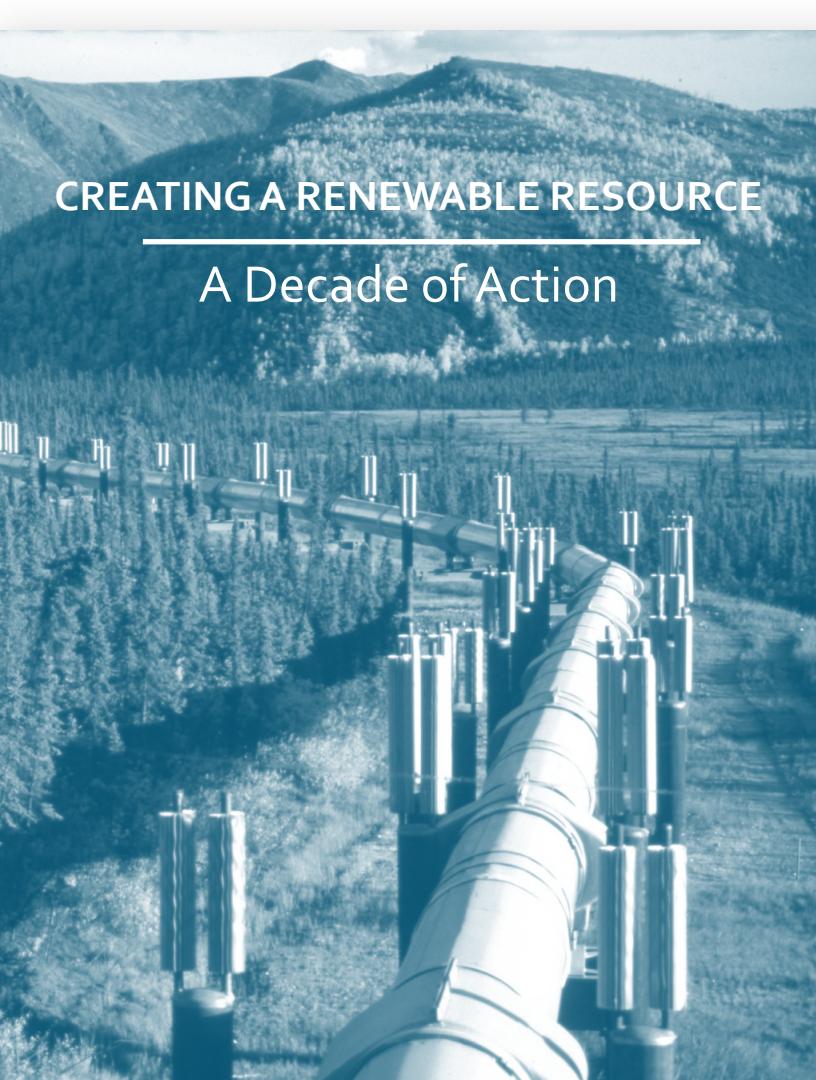




APFC

ALASKA PERMANENT  
FUND CORPORATION

House Finance Committee  
February 10, 2023



## CREATING A RENEWABLE RESOURCE

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### A Decade of Action

**1969**

The Prudhoe Bay lease sale brings more than \$900 million to the State for drilling rights

**1971**

President Nixon signs Alaska Native Claims Settlement Act (ANCSA)

**1973**

Congress passes Trans Alaska Pipeline Authorization Act

**1974**

Pipeline Construction Begins

**1976**

Alaska voters approve Constitutional Amendment establishing the Permanent Fund  
 $\frac{2}{3}$ <sup>rds</sup> margin 75,588 to 38,518

**1977**

The Permanent Fund receives its first deposit of dedicated oil royalties totaling \$734,000

**1980**

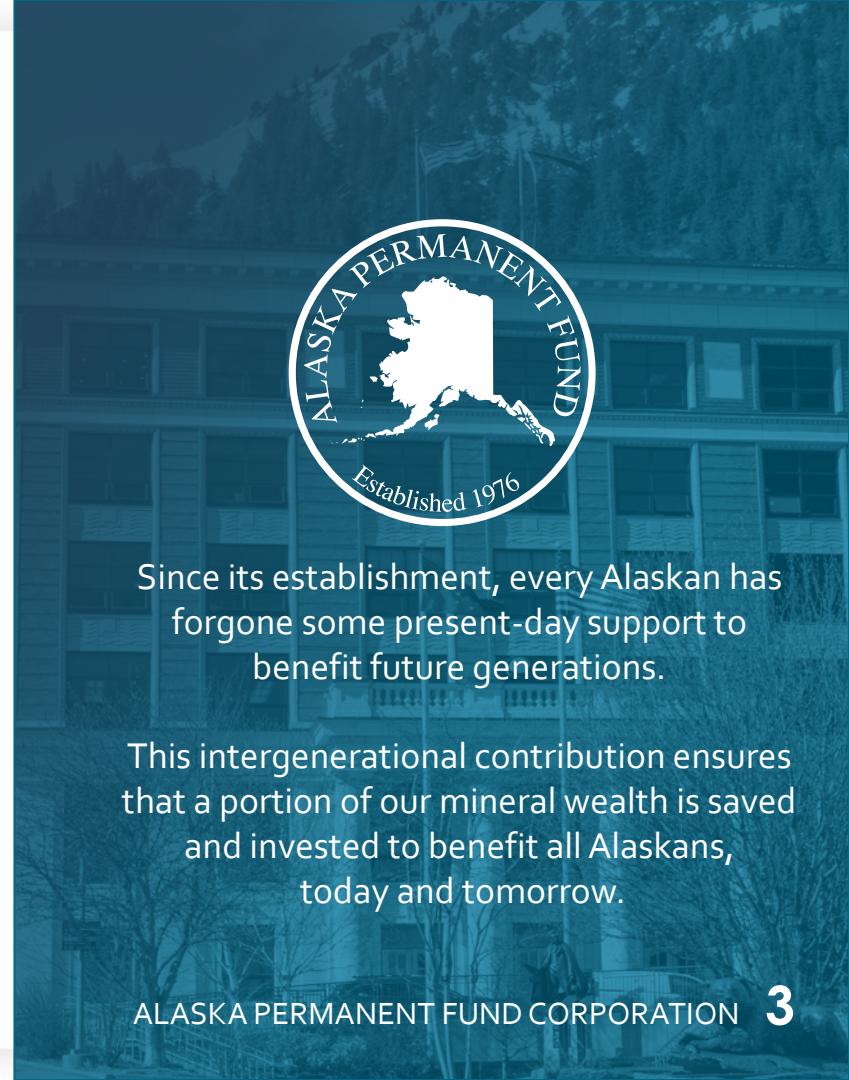
The Alaska Permanent Fund Corporation was established to manage and invest the Fund

# The Permanent Fund

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## Alaska Constitution Article IX, Section 15

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.



Since its establishment, every Alaskan has forgone some present-day support to benefit future generations.

This intergenerational contribution ensures that a portion of our mineral wealth is saved and invested to benefit all Alaskans, today and tomorrow.

# Renewable Financial Resource

inception through December 2022

## Savings

Since the First Royalty Deposit of \$734 thousand  
The Principal has grown to \$52 billion

## Income-Producing

The Earnings Reserve Account has received more than \$82.1 billion

## Earnings Use

- Inflation Proofing Principal \$18.0 B
- Special Appropriations to Principal \$12.3 B
- Alaska Capital Income – Amerada Hess ~\$0.4 B
- Dividend Fund through FY18 \$24.4 B
- Percent of Market Value FY19-FY23 \$15.9 B



# To Manage and Invest for Generations

# Investing for the Long-Term

Legislature's findings for the purpose of the Permanent Fund in 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 purposes designated by law.

The Board's objective for the Fund, as set forth in the Investment Policy, is to achieve the highest level of performance within the investment responsibilities of AS 37.13.120 and prudent investment practices.

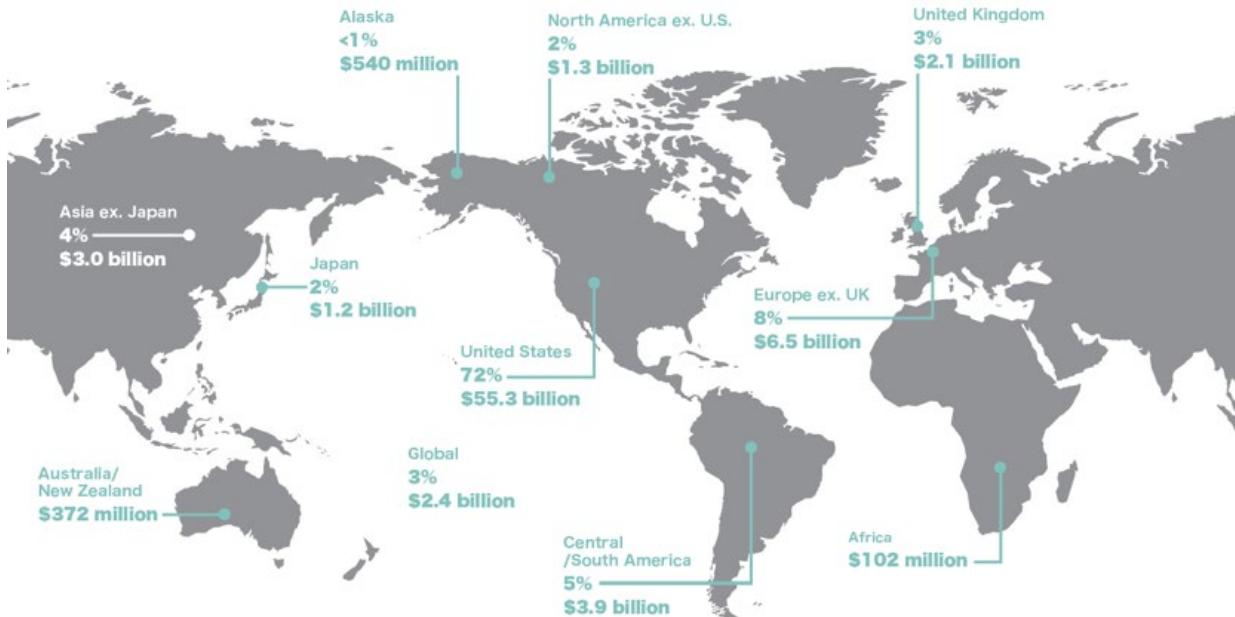
## **Investment Performance**

Ability to generate an annualized return of inflation (CPI) + 5% over a 10-year period (long-term target).

## **Investment Risk**

Ability of the Fund to achieve the long-term target while conforming to the Board's approved risk appetite metric.

# Diversified Portfolio



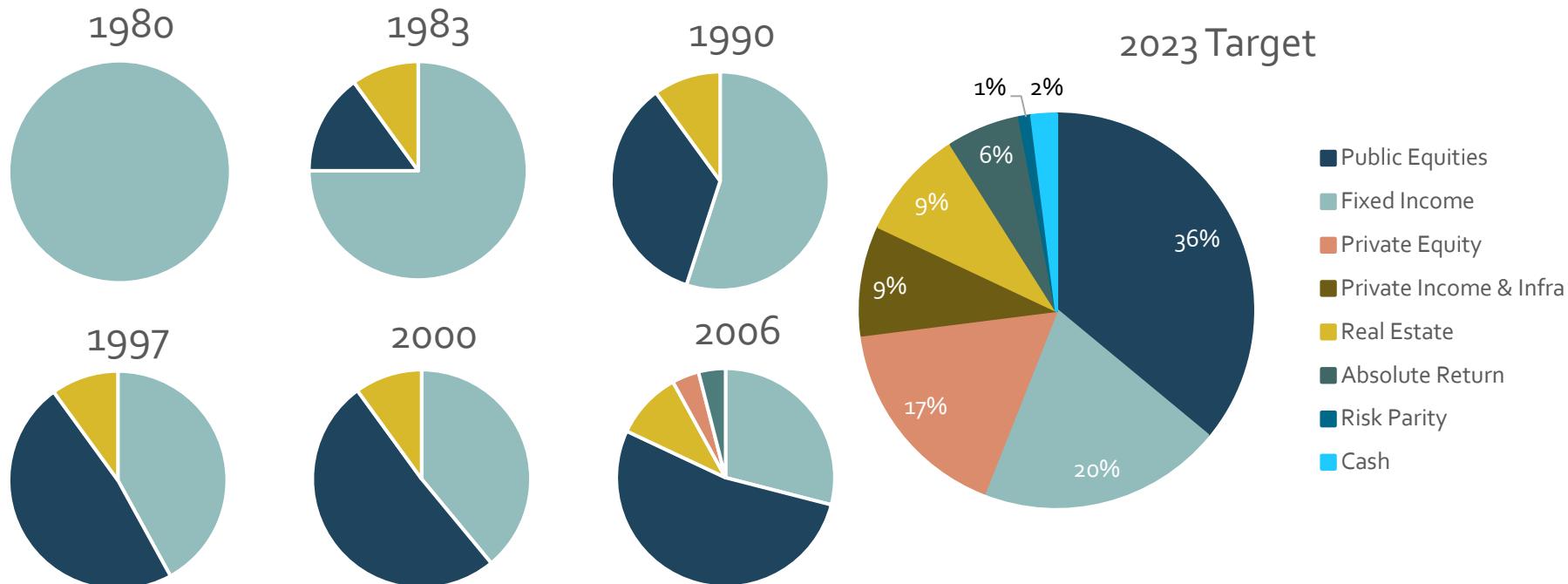
## Risk

APFC is in the business of taking risk.

APFC seeks to balance the goals of maximizing returns and minimizing risks.

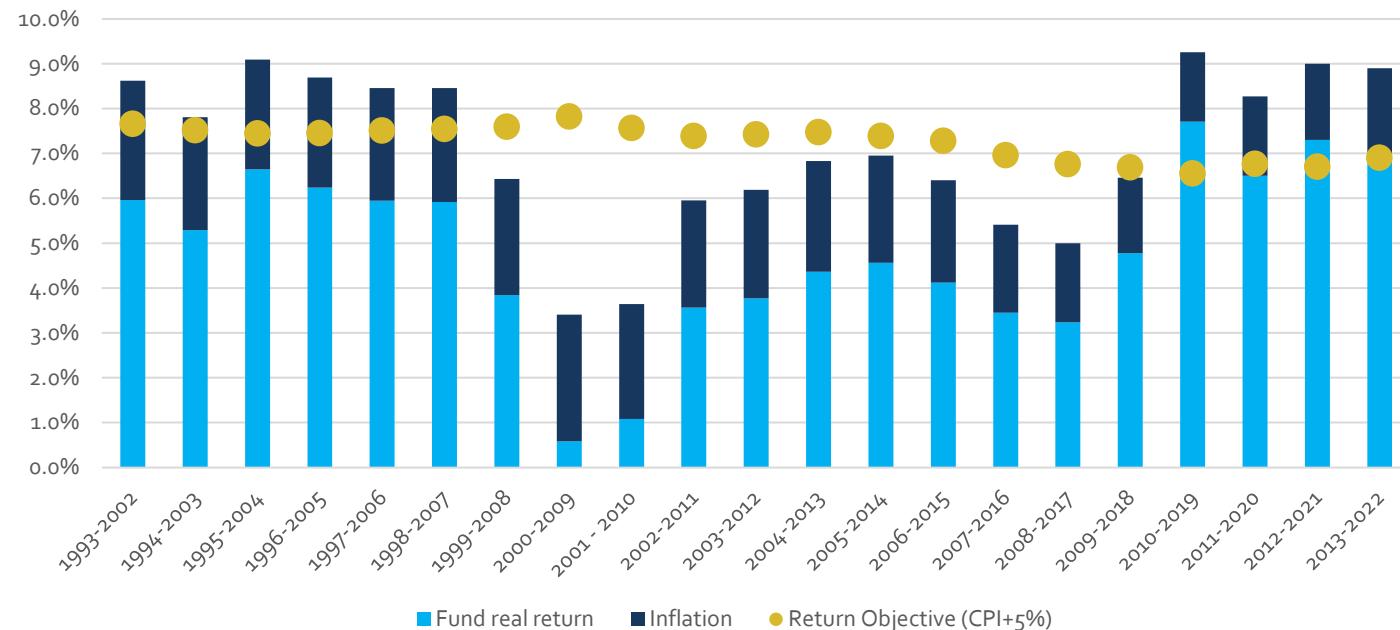
The goal of risk management is not to avoid risk but to identify, understand and manage it to acceptable levels.

# Asset Allocation APFC's Investment Policy



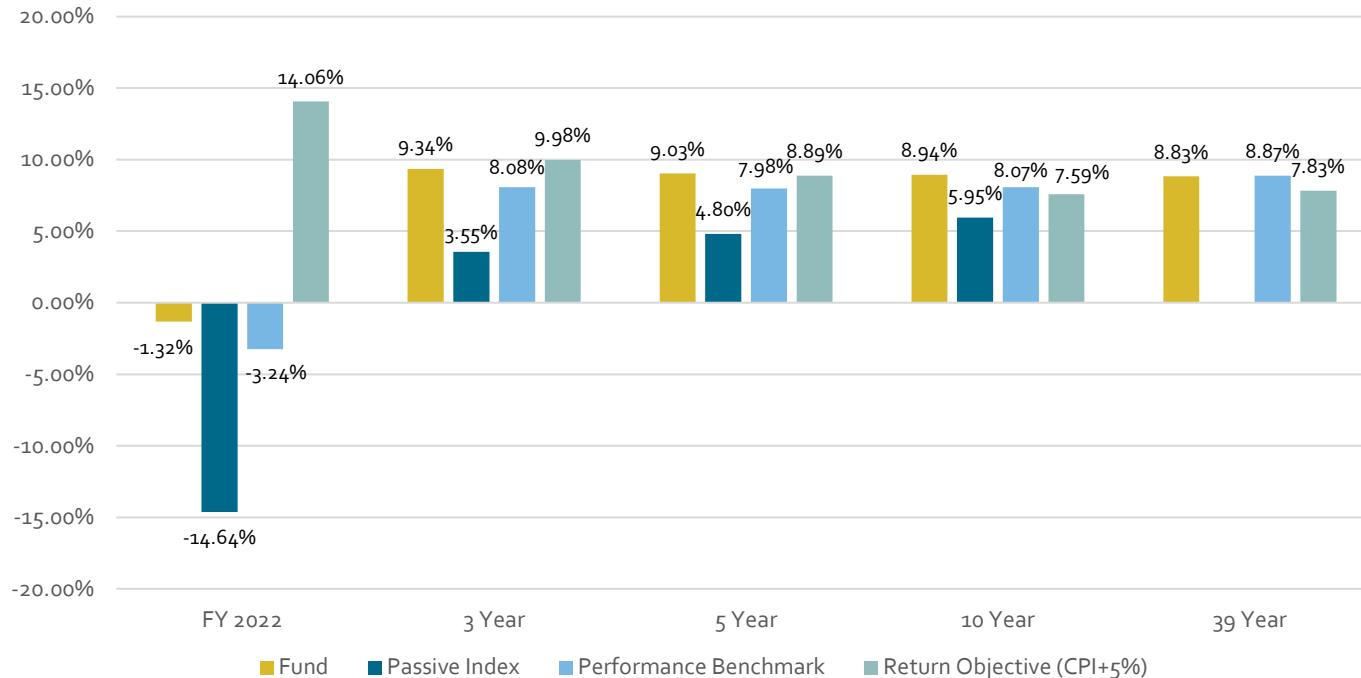
# Real Return

Annual investment performance adjusted for inflation indicates sustained value and purchasing power



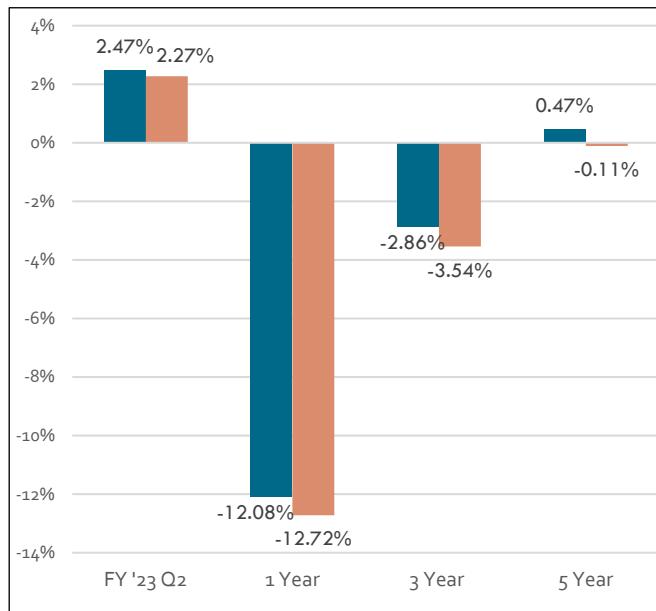
# Fund Performance vs Benchmarks

Fiscal Year End June 30, 2022

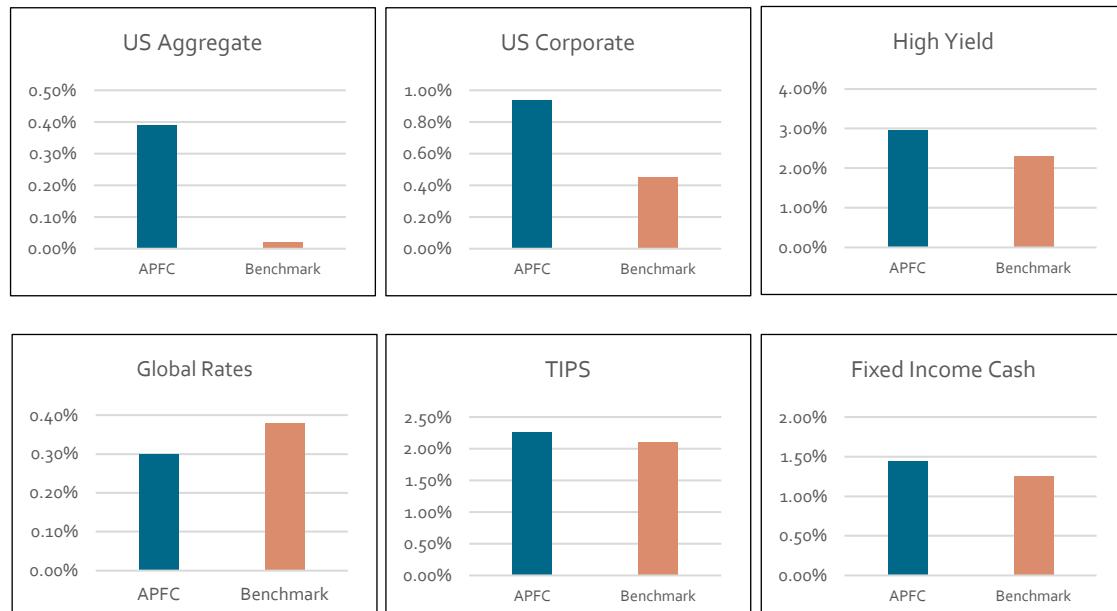


# Benchmarks – Internal Fixed Income Example

Fixed Income Composite

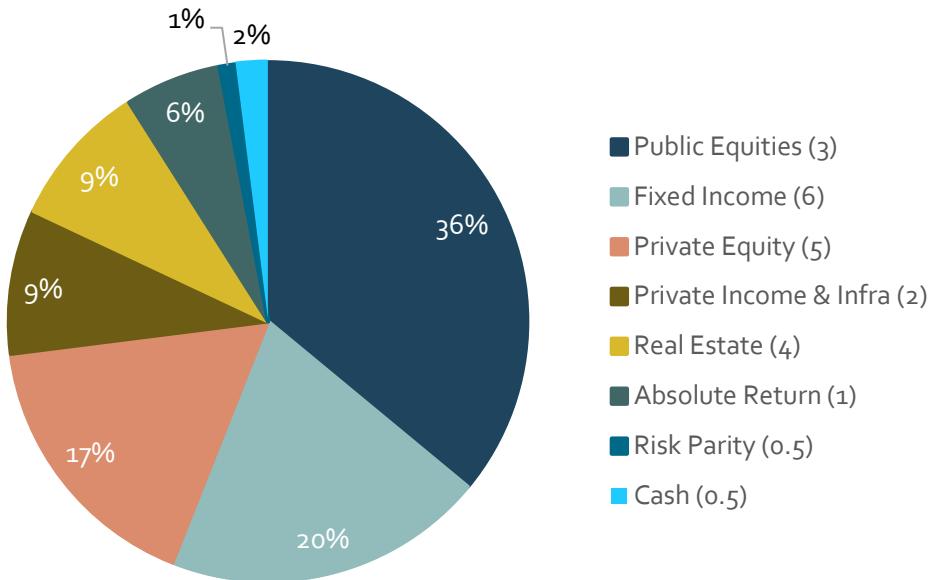


5-Year Performance of Portfolio Components



# Focus on Increasing Internal Management

## Fiscal Year 2023 Target Asset Allocation *(And number of full-time employees per asset class)*



## Strategies brought in-house since 2013

- 2013 – Private market co-investments and direct investments
- 2014 – Internal tactical equities
- 2015 – Hedge fund-of-fund management
- 2018 – High yield bonds
- 2020 – Real estate directly managed properties
- 2021 – Internal factor equities
- 2022 – All of fixed income

# APFC Performance Relative to Large Public Funds



# Tenured and Seasoned Investment Leadership

*Leaders of APFC's major asset classes have substantial industry experience and tenure with APFC*

<b>Marcus Frampton, CFA, CAIA, FRM</b> <i>Chief Investment Officer</i>	Years in industry: <b>22</b> Years at APFC: <b>11</b> Years in current position: <b>5</b>	Previous experience: Lehman Brothers, PCG Capital Partners, LPL Financial
<b>Jim Parise</b> <i>Deputy CIO &amp; Director of Fixed Income</i>	Years in industry: <b>31</b> Years at APFC: <b>22</b> Years in current position: <b>19</b>	Previous experience: Cedar Hill Associates, Chapdelaine & Co., Chicago Board of Trade
<b>Fawad Razzaque, CFA</b> <i>Director of Public Equity</i>	Years in industry: <b>25</b> Years at APFC: <b>11</b> Years in current position: <b>11</b>	Previous experience: Russell Investments, A.G. Edwards & Sons, Inc.
<b>Tim Andreyka</b> <i>Director of Real Estate</i>	Years in industry: <b>30</b> Years at APFC: <b>8</b> Years in current position: <b>3</b>	Previous experience: Citicorp, MetLife, JMB Realty
<b>Allen Waldrop, CFA</b> <i>Director of Private Equity</i>	Years in industry: <b>26</b> Years at APFC: <b>6 mo</b> Years in current position: <b>6 mo</b>	Previous experience: KPMG, LP Capital Advisors, Grafine Partners
<b>Youlian Ninkov</b> <i>Senior Portfolio Manager – Absolute Return</i>	Years in industry: <b>18</b> Years at APFC: <b>6</b> Years in current position: <b>3</b>	Previous experience: Credit Agricole, Citadel
<b>Ross Alexander, CAIA</b> <i>Senior Portfolio Manager - Private Income</i>	Years in industry: <b>7</b> Years at APFC: <b>5</b> Years in current position: <b>5</b>	Previous experience: Alaska Retirement Management Board



# Enduring Financial Resource

A wide-angle aerial photograph of a vast mountain range, likely the Alaska Range, showing numerous peaks covered in snow and ice. The mountains are rugged and layered, receding into the distance under a clear sky.

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

# Financial Resource for Alaska

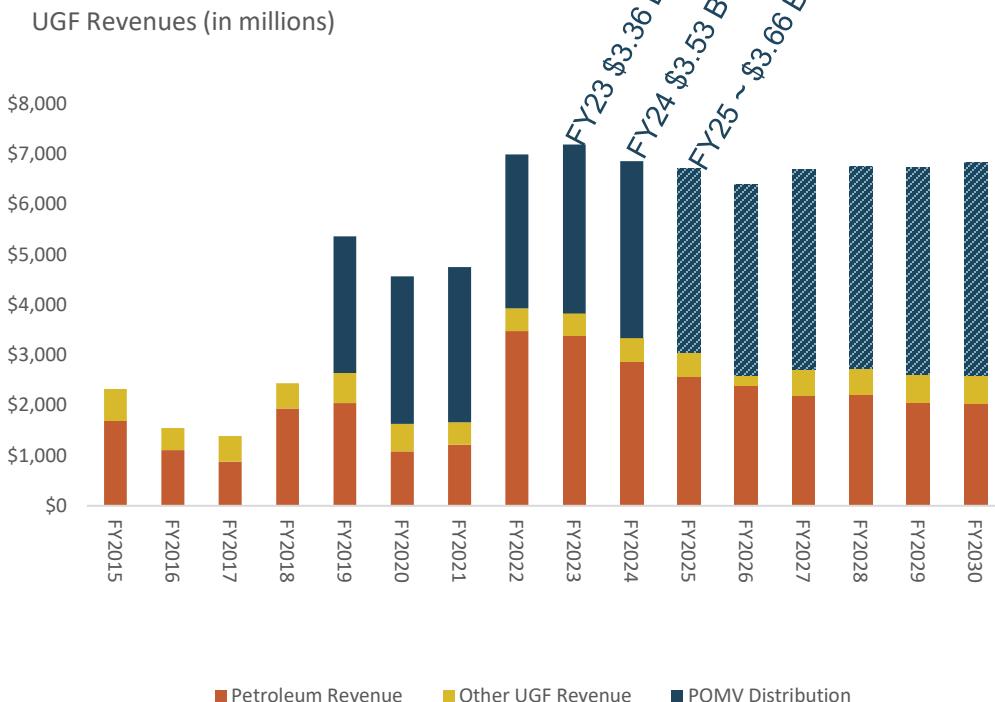
APFC's stewardship fulfills dual roles:

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

**Mission Driven:** To manage and invest the assets of the permanent fund and other funds designated by law in accordance with Alaska Statutes 37.13.010-37.13.190.

**Fiduciaries:** The Board of Trustees has a duty to assure that the Fund is managed and invested in a manner consistent with constitutional and statutory mandates.

# State Revenue



## 5% Percent of Market Value (POMV)

Average market value of the Fund for the first five of the preceding six fiscal years

### FY24 POMV Calculation

Fiscal Year	\$ millions
FY 22	\$75,912.1
FY 21	\$81,472.6
FY 20	\$64,877.1
FY 19	\$65,876.4
FY 18	\$64,469.5
5 yr. AVG	\$70,521.5
<b>5% Draw</b>	<b>\$3,526.1</b>

# Principal Contributions

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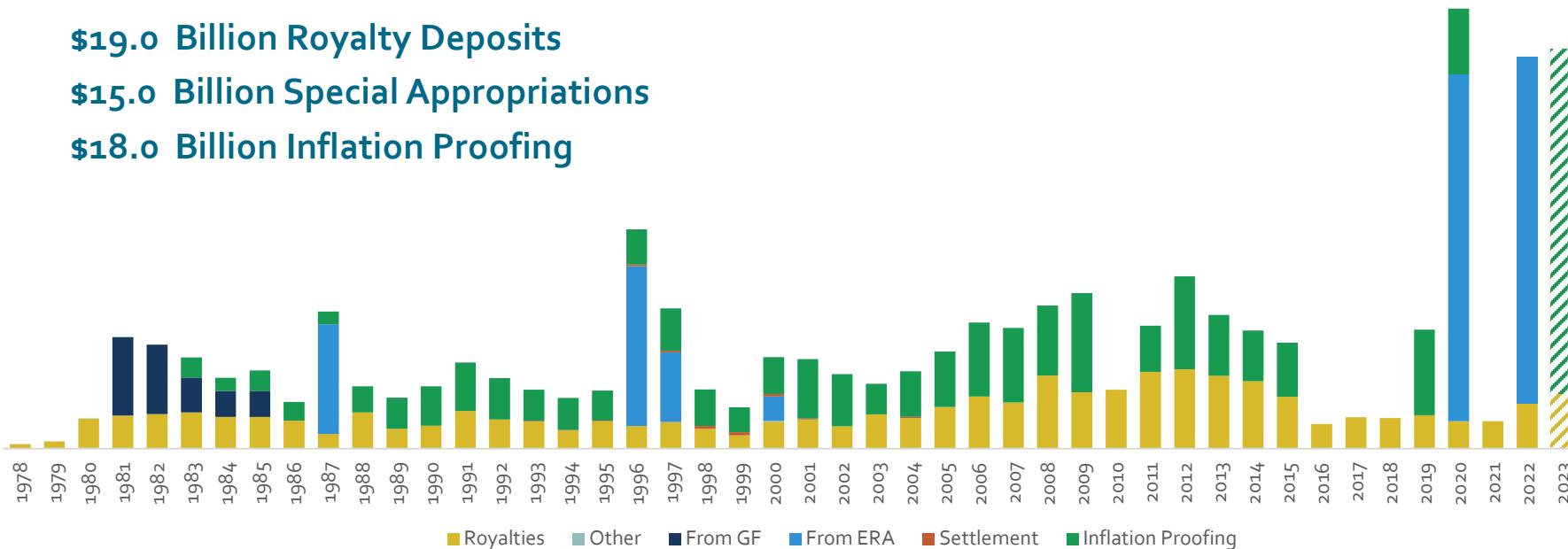
## Intergenerational Benefit

The Constitution directs at least 25% of mineral royalties.  
Statute directs 50% of royalties post-1979 and provides  
for special appropriations and inflation proofing.

**\$19.0 Billion Royalty Deposits**

**\$15.0 Billion Special Appropriations**

**\$18.0 Billion Inflation Proofing**

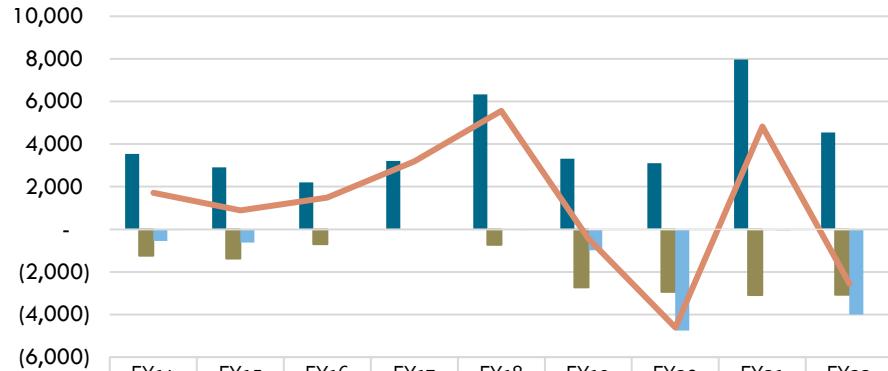


# Earnings Reserve Account (ERA)

Fiscal Year 2014-2022

AS 37.13.140 (a) directs the net investment earnings to the Earnings Reserve Account excluding unrealized gains & losses.

Deposits & Withdrawals in \$ millions



**Statutory Net Income**  
**Realized Investment Earnings**  
**Monthly cash inflows:**

stock dividends, bond interest, real estate leases  
**Realized Capital Gains/Losses:**  
 net income generated by the sale of investments

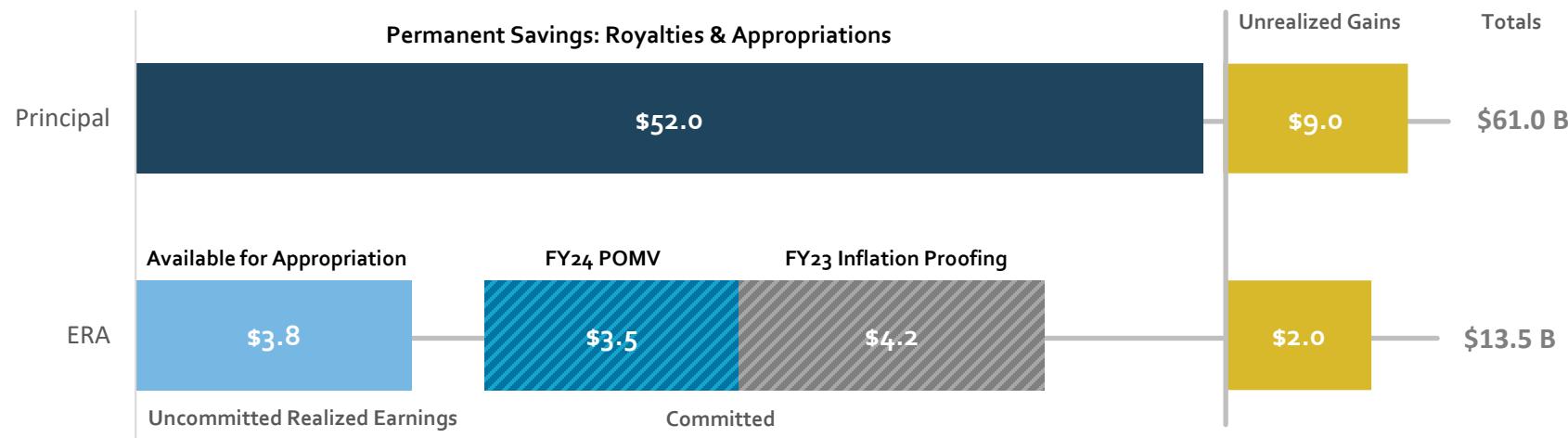
Statutory Net Income = \$1,001,800,000  
 FYTD 23 as of December 31, 2022

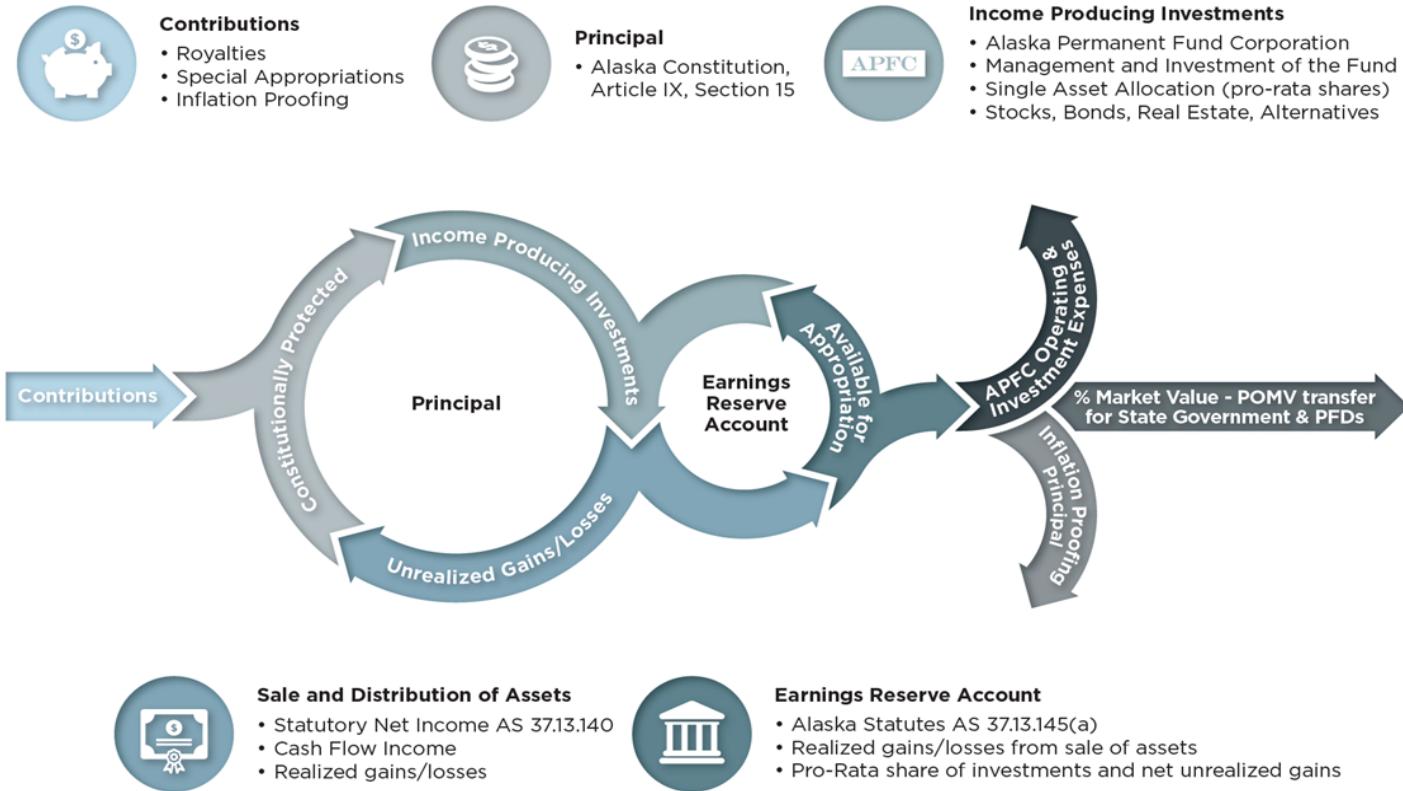
ERA in \$ billions



TOTAL FUND VALUE **\$74,455,800,000**

Unaudited as of December 31, 2022





## Current Structure: Two Accounts

# ALASKA PERMANENT FUND CORPORATION

# Constitutionalize Annual Fund Draw

## Board Resolutions 03-05, 04-09

## Percent of Market Value (POMV)

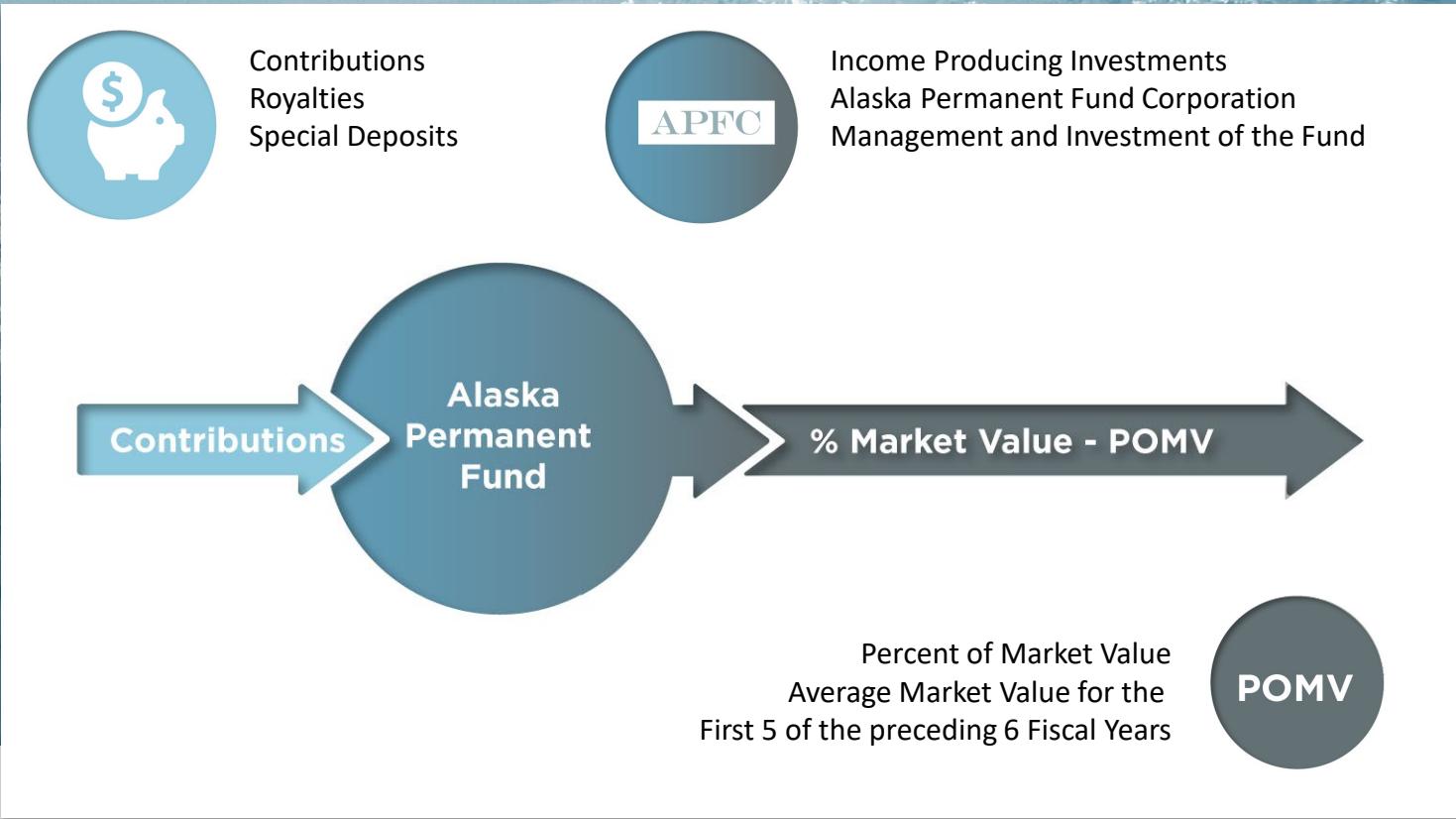
- Supporting a constitutional amendment to limit the annual Fund payout to not more than a 5% POMV averaged over a period of 5 years.
- Implementation of a constitutional POMV spending limit for the Fund, has the accompanying benefit of assuring permanent inflation proofing of the Fund.

cordance with appropriations made, no payment of money shall be incurred except as authorized by appropriations outstanding at the end of the period of time in which they shall be void.

**14. Legislative Post-Audit-** The legislature shall appoint an auditor at its pleasure. He shall be a certified public accountant. The auditor shall conduct post-audits as prescribed by law and shall report the results to the legislature and to the governor.

**§ 15. Alaska Permanent Fund**—At least twenty-five percent of lease rentals, royalties, royalty sale proceeds, federal mineral payments and bonuses received by the State shall be placed in a fund, the principal of which shall be used only for investments specifically designated by law as eligible investments. All income from the permanent fund shall be placed in the general fund unless otherwise provided by law. [A]

**S 16. Appropriation Limit** – Except for appropriate dividends, appropriations of revenue required to pay the principal and interest on obligations of money received from a nonresident, including revenues of a public



# Board Resolutions

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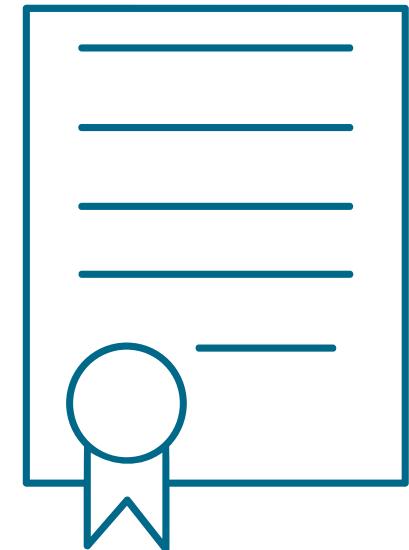
**00-13, 03-05, 04-09:** Constitutionalize Annual Fund Draw. Limit the annual Fund payout to not more than a 5% POMV averaged over a period of 5 years. Assures permanent inflation proofing.

**17-01:** Identify and pursue legislation or legislative support for some form of inflation-proofing that will preserve the purchasing power of the principal of the permanent fund for all generations.

**18-01:** Supporting a Rules Based Legal Framework to govern Fund inflows, outflows, and internal transfers. A holistic framework rationalized by policymakers regarding the rules for savings, withdrawals, and growing the real value of the Fund results in a consistent approach to transfers and sustainability of the Fund over the long-term.

**18-04:** Affirming 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 to Rules, Ensuring Sustainability, Automatic Inflation Proofing, Promoting Real Growth.

**20-01:** Additional measures to enhance the sustainable use of the Fund include restructuring the Fund from its' current two account system into a single Fund as well as periodic review of Fund Return Assumption and ERA Balance Buffer (4X Buffer).



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



In our commitment to Alaskans, APFC publishes accurate and timely information on the work we do investing the Fund.

APFC ALASKA PERMANENT FUND CORPORATION

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INVESTING FOR ALASKA  
INVESTING FOR THE LONG RUN

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Public trust is earned over time and requires an ongoing commitment  
of consistent, capable leadership to uphold and preserve.