



# Alaska Permanent Fund

Senate Finance Committee - November 2017

# The Alaska Constitution

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Over four decades ago, in 1976, Alaskans in an historic vote amended the Constitution of the State of Alaska by a margin of 75,588 to 38,518 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.*

The background of the slide is a solid teal color. Overlaid on this is a close-up photograph of a pine branch, showing several long, thin needles and a cluster of small, textured pine cones or buds. The image is slightly out of focus, giving it a soft, artistic feel.

# How the Fund Works

# The Fund - Two Accounts

## Principal

Established **Alaska Constitution - Article IX, Section 15**  
**Permanent – Not Available for Appropriations**

Contributions **Mineral Royalties – constitutionally mandated**  
**Inflation Proofing – subject to appropriation**  
**Special Appropriations**

## Earnings Reserve Account (ERA)

Established **Alaska Statutes 37.13.145 (a)**  
**Available for Appropriation**

Contributions **Net Investment Earnings – AS 37.13.140**  
**Includes: lease payments, stock dividends,**  
**bond interest, private dividends,**  
**and net realized gains.**



**Investment of the Fund**

# Invested as One Fund

Alaska Permanent Fund Corporation

Investment and Management of the Fund



One Target Asset Allocation

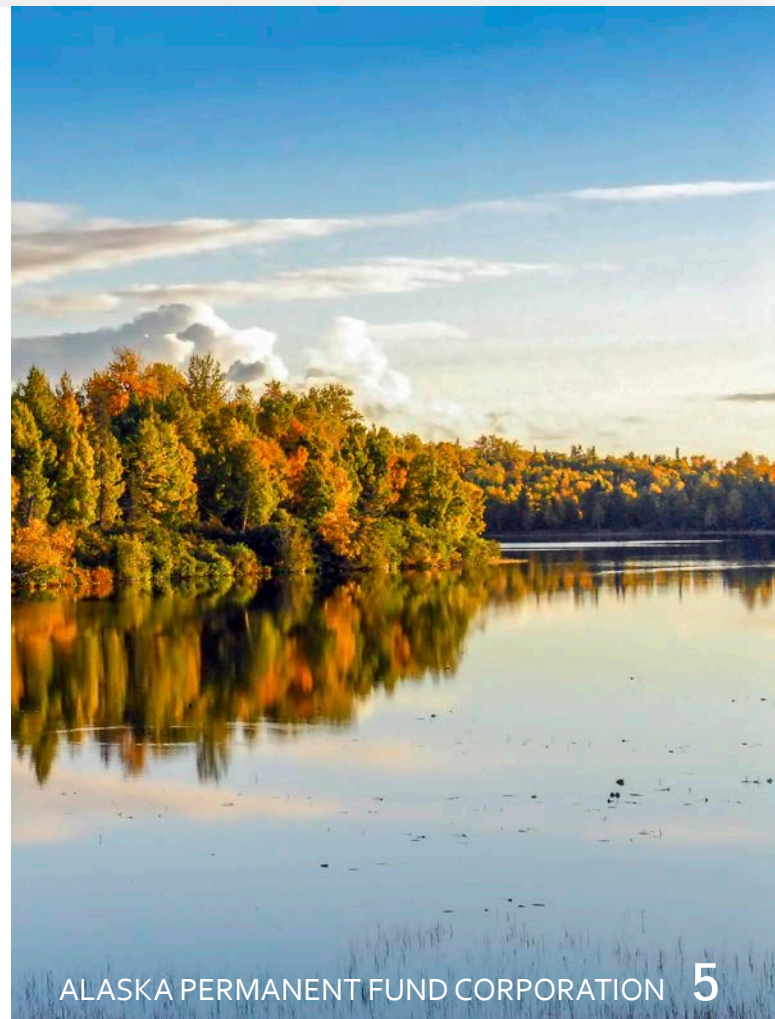
Stocks, Bonds, Real Estate, Alternatives



Pro Rata Shares of Each Investment

Principal

ERA



# Principal and ERA

## Asset

Principal  
Cost Basis  
Unrealized Gains

ERA  
Cost Basis  
Unrealized Gains

## Sale

Cost Basis Returned  
Principal  
ERA

Net Realized Gains  
ERA

## Principal

Reinvestment

## ERA

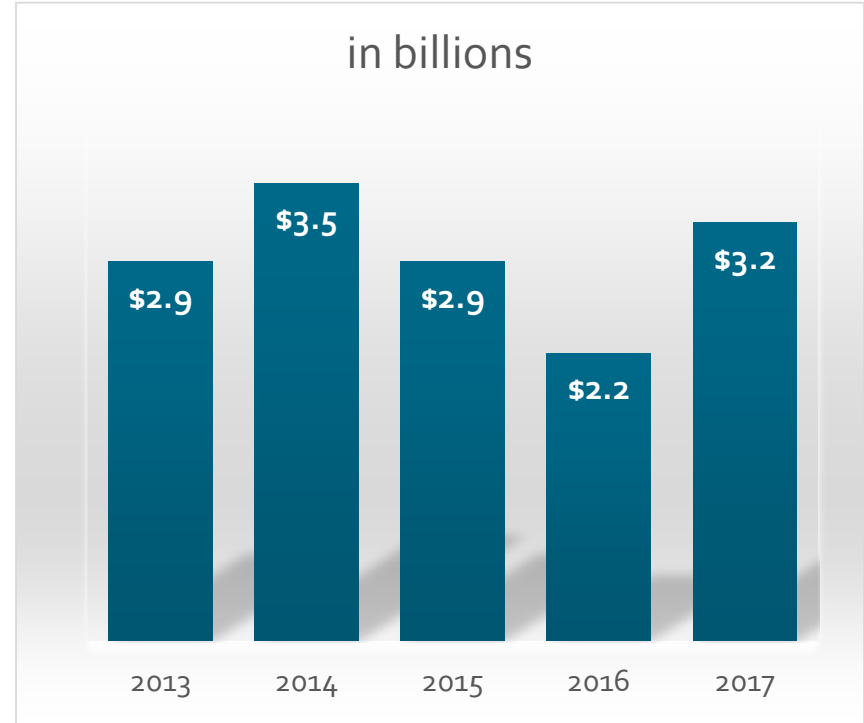
Reinvestment

Available for  
Appropriation

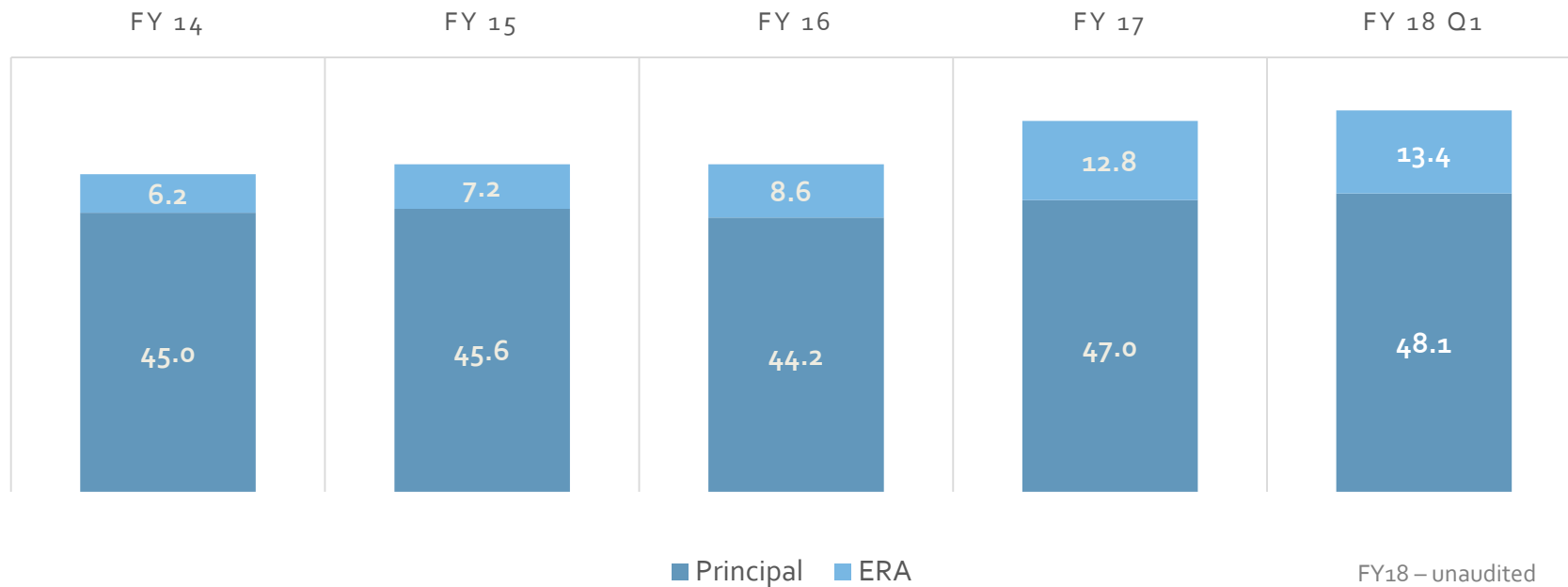
# Statutory Net Income AS 37.13.140

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- Pursuant to state law (AS 37.13.140), at the end of each fiscal year APFC calculates and reports on the net realized gains accounted for during the fiscal year.
- These net realized gains and investment income are the funds in the ERA that are subject to appropriation by a simple majority of the Alaska Legislature.
- Net realized gains = realized gains accumulated during the fiscal year (-) minus realized losses accounted for during the year.
- Unrealized gains earned by Principal are part of Principal, only until realized at which time they are transferred to the ERA.



# Assets Under Management in billions

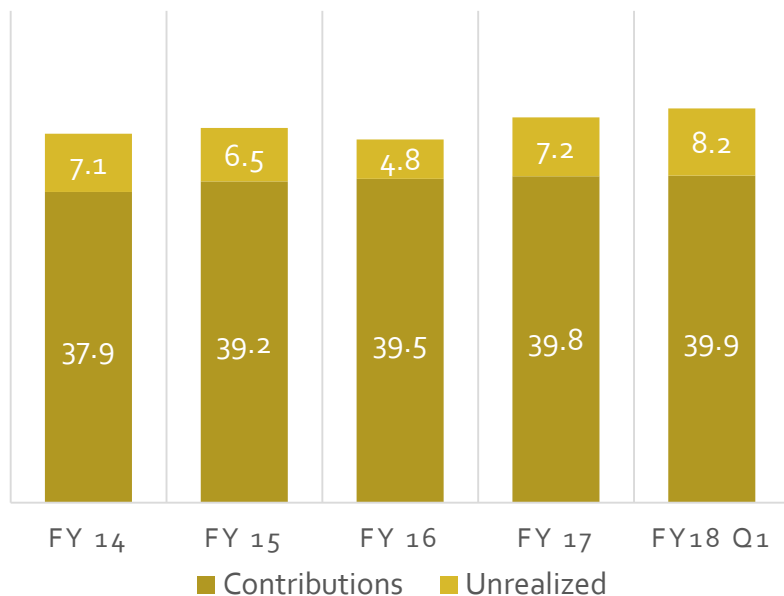


FY18 – unaudited

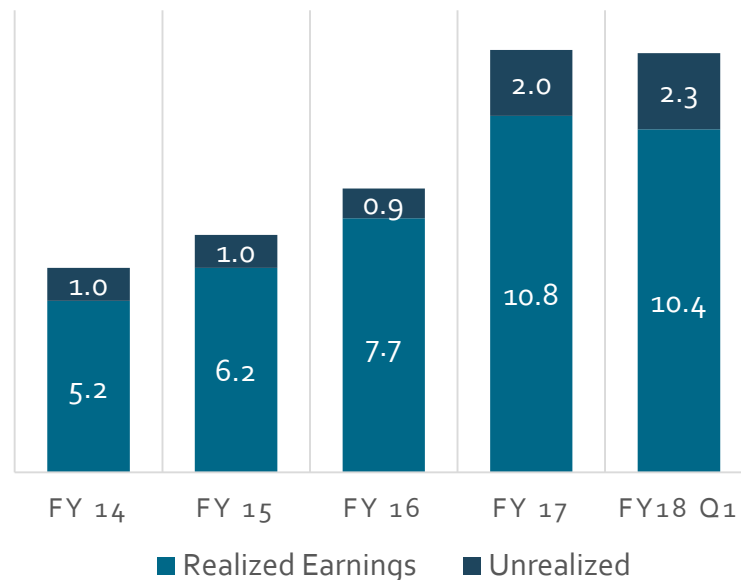


# Unrealized Gains in billions

## Principal



## Earnings Reserve Account



# Fund Balance FY 18 Q1 and FYE 17

## ALASKA PERMANENT FUND

### Balance Sheets

Unaudited (millions of dollars)	September 30, 2017	June 30, 2017
<b>Assets</b>		
Cash and temporary investments	\$ 1,862.0	2,653.5
Receivables, prepaid expenses and other assets	718.3	544.8
Investments:		
Marketable debt securities	10,612.0	10,114.6
Preferred and common stock	26,863.7	25,354.4
Real estate	6,859.7	6,886.8
Absolute return	4,583.6	4,567.0
Public-private credit	1,201.6	1,111.8
Private equity	7,127.1	6,818.1
Infrastructure	2,559.6	2,458.3
Total investments	59,807.3	57,311.0
<b>TOTAL ASSETS</b>	<b>\$ 62,387.6</b>	<b>60,509.3</b>
<b>Liabilities</b>		
Accounts payable	\$ 844.2	699.1
Income distributable to the State of Alaska	0.0	25.1
<b>TOTAL LIABILITIES</b>	<b>844.2</b>	<b>724.2</b>

### Fund Balances

<b>Nonspendable:</b>		
Permanent Fund corpus - contributions and appropriations	39,897.8	39,814.3
Not in spendable form - unrealized appreciation on invested assets	8,244.0	7,155.3
Total nonspendable	48,141.8	46,969.6
<b>Committed:</b>		
Current FY dividend	0.0	0.0
Current FY inflation proofing	694.2	0.0
Current FY AK Capital Income Fund	6.7	0.0
Total committed	700.9	0.0
<b>Assigned for future appropriations:</b>		
Realized earnings	10,405.8	10,863.2
Unrealized appreciation on invested assets	2,294.9	1,952.3
Total assigned	12,700.7	12,815.5
<b>TOTAL FUND BALANCES</b>	<b>61,543.4</b>	<b>59,785.1</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 62,387.6</b>	<b>60,509.3</b>

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# Changes to Fund Balance

## ALASKA PERMANENT FUND

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

Unaudited (millions of dollars)	Month ended September 30, 2017	Three months ended September 30, 2017	Fiscal year-end audited June 30, 2017
<b>Revenues</b>			
Interest	\$ 30.5	92.0	310.8
Dividends	64.6	143.1	563.0
Real estate and other income	30.6	91.3	380.3
Total interest, dividends, real estate and other income	125.7	326.4	1,254.1
Net increase (decrease) in the fair value of investments:			
Marketable debt securities	(59.3)	64.7	(62.5)
Preferred and common stock	560.6	1,346.6	4,125.6
Real estate	(13.2)	31.7	102.6
Absolute return	34.8	109.8	351.8
Public-private credit	1.8	11.9	85.3
Private equity	50.0	420.9	1,056.6
Infrastructure	41.1	110.5	259.2
Derivative Instruments	18.2	5.5	69.1
Currency	(1.5)	8.9	(436.4)
Total net increase (decrease) in investments	632.5	2,110.5	5,551.3
<b>TOTAL REVENUES</b>	<b>758.2</b>	<b>2,436.9</b>	<b>6,805.4</b>

Unaudited (millions of dollars)	Month ended September 30, 2017	Three months ended September 30, 2017	Fiscal year-end audited June 30, 2017
<b>Expenditures</b>			
Operating expenditures	(10.0)	(30.3)	(121.2)
Other legislative appropriations	0.0	(5.9)	(8.6)
<b>TOTAL EXPENDITURES</b>	<b>(10.0)</b>	<b>(36.2)</b>	<b>(129.8)</b>
Excess (deficiency) of revenue over expenditures	\$ 748.2	2,400.7	6,675.6
<b>Other Financing Sources (Uses)</b>			
Transfers in	46.2	83.6	364.9
Transfers out	(716.3)	(726.0)	(25.1)
<b>NET CHANGE IN FUND BALANCES</b>	<b>78.1</b>	<b>1,758.3</b>	<b>7,015.4</b>
<b>Fund Balances</b>			
Beginning of period	61,465.3	59,785.1	52,769.7
End of period	\$ 61,543.4	61,543.4	59,785.1

### Statutory Income Calculation

Excess (deficiency) of revenues over (under) expenditures	748.2	2,400.7	6,675.6
Adjustments to bring net income to statutory net income:			
Unrealized (gains) losses	(427.1)	(1,431.3)	(3,436.3)
Alaska Capital Income Fund realized income	(2.2)	(6.7)	(25.1)
<b>STATUTORY NET INCOME</b>	<b>\$ 318.9</b>	<b>962.7</b>	<b>3,214.2</b>

A scenic landscape featuring a body of water in the foreground, a range of mountains in the background, and a bright sunburst effect in the upper right sky. The entire image is overlaid with a teal/blue color filter. The text "How We Invest" is centered in the middle of the image.

# How We Invest

# Board of Trustees

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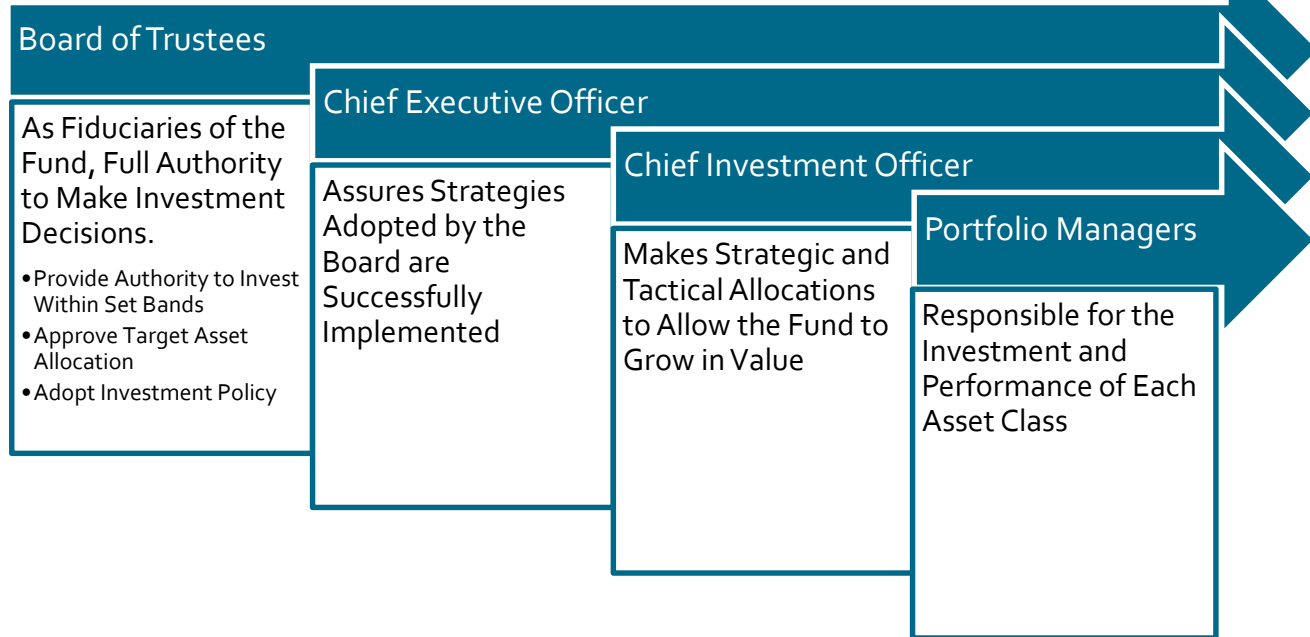
As the fiduciaries, the Trustees have a duty to Alaskans in assuring that the Fund is managed and invested in a manner consistent with legislative findings: AS 37.13.020

- The Permanent Fund should provide a means of conserving revenue from mineral resources ***to benefit all generations of Alaskans.***
- The Permanent 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.



# Investment Oversight

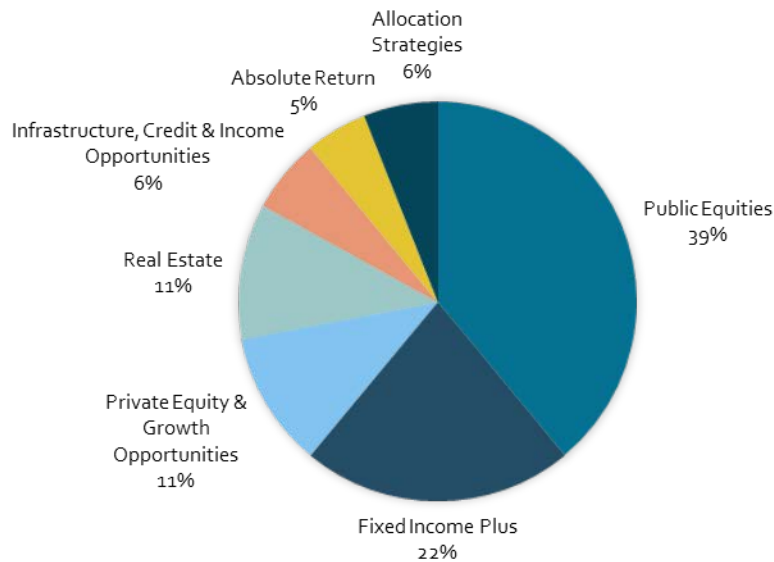
## AS 37.13 .120 Investment Responsibilities – Mandates Use of the Prudent Investment Rule



# The Portfolio

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## TARGET ALLOCATION (FY 2018)



# Public Equities \$26.1 B

market value as of 6/30/17

## Director of Public Equities

- Oversees Internal Team (2) and External Managers (28)
- Holds quarterly meetings with each manager
- Confirms strategies and performance
- Gauges and adjusts mandates

## Management

- Internally Managed Tactical Portfolio
- Director and Team provide active oversight of External Portfolio Managers
- Ex. Adding global managers with specific tactical tilts and removing non-performing global managers

## Stocks Holdings

- Liquid - Growth
- International Equities
- Global Equities
- Domestic Equities

APFC Operating  
\$2.9 m

External Fees  
\$60.7 m + \$3.7 m (net)



# Fixed Income Plus \$11.7 B

market value as of 6/30/17

## Director of Fixed Income Plus

- Oversees Internal Team (4)
- Leads the daily trading activity and determines allocation between various fixed income products.
- Looks at how much to hold in corporate bonds vs treasuries or listed infrastructure.

## Management

- Internally Managed - \$7.7 B
- Externally Managed - \$4.0 B

## Bonds, REITs, Listed Infrastructure

- Liquid – Income
- Investment Grade Bonds
- High Yield Bonds
- Emerging Market Debt
- Real Estate Investment Trusts (REITS)
- Listed Infrastructure

APFC Operating  
\$4.8 m

External Fees  
\$10.2 m

# Private Equity and Special Growth \$7.0 B

market value as of 6/30/17

## Director of Private Equity

- Oversees Internal Team (2) and Portfolio Investments
- Evaluates investment opportunities
- Concentrates on exceptional themes and talented Managers

## Management

- Fund Managers - External
- Co-Investments - Internal
- Direct Investments – Internal
- Board approved Direct and Co-Investing in 2013

## Private Holdings

- Illiquid - Growth
- Venture Capital
- Buyouts

APFC Operating  
\$2.9 m

External Fees  
\$11.5 m + \$182.9 m (net)

# Infrastructure, Private Credit and Income Opportunities \$3.2 B

market value as of 6/30/17

## Director of Private Income

- Oversees Internal Team (1) and Portfolio Investments
- Aims to provide a high level of income and limited volatility
- Manages a broad range of assets providing current income

## Management

- Fund Managers - External
- Co-Investments - Internal
- Direct Investments – Internal
- Board approved Direct and Co-Investing in 2013

## Public and Private Holdings

- Illiquid - Income
- Infrastructure: Energy, Transportation, Water, Timber
- Private Credit: Mezzanine Lending, Distressed Credit
- Income Opportunities: High End Rentals

APFC Operating  
\$1.4 m

External Fees  
\$0.4 m + \$34.3 m net

# Absolute Return \$2.2 B

market value as of 6/30/17

## Director of Private Income

- Oversees Internal Team (1) and Hedge Fund Managers
- Selectively chooses funds
- Ensures diversification based on geographies, securities, and strategies

## Management

- Fund of Funds - External
- Co-Investments - Internal
- Direct Investments – Internal
- Moving towards fully direct approach - based on the Board's approval of Staff's recommendation in May 2016

## Hedge Fund Portfolios

- Illiquid - Growth
- Strategies: Global, Macro, Commodities, Event Driven

APFC Operating  
\$1.4 m

External Fees  
\$16.3 m net

# Real Estate \$5.6 B

market value as of 6/30/17

## Director of Real Estate

- Oversees Internal Team (3) and External Advisors
- Targets a mix of investment styles, ownership structures, property life cycles and property types.
- Focus on steady cash flow and preservation of capital

## Management

- Portfolio is managed by APFC's Team and 5 External Advisors.
- Advisors provide property management services

## Real Estate Holdings

- Illiquid - Income
- 56 properties – US and Europe
- Residential, Retail, Industrial, Office Buildings
- Build to Core

APFC Operating  
\$3.8 m

External Fees  
\$0.7 m + 33.6 m net

# Asset Allocation and Risk \$4.5 B

market value as of 6/30/17





# Outcomes

# Fiscal Year 2017 Performance

Realized and Unrealized Gains

	FY17	3 Years	5 Years	Since Inception
Total Fund	12.57%	6.18%	8.94%	8.78%
Passive Index Benchmark <small>(60 Stocks   20 Bonds   10 RE   10 TIPs)</small>	10.26%	3.37%	7.10%	<i>Not Available</i>
Performance Benchmark	10.25%	4.47%	7.96%	8.98%
Total Fund Return Objective   CPI+ 5%	6.63%	5.92%	6.32%	7.67%



# Asset Class Performance (Realized and Unrealized Gains)

<i>Returns as of June 30, 2017</i>	Fiscal Year 2017	3 Year	5 Year
<b>Public Equities</b>			
International Equities	22.57%	1.73%	7.29%
Global Equities	18.77%	4.89%	11.54%
Domestic Equities	20.08%	8.74%	14.85%
<b>Fixed Income Plus</b>			
US Investment Grade Corporate	3.29%	4.31%	4.60%
Non US Fixed Income	-1.57%	3.66%	3.63%
Global High Yield	10.80%	3.88%	6.26%
Emerging Market Debt	7.15%	0.95%	3.05%
TIPS	-0.62%	0.50%	0.31%
REITS	1.54%	6.51%	8.73%
<b>Private Equity</b>	20.98%	17.22%	18.20%
<b>Real Estate</b>	4.45%	8.73%	9.85%
<b>Infrastructure</b>	8.55%	14.50%	13.55%
<b>Public/Private Credit</b>	9.59%	5.70%	7.88%
<b>Absolute Return</b>	7.22%	1.89%	3.61%
<b>Asset Allocation</b>			
Cash	0.48%	0.19%	0.12%
Multi-Asset Class	7.75%	3.96%	5.54%

# Callan's Capital Markets Forecast

as of September 2017

10 year horizon	Previous	New
Total Return	6.95%	6.50%
Statutory Return	6.24%	6.53%
Inflation	2.25%	2.25%

Asset Category	Projected 10-Year Geometric Return	Annualized Standard Deviation
Global Equities	7.00%	18.55%
Cash Equivalents	2.27%	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	5.80%	15.90%
Private Equity	8.50%	22.00%
Real Estate	5.95%	13.50%
Private Infrastructure	5.75%	14.50%
Absolute Return	5.05%	9.15%



# Appendix

## Investment Management Fee Report

### Quarterly Investment Management Fees

	FY2017					FY2016				
	Quarter Ended				YTD	Quarter Ended				YTD
	6/30/2017	3/31/2017	12/31/2016	9/30/2016	FY2017	6/30/2016	3/31/2016	12/31/2015	9/30/2015	FY 2016
<b>Transition Management</b> <sup>(a)</sup>	-	-	-	-	-	-	403,000	1,062,000	-	1,465,000
<b>Non-Domestic Equity &amp; FI Managers</b>	546,000	564,000	540,000	744,000	2,394,000	1,077,000	991,000	874,000	903,000	3,845,000
<b>Real Estate Advisors</b> <sup>(b)(f)(h)</sup>	9,731,000	5,580,000	4,723,000	3,282,000	23,316,000	7,186,000	5,183,000	6,396,000	(962,000)	17,803,000
<b>Abs. Return, Mezz. &amp; Distressed Debt</b> <sup>(c)(d)</sup>	5,018,000	5,339,000	8,117,000	7,105,000	25,579,000	9,677,000	8,150,000	7,555,000	5,824,000	31,206,000
<b>Infrastructure</b>	6,425,000	5,610,000	7,899,000	6,506,000	26,440,000	5,488,000	4,604,000	4,355,000	4,006,000	18,453,000
<b>Public Equity</b> <sup>(g)</sup>	685,000	163,000	366,000	257,000	1,471,000	175,000	162,000	-	-	337,000
<b>Private Equity</b> <sup>(e)(h)</sup>	39,326,000	7,688,000	12,098,000	9,313,000	68,425,000	6,402,000	5,755,000	5,253,000	2,434,000	19,844,000
<b>Fees Funded by Investments</b>	<b>61,731,000</b>	<b>24,944,000</b>	<b>33,743,000</b>	<b>27,207,000</b>	<b>147,625,000</b>	<b>30,005,000</b>	<b>25,248,000</b>	<b>25,495,000</b>	<b>12,205,000</b>	<b>92,953,000</b>
<b>Fees Funded by Appropriation</b>	<b>24,467,000</b>	<b>32,815,000</b>	<b>22,825,000</b>	<b>22,756,000</b>	<b>102,863,000</b>	<b>22,894,000</b>	<b>23,679,000</b>	<b>21,984,000</b>	<b>21,597,000</b>	<b>90,154,000</b>
<b>APFC Corporate Expenses</b>	<b>6,465,000</b>	<b>4,568,000</b>	<b>4,154,000</b>	<b>4,229,000</b>	<b>19,416,000</b>	<b>5,462,000</b>	<b>3,464,000</b>	<b>3,538,000</b>	<b>3,555,000</b>	<b>16,019,000</b>
<b>TOTAL Investment Management Fees</b>	<b>92,663,000</b>	<b>62,327,000</b>	<b>60,722,000</b>	<b>54,192,000</b>	<b>269,904,000</b>	<b>58,361,000</b>	<b>52,391,000</b>	<b>51,017,000</b>	<b>37,357,000</b>	<b>199,126,000</b>
<b>Assets Under Management</b>	<b>60,286,353,000</b>	<b>58,245,649,000</b>	<b>55,859,408,000</b>	<b>55,239,923,000</b>	<b>60,286,353,000</b>	<b>53,214,867,000</b>	<b>52,926,338,000</b>	<b>52,244,640,000</b>	<b>50,987,494,000</b>	<b>53,214,867,000</b>

**Notes:**

<sup>(a)</sup> Commissions and futures overlay fees only (if applicable, including commissions paid to third party brokers); excludes taxes and other implementation costs.

<sup>(b)</sup> Includes accrued but unpaid real estate advisor incentive fees.

<sup>(c)</sup> Fund-of-Fund structures include only fund manager fees, not underlying partnership fees.

<sup>(d)</sup> Remaining ECIOs moved to Absolute Return beginning in FY2016.

<sup>(e)</sup> Direct placement Private Equity began in FY2014.

<sup>(f)</sup> FY16 Q1 negative fees result from reversal of accrued incentive fees because actual performance did not live up to expectations.

<sup>(g)</sup> Public Equity with a net of fees component began in FY2016.

<sup>(h)</sup> Beginning with the quarter ended 6/30/17, due to improved reporting, estimates of management fees for private equity and real estate investments accessed through external managers are included.





Questions ?