

**ALASKA PERMANENT FUND CORPORATION**

**RESOLUTION OF THE BOARD OF TRUSTEES SETTING OUT  
INVESTMENT POLICIES RELATING TO EQUITY SECURITIES**

**RESOLUTION 05-05**

*(This resolution amends and supersedes Resolution 05-03.)*

The Board of Trustees ("Board") has determined that it is in the best interest of the Alaska Permanent Fund ("Fund") to invest Fund assets in equity, equity-related, and equity-linked investments ("equity securities"), using these investments in the Board's overall strategy to safeguard the principal of the Fund and maximize the investment return from Fund assets through careful portfolio diversification.

To effect its investment strategy, the Board has established policies and guidelines from time to time for the investment of Fund assets in equity securities setting out the Board's policies regarding such investments. With respect to investments in equity securities, the Alaska Permanent Fund Corporation ("APFC") has entered into investment management services agreements with investment managers selected by the Board to provide for the investment of Fund assets in accordance with the Board's policies and guidelines. The Executive Director, through the Chief Investment Officer, is responsible for ensuring all investments in equity securities are made in accordance with these policies and guidelines.

The Board recognizes that it must periodically review its equity investment guidelines to determine whether the guidelines still adequately reflect applicable law, Board policy, and recent developments in the financial markets and to safeguard the Fund's equity securities investments and enhance the performance of those investments.

During these reviews, the Board may, at its discretion, modify, clarify, and restate the investment policies and guidelines governing equity securities.

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees that the following policies and guidelines shall govern the investment of Fund assets in equity securities:

- I. **Authorized Investments.** Subject to the restrictions and conditions set out in Section II, and within the limits established from time to time by allocation resolution of the Board, assets in the Fund's equity portfolio may be invested only in the following:
  - A. common and preferred stock of corporations (including banks and banking associations) organized under the laws of the United States or of states, territories, possessions, or other political subdivisions of the foregoing;
  - B. common and preferred stock of corporations (including banks and banking associations) organized under the laws of a foreign jurisdiction;
  - C. equity-related and equity-linked shares of an entity described in A. or B. of this Section I;
  - D. depositary receipts and equivalent instruments of those investments authorized in B. and C. of this Section I, as applicable;
  - E. contracts for the future delivery of foreign currencies to the extent

necessary for the purchase or sale (whether undertaken or expected to be undertaken) of those investments authorized in B. and C. of this Section I, as applicable;

- F. futures or forward contracts for the sale of foreign currencies only for the purpose of hedging the foreign currency value of an existing equivalent ownership position;
- G. exchange traded stock index futures, so long as they are used to facilitate asset allocation strategies in the equity portfolio, including the investment of available cash, accrued income of those investments authorized in A. of this Section I, and the orderly sale of equity investments, with such instruments used only on an unleveraged basis;
- H. collective or commingled equity investment entities, including, but not limited to, any common trust fund, collective trust fund, registered investment company (open-end or closed-end), partnership, limited liability company, or any other similar entity whose purpose is to direct the collective investment of assets, including exchange traded funds, provided that staff has determined that such investment entity invests its assets predominantly in equity instruments that the APFC is otherwise authorized to invest in directly; and
- I. newly offered or issued shares of investments authorized in A., B., C., and D. of this Section I, so long as, at the time of transaction settlement, such shares are listed on either a recognized stock exchange in the jurisdiction

of the issuer or on a national exchange that is registered with the Securities and Exchange Commission or on the NASDAQ.

## **II. Investment Restrictions/Conditions.**

- A. The following investments and transactions are prohibited:
1. the ownership of more than five percent (5%) of the voting shares of any corporation;
  2. the purchase or sale of options, commodity futures contracts, other derivative instruments not specifically authorized under Section I, and any leveraged investments or investments on margin; and
  3. except as provided in E., F., and G. of Section I, futures or forward contracts for the sale of investments in foreign securities, including foreign currencies.
- B. Except as otherwise permitted in I. of Section I, securities of corporations organized under the laws of the United States or of states, territories, possessions, or other political subdivisions thereof that are authorized under Section I, except for banks and insurance companies, must be listed on the date of purchase on a national exchange that is registered with the Securities and Exchange Commission or on the NASDAQ.
- C. Except as permitted in I. of Section I, securities of corporations organized under the laws of a foreign jurisdiction that are authorized under Section I must be listed on the date of purchase either on a recognized stock exchange in the jurisdiction of the issuer or on a national exchange that is

registered with the Securities and Exchange Commission or on the NASDAQ.

**III. Investment Management Contracts.** Except as otherwise provided under Section IV, the investment of Fund assets in equity securities shall be made by investment managers selected by the Trustees, with such investments to be made under terms of contracts entered into by the Executive Director and investment managers. Such investment management contracts shall include, without limitation, provisions that:

- A. provide for measuring the manager's investment performance against appropriate investment benchmarks, including but not limited to the following:
  - 1. for evaluating the performance of domestic larger capitalization passive managers, the S&P 500 Index shall be used;
  - 2. for evaluating the performance of domestic smaller capitalization passive managers, the S&P 1000 Index (a capitalization weighted average of the S&P 400 Index and the S&P 600 Index) shall be used;
  - 3. for evaluating the performance of international developed markets passive managers, the Morgan Stanley Capital International ("M.S.C.I.") EAFE Index shall be used;
  - 4. for evaluating the performance of active managers, the following indices shall be used:
    - a) the Russell 1000 Index for domestic larger capitalization active managers;
    - b) the Russell 2000 Index for domestic smaller capitalization

- active managers;
- c) the M.S.C.I. World Index for global developed markets  
active managers;
- d) the M.S.C.I. EAFE Index for international developed markets  
active managers;
- e) the M.S.C.I. Europe Index for European developed markets  
active managers;
- f) the M.S.C.I. Pacific Index for Pacific Basin developed  
markets active managers;
- g) the M.S.C.I. Emerging Markets Index for global emerging  
markets active managers;

- B. require the manager to be fully invested according to the following:
1. except a permitted under Paragraph 2 of this B., the manager should be at least ninety-eight percent (98%) invested (no more than two percent (2%) cash) in each account for which the manager has responsibility, with a control band of zero to five percent (0-5%) to allow for transactional cash;
  2. domestic smaller capitalization active managers should be at least ninety-five percent (95%) invested (no more than five percent (5%) cash) in each such account for which the manager has responsibility;
  3. a manager may elect to hold cash greater than five percent (5%) for any period of time, if the manager's strategy indicates that doing so would be beneficial to the APFC; a manager must notify the APFC prior to implementing that strategy;

4. the APFC will not compensate managers for that portion of the cash balance of an account that exceeds the applicable cash limitation under Paragraphs 1 or 2 of this B., if held for a period of more than 90 days; the Executive Director shall report to the Board each manager who chooses to exceed five percent (5%) cash for any period of time; and
  5. a manager may, with the prior approval of
    - a) the Chief Investment Officer, invest up to five percent (5%) of an account's assets in exchange traded funds; and
    - b) the Executive Director, invest more than five percent (5%) of the account's assets in exchange traded funds for a period of not more than 90 days in order to accommodate large deposits to or withdrawals from the account;
- C. require that the manager shall seek to obtain best execution of trade orders at the most favorable prices reasonably obtainable and, in doing so, consider a number of factors, including, without limitation, the overall direct net economic result to the Fund (including commissions, which may not be the lowest available but which ordinarily will not be higher than the generally prevailing competitive range), the financial strength and stability of the broker, the efficiency with which the transaction is effected, the ability to effect the transaction at all where a large block is involved, the availability of the broker to stand ready to execute possible difficult transactions in the future, and other matters involved in the receipt of "brokerage and research services" as defined in and in compliance with Section 28(e) of the Securities and Exchange Act of 1934,

as amended, and regulations thereunder;

- D. require managers to vote proxies for all shares owned, controlled, or held directly or indirectly by the APFC, excluding shares on loan under the APFC's securities lending program, in accordance with its rights and responsibilities as a shareholder and its fiduciary duty as an institutional investor, in a manner so as to maximize the Fund's long-term rate of return and promote the best financial interest of the Fund, which includes the following recognitions and obligations;
1. for any particular investment, the Board seeks to maximize the rate of return over the period the manager would likely hold the investment;
  2. proxy votes have economic value and thus are assets to manage;
  3. the Board has overall responsibility for ensuring that its shares are voted;
  4. in order to carry out this responsibility the Board has determined it must rely in large measure upon the expertise and advice of its investment managers, who spend significant resources to collect and analyze data regarding the financial well-being of the companies in which they may invest the Fund's assets;
  5. proxy ballot items may regard corporate governance processes or specific issues:
    - a) proxy matters dealing with a corporate governance process have the potential to improve board-shareholder dynamics for an extended period;
    - b) board independence is one of the cornerstones of good

corporate governance; independent corporate boards of directors leads to the creation and maintenance of good decision-making processes within companies in which the Fund is invested;

- c) an independent director is someone whose only non-trivial connection to the corporation is that person's directorship; a director will not be considered independent if he or she:
    - i. has been employed by the corporation or an affiliate in an executive capacity;
    - ii. is an employee or owner of a firm that is one of the corporation's or its affiliate's paid advisors or consultants;
    - iii. is employed by a significant customer or supplier;
    - iv. has a personal services contract with the corporation or one of its affiliates;
    - v. is employed by or serves as a member of the board of a foundation or university that receives significant grants or endowments from the corporation or one of its affiliates;
    - vi. is part of an interlocking directorate in which the CEO or other executive officer of the corporation serves on the board of another corporation that employs the director; or
    - vii. is a relative of an executive of the corporation or one of its affiliates;
6. proxy votes involve routine matters and non-routine matters;

- a) for routine matters the manager is expected to vote the shares in the same manner recommended by management unless the investment manager determines the Fund's best financial interest is not served thereby, in which case the matter shall be considered non-routine and voted in accordance with b) of this Paragraph 6; routine matters are defined as only the following:
- i. election of directors, except where there is a proxy fight or other unusual situations as determined by the APFC, and with due regard to the desirability of independent directors;
  - ii. ratification of auditors;
  - iii. mandatory retirement age for directors;
  - iv. elimination of preemptive rights;
  - v. date and place of annual meeting;
  - vi. ceiling on pension benefits;
  - vii. limitation on charitable contributions and fees paid to service providers;
  - viii. mailing to stockholders a summary of the annual meeting;
  - ix. ratification of directors' actions on routine matters since previous annual meeting;
  - x. change in the corporate charter authorizing additional common stock or changing the par value merely to effect a stock split or stock dividend;
  - xi. authorization of stock splits and share repurchase

plans; and

- xii. authorization to issue common stock under option and incentives plans, provided that:
  - 1) an actual or equivalent lowering in the exercise price is not being recommended for shares covered by existing plans;
  - 2) the maximum increase in shares outstanding over the life of the plan does not exceed an average of one percent (1%) per year based on the number of shares outstanding on the date of notice of the meeting;
  - 3) management incentives appear to be reasonable in amount; and
  - 4) the cost of the options granted is included as an expense on the reported income statement with appropriate valuation assumptions disclosed;
- b) subject to c) of this Paragraph 6, for non-routine matters, including any matters listed as routine under a) of this Paragraph 6 that the investment manager judges to be non-routine, the investment manager shall review each issue on a case-by-case basis and vote the shares in the manner that the manager determines is in the Fund's best financial interest, with such issues including, but not limited to, the following:
  - i. acquisitions, dissolutions, mergers, re-incorporation proposals, opting out of anti-takeover laws, and

- poison pills;
- ii. proxy fights for the election of directors, equal access to proxy materials, votes regarding the size of the board, and votes regarding shareholder advisory committees;
  - iii. stockholder proposals opposed by management where the board has no established precedent for voting;
  - iv. amendments to the corporate charter or bylaws that might materially affect shareholder rights;
  - v. new or revised bonus, incentive, profit sharing, saving or pension plan, employee stock ownership plans (“ESOPs”), severance (golden or tin parachute) plans, stock options, and compensation for directors and officers;
  - vi. authorization of additional or new stock of any class for any purpose other than to effect a stock split or dividends;
  - vii. minority stockholder proposals involving social, environmental, or political issues including, but not limited to, consumerism, minority rights, ecology, and the election of special directors;
  - viii. indemnification of directors; and
  - ix. proposals designed to restrict stockholders’ options to approve merger offers, such as fair price provisions, issuance of securities at board of director’s discretion,

and cumulative voting of directors;

c) because of their importance, the Board believes certain proxy ballot items should be voted uniformly; subject to a) of Paragraph 7 below, the Board instructs managers to vote all shares on the following issues as shown:

i. vote FOR the following:

- 1) independent compensation, nominating, and audit board committees;
- 2) majority of independent directors;
- 3) confidential voting by shareholders;
- 4) right of shareholders to act by written consent;
- 5) right of shareholders to call a special meeting;
- 6) requirement that shareholders approve poison pills, payment of greenmail, or dual-class share structures;
- 7) requirement that the audit firm be limited to performing audits only; and
- 8) requirement that companies include the cost of stock options granted as an expense on their reported income statements with appropriate valuation assumptions disclosed;

ii. vote AGAINST the following:

- 1) classified or staggered boards; and
- 2) supermajority vote requirements;

7. the Board desires to manage the proxy voting process and stay fully informed of proxy voting activity and about proxy issues of

particular relevance; in furtherance of these goals, managers shall adhere to the following procedures:

- a) if a manager feels it is in the best interest of the Fund to vote other than as provided at c) of Paragraph 6, above, the manager shall use best efforts to give timely notice in writing to APFC staff, explaining the circumstances that warrant an exception;
  - i. the Board delegates to staff the authority to determine how to vote in these cases, including authority to approve or deny the exception request; and
  - ii. staff shall report annually to the Board or the Corporate Governance Committee all exception requests and how each was voted;
- b) each manager shall furnish to the APFC annually copies of the manager's written policies with respect to voting proxies and at least annually report to the APFC how the manager voted all proxies on behalf of the APFC; at a minimum, each manager's report shall be submitted to the APFC in electronic form and shall indicate for each proxy ballot item voted, the company, the issue, company management's recommendation, how the manager voted, and any comments explaining the basis for the manager's vote, so that staff will have the information necessary to tabulate the information contained in those reports and report the consolidated results to the Board annually;
- c) each manager shall convey to staff timely information on

upcoming corporate governance issues and recommendations regarding those issues by the manager, other institutional investors, and other concerned parties for staff to include in its annual proxy voting report to the Board, or, if warranted, in an interim report; and

- d) each manager shall convey to staff timely updates of the manager's voting policy as it may change from time to time;

E. encourage, but not require, an active equity manager to participate in the APFC's program to recapture a portion of equity commissions paid by the manager for rebate back to the APFC as follows:

1. each active domestic larger cap equity manager and each active international developed markets equity manager shall be encouraged to direct approximately forty percent (40%) of its transactions in equity securities that are eligible for commission recapture to the brokerage firms with which the APFC has executed commission recapture agreements, provided that the purchase/sale execution and transaction costs offered by such firms are competitive with the prevailing market;
2. each active domestic smaller cap equity manager and each active international emerging markets equity manager shall be encouraged to direct as much as possible, considering the constraints of investing in smaller cap and emerging market equities, of its transactions in equity securities that are eligible for commission recapture, up to approximately twenty percent (20%), to the brokerage firms with which the APFC has executed

commission recapture agreements, provided that the purchase/sale execution and transaction costs offered by such firms are competitive with the prevailing market; and

3. active equity managers may exclude from commission recapture equity transactions that are ineligible for commission recapture including agency portfolio trades, principal portfolio trades, principal block trades, net trades, and trades executed on low commission alternative trading venues, provided that such trading methods are used by the manager to achieve best execution;

F. provide for the manager to make periodic reports to the APFC and Board;

G. address such other terms and conditions as the Board or Executive Director consider in the Fund's best interest.

**IV. Small-Cap Manager Pool Program.** In early 2005, the Board established the Small-Cap Manager Pool (SCMP) program to more effectively access investment opportunities in smaller capitalization equity securities. The Board has delegated full authority to operate the SCMP program to the Executive Director, acting through the Chief Investment Officer. Specific policies and guidelines for the SCMP program will be incorporated into the APFC's *Investment Policies and Practices Manual*.

**V. Delegation of Contract Management.** The Executive Director is authorized to enter into, execute, and amend contracts with external equity managers that the

Executive Director considers necessary, convenient, and desirable for the purposes of this Resolution 05-05 and to take such other action as is necessary, convenient, and desirable to carry out the intent of this Resolution 05-05. In the execution and monitoring of contracts with investment managers, the Executive Director shall ensure that applicable statutes and policies established by the Board are followed.

FURTHER RESOLVED by the Board of Trustees that Resolution 05-03 is hereby SUPERSEDED.

**PASSED AND APPROVED** by the Board of Trustees of the Alaska Permanent Fund Corporation this 16<sup>th</sup> day of June 2005.

*/s/ Carl Brady*  
*Chair, Board of Trustees*

Attest:

*/s/ Michael J. Burns*  
*Corporate Secretary*