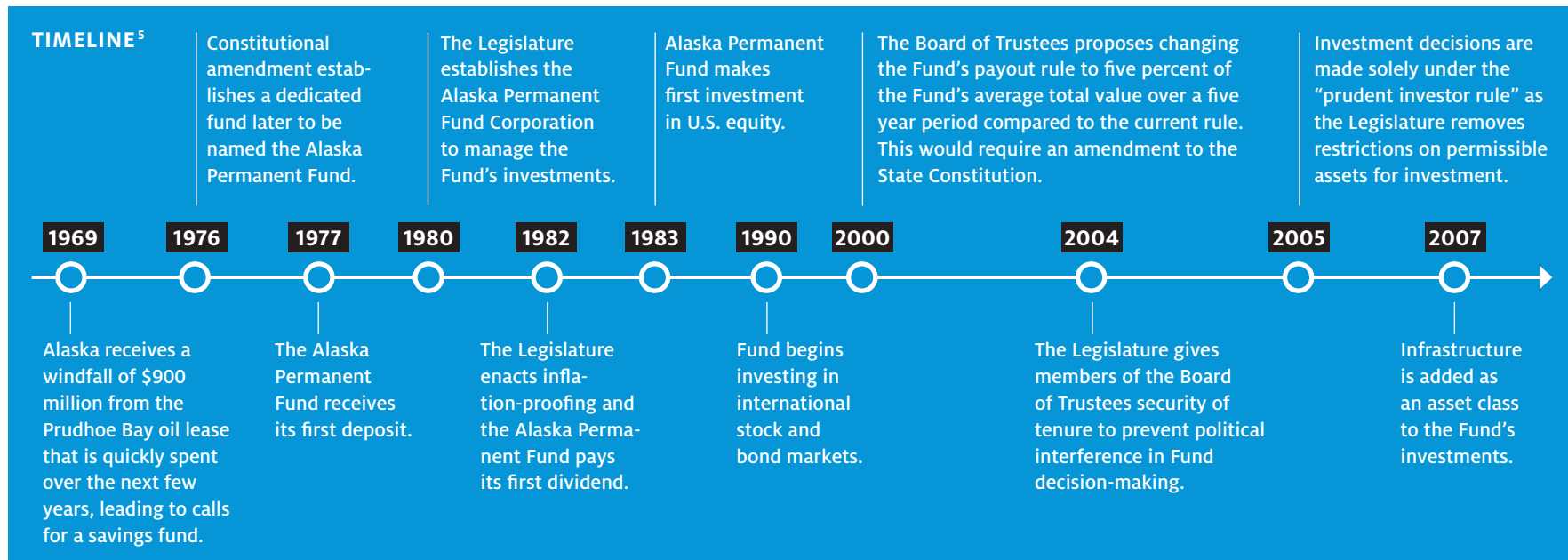
Clear Deposit Rules	yes
Clear Withdrawal Rules	yes
Clear Investment Rules	yes
Transparent	yes
Publicly Available Audits	yes
Effective Oversight	yes

Fund Highlights

- The Alaska Permanent Fund was established in 1976 to save oil revenues for future generations and create a source of financing for direct cash transfers.
- Only a portion of oil revenues are deposited into the Fund. For example, corporate income taxes from oil companies go straight into the budget.

- Only investment income from the Fund can be withdrawn and it can only be used for three purposes: direct distribution to Alaskan citizens through dividend checks, inflation-proofing the principal and covering the Alaska Permanent Fund Corporation’s operating expenses.
- The Fund’s investment strategy is principle-based rather than rules-based.
- The Fund is subject to strong public oversight and publishes extensive information on investments and operations.

Timeline and Fund Objectives



Fund Inception

- The Alaska Permanent Fund was established under the **Alaska State Constitution, Article IX Section 15** in 1976.¹

Fund Objectives³

- The Alaska Permanent Fund is a **future generations savings fund and a source of funding for direct cash distribution** of oil revenues to Alaskans.

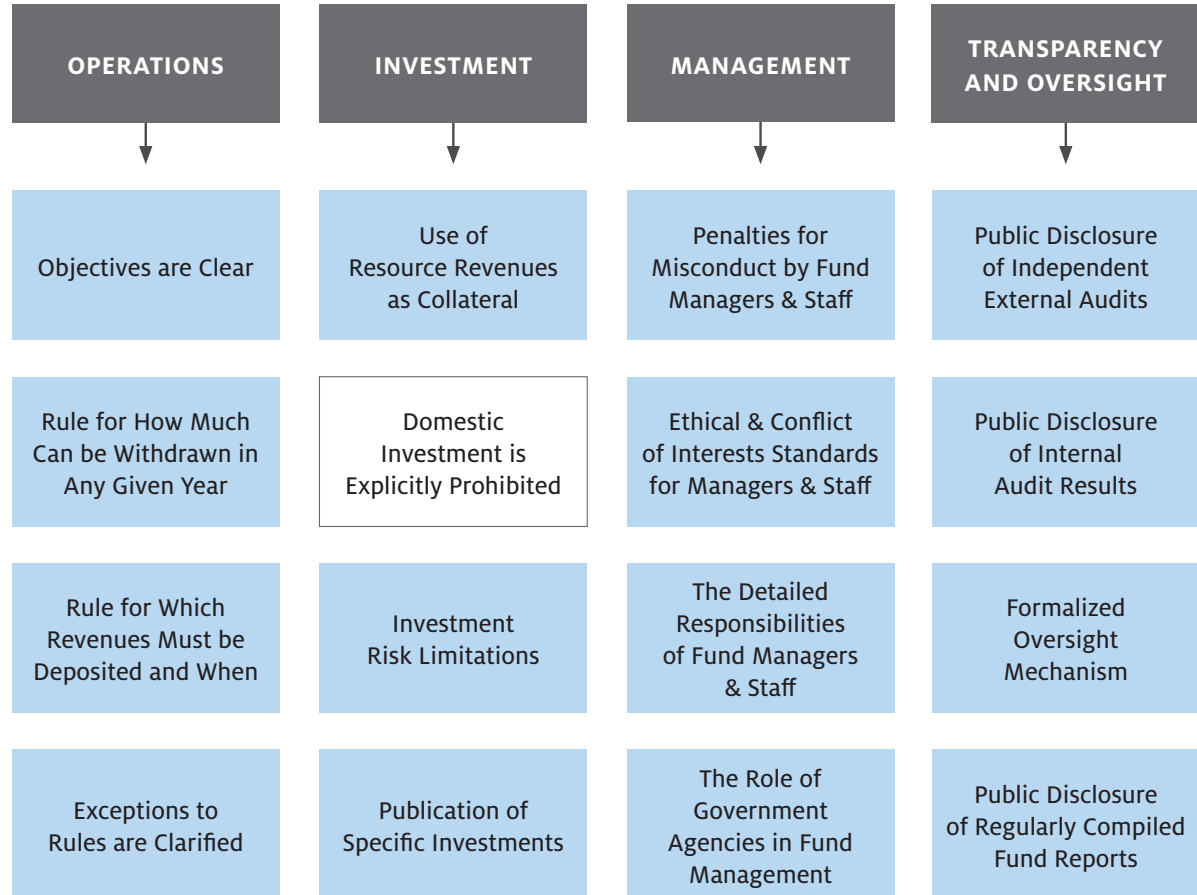
- According to Alaska State Law, the Alaska Permanent Fund, "should provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans."²
- Each year the Alaskan Legislature appropriates a Permanent Fund dividend from the Alaska Permanent Fund.³ This dividend is an annual direct payment to Alaskan citizens. Between 1982 and 2012, a total of \$19.4 billion was paid out to Alaskan citizens via these annual dividend check distributions. In 2012, \$878 was distributed to each citizen.⁴


Good Governance Standards and Gaps in Regulation


Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.

15/16

Good Governance Standards Met



 Presence of Regulation

 Absence of Regulation

Operational Laws, Rules and Policies

Withdrawals from the Alaska Permanent Fund are used to make direct payments to Alaskan citizens.

Fund Structure

The Alaska Permanent Fund consists of two parts:

1. The Fund's principal consists of deposits of mineral revenues. Funds cannot be withdrawn from the principal unless there is a majority vote in a statewide plebiscite.⁶
2. The Earnings Reserve Account consists of the Fund's income from investments.

Fund Deposit Rules⁷

- Deposits into the principal of the Alaska Permanent Fund consist of:
 - 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares, federal mineral revenue sharing payments (from leases issued on or before December 1, 1979) and bonuses received by the state from mineral leases issued on or before February 15, 1980.
 - 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares, federal mineral revenue sharing payments (from leases issued after December 1, 1979) and bonuses received by the state from mineral leases issued after February 15, 1980.
- Funds are also deposited into the Alaska Permanent Fund's principal from the Earnings Reserve Account in order to offset the impact of annual inflation on the Fund's principal.
- Deposits into the Earnings Reserve Account portion of the Alaska Permanent Fund consists of all investment income.

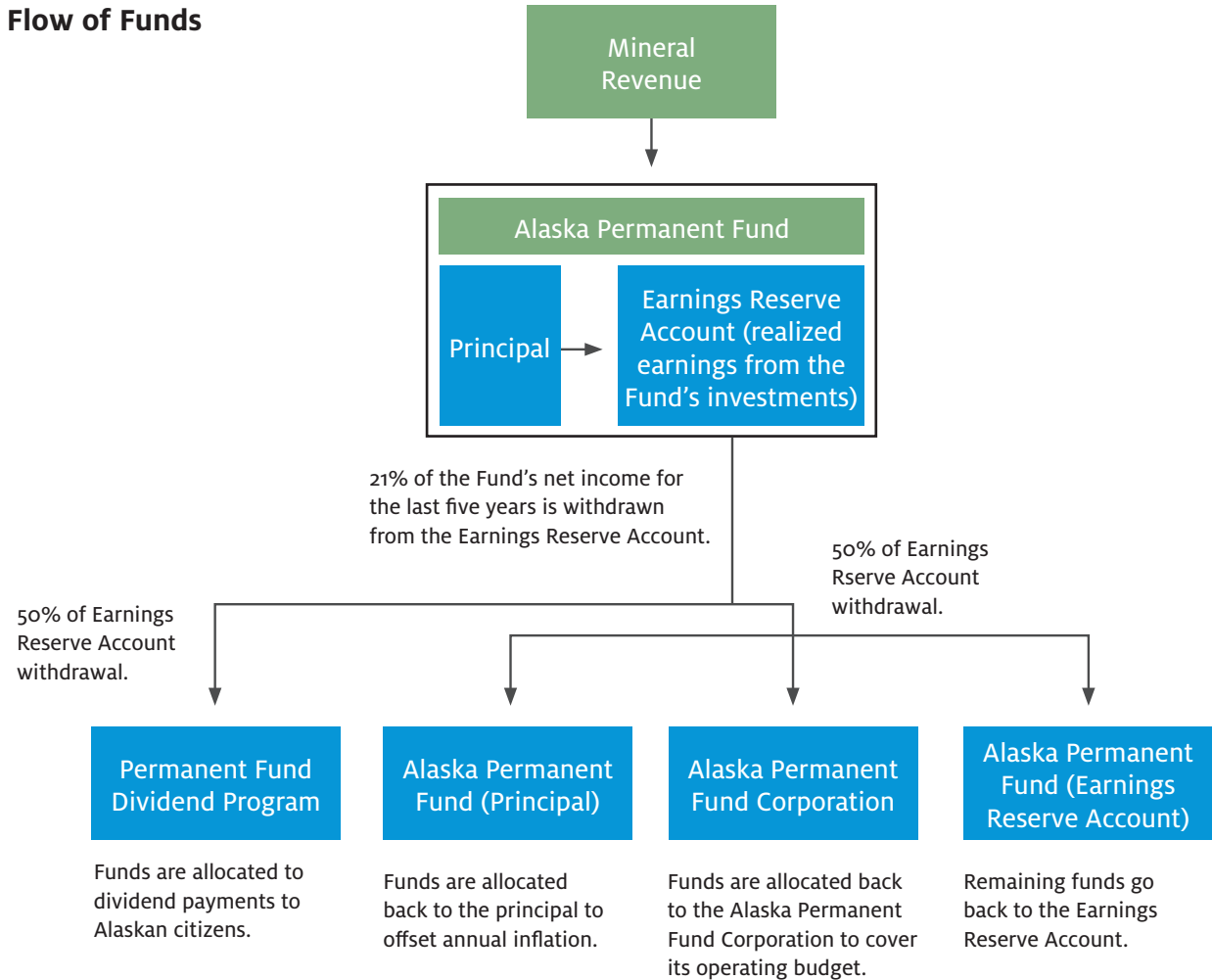
- Any other funds may be appropriated to or otherwise allocated by law or former law to the Alaska Permanent Fund.

Fund Withdrawal Rules

- Funds can only be withdrawn from the Fund's Earnings Reserve Account and not the principal.
- 21 percent of the Fund's net income for the last five years is withdrawn from the Earnings Reserve Account each year, as long as it does not exceed the Fund's net income for the latest year plus the balance of the Earnings Reserve Account.⁸
 - From this amount, half is allocated to the Permanent Fund dividend program to be directly distributed to Alaskans through dividend checks.⁹ The amount of the dividend check payments is calculated simply by dividing the amount that's been allocated by the number of eligible recipients. The price of oil is not a factor.¹⁰
 - Next, a portion of the funds withdrawn from the Earnings Reserve Account is allocated back to the Alaska Permanent Fund principal. This is to counter the devaluing effects of annual inflation on the principal.¹¹
 - Then, an amount is allocated to the Alaska Permanent Fund Corporation to cover its operating budget.¹²
 - Finally, any remaining funds are reallocated back to the Earnings Reserve Account for investment.

Operational Laws, Rules and Policies

Flow of Funds



Investment Laws, Rules and Policies

Investment Authority

The Alaska Permanent Fund Corporation is a state-owned corporation of the Alaska Department of Revenue. It was established under the Alaska State Constitution and is governed by its own by-laws.¹³

Investment Objectives

The Fund's goal is to preserve the principal while maximizing total return with a view towards producing an average annual real rate of return of 5% over the long-term.¹⁴

Investment Strategy¹⁵

- All investments must be income-producing and conform to the prudent investor rule, which requires that investment decisions be made with prudence, intelligence and discretion, and no investments are made for political or social reasons.¹⁶
- Investments are made with a long-term time horizon of greater than ten years to meet investment objectives.
- Although the Fund's investment policy calls for diversification of assets, it gives greater weight to equity to take advantage of the Fund's long-term investment horizon.
- Rather than categorize allocation by asset class, the Fund groups assets by their risk and return:
 - Company exposure: assets with higher risk and potential returns of 6% higher than returns on three month U.S. Treasuries (includes equities, corporate bonds, private credit and private equity)

- Real assets: assets with lower risk and potential returns of 4% higher than returns on three month U.S. Treasuries (includes real estate and infrastructure)
- Cash and interest rates: assets with the lowest risk and potential returns of 1.5% higher than three month U.S. Treasuries (includes U.S. bonds, non-U.S. bonds and cash)
- Special opportunities: other assets not included in the categories above and that have potential returns of 5% higher than three month U.S. Treasuries

Investment Allocation

Rather than categorize by asset class, the Fund's target allocation groups assets by their risk and return. The target allocation changes each year with the 2013 target as follows:¹⁷

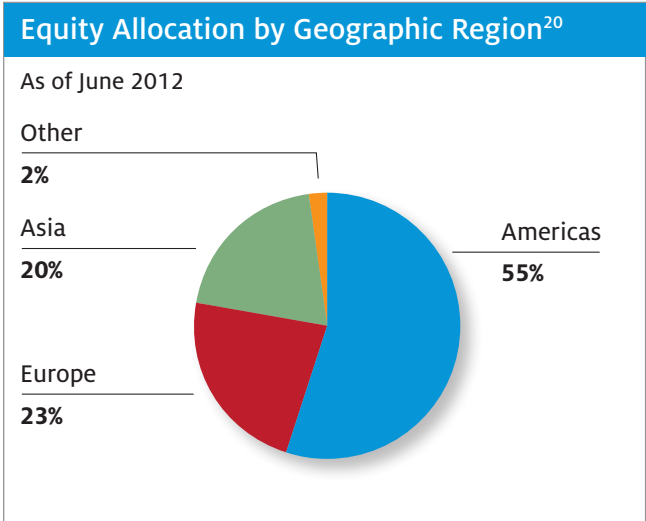
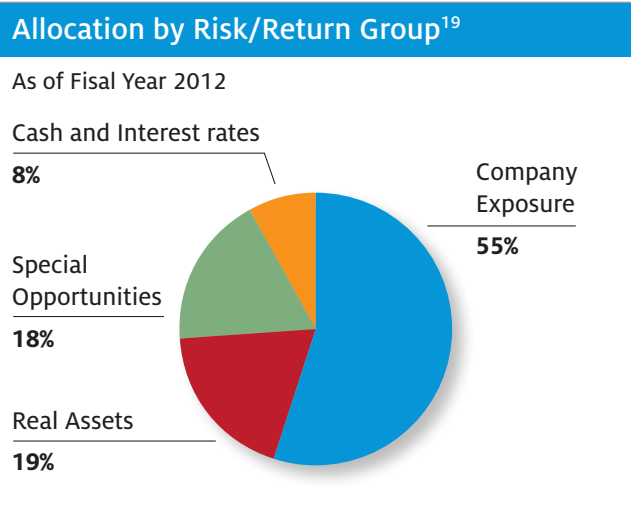
- 55% Company Exposure
- 19% Real Assets
- 6% Cash and Interest Rates
- 20% Special Opportunities

Policy on In-State Investments:

When investing in-state, the Board shall invest the Fund's assets according to:¹⁸

- A risk level and expected return comparable to alternate investment opportunities abroad.
- If the investment conforms to the Prudent Investor Rule.

Investment Laws, Rules and Policies



Management and Accountability

Management and internal accountability

The Legislature approves the Alaska Permanent Fund Corporation's annual budget. The Legislative Budget and Audit Committee oversees Fund operations.

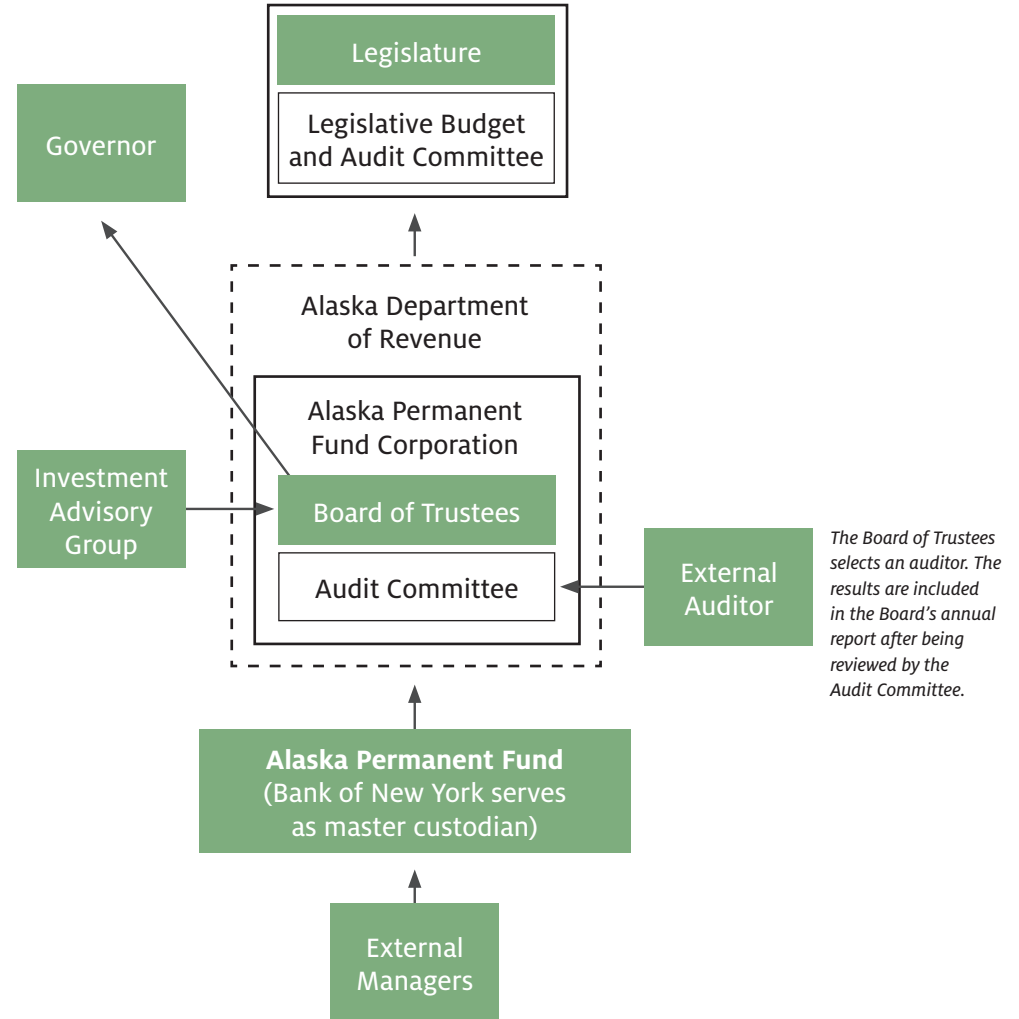
The Governor appoints the members of the Board of Trustees.

As a state-owned corporation of the Alaska Department of Revenue, the Alaska Permanent Fund Corporation manages the Fund. Policy is set by the Corporation's Board of Trustees and internal audits are performed by the Corporation's Audit Committee.

The Investment Advisory Group advises the Board on investment policy.

30% of the Fund's bond investments and all of its equity investments are managed externally.

External accountability



The Board of Trustees selects an auditor. The results are included in the Board's annual report after being reviewed by the Audit Committee.

Public interest and awareness is high among Alaskans due to the Fund's dividend payments.

Oversight and Safeguards

Oversight Mechanisms

- The Alaska Permanent Fund Corporation reports to the **Legislative Budget and Audit Committee** and must have its budget approved by the Alaska Legislature annually.
- A **periodic review process of investment methodology** by the Board of Trustees exists to improve management of investments.
- Finances are subject to **regular and comprehensive internal audits**.
- Arbitrary withdrawals from the Fund are not allowed; all spending from petroleum revenues must be **approved by a public plebiscite**.
- Fund finances are subject to a **regular and independent external audit** that meets international standards.
- Direct payments from the Alaska Permanent Fund to Alaskan citizens generates **public awareness and oversight** of Fund activities.

Transparency Laws, Rules and Policies

There is public disclosure of the following:

When or how often Fund reports are published and made publicly available	yes	
Which individuals or organizations are responsible for publishing Fund reports	yes	
Size of the Fund(s)	yes	
Deposit and withdrawal amounts	yes	
Returns on investments	yes	
Detailed asset allocation – geographic location	yes	
Detailed asset allocation – asset class	yes	
Detailed asset allocation – specific assets	yes	
Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules	yes	

Annex: List of Applicable Laws

Alaska State Constitution Article IX Section 15

www.ltgov.alaska.gov/treadwell/services/alaska-constitution/article-ix-96-finance-and-taxation.html

Alaska Law Title 37.13

www.legis.state.ak.us/basis/folioiproxy.asp?url=http://www.jnu01.legis.state.ak.us/cgi-bin/folioisa.dll/stattx11/query=*/doc/{t15316}?

Alaska Law Title 39.50

www.legis.state.ak.us/basis/folioiproxy.asp?url=http://www.jnu01.legis.state.ak.us/cgi-bin/folioisa.dll/stattx11/query=*/doc/{t16113}?

Alaska Administrative Code

www.apfc.org/home/Content/aboutAPFC/regulations.cfm

Alaska Permanent Fund Corporation Bylaws

www.apfc.org/_amiReportsArchive/2011_02_Bylaws.pdf

Alaska Permanent Fund Corporation Board of Trustees Charters and Governance Policies

www.apfc.org/_amiReportsArchive/2011_02_GovernanceManual.pdf

Alaska Permanent Fund Corporation Investment Policy

www.apfc.org/home/Media/investments/2012_04b_InvestmentPolicy.pdf

1. Alaska State Constitution, Article 9 Section 15. Available at: <http://ltgov.alaska.gov/treadwell/services/alaska-constitution/article-ix-96-finance-and-taxation.html>
2. Alaska Law Article 01, Alaska Permanent Fund Section 37.13.020. Available at: <http://www.apfc.org/home/Content/aboutAPFC/constAndLaw.cfm>
3. An Alaskan's Guide to the Permanent Fund p. 25. Available at: <http://www.apfc.org/home/Media/publications/2009AlaskansGuide.pdf>
4. <http://www.pfd.alaska.gov/DivisionInfo/SummaryApplicationsPayments>
5. <http://www.apfc.org/home/Content/aboutFund/fundHistory.cfm>
6. An Alaskan's Guide to the Permanent Fund 2009 p. 13. Available at: <http://www.apfc.org/home/Media/publications/2009AlaskansGuide.pdf>
7. Alaska Law Article 01, Alaska Permanent Fund Section 37.13.010. Available at: <http://www.apfc.org/home/Content/aboutAPFC/constAndLaw.cfm>
8. Alaska Law Article 01, Alaska Permanent Fund Section 37.13.140. Available at: <http://www.apfc.org/home/Content/aboutAPFC/constAndLaw.cfm>
9. Alaska Law Article 01, Alaska Permanent Fund Section 37.13.145 (b). Available at: <http://www.apfc.org/home/Content/aboutAPFC/constAndLaw.cfm>
10. An Alaskan's Guide to the Permanent Fund 2009 p. 25. Available at: <http://www.apfc.org/home/Media/publications/2009AlaskansGuide.pdf>
11. Alaska Law Article 01, Alaska Permanent Fund Section 37.13.145 (c). Available at: <http://www.apfc.org/home/Content/aboutAPFC/constAndLaw.cfm>
12. Alaska Law Article 01, Alaska Permanent Fund Section 37.13.150. Available at: <http://www.apfc.org/home/Content/aboutAPFC/constAndLaw.cfm>
13. Alaska Law Article 01, Alaska Permanent Fund Section 37.13.030 - Sec. 37.13.050. Available at: <http://www.apfc.org/home/Content/aboutAPFC/constAndLaw.cfm>
14. Alaska Permanent Fund Corporation Investment Policy, May 23, 2013 p. 5. Available at: http://www.apfc.org/home/Media/investments/20130523_Investment%20Policy.pdf
15. Alaska Permanent Fund Corporation Investment Policy, May 23, 2013 p. 7-10. Available at: http://www.apfc.org/home/Media/investments/20130523_Investment%20Policy.pdf
16. An Alaskan's Guide to the Permanent Fund p. 14-15. Available at: <http://www.apfc.org/home/Media/publications/2009AlaskansGuide.pdf>
17. <http://www.apfc.org/home/Content/investments/assetAllocation2009.cfm>
18. Alaska Permanent Fund Corporation Investment Policy, May 23, 2013 p. 84. Available at: http://www.apfc.org/home/Media/investments/20130523_Investment%20Policy.pdf
19. Alaska Permanent Fund Corporation Annual Report 2012 p. 4. Available at: http://www.apfc.org/_amiReportsArchive/FY2012AnnualReport.pdf
20. Alaska Permanent Fund Corporation Annual Report 2012 p. 12. Available at: http://www.apfc.org/_amiReportsArchive/FY2012AnnualReport.pdf