



APFC

ALASKA PERMANENT  
FUND CORPORATION

# Senate Finance Committee

January 25, 2019

# The Alaska Constitution

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In 1976, Alaskans voted, 75,588 to 38,518, in favor to amend the Constitution of the State of Alaska 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.

# APFC's Vision

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*"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 Strategic 5 Year Plan

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## Priorities for FY 17-FY21:

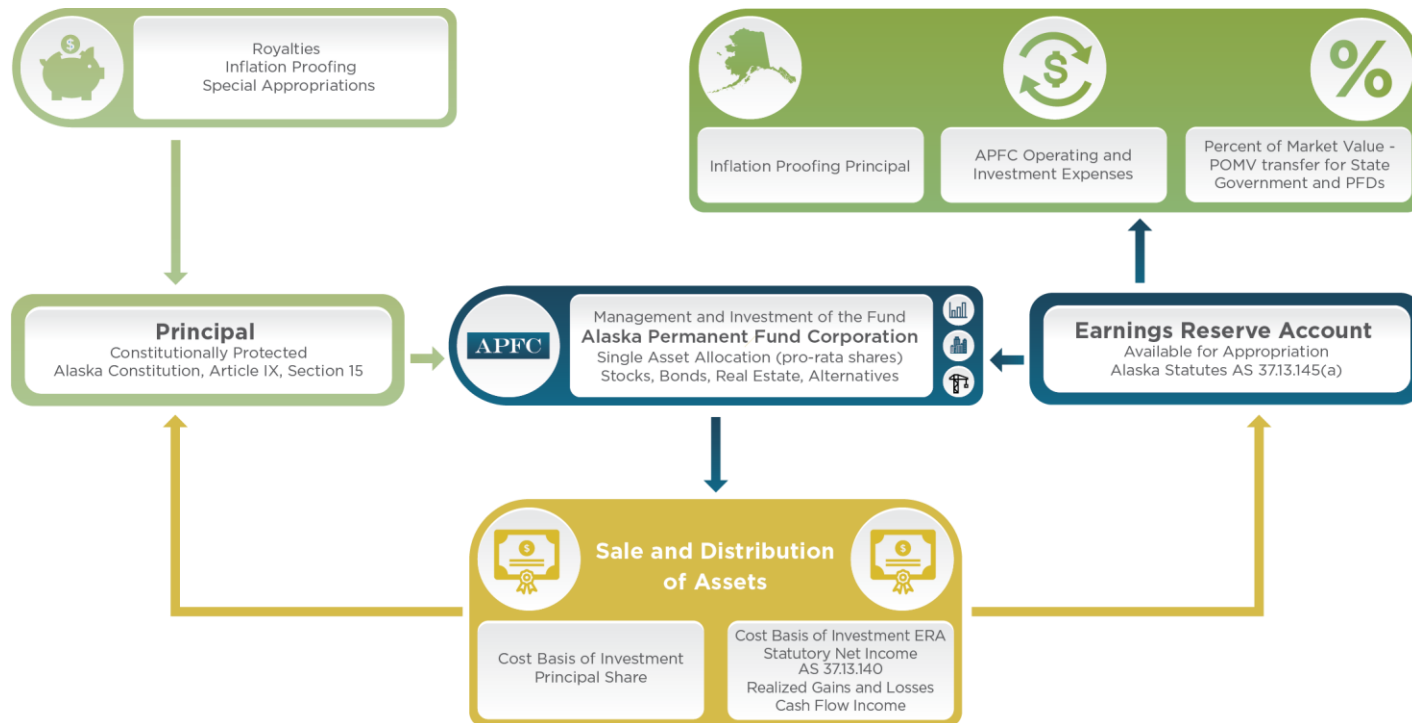
- Gain greater control of resource allocations.
- Optimize APFC's operational processes and use of financial networks and resources.
- Develop best-in-class investment management capabilities, partnerships, and geographic reach to maximize investment returns.
- Enhance talent and staff across APFC.

*Over the course of 2019, the Board will be working on a new strategic 5 year plan.*

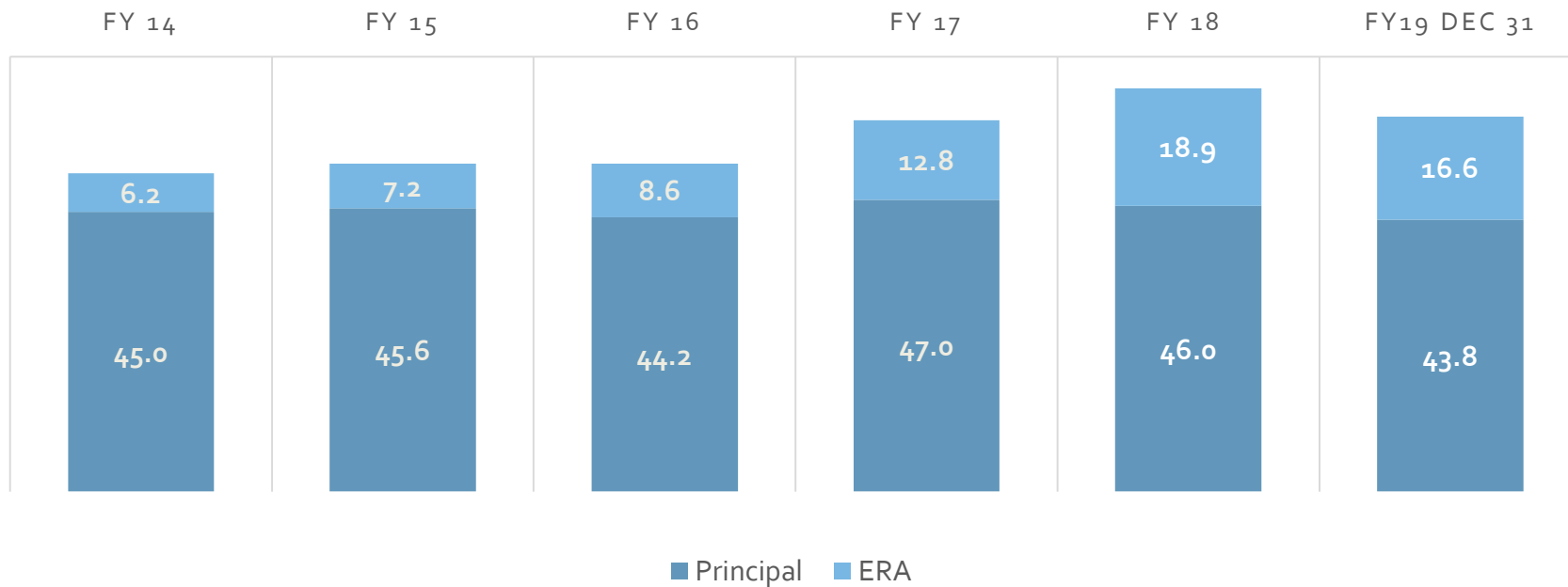
The background of the slide is a solid teal color. Overlaid on this background is a close-up photograph of a pine branch with several long, thin needles and two small, immature pine cones. The image is semi-transparent, allowing the teal background to show through.

# How the Fund Works

# How the Fund Works



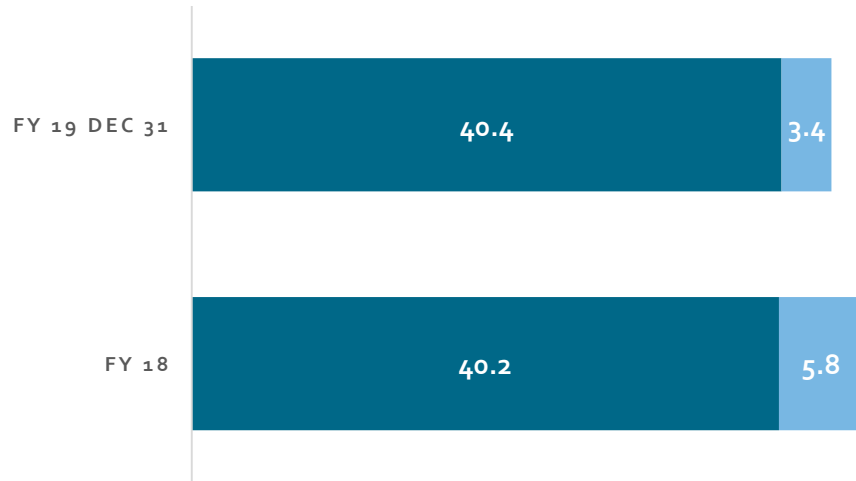
# Assets Under Management in billions



# Values

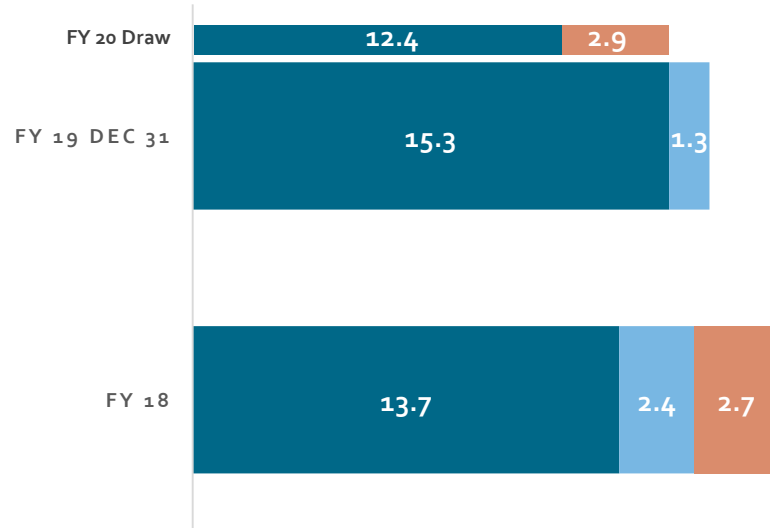
## PRINCIPAL

■ Contributions ■ Unrealized Gains



## ERA

■ Realized Earnings ■ Unrealized Gains ■ POMV





# Principal

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- The Principal is constitutionally established and permanently protected; it can only be used for income-producing investments.
- The Principal is built through royalty deposits, inflation proofing, and other special appropriations.

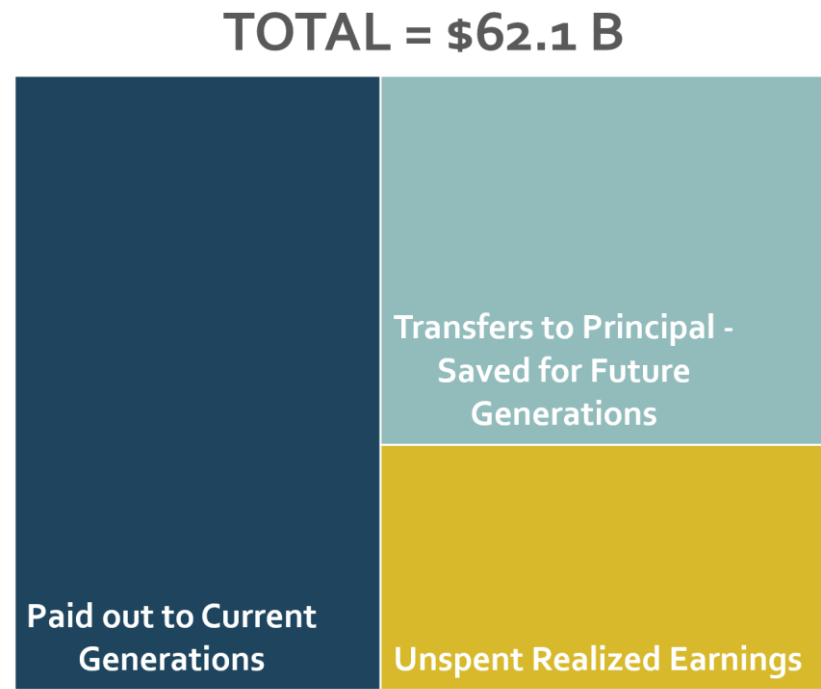
Contributions Since Inception	In billions
Constitutional deposits from mineral revenues	\$ 16.9
Transfers from the ERA for Inflation Proofing	\$ 16.2
Special Appropriations from ERA and GF	\$ 7.1

As of 6/30/2018

# Use of Fund Earnings from ERA Since Inception

as of June 30, 2018

- Paid out of ERA = \$27.8 B
  - Dividend Transfers
  - General Fund Appropriations
  - Alaska Capital Income Transfers
- Transfers from ERA to Principal = \$20.6 B
  - Inflation Proofing
  - Special Appropriations
- Unspent Realized Earnings in ERA = \$13.7 B



# POMV – SB 26, CH 16 SLA 18

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**Percent of Market Value:** draw of the average market value of the Fund for the first five of the preceding six fiscal years, subject to annual appropriation by the Legislature.

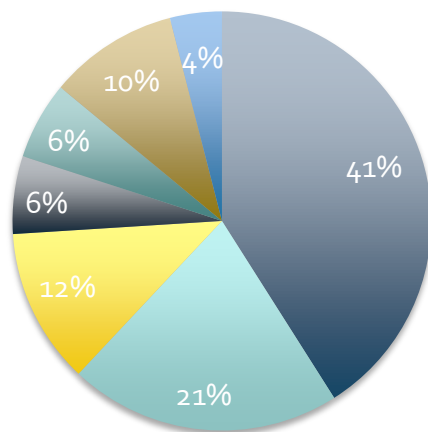
- 5.25% - Effective July 1, 2018 (FY19)
  - FY19 5.25% POMV = \$2.7 billion
  - FY20 5.25% POMV = \$2.9 billion
  - FY21 5.25% POMV = \$3.1 billion estimate
- 5.0% - Effective July 1, 2021 (FY22)

The image is a full-page background featuring a serene landscape. In the foreground, there's a body of water with small, dark rocks scattered across its surface. A small, light-colored patch of land or sand is visible in the lower center. The middle ground shows a calm body of water reflecting the sky. In the background, a range of rugged, snow-capped mountains stretches across the horizon. A bright sunburst effect is visible in the upper right quadrant of the sky. The entire image is overlaid with a semi-transparent teal or blue tint. Centered over the image is the text "How We Invest" in a clean, white, sans-serif font.

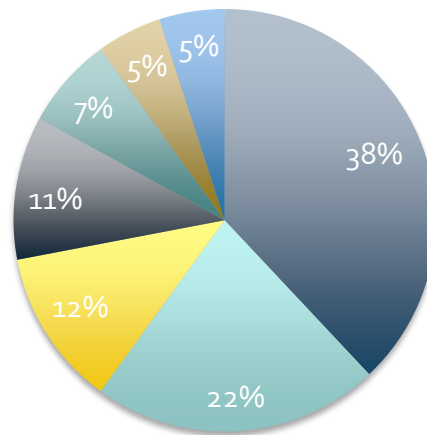
# How We Invest

# The Portfolio

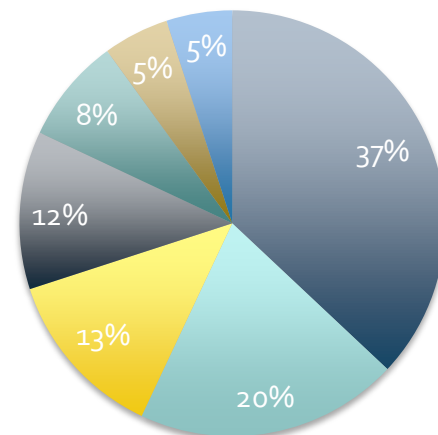
- Public Equities
- Fixed Income Plus
- Private Equity & Special Opportunities
- Real Estate
- Infrastructure, Credit, & Income Opportunities
- Asset Allocation Strategies
- Absolute Return



**Allocation as of 6/30/2018**



**Target FY19**



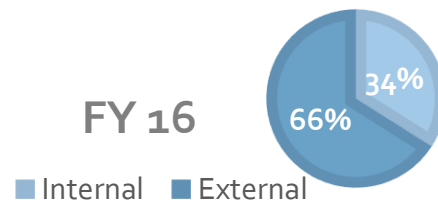
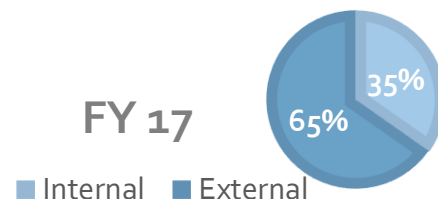
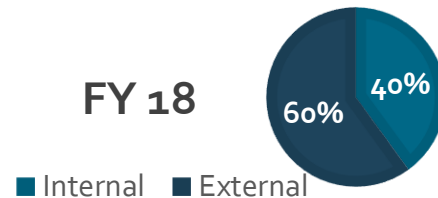
**Target FY20**

# Management of the Fund

The Board of Trustees continue to work towards an optimal mix of in-house versus external management capabilities based on resources and opportunities.

## In-House Management Allows for:

- Alignment of investment goals and mandates
- Increased flexibility in timing/tactical decisions
- Lower fees with investment benefit of active management







# Outcomes

# Fiscal Year 2018 Performance

as of June 30<sup>th</sup>, 2018

	FY18	3 Years	5 Years	Since Inception
Total Fund	10.74%	7.69%	8.91%	8.86%
Passive Index Benchmark <small>(60 Stocks 20 Bonds 10RE 10 TIPs)</small>	7.83%	6.49%	6.81%	<i>Not Available</i>
Performance Benchmark	8.20%	7.08%	7.55%	8.98%
Total Fund Return Objective   CPI+5%	7.87%	6.83%	6.54%	7.68%



# Value Generated

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## FY 18

Revenues	\$ 5,671,500,000
Operating/Investment Expenses	\$ 138,800,000

## Value Generated Per Day (based on 251 active trading days through FY18)

Total Fund	\$ 5.67 B / 251 = \$22.6 M per day
Statutory Net Income	\$ 6.3 B / 251 = \$25.2 M per day

APFC staff is actively engaged in making direct investments and overseeing our external manager partnerships:

- APFC = 57PFT, 2PPT, 2 Summer Interns
- 28 External Public Equities Managers
- 5 Real Estate Advisors
- Private Markets Partnerships:
  - Fund to Fund / Co-Investments / Direct Investments



# Awards & Accomplishments

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- Nominated for **Limited Partner of the Year for 2018** by *Private Equity International*
- APFC received dual nominations for **2018 Partnership of the Year** for *Institutional Investor's Allocators' Choice Awards* and won the award for our **Capital Constellation Partnership**:
  - Private Market Partnership, Capital Constellation - won
  - Public Market Partnership, Middle East Africa South Asia (MEASA) Fund with McKinley Capital - nominated
- *PEI's Private Debt Magazine* recognized APFC in their inaugural **30 Most Influential Investors in Private Credit**
- *Recognized as North American Private Equity Institutional Limited Partner Investor of the Year for 2017* by *Private Equity International*
- Awarded *Institutional Investor's Sovereign Wealth Fund of the Year in Hedge Fund Investments in 2017*

The background image is a landscape photograph of a body of water, likely a lake or fjord, with steep, rocky mountains in the distance. The sky is clear with a bright sunburst effect in the upper right. The entire image is covered with a semi-transparent teal or blue color overlay. The text 'The Board of Trustees' is centered in the upper half of the image.

# The Board of Trustees

# Board of Trustees

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As the fiduciaries, the Trustees have a duty to Alaskans in assuring that the Permanent Fund is managed and invested in a manner consistent with legislative findings: AS 37.13.020.

- The Fund should provide a means of conserving a portion of the state's revenue from mineral resources *to benefit all generations of Alaskans.*
- The Fund's goal should be *to maintain safety of principal while maximizing total return.*
- The Fund should be used as *a savings device managed to allow the maximum use of disposable income* from the Fund for the purposes designated by law.

# Alaska Investment

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*APFC's statutory responsibilities pertaining to in-state investments are set forth in AS 37.13.120 (c) which specifies if an Alaskan investment has equivalent risk and expected return comparable to or better than a similar non-Alaskan investment, the Alaskan investment should be preferred.*

In recognition of AS 37.13.120 (c), APFC's Board of Trustees took two actions during their September 2018 Annual Meeting:

- **Amendment of the Alaska Investment section of APFC's Investment Policy & Procedures to establish a target for increased Alaska investment.**
  - As of June 30, 2018, 1.25% of the Fund's portfolio, totaling \$819.5 million, was invested in-state through Alaska-based external investment managers and through ownership of APFC's office building in Juneau.
  - The aspirational goals set forth in the policy amended by the Board in September 2018 call for 2% of the portfolio to be invested in-state by 2020, increasing by 1% each year up to 5% of the Fund being invested in-state by 2023. (Does not include in-house management by APFC).
- **Passage of Resolution 18-03 Supporting An In-State Emerging Manager Program.**
  - This resolution directs the implementation of an In-State Emerging Manager program with an initial allocation up to \$200 million within the Private Equity and Special Opportunities Asset Allocation.
  - The goal of the Emerging Manager Program is to seed new private equity or venture capital fund managers in Alaska.
  - APFC will work with an external manager to oversee the program.
  - Board guidance that in-state investments should meet same investment criteria and expectations as out of state investments.

# Contributions to Principal

## Royalty Deposits – AS 37.13.010 (a) (1) and (a) (2)

- The constitutionally minimum required 25% of royalty proceeds.
- The statutorily mandated deposits of 50% for leases after 1979.

## Inflation Proofing – AS 37.13.145 (c)

- The inflation proofing projection is based upon estimates for deposits into the Principal of the Fund and the projected inflation rate as calculated per statute.
- The Legislature appropriated FY19 inflation proofing estimated to be \$942 million on June 30th, 2019.
- The FY20 inflation proofing amount is estimated to be \$943 million, the actual amount will be calculated at the end of the fiscal year. \$1.4 billion for FY16-FY18 remains unappropriated.

*The Board of Trustees adopted Resolution 17-01 asserting the importance of inflation proofing to preserve the purchasing power of the Principal. Subsequent Resolutions 18-01 and 18-04 reiterate that the prudent reinvestment of a portion of the Fund's earnings to protect the future value of the Principal is essential to maintaining the long term sustainability of the Fund and establishing a solid fiscal foundation for Alaska.*

	In millions	
Fiscal Year	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	\$353
2019	\$942*	\$296**
2020	\$943*	394.6*

\*Estimated based on projections

\*\*Only 25% based on appropriation language





# Earnings Reserve Account

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- The Earnings Reserve Account (ERA) is established in Alaska Statutes as an account to hold the realized earnings from the Permanent Fund's investment portfolio; it does not have its own investment mandate.
- The ERA is subject to legislative appropriation.
- FY 19 Appropriations from the ERA
  - POMV \$2.7 billion
  - APFC Operations \$18.1 million
  - APFC Investment Management Fees \$150.5 million
  - Dept. of Law \$2.6 million
  - Dept. of Natural Resources \$5.9 million



# Resolution 18-04



# Resolution 18-04

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## **Sustainable Rules- Based Legal Framework For Fund Transfers**

In providing guidance on rules-based withdrawals for the Fund and to help ensure the long-term sustainability of using Fund earnings for the benefit of all generations of Alaskans, the Board passed Resolution 18-04 at a special meeting on October 17, 2018.

This resolution affirms the importance of formulaic management of transfers into and out of the ERA to ensure sustainability and long-term growth of the Fund, by identifying four key principles:

**Adherence - Sustainability - Inflation Proofing - Real Growth**



## Resolution 18-04

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**Adherence:** A rules-based framework includes adhering to the formulaic calculations provided for in statute for transfers into and out of the Permanent Fund, such as dividends, royalty deposits, and inflation proofing. Adherence to the rules increases the likelihood that systematic draws from the Permanent Fund will be sustainable over time and will allow for more prudent investment of the Permanent Fund due to the predictability of liquidity needs.

# Resolution 18-04

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**Sustainability:** Any rules-based system for drawing from the Permanent Fund (to support government spending and for dividends) should be sustainable, meaning the formulaic system for withdrawals should be projected to result in the Permanent Fund growing annually by at least the rate of inflation. Sustainability also requires annual formulaic withdrawals from the Earnings Reserve Account at an amount that the long-term balance of the account is able to fund. The Board recommends instituting a process that would require periodic review of these assumptions as market conditions change so that a timely reduction to the annual draw could be effectuated, if necessary, to maintain the long-term sustainability of the Earnings Reserve Account.



## Resolution 18-04

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**Automatic Inflation Proofing:** The Board believes that the inflation-proofing transfer should become a guaranteed annual event rather than a discretionary transfer that is subject to appropriation. To achieve this goal, the Board supports passage of legislation that would define net income to require realized gains that are accumulated throughout the fiscal year be used to offset the impact of inflation on the principal of the fund with the remainder of net realized gains being accounted for in the Earnings Reserve Account.

# Resolution 18-04

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**Promote Real Growth When Possible:** While providing for a sustainable draw by preserving the purchasing power of the fund and ensuring a durable Earnings Reserve Account is a primary goal of the Board, recognizing and executing on opportunities to grow the real value of the fund is also important. Real growth will not only result in more income and thus higher sustainable draws in the future, it is necessary to preserve intergenerational wealth as Alaska continues extraction of its finite natural resources. Thus, the Board supports thoughtful strategies to grow the fund on a real, and not just nominal, basis.





Looking Forward

# Forecasting

- Callan 10yr FY 09-18 Forecast: 8.05%
- Actual 10yr FY 09-18 Return: 6.50%
- The Permanent Fund is invested into perpetuity
- The Fund's portfolio is strategically allocated for long term results
  - Tactical decisions are executed to leverage opportunities based on fluctuations in the market.

## FY Total Annual Returns

2009	-17.96%
2010	11.72%
2011	20.56%
2012	-0.01%
2013	10.93%
2014	15.52%
2015	4.91%
2016	1.02%
2017	12.57%
2018	10.74%

# Callan's Capital Markets Forecast

as of April 2018

10 year horizon	2017	2018
Total Return	6.50%	6.55%
Statutory Return	6.53%	6.40%
Inflation	2.25%	2.25%

Callan projects what a typical fund with the APFC's asset allocation is forecasted to return; Callan does not take into account the specific investments held by the APFC.

Asset Category	Projected 10-Year Geometric Return	Annualized Standard Deviation
Global Equities	7.05%	18.85%
Cash Equivalents	2.25%	0.90%
US TIPS	3.00%	5.25%
US Fixed Income	3.00%	3.75%
Investment Grade Credit	3.55%	5.05%
Non US Fixed Income	1.40%	9.20%
Emerging Markets Debt	4.50%	9.60%
High Yield Fixed Income	4.75%	10.35%
Global REITS	6.40%	20.30%
Global Listed Infrastructure	6.40%	17.25%
Private Equity	8.50%	22.00%
Real Estate	5.75%	16.35%
Private Infrastructure	5.75%	14.50%
Absolute Return	5.05%	9.15%





ALASKA PERMANENT  
FUND CORPORATION

## ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of December 31, 2018

Projections extend ten years, and are based on best available information (\$ in millions)

Nonspendable Fund Balance - Principal								Assigned Fund Balance - Earnings Reserve								TOTAL FUND
FY	FY-Begin Contrib.	Dedicated <sup>(1)</sup>	Inflation	FY-End Balance	Unrealized Gain (Loss) FY-End Balance	FY-End Non-spendable Balance	Acct. Net Income <sup>(2)</sup>	Distributions			FY-End Balance	Unrealized Gain (Loss) FY-End Balance	FY-End Assigned Balance	FY	FY-End Balance	
	Balance	Revenues	Proofing	Contributions			Div/POMV Transfer <sup>(9)</sup>	Inflation Proofing	ACIF	Realized						
09	29,149	651	1,144	30,945	(1,449)	29,496	(6,394)	875	1,144	0 <sup>(5)</sup>	441	(21)	420	09	29,917	
10	30,944	679	0 <sup>(6)</sup>	31,624	421	32,045	3,517	858	0 <sup>(6)</sup>	0 <sup>(5)</sup>	1,194	16	1,210	10	33,255	
11	31,624	887	533	33,044	4,788	37,832	6,812	801	533	13 <sup>(5)</sup>	2,016	292	2,308	11	40,140	
12	33,044	915	1,073	35,033	3,220	38,253	(100)	605	1,073	17	1,905	175	2,081	12	40,333	
13	35,033	840	743	36,615	4,184	40,800	4,314	604	743	30	3,487	567	4,054	13	44,853	
14	36,615	779	546	37,941	7,062	45,002	6,848	1,235	546	32	5,237	975	6,211	14	51,214	
15	37,941	600	624	39,165	6,473	45,638	2,384	1,373	624	24	6,147	1,016	7,162	15	52,800	
16	39,165	284	0	39,449	4,750	44,199	398	696 <sup>(7)</sup>	0 <sup>(8)</sup>	18	7,649	921	8,570	16	52,769	
17	39,449	365	0	39,814	7,155	46,969	6,676	0	0 <sup>(8)</sup>	25	10,863	1,952	12,816	17	59,785	
18	39,814	353	0	40,167	5,863	46,030	5,526	726	0 <sup>(8)</sup>	43	16,461	2,403	18,864	18	64,894	
Lo	19	40,167	368	912	41,447	1,256	(3,522)	2,723	912	21	15,813	479	16,292	19	58,995	
Mid	19	40,167	368	912	41,447	5,688	3,614	2,723	912	27	16,699	2,292	18,991	19	66,125	
Hi	19	40,167	368	912	41,447	8,577	8,743	2,723	912	33	17,585	3,639	21,225	19	71,249	
20	41,447	397	941	42,785	5,803	48,587	4,066	2,933	941	27	16,766	2,274	19,040	20	67,627	
21	42,785	388	971	44,145	5,929	50,073	4,154	3,090	971	27	16,732	2,247	18,979	21	69,053	
22	44,145	379	1,002	45,525	6,051	51,576	4,241	3,091	1,002	27	16,752	2,227	18,979	22	70,555	
23	45,525	387	1,033	46,945	6,185	53,131	4,329	3,254	1,033	27	16,664	2,196	18,859	23	71,990	
24	46,945	405	1,065	48,416	6,328	54,744	4,414	3,361	1,065	27	16,519	2,159	18,678	24	73,421	
25	48,416	440	1,099	49,955	6,475	56,430	4,501	3,432	1,099	27	16,353	2,120	18,473	25	74,903	
26	49,955	492	1,135	51,582	6,628	58,210	4,592	3,505	1,135	27	16,167	2,077	18,244	26	76,454	
27	51,582	536	1,173	53,291	6,785	60,076	4,686	3,578	1,173	27	15,963	2,032	17,995	27	78,071	
28	53,291	585	1,212	55,088	6,947	62,035	4,785	3,652	1,212	27	15,741	1,985	17,726	28	79,761	
Cumulative Totals																
Proj. for FY19-FY28							43,382	32,619	10,544	272						

Assumptions:				Total Return - Inflation = Total Real Return				Statutory Return			
Lo	FY19			-5.25%	2.25%		-7.50%	Lo			5.00%
Mid	FY19	(3)		5.95%	2.25%		3.70%	Mid			6.40%
Hi	FY19			14.00%	2.25%		11.75%	Hi			7.80%
FY20-FY28 <sup>(4)</sup>				6.55%	2.25%		4.30%	6.40%			

### Notes related to financial history and projections:

- <sup>(1)</sup> Dedicated State Revenues in current and future fiscal years are based on the Fall 2018 Department of Revenue forecast.
- <sup>(2)</sup> Accounting net income is based on United States Generally Accepted Accounting Principles (GAAP).
- <sup>(3)</sup> Current year returns and inflation are based on 2018 Callan capital market assumptions. Actual results will vary.
- <sup>(4)</sup> Future returns are based on 2018 Callan capital market assumptions and median expected returns (the mid case). Actual results will vary.
- <sup>(5)</sup> During FY 2009, the ACIF realized losses of \$33.3 million, which are excluded from statutory net income, and are included in the ending unreserved balance as a deficit account. During FY 2010 and FY 2011, the ACIF had realized income of \$20.8 and \$25.3 million, which is excluded from statutory net income, and served to reduce the FY 2009 deficit.
- <sup>(6)</sup> The statutory inflation calculation for FY 2010 was -.36%; therefore, there was no inflation proofing transfer during FY 2010.
- <sup>(7)</sup> The dividend transfer reported for FY16 was paid out in dividends during FY17.
- <sup>(8)</sup> There was no appropriation for inflation proofing in FY16, FY17 and FY18.
- <sup>(9)</sup> Per AS 37.13.140, beginning in FY19, transfers are based on a percent of market value (POMV) calculation and are to the General Fund. In previous years, transfers were based on an earnings calculation and were to the Dividend Fund.

### Income Year-to-Date as of December 31, 2018

FY19 Statutory Net Income	
Interest, dividends, real estate & other incn	\$ 700.5
Realized gains (losses) on the sale of assets	975.7
Less operating expenses	(60.0)
Less AK Capital Inc. Fund realized earnings	(10.8)
	\$ 1,605.4

FY19 Accounting (GAAP) Net Income	
Statutory net income (loss)	\$ 1,605.4
Unrealized gains (losses) on invested assets	(3,624.4)
AK Capital Income Fund realized earnings	10.8
	\$ (2,008.2)

FY19 POMV Distribution (actual)		FY19 Statutory Dividend Transfer (actual)	
Ending Fund Value (ex Am Hess)		Statutory Net Income	
FY17	\$ 59,360.6	FY18	\$ 6,324.4
FY16	52,344.9	FY17	3,214.2
FY15	52,375.9	FY16	2,198.0
FY14	50,789.4	FY15	2,907.0
FY13	44,428.9	FY14	3,530.9
Average Value \$ 51,860.0		Avail for Dist (21%) \$ 3,816.6	
Statutory Distribution \$ 2,722.6		Statutory Trnsfr Amt \$ 1,908.3	

FY20 POMV Distribution (actual)		FY20 Statutory Dividend Transfer (projected)	
Ending Fund Value (ex Am Hess)		Statutory Net Income	
FY18	\$ 64,469.7	FY19	\$ 3,873.5
FY17	59,360.6	FY18	6,324.4
FY16	52,344.9	FY17	3,214.2
FY15	52,375.9	FY16	2,198.0
FY14	50,789.4	FY15	2,907.0
Average Value \$ 55,868.1		Avail for Dist (21%) \$ 3,888.6	
Statutory Distribution \$ 2,933.1		Statutory Trnsfr Amt \$ 1,944.3	

# Projections FY19

excerpt from APFC's History & Projections as of December 31, 2018

Assumptions	Total Return	Inflation	Total Real Return	FYTD 19 11/30/18	Statutory Return
Lo FY19	-5.25%	2.25%	-7.50%	-1.09%	Lo 5.00%
Mid FY19	5.95%	2.25%	3.70%		Mid 6.40%
Hi FY19	14.00%	2.25%	11.75%		Hi 7.80%
Mid FY20-FY28	6.55%	2.25%	4.30%		6.40%

Based on 2018 Callan Capital Market Assumptions. Actual Results will vary.

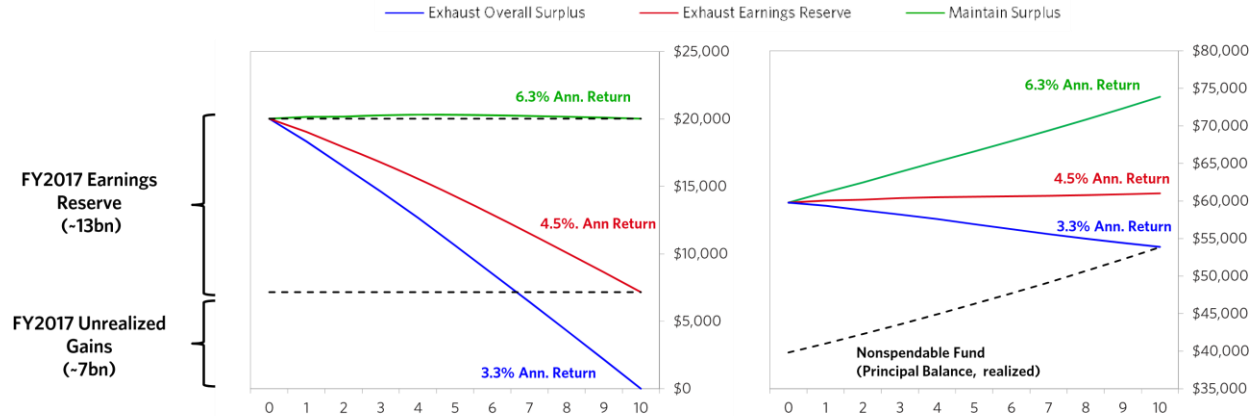
# Known vs. Unknown Draws from the Fund

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- Board of Trustees Resolutions 18-01 and 18-04
  - Importance of Rules Based System
    - Structure, Predictability and Planning
    - Investment Management Best Practice
    - FY20 POMV Draw = \$2.9 billion
- Policy Debate – Role of the Fund
  - Budget Stabilization
  - Endowment
  - Principal vs ERA
- The Math
  - More Drawn = Less available for future expenditures and generation of investment income.
  - Spend Today or Invest for Tomorrow



# Bridgewater Stress Analysis – December 2017



Assuming 2.25% Annual Inflation Proofing:

	Required Return	Odds of Falling Short
Exhaust Overall Surplus	3.3%	20%
Exhaust Earnings Reserve	4.5%	30%
Maintain Surplus	6.3%	48%

Note: Probabilities based on Callan Return Estimates

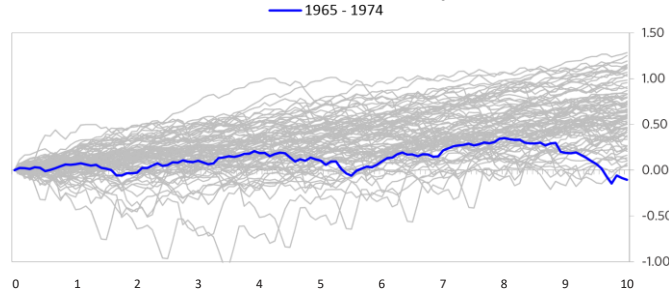
Note: the probabilities shown above assume all distributions are made in full. To the extent payments are reduced after depleting the earnings reserve, the odds of exhausting the "Overall Surplus" would be lower.

Data shown is based on cash flows provided by APFC and Bridgewater analysis. Assumes 5.25% distributions in years 1 & 2, and 5.00% distributions thereafter, calculated based on the rolling 5-year total fund balance. Probabilities of achieving stated returns are based on Callan assumptions provided by APFC, which indicate a 6.5% total return, 4.25% excess return, and 12.35% annual volatility. There is no guarantee the results shown will be achieved. Please review the "Important Disclosures and Other Information" located at the end of this document.

# Bridgewater Stress Analysis – December 2017

## STRESS TEST EXAMPLE: 1965-1974

Stress Test of Returns (Sim. Historical Returns Adjusted To Current 1.3% Cash Rate)



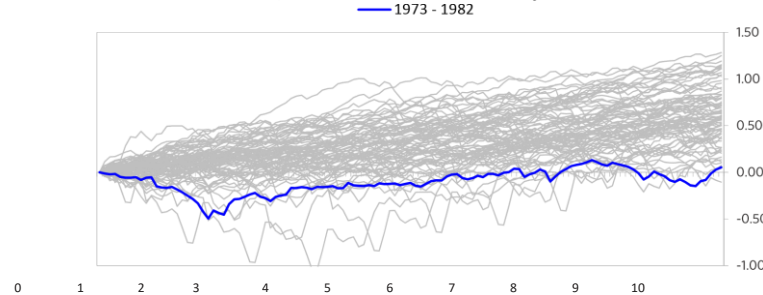
Stagflation ('65-'74)										
Projection Year	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Returns Year	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Rolling 5yr Fund Size (BOY)	\$52.3	\$55.6	\$56.0	\$57.1	\$58.8	\$57.6	\$56.0	\$57.4	\$59.0	\$57.7
Target Distribution (%)	5.25%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Target Distribution (\$)	\$2.7	\$2.9	\$2.8	\$2.9	\$2.9	\$2.9	\$2.8	\$2.9	\$3.0	\$2.9
Asset Portfolio Return	6.6%	-8.6%	13.7%	8.7%	-7.7%	-0.8%	12.6%	14.0%	-14.8%	-25.0%
Actual Distribution (\$)	\$2.7	\$2.9	\$2.8	\$2.9	\$2.9	\$0.2	\$0.0	\$2.9	\$3.0	\$0.0
% of Desired	100%	100%	100%	100%	100%	7%	0%	100%	100%	0%
Total Fund Size (EOY)	\$61.3	\$53.5	\$58.4	\$60.9	\$53.7	\$53.4	\$60.5	\$66.5	\$54.2	\$41.1
Earnings Reserve (EOY)	\$13.2	\$4.1	\$7.6	\$8.8	\$0.2	\$0.0	\$6.3	\$10.8	\$0.0	\$0.0
Economic Surplus (EOY)	\$20.3	\$11.2	\$14.8	\$16.0	\$7.4	\$6.7	\$13.5	\$18.0	\$4.1	-\$9.5
Cumulative Distributions	\$2.7	\$5.7	\$8.5	\$11.3	\$14.3	\$14.5	\$14.5	\$17.3	\$20.3	\$20.3
Cum. Expected @ 6.5% Return	\$2.7	\$5.7	\$8.6	\$11.6	\$14.7	\$17.9	\$21.2	\$24.6	\$28.0	\$31.5
% of Expected (@6.5% Return)	100%	100%	99%	98%	97%	81%	68%	71%	72%	64%
Cumulative Missed Inf. Payments	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	-\$1.0	-\$2.1	-\$2.1	-\$2.1	-\$3.3
Real Value of Principal Balance	\$40.1	\$40.4	\$40.8	\$41.1	\$41.4	\$40.8	\$40.3	\$40.6	\$41.0	\$40.5

In the analysis above, simulated excess return of the APFC portfolio are added to Bridgewater forward looking cash rate of 1.3%. Each gray line represents a distinct 10-year period, beginning in January 1925. Estimates of the distributions and future capacity measures are based on the cash flows provided by APFC and Bridgewater analysis. Assumes 5.25% distributions in years 1 & 2, and 5.00% distributions thereafter, calculated based on the rolling 5-year total fund balance, and annual 2.25% inflation proofing payments. For more detail on the APFC modeling assumptions, please refer to the disclosures at the end of the presentation. HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING OR THE COSTS OF MANAGING THE PORTFOLIO. ALSO, SINCE THE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. Past performance is not indicative of future results. Please review the "Important Disclosures and Other Information" located at the end of this document.

# Bridgewater Stress Analysis – December 2017

## STRESS TEST EXAMPLE: 1973-1982

Stress Test of Returns (Sim. Historical Returns Adjusted To Current 1.3% Cash Rate)



Inflation + Volcker Tightening ('73-'82)										
Projection Year	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Returns Year	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Rolling 5yr Fund Size (BOY)	\$52.3	\$53.0	\$50.1	\$48.5	\$48.3	\$46.3	\$47.1	\$50.6	\$53.1	\$52.5
Target Distribution (%)	5.25%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Target Distribution (\$)	\$2.7	\$2.8	\$2.5	\$2.4	\$2.4	\$2.3	\$2.4	\$2.5	\$2.7	\$2.6
Asset Portfolio Return	-14.8%	-25.0%	23.6%	13.4%	0.2%	5.0%	5.9%	12.0%	-11.9%	7.4%
Actual Distribution (\$)	\$2.7	\$0.4	\$0.0	\$0.0	\$2.4	\$0.1	\$2.4	\$2.5	\$2.7	\$0.0
% of Desired	100%	14%	0%	0%	100%	4%	100%	100%	100%	0%
Total Fund Size (EOY)	\$48.6	\$36.4	\$45.3	\$51.7	\$49.7	\$52.5	\$53.6	\$58.0	\$48.8	\$52.9
Earnings Reserve (EOY)	\$0.4	\$0.0	\$0.0	\$2.5	\$0.1	\$2.5	\$3.1	\$6.4	\$0.0	\$0.0
Economic Surplus (EOY)	\$7.6	-\$5.0	\$3.6	\$9.6	\$7.2	\$9.7	\$10.3	\$13.6	\$2.9	\$6.5
Cumulative Distributions	\$2.7	\$3.1	\$3.1	\$3.1	\$5.6	\$5.6	\$8.0	\$10.5	\$13.2	\$13.2
Cum. Expected @ 6.5% Return	\$2.7	\$5.7	\$8.6	\$11.6	\$14.7	\$17.9	\$21.2	\$24.6	\$28.0	\$31.5
% of Expected (@6.5% Return)	100%	56%	37%	27%	38%	32%	38%	43%	47%	42%
Cumulative Missed Inf. Payments	\$0.0	-\$0.9	-\$1.9	-\$2.9	-\$3.8	-\$4.8	-\$5.8	-\$6.3	-\$6.3	-\$7.5
Real Value of Principal Balance	\$40.1	\$39.6	\$39.0	\$38.5	\$38.0	\$37.5	\$37.1	\$37.1	\$37.6	\$37.1

In the analysis above, simulated excess return of the APFC portfolio are added to Bridgewater forward looking cash rate of 1.3%. Each gray line represents a distinct 10-year period, beginning in January 1925. Estimates of the distributions and future capacity measures are based on the cash flows provided by APFC and Bridgewater analysis. Assumes 5.25% distributions in years 1 & 2, and 5.00% distributions thereafter, calculated based on the rolling 5-year total fund balance, and annual 2.25% inflation proofing payments. For more detail on the APFC modeling assumptions, please refer to the disclosures at the end of the presentation. HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING OR THE COSTS OF MANAGING THE PORTFOLIO. ALSO, SINCE THE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVER COMPENSATED FOR THE IMPACT IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. Past performance is not indicative of future results. Please review the "Important Disclosures and Other Information" located at the end of this document.

# Moving Forward

The background of the slide is a solid teal color. Overlaid on this background is a close-up photograph of a pine branch. The branch features several long, thin, needle-like leaves that are slightly out of focus. In the center of the branch, there are two clusters of small, round, textured pine cones. The overall aesthetic is clean and modern.

# Growing the Fund – Legislative Initiatives

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## **FY20 Budget Initiatives**

- The Board of Trustees has authorized a FY20 budget request totaling \$176,781,600 as a means of ensuring APFC has the resources necessary to continue to effectively manage the Corporation and the assets under its stewardship. This request includes 4 new positions, an incentive compensation program for investment staff, retention and merit adjustments for all staff, and an increment for the investment management allocation which reflects growing assets under management.

## **Procurement Streamlining**

- To improve APFC's ability to quickly and efficiently contract with vendors needed to assist APFC staff when directly investing Fund assets, the Board has authorized the pursuit of an exemption from the State Procurement Code for APFC contracts where the work to be performed is related to the investment and monitoring of assets managed by APFC.

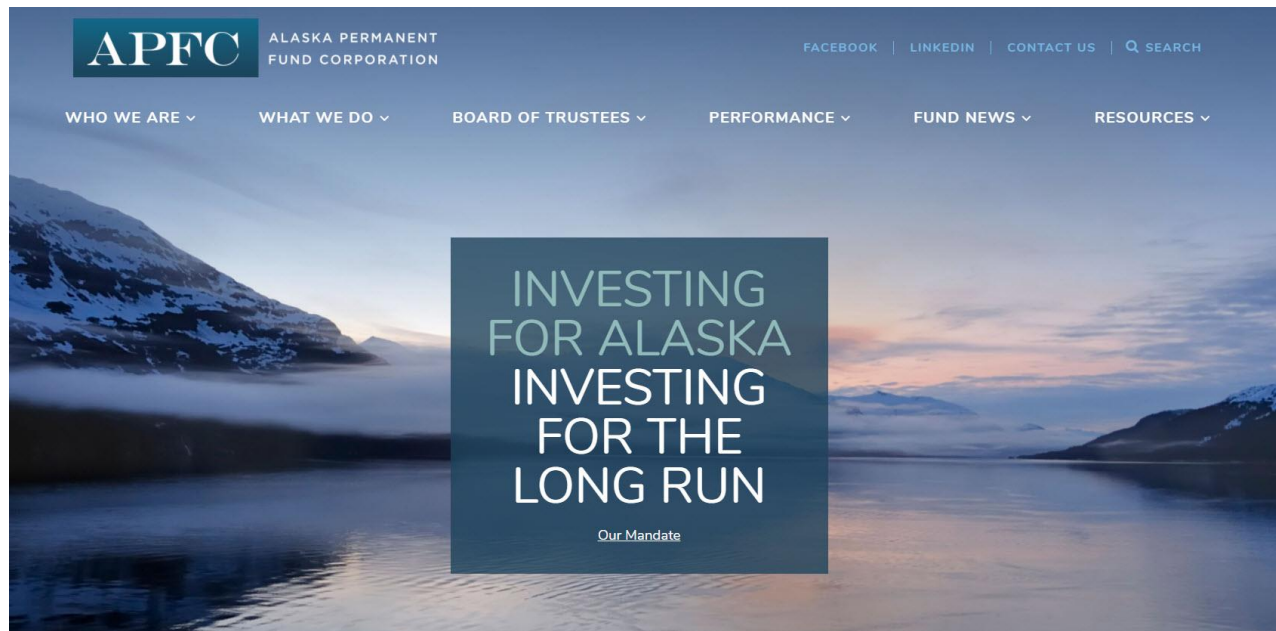
## **Inflation Proofing the Principal**

- Consensus on inflation proofing the principal of the Alaska Permanent Fund is essential to ensuring that the Principal maintains its purchasing power over time for the benefit of future generations of Alaskans. The Board has provided guidance in Resolution 18-04 and authorized the pursuit of a statutory provision to guarantee an annual inflation proofing transfer.



# Additional Resources

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[www.apfc.org](http://www.apfc.org)

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

Follow APFC





Questions?



# Appendix

## Financial Statements

## ALASKA PERMANENT FUND

### Balance Sheets

Unaudited (millions of dollars)	December 31, 2018	June 30, 2018
<b>Assets</b>		
Cash and temporary investments	\$ 3,971.9	4,906.1
Receivables, prepaid expenses and other assets	400.3	664.1
Investments:		
Marketable debt securities	12,370.3	11,546.6
Preferred and common stock	22,562.8	26,248.8
Real estate	5,451.7	5,460.9
Absolute return	3,815.3	5,288.1
Private credit	1,665.2	1,311.4
Private equity	8,146.9	7,198.3
Infrastructure	3,460.3	3,035.3
Total investments	57,472.5	60,089.4
<b>TOTAL ASSETS</b>	<b>\$ 61,844.7</b>	<b>65,659.6</b>
<b>Liabilities</b>		
Accounts payable	\$ 414.5	721.8
Income distributable to the State of Alaska	1,060.5	43.4
<b>TOTAL LIABILITIES</b>	<b>1,475.0</b>	<b>765.2</b>
<b>Fund Balances</b>		
Nonspendable:		
Permanent Fund corpus - contributions and appropriations	40,373.6	40,167.4
Not in spendable form - unrealized appreciation on invested assets	3,362.1	5,862.6
Total nonspendable	43,735.7	46,030.0
Committed:		
General Fund Commitment	0.0	2,722.7
Current FY inflation proofing	985.1	0.0
Current FY AK Capital Income Fund	10.9	0.0
Total committed	996.0	2,722.7
Assigned for future appropriations:		
Realized earnings	14,359.3	13,739.0
Unrealized appreciation on invested assets	1,278.7	2,402.7
Total assigned	15,638.0	16,141.7
<b>TOTAL FUND BALANCES</b>	<b>60,369.7</b>	<b>64,894.3</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 61,844.7</b>	<b>65,659.6</b>



# ALASKA PERMANENT FUND

## Statements of Revenues, Expenditures and Changes in Fund Balances

Unaudited (millions of dollars)	Month ended December 31, 2018	Six months ended December 31, 2018	Fiscal year-end audited June 30, 2018
<b>Revenues</b>			
Interest	\$ 52.4	267.7	459.4
Dividends	56.2	269.3	640.6
Real estate and other income	13.5	163.5	480.5
Total interest, dividends, real estate and other income	122.1	700.5	1,580.5
Net increase (decrease) in the fair value of investments:			
Marketable debt securities	95.5	(150.3)	(424.6)
Preferred and common stock	(1,931.8)	(3,067.1)	2,362.8
Real estate	(82.8)	(131.5)	65.6
Absolute return	(31.2)	(91.8)	221.7
Private credit	8.7	26.5	62.5
Private equity	(0.8)	750.8	1,599.8
Infrastructure	11.6	163.6	337.4
Derivative Instruments	(115.6)	(26.3)	(19.5)
Currency	(27.0)	(122.6)	(114.7)
Total net increase (decrease) in investments	(2,073.4)	(2,648.7)	4,091.0
<b>TOTAL REVENUES</b>	<b>(1,951.3)</b>	<b>(1,948.2)</b>	<b>5,671.5</b>
<b>Expenditures</b>			
Operating expenditures	(8.5)	(57.4)	(138.8)
Other legislative appropriations	0.0	(2.6)	(7.2)
<b>TOTAL EXPENDITURES</b>	<b>(8.5)</b>	<b>(60.0)</b>	<b>(146.0)</b>
Excess (deficiency) of revenue over expenditures	\$ (1,959.8)	(2,008.2)	5,525.5
<b>Other Financing Sources (Uses)</b>			
Transfers in	34.7	206.2	353.1
General Fund commitment	(250.0)	(1,060.5)	0.0
Transfers out	250.0	(1,662.1)	(769.3)
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,925.1)</b>	<b>(4,524.6)</b>	<b>5,109.3</b>
<b>Fund Balances</b>			
Beginning of period	62,294.8	64,894.3	59,785.1
End of period	\$ 60,369.7	60,369.7	64,894.3

### Statutory Income Calculation

Excess (deficiency) of revenues over (under) expenditures	(1,959.8)	(2,008.2)	5,525.5
Adjustments to bring net income to statutory net income:			
Unrealized (gains) losses	2,146.1	3,624.4	842.3
Alaska Capital Income Fund realized income	(1.2)	(10.8)	(43.4)
<b>STATUTORY NET INCOME</b>	<b>\$ 185.1</b>	<b>1,605.4</b>	<b>6,324.4</b>

## ALASKA PERMANENT FUND

### Receivables and Payables

Unaudited (millions of dollars)	December 31, 2018
------------------------------------	----------------------

#### Accounts Receivable

Interest Receivable	\$ 111.4
Dividends Receivable	50.2
Foreign Exchange Contracts Receivable	0.0
Pending Sales Fixed Income	165.2
Pending Sales Equities	18.5
Pending Sales Alternative Investments	0.9
State Dedicated Revenues Receivable	54.1
Pending Sales Real Estate/REITs	0.0
Prepaid and Other Receivables	0.0
TOTAL RECEIVABLES	<u>\$ 400.3</u>

#### Accounts Payable

Accrued Operating Payables	\$ 23.5
Pending Purchase Fixed Income	351.3
Pending Purchase Equities	36.3
Pending Purch. Alt. Investmnt	3.2
Pending Purchase Real Estate/REITs	0.2
TOTAL PAYABLES	<u>\$ 414.5</u>