

**ALASKA PERMANENT FUND CORPORATION**  
**SPECIAL MEETING OF THE BOARD OF TRUSTEES**

**October 17, 2018**

**Location of Meeting:**  
**Alaska Housing Finance Corporation**  
**4300 Boniface Parkway**  
**Anchorage, Alaska**

**SUMMARY MINUTES**

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**Trustees Present:** Craig Richards, Chair  
Sheldon Fisher  
Andrew Mack  
William Moran  
Marty Rutherford

**Staff Present:** Angela Rodell, CEO  
Paulyn Swanson  
Danielle Graham

**CALL TO ORDER**

CHAIR RICHARDS called the meeting to order and asked for a roll call.

**ROLL CALL**

TRUSTEE RUTHERFORD, TRUSTEE MACK, TRUSTEE FISHER, TRUSTEE MORAN, CHAIR RICHARDS. Ms. Graham reported that there was a quorum.

**APPROVAL OF AGENDA**

CHAIR RICHARDS asked for a motion to approve the agenda.

**MOTION:** TRUSTEE FISHER made a motion to approve the agenda. Accepted by CHAIR RICHARDS.

**OPPORTUNITY FOR PUBLIC PARTICIPATION**

CHAIR RICHARDS asked if anyone in person or on the phone wished to make any statements. There being none, he moved to the agenda, recognizing CEO Rodell..

**INCENTIVE COMPENSATION PLAN POLICY**

CEO RODELL stated that a compensation plan in general has been worked on for a couple of

years, and in May the board adopted an outline of a program for incentive compensation. That formula takes 50 percent of investment staff salaries and, limiting the incentive compensation to just investment staff, was then used to create a more specific policy that would be incorporated into the personnel management program. She continued that it was estimated to be \$1.4 million if all the people eligible under that policy qualified for the full amount of the incentive comp. She continued that at the last board meeting the board determined that it should be included in the budget for the presentation to the Office of Management and Budget, but that the board wanted to continue to refine the actual policy. The thoughts and comments are presented today, and a final policy will be presented at the December board meeting in advance of the legislative session and budget discussions.

TRUSTEE FISHER talked about his memo and his concerns about getting the incentive comp structured appropriately. His main recommendation is to not go forward with the incentive compensation plan until it can be supported with a committee. That committee would be reviewing, approving, establishing the targets, the benchmarks, and making sure that the risk management controls are in place. He suggested putting that subcommittee together in December.

TRUSTEE RUTHERFORD stated that the timing is an issue because of having to clear the budget with the Governor's office.

CEO RODELL stated that no matter what the board decides, it has to recognize that it means that they get to do things like delay compensation, do claw-backs, and have a lot more control over the payment in a way that they would not have as long as compensation is subject to appropriation. Somehow those two concepts have to come together. If there is no appropriation, then no one can be paid. She added that it has to be really clear with employees on their expectations and what they can and cannot expect to receive.

TRUSTEE FISHER stated that he thinks that having a committee will help the legislative process. It will give the legislators a sense of confidence that things will be addressed appropriately.

TRUSTEE RUTHERFORD asked CEO Rodell if the responsibilities of the various team's asset managers are discrete enough so that the Compensation Committee can make a determination that one person is actually succeeding at a certain rate, and another person is actually just at some level below that.

CEO RODELL replied that is a difficult question to answer. If incentive comp is limited to just investment staff, the teams are tiny. There are about two or three, except for fixed income which has five. She continued that they are all getting ready and there are positions to get them hired in and they are recruiting. She added that these programs, SWIFs, CalPERS, CalSTRS, have a much larger staff. She added that part of the challenge has been in trying to adapt what the peers are doing and what the limitations are in terms of both size and requirements.

TRUSTEE FISHER stated that his impression is that the success of the Permanent Fund is the employees, the investment officers. He thinks that the leadership can fairly discretely define that there is a core group of people that are really responsible for delivering the return that the fund cannot afford to lose. He continued that there is another group of people that contribute and are

valued, but do not have the same type of performance. He added that if compensation is spread out, then the people that are really contributing are being undercompensated, and those people who are not as critical to the performance are overcompensated. His view is to reward the people that we really want to keep and accept that there may be turnover in other areas of the organization. He stated that the board's roll is to create the metrics, create the framework, and then staff will administer it.

**MOTION:** TRUSTEE FISHER made a motion for an ad hoc committee, seconded by TRUSTEE MACK.

After a roll call vote, the MOTION was approved by the trustees. (RUTHERFORD, FISHER, MORAN, MACK, and RICHARDS)

CHAIR RICHARDS asked Trustee Fisher to chair the subcommittee.

TRUSTEE FISHER replied yes, but noted that there is a chance he would not be a trustee at the next meeting.

CHAIR RICHARDS asked Trustee Moran if he would be willing to continue working on this.

TRUSTEE MORAN replied yes.

CHAIR RICHARDS asked for a volunteer for a third member.

TRUSTEE MACK replied that he would be happy to serve on the ad hoc committee.

TRUSTEE FISHER stated that it sounded like the biggest concern is on this qualitative piece. He continued that it may be helpful for the committee to have a better sense of where the board is as a whole on the issue.

CHAIR RICHARDS stated that he did not think this will be pulled off on the qualitative side. He does not think there are going to be factors that are pliable enough to pick those type of performers in a way he would be comfortable with. He suggested seeing the best that they can come up with, discuss it and see if it makes sense. If it does not, then just go with pure quantitative.

TRUSTEE MACK stated that he agreed with Trustee Fisher that just the initial quantitative means people are going to be treated very similarly, and this is an additional tool to really reward the high performers. He continued that it may be an enforced matrix, and if an employee is in the 75<sup>th</sup> percentile on the qualitative, he knows he is a good employee, which may cause some management issues. He added that with regard to turnover, the idea would be to drive towards retaining those people who are creating value and are harder to replace in the marketplace.

TRUSTEE RUTHERFORD agreed that it would be very difficult to determine how to incorporate the qualitative, and suggested starting with a quantitative.

CEO RODELL asked if the starting point is the policy that is in front of you and adjusting what has been done so far, or to just start over.

TRUSTEE FISHER replied that it is a fine place to start as a framework.

CHAIR RICHARDS stated that next on the agenda is Legislative Initiatives.

## **LEGISLATIVE INITIATIVES**

MS. SWANSON stated that the legislative initiatives are the ones seen both in the work session and the annual meeting. At the annual meeting it was decided to put them onto the special meeting agendas, including talking about legislative resolution. She continued that there are three proposed legislative initiatives here, one is procurement. It would be seeking an exception from the state procurement code for contracts associated with investment and management of assets managed by APFC. It would also allow for greater efficiency, particularly with regards to contracts that are done for due diligence of investments. The board was favorable toward this one. The inflation-proofing piece is recognizing that in order to protect the purchasing power of the fund for future generations there is a need to establish a long-term solution to ensure that there is a portion of the earnings that go back to inflation-proof the purchasing power of the principal of the fund. This is also reflected in the resolution that the chairman brought before the board today for review. She added that this one is complimenting that resolution.

CHAIR RICHARDS stated that he spoke to general counsel and he thinks the language is fine, but the Department of Law has not weighed in on whether this change in definition of statutory net income is constitutionally allowed. There needs to be dialogue on what to do about it, and he is hopeful that it will clear the Department of Law.

TRUSTEE RUTHERFORD stated that if they say that it is not adequate, it can be readdressed in December.

TRUSTEE MORAN asked if we are contemplating the use of the same index as in the past, major inflation, or does that need to be more specific.

CEO RODELL replied that has not been contemplated because they usually use that published one-year index that is in statute, and that language does not need to be amended.

CHAIR RICHARDS asked if in adopting this, would the existing inflation-proofing language be repealed because this would be in lieu of that.

CEO RODELL replied yes, and it probably needs to be additional language identifying exactly what the CPI number is.

MS. SWANSON moved to No. 3 which has to do with establishing a biennial budget for the corporation to bring greater continuity to resources that are appropriated to manage the assets of the fund. At the last meeting this got stuck bumping up against the executive budget piece that is proposed in this language. She stated that she went back and reviewed the Executive Budget Act, and that one piece calls for an annual budget appropriation. She did not think that it was a hurdle that could not be overcome with regard to wanting to establish a biennial appropriation.

TRUSTEE RUTHERFORD asked if the goal of 3 was to address the issue of not having an

annual budget calendar, fiscal year budget.

CEO RODELL replied that is one of the things. It is getting really close to having to shut down corporate operations because there was no operating budget. Corporate staff has received pink slips in past years, but not this recent year. This gives the board more flexibility around its resources to plan as to how, when to engage various investment strategies, and whether that is an internal strategy or should be an external strategy; how to staff it up because this will be thought about and give the flexibility to do it over a multi-year period. She stated that when the board has identified a legislative initiative or staff have identified an opportunity, permission to do it is asked of the board. Part of this is trying to anticipate ahead of time what opportunities staff should and should not pursue. The reason this is here is because these are things that periodically come up that are important or were important in the past, and we have no reason to believe that is changed. It just means if an opportunity is seen it can be pursued.

TRUSTEE MACK stated that he is having a hard time with reconciling these. The Railroad continues to be a sore spot with a number of legislators because they do not have insight into how the Alaska Railroad budget is put together.

CEO RODELL stated that these are things that the board has identified as priorities in the past. If they are no longer priorities, they will be taken off. This is one that the Governor may be doing statewide, and they come back as something that is required to be done.

TRUSTEE RUTHERFORD stated that she is more inclined to differentiate, not eliminate. She is in favor of the piece of legislation on procurement and knows the value of having the ability to enter into contracts quickly and efficiently. She continued that she is very supportive of an inflation-proofing piece of legislation. On the third item, in terms of biennial budget, she is not in favor of the piece of legislation being proposed at this time. This may be detrimental to the other pieces being pursued.

TRUSTEE MORAN stated that he is of the same opinion as Trustee Rutherford and has to go for 1 and 2, and then just sit and wait on the budget with the Legislature.

TRUSTEE FISHER also agreed with both Trustees Moran and Rutherford, and added the need for some boundaries and contours if going forward.

CHAIR RICHARDS asked if everyone was comfortable with moving forward on the recommendations for 1 and 2, and then on No. 3 saying the concepts are supported but should not be official language.

TRUSTEE MACK stated that he does support 1 and 2, but we should wait and see if there is discussion and opportunity to engage 3.

**MOTION:** A motion was made by TRUSTEE MACK to adopt 1 and 2 and exclude 3, seconded by TRUSTEE RUTHERFORD.

After a roll call vote, the MOTION was approved by the trustees. (RUTHERFORD, FISHER, MORAN, MACK, and RICHARDS)

## **DRAFT RESOLUTION 18-04**

CHAIR RICHARDS moved to Draft Resolution 18-04. After he received comments from Trustee Fisher, the resolution was recirculated, and had been posted. He summarized that the resolution reiterates a high-level framework for what the board thinks is important in managing fund transfers: those from outside of the fund; transfers into the fund; and transfers between the reserve and the corpus. He went through the concepts and stated that the idea is to encourage dialogue around making sure that the Permanent Fund just does not remain static with inflation in perpetuity.

TRUSTEE MACK thanked the Chair for taking the time to draft it up. It has been reviewed, and he supports it.

TRUSTEE RUTHERFORD stated that she also liked it, with just a few small changes. On Page 1, item No. 2 where it says in parens, second line: "To support governmental spending or for dividends." She suggested to change the "or" to "and." Page 2, item No. 4 in the middle of the paragraph it references state revenues. To be precise it should say "State General Fund revenues."

CHAIR RICHARDS agreed and asked for any other comments. He added that if it does get adopted he would ask staff to clean up the formatting. He asked for a motion.

**MOTION:** A motion was made by TRUSTEE RUTHERFORD to support Resolution 18-04, as amended, and seconded by TRUSTEE MORAN.

After a roll call vote, the MOTION was approved by the trustees. (RUTHERFORD, FISHER, MORAN, MACK, and RICHARDS)

CHAIR RICHARDS asked if there was anything else that would fall into other matters or future agenda items.

CEO RODELL replied that staff will work on the incentive comp. That will be coming back, and then it should be business as usual in December. She stated that one thing to start thinking about before that meeting is whether or not to dedicate the new boardroom. There will be another conference room in that public meeting room area. She asked them to think about naming those rooms and dedicating that conference center. She asked them to think about a Hugh Malone boardroom again, or to dedicate it to specific people. There are two non-adjointing rooms with a reception area. It will be a board room and a secondary conference room. The board room can also be divided into two conference rooms if smaller training areas are needed.

CHAIR RICHARDS suggested sending out an e-mail soliciting ideas.

TRUSTEE RUTHERFORD asked for a schematic of how it will look.

MS. GRAHAM stated that November 8<sup>th</sup> is the start date to move it.

TRUSTEE MACK stated appreciation for bringing up to the consideration of names. He added that Hugh Malone was a fine statesman, and part of the naming should remain; a prior decision

from a prior board should be honored. He asked if there was a schedule for the Compensation Committee.

CEO RODELL stated that a notice will be provided for the meeting, but it does not have to be public. That is the way the bylaws are written for ad hoc committees.

TRUSTEE FISHER hoped that the first meeting could actually be this conference call with McLaughlin and asked CEO Rodell to reach out to them in the next week or so. The limiting factor will be the seven-day notice for the meeting. He stated that his intent in that meeting is to get a broader understanding of what is out there and how different plans handle it.

CHAIR RICHARDS stated that the goal is going to have a suggested framework for committee and staff. He asked for trustee comments.

### **TRUSTEE COMMENTS**

TRUSTEE MORAN stated that he was looking at future agenda items and new risk management has been hired. His understanding is the plan is to move that out of the purview of the CIO. He continued that he would like to see an agenda item for February where the trustees are brought up to speed on the structure that would be put in place there.

CEO RODELL replied that Sebastian starts on Monday, and she is waiting to talk to him before she overpromises and under delivers.

TRUSTEE MACK no comments.

TRUSTEE RUTHERFORD thanked staff for accommodating this special meeting, and this was time well spent.

CHAIR RICHARDS agreed with Trustee Rutherford and thanked them for all the support. He stated that he asked CEO Rodell to work with Callan to put together a model that could be public showing the return expectations and the sustainability of different POMV options, as well as the durability of the earnings reserve, so that there is a publicly available model for those dialogues occurring in Juneau in January. He adjourned the meeting.

(Board of Trustees Special Meeting concluded at 3:36 p.m.)