



ALASKA PERMANENT
FUND CORPORATION

SFIN Budget Subcommittee – DOR FY20 Operating Budget – APFC February 28, 2019

The Corporation

The Alaska State Legislature passed SB 161 in 1980 establishing the Alaska Permanent Fund Corporation.

- A sound management structure to maximize the Fund's ability to generate investment returns.
- Entrusted the Board of Trustees with the fiduciary oversight.

APFC's Mission

To manage and invest the assets of the permanent fund and other funds designated by law.





Fund Values in billions

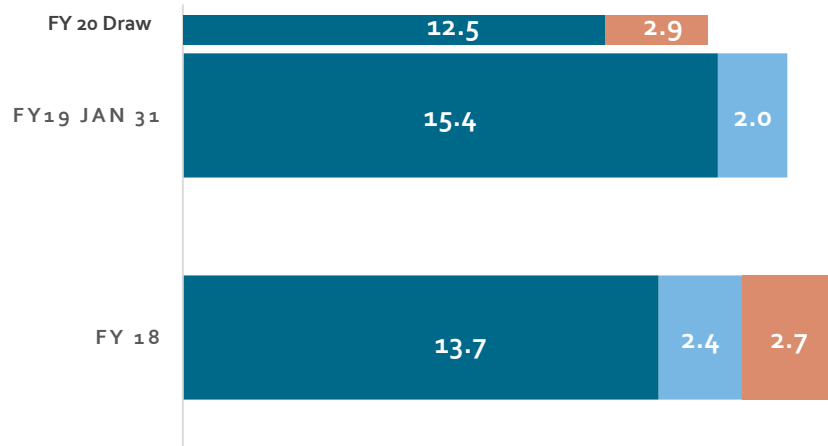
PRINCIPAL

■ Contributions ■ Unrealized Gains



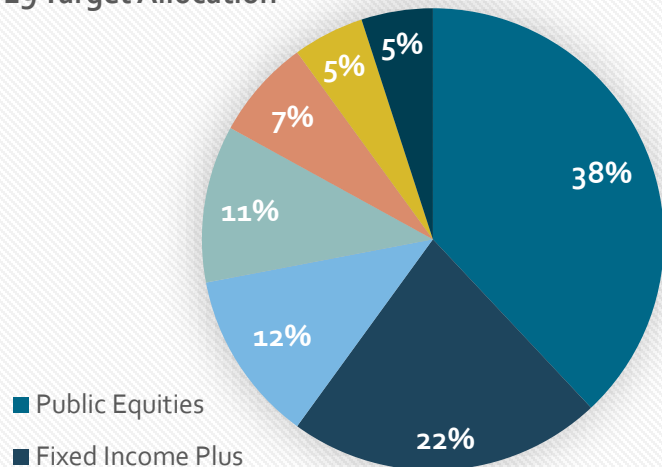
ERA

■ Realized Earnings ■ Unrealized Gains ■ POMV



Asset Classes and Performance

FY19 Target Allocation



- Public Equities
- Fixed Income Plus
- Private Equity & Special Opportunities
- Real Estate
- Infrastructure, Credit, & Income Opportunities
- Asset Allocation Strategies
- Absolute Return

	FY18	FY19 Q2	3 Year	5 Year
	June 30	as of December 31, 2018		
Total Fund	10.74%	-3.19%	7.58%	6.27%
Public Equities	11.67%	-10.90%	6.70%	3.82%
Fixed Income Plus	0.99%	-0.15%	na	na
Private Equity	32.70%	11.86%	20.43%	24.01%
Real Estate	6.99%	-2.05%	6.09%	8.50%
Private Income: Infrastructure	16.68%	6.83%	14.22%	12.52%
Absolute Return	5.95%	-0.20%	3.75%	2.79%
Asset Allocation	2.58%	-4.44%	1.35%	1.35%



Awards & Accomplishments

- Nominated for **Limited Partner of the Year for 2018** by *Private Equity International*
- APFC received dual nominations for **2018 Partnership of the Year** for *Institutional Investor's Allocators' Choice Awards* and won the award for our **Capital Constellation Partnership**:
 - Private Market Partnership, Capital Constellation - won
 - Public Market Partnership, Middle East Africa South Asia (MEASA) Fund with McKinley Capital - nominated
- *PEI's Private Debt Magazine* recognized APFC in their inaugural **30 Most Influential Investors in Private Credit**
- *Recognized as North American Private Equity Institutional Limited Partner Investor of the Year for 2017* by *Private Equity International*
- Awarded *Institutional Investor's Sovereign Wealth Fund of the Year in Hedge Fund Investments in 2017*



APFC's Budget

Uses of Corporate Activity in thousands

- The ERA is established in Alaska Statutes as an account to hold the realized earnings from the Permanent Fund's investment portfolio, and is subject to legislative appropriation.
- SB 26, CH 16 SLA 18 established a POMV rules based structure for Fund withdrawals – a percentage of the average market value of the Fund for the first five of the preceding six fiscal years.
- Inflation Proofing AS 37.13.145 (c) protects the future value of the Principal by transferring a portion of the earnings to the Principal to maintain the long term sustainability of the Fund.
- APFC's operations and investment management of the Fund's assets are supported by the ERA.
- Agencies working on the collection of royalties also receive appropriations from the ERA.

Operating Budget Appropriations	FY19	FY20 Gov Amd
Percent of Market Value – POMV	2,722,600.0	2,933,084.1
Inflation Proofing the Principal	942,000.0	943,000.0
APFC Operations	18,074.6	17,800.4
APFC Investment Management Fees	150,498.7	420,000.0
Dept. of Law	2,619.1	2,615.4
Dept. of Natural Resources	6,044.8	6,044.8
Dept. of Revenue	94.5	94.5

Fund Source: 1105 Alaska Permanent Fund Corporation Receipts (Other)

FY20 Board of Trustees Proposed Budget

The FY20 BOT proposed budget includes anticipated increases to support both internal management expansion and ongoing costs associated with managing the assets of the Fund.

	Management Plan	BOT Request		FY19 Statutory Net Income as of 1/31/19
	FY2019	FY2020	FY19 to Request	\$1,642,300,000 avg. \$7.8 million per day / 7 mos.
Operating	\$18,074,600	\$20,986,600	\$2,912,000	3 days
Investment Management	\$150,498,700	\$155,795,000	\$5,296,300	19 days
Total Appropriation	\$168,573,300	\$176,781,600	\$8,208,300	22 days

Fund: 1105 Alaska Permanent Fund Corporation Receipts

APFC Operating - BOT Request

Recognizing the importance of the Fund to the present and future economic health of Alaska, the Board and staff carefully consider the best structure for APFC and the asset allocation to meet the high expectations of stakeholders. APFC's budget is developed on zero-based budgeting principles and built each year to reflect anticipated needs of the Corporation in managing the assets under our stewardship.

Travel -

BOT request holds budget at FY 19 Authorized level

Contractual Services -

BOT request provides a decrement that is mainly attributable to lower anticipated corporate legal and consulting fees.

Commodities -

BOT request includes a decrement as all staff workstations have recently been replaced, so anticipated costs in this area are lower than in past years.

Equipment -

BOT request includes an increment to replace end-of-life equipment in APFC's data center as well as the purchase of physical servers to back up virtual servers for critical systems.

Personal Services – detailed on next slide

	Mgmt Plan	BOT Request	FY19 to Request
	FY2019	FY2020	
Personal Services	\$11,861,201	\$14,893,600	\$3,032,399
Travel	\$1,203,200	\$1,203,200	-
Contractual Services	\$4,174,899	\$4,084,800	(\$90,099)
Commodities	\$435,300	\$355,000	(\$80,300)
Equipment	\$400,000	\$450,000	\$50,000
Total Operating Allocation	\$18,074,600	\$20,986,600	\$2,912,000

Fund: 1105 Alaska Permanent Fund Corporation Receipts

APFC Operating - BOT Request

The BOT Personal Services Increment Request –

- 4 new positions to support our in-house investment program, address increased legal contractual workload, and provide administrative support.
 - Bringing more investments in-house benefits the Fund through lower investment costs, greater control over investments within and across allocations, and enhanced investment transparency.
- Retention and Merit Adjustments are essential to maintaining continuity of our program and our successful efforts in supporting and recruiting our APFC professionals.
- A 3% vacancy factor to ensures staffing needs are adequately met throughout the year.
- Board Honorarium for special meetings if necessary.
- The Incentive Compensation program has been considered by the Board, as most pension, endowment and sovereign wealth funds offer some type of performance based compensation to their investment professionals.

	BOT Request
Personal Services Increment Detail	FY2020
4 New Positions – Salary & Benefits	\$905,107
Retention Adjustments – All Staff	\$352,899
Board Honorarium	\$8,260
Incentive Compensation, including Benefits	\$1,803,885
Vacancy	(\$37,752)
Total Personal Services Increment	\$3,032,399

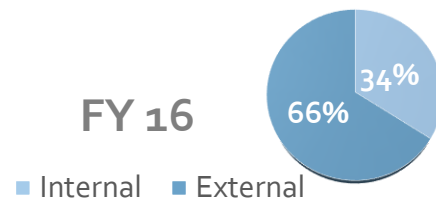
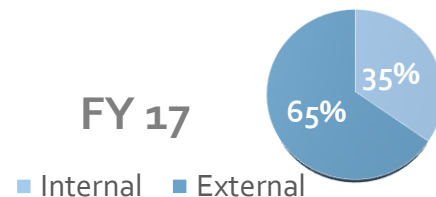
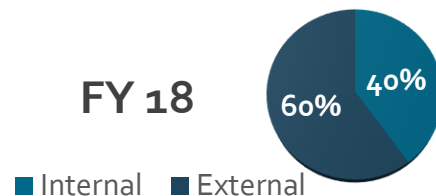
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Management of the Fund

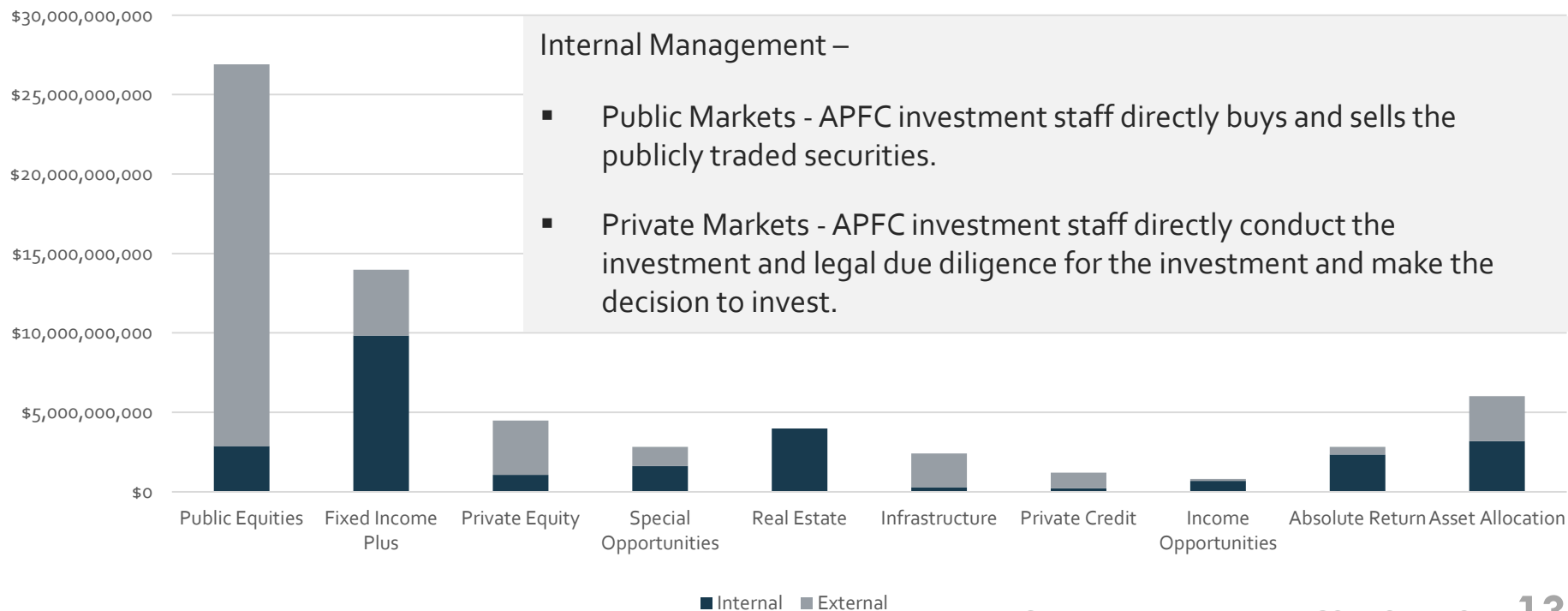
The key to APFC's success has been the deliberate expansion of an internal portfolio management strategy by the APFC Board of Trustees that began more than 10 years ago. The Board of Trustees continue to work towards an optimal mix of in-house versus external management capabilities based on resources and opportunities.

In-House Management Allows for:

- Alignment of investment goals and mandates
- Increased flexibility in timing/tactical decisions
- Lower fees with investment benefit of active management



Management of the Fund by Asset Class



APFC Investment Mgmt – BOT Request

The BOT request for investment management contains an increment which reflects growing assets under management and the increased cost of the tools needed to manage them effectively.

Investment Management Fees -

The increment requested is reflective of growing assets under management, based upon Callan's growth assumptions by asset class, the Fund's asset allocation, and the contractual fee terms for external management

Investment Due Diligence -

No increment is being requested on this line.

Investment Systems -

Increment reflect natural growth in existing subscription costs, and a provision for new systems and data feeds. As the portfolio evolves into new types of investments, additional supporting analytics are required.

Custody Fees -

An increment of \$100,000 is included in this request to cover increasing support services which are required to participate in some emerging markets. As the Fund's exposure to these markets increases, so do these costs.

	Management Plan	BOT Request	FY19 to Request
	FY2019	FY2020	
Investment Management Fees	\$136,520,085	\$140,591,800	\$4,071,524
Investment Due Diligence	\$7,178,200	\$7,178,200	-
Investment Systems	\$5,300,415	\$6,425,000	\$1,124,585
Custody Fees	\$1,500,000	\$1,600,000	\$100,000
Total Investment Management	\$150,498,700	\$155,795,000	\$5,296,300

Fund: 1105 Alaska Permanent Fund Corporation Receipts

APFC Reporting - Management Fees

Fees Funded by Investments –

Fees that are funded through the income received on that investment. Amounts are netted against the income before it is distributed back to the Fund. Includes standard management fees, carried interest, performance fees, underlying management fees for private equity and property management fees for real estate.

Fees Funded by Appropriation –

Fees that are invoiced separately from the activity within the investment. Paid in the same way as other corporate expenses and funded by appropriation within the investment management allocation of the APFC operating budget. Includes management and performance fees.

APFC Corporate Expenses –

All non-fee corporate expenses that are funded through the APFC operating budget. Includes personal services, travel, contractual services (non-fee related), commodities and equipment.

Excerpt from Quarterly Investment Management Fee Report

	Quarter Ended		YTD
	12/31/2018	9/30/2018	FY2019
Transition Management ^(a)	-	-	-
Non-Domestic Equity & FI Managers	431,500	449,000	880,500
Real Estate Advisors	8,078,000	7,465,000	15,543,000
Real Estate Funds	<u>1,077,000</u>	<u>1,051,000</u>	<u>2,128,000</u>
Real Estate ^{(b)(d)}	9,155,000	8,516,000	17,671,000
Abs. Return, Mezz. & Distressed Debt ^(c)	4,425,000	3,350,000	7,775,000
Infrastructure	5,820,000	5,460,000	11,280,000
Public Equity	-	650,000	650,000
Private Equity Management Fees	<u>21,977,000</u>	<u>21,898,000</u>	<u>43,875,000</u>
Private Equity Carried Interest Paid	<u>21,598,000</u>	<u>22,457,000</u>	<u>44,055,000</u>
Private Equity ^(d)	<u>43,575,000</u>	<u>44,355,000</u>	<u>87,930,000</u>
	BPS	BPS	BPS
Fees Funded by Investments	63,406,500 10	62,780,000 10	126,186,500 21
Fees Funded by Appropriation	21,085,000 3	25,243,000 4	46,328,000 8
APFC Corporate Expenses	<u>6,034,000 1</u>	<u>5,423,000 1</u>	<u>11,457,000 2</u>
TOTAL Investment Management Fees	90,525,500	93,446,000	183,971,500
Assets Under Management	<u>60,879,996,000</u>	<u>64,440,887,000</u>	<u>60,879,996,000</u>
Total Fees (Basis Points)	15	15	30

FY20 Governor's Amended

The Governor's Amended Operating Budget for APFC –

- Creates two allocations: APFC Operations and APFC Investment Management Fees.
- Maintains APFC's operating allocation at FY19 authorized levels for personal services, services, commodities, and capital outlay.
- Includes a reduction to travel of \$274,200.
- Includes a vacancy factor of 6.86%.
- Does not bring forth the personal services increments that the Board proposed for FY20 totaling \$3.1 million: 4 new positions, retention adjustments, board honorarium, incentive compensation and a vacancy adjustment.
- Increases Investment Management Fees to \$420 million, the amended amount includes both fees funded by investments (primarily private markets) and fees funded by appropriation (primarily public markets).

Budget Comparison - to Gov Amd

	Authorized	BOT Proposed	GOV Amend	Proposed to Amended	FY19 to Amended
	FY2019	FY2020	FY2020		
Operating Allocation	\$18,074,600	\$20,986,600	\$17,800,400	(\$3,186,200)	(\$274,200)
Personal Services	\$11,861,200	\$14,893,600	\$11,861,200	(\$3,032,400)	\$0
Travel	\$1,203,200	\$1,203,200	\$929,000	(\$274,200)	(\$274,200)
Services	\$4,174,900	\$4,084,800	\$4,174,900	\$90,100	\$0
Commodities	\$435,300	\$355,000	\$435,300	\$80,300	\$0
Capital Outlay	\$400,000	\$450,000	\$400,000	(\$50,000)	\$0
Investment Mgmt Allocation	\$150,498,700	\$155,795,000	\$420,000,000	\$264,205,000	\$269,501,300
Services	\$150,498,700	\$155,795,000	\$150,498,700	(\$5,296,300)	\$0
Fee Authorization			\$269,501,300	\$269,501,300	\$269,501,300
Total Appropriation	\$168,573,300	\$176,781,600	\$437,800,400	\$261,018,800	\$269,227,100

Transparency

It is important to note that the Board of Trustees and the Corporation have always been transparent regarding how the appropriations to APFC are budgeted and spent.

The budget is approved and discussed in open, public meetings, and budget materials and reports are included in public board meeting packets.

Members of the public can find detailed information about the Corporation's budget, investment strategy, investment management fees, and performance at apfc.org.



APFC's Operating Budget

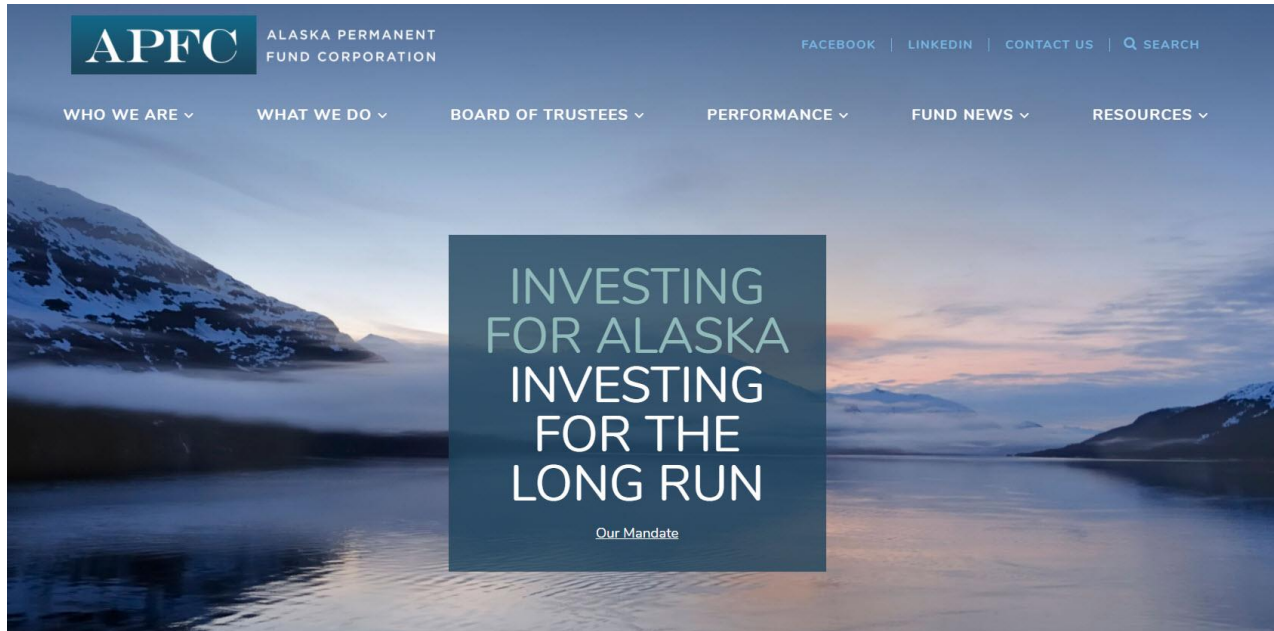
Budget Alternatives -

- Basis Points
- Multiple Years
- Single Allocation/Appropriation

Why consider a different process?

- Reliance on APFC / the Fund for dividends and state government services.
- Important Partnership with the Legislature and the Executive Branch.

www.apfc.org



- Annual Report
- Daily Fund Market Value
- Financial Statements
- Performance Reports
- Current and Historical Reports
- Fund News



Questions ?