

# Alaska Permanent Fund Corporation

## Budget Presentation FY18



Alaska Permanent Fund Corporation

# The Corporation



AS 37.13.040. Alaska Permanent Fund Corporation.

There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue **managed by the board of trustees. The purpose of the corporation is to manage and invest the assets of the permanent fund and other funds designated by law in accordance with AS 37.13.010 - 37.13.190.**



# The Board of Trustees



APFC 2016 Board of Trustees.  
Vice-Chair Carl Brady, Trustee Larry Cash, Trustee Marty Rutherford,  
Chair Bill Moran, Trustee Randy Hoffbeck, Trustee Sheldon Fisher

AS 37.13.040.

Composition and qualifications of board of trustees.

(a) The Board of Trustees of the Alaska Permanent Fund Corporation consists of six members appointed by the governor. Two of the members must be heads of principal departments of state government, one of whom shall be the commissioner of revenue. Four members shall be appointed by the governor from the public and may not hold any other state or federal office, position or employment, either elective or appointive, except as a member of the armed forces of either the United States or of this state.

(b) The four public members of the board must have recognized competence and wide experience in finance, investments, or other business management-related fields.

(c) The board shall annually elect a chairman from among its members.



# Corporate Mission

*“to manage and invest the assets of the Permanent Fund and other funds designated by law”*

## AS 37.13.120. Investment Responsibilities

- Designate types of investments
- Use the prudent investor rule
- Related to an investment, may only borrow money if the borrowing is nonrecourse to the Corporation and the Fund
- Shall maintain a reasonable diversification among investments



# Strategic Plan

Every 5 years, as required by the Board of Trustees' Charter, a strategic plan is developed.

- APFC's 2017-2021 Strategic Plan was developed by staff; reviewed then adopted by the Board of Trustees during the Annual Meeting in September 2016.
- Four strategic priorities were identified to be pursued over the next five years.
  - Takes into account stakeholder expectations.
  - Builds on a common vision for the Corporation.



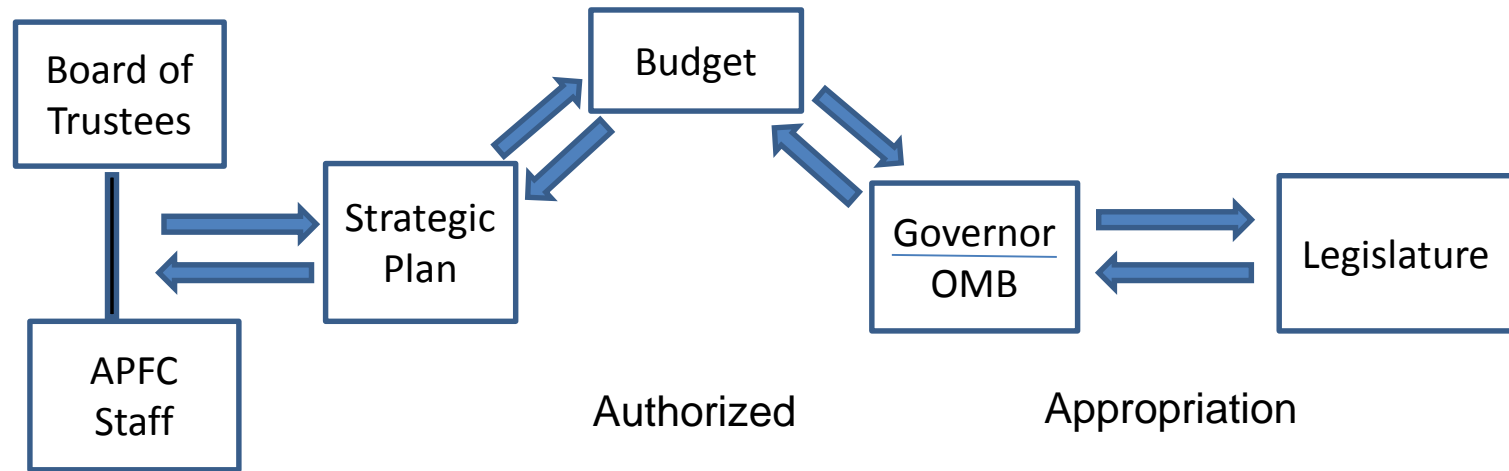
# APFC's Vision

*“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.



# APFC's Budget Process



# APFC's Strategic 5 Yr Plan

## Strategic 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*





# Asset Allocation Structure

## Growth

- Tradable/Liquid
  - Public Equities (Stocks)
- Illiquid
  - Private Equity
  - Absolute Return
  - Allocation Strategies

## Income

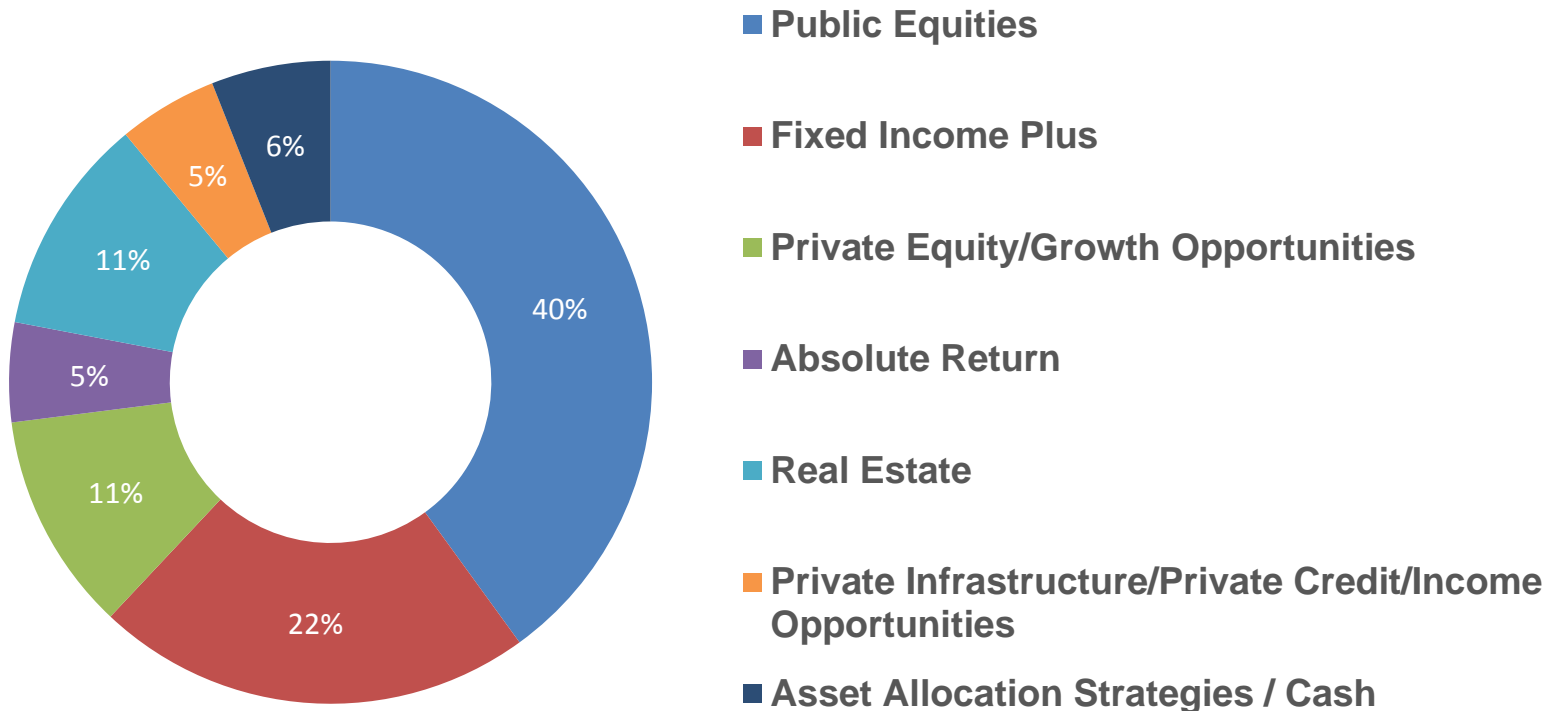
- Tradable/Liquid
  - Fixed Income Plus (Bonds)
  - Cash
- Illiquid
  - Real Estate
  - Infrastructure



# \$55.4 Billion Portfolio

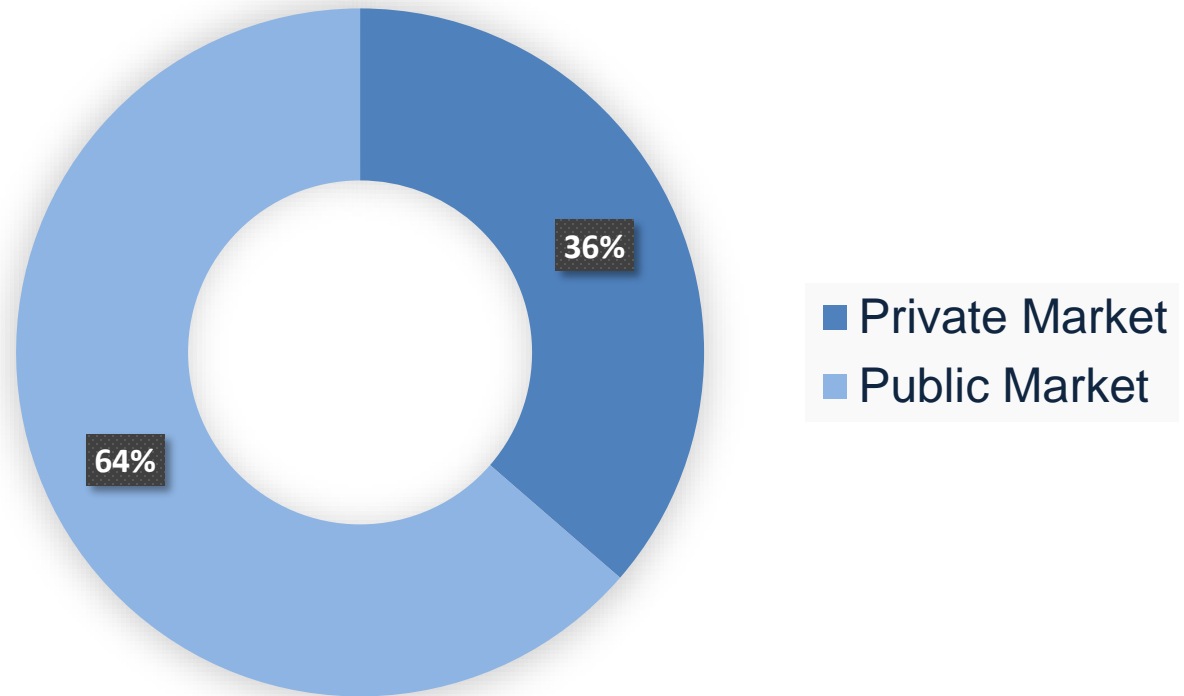
FY17 Q2 as of 12/31/16

## Target Asset Allocation



# \$55.4 Billion Portfolio

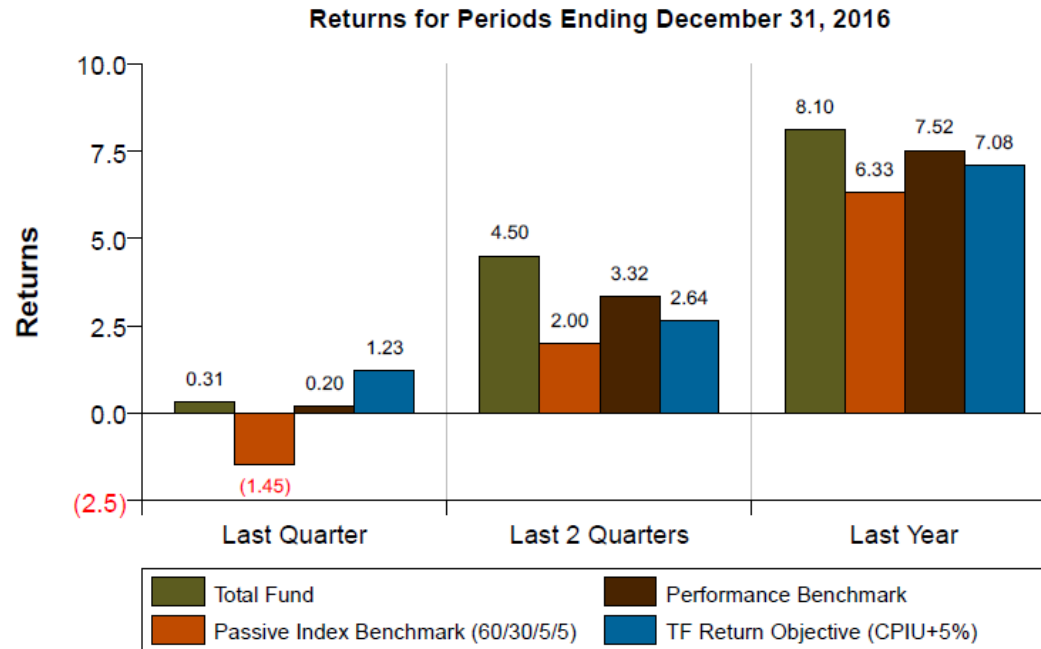
FY17 Q2 as of 12/31/16



# Performance FY17 Q2

## APFC Total Fund Cumulative Returns

Total Fund versus Total Fund Targets



- Current Total Fund Target (Performance Benchmark) = 41.7% MSCI ACWI IMI, 11.5% NCREIF Total Index, 11.5% Cambridge Private Equity Index, 5.7% Bloomberg Aggregate, 5.7% Bloomberg Credit, 5.2% HFRI Fund Weighted Composite, 3.1% FTSE Developed Core Infrastructure, 2.3% Bloomberg Global ex-US Treasury Hedged, 4.4% Bloomberg US HY Corporate 2% Cap, 2.3% S&P Global REIT (Net), 3.2% 3-month Treasury Bill, 1.2% Bloomberg Emerging Markets Bond, 1.2% Bloomberg US TIPS, and 1.2% S&P Global Infrastructure Net (rounded to nearest tenth)

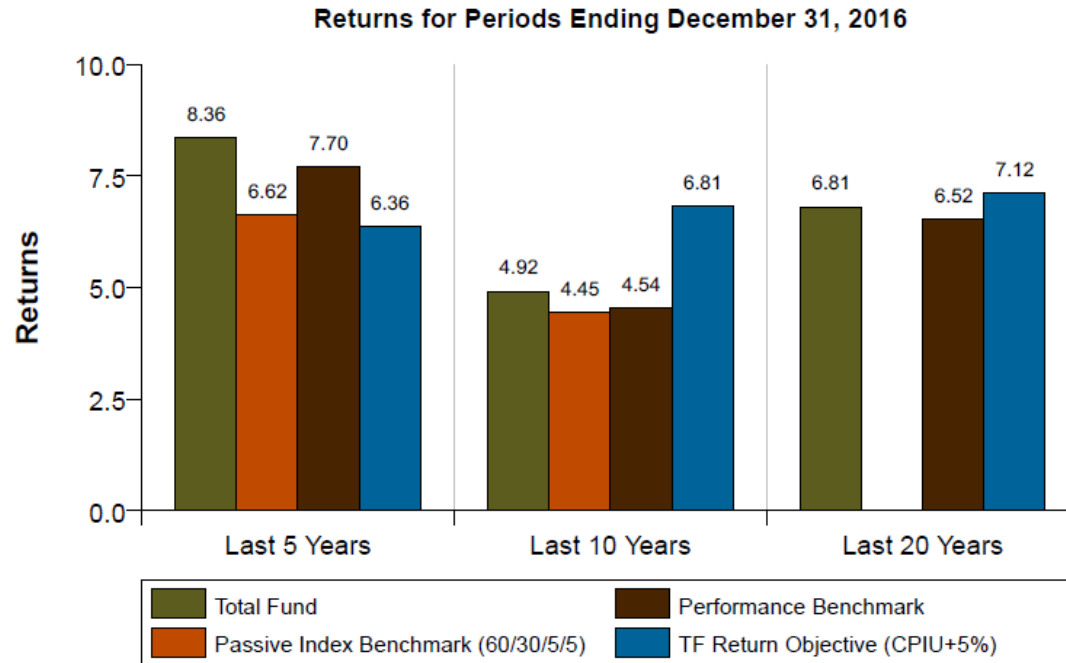
Callan Associates Preliminary Report  
Public Markets Performance Review  
APFC Board of Trustees Meeting – Feb 2017



# Performance Past 20 Years

## APFC Total Fund Cumulative Returns

Total Fund versus Total Fund Targets



- Current Total Fund Target (Performance Benchmark) = 41.7% MSCI ACWI IMI, 11.5% NCREIF Total Index, 11.5% Cambridge Private Equity Index, 5.7% Bloomberg Aggregate, 5.7% Bloomberg Credit, 5.2% HFRI Fund Weighted Composite, 3.1% FTSE Developed Core Infrastructure, 2.3% Bloomberg Global ex-US Treasury Hedged, 4.4% Bloomberg US HY Corporate 2% Cap, 2.3% S&P Global REIT (Net), 3.2% 3-month Treasury Bill, 1.2% Bloomberg Emerging Markets Bond, 1.2% Bloomberg US TIPS, and 1.2% S&P Global Infrastructure Net (rounded to nearest tenth)

Callan Associates – Preliminary Report  
Public Markets Performance Review  
APFC Board of Trustees Meeting – Feb 2017

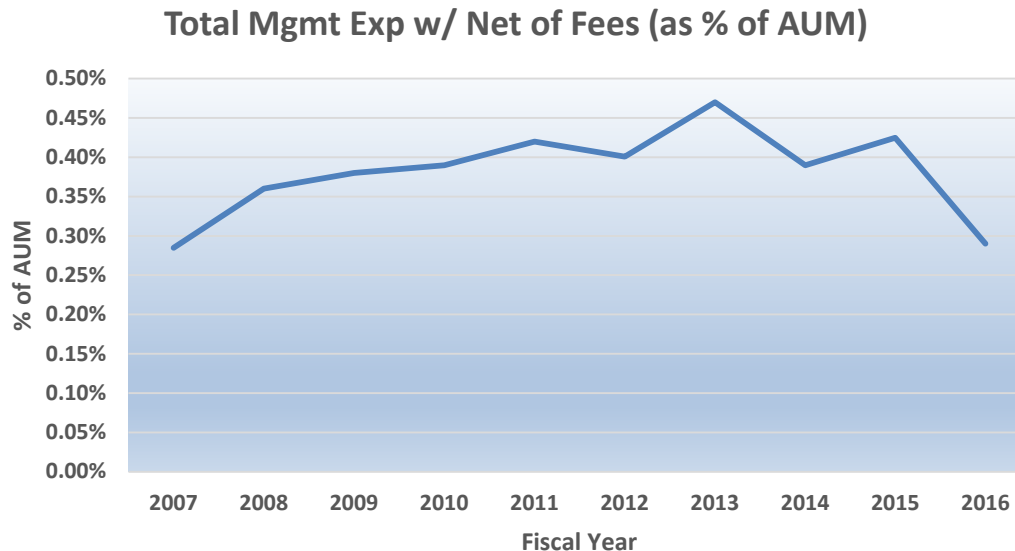


# Since 2011, APFC has:

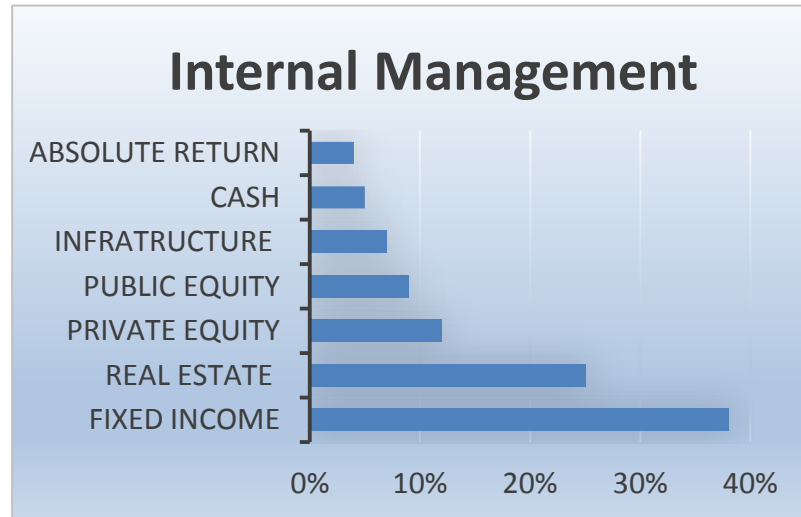
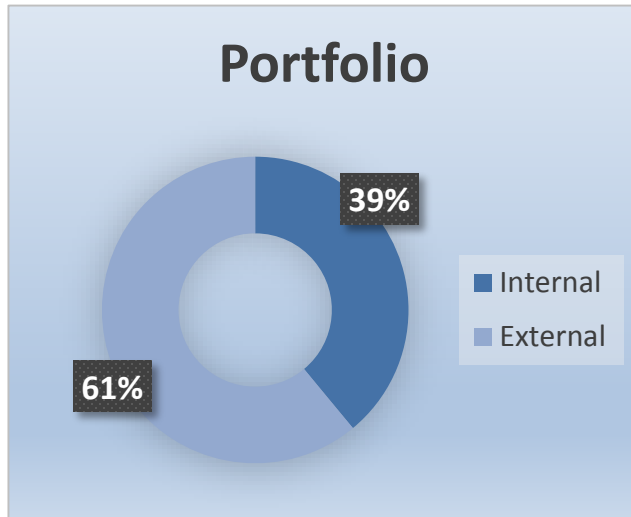
**Beat Performance Benchmark:** Outperformed 60% stock, 30% bond, 10% real assets mix by 1.56% (6.41% versus 4.85%)

**Improved Diversification:** Reduced valued-at-risk from 24% to 19% by increasing private markets investments from 22% to 30%

**Reduced Management Expenses:** Declined from 42bps on assets-under-mgmt. to 29bps (a 31% reduction)



# Management of the Fund



- In FY16, 39% of the total assets were under in-house management.
- Over the last 10 years, the Board of Trustees has set a priority of building in-house talent.
- The Board of Trustees continues to work towards an optimal mix of in-house versus external management capabilities based on resources and opportunities.



# Real Estate

Value of Direct RE Investments  
\$5.5 billion

Real Estate Internal Mgmt.  
\$83,333/month

Monthly Cash Flow  
**\$21.2 million** (gross of fees)

Compare to:  
30-year Treasury Bonds  
2.5% coupon rate

Monthly Cash Flow  
**\$6.9 million**





# Best Practices

A brief from



THE PEW CHARITABLE TRUSTS

| Oct 2016

## From Volatile Severance Taxes to Sustained Revenue

Key recommendations to improve state sovereign wealth funds

*“By establishing independent entities to oversee their sovereign wealth funds, New Zealand and Alaska have ensured prudent governance, monitoring, and disclosure of their financials and management practices. They stand as examples of many of the best practices for sovereign wealth funds domestically or internationally.”*



# Peer Recognition

- Two aiCIO Industry Innovation Awards (2011, 2015)
- Public and Private Fund Managers
  - Singapore Government Investment Corp
  - Norway Government Pension Fund
  - Massachusetts PRIM
  - Finance Ministry of Mongolia
  - International Forum of Sovereign Wealth Funds



# APFC FY18 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 FY18 Budget Request, as approved by the Board of Trustees  
Language Section of the Budget

*An amount not to exceed \$155,500,050 is appropriated from Alaska Permanent Fund Corporate Receipts for the investment and operating costs of the Alaska Permanent Fund Corporation.*

- The APFC Board of Trustees approved this request on September 28, 2016.
- This proposed budget represents a \$4.9 million decrement from the authority that was approved for APFC for FY17.
- The request does not include any new positions for FY18.
- This proposed request also includes funding for creating an efficient and flexible workspace environment.



# APFC FY18 BOT Request by component

	FY17 Authorized	FY18 Board of Trustees	Change from FY17
Personal Services	\$9,489,700	\$9,658,650	\$168,950
Travel	\$605,500	\$605,500	\$0
Contractual Services	\$1,870,900	\$2,239,400	\$368,500
Commodities	\$122,300	\$97,300	(\$25,000)
Capital Outlay	\$80,000	\$4,130,000	\$4,050,000
APFC Operations Budget	\$12,168,400	\$16,730,850	\$4,562,450
APFC Investment Management Fees	\$148,191,000	\$138,769,200	(\$9,421,800)
Alaska Permanent Fund Corporation Total	\$160,359,400	\$155,500,050	(\$4,859,350)

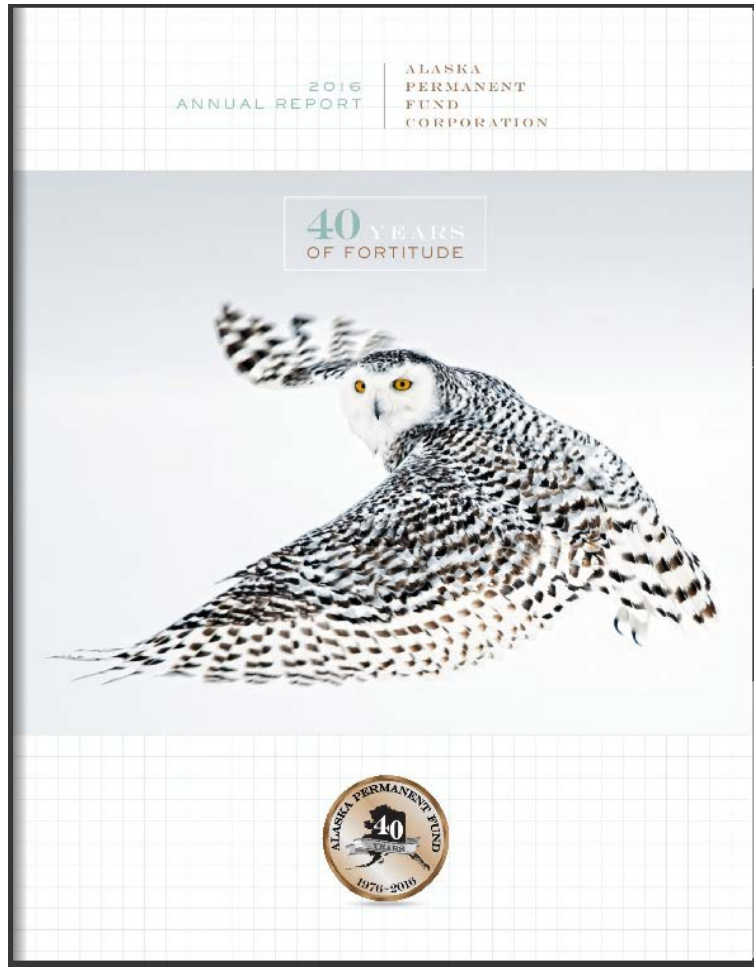


# FY18 Governor's Request

	FY17 Authorized	FY18 Board of Trustees	FY18 Governor	Change from Board of Trustees	Change from FY17
Personal Services	\$9,489,700	\$9,658,650	\$9,600,700	(\$57,950)	\$111,000
Travel	\$605,500	\$605,500	\$605,500	\$0	\$0
Contractual Services	\$1,870,900	\$2,239,400	\$1,870,900	(\$368,500)	\$0
Commodities	\$122,300	\$97,300	\$97,300	\$0	(\$25,000)
Capital Outlay	\$80,000	\$4,130,000	\$80,000	(\$4,050,000)	\$0
APFC Operations Budget	\$12,168,400	\$16,730,850	\$12,254,400	(\$4,476,450)	\$86,000
APFC Investment Management Fees	\$148,191,000	\$138,769,200	\$138,769,200	\$0	(\$9,421,800)
Alaska Permanent Fund Corporation Total	\$160,359,400	\$155,500,050	\$151,023,600	(\$4,476,450)	(\$9,335,800)

- Recognizes full decrement of \$9,421,800 from the investment management fees component, without offsetting transaction for office space improvements to encourage efficiencies.
- Recognizes APFC's decrement of \$25,000 for a previous workstation improvement effort.
- Includes \$111,000 for contractual Alaska Care rate increases as an OMB salary adjustment.
- Does not fund the Board of Trustees' request for \$168,950 to provide salary adjustments in accordance with the Board's Compensation Policy.
- Does not fund the Board of Trustees' capital outlay request of \$4,130,000 for office space improvements.





# Questions?

