

Alaska Permanent Fund

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THE ALASKA PERMANENT FUND



Presentation Overview

- What hasn't changed?
- What has changed?
- Why the change?
- How does the change look?
- What is the impact of the changes?
- If we had not changed?



What hasn't changed?

- Return objective = 5% real return over time
 - Principal protection, while maximizing return

- Risk tolerance
 - 13% annual standard deviation
 - 86% of the total risk is attributed to equities

- Assets held in the portfolio
 - 95% of the assets haven't changed



What has changed?

- New framework
- Cash allocation for liabilities (2%)
- TIPS allocation for inflation (3%)
- “External CIO” mandate



Why the change?

Not all bonds are created equal

- Fixed income objective:
 - Resolution 09-08 “The Board uses fixed-income investments as part of its overall strategy to SAFEGUARD THE PRINCIPAL of the fund...”
- Did fixed income meet the objective?
 - Barclays Aggregate Bond Index
 - CY 2008 return 5.24%
 - Citigroup Non-US World Gov. Bond Index
 - CY 2008 return 9.23%



Why the change?

Not all bonds are created equal

Sub-asset Class	Dec. 2008 Allocation	CY 2008 Return
U.S. Treasury	3.2%	13.74%
World Gov. (50% hedged)	3.9%	9.23%
Mortgage Backed Securities	9.4%	8.34%
HG Corporate Bonds	5.1%	-4.94%
Asset Backed Securities	0.4%	-8.58%
Emerging Market Bonds	0.3%	-16.16%
Commercial Mortgage Backed Securities	2.6%	-20.52%
High Yield Corporate Bonds	2.0%	-26.16%
Distressed Corporate Bonds	1.0%	-53.66%
Collateralized Mortgage Obligation (cusip 86360LAL0)	0.1%	-100%

Aggregate Bond Index 5.24%

S&P 500 -37.00%

EAFE -43.38%



Why the change?

Not all bonds are created equal

- Corporate debt exhibits high correlation to equities in down markets
 - As a Company's equity moves towards zero, its debt becomes the new equity

Correlations*	Equities	High Grade	High Yield	Distressed
Equities	1.00			
High Grade	.48	1.00		
High Yield	.75	.62	1.00	
Distressed	.75	.58	.91	1.00

*24 months ending January 31, 2009



Why the change?

Cash for known liabilities

- The APFC has a long-term investment horizon to meet long-term liabilities
- “Dividend” is a short-term liability
 - Cash investments have an investment time horizon more aligned with short-term liabilities
- Market liquidity can disrupt our ability to sell assets to fund immediate liabilities
 - November 2008
 - August 2007
 - September 11, 2001



Why the change?

TIPS for inflation

- Treasury Inflation Protected Securities (TIPS) are government guaranteed bonds directly linked to Consumer Price Inflation (CPI)
- Real Estate may not react well to unanticipated spike in inflation
- Not all infrastructure investments are linked directly to CPI
- Note: TIPS are more conservative than Treasury Bonds



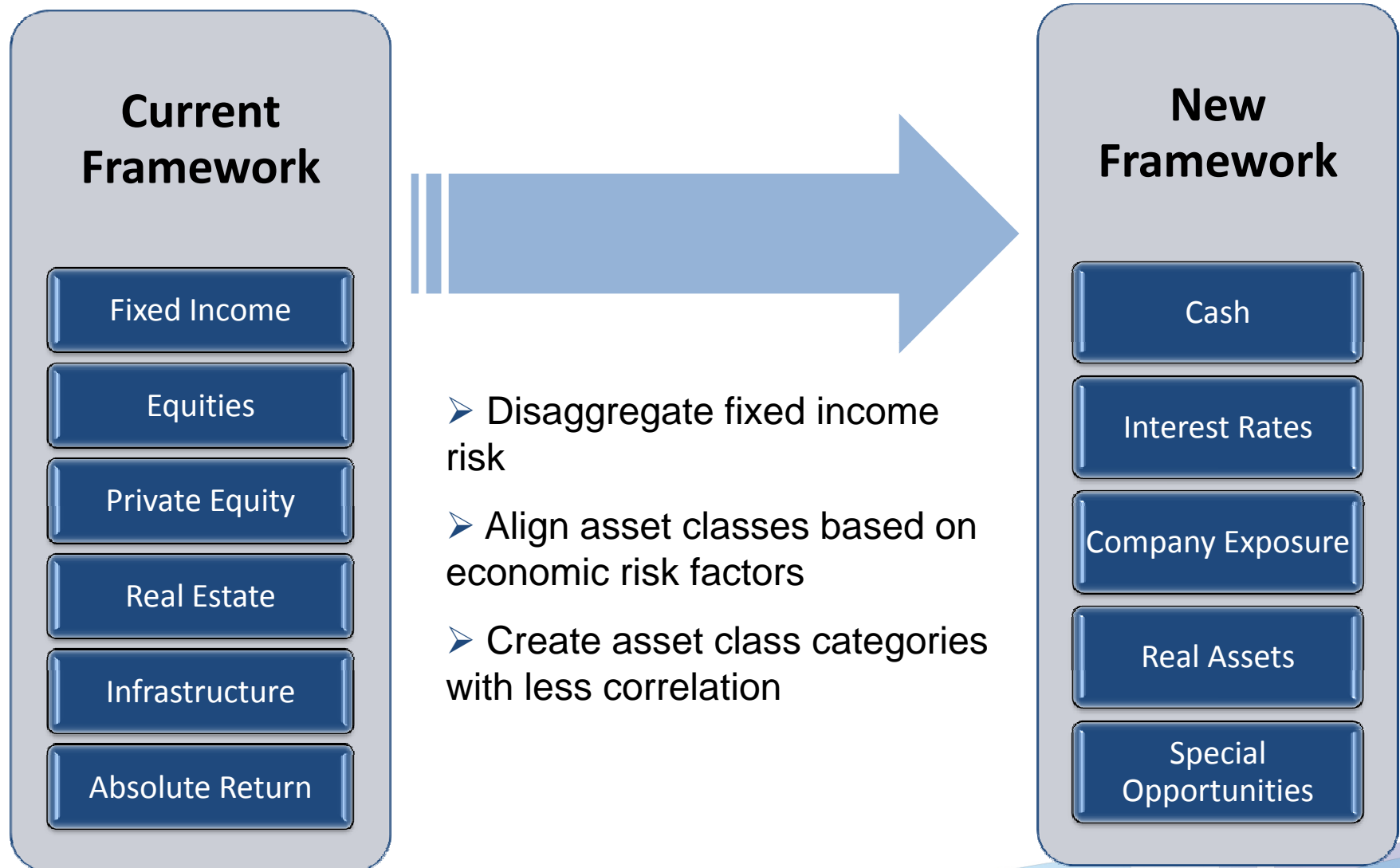
Why the change?

“External CIO”

- To learn from the best
 - Asset allocation
 - Risk management
 - Portfolio construction
 - Rebalancing
- To develop a future superior risk-adjusted APFC portfolio
- External CIOs will operate under the same general risk guidelines and return objective
 - Estimated size \$2B



Why the change?



Why the change?

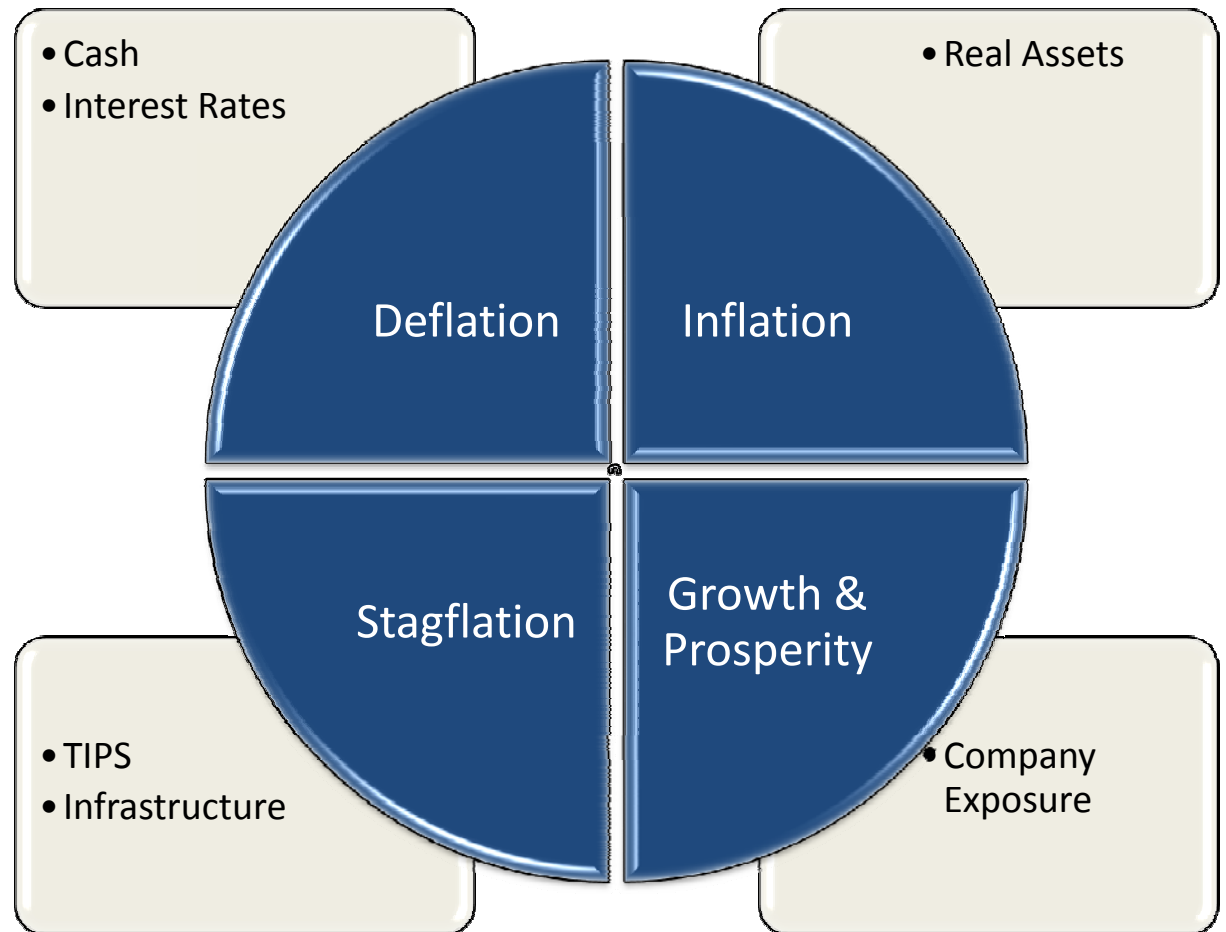
Economic drivers of return

Cash	Interest Rates	Company Exposure	Real Assets	Special Opportunities
<ul style="list-style-type: none">• Federal Reserve	<ul style="list-style-type: none">• Central Banks• Inflation• Capital Flows	<ul style="list-style-type: none">• GDP<ul style="list-style-type: none">• Demographics• Productivity• Inflation• Profit Margins	<ul style="list-style-type: none">• Inflation• GDP	<ul style="list-style-type: none">• Market Dislocations

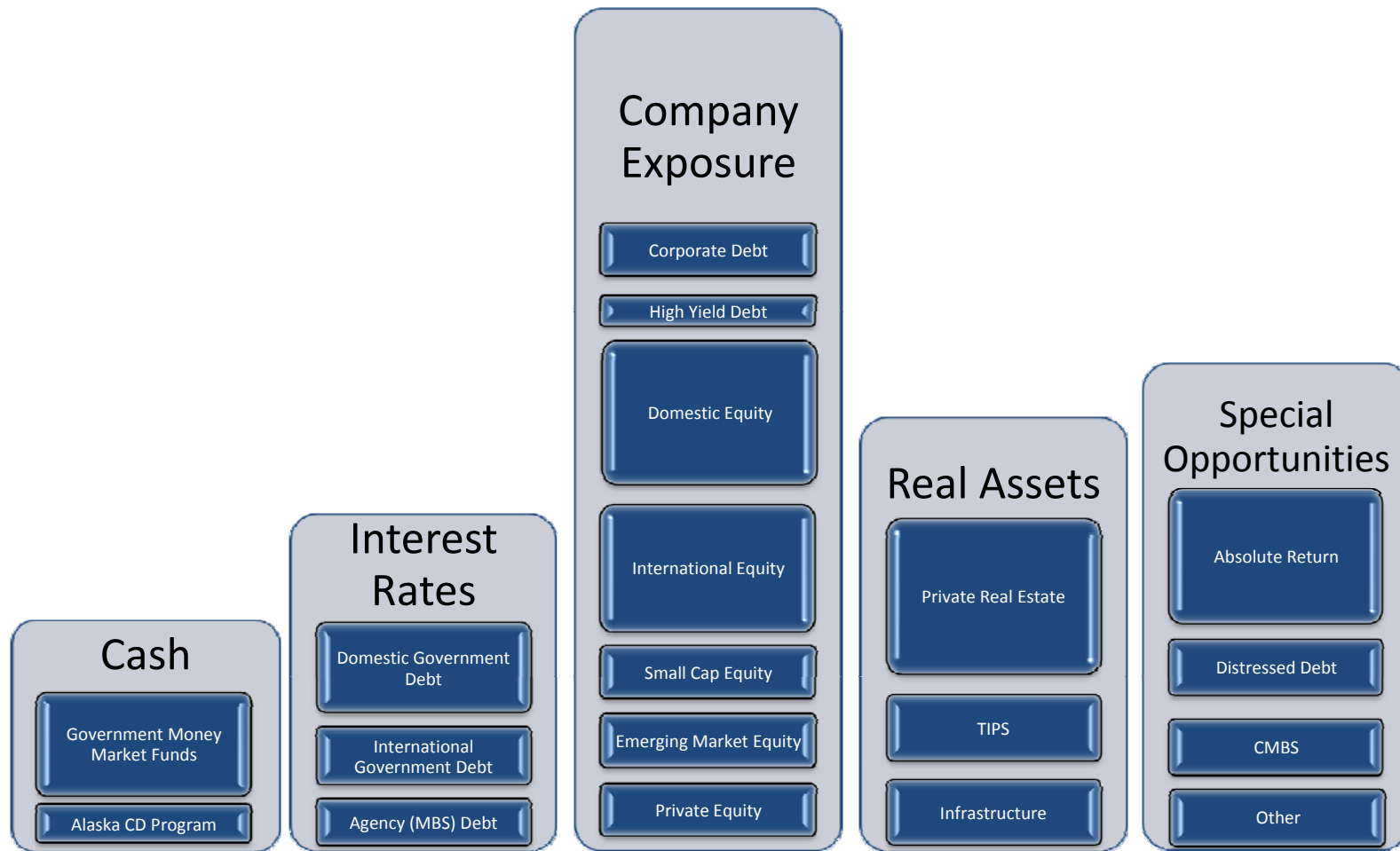


Why the change?

Economic diversification

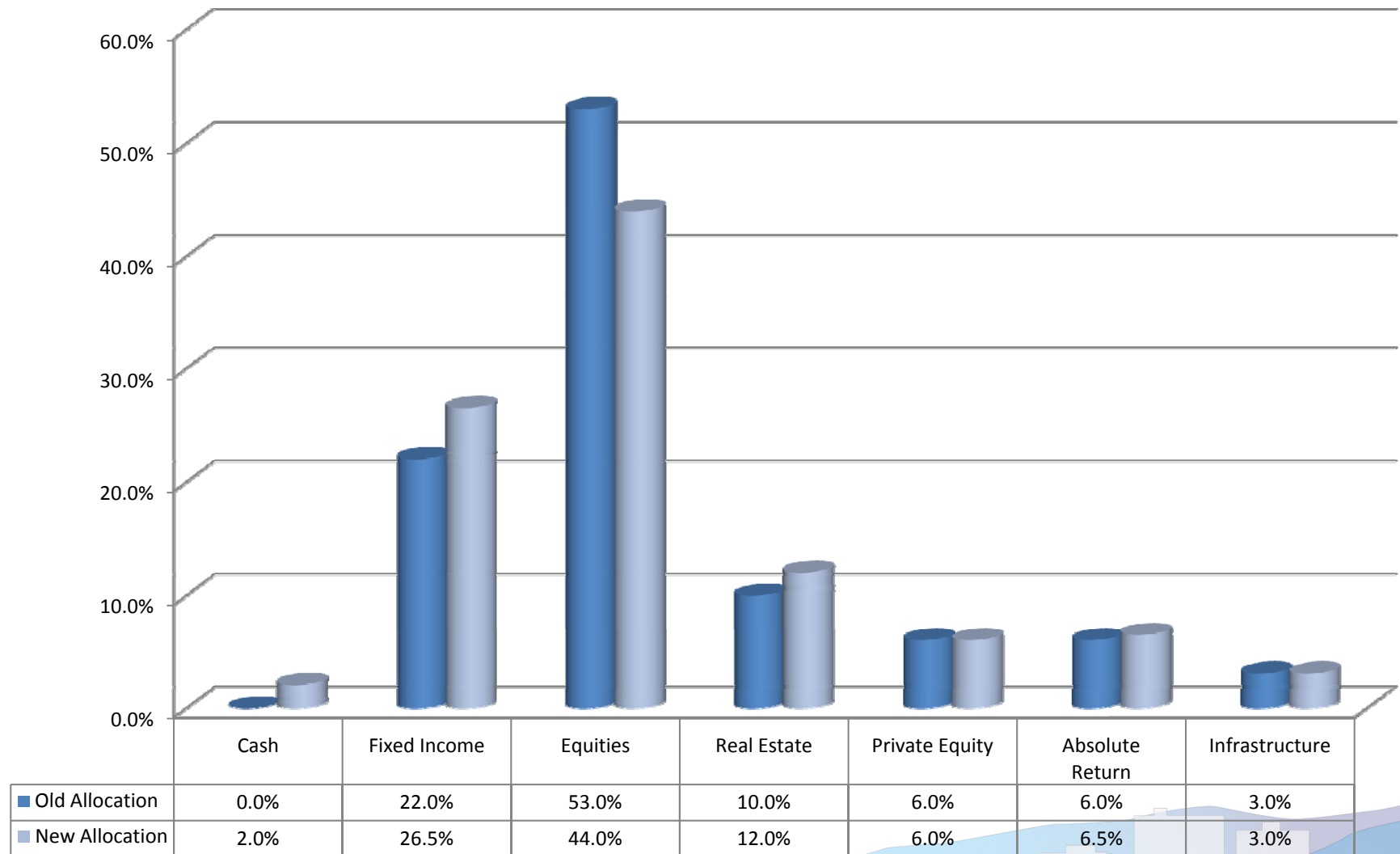


How does the change look?



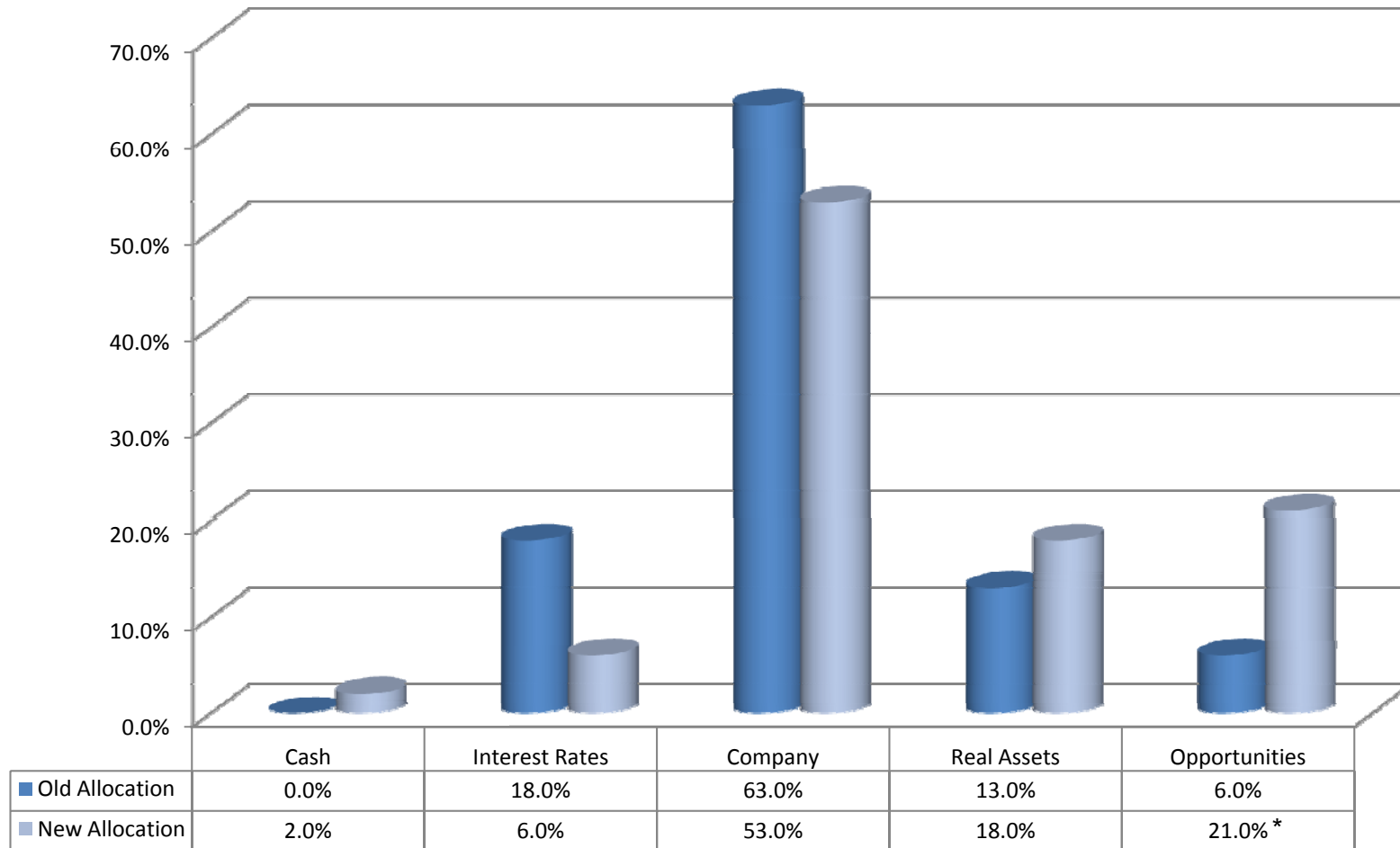
How does the change look?

Historical Framework



How does the change look?

New Framework



*Opportunities include ~6% allocation to four “External CIOs”. The “External CIOs” mandate will have the same APFC investment objective, risk tolerance and time horizon.



How does the change look?

Asset Class	Risk Benchmark	Return Objective
Cash	3 month T-bill	Inflation
Interest Rates	Barclays Global Treasury Index (Hedged)	Inflation + 100 bps
Company Exposure	20% Barclays Global Corporate Index + 80% MSCI All Country Index	Inflation + 600 bps
Real Assets	75% NCREIF + 25% Barclays US TIPS Index	Inflation + 400 bps
Special Opportunities	Company Exposure Benchmark	Inflation + 600 bps



What is the impact of the change?

Return Forecast

Old
Allocation

Callan's Analysis	
Expected Return	9.35%
5 Yr. Avg. Simulated Return	9.00%
10 Yr. Avg. Simulated Return	8.91%

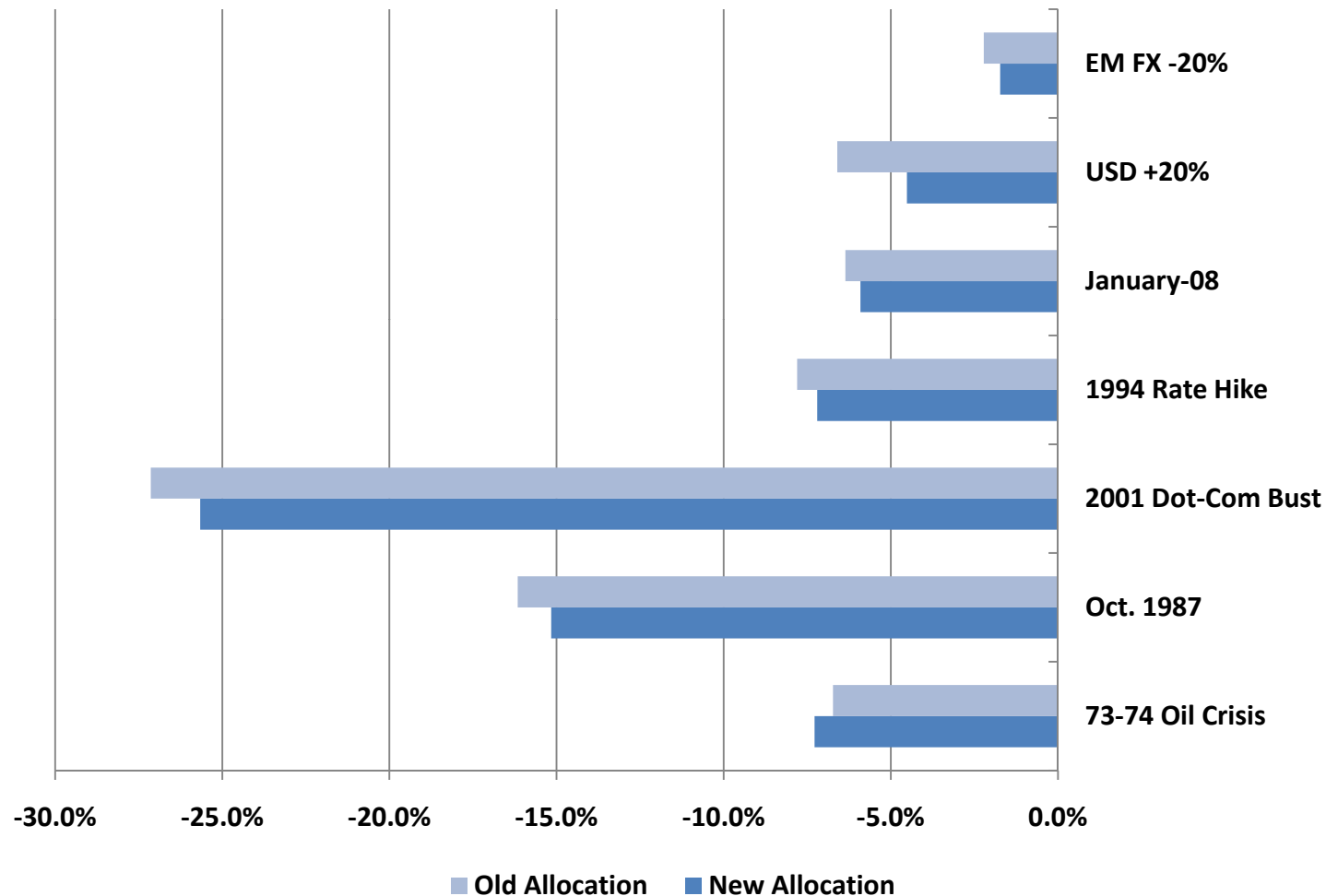
New
Allocation

Staff's Quantitative & Qualitative Analysis	1 Year Forecast	7 Year Forecast
Base (U shape recovery)	7.3%	10.4%
Poor (L shape recovery)	-10.1%	4.9%
Good (V shape recovery)	16.9%	12.2%



What is the impact of the change?

Tail Risk: Scenario Analysis (Events)



If we had not changed?

- **Higher risks**
 - Liquidity risk
 - Economic risk to inflation and stagflation
 - Greater tail risk (drawdown)



Summary

➤ What hasn't changed?

- Return objective (5% real return)
- Risk tolerance
- 95% of the assets

➤ What has changed?

- New framework
- Cash for liabilities
- TIPS for inflation
- “External CIO” Mandate

➤ Why the changes?

- To align investments with economic risks
- Manage liquidity risk
- Reduce tail risk (drawdowns)
- Learn from the best



Appendix

