



APFC

ALASKA PERMANENT
FUND CORPORATION

House Judiciary Committee The Alaska Permanent Fund

June 4, 2021

Two Account Structure

Principal

- is constitutionally established as the permanent part of the Fund
- grows through royalty contributions, special appropriations, and inflation proofing
- is to be used only for income-producing investments

Earnings Reserve Account

- is statutorily established to hold the net income from the Fund's investment portfolio
- grows through the receipt of statutory net income – monthly cash inflows from investments and net income from asset sales
- is available for Legislative appropriation

Principal Contributions

inception through April 30, 2021

\$17.8 Billion Royalty Deposits - AS 37.13.010 (a) (1) and (a) (2)

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

\$18.0 Billion Inflation Proofing - AS 37.13.145 (c)

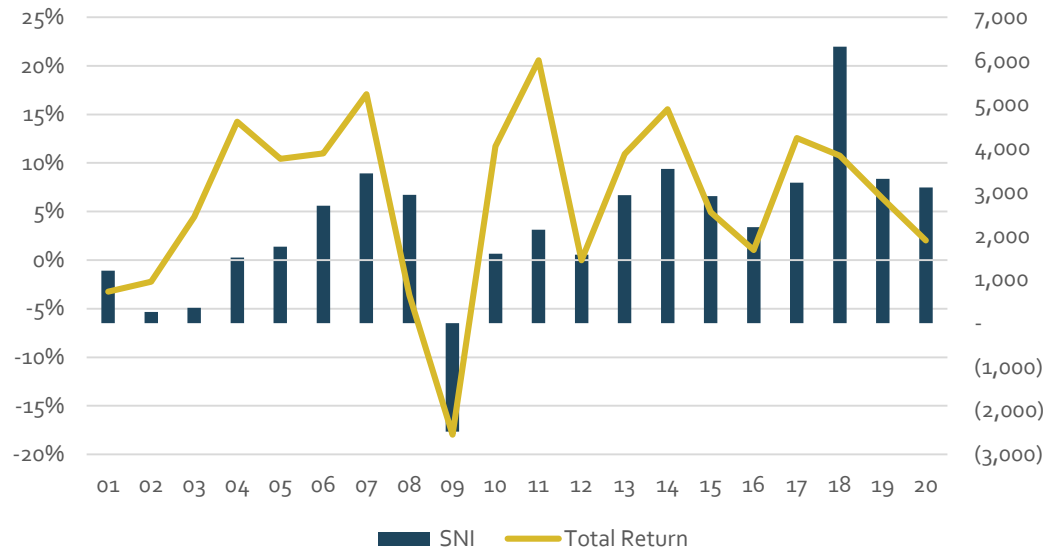
The inflation proofing calculation is based on deposits into the Principal of the Fund and the inflation rate as calculated per statute.

\$11.0 Billion Special Appropriations – AS 37.13.010 (a) (3)

Legislative Deposits from both the General Fund \$2.7 B and the ERA \$8.3 B.

ERA: Statutory Net Income

Total Return vs Statutory Net Income (millions)



AS 37.13.140 (a) directs the net investment earnings of the Fund to the ERA and excludes unrealized gains and losses.

Statutory Net Income is the direct result of investment activity, and includes:

- Monthly cash inflows from stock dividends, bond interest, and real estate
- Realized Capital Gains/Losses: All the net income (i.e., realized gains minus realized losses) generated by the sale of investments.

FY21 as of April 30, 2021

- Statutory Net Income = \$5,995,200,000

Investment Management

Constitutional and Statutory Mandates

- Principal provides permanent savings
- ERA holds the investment income for appropriation
- Prudent rules govern Saving, Spending, and Growth

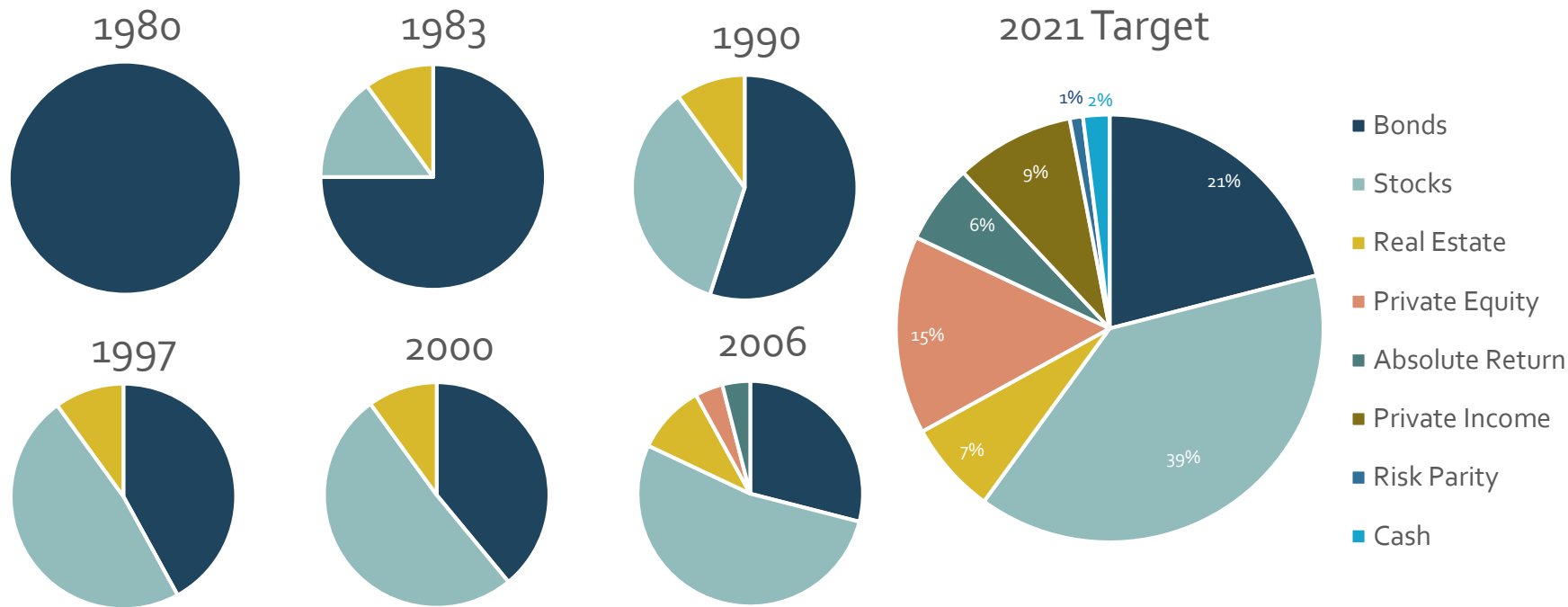
APFC Stewardship

- Quasi-independent
- Long-term horizon – Prudent Diversification
- Accountability
- Resources

A robust, healthy Permanent Fund is important to all generations of Alaskans.



Asset Allocation



Resolutions 03-05 , 04-09

POMV

- Supporting a constitutional amendment to limit the annual Fund payout to not more than a 5% POMV averaged over a period of 5 years.
- Implementation of a constitutional POMV spending limit for the Fund, has the accompanying benefit of assuring permanent inflation proofing of the Fund.

Fund Structure - current



Contributions

- Royalties
- Special Appropriations
- Inflation Proofing



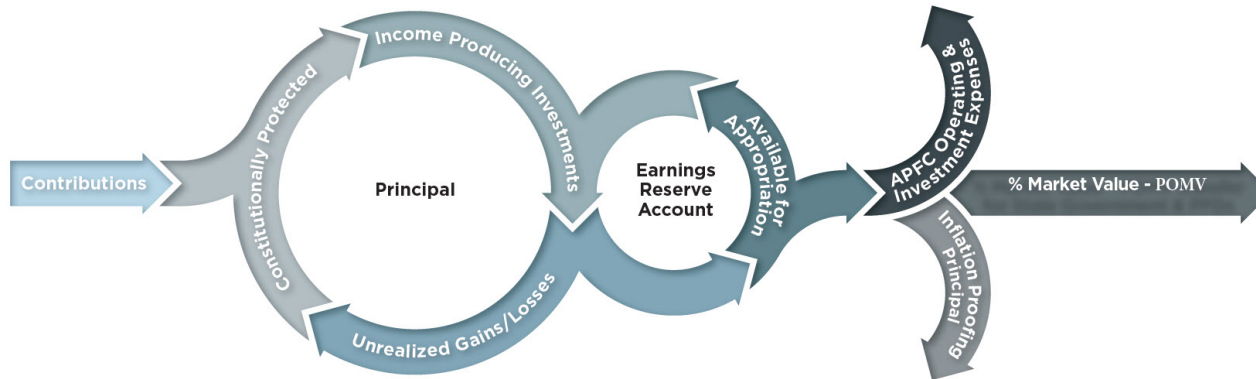
Principal

- Alaska Constitution, Article IX, Section 15



Income Producing Investments

- Alaska Permanent Fund Corporation
- Management and Investment of the Fund
- Single Asset Allocation (pro-rata shares)
- Stocks, Bonds, Real Estate, Alternatives



Sale and Distribution of Assets

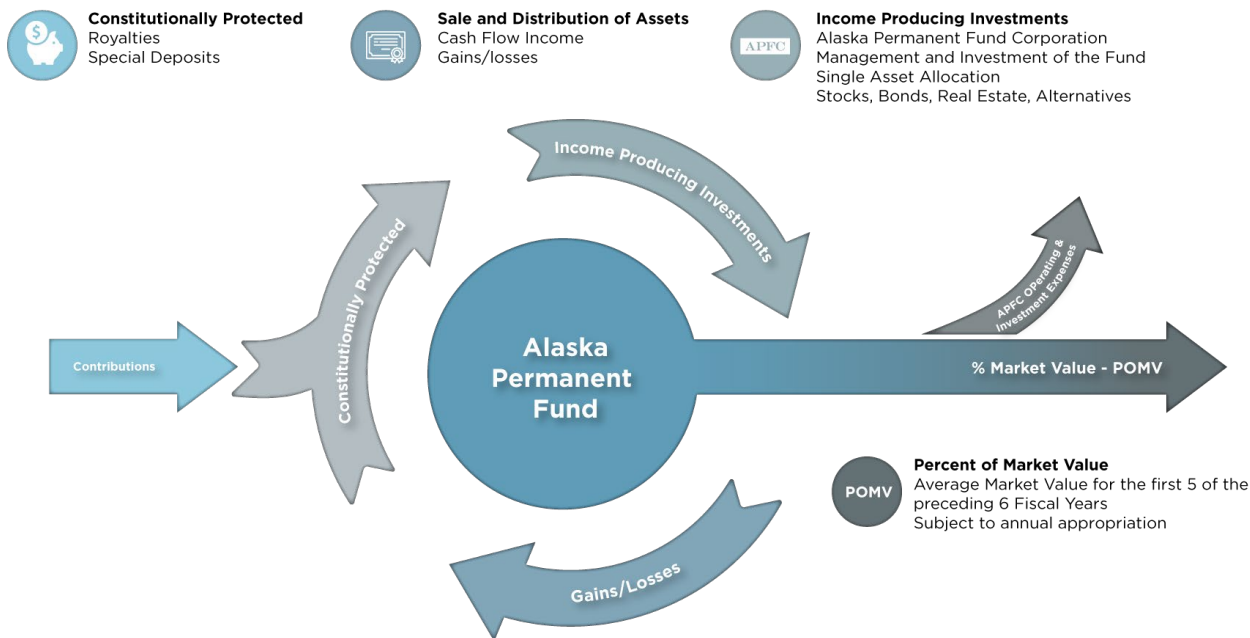
- Statutory Net Income AS 37.13.140
- Cash Flow Income
- Realized gains/losses



Earnings Reserve Account

- Alaska Statutes AS 37.13.145(a)
- Realized gains/losses from sale of assets
- Pro-Rata share of investments and net unrealized gains

Endowment Structure – proposed



Percent of Market Value - AS 37.13.140 (b)

- Based on market value, rather than realized income
- Subject to annual appropriation
- Predictable
 - average market value of the Fund for the first five of the preceding six fiscal years

5.25% - July 1, 2018, FY19 Effective Rate

- FY19 POMV \$2.72 billion 4.13%
- FY20 POMV \$2.93 billion 4.52%
- FY21 POMV \$3.09 billion ~4.68%

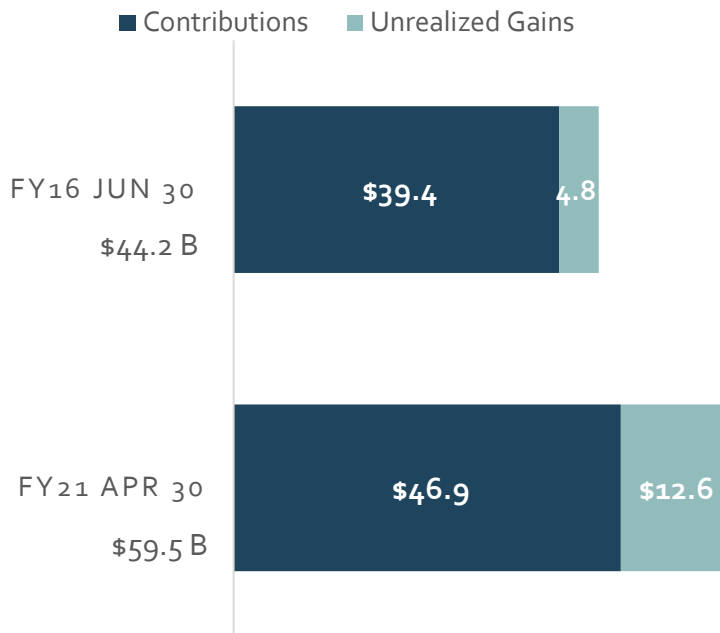
5.0% - July 1, 2021, FY22 Effective Rate

- FY22 POMV \$3.07 billion ~4.55%
- FY23 POMV ~\$3.21 billion ~4.66%
- FY24 POMV ~\$3.29 billion ~4.68%

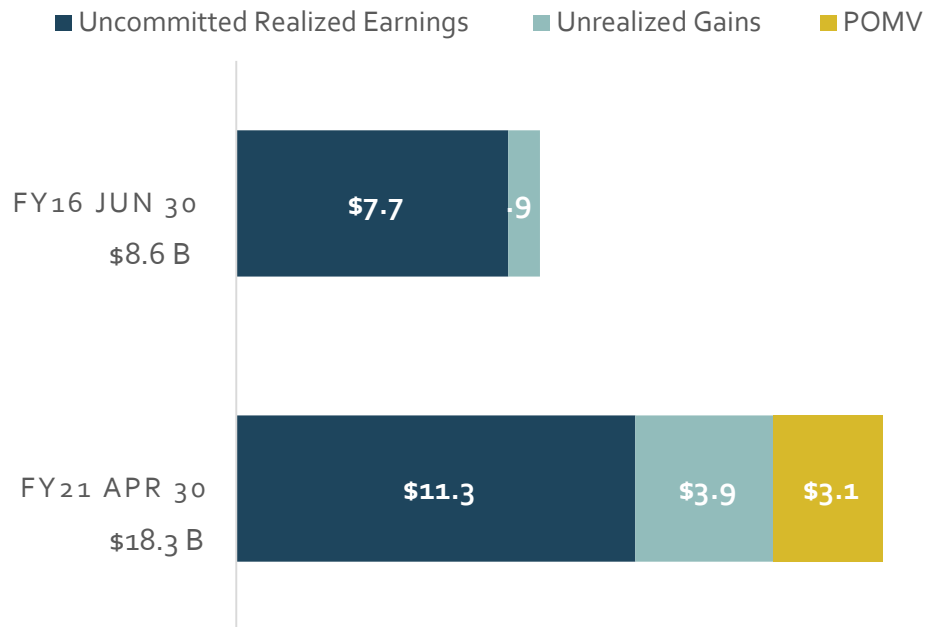
italics, Callan's mid-case projections

Values in Billions

PRINCIPAL



EARNINGS RESERVE ACCOUNT



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.

Performance

Callan's Capital Market Projections

Asset Class	Callan FY21-FY30	Callan FY22-FY31
Public Equities	7.35%	6.85%
Fixed Income	3.05%	2.20%
Private Equity and Growth Opportunities	6.25%	8.00%
Real Estate	6.45%	5.75%
Private Infrastructure/Credit/Income	5.00%	6.40%
Absolute Return	6.20%	4.00%
Risk Parity	6.20%	5.25%
Cash	2.25%	1.00%
Total Fund	6.75%	6.20%
Inflation	2.25%	2.00%

Performance as of April 30, 2021

	Total Fund	Passive Index	Performance Benchmark	Objective CPI + 5%
FY20	2.01 %	1.28 %	2.05 %	5.65 %
FY21 to Date	25.02 %	25.80 %	23.96 %	7.71 %
3 Year	10.92 %	10.46 %	10.86 %	7.15 %
5 Year	11.46 %	9.99 %	10.60 %	7.22 %
as of MAR 2021 / Q3				
10 Year	8.67%	6.81%	7.94%	6.72%
37 Year	9.02%	na	9.13%	7.62%

The image is a full-page background featuring a serene landscape. In the foreground, there's a body of water with some rocks and a small sandy patch. The middle ground shows a calm lake reflecting the sky. The background is dominated by a range of rugged, snow-capped mountains. A bright sunburst effect is visible in the upper right quadrant of the sky. The entire image has a teal-blue color overlay. Centered over the image is the text "Evolving Role" in a white, sans-serif font.

Evolving Role

Evolving Role of the Fund

Successful SWFs operate within a rules-based system that allows them to perform a combination of saving, stabilization, and income-generation functions.

In Alaska, the latter function has come into sharper focus, as the Fund income supports the State budget in an era of lower oil revenues.

This paper proposes a number of reforms that will strengthen the stability and sustainability of Alaska's Permanent Fund:

LESSON # 1: MISSION CLARITY

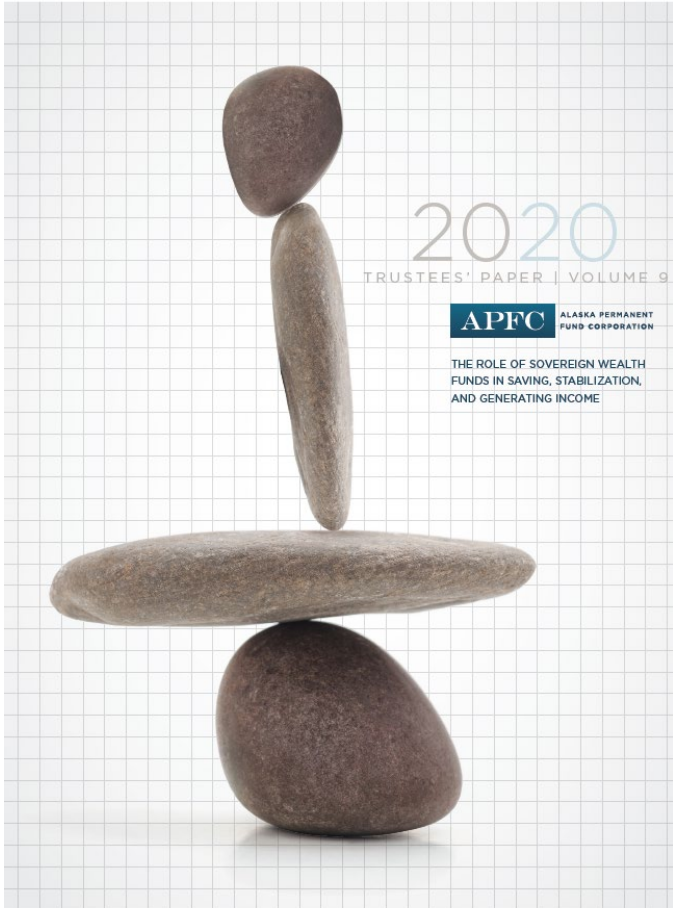
LESSON #2: THE IMPORTANCE OF RULES

LESSON #3: SUCCESSFUL ENFORCEMENT OF SAVING RULES

LESSON #4: DESIGNING A POMV SPENDING RULE

LESSON #5: REFORMING THE ERA

<https://apfc.org/report-archive/#14-33-trustees-papers>



Revenue Generation

Now, more than ever, the State is dependent upon APFC's effective management and investment of the Alaska Permanent Fund, one of Alaska's primary sources of renewable revenue.

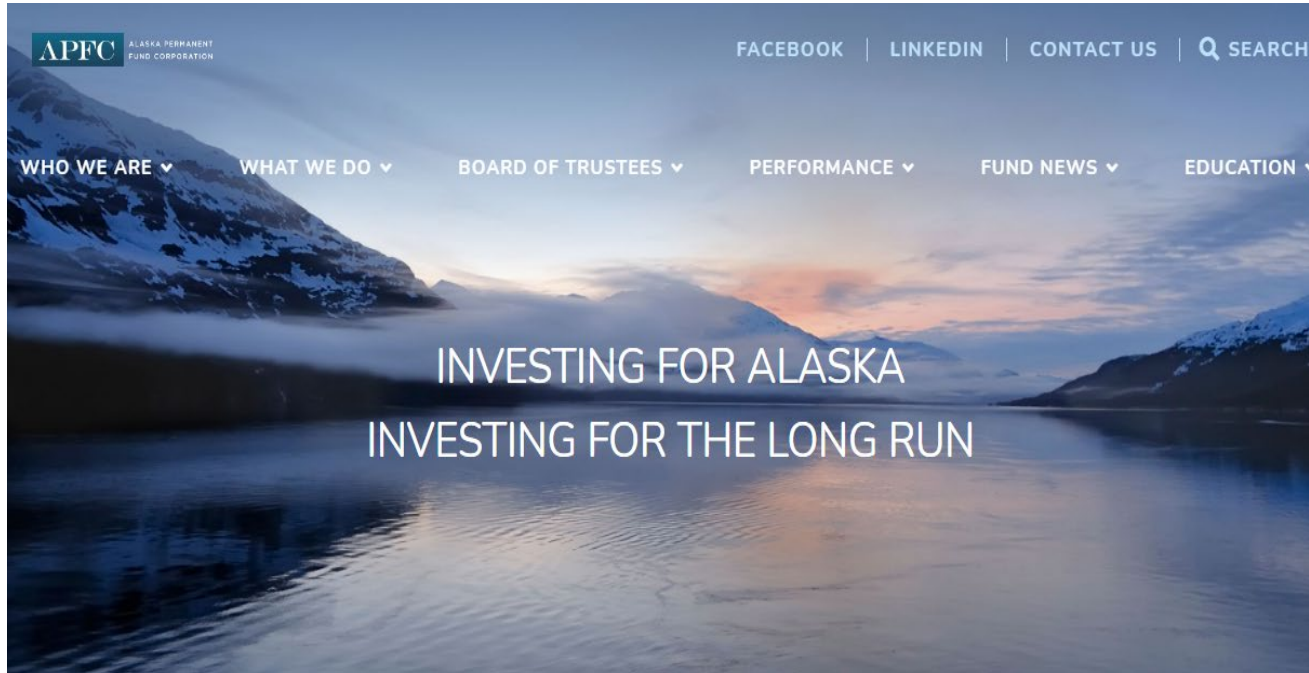
- The POMV draw from the Earnings Reserve Account now supports ~70% of Alaska's undesignated general fund budget.

APFC's stewardship fulfills dual roles –

- Protecting the Principal of the Fund for the benefit of current and future generations of Alaskans.
- Providing a predictable revenue stream to help balance the State's budget.



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