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Memo

To: Representative Tammie Wilson, Co-Chair
Representative Neal Foster, Co-Chair
House Finance Committee, Alaska House of Representatives

From: Angela Rodell, CEO
Alaska Permanent Fund Corporation

Date: May 11, 2019

Re: Follow Up to Questions on HB 139 posed in HFIN 5/11/2019

Co-Chair Wilson asked for an example as to a past investment opportunity that would have benefited from having a specific procurement exemption "for investment-related services" in statute.

- APFC's investment in Juno Therapeutics, a biomedical advanced immunotherapy research company, is an illustrative example of how APFC would have benefitted from having a procurement exemption in place to conduct third party due diligence within a limited timeframe. The team collaborating to form this biopharmaceutical company approached APFC with a direct investment opportunity that was on a fast track back in 2013. Not being positioned to rapidly procure the necessary third-party expertise to diligently review the cutting-edge research in the development of cancer immunotherapy drugs associated with this investment, APFC engaged one of our existing private equity fund managers to vet this investment on our behalf – effectively making them a co-investor. As such, when Juno Therapeutics was released for an IPO (initial public offering) APFC and the fund manager were each entitled to a significant number of shares. APFC ultimately sold the Permanent Fund's shares in this company netting approximately $1.8 billion for the Fund.

- Generally speaking there are two amounts paid to a fund manager when we enter into an investment agreement with them. One is a management fee and the other is carried interest (excess profit sharing). The industry standard for private equity funds is to split any profits over an agreed upon performance hurdle 80/20 where the investor (APFC) receives 80% of the excess profit and the fund manager receives 20% of the excess. By way of example, if we make a $100 million investment and assume the performance hurdle at the time of exiting the investment equates to $20 million meaning if everything performs as expected we would receive $120 million. If the investment did better than expected and returned $50 million, APFC would receive $120 million plus 80% of the excess – in this case 80% of $30 million for a total of $144 million. The fund manager receives 20% of the excess which in this case would be $6 million.

- APFC's goal is to increase our capture rate and get as much of the 100% as possible and HB139 helps us do that.

Trustees and our team in Juneau take our stewardship role in managing and investing the Fund very seriously. As we have brought on new asset classes, we have brought more of the due diligence and expertise in-house. At APFC's creation in 1980, we were only permitted to invest the Fund in bonds with a very small allocation to US equities. We relied on managers to trade corporate bonds and staff took care of buying and selling treasury bonds. Over time we built the expertise to the point we now allocate 20% of the Fund to bonds including corporate bonds, mortgage-backed securities and global government bonds, all of which are researched, bought and sold by internal staff.

We continually assess ways to better invest and create additional value for the State of Alaska. This proposed targeted procurement exemption for investment-related services would provide APFC with a tool to work directly with subject matter experts to analyze an investment thesis within a condensed timeframe, rather than relying on a third-party manager for these resources.

As always, please feel free to contact us if there are further questions. Our Communications Manager, Paulyn Swanson, can be reached via email pswanson@apfc.org or at 907-796-1520.