

## MEMO

To: Craig Richards  
From: Eric Wohlforth  
Date: November 2, 2015  
Re: Sound Fiscal Future Report

First, let me say that the Sound Fiscal Future Report is a really "break-through" piece of work. It should move the needle. Please take all of my comments in light of this. I look forward to hearing from you at the CWN meeting tomorrow at noon.

Page 9, 10. In the last bullet, you might mention that spending the Earnings Reserve would reduce or eliminate the dividend. Since some use of the Earnings Reserve is fairly imminent, it should be invested short term to avoid the possible loss of the approximately \$1.4 billion in unrealized capital gains in the Fund.

Page 17. I suggest that the 7 person advisory board include 6 or 8 outside experts including one or more previous APFC Board members. It should be compensated.

Page 19. In the discussion of the CBR borrowing from the Permanent Fund, the Fund's ability to make the loan should be discussed.

In Chapter 5 there might be a discussion of needed changes in the APFC legislation including:

1. The Board needs enlargement and appointments limited to persons with "investment," not just "financial" experience.
2. To avoid political appointments, the appointment process should mimic appointment of judges, namely applications to a non-partisan committee who names qualified applicants to the Governor for appointment.
3. Establishment of an Anchorage and New York office. This will help build in-house investment expertise and assist in development of an Anchorage investment community.
4. Consideration should be given to a unified investment staff for State investments as New York State does for NYSPERS and NYSTRS, funds much larger than Alaska's funds combined.

Page 22. Leveraging may be a promising strategy but it is a risk strategy not typically widely availed of by funds subject to the "prudent investor rule."

Page 26. The discussion of POBs should include a sentence on how they are repaid.

In his June 29, 2009 opinion, the AG concluded that the fund properly interprets the state constitution's reference to "investments specifically authorized by law" to be satisfied by the legislature enacting the "prudent investor rule." This report needs discussion of this and what, if any, limits on leveraging exist under our constitutional amendment.

Page 28. The analysis of Singapore might include a reference as to the transparency of the funds.

Page 29. It is not clear whether the wholesale approach is advocating for in-state investment. Alaska has a long history starting in the 1960s in this regard. Or are we talking about APFC's investment in Tyson's Corner, for example or infra-structure?

Page 32. The quote of Art. 9, sec. 15, the Permanent Fund amendment is incomplete. It leaves out the words underlined:

may only be used for those income producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.