

# Alaska Permanent Fund

February 2017



Alaska Permanent Fund Corporation

# The Corporation



AS 37.13.040. Alaska Permanent Fund Corporation.

There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue **managed by the board of trustees. The purpose of the corporation is to manage and invest the assets of the permanent fund and other funds designated by law in accordance with AS 37.13.010 - 37.13.190.**



# The Board of Trustees

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.**



# Corporate Mission

*“to manage and invest the assets of the Permanent Fund and other funds designated by law”*

## AS 37.13.120. Investment Responsibilities

- Designate types of investments
- Use the prudent investor rule
- Related to an investment, may only borrow money if the borrowing is nonrecourse to the Corporation and the Fund
- Shall maintain a reasonable diversification among investments



# APFC's Vision

*“to deliver sustained, compelling investment returns as the United States’ leading sovereign endowment manager, benefitting all current and future generations of Alaskans”*

- Reflects statutory language and intent, as well as Board and staff aspirations.
- Emphasizes maximizing returns in a fully sustainable manner.
- Underscores the intention for the Fund to be a perpetual resource for the State of Alaska.
- Embodies core values of Integrity, Stewardship, and Passion.



# Strategic Plan

Every 5 years, as required by the Board of Trustees' Charter, a strategic plan is developed.

- APFC's 2017-2021 Strategic Plan was developed by staff; reviewed then adopted by the Board of Trustees during the Annual Meeting in September 2016.
- Four strategic priorities were identified to be pursued over the next five years.
  - Takes into account stakeholder expectations.
  - Builds on a common vision for the Corporation.



# APFC's Strategic 5 Yr Plan

## Strategic Priorities FY17-FY21

- *Gain greater control of resource allocations*
- *Optimize APFC's operational processes and use of financial networks and resources*
- *Develop best-in-class investment management capabilities, partnerships, and geographic reach to maximize investment returns*
- *Enhance talent and staff across APFC*



# APFC Values Human Capital

CEO Angela Rodell				
Investments 23 PFT	Finance 11 PFT	Legal Counsel HR & Admin Support 7 PFT / 2 PPT	Information Technology 5 PFT	Interns 2 NP

- APFC needs to have all the tools necessary to recruit and retain the best professionals.
- APFC appreciates the support of the Legislature for the positions authorized in past years for internal management of assets.
- Current budget has a vacancy rate of 7.82% which translates to a funding deficit of \$811,901. This requires positions to be held vacant.

Note: 51 positions total, count includes vacancies and summer internships.



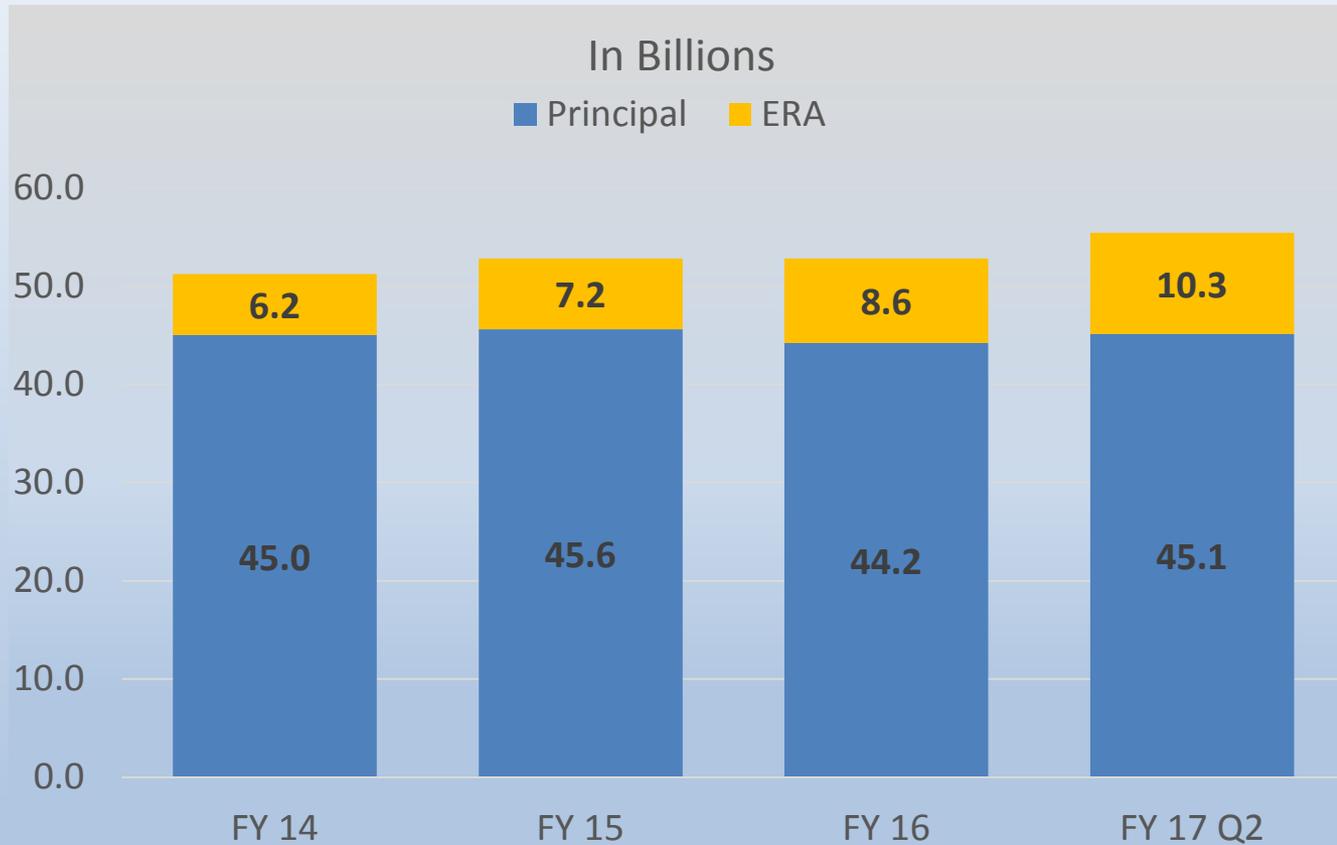
# Renewable Resource

## Use of Income Since Inception

<b>\$29.1 billion</b>	<b>\$24.3 billion</b>	<b>\$52.8 billion</b>
<ul style="list-style-type: none"><li>• <b>Saved for Future Generations of Alaskans</b></li><li>• ERA</li><li>• Inflation Proofing</li><li>• Other Appropriations</li></ul>	<ul style="list-style-type: none"><li>• <b>Distributed to Current Generations of Alaskans</b></li><li>• Dividend Fund</li><li>• Alaska Capital Income Fund</li></ul>	<ul style="list-style-type: none"><li>• Fund Value FY16</li><li>• <b>Principal \$44.2</b></li><li>• <b>ERA \$ 8.6</b></li></ul>



# Value of The Fund



# Inflation Proofing

- Provides a deposit back to corpus
- Maintains purchasing power of corpus

Since Inception of the Fund -

- Inflation Proofing
  - added \$16.2 billion to corpus
- Royalty Deposits
  - added \$16.2 billion to corpus

Based on value of corpus on June 30 and the change in inflation rate over the prior two calendar years.

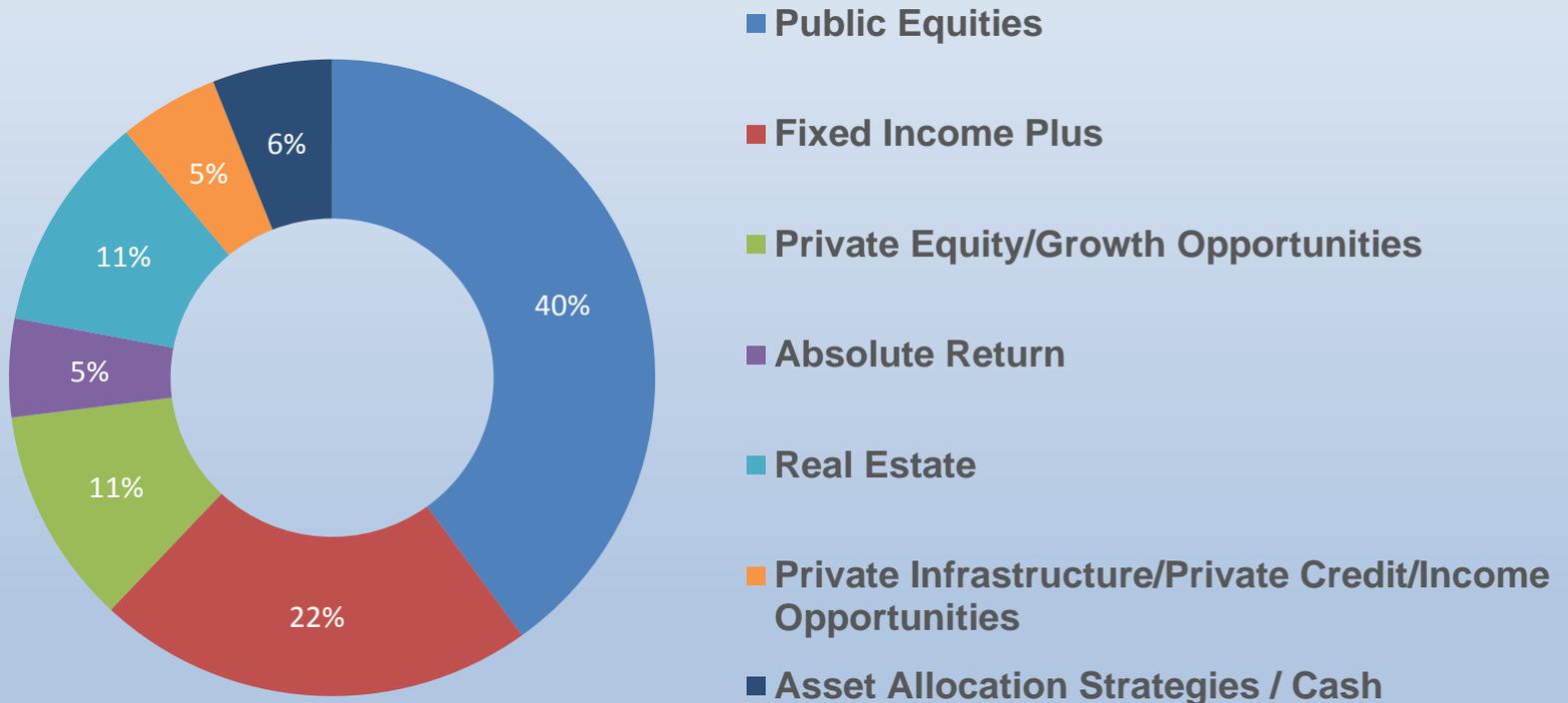
Fiscal Year	Inflation Transfer	Royalty Deposits
2005	\$641	\$481
2006	\$856	\$601
2007	\$860	\$532
2008	\$808	\$844
2009	\$1,144	\$651
2010	\$0	\$679
2011	\$533	\$887
2012	\$1,073	\$915
2013	\$743	\$840
2014	\$546	\$779
2015	\$624	\$600
2016	\$0	\$285



# \$55.4 Billion Portfolio

FY17 Q2 as of 12/31/16

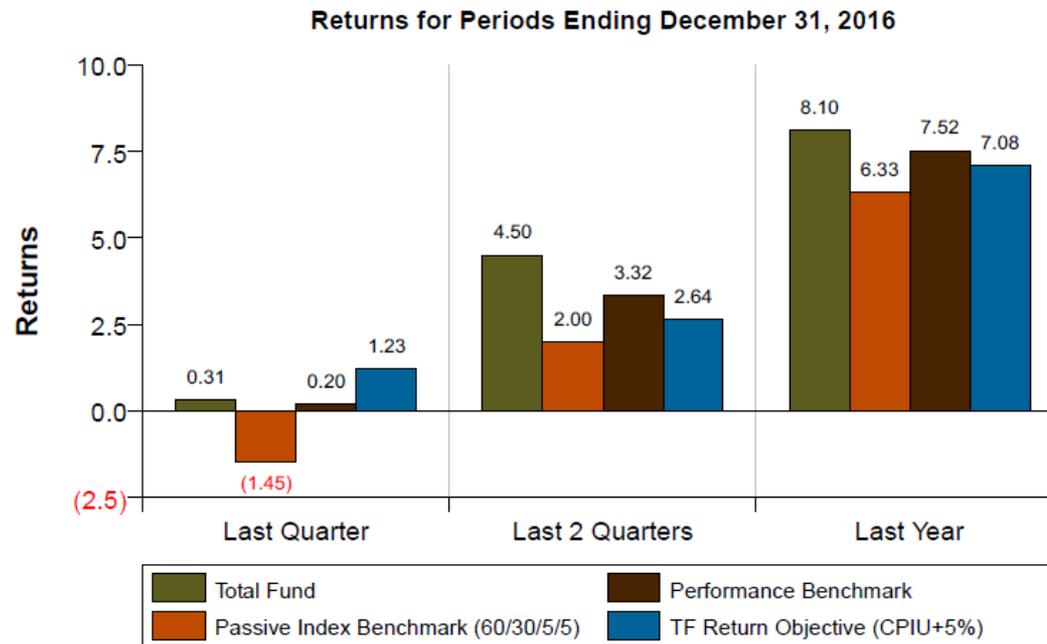
## Target Asset Allocation



# Performance FY17 Q2

## APFC Total Fund Cumulative Returns

Total Fund versus Total Fund Targets



- Current Total Fund Target (Performance Benchmark) = 41.7% MSCI ACWI IMI, 11.5% NCREIF Total Index, 11.5% Cambridge Private Equity Index, 5.7% Bloomberg Aggregate, 5.7% Bloomberg Credit, 5.2% HFRI Fund Weighted Composite, 3.1% FTSE Developed Core Infrastructure, 2.3% Bloomberg Global ex-US Treasury Hedged, 4.4% Bloomberg US HY Corporate 2% Cap, 2.3% S&P Global REIT (Net), 3.2% 3-month Treasury Bill, 1.2% Bloomberg Emerging Markets Bond, 1.2% Bloomberg US TIPS, and 1.2% S&P Global Infrastructure Net (rounded to nearest tenth)

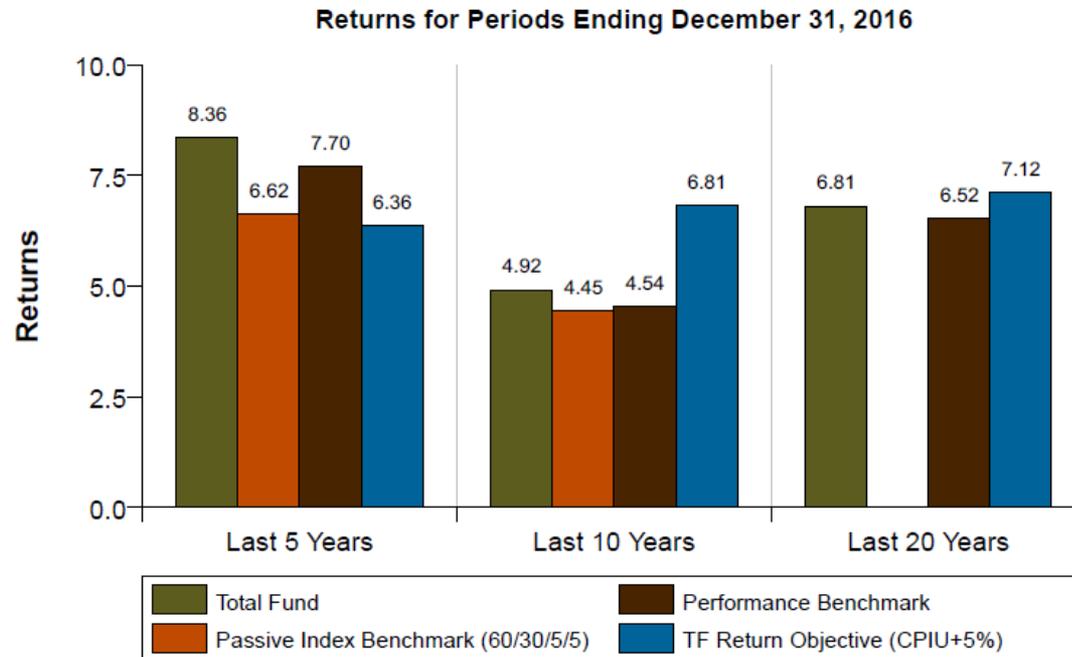
Callan Associates Preliminary Report  
Public Markets Performance Review  
APFC Board of Trustees Meeting – Feb 2017



# Performance Past 20 Years

## APFC Total Fund Cumulative Returns

Total Fund versus Total Fund Targets



- Current Total Fund Target (Performance Benchmark) = 41.7% MSCI ACWI IMI, 11.5% NCREIF Total Index, 11.5% Cambridge Private Equity Index, 5.7% Bloomberg Aggregate, 5.7% Bloomberg Credit, 5.2% HFRI Fund Weighted Composite, 3.1% FTSE Developed Core Infrastructure, 2.3% Bloomberg Global ex-US Treasury Hedged, 4.4% Bloomberg US HY Corporate 2% Cap, 2.3% S&P Global REIT (Net), 3.2% 3-month Treasury Bill, 1.2% Bloomberg Emerging Markets Bond, 1.2% Bloomberg US TIPS, and 1.2% S&P Global Infrastructure Net (rounded to nearest tenth)

Callan Associates – Preliminary Report  
Public Markets Performance Review  
APFC Board of Trustees Meeting – Feb 2017



# Statutory Net Income

Statutory net income excludes unrealized gains and losses; ***only realized gains are transferred to ERA.***

In 1998, the definition of “income” for accounting purposes was modified to account for “unrealized gains and losses.”

Unrealized gains earned by principal are a part of principal until realized, and unrealized gains earned by ERA are part of ERA.

Fiscal Year	Realized Net Income	Realized Return*
2005	\$1,754	6.30%
2006	\$2,690	8.66%
2007	\$3,429	9.96%
2008	\$2,938	7.77%
2009	(\$2,476)	-7.86%
2010	\$1,591	4.91%
2011	\$2,143	5.96%
2012	\$1,568	4.02%
2013	\$2,928	6.97%
2014	\$3,531	7.52%
2015	\$2,907	5.67%
2016	\$2,198	4.27%

\*Internally calculated based on average Fund market value



# Last 5 Years, APFC has:

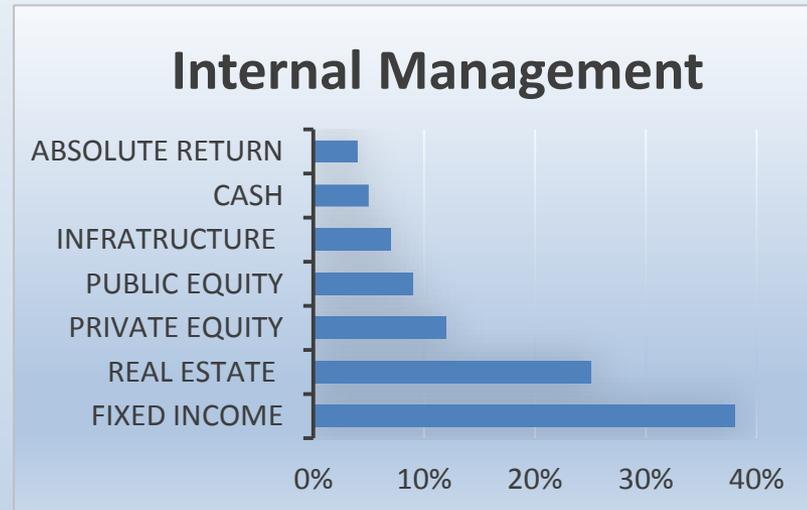
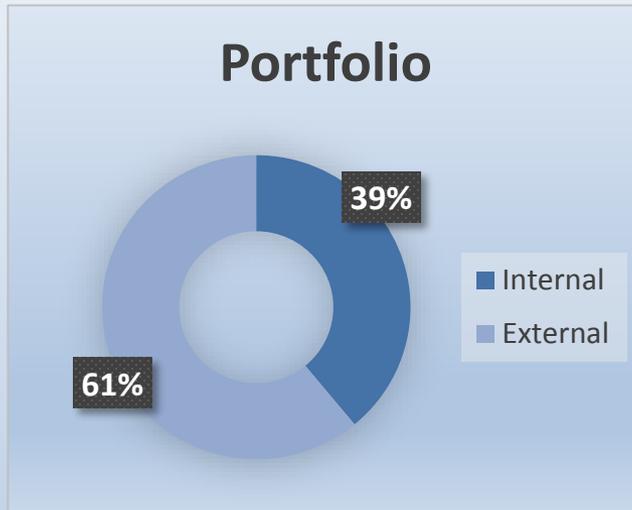
**Beat Passive Performance Benchmark:** Outperformed 60% stock, 30% bond, 10% real assets mix by 2.07% (8.36% versus 6.29%).

**Improved Diversification:** Reduced value-at-risk from 24% to 19% by increasing private markets investments from 22% to 30%.

**Reduced Management Expenses:** Declined from 42bps on assets-under-management to 29bps (a 31% reduction).



# Management of the Fund



- In FY16, 39% of the total assets were under in-house management.
- Over the last 10 years, the Board of Trustees has set a priority of building in-house talent.
- Private markets have received most recent investment of talent and resources.



# Real Estate



Value of Direct RE Investments  
\$5.5 billion

Real Estate Internal Mgmt.  
\$83,333/month

Monthly Cash Flow  
**\$21.2 million** (gross of fees)

Compare to:  
30-year Treasury Bonds  
2.875% coupon rate

Monthly Cash Flow  
**\$13.2 million**



# Best Practices

A brief from



THE PEW CHARITABLE TRUSTS

| Oct 2016

## From Volatile Severance Taxes to Sustained Revenue

Key recommendations to improve state sovereign wealth funds

*“By establishing independent entities to oversee their sovereign wealth funds, New Zealand and Alaska have ensured prudent governance, monitoring, and disclosure of their financials and management practices. They stand as examples of many of the best practices for sovereign wealth funds domestically or internationally.”*



# Peer Recognition

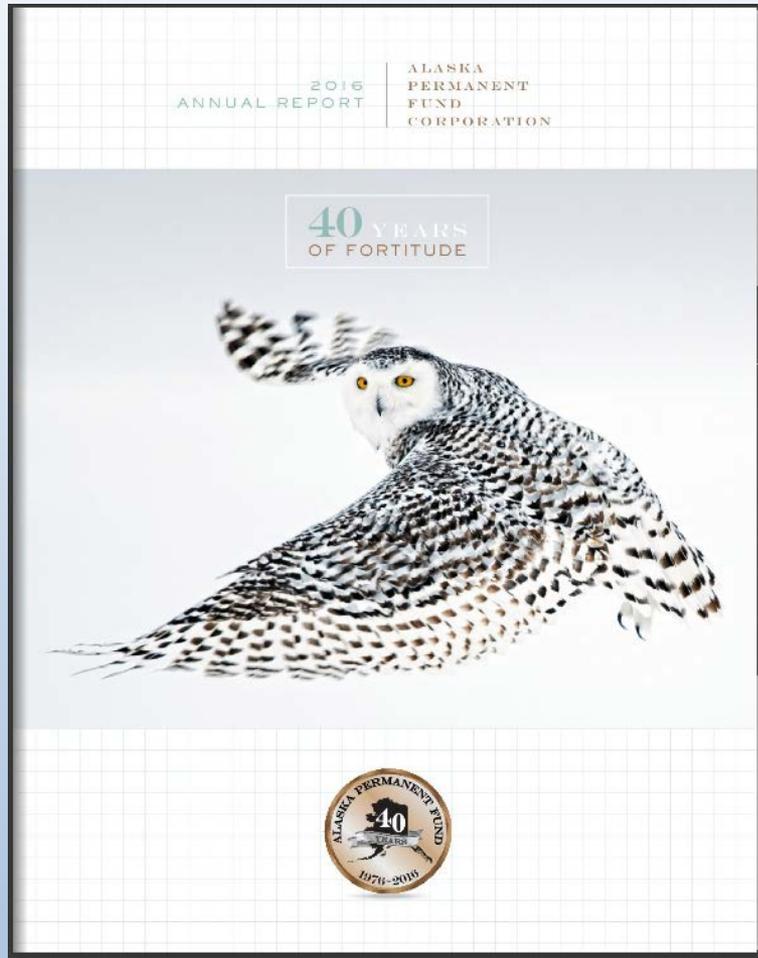
- Two aiCIO Industry Innovation Awards (2011, 2015)
- Public and Private Fund Managers
  - Singapore Government Investment Corp
  - Norway Government Pension Fund
  - Massachusetts PRIM
  - Finance Ministry of Mongolia
  - International Forum of Sovereign Wealth Funds



# Key Takeaways

- Fortitude: Strength
- Flexible, Adaptive: Role is Changing
- Corporation Key to Success of The Fund
- Continued Investment into The Corporation:
  - People
  - Workplace Environment
  - Resources





# Questions?

