



ALASKA PERMANENT
FUND CORPORATION

HFIN Budget Subcommittee – DOR

FY19 Operating Budget – APFC

January 30, 2018

The Alaska Constitution

Over four decades ago, in 1976, Alaskans in an historic vote amended the Constitution of the State of Alaska by a margin of 75,588 to 38,518 and created the Alaska Permanent Fund.

Alaska Constitution Article IX, Section 15

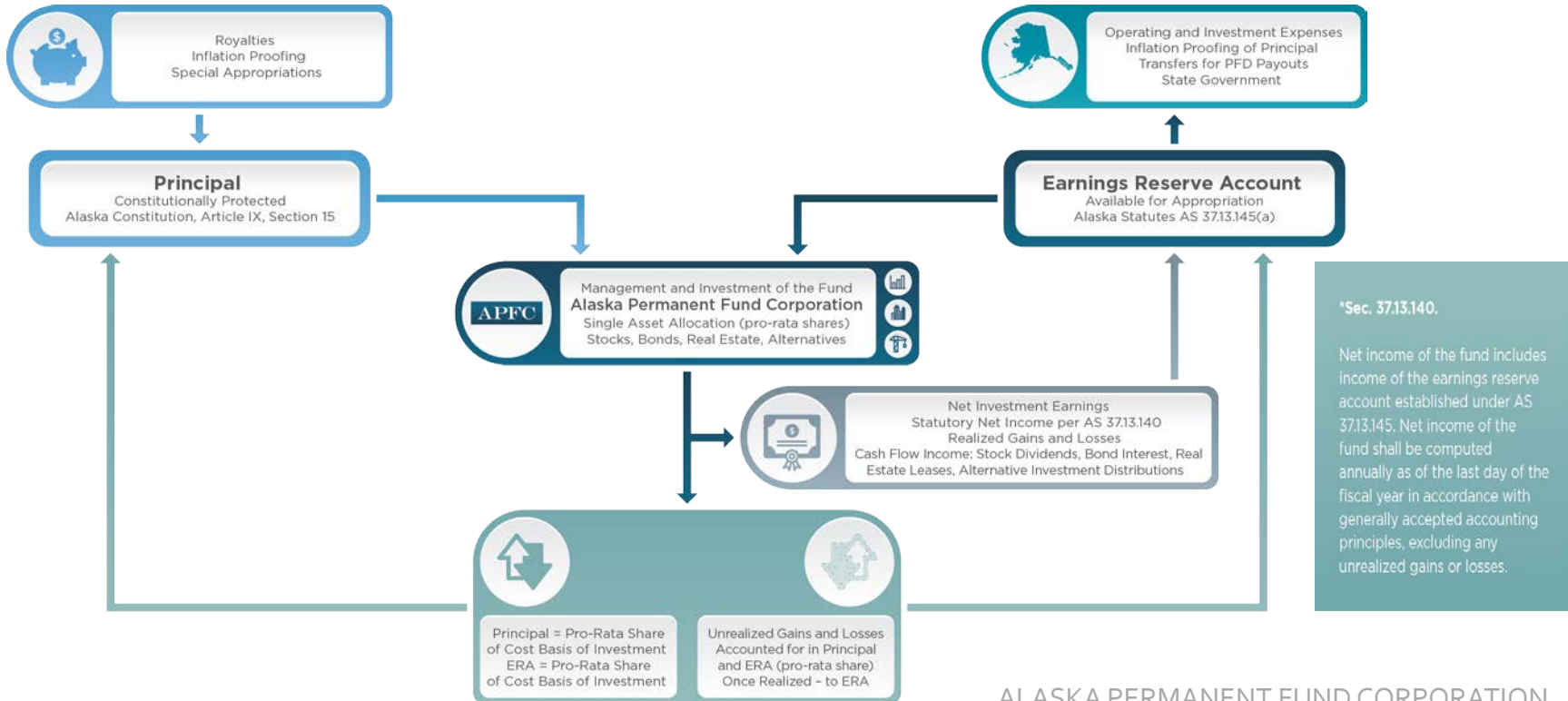
Section 15. Alaska Permanent Fund

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in a permanent fund, the principal of which shall be used only 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.

The background of the slide is a solid teal color. Overlaid on this background is a close-up photograph of a pine branch with several long, thin needles and two clusters of small, textured pine cones. The image is semi-transparent, allowing the teal background to show through.

How the Fund Works

How the Fund Works



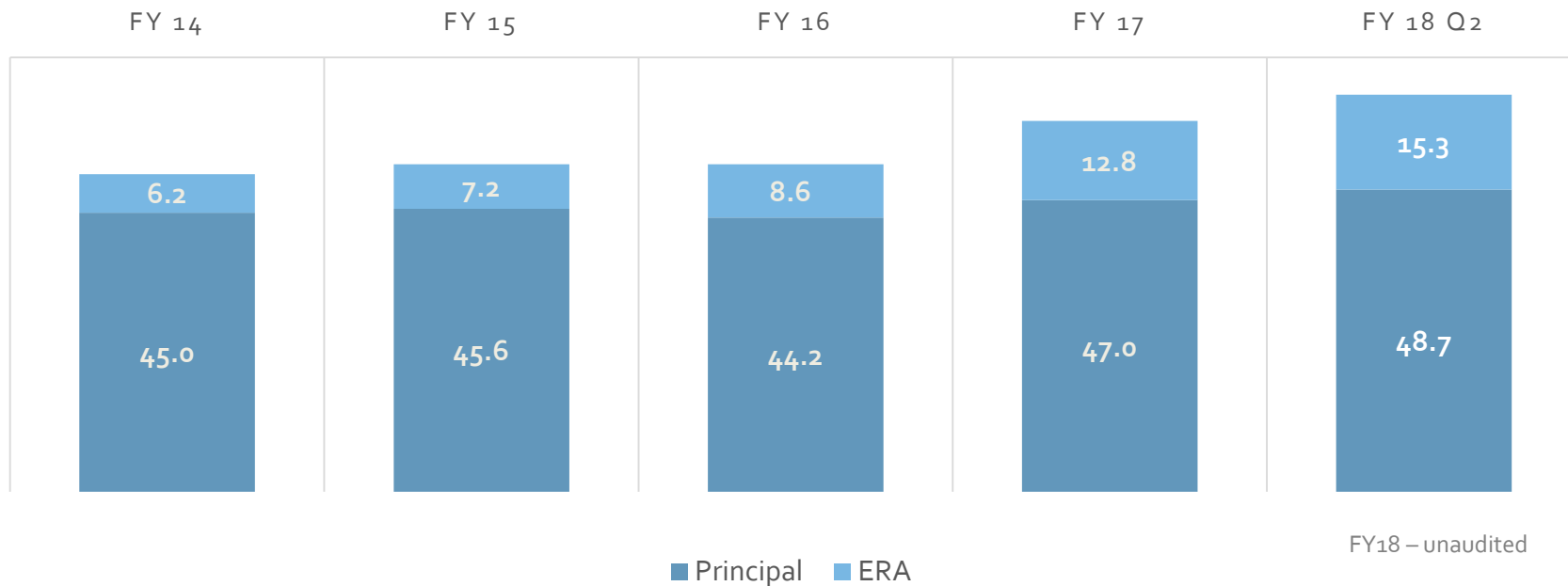
APFC's Vision

"to deliver sustained, compelling investment returns as the United States' leading sovereign endowment manager, benefitting all current and future generations of Alaskans"

- Reflects statutory language and intent as well as Board and staff aspirations.
- Emphasizes maximizing returns in a fully sustainable manner.
- Underscores the intention for the Fund to be a perpetual resource for the State of Alaska.
- Embodies core values of Integrity, Stewardship, and Passion.



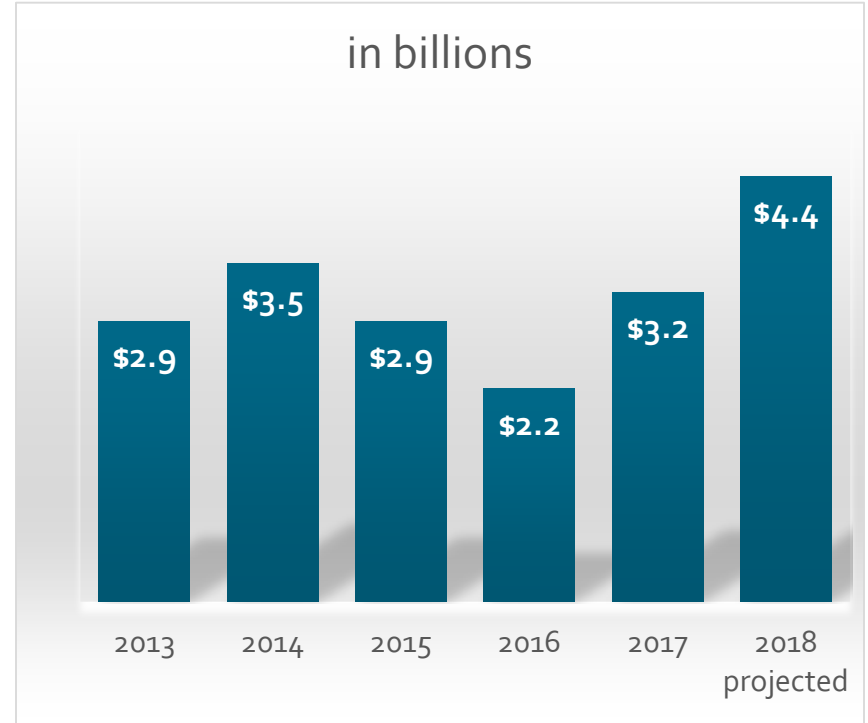
Assets Under Management in billions



FY18 – unaudited

Statutory Net Income AS 37.13.140

- Pursuant to state law (AS 37.13.140), at the end of each fiscal year APFC calculates and reports on the net realized gains accounted for during the fiscal year.
- These net realized gains and investment income are the funds in the ERA that are subject to appropriation by a simple majority of the Alaska Legislature.
- Net realized gains = realized gains accumulated during the fiscal year (-) minus realized losses accounted for during the year.
- Unrealized gains earned by Principal are part of Principal, only until realized at which time they are transferred to the ERA.



Value Generated

Audited FY17 Financial Statements

Revenues **\$ 6,805,422,000**

Operating/Investment Expenses **\$ 121,260,000**

Value Generated based on 252 Active Trading Days

Total Fund

\$6.8 B / 252 = \$27.0 M per day

Statutory Net Income

\$3.2 B / 252 = \$13.0 M per day

APFC Staff is actively engaged in making direct investments and overseeing our external manager partnerships.

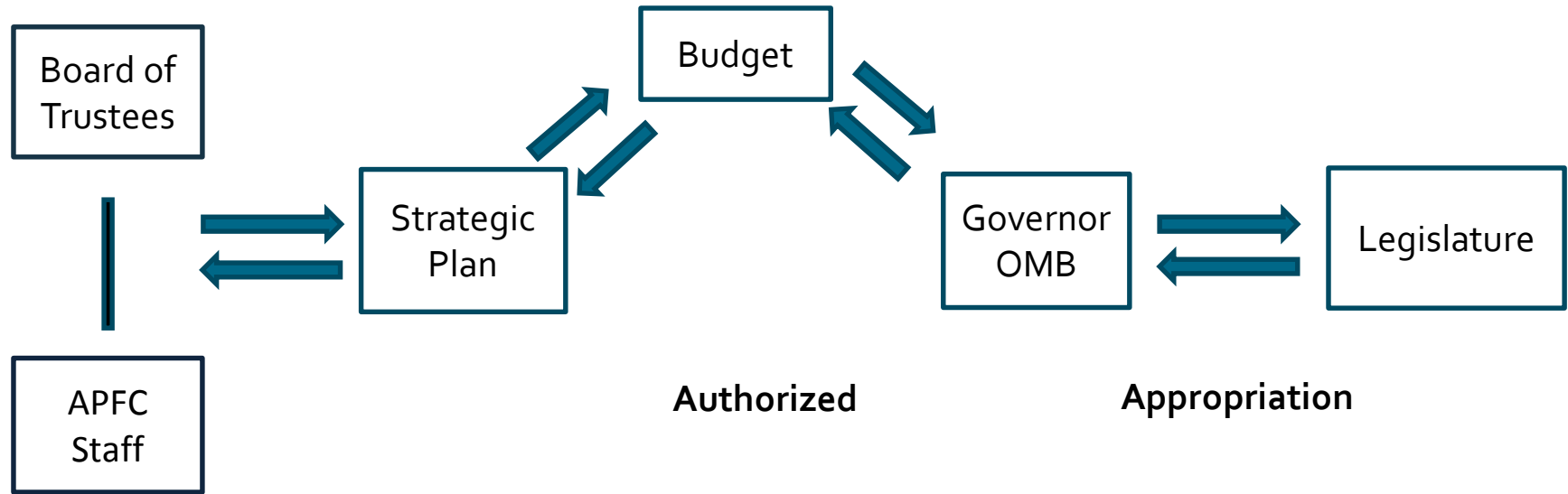
APFC = 47 PFT / 2 PPT / 2 Summer Interns

28 External Public Equities Managers



APFC's Budget

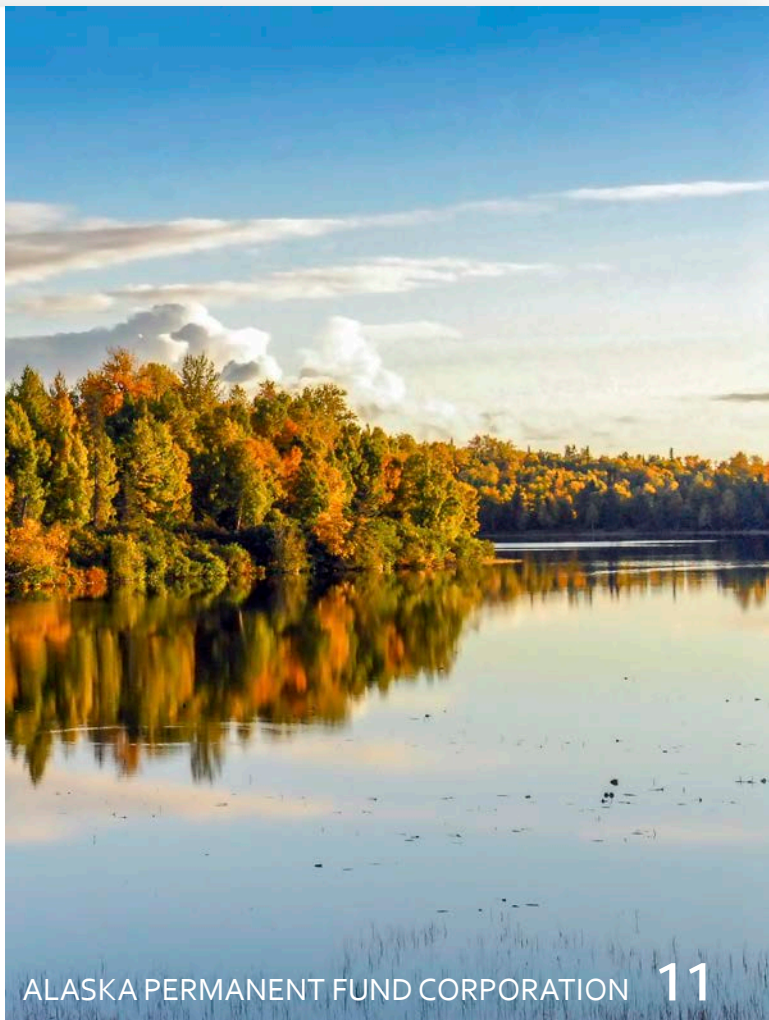
APFC's Budget Process



APFC's Strategic 5 Year Plan

Priorities FY17-FY21

- Gain greater control of resource allocations
- Optimize APFC's operational processes and use of financial networks and resources
- Develop best-in-class investment management capabilities, partnerships, and geographic reach to maximize investment returns
- Enhance talent and staff across APFC





APFC Board of Trustees' Budget Request

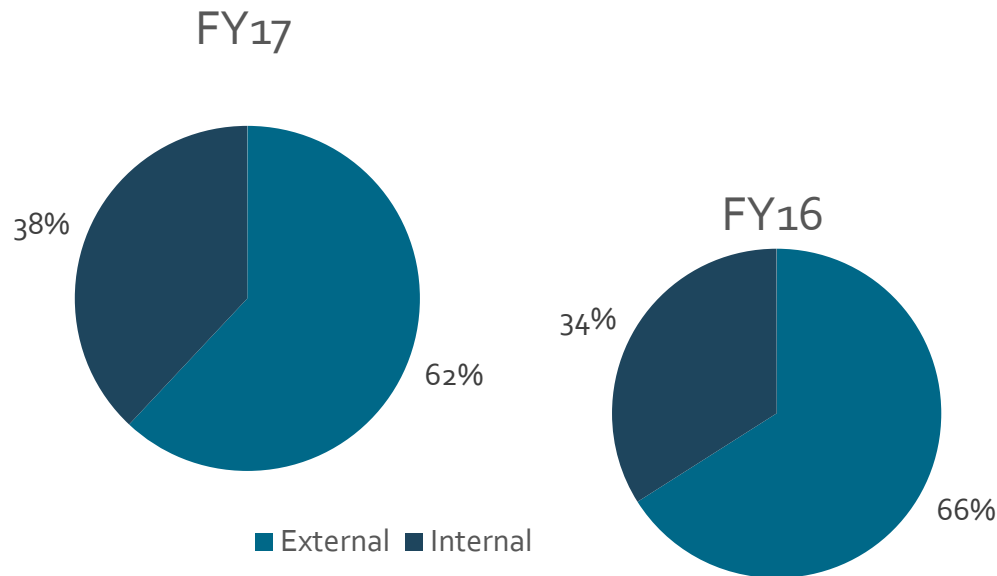
- *APFC Resolution 98-6*
"...the Board of Trustees, after discussion and consideration of staff recommendations, shall formally authorize the proposed annual budget for the next fiscal year, pursuant to any amendments made by the Board of Trustees, to be submitted to the Governor for further consideration and submission to the legislature, as provided in the Executive Budget Act (AS 37.07)."
- APFC FY19 Operating Budget Request, approved by the Board of Trustees and Proposed by the Governor
Section 7(g) of HB 286, Language Section -
The sum of \$168,573,300 from permanent fund receipts generated by permanent fund investments is appropriated to the Department of Revenue, Alaska Permanent Fund Corporation, for the investment management fees and operations of the Alaska Permanent Fund.
- The Board of Trustees approved a FY18 Supplemental request of \$5,000,000 for the Investment Management Fee allocation to ensure that APFC has sufficient funds to meet our contractual obligations due to higher than forecasted growth of the Fund during their December 2017 Board meeting.

Single Allocation

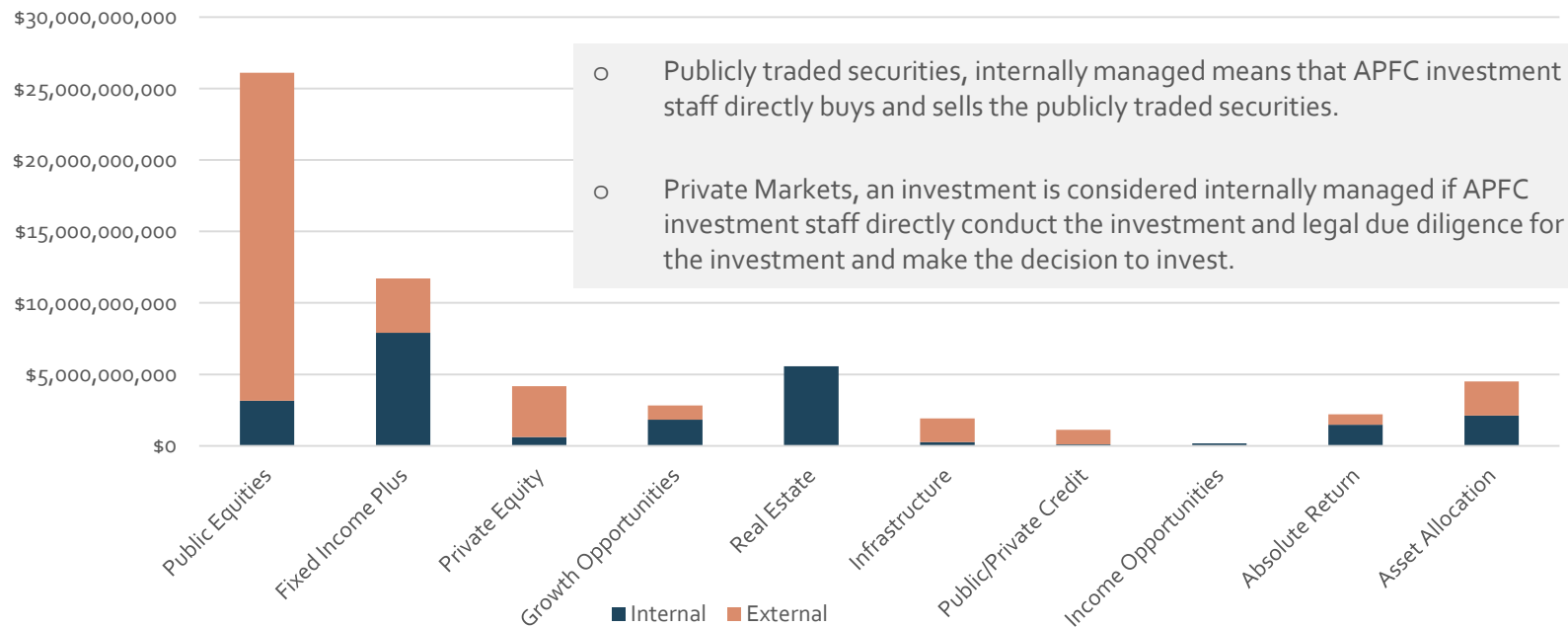
- As the APFC continues to strategically bring investment management in-house - the division between resources directly supporting investment functions versus general operations is harder to determine.
- As a result, the Board's FY19 request merges what were formerly two allocations into a single allocation within the appropriation for APFC , and places this request within the language section of the budget bill.

Management of the Fund

- As of December 31, 2017 assets had grown to more than \$64.0 B.
- The key to APFC's success has been the deliberate implementation of a strategy by the APFC Board of Trustees that began more than 10 years ago.
- **The Board of Trustees continue to work towards an optimal mix of in-house versus external management capabilities based on resources and opportunities.**



Management of the Fund by Asset Class





Structured Consolidation

- FY19 proposed budget consolidates resources to provide APFC a structure that will allow for the strategic implementation of the Board's investment strategy and includes:
 - increasing in-house management capacity,
 - buffering our IT systems so our technology can keep pace with how we invest and align with our vendors (banks, trade order management systems, Bloomberg),
 - meeting increased travel demands given a greater emphasis on international and emerging markets,
 - obtaining resources to meet ongoing investment management and due diligence costs.

APFC Budget Comparison FY18 to FY19

	FY 18 Management Plan	FY 19 Board of Trustees / Governor Proposed	Changes from FY 18
Personal Services	\$9,600,700	\$11,861,200	\$2,260,500
Travel	\$605,500	\$1,203,200	\$597,700
Contractual Services	\$1,870,900	\$154,673,600	\$152,802,700
Commodities	\$97,300	\$435,300	\$338,000
Capital Outlay	\$80,000	\$400,000	\$320,000
APFC Operations Budget	\$12,254,400	\$168,573,300	\$156,318,900
APFC Investment Management Fees	\$138,769,200	-	
Alaska Permanent Fund Corporation Total	\$151,023,600	\$168,573,300	\$17,549,700

Summary of APFC's FY19 Budget Changes

- The proposed FY19 budget includes the following anticipated increases to support both internal management expansion and ongoing costs associated with managing the assets of the Fund.

Summary FY19 APFC Budget Increases

10 PCNs and associated costs for Travel, IT, Due Diligence	3,506.0
Reduced Vacancy Factor and Merit	362.8
Travel for Investment Due Diligence	279.4
Investment Support Services - IT/Equipment/Commodities	1,672.0
Investment Fees and Due Diligence	11,729.5
	<u>17,549.7</u>

Management Fees

- In the FY19 proposed budget, the services line includes an increase of \$11,729,500 for external management fees and due diligence -
 - given the growth in AUM
 - takes into account assets that will be managed internally with the additional staff.
- Without the addition of 10 PCNS and related support for increased in house investment management, we estimate that external manager fees will require an increase of \$20,609,200.

Internal Resources

- Bringing more investments in-house benefits the Fund through lower investment costs, greater control over investments within and across allocations, and enhanced investment transparency.
- The 10 new positions included in the FY19 proposed budget are 4 investment positions and 6 middle and back office support positions.
- Moving more investments in house requires an increased investment in both the investment staff and those that offer investment support, such as IT, accounting, trade operations and administration.
- The proposed budget includes personal services costs for these positions, and related travel, technology, and other costs of in-house management.

Dept	New Staff Title	Salary	Benefits	Total
Admin	Administrative Associate	60.0	39.6	99.6
Finance	Compliance Officer	85.0	48.2	133.2
Finance	Accountant (Middle Office)	90.0	50.0	140.0
Finance	Accountant	70.0	43.0	113.0
Invest	Investment Officer	225.0	91.0	316.0
Invest	Investment Officer	225.0	91.0	316.0
Invest	Investment Associate	150.0	69.6	219.6
Invest	Investment Associate	150.0	69.6	219.6
IT	Development Operations	100.0	53.5	153.5
IT	Business Analyst	125.0	62.2	187.2
		1,280.0	617.7	1,897.7

Inflation Proofing

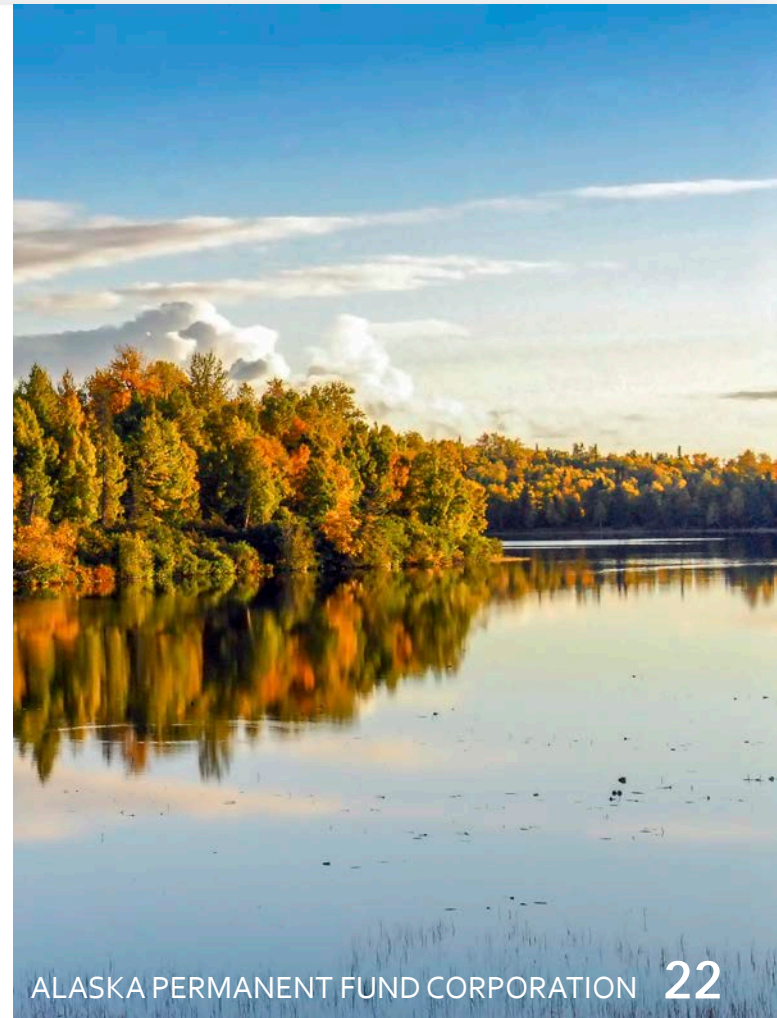
- The Board of Trustees emphasized the importance of inflation proofing by unanimously adopting Resolution 17-01 during their September 2017 Annual Meeting.
 - *Directing APFC to identify and pursue legislative support for inflation proofing the Principal of the Alaska Permanent Fund to preserve the purchasing power for all generations as stated in AS 37.13.020.*
- AS 37.13.145 (c) provides the inflation proofing mechanism which is calculated at the end of the fiscal year. Historically, the Legislature has included an estimated amount in the language of the operating budget to fulfill this statutory obligation.
- The following amounts remain unappropriated at this time, and have been included in the Governor's proposed FY19 operating budget:
 - FY16 \$ 47 million
 - FY17 \$ 501 million
 - FY18 \$ 903 million (estimated)
 - FY19 \$ 943 million (estimated)

Fiscal Year	In millions	
	Inflation Transfer	Royalty Deposits
2009	\$1,144	\$651
2010	\$0	\$679
2011	\$533	\$887
2012	\$1,073	\$915
2013	\$743	\$840
2014	\$546	\$779
2015	\$624	\$600
2016	\$0	\$285
2017	\$0	\$365
2018	\$0	\$291*
2019	\$943*	\$352*

* Estimated based on projections

Transparency

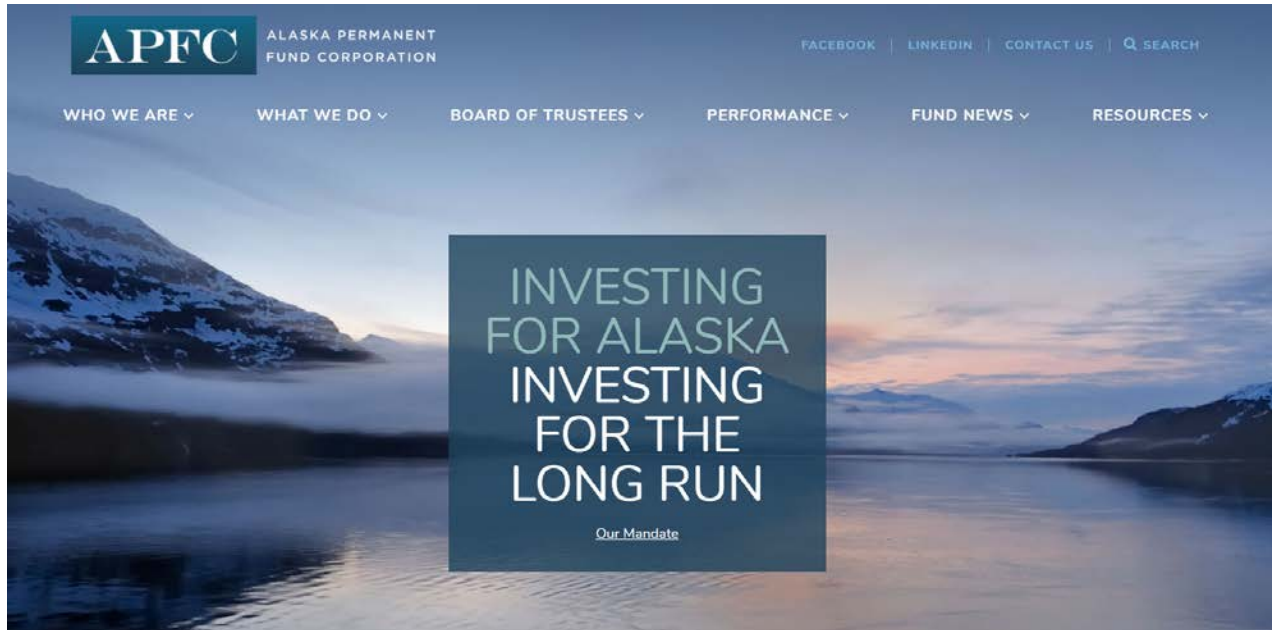
- It is important to note that the Board of Trustees has always been transparent regarding how the appropriations to the APFC have been budgeted and spent.
- The budget is approved and discussed in open, public meetings, and budget materials and reports are included in public board meeting packets.
- Members of the public can find detailed information about the Corporation's budget, investment strategy and performance at apfc.org.
- Moving to the language section of the budget bill will provide the Board with necessary flexibility to better manage the APFC's resources, but will not lessen the transparency of its expenditures.



Capital Project Status

- The FY18 capital project appropriation to enhance APFC operations is \$4,050,000 from Fund Source 1105 PF Gross Receipts and is structured as a reinvestment of earnings back into APFC.
- The proposed workspace redesign will optimize the floorplan to accommodate internal portfolio management growth and advance staff collaborative processes.
- Status:
 - APFC entered into a Reimbursable Services Agreement with DOT/PF as Project Manager in August of 2017.
 - Notice to Proceed was issued to design team on 12/05/2017.
 - Construction is expected to commence in May of 2018.
 - Estimated construction completion is October of 2018.
- How much has been encumbered?
 - \$221,994 for Design & Bidding Phase - RIM Design.
- How much has been expended?
 - \$12,433 for RIM Design and ~\$5,000 for Project Management with DOT/PF.

www.apfc.org



- Annual Report
- Daily Fund Market Value
- Financial Statements
- Performance Reports
- Current and Historical Reports
- Fund News



Questions ?