

HOUSE BILL NO. 303

IN THE LEGISLATURE OF THE STATE OF ALASKA
THIRTY-THIRD LEGISLATURE - SECOND SESSION

BY REPRESENTATIVE CARPENTER

Introduced: 1/31/24
Referred: Finance

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the duties of the Alaska Retirement Management Board; relating to**
2 **the duties of the Board of Trustees of the Alaska Permanent Fund Corporation; and**
3 **providing for an effective date."**

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** AS 37.10.220(a) is amended to read:

6 (a) The board shall

7 (1) hold regular and special meetings at the call of the chair or of at
8 least five members; meetings are open to the public, and the board shall keep a full
9 record of all its proceedings;

10 (2) after reviewing recommendations from the Department of
11 Revenue, adopt investment policies for each of the funds entrusted to the board;

12 (3) determine the appropriate investment objectives for the defined
13 benefit plans established under the teachers' retirement system under AS 14.25 and the
14 public employees' retirement system under AS 39.35;

1 (4) assist in prescribing the policies for the proper operation of the
2 systems and take other actions necessary to carry out the intent and purpose of the
3 systems in accordance with AS 37.10.210 - 37.10.390;

4 (5) provide a range of investment options and establish the rules by
5 which participants can direct their investments among those options with respect to
6 accounts established under

7 (A) AS 14.25.340 - 14.25.350 (teachers' retirement system
8 defined contribution individual accounts);

9 (B) AS 39.30.150 - 39.30.180 (State of Alaska Supplementary
10 Annuity Plan);

11 (C) AS 39.35.730 - 39.35.750 (public employees' retirement
12 system defined contribution individual accounts); and

13 (D) AS 39.45.010 - 39.45.060 (public employees' deferred
14 compensation program);

15 (6) establish the rate of interest that shall be annually credited to each
16 member's individual contribution account in accordance with AS 14.25.145 and
17 AS 39.35.100 and the rate of interest that shall be annually credited to each member's
18 account in the health reimbursement arrangement plan under AS 39.30.300 -
19 39.30.495; the rate of interest shall be adopted on the basis of the probable effective
20 rate of interest on a long-term basis, and the rate may be changed from time to time;

21 (7) adopt a contribution surcharge as necessary under AS 39.35.160(c);

22 (8) coordinate with the retirement system administrator to have an
23 annual actuarial valuation of each retirement system prepared to determine system
24 assets, accrued liabilities, and funding ratios and to certify to the appropriate
25 budgetary authority of each employer in the system

26 (A) an appropriate contribution rate for normal costs; and

27 (B) an appropriate contribution rate for liquidating any past
28 service liability; in this subparagraph, the appropriate contribution rate for
29 liquidating the past service liability of the defined benefit retirement plan under
30 AS 14.25.009 - 14.25.220 or the past service liability of the defined benefit
31 retirement plan under AS 39.35.095 - 39.35.680 must be determined by a level

1 percent of pay method based on amortization of the past service liability for a
2 closed term of 25 years;

3 (9) review actuarial assumptions prepared and certified by a member
4 of the American Academy of Actuaries and conduct experience analyses of the
5 retirement systems not less than once every four years, except for health cost
6 assumptions, which shall be reviewed annually; the results of all actuarial assumptions
7 prepared under this paragraph shall be reviewed and certified by a second member of
8 the American Academy of Actuaries before presentation to the board;

9 (10) contract for an independent audit of the state's actuary not less
10 than once every four years;

11 (11) contract for an independent audit of the state's performance
12 consultant not less than once every four years;

13 (12) obtain an external performance review to evaluate the investment
14 policies of each fund entrusted to the board and report the results of the review to the
15 appropriate fund fiduciary;

16 (13) by the first day of each regular legislative session, report to the
17 governor, the legislature, and the individual employers participating in the state's
18 retirement systems on the financial condition of the systems in regard to

19 (A) the valuation of trust fund assets and liabilities;

20 (B) current investment policies adopted by the board;

21 (C) a summary of assets held in trust listed by the categories of
22 investment;

23 (D) the income and expenditures for the previous fiscal year;

24 (E) the return projections for the next calendar year;

25 (F) one-year, three-year, five-year, and 10-year investment
26 performance for each of the funds entrusted to the board; and

27 (G) other statistical data necessary for a proper understanding
28 of the financial status of the systems;

29 (14) submit quarterly updates of the investment performance reports to
30 the Legislative Budget and Audit Committee;

31 (15) develop an annual operating budget; [AND]

1 (16) administer pension forfeitures required under AS 37.10.310 using
2 the procedures of AS 44.62 (Administrative Procedure Act);

3 **(17) broadcast each board meeting live and make a recording of**
4 **the broadcast publicly available on the board's Internet website within seven**
5 **days after the meeting and for at least 10 years after the date of the meeting;**

6 **(18) publish on the board's Internet website the report provided**
7 **by a firm or service provider authorized to vote shares under AS 37.10.225(d),**
8 **and, before a proxy vote, the expected vote of shares.**

9 * **Sec. 2.** AS 37.10 is amended by adding a new section to read:

10 **Sec. 37.10.225. Defined benefit pension plans.** (a) In exercising its duties
11 with respect to a defined benefit retirement plan, the board shall

12 (1) act solely in the pecuniary interest of plan members and
13 beneficiaries, provide pecuniary benefits to members and beneficiaries, and defray
14 reasonable administrative expenses;

15 (2) apply the care, skill, prudence, and diligence under the
16 circumstances then prevailing that a prudent person in a like position who is familiar
17 with those matters would exercise in the conduct of an enterprise of like character and
18 with like aims;

19 (3) maintain diversification among investments to minimize risk of
20 large losses unless, under the circumstances, it is clearly prudent not to do so;

21 (4) vote all shares held directly or indirectly by or on behalf of the plan
22 solely in the pecuniary interest of members.

23 (b) In exercising its duties with respect to a defined benefit retirement plan,
24 the board may not

25 (1) rely on nonpecuniary factors when

26 (A) evaluating an investment; or

27 (B) evaluating or exercising a right appurtenant to an
28 investment;

29 (2) promote a nonpecuniary benefit or goal;

30 (3) rely on an environmental, social, corporate governance, or other
31 similar consideration as a pecuniary factor, unless

1 (A) the consideration presents economic risk or opportunity
2 that a qualified investment professional would consider material under
3 generally accepted investment theories;

4 (B) the board relies on a prudent assessment of risk and return
5 when weighing the consideration;

6 (C) the board examines the level of diversification, degree of
7 liquidity, and the potential risk and return of the consideration compared with
8 available alternative investments that would play a similar role in the plan
9 portfolio, including an evaluation of whether the plan can achieve greater
10 returns through investments that rank poorly on the consideration;

11 (4) vote shares held directly or indirectly by or on behalf of the plan to
12 further nonpecuniary environmental, social, political, ideological, or other benefits or
13 goals.

14 (c) Each trustee shall agree in writing to act based only on pecuniary factors
15 when exercising duties related to a defined benefit retirement plan, including when
16 voting shares or proxies.

17 (d) The board may follow the recommendations of or delegate authority to
18 vote shares held directly or indirectly or on behalf of the plan to a proxy advisory firm
19 or similar service provider only if the firm or service provider agrees in writing to
20 follow proxy voting guidelines consistent with the board's obligation to vote shares
21 held directly or indirectly by or on behalf of the plan solely in the pecuniary interest of
22 members. A firm or service provider authorized to vote shares under this subsection
23 shall report an expected vote to the board not later than 14 days before voting shares,
24 tabulate total votes annually, and provide an annual vote report to the board. The
25 report must include a vote caption, the plan's vote, the recommendation of company
26 management, and the firm or service provider's recommendation if any.

27 (e) In this section,

28 (1) "material," when used to qualify a risk or return, means a risk or
29 return in which there is a substantial likelihood that a reasonable investor would attach
30 importance when evaluating the potential financial risks or returns of an existing or
31 prospective investment or when exercising or declining to exercise any right

1 appurtenant to securities; "material" does not include

2 (A) furthering nonpecuniary, environmental, social, political,
3 ideological, or other goals or objectives;

4 (B) a portion of a risk or return that primarily relates to events
5 that involve a high degree of uncertainty regarding their occurrence and are
6 systemic, general, or not investment-specific in nature;

7 (2) "nonpecuniary" includes an action taken or factor considered by the
8 board with a purpose to further environmental, social, political, or ideological goals;

9 (3) "pecuniary" means materially affecting the financial risk or
10 financial return of an investment based on appropriate investment horizons consistent
11 with plan investment objectives and funding policy.

12 * **Sec. 3.** AS 37.10 is amended by adding a new section to read:

13 **Sec. 37.10.320. Investment relationship report.** (a) The board shall, not later
14 than November 1 of each year, submit a report to the Department of Revenue
15 describing investment relationships maintained by each retirement system.

16 (b) The report must include

17 (1) for each limited partnership that the system is affiliated with,

18 (A) the name of the limited partnership;

19 (B) the date the system first affiliated with the limited
20 partnership;

21 (C) the amount of capital the system committed and
22 contributed to the limited partnership and the amount that the limited
23 partnership distributed;

24 (D) costs or fees the system paid or owed the limited
25 partnership during the previous fiscal year;

26 (E) the annualized rate of return on capital invested in the
27 limited partnership;

28 (F) an evaluation of the partnership performance against a
29 passive benchmark.

30 (2) for each investment manager and consulting firm that the system
31 contracts with for investment management services,

- 1 (A) the net value of the assets managed under the contract;
 2 (B) the nature of services provided;
 3 (C) gross fiscal year performance;
 4 (D) net fiscal year performance;
 5 (E) management fees, performance fees, carried interest fees,
 6 or any other fees charged to the system.

7 * **Sec. 4.** AS 37.13.050 is amended by adding a new subsection to read:

8 (d) A member shall agree in writing to comply with the requirement under
 9 AS 37.13.120 to act based only on pecuniary factors when engaging with an
 10 investment adviser representative as defined in AS 45.56.900 and when voting shares
 11 or proxies.

12 * **Sec. 5.** AS 37.13 is amended by adding a new section to read:

13 **Sec. 37.13.075. Meetings.** In addition to the requirements of AS 44.62.310 -
 14 44.62.319 (Open Meetings Act), the board shall keep a full record of all of its
 15 proceedings, and on the board's Internet website broadcast live audio and video of
 16 each meeting of the board, archive meeting audio and video for not less than 10 years,
 17 and upload a link to archived video and audio not later than seven days after a
 18 meeting.

19 * **Sec. 6.** AS 37.13.120(a) is amended to read:

20 (a) The board shall adopt regulations specifically designating the types of
 21 income-producing investments eligible for investment of fund assets. **The board shall**
 22 **act solely in the pecuniary interest of the fund, provide pecuniary benefits to the**
 23 **fund, and defray reasonable administrative expenses.** When adopting regulations
 24 authorized by this section or managing and investing fund assets, the **corporation**
 25 **shall apply the care, skill, prudence, and diligence under the circumstances then**
 26 **prevailing that a prudent person in a like position who is familiar with those**
 27 **matters would exercise in the conduct of an enterprise of like character and with**
 28 **like aims** [PRUDENT-INVESTOR RULE SHALL BE APPLIED BY THE
 29 CORPORATION. THE PRUDENT-INVESTOR RULE AS APPLIED TO
 30 INVESTMENT ACTIVITY OF THE FUND MEANS THAT THE CORPORATION
 31 SHALL EXERCISE THE JUDGMENT AND CARE UNDER THE

1 CIRCUMSTANCES THEN PREVAILING THAT AN INSTITUTIONAL
 2 INVESTOR OF ORDINARY PRUDENCE, DISCRETION, AND INTELLIGENCE
 3 EXERCISES IN THE DESIGNATION AND MANAGEMENT OF LARGE
 4 INVESTMENTS ENTRUSTED TO IT, NOT IN REGARD TO SPECULATION,
 5 BUT IN REGARD TO THE PERMANENT DISPOSITION OF FUNDS,
 6 CONSIDERING PRESERVATION OF THE PURCHASING POWER OF THE
 7 FUND OVER TIME WHILE MAXIMIZING THE EXPECTED TOTAL RETURN
 8 FROM BOTH INCOME AND THE APPRECIATION OF CAPITAL].

9 * **Sec. 7.** AS 37.13.120(c) is amended to read:

10 (c) The board shall maintain [A REASONABLE] diversification among
 11 investments to minimize risk of large losses unless, under the circumstances, it is
 12 clearly prudent not to do so. The board shall invest the assets of the fund in in-state
 13 investments to the extent that in-state investments are available and if the in-state
 14 investments

15 (1) have a risk level and expected return comparable to alternate
 16 investment opportunities; and

17 (2) are eligible for investment of fund assets under (a) of this section.

18 * **Sec. 8.** AS 37.13.120 is amended by adding new subsections to read:

19 (f) The board shall vote all shares held directly or indirectly by or on behalf of
 20 the fund solely in the pecuniary interest of the fund.

21 (g) The board may not

22 (1) rely on nonpecuniary factors when

23 (A) evaluating an investment; or

24 (B) evaluating or exercising a right appurtenant to an
 25 investment;

26 (2) promote nonpecuniary benefits or goals;

27 (3) rely on an environmental, social, corporate governance, or other
 28 similar consideration as a pecuniary factor, unless

29 (A) the consideration presents economic risk or opportunity
 30 that a qualified investment professional would consider material under
 31 generally accepted investment theories;

1 (B) the board relies on a prudent assessment of risk and return
2 when weighing the consideration;

3 (C) the board examines the level of diversification, degree of
4 liquidity, and the potential risk and return of the consideration compared with
5 available alternative investments that would play a similar role in the fund
6 portfolio, including an evaluation of whether the fund can achieve greater
7 returns through investments that rank poorly on the consideration;

8 (4) vote shares held directly or indirectly by or on behalf of the fund to
9 further nonpecuniary environmental, social, political, ideological, or other benefits or
10 goals;

11 (5) follow the recommendations of or delegate authority to vote shares
12 held directly or indirectly or on behalf of the fund a proxy advisory firm or similar
13 service provider unless the firm or service provider agrees in writing to follow proxy
14 voting guidelines consistent with the board's obligation to vote shares held directly or
15 indirectly by or on behalf of the fund solely in the pecuniary interest of the fund.

16 (h) The board may follow the recommendations of or delegate authority to
17 vote shares held directly or indirectly or on behalf of the fund to a proxy advisory firm
18 or similar service provider only if the firm or service provider agrees in writing to
19 follow proxy voting guidelines consistent with the board's obligation to vote shares
20 held directly or indirectly by or on behalf of the fund solely in the pecuniary interest of
21 the fund. A firm or service provider authorized to vote shares under this subsection
22 shall report an expected vote to the board not later than 14 days before voting shares,
23 tabulate total votes annually, and provide an annual vote report to the board. The
24 report must include a vote caption, the fund's vote, the recommendation of company
25 management, and the firm or service provider's recommendation if any. The board
26 shall publish, on the board's Internet website, the reports provided under this
27 subsection and, before a proxy vote, the expected vote of shares.

28 (i) In this section,

29 (1) "material," when used to qualify a risk or return, means a risk or
30 return in which there is a substantial likelihood that a reasonable investor would attach
31 importance when evaluating the potential financial risks or returns of an existing or

1 prospective investment or when exercising or declining to exercise any right
2 appurtenant to securities; "material" does not include

3 (A) furthering nonpecuniary, environmental, social, political,
4 ideological, or other goals or objectives;

5 (B) a portion of a risk or return that primarily relates to events
6 that involve a high degree of uncertainty regarding their occurrence and are
7 systemic, general, or not investment-specific in nature;

8 (2) "nonpecuniary" includes an action taken or factor considered by the
9 board with a purpose to further environmental, social, political, or ideological goals;

10 (3) "pecuniary" means materially affecting the financial risk or
11 financial return of an investment based on appropriate investment horizons consistent
12 with fund investment objectives and funding policy.

13 * **Sec. 9.** AS 37.13.170 is amended by adding new subsections to read:

14 (b) The board shall, not later than November 1 of each year, submit a report to
15 the Department of Revenue describing investment relationships maintained by the
16 fund.

17 (c) The report under (b) of this section must include

18 (1) for each limited partnership that the fund is affiliated with,

19 (A) the name of the limited partnership;

20 (B) the date the fund first affiliated with the limited
21 partnership;

22 (C) the amount of capital the fund committed and contributed
23 to the limited partnership and the amount that the limited partnership
24 distributed;

25 (D) costs or fees the fund paid or owed the limited partnership
26 during the previous fiscal year;

27 (E) the annualized rate of return on capital investments in the
28 limited partnership;

29 (F) an evaluation of the partnership performance against
30 comparable passive benchmark;

31 (2) for each investment manager and consulting firm that the fund

- 1 contracts with for investment management services,
2 (A) the net value of the assets managed under the contract;
3 (B) the nature of services provided;
4 (C) gross fiscal year performance;
5 (D) net fiscal year performance;
6 (E) management fees, performance fees, carried interest fees,
7 or any other fees charged to the fund.
8 * **Sec. 10.** This Act takes effect immediately under AS 01.10.070(c).