



Harnessing Artificial Intelligence in Public Funds: From Portfolio Construction to Advanced Risk Monitoring

Reflections from the Opal Group Public Funds Summit West

Artificial Intelligence has moved decisively from theoretical discussion to practical deployment across institutional investment offices. But for public pension systems—where fiduciary accountability, transparency, and resilience sit at the center of the mission—AI’s impact is not primarily technological. It is governance. During our panel at the Opal Group Public Funds Summit West, we explored this shift with trustees, executives, CIOs, consultants, and regulators from around the country. The discussion revealed a consistent theme: AI is already influencing investment outcomes, often without board visibility, and public funds must update their oversight structures to respond.

This article synthesizes the key insights and recommendations discussed during the panel, drawing on the questions and responses prepared for the session, and supported with external research and authoritative reference sources.

AI Is a Governance and Accountability Framework (not an IT Initiative)

The most important reframing for trustees is recognizing that AI is *not* a pilot project, a back-office experiment, or a standalone analytics tool. It is a permanent capability that intersects investment strategy, risk controls, operational resilience, and public accountability.

Public funds must therefore treat AI as:

1. **A governance and accountability issue** – requiring clarity on ownership, explainability, escalation, and documentation.
2. **An investment capability** – improving research productivity, portfolio surveillance, and risk detection.
3. **A technology tool** – enabling efficiency, summarization, and monitoring.

Boards that view AI through a narrow technology lens risk creating shadow decision-making, inadequate documentation, and reputational exposure. This aligns with global governance best practice: the NIST AI Risk Management Framework emphasizes accountability, transparency, and human oversight as core risk-mitigation pillarsⁱ.

AI Is Already (often Invisibly) Shaping Investment Decisions

A striking insight from the panel was that AI is already embedded in today’s investment ecosystemⁱⁱ. Its influence is most evident in:

- **Unstructured data analysis:** AI systems summarize manager letters, filings, earnings transcripts, and news streams with unprecedented speed.
- **Continuous monitoring:** Natural language models scan regulatory disclosures, ESG controversies, litigation events, and credit deterioration signals in real time.

- **Internal persuasion and decision framing:** AI-generated summaries influence which facts enter the investment committee discussion and how narratives are shaped.

For long-tenured public funds, the greatest immediate value is not “stock picking,” but institutional memory, consistency, and signal extraction.

Boards should assume that AI is already influencing staff processes, manager interactions, and the information environment—whether or not AI use has been formally disclosed or approved.

Due Diligence on External Managers Must Evolve

Traditional operational due diligence (ODD) and investment due diligence (IDD) frameworks rarely address the specific risks posed by AI-enabled managers. Trustees should expect their staff and consultants to update diligence protocols with explicit AI-focused questions, including:

- How does the manager validate and monitor AI models?
- What explainability standards apply?
- Who holds authority to override AI-generated insights?
- Has AI altered turnover, factor exposure, risk language, or decision cadence?
- What data sources train the models, and how is data quality verified?

The SEC has issued evolving guidance on the governance expectations for predictive data analytics, emphasizing conflicts, explainability, and investor protectionⁱⁱⁱ. Public funds must incorporate these expectations directly into their manager oversight playbooks.

The key trustee question is not “Do you use AI?” but: “How has AI changed the investment process we originally underwrote?”

Identify and Prioritize the AI Risks – Material Exposures - That Truly Matter

While AI generates numerous theoretical risks, trustees should focus on a short list of material exposures that can impair reputation, fiduciary outcomes, or operational integrity. Our panel discussion highlighted five areas in particular: 1) Unverifiable AI-generated analysis entering decision processes; 2) deepfake-enabled fraud and cyber-operations risk; 3) narrative manipulation and persuasion bias in board materials; 4) regulatory scrutiny without auditable, explainable records; and 5) data leakage and model contamination from public or uncontrolled AI tools.

The 2024 NIST Cybersecurity Framework and multiple DHS/CISA alerts warn of increasing adversarial AI threats, especially identity spoofing and data poisoning^{iv}. These risks extend directly to public funds, which operate in complex stakeholder ecosystems and often interact with sensitive beneficiary and payment information. Trustees need not master algorithmic detail, but they *must* understand: what risks exist, where they reside, how escalation and override protocols work, and how they will be documented and auditable.

AI Changes the Talent Model: Raises the Premium on Judgment, Synthesis, Transparency

AI does not reduce fiduciary responsibility; it raises the stakes for human oversight. The panel noted that:

- AI increases leverage: small teams can manage large, complex portfolios with greater depth and speed.
- Judgment, skepticism, and synthesis skills become more important as coding and model building are supported by AI systems and processes.
- AI-literate staff become a significant key-person risk: Boards must insist that management documents processes and prompts, ensures consistent reproducibility and emphasizes cross-training and shared repositories.
- Investment offices must treat AI knowledge as institutional property, leveraging individual contributions across the organization.

These insights echo findings from the World Economic Forum’s “Future of Jobs” report, which identifies analytical judgment, complex problem solving and systems thinking as the fastest-rising requirements for financial professionals in AI-enabled environments^v. Investments in staff training, cross-skilling, and documentation are therefore governance essentials—not discretionary enhancements.

Boards Need Oversight Structures that Compress Complexity, Not Expand It.

AI can overwhelm trustees if reporting is poorly designed. First, boards are responsible for policies and risk oversight, hence setting the Risk Appetite Policy for AI and other digital transformation. Second, boards are responsible for monitoring the effective implementation of approved policies. In support of these responsibilities, boards must sufficiently understand components of AI and other digital tools, the impacts of these on strategy, processes and workforce, and which reports demonstrate performance and enable accurate decision-making. Effective AI oversight reporting should include:

- **Exception-based dashboards** – drift alerts, threshold breaches, anomaly detection
- **Explainable AI summaries** – in plain fiduciary language
- **Documented override logs** – who acted, when, and why
- **Clear boundaries** – where AI is allowed and where it is explicitly prohibited

Some public funds are considering AI committees or task forces. These structures are useful only if they: remain small and cross-functional, focus on guardrails, report into existing governance channels and have explicit executive sponsorship. These criteria align with leading practice from NACD and DCRO Institute guidance on AI oversight and algorithmic accountability^{vi}.

What Does It Mean for a Board to be “AI Ready”?

AI readiness requires conversance with the technical components, but is essentially a Board's ability to answer, confidently and publicly, the core fiduciary questions of AI governance. The panel emphasized that AI readiness requires clarity on: 1) who owns AI governance and reporting; 2) where AI is permitted or banned; 3) how overrides are recorded; 4) how errors or anomalies are escalated; and 5) how decisions are explained to beneficiaries, legislators, and the press.

If any of these answers is unclear, AI readiness is incomplete. The CFA Institute's 2024 "Ethics and AI" report emphasizes that fiduciaries must be able to explain AI-influenced decisions in terms that are understandable, auditable, and evidence-based^{vii}. This standard should anchor board readiness assessments.

Public Funds Must Prepare for AI's Impact on Narratives, Politics, and Public Trust

AI dramatically increases information density and narrative power. For public funds, which operate in environments shaped by politics, public perception and legislative scrutiny, implications are material. Trustees should anticipate:

- Increased scrutiny of transparency, bias, and accountability
- Higher expectations for explainable decision-making
- Legislative interest in AI guardrails and reporting standards
- Heightened vulnerability to misinformation and deepfake risk

Regulators such as the OECD, SEC, and EU have emphasized that AI's public-trust implications will drive the next wave of policy intervention^{viii}. Trustees must therefore treat communication risk as a core dimension of AI governance. All AI-influenced materials shared with beneficiaries, legislators, or oversight bodies should be factual, balanced, and fully auditable.

The Biggest Mistake Public Funds Are Making: Waiting for Certainty

The panel closed with a simple, important warning: A "wait-and-see" posture is the *highest-risk* AI strategy for public funds. It does not slow AI adoption - it merely shifts usage into informal and uncontrolled channels. Public funds should, instead, adopt a "deliberate but proactive" posture, anchored in actions such as:

- Launching limited-scope pilots with clear guardrails
- Creating AI-use policies and documentation standards
- Training staff and trustees on explainability expectations
- Updating diligence frameworks for external managers
- Establishing escalation and override protocols
- Implementing pre-read summaries and exception-based reporting

The goal is not technological perfection, but rather controlled experimentation, informed oversight, and measurable governance progress.

Next Steps for Trustees and Public Funds

Based on the panel discussion and broader industry research, trustees should prioritize five immediate actions:

- 1. Approve an AI Use and Governance Policy:** Define roles, guardrails, escalation paths, documentation standards, and prohibited use cases.
- 2. Implement explainability standards:** If an AI-influenced recommendation cannot be explained in fiduciary language, it is not board-ready.
- 3. Update manager diligence:** Require transparency on model validation, data provenance, overrides, and how AI has altered investment processes.
- 4. Build internal talent resilience:** Cross-train staff, reduce key-person risk, and embed AI knowledge into institutional memory.
- 5. Strengthen communication and transparency:** Ensure all AI-assisted materials used with stakeholders are factual, auditable, and free from persuasion bias.

Conclusion

AI is reshaping every dimension of public fund management—from research workflows to continuous monitoring, from fraud defense to manager oversight, and from staff capabilities to public accountability. But the core insight from our panel is that AI is fundamentally a governance capability. Boards that move thoughtfully but decisively—anchored in explainability, accountability, and alignment with fiduciary duty—will realize the benefits of AI while protecting long-term beneficiary trust. Public funds do not need to master AI technology. They need to master AI governance.

ⁱ NIST Artificial Intelligence Risk Management Framework (AI RMF 1.0), U.S. National Institute of Standards and Technology. <https://www.nist.gov/itl/ai-risk-management-framework>

ⁱⁱ <https://www.linkedin.com/pulse/harnessing-generative-ai-investment-management-nadine-lara-ibrik-0s8sf/>; <https://www.mckinsey.com/industries/financial-services/our-insights/how-ai-could-reshape-the-economics-of-the-asset-management-industry>; <https://www.linkedin.com/newsletters/ai-for-allocators-7336025342505046016/>; <https://www.linkedin.com/pulse/how-ai-transforming-investment-management-b1zfinancial-ravve/>; <https://www.linkedin.com/newsletters/ai-for-allocators-7336025342505046016/>; <https://www.blackrock.com/us/individual/insights/ai-investing>; and <https://www.deloitte.com/us/en/services/audit-assurance/articles/utilizing-ai-in-investment-management.html>

ⁱⁱⁱ SEC Proposed Rule on Conflicts of Interest Associated with the Use of Predictive Data Analytics. <https://www.sec.gov/news/press-release/2023-133>

^{iv} CISA, “Deepfake Threats and Recommendations.” <https://www.cisa.gov/resources-tools/resources/deepfake-threats>

^v World Economic Forum, Future of Jobs Report 2023. <https://www.weforum.org/reports/the-future-of-jobs-report-2023>

^{vi} NACD, “Board Oversight of Artificial Intelligence.” <https://www.nacdonline.org> and DCRO Institute, “Responsible Risk Governance for AI.” <https://dcro.org>

vii CFA Institute, “Ethics and Artificial Intelligence in Investment Management.” <https://www.cfainstitute.org>

viii OECD Framework for the Classification of AI Systems. <https://oecd.ai>