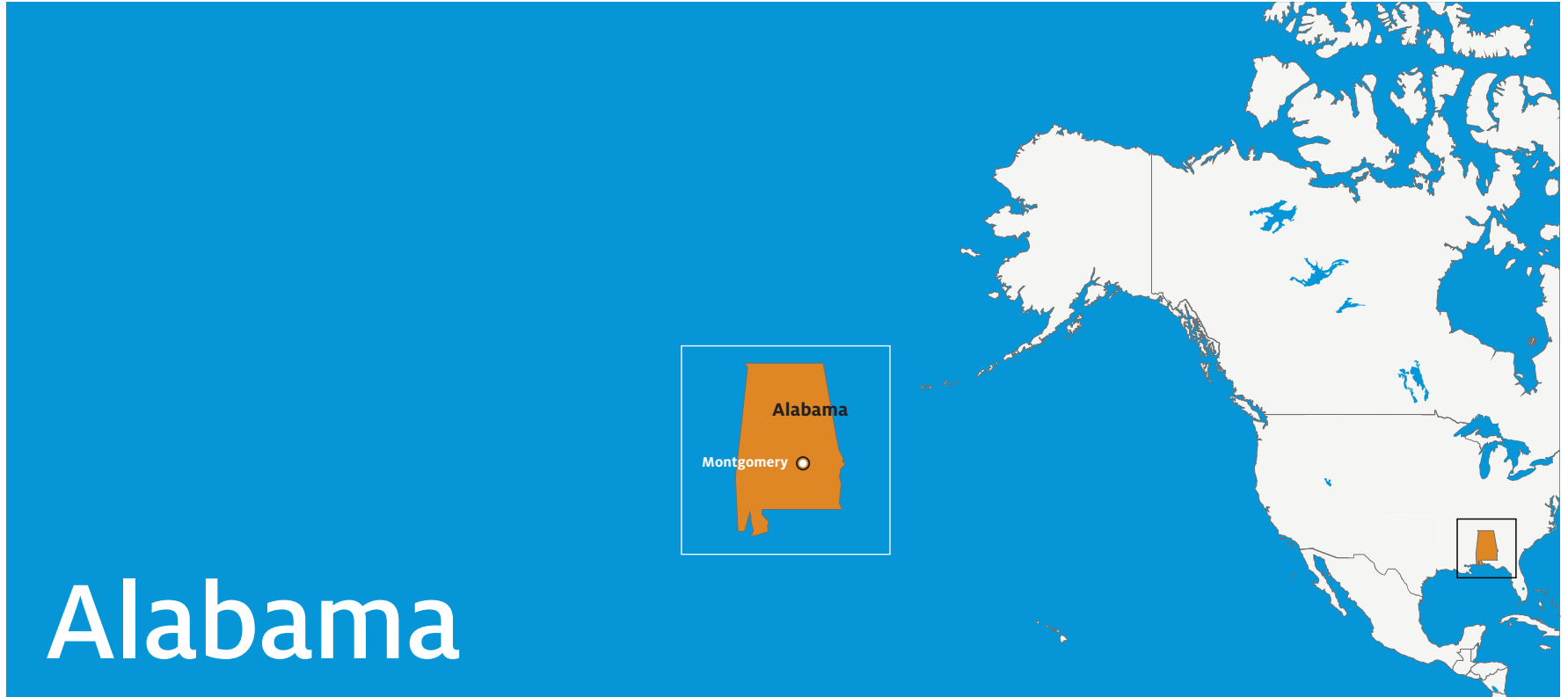


Natural Resource Funds



Alabama

Alabama Trust Fund



Market Value

Alabama Trust Fund
\$2.96 billion

Santiago
Compliance
Index

Not rated

Resource
Governance Index
Natural Resource
Fund Score

Not yet rated

Truman Sovereign
Wealth Fund
Scoreboard

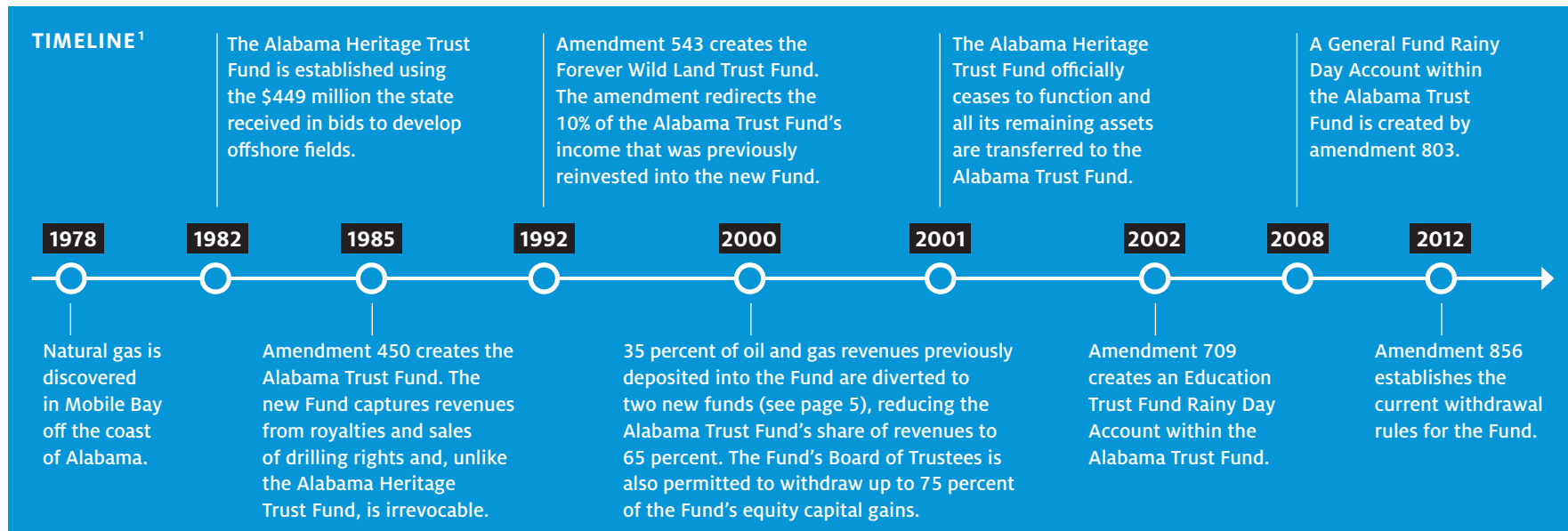
67 / 100

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 Alabama Trust Fund was established in 1985 to capture oil and gas royalties and revenues from drilling rights. It was designed to fund government expenditures from the financial return on invested natural resource revenues.
- In addition to the state budget, oil and gas revenues directly finance seven funds, including the Alabama Trust Fund. The Alabama Trust Fund, in turn, directly finances five funds, plus the state budget. A set percentage share of revenues is allocated to each fund.

- Withdrawals from the fund are supposed to equal investment income over a 3-5 year period, ensuring that the Fund's principal is maintained or grows over the long-term.
- The Fund is managed by a Board of Trustees which includes the Governor. It is overseen by the Alabama Legislature and its audit department.
- The Fund releases quarterly reports which contain extensive information about investments and investment managers, including their returns and fees charged.



Fund Inception

- The Alabama Trust Fund was created in 1985 through Amendment 450 of the Alabama State Constitution.²
- The Alabama Trust Fund replaced the Alabama Heritage Trust Fund by absorbing the Heritage Trust Fund's remaining funds in 2001.³

Fund Objectives

- The Alabama Trust Fund was created as a saving fund to manage revenues from offshore oil and gas resources.⁴
- The Alabama Trust Fund is used to help fund state budget expenditures through the state's General Fund.
- The Fund is also used as a development fund whose income is used to finance various other trust funds including:
 - Forever Wild Land Trust Fund
 - Alabama Senior Services Trust Fund
 - County Government Capital Improvement Fund
 - Municipal Government Capital Improvement Fund
 - Education Trust Fund

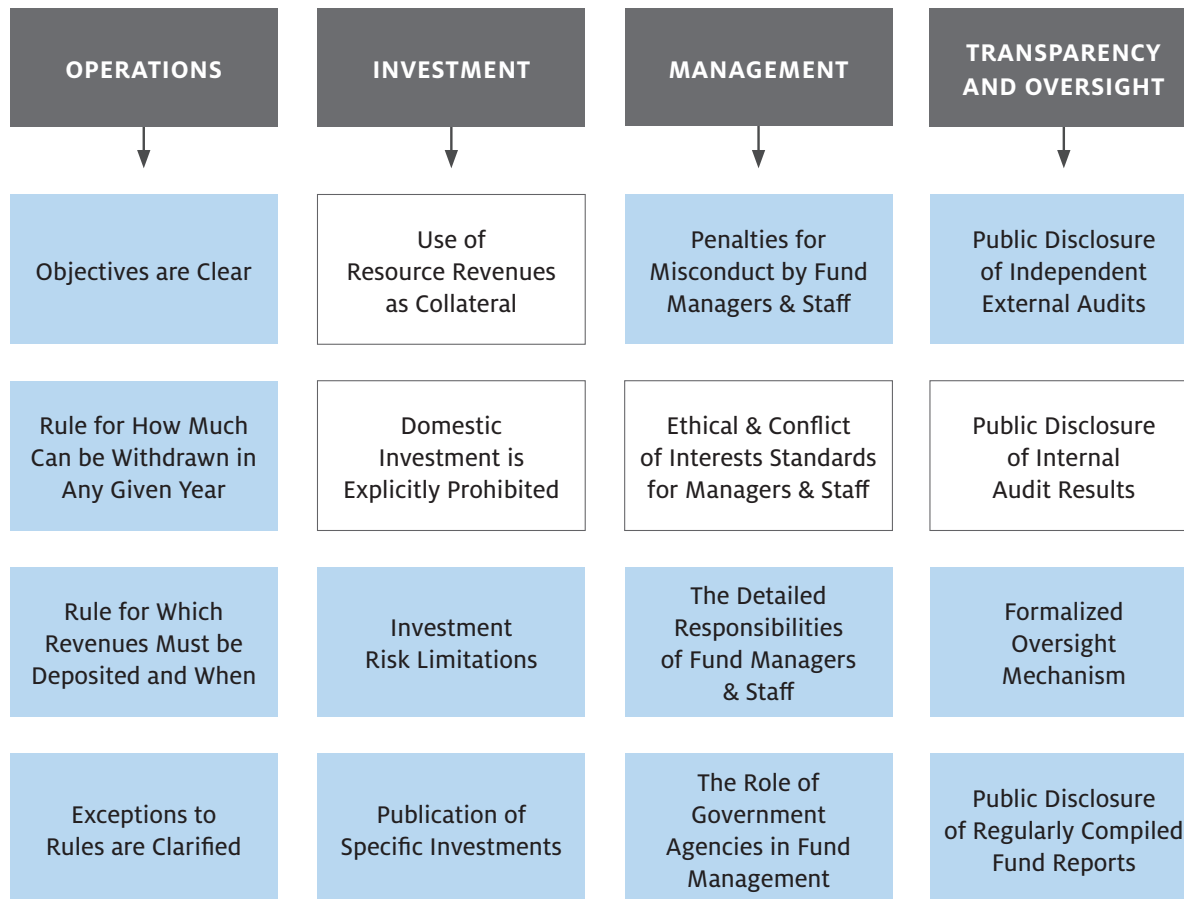
ALABAMA


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


12/16

Good Governance Standards Met

Good Governance Standards and Gaps in Regulation



 Presence of Regulation

 Absence of Regulation

Operational Laws, Rules and Policies

Money from the Alabama Trust Fund is disbursed to six different funds.

Fund Deposit Rules

- Revenues deposited into the Alabama Trust Fund consist of oil and gas capital payments. Alabama's Constitution defines this as any payment, including royalties, received by the state from the sale or lease of exploration and drilling rights to offshore oil, gas and hydrocarbon minerals. However, this excludes taxes.⁵

1985 – 1999

- One percent of oil and gas revenue is transferred to the Department of Conservation Lands Division with the remainder deposited into the Alabama Trust Fund.⁶

2000 – 2011

- The Alabama Trust Fund's share of oil and gas revenues is reduced to 65 percent as the remainder is diverted to two newly created funds. 7 percent of oil and gas revenues is transferred to the County and Municipal Government Capital Improvement Trust Fund. 28 percent to the Alabama Capital Improvement Trust Fund. These new funds were created to finance infrastructure spending and economic development.⁷

2012 – present

- The Alabama Trust Fund's share of oil and gas revenues is reduced further to 32 percent. Half of the revenue previously deposited into the Fund is diverted to the Forever Wild Land Trust Fund (10 percent of revenues), the County Government Capital Improvement Trust Fund

(10 percent), the Municipal Government Capital Improvement Trust Fund (10 percent), and the Alabama Senior Services Trust Fund (one percent). The remainder goes to the state's General Fund.⁸

Fund Withdrawal Rules

1985 - 1992

- 90 percent of the Fund's interest and dividend income is transferred to the state's General Fund for budget expenditures with the remainder reinvested in the Alabama Trust Fund.⁹

1993 - 2011

- The amount that was originally reinvested in the Fund is instead diverted to the Forever Wild Land Trust Fund, a newly created fund for the purpose of protecting and preserving the State's natural lands and waters. The transfer to the Forever Wild Land Trust Fund is capped at \$15 million per year.¹⁰

2000 - present

- If the Fund's income exceeds \$60 million in a given fiscal year, 10 percent of income is transferred to the County Government Capital Improvement Fund, 10 percent to the Municipal Government Capital Improvement Fund, 0.25 percent to the Alabama Senior Services Trust Fund (not to exceed \$5 million a year) and the remainder to the state's General Fund.¹¹

Operational Laws, Rules and Policies

Fund Withdrawal Rules (continued)

- The Fund's Board of Trustees may also withdraw up to 75 percent of the Fund's capital gains on equity investments and distribute 10 percent to the County Government Capital Improvement Fund, 10 percent to the Municipal Government Capital Improvement Fund, 10 percent to the Forever Wild Land Trust Fund and the remainder to the state's General Fund.¹²

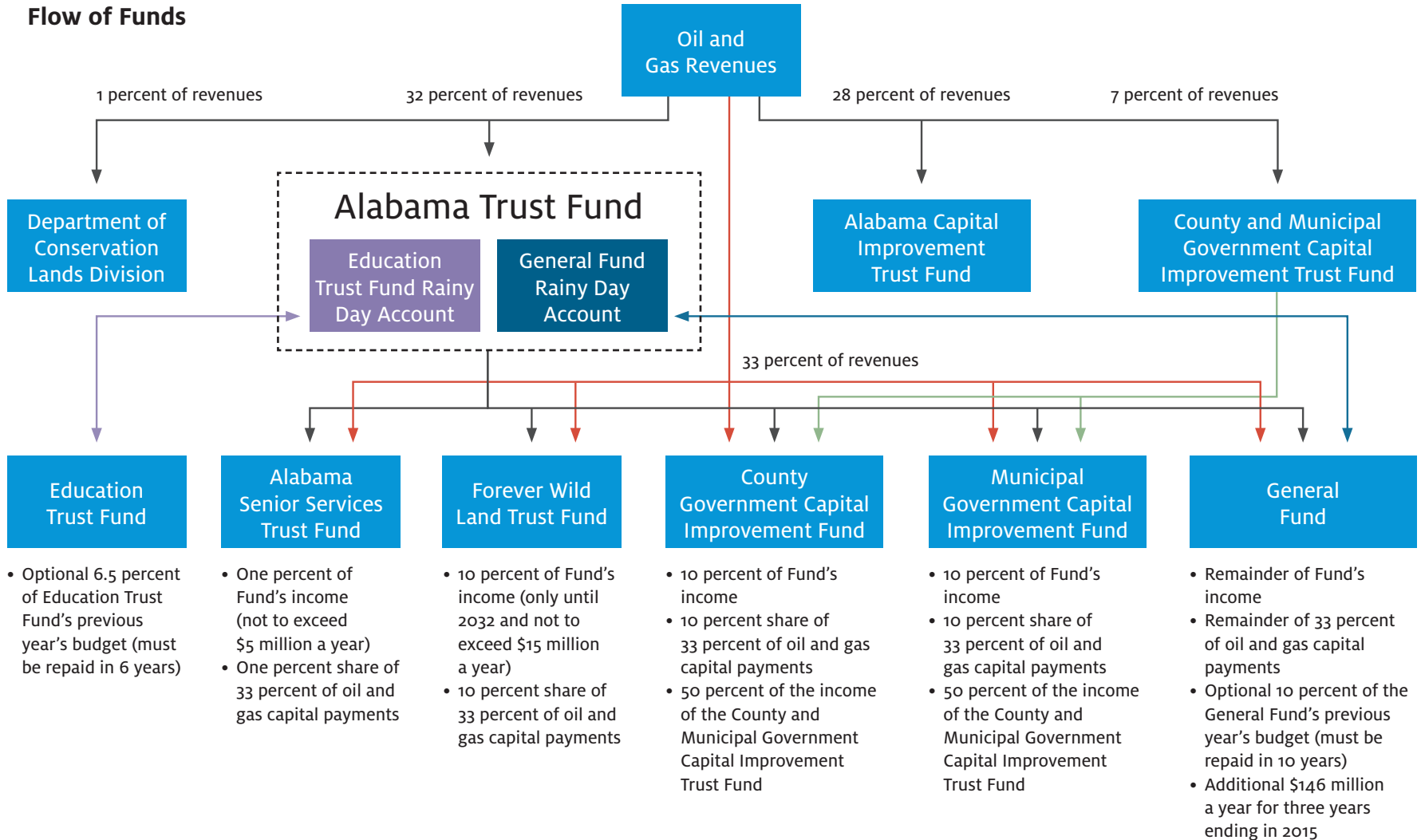
2012 - present¹³

- Income from the Alabama Trust Fund is no longer defined as being the interest and dividends on the Fund's investments. Income is now defined as 5 percent of the average annual market value of the Fund's investment over the prior three fiscal years.
- The current annual transfer from the Alabama Trust Fund to the Forever Wild Land Trust Fund is now set to cease in 2032.
- If financial conditions are such that withdrawals from the Fund would be harmful to preserving the Fund's investment assets, the Board of Trustees may vote to reduce any withdrawal amounts.
- Beginning in fiscal year 2012-2013 and ending in fiscal year 2014-2015, the Alabama Trust Fund transfers \$145,796,943 to the state's General Fund each year.¹⁴

Rainy Day Accounts¹⁵

- The Education Trust Fund and the General Fund are the only two funds that can actively withdraw more than what is allowed under the fund withdrawal rules from the Alabama Trust Fund, essentially treating the Fund as a zero-interest line of credit. However in both cases, the money needs to be paid back.
- The Education Trust Fund can withdraw as much as 6.5 percent of its previous year's budget from an account within the Alabama Trust Fund called the Education Trust Fund Rainy Day Account. Any withdrawals from the Rainy Day Account must be repaid within six years.
- The General Fund can withdraw as much as 10 percent of its previous year's budget from another account within the Alabama Trust Fund called the General Fund Rainy Day Account. Any withdrawals from the Rainy Day Account must be repaid within ten years.

Flow of Funds



- Optional 6.5 percent of Education Trust Fund's previous year's budget (must be repaid in 6 years)

- One percent of Fund's income (not to exceed \$5 million a year)
- One percent share of 33 percent of oil and gas capital payments

- 10 percent of Fund's income (only until 2032 and not to exceed \$15 million a year)
- 10 percent share of 33 percent of oil and gas capital payments

- 10 percent of Fund's income
- 10 percent share of 33 percent of oil and gas capital payments
- 50 percent of the income of the County and Municipal Government Capital Improvement Trust Fund

- 10 percent of Fund's income
- 10 percent share of 33 percent of oil and gas capital payments
- 50 percent of the income of the County and Municipal Government Capital Improvement Trust Fund

- Remainder of Fund's income
- Remainder of 33 percent of oil and gas capital payments
- Optional 10 percent of the General Fund's previous year's budget (must be repaid in 10 years)
- Additional \$146 million a year for three years ending in 2015

Investment Laws, Rules and Policies

Investment Authority

Responsibility for the Fund's management rests solely with the Alabama Trust Fund's Board of Trustees.¹⁶ In turn, the Board of Trustees contracts an Investment Consultant to assist with developing, implementing and reviewing investment policy. The Board also contracts investment managers to manage assets and a custodian institution to hold the Fund's assets.

Investment Objectives

The Fund's investment objective is to preserve the purchasing power of its assets and income. Under the Fund's investment policy, returns should at minimum equal the sum of the inflation rate and the rate that funds are spent. The Fund seeks to minimize the risk of falling short of this requirement over rolling three- and five-year periods.¹⁷

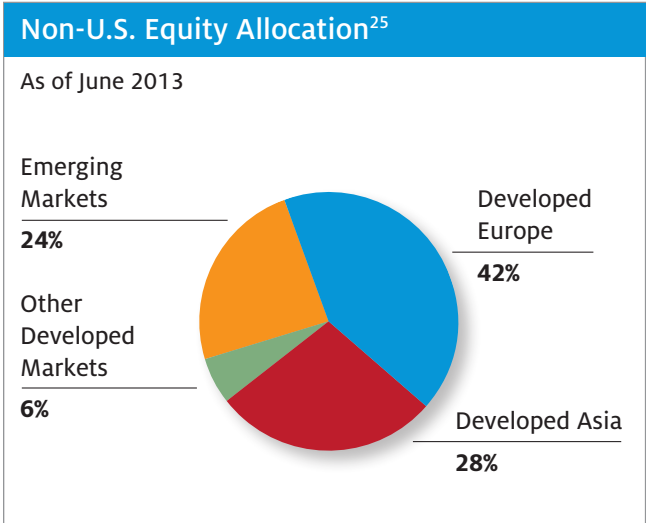
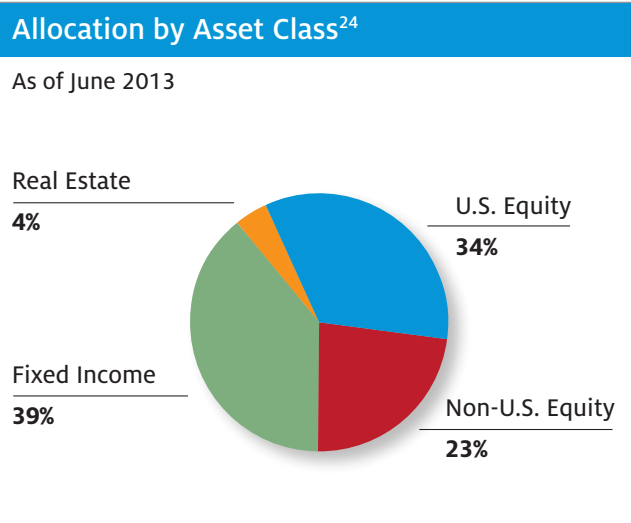
Investment Strategy

- The Alabama Trust Fund's target asset allocation is reviewed periodically, with the current breakdown as follows:¹⁸
 - 32 percent U.S. equity
 - 24 percent non-U.S. equity
 - 35 percent fixed income
 - 9 percent real estate
- Fixed income securities must be dollar-denominated and have at least a rating of Baa3 or BBB- from Moody's, Standard and Poor's or Fitch.¹⁹
- No more than 15 percent of fixed income may be invested in a single industry, with no more than five percent invested in a single corporation.²⁰
- Investments should not exceed one percent of a domestic corporation's total outstanding equity capital.²¹
- No more than five percent of the Fund's stock portfolio may be invested in any one non-U.S. corporation.²²

Policy on In-State Investments

Fund assets may be invested in Alabama.²³

Investment Laws, Rules and Policies



Management and Accountability

Management and internal accountability

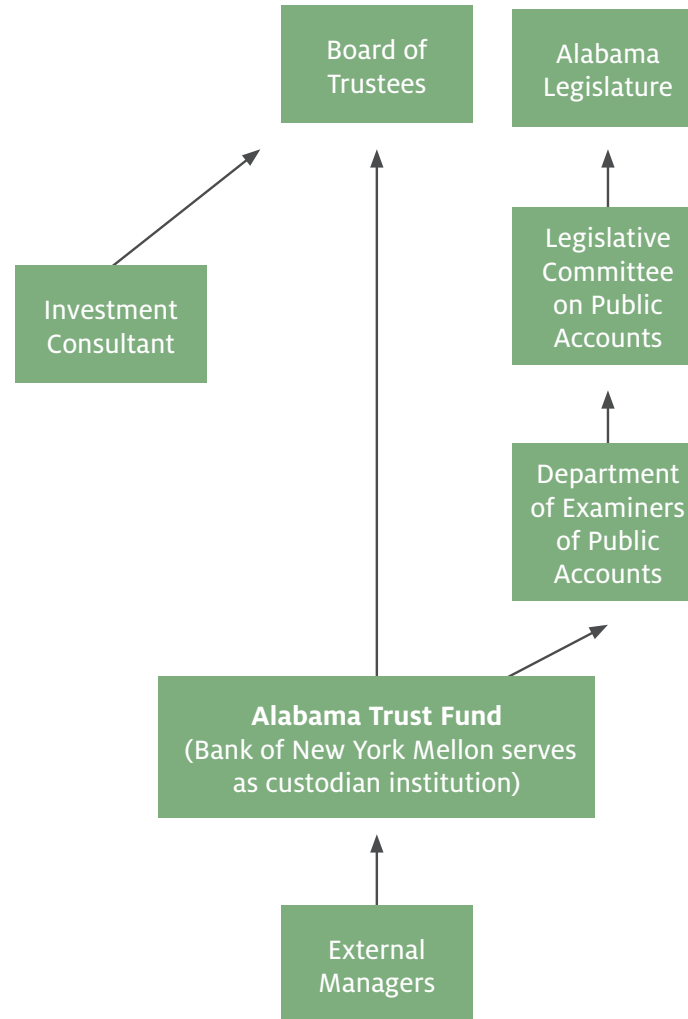
The Board of Trustees has ultimate responsibility over Fund management. It consists of the Governor, the Director of the Alabama Department of Finance, the State Treasurer, three additional members appointed by the Governor, two additional members appointed by the Lieutenant Governor and one member appointed by the Speaker of the House of Representatives.

The Board of Trustees contracts an external investment firm to serve as an Investment Consultant and assist the Board with developing, implementing and reviewing investment policy.

The Board of Trustees contracts external investment managers to handle day-to-day management of funds.

External accountability

The Department of Examiners of Public Accounts performs an audit that is released to the public. It operates as a part of the State Legislature under the direction of the Legislature's Committee on Public Accounts. The Chief Examiner is appointed by the Committee.



Oversight and Safeguards

The Fund is managed by a Board of Trustees which is controlled by the Governor. It is overseen by the Alabama Legislature and its audit department.

Oversight Mechanisms

- The **Board of Trustees**, which includes the Governor as its Chair, is empowered by the law to monitor and evaluate external investment managers to ensure compliance with investment objectives and the relevant regulations governing the Fund.
- **Arbitrary withdrawals from the Fund are not allowed;** transfers are set constitutional amendments. However, the Board of Trustees may vote to decrease withdrawal amounts if it is determined necessary to preserve the Fund's investment assets.
- The Alabama Legislature oversees **regular and independent external audits** through its Department of Examiners of Public Accounts.

Common Oversight Mechanisms or Safeguards Not Present in Alabama

- Finances are not subject to **regular and comprehensive internal audits**.
- Aside from heightened public interest each time an amendment that impacted the Alabama Trust Fund was considered, there is **little regular monitoring** by citizens or civil society organizations.

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		no

Annex: List of Applicable Laws

Amendment 450 of the Alabama State Constitution

<http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-246293.htm>

Amendment 543 of the Alabama State Constitution

<http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-246386.htm>

Amendment 666 of the Alabama State Constitution

<http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-569853.htm>

Amendment 803 of the Alabama State Constitution

<http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-1842681.htm>

Amendment 856 of the Alabama State Constitution

<http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-2517997.htm>

1. History of the Alabama Trust Fund, Alabama State Treasurer. Available at: <http://www.treasury.state.al.us/Content/Documents/History%20of%20the%20Alabama%20Trust%20Fund%2006222012.pdf>
2. Amendment 450 of the Alabama State Constitution Section 1. Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-246293.htm>
3. Amendment 450 of the Alabama State Constitution Section 4 (b). Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-246293.htm>
4. Investment Policy Statement for the Alabama Trust Fund February 2013, p. 1. Available at: <http://www.treasury.state.al.us/Content/Documents/ATF%20Documents/SIGNED%20ATF%20Investment%20Policy%20February%202013.pdf>
5. Amendment 450 of the Alabama State Constitution Section 2. Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-246293.htm>
6. Amendment 450 of the Alabama State Constitution Section 4 (b). Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-246293.htm>
7. Amendment 666 of the Alabama State Constitution Section 4. Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-569853.htm>
8. Amendment 856 of the Alabama State Constitution Section 1. Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-2517997.htm>
9. Amendment 450 of the Alabama State Constitution Section 4 (c). Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-246293.htm>
10. Amendment 543 of the Alabama State Constitution Section 7 (a). Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-246386.htm>
11. Amendment 666 of the Alabama State Constitution Section 3 (a). Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-569853.htm>
12. Amendment 666 of the Alabama State Constitution Section 3 (b). Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-569853.htm>
13. Amendment 856 of the Alabama State Constitution Section 1. Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-2517997.htm>
14. Amendment 856 of the Alabama State Constitution Section 4. Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-2517997.htm>
15. Amendment 803 of the Alabama State Constitution Section 3. Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-1842681.htm>
16. Amendment 450 of the Alabama State Constitution Section 3 (h). Available at: <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-246293.htm>
17. Investment Policy Statement for the Alabama Trust Fund February 2013, p. 5. Available at: <http://www.treasury.state.al.us/Content/Documents/ATF%20Documents/SIGNED%20ATF%20Investment%20Policy%20February%202013.pdf>
18. Investment Policy Statement for the Alabama Trust Fund February 2013, p. 6. Available at: <http://www.treasury.state.al.us/Content/Documents/ATF%20Documents/SIGNED%20ATF%20Investment%20Policy%20February%202013.pdf>
19. Investment Policy Statement for the Alabama Trust Fund February 2013, p. 17. Available at: <http://www.treasury.state.al.us/Content/Documents/ATF%20Documents/SIGNED%20ATF%20Investment%20Policy%20February%202013.pdf>
20. Investment Policy Statement for the Alabama Trust Fund February 2013, p. 18. Available at: <http://www.treasury.state.al.us/Content/Documents/ATF%20Documents/SIGNED%20ATF%20Investment%20Policy%20February%202013.pdf>
21. Investment Policy Statement for the Alabama Trust Fund February 2013, p. 14. Available at: <http://www.treasury.state.al.us/Content/Documents/ATF%20Documents/SIGNED%20ATF%20Investment%20Policy%20February%202013.pdf>

22. Investment Policy Statement for the Alabama Trust Fund February 2013, p. 15. Available at: <http://www.treasury.state.al.us/Content/Documents/ATF%20Documents/SIGNED%20ATF%20Investment%20Policy%20February%202013.pdf>
23. Investment Policy Statement for the Alabama Trust Fund February 2013, p. 14. Available at: <http://www.treasury.state.al.us/Content/Documents/ATF%20Documents/SIGNED%20ATF%20Investment%20Policy%20February%202013.pdf>
24. Alabama Trust Fund Investment Measurement Service Quarterly Review, Callan, June 2013, p. 9. Available at: <http://www.treasury.state.al.us/Content/Documents/ATF%20Documents/Meeting%2008212013/Agenda%20Item%204a%20-%20Quarterly%20Performance%20Report.pdf>
25. Alabama Trust Fund Investment Measurement Service Quarterly Review, Callan, June 2013, p. 55-69. Available at: <http://www.treasury.state.al.us/Content/Documents/ATF%20Documents/Meeting%2008212013/Agenda%20Item%204a%20-%20Quarterly%20Performance%20Report.pdf>