

Memo

To: Representative Neal Foster, Co-Chair
Representative Andy Josephson, Co-Chair
Representative Calvin Schrage, Co-Chair
House Finance Committee

From: Deven Mitchell, Executive Director & CEO
Alaska Permanent Fund Corporation

Date: February 27, 2025

Re: APFC Follow-Up to Committee Questions on February 19, 2025

Thank you for the opportunity to present to the House Finance Committee. Below are follow-up responses to questions posed by committee members:

➤ **What is the breakdown per line item of the percentage increase of APFC's budget year over year?**

Please see the following table based on FY24 Actuals, the FY25 Management Plan, and the FY26 Governor's Amendments. The narrative that follows provides the context for the changes.

FY2026 BOY AUM (est.)						FY26
\$ 84,875,000,000	FY24 Actuals	FY25 Management Plan (MP)	FY26 Gov Amend	Variance FY25 MP to FY26 Gov Amend	Variance %	Basis Points (bps)
Operations Allocation						
Personal Services	\$ 17,547,933	\$ 23,032,900	\$ 25,083,400	\$ 2,050,500	9%	3
Incentive Compensation	\$ 2,004,070	\$ 3,245,000	\$ 4,055,000	\$ 810,000	25%	
Travel	\$ 624,065	\$ 775,000	\$ 1,025,000	\$ 250,000	32%	0
Third Party Travel*	\$ -	\$ -	\$ 250,000	\$ 250,000		
Contractual Services	\$ 3,446,285	\$ 3,792,100	\$ 3,642,097	\$ (150,003)	-4%	0
Commodities	\$ 427,001	\$ 200,900	\$ 246,420	\$ 45,520	23%	0
Equipment	\$ 443,001	\$ 600,000	\$ 600,000	\$ -	0%	0
Corporate Operations Total	\$ 22,488,285	\$ 28,400,900	\$ 30,596,917	\$ 2,196,017	8%	4
Investment Allocation						
	FY24 Actuals	FY25 Management	FY26 Proposed	Variance FY25 MP to FY26 Gov	Variance %	FY26 bps
Contractual Services	\$ 127,563,328	\$ 198,163,600	\$ 199,496,100	\$ 1,332,500	1%	24
Investment Manager Fees	\$ 115,543,754	\$ 178,251,000	\$ 178,251,000	\$ -	0%	21
Investment Management Total	\$ 127,563,328	\$ 198,163,600	\$ 199,496,100	\$ 1,332,500	1%	24
Facilities Rent Non-State Owned Allocation						
	FY24 Actuals	FY25 Management Plan (MP)	FY26 Proposed	Variance FY25 MP to FY26 Gov	Variance %	FY26 bps
Facilities Rent	\$ -	\$ -	\$ 615,000	\$ 615,000		0
Facilities Rent Total	\$ -	\$ -	\$ 615,000	\$ 615,000		0

Operations Allocation, a total increase of 8% based on the following:

Personal Services

- The personal services increase totals just over 9% | \$2 million
 - A total of \$849k is allocated in the adjusted budget for a 3% salary increase, as well as expected increases in PERS and healthcare costs for FY26. This adjustment is based on the passage of SB 259, Chapter 5, SLA 2024, which provides compensation for certain state employees, including those who are exempt. All positions at APFC fall under the exempt service category.
 - \$392k is the salary/benefits amount requested for a new Private Income Portfolio Manager, which is in line with the competitive range for investment management professional talent. This position will be responsible for identifying, analyzing, selecting, monitoring, and managing infrastructure, private credit, income opportunities fund investments, co-investments, and direct investments into operating companies.
 - A total of \$810k is needed to fully fund incentive compensation. This figure includes \$470k that was not funded in FY25 and an additional \$340k to fully fund FY26. It's important to note that this compensation is dependent on the Fund achieving established portfolio performance benchmarks. Ensuring full funding of the maximum payment is essential for the policy's effectiveness.
 - In Governor Amendments, APFC has withdrawn the increment request for \$143k to reclassify a position to support the Public Equities team. Based on a recent review, it is not in the corporation's best interest to pursue growth in this area at this time.

Travel

- The travel increase of 32% | \$250k for Statutory Designated Program Receipts is to enhance transparency in our accounting from third parties for travel. This will provide us with the authority to collect receipts for third-party payments and associated expenses. It is important to clarify that this process pertains only to third-party travel and results in no additional cost to the State. This proposal does not represent an increase in the travel budget; rather, it formalizes our current practice of managing third-party reimbursements within the budget framework, in accordance with the Administrative Manual.

Contractual Services

- OMB put forward a structure change for FY26 to adhere to AS 37.07.020(e). The structure includes breaking out lease/rent to a separate allocation. APFC's contractual service request for FY26 is comprised primarily of a transfer out of \$615k to this new allocation, "Facilities Rent Non-State Owned". This decrement is offset primarily by an increment of \$465k for software, a cybersecurity audit, legal and consulting services.

Commodities

- An increase of 23% | \$45.5k as commodities fluctuate year to year primarily based on APFC's workstation equipment lifecycle plan and support for data needs.

Investment Allocation, a total increase of 1% based on the following:

- Investment due diligence - an increase of \$521.7k to support essential business components of investment activity, including funding for fiduciary advisors, investment-specific legal fees, general consulting, performance measurement, and manager searches.
- Investment systems – an increase of \$810.8k includes shared services and data analytics. It also includes a necessary amount for consulting and modeling for additional financial analysis from third parties as a contingency for special projects.
- The investment management fee portion of this allocation has remained flat. It is based upon Callan's growth assumptions by asset class, the Fund's asset allocation, and the contractual fee terms for external management.
- The total investment allocation includes costs for due diligence, investment systems, custody fees, and investment management fees, amounting to a total of 24 basis points based on the estimated assets under management for FY26. Out of this total, 21 basis points are specifically related to investment management fees and contracts with external managers.

Facilities Rent Allocation, a transfer in/transfer out from contractual services:

- The new facilities rent allocation shows the \$615k lease amount that was transferred from the operations' contractual services line to adhere to AS 37.07.020(e).
- ***Please provide the Private Income Job Description and more information as to the Salary and Benefits associated with the position.***

Private Income Portfolio Manager

- The job description is attached. This position will be responsible for identifying, analyzing, selecting, monitoring, and managing infrastructure, private credit, income opportunities Fund investments, co-investments, and direct investments into operating companies.
- The total Private Income portfolio has a 10% target allocation and is valued at approximately \$7.5 billion (9% of the total fund). The Private Income program deploys approximately \$1.3 billion annually across infrastructure, private credit, and income opportunities investments.
- Currently, a 3-person team has primary responsibility for managing this portfolio. Given the targeted growth and pace of deployment, the expectation is that the proposed fourth new member will contribute towards continuing the robust diligence and analysis process.
- \$392k is the salary/benefits amount requested for a new Private Income Portfolio Manager, which is in line with the competitive investment management professional talent range.

➤ ***Provide more information on the CPI+5% Target and the ability to achieve it.***

- The CPI+5% target refers to the Alaska Permanent Fund Corporation's (APFC) long-term investment objective of achieving a real return of at least 5% above inflation, as measured by the Consumer Price Index (CPI). This target ensures that the Fund maintains and grows its purchasing power over time while providing sustainable distributions for Alaskans.
- APFC's ability to achieve the CPI+5% target depends on disciplined investment management, maintaining a diversified portfolio, and adapting to changing market conditions. While the target is ambitious, APFC's long-term strategy is designed to optimize returns while preserving the Fund's purchasing power for future generations.
- Based on the provided 10-year annualized rolling return data, the Alaska Permanent Fund's ability to achieve its CPI+5% target has varied over time. APFC has demonstrated the ability to meet CPI+5% over extended periods but faced challenges during downturns.
 - Early Years - 1993-2007
The Fund consistently achieved real returns above 5%, meaning it met or exceeded the CPI+5% target. Annualized rolling 10-year real returns ranged from 5.2% to 6.6%, indicating strong investment performance.
 - Global Financial Crisis years - 2008-2017 Period
The Fund struggled, with real returns dropping below 5% for multiple periods. Annualized rolling 10-year real returns ranged from 0.6% to 4.6%
 - Recent Performance - 2010-2024
The Fund registered strong recovery post-crisis, with annualized rolling 10-year real returns ranging from 6.5% to 7.7% between 2010 and 2022. During the most recent two fiscal years there has been a modest slowdown with annualized rolling 10-year real returns of 5.9% and 4.9%, mostly attributable to higher inflation and rising interest rates.
 - Assessment of Meeting CPI+5%
Diversification and disciplined active management in changing economic conditions remain key to achieving long-term real returns exceeding 5%.

In conclusion, thank you for your consideration of APFC's budget proposal. Budget resources are essential to support our effective investment management and stewardship of the Alaska Permanent Fund to provide for the generations of Alaska – today and tomorrow.

As always, we look forward to working with you and your staff. Please contact us if you would like additional information.

You can contact me directly at dmitchell@apfc.org or Paulyn Swanson, Director of Communications, via email at pswanson@apfc.org or at 907-500-2476.

Portfolio Manager – Private Income

The Alaska Permanent Fund Corporation (“APFC”) manages the \$80 billion Alaska Permanent Fund, a sovereign wealth fund established in 1976 to provide for all current and future generations of Alaskans. We are growing and are looking to hire an experienced Portfolio Manager for our Private Income investments team.

The Portfolio Manager reports to the Head of Private Income and shares responsibility for identifying, analyzing, selecting, monitoring, and managing infrastructure, private credit and income opportunities fund investments, co-investments, and direct investments into operating companies. As a key member of the investments team, the Portfolio Manager will contribute knowledge and perspectives and will assist with investment decisions across asset classes. By combining best-in-class manager and investment selection with the ability to strategically deploy capital directly into attractive opportunities, the Private Income team seeks to deliver accretive, risk-adjusted returns over the long term.

Key Attributes

The successful candidate will have the following qualities:

- Strong commitment to APFC’s vision and its shared values of integrity, stewardship and passion
- Self-motivation and very strong sense of personal and professional integrity
- Intellectual curiosity and excellent attention to detail
- A belief that great outcomes come from great teams; a demonstrated ability to collaborate well in a small team environment
- Unquestionable personal and professional integrity

Key Responsibilities

- Source, screen and evaluate prospective fund, co-investment and direct investment opportunities
- Perform detailed due diligence on opportunities in a range of areas including: manager, team and strategy assessments; valuation and sensitivity analysis; market analysis; and other areas to identify and assess investment risks and merits
- Synthesize results of screening and due diligence into investment memos and present findings to senior team members and the Investment Committee
- Prepare and assist with research on investment themes and special projects
- Prepare materials for, and participate in, internal meetings, due diligence meetings, and board meetings
- Monitor and manage current investments and pipeline
- Assist in the development of board meeting material
- Develop and maintain relationships with industry participants including other limited partners, general partners, and industry thought leaders through participation in annual meetings, advisory committee meetings, industry conferences, and other ad hoc meetings and events

Required Qualifications and Experience

- Bachelor's degree
- 5-10 years of directly relevant investment industry experience with a preferred background in infrastructure or private credit investing; will consider other relevant roles
- Robust knowledge of the private investment industry, market participants, investment structure, and current trends
- Experience sourcing, screening and evaluating a broad range of investment opportunities in private markets
- Excellent written and verbal communication skills
- Ability to manage multiple tasks simultaneously and meet tight deadlines
- Strong analytical and critical thinking skills

- Ability to collaborate, problem solve, and bring parties together when needed but also work independently

Preferred Qualifications

A post-graduate degree or advanced professional designation (e.g. CFA or CAIA)

About APFC's Private Income Portfolio

The APFC Private Income Portfolio consists of Infrastructure, Private Credit, and Income Opportunities sub-portfolios.

Infrastructure investments involve the purchase of critical assets with high barriers to entry and, due to the “essential services” nature of the assets, often result in low elasticity of demand. Infrastructure investments may include energy infrastructure, transportation, water/waste infrastructure, digital infrastructure, social infrastructure, or any other asset that possesses similar characteristics.

Private Credit and Income Opportunities investments involve the ownership of higher-yielding, illiquid investments covering a range of risk/return profiles. The Private Credit portion of this portfolio targets externally managed limited liability funds, co-investments, and direct investments into operating companies that target one or more of the following strategies: direct lending, subordinated and mezzanine lending, distressed debt, and opportunistic credit-oriented funds, with the flexibility to pursue illiquid and liquid strategies.

The Income Opportunities portion of this portfolio targets private markets investments with an objective of income generation and downside protection, but which do not fit neatly into other portfolios. This currently includes, but is not limited to, investments in timberlands, agriculture, life settlements, leasing and royalty strategies, and structured credit.

The total Private Income portfolio has a 10% target allocation and is valued at approximately \$7.5 billion (9% of the total fund). The Private Income program deploys approximately \$1.3 billion annually across infrastructure, private credit, and income opportunities investments.

Other Duties

Please note this job description is not designed to cover or contain a comprehensive listing of activities, duties or responsibilities that are required of the employee for this job. Duties, responsibilities, and activities may be added, removed, or changed at any time with or without notice.

AAP / EEO Statement

APFC provides equal employment and advancement opportunities to all. APFC follows all applicable Federal and State laws and does not discriminate in employment opportunities or practices on the basis of race, color, religion, gender, gender orientation, national origin, age, disability, or any other class protected by law.

Disclaimer

Please be alert to fraudulent Alaska Permanent Fund Corporation (APFC) job postings, all APFC jobs for which we are externally recruiting are posted on our careers site at [APFC.org/careers](https://apfc.org/careers). APFC will never ask candidates to interview via chat or text, nor ask for an upfront payment or deposit. If you believe you have been exposed to a scam, please contact us at contact@apfc.org to share any relevant details you may have.