

APFC

ALASKA PERMANENT
FUND CORPORATION

The Alaska Permanent Fund

Evolution to a Single-Fund Endowment:
Respect, Protect, Provide

Trustees' Paper Volume 10

House State Affairs Committee, April 2025

A Legacy of Intergenerational Resource Contribution

In 1976 –

Alaskans chose to permanently forgo immediate use of at least 25% of oil and mineral revenues, saving instead to create a renewable financial resource for generations — the Alaska Permanent Fund.

Today, the Fund –

- **Leads the Nation**
The largest U.S. sovereign wealth fund, globally recognized as a model for converting finite natural resources into lasting wealth.
- **Supports Alaska**
Provides over 50% of the state's unrestricted general fund revenue for dividends and essential services through the annual Percent of Market Value (POMV) draw.

Alaska Constitution Article IX, 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.

Proposed: Single-Fund Endowment Model

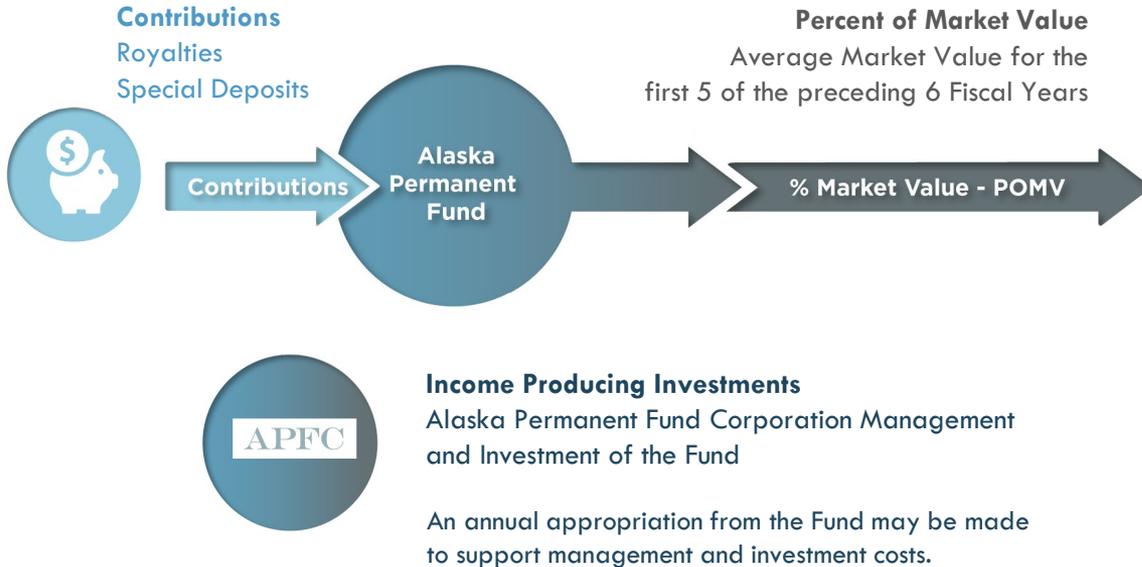
Adopting this model, which would include a Constitutionally established spending limit, would strengthen the Fund's long-term stability and purchasing power for future generations.

- Merge the Principal and the ERA into a Single-Fund.
- Limit annual distributions through a Constitutional POMV Rule.
- Ensure automatic inflation proofing by adhering to a long-term sustainable withdrawal rate.

The change to a Single-Fund would ensure that an annual POMV transfer would be available each year but would not affect the discretion in deciding how to spend the money.

The power of appropriation remains with the Legislature, while the annual draw from the Fund would be limited.

Proposed: Single-Fund Endowment

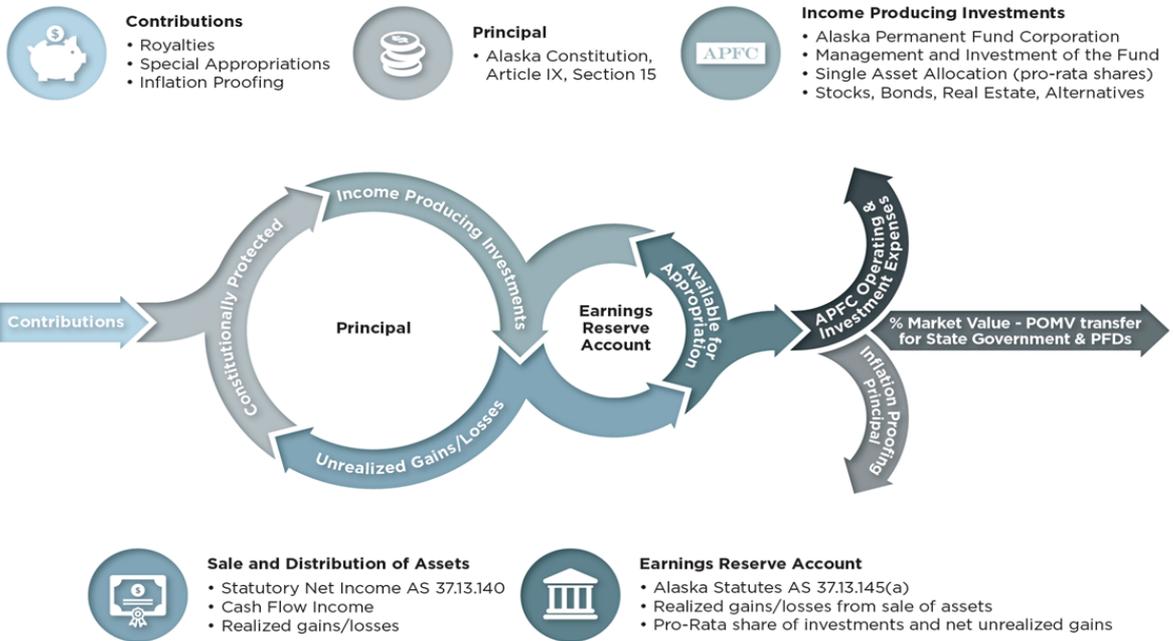


The Fund is invested in income-producing investments with a limited annual draw.

The transition to a Single-Fund would guarantee availability for an annual POMV transfer while maintaining flexibility in how the money is utilized.

Annual draw certainty would ensure the ability to provide for a dividend and essential government services.

Current: Two-Account Structure



The Principal provides permanent savings to be used only for income-producing investments.

Realized earnings are deposited into the Earnings Reserve Account (ERA) for appropriation by the Legislature.

POMV draws to support the state's current revenue needs and transfers to inflation proof the Principal for an intergenerational benefit are limited to the balance of the ERA.

The Permanent Fund Total Value \$80.8B

As of March 31, 2025



\$70.6B Principal:

\$58.7 Permanent Deposits

\$11.9 Unrealized Gains

\$10.2B Earnings Reserve Account (ERA):

\$3.8B for the FY26 POMV - Committed for the Percent of Market Value “POMV” Draw to the state’s general fund for dividends and government services

\$1.0B for Inflation Proofing - Committed for the FY25 transfer to the Principal for intergenerational purchasing power given the two-account structure

\$3.7B “Spendable” Earnings
Available as realized income for the FY27 POMV draw and FY26 Inflation Proofing

\$1.7B Unrealized Gains
Represents changes in asset values from the purchase date to the most current date

Alaska's Largest Revenue Source

	FY24	\$80,038.4
	FY23	\$77,587.5
	FY22	\$75,912.8
AS 37.13.140 (b)	FY21	\$81,472.4
Fund Value-Based	FY20	\$64,877.8

FY26 POMV	Avg.	\$75,977.8
Draw Calculation	5%	\$ 3,798.9

Percent of Market Value Draws

FY19-FY25

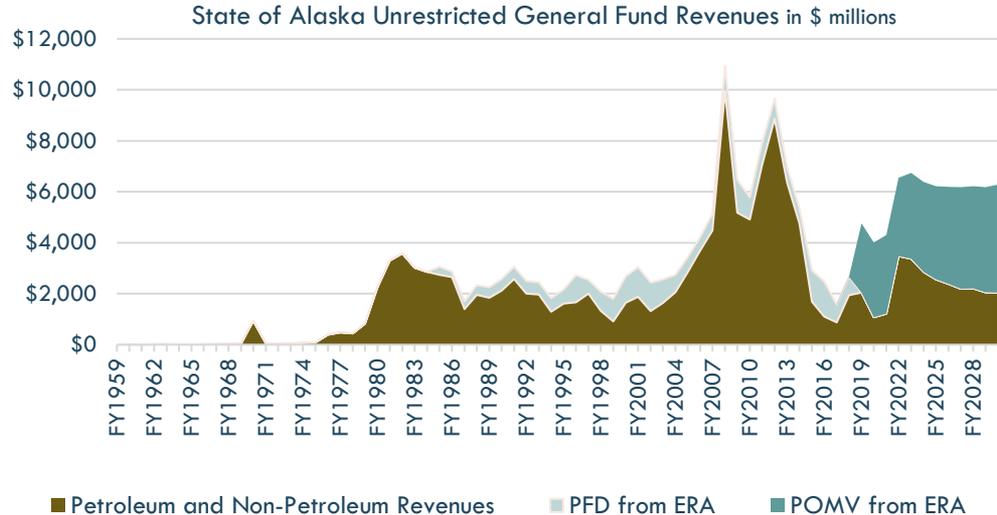
\$ 22.4 billion over 7 fiscal years.

FY26 is \$ 3.8 billion.

FY27 is \$ 4.0 billion estimated.

The Shift in Alaska's Revenue

Alaska's budget has transitioned from primarily relying on nonrenewable mineral royalty resources to depending on sustainable financial revenues generated by investments from the Fund.



The POMV draw, enacted in 2018, has exceeded traditional revenue sources in providing unrestricted general fund revenues.

Spending is Limited to the ERA

The ERA is at risk of depletion given the annual draws to support government services and the divided program, as well as inflation proofing the Principal for intergenerational Alaskan benefit.



The Need for Reform

Consolidation to a Single-Fund Endowment model would align the Permanent Fund with best practices for intergenerational wealth funds.

For the Present

- Ensure the option of an annual payout to support dividends and government services.
- Maintain stable payouts from year to year.
- Make the payout method compatible with the investment strategy.

For the Future

- Prevent overspending in the good years.
- Maintain purchasing power for the entire Fund.

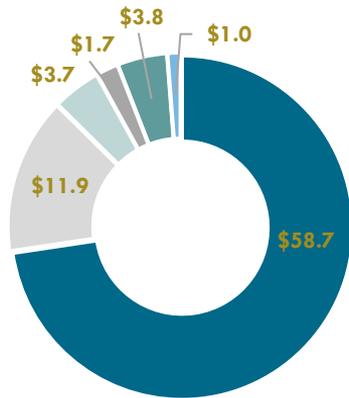
Comparing Fund Structures

The Single-Fund Endowment Model is not constrained in providing the set annual POMV draw, while the two-account structure is limited to the ERA's available balance.

\$80.8 Billion Total Fund Value, FYTD as of March 31, 2025

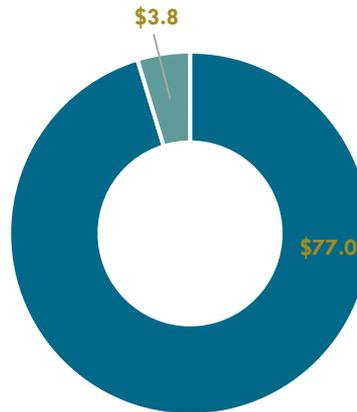
Current Two-Account Structure

Constitutionally Protected:
73% | \$58.7 billion



Proposed Endowment Model

Constitutionally Protected:
95% | \$77.0 billion



- Principal Deposits
- ERA Realized Earnings
- ERA 5% POMV Draw
- Principal Unrealized Gains
- ERA Unrealized Gains
- ERA Inflation Proofing to Principal

- The Fund
- 5% POMV Draw

Endowment Retains Earnings

Under the Single-Fund Endowment Structure, income would be calculated according to generally accepted accounting principles, meaning all earnings (realized and unrealized) would be retained within the Fund.

All earnings are retained and reinvested in the Single-Fund, thus eliminating the need for inflation proofing.

Benefits of the Single-Fund Model

Aligned with global best practices, strengthening Alaska's financial position through sustainable withdrawals & limited to the Fund's long-term real return.

Alignment with Prudent Investor Standards

Follows best fiduciary and prudent practices for endowments and trusts.

Total-Return Investing

Maximizes long-term growth without liquidity constraints.

Predictable & Sustainable Spending

A maximum draw POMV rule prevents overspending.

Automatic Inflation Proofing

Eliminates the need for manual and ad hoc legislative adjustments.

A Single-Fund Endowment is permanently inflation-proofed and ensures the Fund's real value is maintained over time while supporting its intended beneficiaries.

The key principles behind this are:

- Growth in the Fund's value keeps pace with or exceeds inflation.
- A prudent spending rule/limited draw rate ensures sustainability.
- Returns above the draw rate are reinvested.

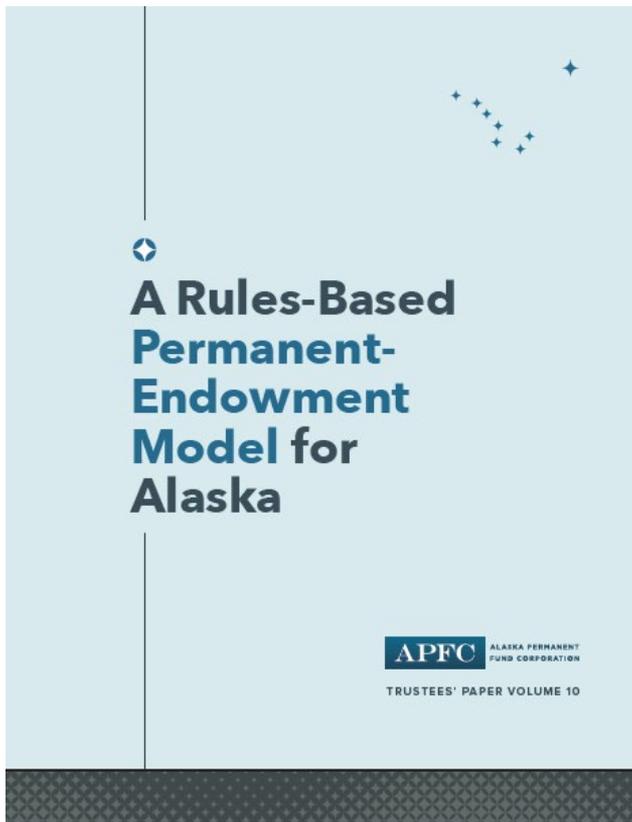
Constitutional Amendment

The Board of Trustees has been on record for more than twenty years supporting the transition to a Single-Fund endowment to protect its intergenerational sustainability and ensure that it provides for all generations.

Board Resolutions 2000-13, 2003-05, 2004-09

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

Trustees' Paper Volume 10



“Within the world of sovereign wealth funds, the Alaska Permanent Fund is admired and respected for its long tradition of rules-based policymaking, prudent investment management, and sound governance.

That said, the paper shows that the current two-account structure introduces significant risks to the ability to fund the annual POMV transfer that supports the state budget and the Permanent Fund Dividend.

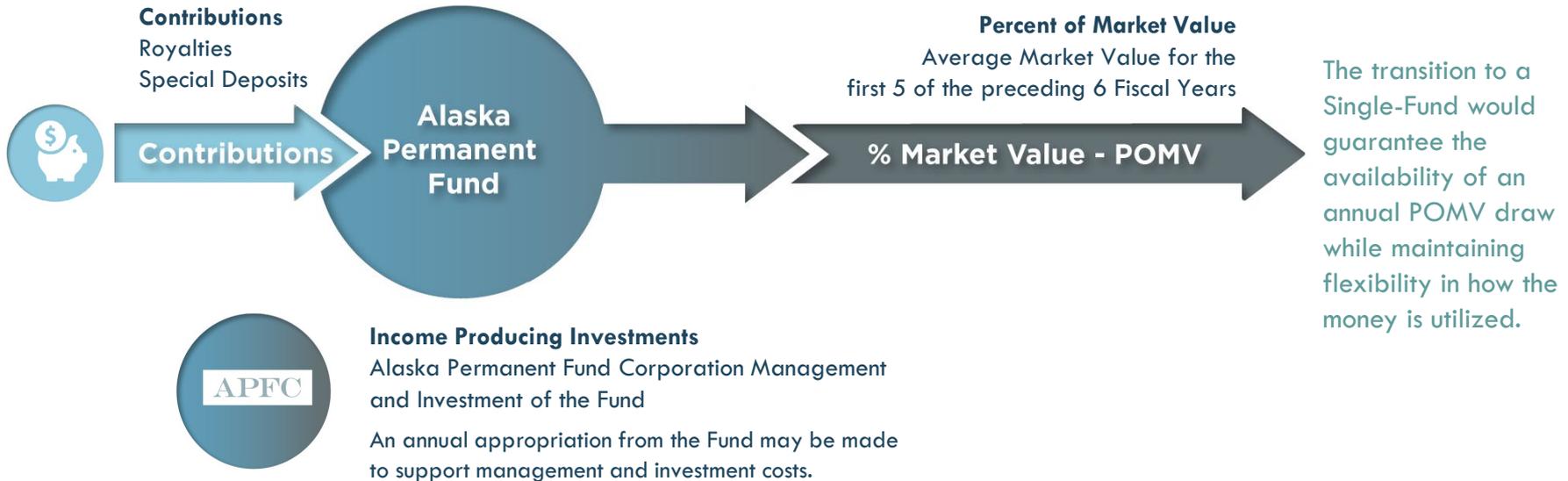
The paper outlines reforms that should be pursued with urgency to ensure that the Fund continues to underpin the sustainability of Alaska’s public finances for current and future generations.”

*Dr. Malan Rietveld
Sovereign Wealth Fund Expert*

Proposed: Single-Fund Endowment

The Fund is invested in income producing investments with a limited annual draw.

The annual draw certainty would *ensure the ability* to provide for a dividend and essential government services.





Performance and Markets

APFC Performance Context

BEST ESTIMATE Performance as of March 31, 2025

	<u>Fiscal</u> <u>Year-to-date</u>	<u>3-Year</u> <u>Annualized</u>	<u>5-Year</u> <u>Annualized</u>
Fund Return	5.60%	4.09%	10.71%
Performance Benchmark	4.26%	3.72%	9.93%
APFC (Under)/Out-Performance	1.34%	0.37%	0.78%
Passive Benchmark	4.55%	3.20%	9.71%
APFC (Under)/Out-Performance	1.05%	0.89%	1.00%
Return Objective (CPI + 5%)	5.50%	8.62%	9.38%
APFC (Under)/Out-Performance	0.10%	(4.53%)	1.33%

Figures above are estimated as of March 31, 2025. Subsequently, in April, the Fund's outperformance vs. benchmarks has expanded as our underweight to the very expensive "Mag 7" stocks has resulted in lower drawdowns than the overall market in recent weeks. Numbers were more mixed back as of 12/31/24 as the S&P 500/Mag-7 started losing their luster only very recently.

Performance Benchmark

- What APFC portfolio managers manage against day-to-day; benchmark weights for asset classes equal to target asset allocation (32% global equities, 20% fixed income, 18% private equity, 11% real estate 10% private income, 7% absolute return, etc.)
- Investible benchmarks for public markets, universe of peers for private markets
- Answers the question of whether APFC's execution and market calls have added value over time periods measured
- **APFC has outperformed FYTD, 1-year, 3-year and 5-year**

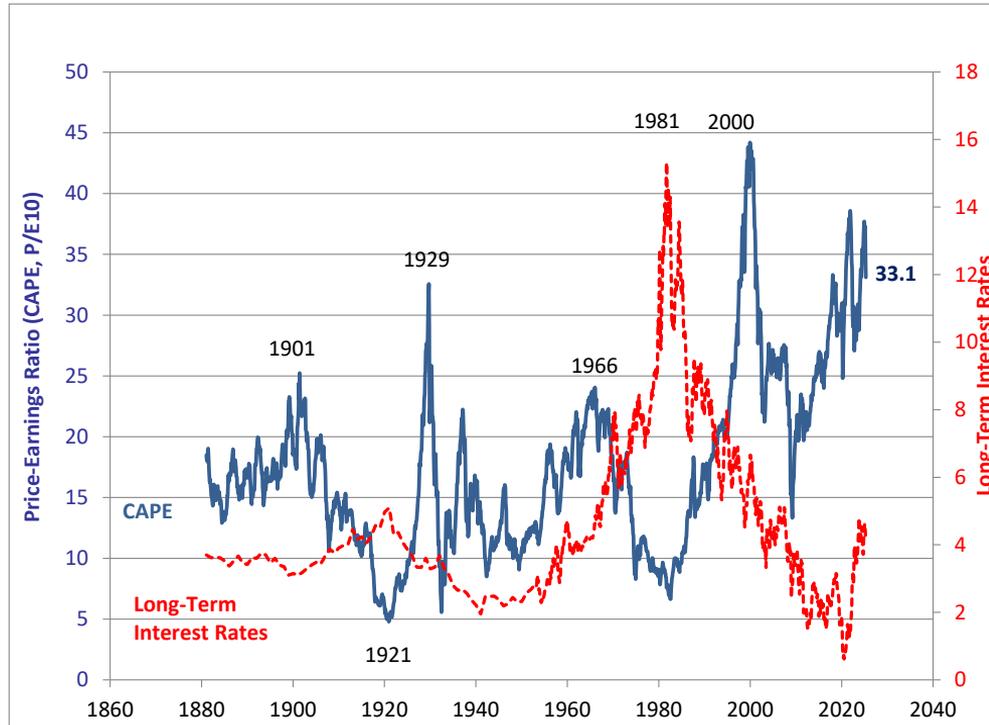
Passive Benchmark

- A benchmark portfolio that is investible "with the click of a mouse" – 60% global equities, 20% fixed income, 10% REIT's, 10% TIP's
- Answers the question of whether over longer-term periods the complexity of APFC's investment strategies and the inclusion of private markets is adding value
- Measured over short-term time periods, private markets-heavy portfolios like APFC's almost always lag in bull stock markets and outperform in bear stock markets
- **APFC has outperformed FYTD, 1-year, 3-year and 5-year**

Return Objective (CPI + 5%)

- APFC's asset allocation targets, informed by third party consultant's capital market forecasts, are intended to build a portfolio that can deliver expected returns consistent with the return objective of CPI + 5%
- Answers the question of whether APFC's asset allocation (by far biggest driver) coupled with investment execution have resulted in achievement of return objective with the benefit of hindsight
- **APFC has lagged on 1-year and 3-year time periods (along with virtually all peer institutions); outperformed on FYTD and 5-year**

The “Shiller P/E” Multiple Over Time



- The Shiller Cyclically Adjusted Price Earnings (CAPE) Ratio is considered to be the most statistically reliable predictor of next ten year returns on the S&P 500 index
- On this valuation measure, the recent US stock market valuation levels exceed that preceding the 1929 stock market crash and only is surpassed by the levels of the “dot com” bubble
- Figures on the following page outline S&P 500 returns over history; periods that start with an elevated Shiller CAPE ratio tend to disappoint and those that start with a lower level tend to be rewarding for stock investors

S&P 500 Real Returns by Decade

- The last fifteen years have been so strong in the S&P 500's real returns, that tacking them on at the end of virtually any backtest results in a compelling retrospective backtest
- Based on current Shiller CAPE Ratio forward returns will be more difficult to grind out
- Decades where the S&P 500 earned a real return below zero percent per annum highlighted red
- Decades where the S&P 500 earned a real return between 0% and 5% per annum highlighted yellow
- Decades where the S&P 500 earned a real return of 5% or higher per annum highlighted green

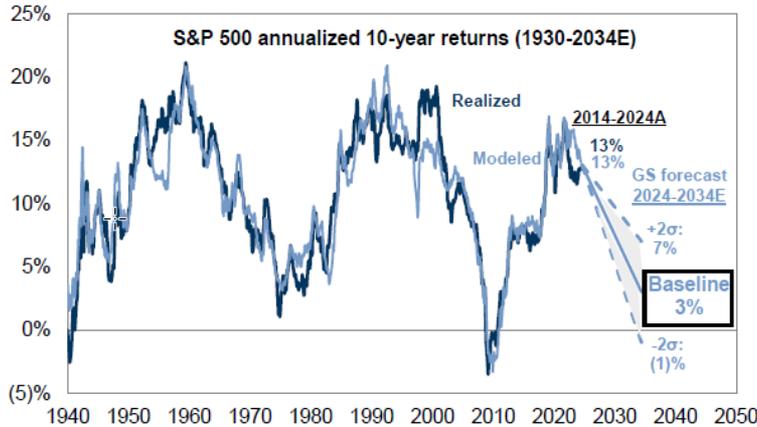
Decade	1890's	1900's	1910's	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020-2024
Starting CAPE	16.61x	18.51x	14.75x	6.16x	22.01x	16.28x	10.53x	18.62x	17.33x	8.75x	17.65x	44.20x	20.32x	30.33x
Average CAPE	17.76x	17.66x	10.98x	12.16x	14.78x	11.76x	14.62x	20.66x	12.74x	11.49x	25.29x	26.67x	25.55x	32.39x
Ending CAPE	18.51x	14.75x	6.16x	22.01x	16.28x	10.53x	18.62x	17.33x	8.75x	17.65x	44.20x	20.32x	30.33x	37.71x
Annualized Real Return	5.56%	7.72%	(1.93%)	16.31%	2.11%	3.39%	16.66%	5.13%	(1.41%)	11.58%	14.63%	(3.06%)	11.24%	10.73%

3 out of the last 11 completed decades (27%), have featured S&P 500 real returns that would be fairly devastating to an investor with a 5% POMV invested in the S&P 500 without diversification (1910's, 1970's, and 2000's)

S&P 500 – One Market Analyst’s View

On October 18, 2024, Goldman Sachs Portfolio Strategy Research team released the report “Updating our long-term return forecast for US equities to incorporate the current high level of market concentration”; market views differ from many in consensus, highlighting that informed strategists can have very different views from one another

Exhibit 1: S&P 500 annualized trailing 10-year returns: modeled vs. realized (1930-2024) and forecast (2024-34E)



Source: Robert Shiller, Goldman Sachs Global Investment Research

- View is based on model constructed with five statistical inputs:
 - Starting absolute valuation
 - Stock market concentration
 - Economic contraction frequency
 - Corporate profitability
 - Interest rates
- **“Our forecast suggests equities will face stiff competition from other assets during the next decade.** Our 3% annualized return forecast combined with current ten-year treasury yield of 4% and ten-year breakeven inflation of 2.2% suggests the S&P 500 has roughly a 72% probability of trailing bonds and a 33% likelihood of lagging inflation through 2034.”
- Macro research shop, BCA, does similar modeling with similar forecasted returns: “We calculate forward 10-15 year returns as a composite of different methodologies (CAPE being one of them); in August our forward equity returns for US stocks was about 3.2%”

APFC Fees & Expenses Benchmarking

- While APFC fees are more fully and prominently disclosed than peers, on an apples-to-apples basis, **our approach to private markets and alternatives investing is relatively efficient**
- A recent paper published by Richard Ennis summarizes fee and expense loads for the few public pension funds he could find that fully discloses these items

Private/Alternatives Allocation and Cost for Nine Public Pension Plans

Pension Plan	Private/Alts Allocation	Estimated Reported Annual Total Cost
1	0%	0.10%
2	29%	1.50%
3	30%	1.10%
4	38%	1.90%
5	38%	1.90%
6	39%	1.20%
7	43%	1.60%
8	43%	1.00%
9	49%	2.00%
Peer Average (Plans 2-9)	39%	1.53%
APFC	46%	0.97%

Source: Pension fund peers from Ennis (2025). APFC data is per June 2024 "Fees & Expenses" report.

Public Equity Geographic Diversification

Top performing country is typically not persistent...

- Typically, winners of the last decade tend to become losers of the next decade as outperformance gets priced in
- Case in point is the Japan stock market which peaked in 1989 and then took 35 years to exceed that level again (after reaching an 80%+ draw down in the interim)

Ranking of Equity Excess Returns by Decade

2010s	2000s	1990s	1980s	1970s	1960s
USA 235%	CHN 76%	CHE 231%	SWE 503%	KOR 456%	ESP 312%
NZL 209%	NOR 48%	USA 217%	KOR* 354%	JPN 66%	AUS 148%
SWE 198%	BRZ 45%	SWE* 190%	JPN 310%	CAN 30%	Eq Weight 75%
CHE 140%	CAN 42%	FRA 117%	ESP 188%	Eq Weight 10%	JPN 74%
DEU 139%	AUS 36%	GBR 110%	Eq Weight 185%	GBR 8%	CAN 71%
FRA 137%	KOR 22%	ESP 96%	DEU 179%	CHE -5%	USA 41%
JPN 135%	ESP 17%	DEU 92%	GBR 173%	AUS -12%	SWE 31%
GBR 105%	Eq Weight 6%	AUS 59%	ITA 169%	USA -17%	GBR 28%
TAI 98%	NZL -3%	Eq Weight 53%	FRA 158%	FRA -20%	DEU* 21%
Eq Weight 97%	CHE* -4%	CAN 52%	CHE 96%	SWE -22%	ITA -1%
NOR 95%	SWE -13%	ITA 40%	USA 96%	DEU -31%	FRA -6%
CAN 70%	TAI -23%	NOR 2%	AUS 39%	ESP* -69%	
RUS 61%	GBR -23%	NZL -6%	NOR 23%	ITA -74%	
AUS 61%	USA -27%	JPN -47%	CAN -4%		
ITA 48%	FRA -32%	TAI -49%			
KOR 33%	ITA -35%	KOR -66%			
ESP 23%	DEU -36%				
CHN* 10%	JPN -41%				
BRZ -13%					

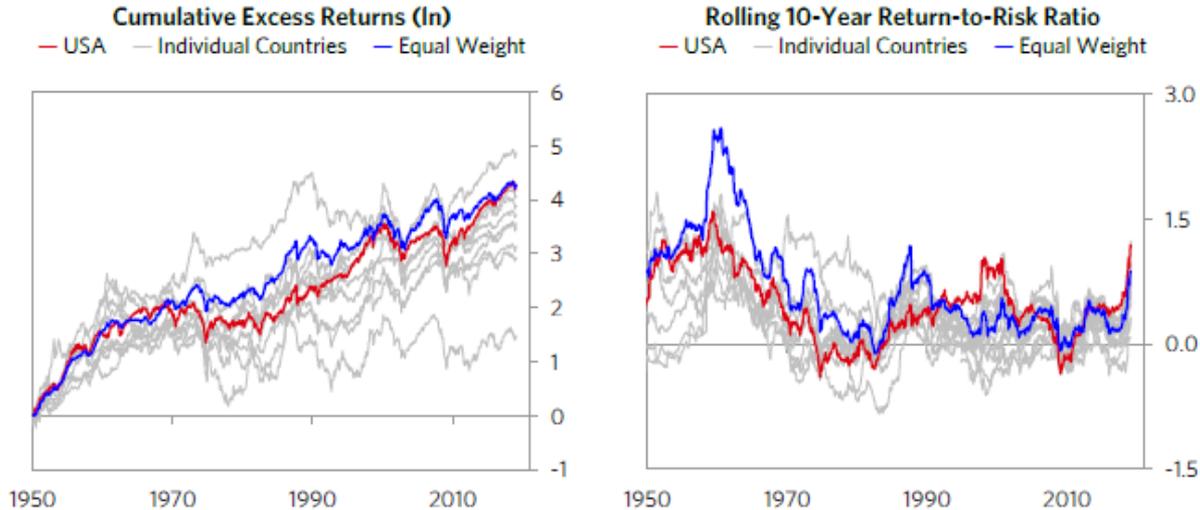
1950s	1940s	1930s	1920s	1910s	1900s
DEU 739%	ESP 140%	GBR 6%	Eq Weight 249%	USA* 10%	USA 83%
JPN 662%	Eq Weight 138%	DEU* 2%	DEU 178%	FRA -35%	Eq Weight 9%
ITA 484%	AUS 132%	CAN -9%	USA* 170%	GBR -44%	FRA 9%
FRA 484%	USA 122%	Eq Weight -10%	CAN 134%	Eq Weight -54%	DEU 9%
Eq Weight 384%	GBR* 117%	USA -12%	GBR 87%	DEU -92%	RUS -7%
USA 376%	CAN 115%	SWE -22%	ESP 72%	RUS -100%	GBR -34%
AUS 277%	SWE 100%	FRA -54%	FRA 41%		
GBR 270%	FRA -19%	ESP -61%	SWE 24%		
SWE 240%	DEU -35%				
CAN 222%					
ESP* 98%					

Note: an asterisk indicates the economy with the highest equity returns during the previous decade.

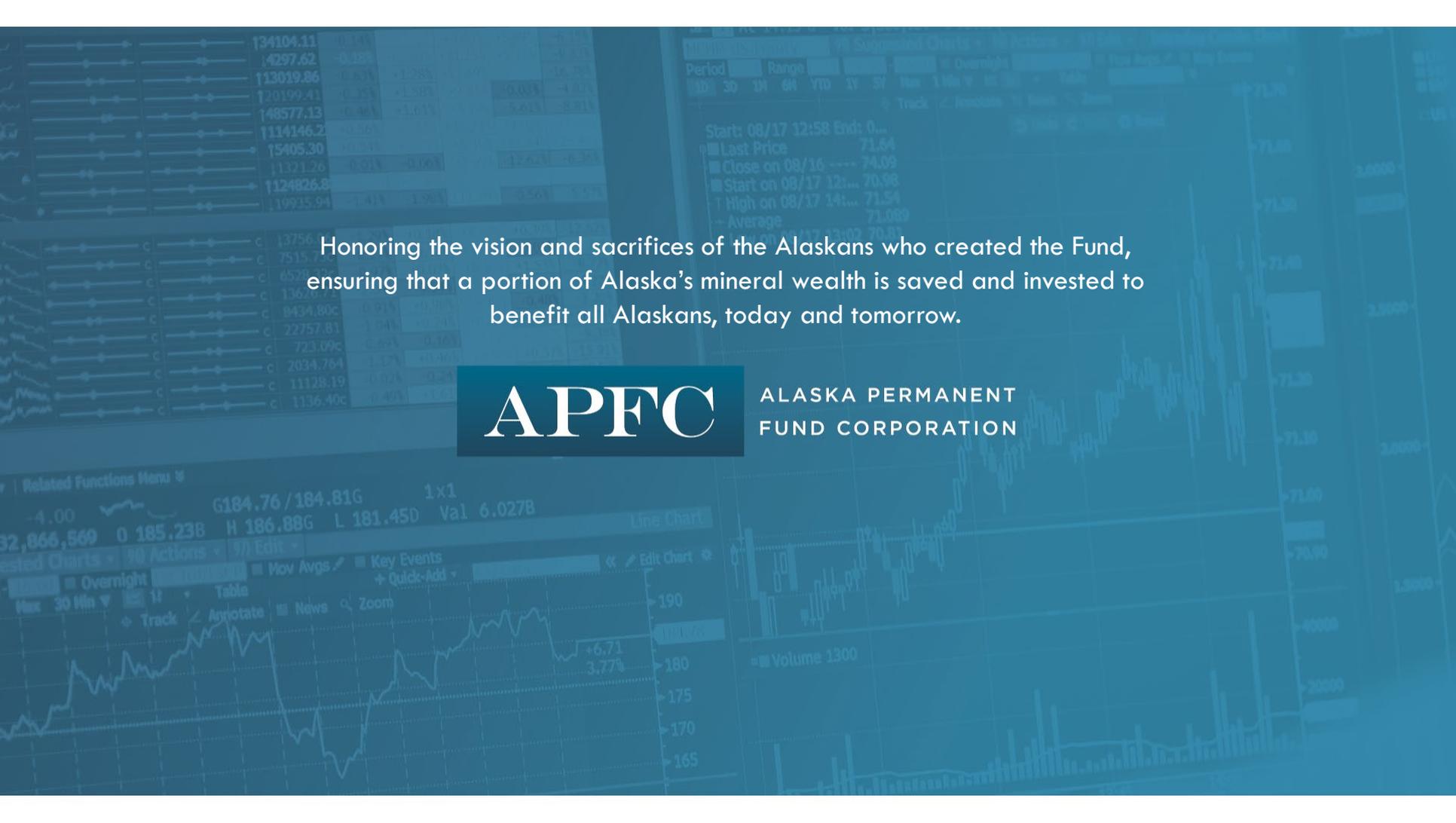
Source: Bridgewater Associates.

Geographic Diversification (Cont'd)

...and an Equal Weight strategy with annual rebalancing is essentially as good as knowing the best performing country in advance



Source: Bridgewater Associates.

The background features a dark blue overlay with various financial data elements. On the left, there are several tables of stock prices with columns for price, change, and volume. In the center, a line chart shows price fluctuations over time, with a volume bar chart at the bottom. On the right, another line chart displays price data with a vertical axis ranging from 70.00 to 71.75. The overall aesthetic is professional and data-driven.

Honoring the vision and sacrifices of the Alaskans who created the Fund,
ensuring that a portion of Alaska's mineral wealth is saved and invested to
benefit all Alaskans, today and tomorrow.

APFC

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