



APFC

ALASKA PERMANENT
FUND CORPORATION

House Information Session

January 28, 2019

The Alaska Constitution

In 1976, Alaskans voted, 75,588 to 38,518, in favor to amend the Constitution of the State of Alaska and created the Alaska Permanent Fund.

Alaska Constitution Article IX, Section 15

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.

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.





APFC's Strategic 5 Year Plan

Priorities for FY 17-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.

Over the course of 2019, the Board will be working on a new strategic 5 year plan.

Board of Trustees

As the fiduciaries, the Trustees have a duty to Alaskans in assuring that the Permanent Fund is managed and invested in a manner consistent with legislative findings: 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 the purposes designated by law.

Resolution 18-04

Sustainable Rules- Based Legal Framework For Fund Transfers

In providing guidance on rules-based withdrawals for the Fund and to help ensure the long-term sustainability of using Fund earnings for the benefit of all generations of Alaskans, the Board passed Resolution 18-04 at a special meeting on October 17, 2018.

This resolution affirms 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 - Sustainability - Inflation Proofing - Real Growth



Resolution 18-04

Adherence: A rules-based framework includes adhering to the formulaic calculations provided for in statute for transfers into and out of the Permanent Fund, such as dividends, royalty deposits, and inflation proofing. Adherence to the rules increases the likelihood that systematic draws from the Permanent Fund will be sustainable over time and will allow for more prudent investment of the Permanent Fund due to the predictability of liquidity needs.

Resolution 18-04

Sustainability: Any rules-based system for drawing from the Permanent Fund (to support government spending and for dividends) should be sustainable, meaning the formulaic system for withdrawals should be projected to result in the Permanent Fund growing annually by at least the rate of inflation.

Sustainability also requires annual formulaic withdrawals from the Earnings Reserve Account at an amount that the long-term balance of the account is able to fund. The Board recommends instituting a process that would require periodic review of these assumptions as market conditions change so that a timely reduction to the annual draw could be effectuated, if necessary, to maintain the long-term sustainability of the Earnings Reserve Account.



Resolution 18-04

Automatic Inflation Proofing: The Board believes that the inflation-proofing transfer should become a guaranteed annual event rather than a discretionary transfer that is subject to appropriation. To achieve this goal, the Board supports passage of legislation that would define net income to require realized gains that are accumulated throughout the fiscal year be used to offset the impact of inflation on the principal of the fund with the remainder of net realized gains being accounted for in the Earnings Reserve Account.

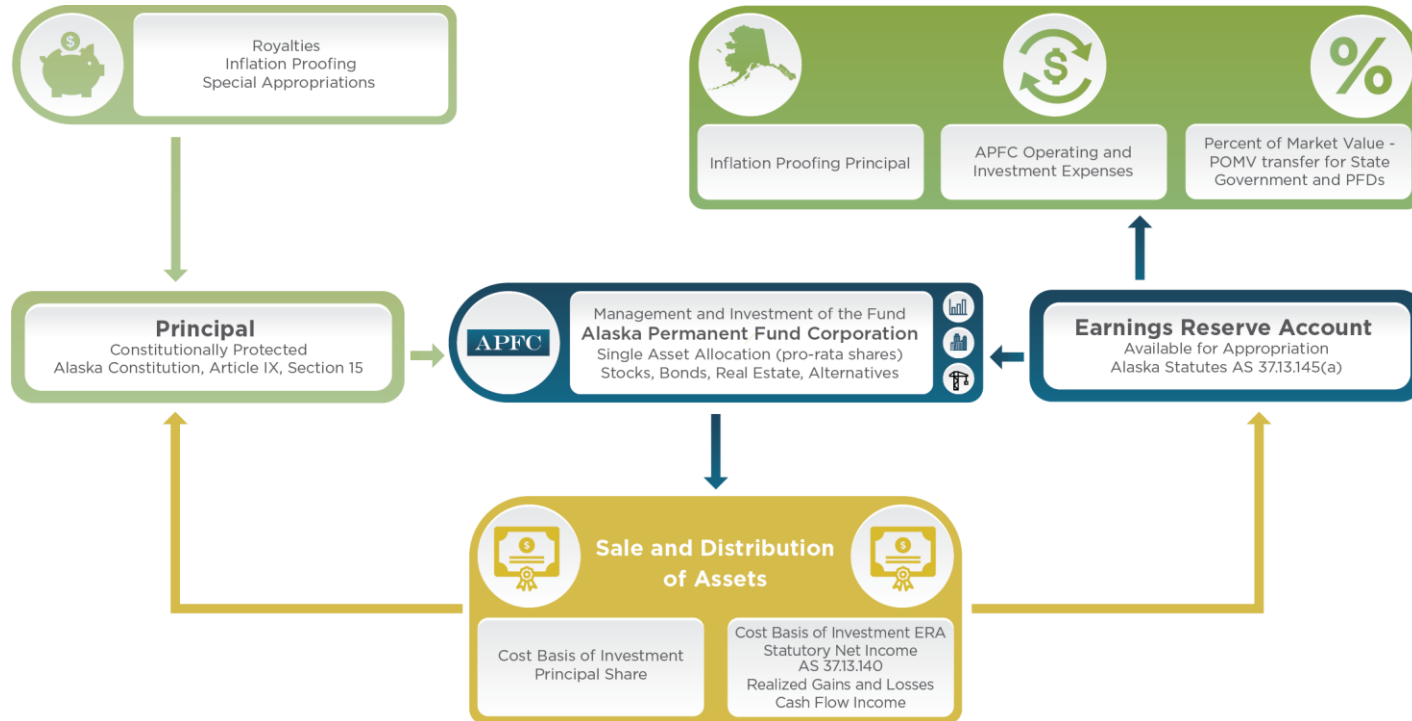
Resolution 18-04

Promote Real Growth When Possible: While providing for a sustainable draw by preserving the purchasing power of the fund and ensuring a durable Earnings Reserve Account is a primary goal of the Board, recognizing and executing on opportunities to grow the real value of the fund is also important. Real growth will not only result in more income and thus higher sustainable draws in the future, it is necessary to preserve intergenerational wealth as Alaska continues extraction of its finite natural resources. Thus, the Board supports thoughtful strategies to grow the fund on a real, and not just nominal, basis.

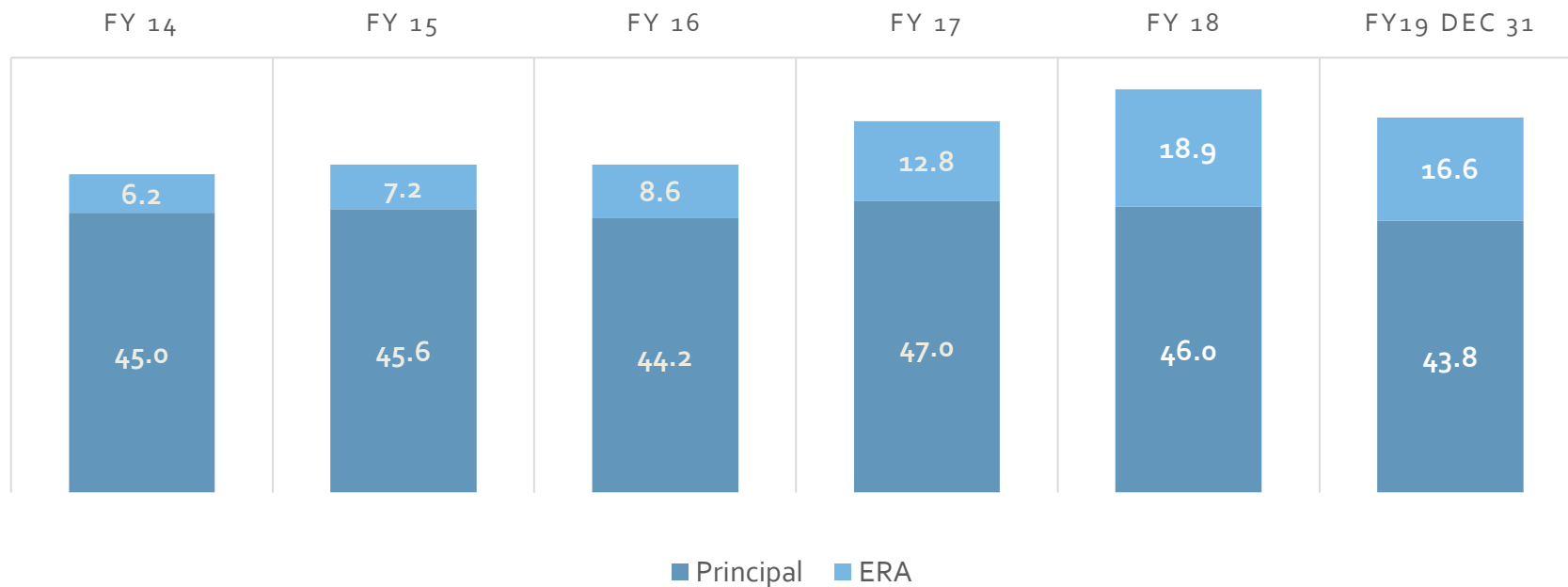
The background of the slide is a solid teal color. Overlaid on this background is a close-up photograph of a pine branch with several long, thin needles and two small, immature pine cones. The image is semi-transparent, allowing the teal background to show through.

How the Fund Works

How the Fund Works



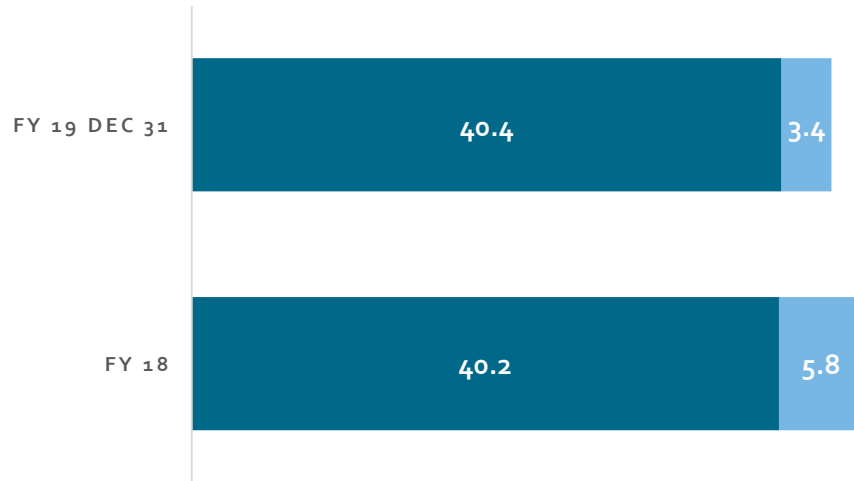
Assets Under Management in billions



Values

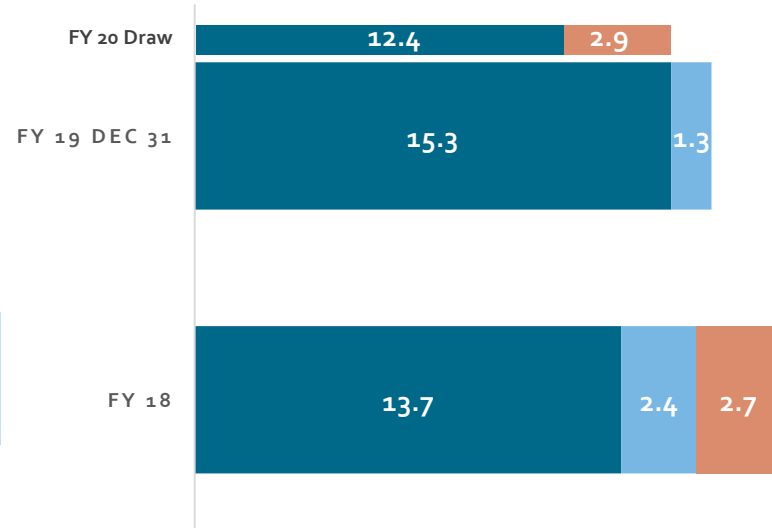
PRINCIPAL

■ Contributions ■ Unrealized Gains



ERA

■ Realized Earnings ■ Unrealized Gains ■ POMV



Principal

- The Principal is constitutionally established and permanently protected; it can only be used for income-producing investments.
- The Principal is built through royalty deposits, inflation proofing, and other special appropriations.

| Contributions Since Inception | In billions |
|---|-------------|
| Constitutional deposits from mineral revenues | \$ 16.9 |
| Transfers from the ERA for Inflation Proofing | \$ 16.2 |
| Special Appropriations from ERA and GF | \$ 7.1 |

As of 6/30/2018

Contributions to Principal

Royalty Deposits – AS 37.13.010 (a) (1) and (a) (2)

- The constitutionally minimum required 25% of royalty proceeds.
- The statutorily mandated deposits of 50% for leases after 1979.

Inflation Proofing – AS 37.13.145 (c)

- The inflation proofing projection is based upon estimates for deposits into the Principal of the Fund and the projected inflation rate as calculated per statute.
- The Legislature appropriated FY19 inflation proofing estimated to be \$942 million on June 30th, 2019.
- The FY20 inflation proofing amount is estimated to be \$943 million, the actual amount will be calculated at the end of the fiscal year. \$1.4 billion for FY16-FY18 remains unappropriated.

The Board of Trustees adopted Resolution 17-01 asserting the importance of inflation proofing to preserve the purchasing power of the Principal. Subsequent Resolutions 18-01 and 18-04 reiterate that the prudent reinvestment of a portion of the Fund's earnings to protect the future value of the Principal is essential to maintaining the long term sustainability of the Fund and establishing a solid fiscal foundation for Alaska.

| | In millions | |
|-------------|--------------------|------------------|
| Fiscal Year | Inflation Transfer | Royalty Deposits |
| 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 |
| 2017 | \$0 | \$365 |
| 2018 | \$0 | \$353 |
| 2019 | \$942* | \$296** |
| 2020 | \$943* | 394.6* |

*Estimated based on projections

**Only 25% based on appropriation language



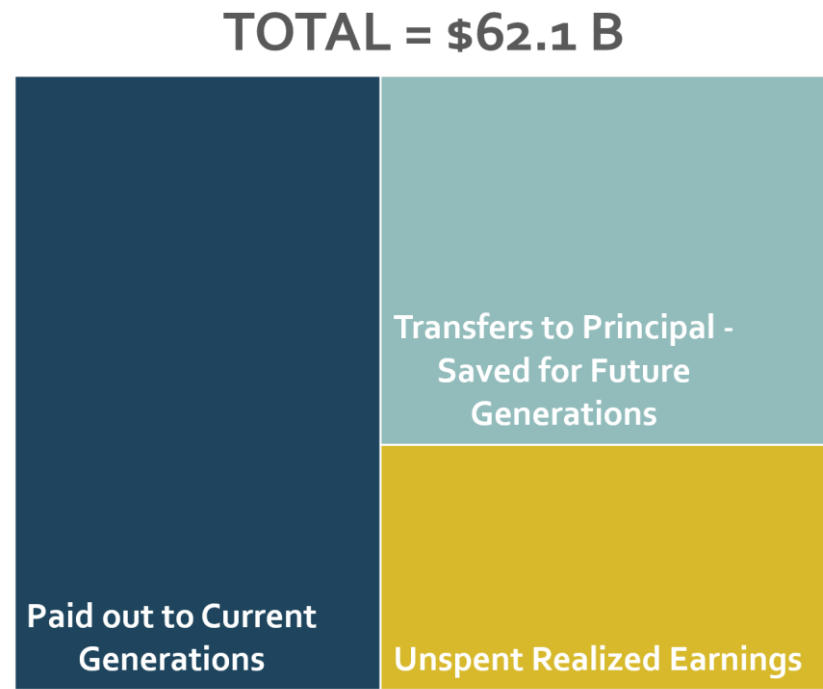
Earnings Reserve Account

- The Earnings Reserve Account (ERA) is established in Alaska Statutes as an account to hold the realized earnings from the Permanent Fund's investment portfolio; it does not have its own investment mandate.
- The ERA is subject to legislative appropriation.
- FY 19 Appropriations from the ERA
 - POMV \$2.7 billion
 - APFC Operations \$18.1 million
 - APFC Investment Management Fees \$150.5 million
 - Dept. of Law \$2.6 million
 - Dept. of Natural Resources \$5.9 million

Use of Fund Earnings from ERA Since Inception

as of June 30, 2018

- Paid out of ERA = \$27.8 B
 - Dividend Transfers
 - General Fund Appropriations
 - Alaska Capital Income Transfers
- Transfers from ERA to Principal = \$20.6 B
 - Inflation Proofing
 - Special Appropriations
- Unspent Realized Earnings in ERA = \$13.7 B



POMV – SB 26, CH 16 SLA 18

Percent of Market Value: draw of the average market value of the Fund for the first five of the preceding six fiscal years, subject to annual appropriation by the Legislature.

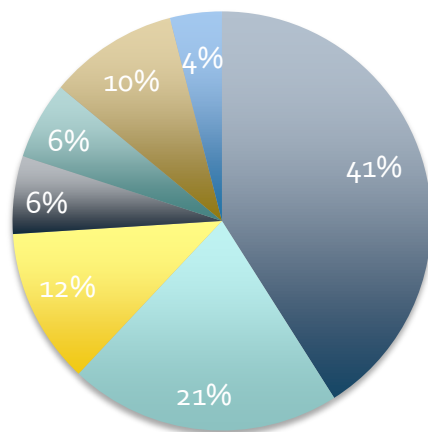
- 5.25% - Effective July 1, 2018 (FY19)
 - FY19 5.25% POMV = \$2.7 billion
 - FY20 5.25% POMV = \$2.9 billion
 - FY21 5.25% POMV = \$3.1 billion estimate
- 5.0% - Effective July 1, 2021 (FY22)

The image is a full-page background featuring a serene landscape. In the foreground, there's a body of water with small, dark rocks scattered across its surface. A small, light-colored patch of land or sand is visible in the lower center. The middle ground shows a calm body of water reflecting the sky. In the background, a range of rugged, snow-capped mountains stretches across the horizon. A bright sunburst effect is visible in the upper right quadrant of the sky. The entire image has a teal or blue color overlay, giving it a monochromatic appearance. Centered over the image is the text "How We Invest" in a white, sans-serif font.

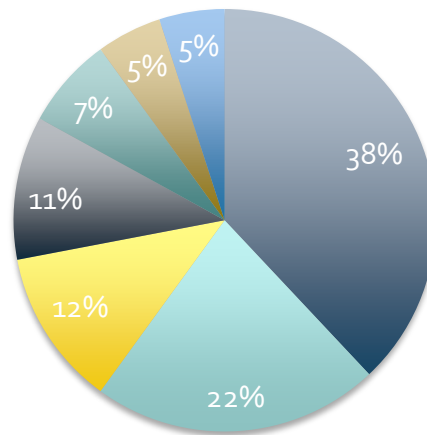
How We Invest

The Portfolio

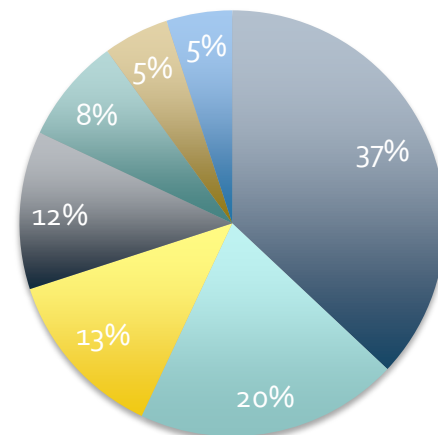
- Public Equities
- Fixed Income Plus
- Private Equity & Special Opportunities
- Real Estate
- Infrastructure, Credit, & Income Opportunities
- Asset Allocation Strategies
- Absolute Return



Allocation as of 6/30/2018



Target FY19



Target FY20

Alaska Investment

APFC's statutory responsibilities pertaining to in-state investments are set forth in AS 37.13.120 (c) which specifies if an Alaskan investment has equivalent risk and expected return comparable to or better than a similar non-Alaskan investment, the Alaskan investment should be preferred.

In recognition of AS 37.13.120 (c), APFC's Board of Trustees took two actions during their September 2018 Annual Meeting:

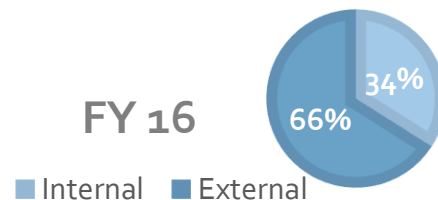
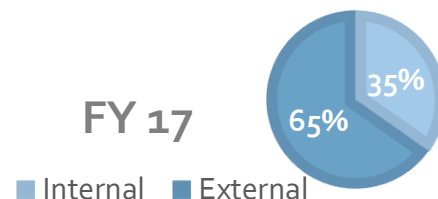
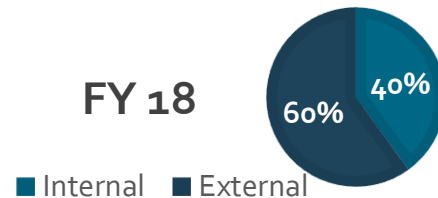
- **Amendment of the Alaska Investment section of APFC's Investment Policy & Procedures to establish a target for increased Alaska investment.**
 - As of June 30, 2018, 1.25% of the Fund's portfolio, totaling \$819.5 million, was invested in-state through Alaska-based external investment managers and through ownership of APFC's office building in Juneau.
 - The aspirational goals set forth in the policy amended by the Board in September 2018 call for 2% of the portfolio to be invested in-state by 2020, increasing by 1% each year up to 5% of the Fund being invested in-state by 2023. (Does not include in-house management by APFC).
- **Passage of Resolution 18-03 Supporting An In-State Emerging Manager Program.**
 - This resolution directs the implementation of an In-State Emerging Manager program with an initial allocation up to \$200 million within the Private Equity and Special Opportunities Asset Allocation.
 - The goal of the Emerging Manager Program is to seed new private equity or venture capital fund managers in Alaska.
 - APFC will work with an external manager to oversee the program.
 - Board guidance that in-state investments should meet same investment criteria and expectations as out of state investments.

Management of the Fund

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





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*



Outcomes

Fiscal Year 2018 Performance

as of June 30th, 2018

| | FY18 | 3 Years | 5 Years | Since Inception |
|---|--------|---------|---------|----------------------|
| Total Fund | 10.74% | 7.69% | 8.91% | 8.86% |
| Passive Index Benchmark <small>(60 Stocks 20 Bonds 10RE 10 TIPs)</small> | 7.83% | 6.49% | 6.81% | <i>Not Available</i> |
| Performance Benchmark | 8.20% | 7.08% | 7.55% | 8.98% |
| Total Fund Return Objective CPI+5% | 7.87% | 6.83% | 6.54% | 7.68% |

Value Generated

FY 18

| | |
|-------------------------------|------------------|
| Revenues | \$ 5,671,500,000 |
| Operating/Investment Expenses | \$ 138,800,000 |

Value Generated Per Day (based on 251 active trading days through FY18)

| | |
|----------------------|------------------------------------|
| Total Fund | \$ 5.67 B / 251 = \$22.6 M per day |
| Statutory Net Income | \$ 6.3 B / 251 = \$25.2 M per day |

APFC staff is actively engaged in making direct investments and overseeing our external manager partnerships:

- APFC = 57PFT, 2PPT, 2 Summer Interns
- 28 External Public Equities Managers
- 5 Real Estate Advisors
- Private Markets Partnerships:
 - Fund to Fund / Co-Investments / Direct Investments

The image is a full-page background featuring a scenic landscape. In the foreground, there is a body of water with a rocky shoreline. The middle ground shows a calm lake reflecting the sky. The background consists of a range of rugged, snow-capped mountains. A bright sunburst effect is visible in the upper right portion of the sky. The entire image is overlaid with a semi-transparent teal or blue color. Centered over the image is the text "Looking Forward" in a white, sans-serif font.

Looking Forward

Forecasting

- Callan 10yr FY 09-18 Forecast: 8.05%
- Actual 10yr FY 09-18 Return: 6.50%
- The Permanent Fund is invested into perpetuity
- The Fund's portfolio is strategically allocated for long term results
 - Tactical decisions are executed to leverage opportunities based on fluctuations in the market.

FY Total Annual Returns

| | |
|------|---------|
| 2009 | -17.96% |
| 2010 | 11.72% |
| 2011 | 20.56% |
| 2012 | -0.01% |
| 2013 | 10.93% |
| 2014 | 15.52% |
| 2015 | 4.91% |
| 2016 | 1.02% |
| 2017 | 12.57% |
| 2018 | 10.74% |

Callan's Capital Markets Forecast

as of April 2018

| 10 year horizon | 2017 | 2018 |
|------------------|-------|-------|
| Total Return | 6.50% | 6.55% |
| Statutory Return | 6.53% | 6.40% |
| Inflation | 2.25% | 2.25% |

Callan projects what a typical fund with the APFC's asset allocation is forecasted to return; Callan does not take into account the specific investments held by the APFC.

| Asset Category | Projected 10-Year Geometric Return | Annualized Standard Deviation |
|------------------------------|------------------------------------|-------------------------------|
| Global Equities | 7.05% | 18.85% |
| Cash Equivalents | 2.25% | 0.90% |
| US TIPS | 3.00% | 5.25% |
| US Fixed Income | 3.00% | 3.75% |
| Investment Grade Credit | 3.55% | 5.05% |
| Non US Fixed Income | 1.40% | 9.20% |
| Emerging Markets Debt | 4.50% | 9.60% |
| High Yield Fixed Income | 4.75% | 10.35% |
| Global REITS | 6.40% | 20.30% |
| Global Listed Infrastructure | 6.40% | 17.25% |
| Private Equity | 8.50% | 22.00% |
| Real Estate | 5.75% | 16.35% |
| Private Infrastructure | 5.75% | 14.50% |
| Absolute Return | 5.05% | 9.15% |



ALASKA PERMANENT
FUND CORPORATION

ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of November 30, 2018

Projections extend ten years, and are based on best available information (\$ in millions)

| Nonspendable Fund Balance - Principal | | | | | | | Assigned Fund Balance - Earnings Reserve | | | | | | | | | | TOTAL FUND |
|---------------------------------------|----------|--------------------------|------------------|---------------|-------------|-------------|--|-------------------------|------------------|-------------------|----------|-------------|----------|----|--|--|------------|
| | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| | FY-Begin | Dedicated ⁽¹⁾ | Inflation | FY-End | Unrealized | FY-End Non- | Acct. | Distributions | | | FY-End | Unrealized | FY-End | | | | |
| | Contrib. | State | | Balance | Gain (Loss) | spendable | Net | Div/POMV | Inflation | ACIF | Balance | Gain (Loss) | Assigned | | | | |
| FY | Balance | Revenues | Proofing | Contributions | FY-End | Balance | Income ⁽²⁾ | Transfer ⁽⁹⁾ | Proofing | | Realized | FY-End | Balance | FY | | | |
| 09 | 29,149 | 651 | 1,144 | 30,945 | (1,449) | 29,496 | (6,394) | 875 | 1,144 | 0 ⁽⁵⁾ | 441 | (21) | 420 | 09 | | | |
| 10 | 30,944 | 679 | 0 ⁽⁶⁾ | 31,624 | 421 | 32,045 | 3,517 | 858 | 0 ⁽⁶⁾ | 0 ⁽⁵⁾ | 1,194 | 16 | 1,210 | 10 | | | |
| 11 | 31,624 | 887 | 533 | 33,044 | 4,788 | 37,832 | 6,812 | 801 | 533 | 13 ⁽⁵⁾ | 2,016 | 292 | 2,308 | 11 | | | |
| 12 | 33,044 | 915 | 1,073 | 35,033 | 3,220 | 38,253 | (100) | 605 | 1,073 | 17 | 1,905 | 175 | 2,081 | 12 | | | |
| 13 | 35,033 | 840 | 743 | 36,615 | 4,184 | 40,800 | 4,314 | 604 | 743 | 30 | 3,487 | 567 | 4,054 | 13 | | | |
| 14 | 36,615 | 779 | 546 | 37,941 | 7,062 | 45,002 | 6,848 | 1,235 | 546 | 32 | 5,237 | 975 | 6,211 | 14 | | | |
| 15 | 37,941 | 600 | 624 | 39,165 | 6,473 | 45,638 | 2,384 | 1,373 | 624 | 24 | 6,147 | 1,016 | 7,162 | 15 | | | |
| 16 | 39,165 | 284 | 0 | 39,449 | 4,750 | 44,199 | 398 | 696 ⁽⁷⁾ | 0 ⁽⁸⁾ | 18 | 7,649 | 921 | 8,570 | 16 | | | |
| 17 | 39,449 | 365 | 0 | 39,814 | 7,155 | 46,969 | 6,676 | 0 | 0 ⁽⁸⁾ | 25 | 10,863 | 1,952 | 12,816 | 17 | | | |
| 18 | 39,814 | 353 | 0 | 40,167 | 5,863 | 46,030 | 5,526 | 726 | 0 ⁽⁸⁾ | 43 | 16,461 | 2,403 | 18,864 | 18 | | | |
| Lo | 19 | 40,167 | 368 | 912 | 41,447 | 1,256 | (3,522) | 2,723 | 912 | 21 | 15,813 | 479 | 16,292 | 19 | | | |
| Mid | 19 | 40,167 | 368 | 912 | 41,447 | 5,688 | 3,614 | 2,723 | 912 | 27 | 16,699 | 2,292 | 18,991 | 19 | | | |
| Hi | 19 | 40,167 | 368 | 912 | 41,447 | 8,577 | 8,743 | 2,723 | 912 | 33 | 17,585 | 3,639 | 21,225 | 19 | | | |
| 20 | 41,447 | 397 | 941 | 42,785 | 5,803 | 48,587 | 4,066 | 2,933 | 941 | 27 | 16,766 | 2,274 | 19,040 | 20 | | | |
| 21 | 42,785 | 388 | 971 | 44,145 | 5,929 | 50,073 | 4,154 | 3,090 | 971 | 27 | 16,732 | 2,247 | 18,979 | 21 | | | |
| 22 | 44,145 | 379 | 1,002 | 45,525 | 6,051 | 51,576 | 4,241 | 3,091 | 1,002 | 27 | 16,752 | 2,227 | 18,979 | 22 | | | |
| 23 | 45,525 | 387 | 1,033 | 46,945 | 6,185 | 53,131 | 4,329 | 3,254 | 1,033 | 27 | 16,664 | 2,196 | 18,859 | 23 | | | |
| 24 | 46,945 | 405 | 1,065 | 48,416 | 6,328 | 54,744 | 4,414 | 3,361 | 1,065 | 27 | 16,519 | 2,159 | 18,678 | 24 | | | |
| 25 | 48,416 | 440 | 1,099 | 49,955 | 6,475 | 56,430 | 4,501 | 3,432 | 1,099 | 27 | 16,353 | 2,120 | 18,473 | 25 | | | |
| 26 | 49,955 | 492 | 1,135 | 51,582 | 6,628 | 58,210 | 4,592 | 3,505 | 1,135 | 27 | 16,167 | 2,077 | 18,244 | 26 | | | |
| 27 | 51,582 | 536 | 1,173 | 53,291 | 6,785 | 60,076 | 4,686 | 3,578 | 1,173 | 27 | 15,963 | 2,032 | 17,995 | 27 | | | |
| 28 | 53,291 | 585 | 1,212 | 55,088 | 6,947 | 62,035 | 4,785 | 3,652 | 1,212 | 27 | 15,741 | 1,985 | 17,726 | 28 | | | |
| Cumulative Totals | | | | | | | | | | | | | | | | | |
| Proj. for FY19-FY28 | | | | | | | 43,382 | 32,619 | 10,544 | 272 | | | | | | | |

| Assumptions: | | | | Total Return - Inflation = Total Real Return | | | Statutory Return | |
|--------------------------|---------------------|--------|-------|--|-------|-------|------------------|-------|
| Lo | FY19 | -5.25% | 2.25% | -7.50% | Lo | 5.00% | | |
| Mid | FY19 ⁽³⁾ | 5.95% | 2.25% | 3.70% | Mid | 6.40% | | |
| Hi | FY19 | 14.00% | 2.25% | 11.75% | Hi | 7.80% | | |
| FY20-FY28 ⁽⁴⁾ | | | | 6.55% | 2.25% | 4.30% | | 6.40% |

Notes related to financial history and projections:

⁽¹⁾ Dedicated State Revenues in current and future fiscal years are based on the Spring 2018 Department of Revenue forecast.

⁽²⁾ Accounting net income is based on United States Generally Accepted Accounting Principles (GAAP).

⁽³⁾ Current year returns and inflation are based on 2018 Callan capital market assumptions. Actual results will vary.

⁽⁴⁾ Future returns are based on 2018 Callan capital market assumptions and median expected returns (the mid case). Actual results will vary.

⁽⁵⁾ During FY 2009, the ACIF realized losses of \$33.3 million, which are excluded from statutory net income, and are included in the ending unreserved balance as a deficit account. During FY 2010 and FY 2011, the ACIF had realized income of \$20.8 and \$25.3 million, which is excluded from statutory net income, and served to reduce the FY 2009 deficit.

⁽⁶⁾ The statutory inflation calculation for FY 2010 was -.36%; therefore, there was no inflation proofing transfer during FY 2010.

⁽⁷⁾ The dividend transfer reported for FY16 was paid out in dividends during FY17.

⁽⁸⁾ There was no appropriation for inflation proofing in FY16, FY17 and FY18.

⁽⁹⁾ Per AS 37.13.140, beginning in FY19, transfers are based on a percent of market value (POMV) calculation and are to the General Fund. In previous years transfers were based on an earnings calculation and were to the Dividend Fund.

Income Year-to-Date as of November 30, 2018

| FY19 Statutory Net Income | |
|--|------------|
| Interest, dividends, real estate & other incou | \$ 578.4 |
| Realized gains (losses) on the sale of assets | 903.0 |
| Less operating expenses | (51.4) |
| Less AK Capital Inc. Fund realized earnings | (9.7) |
| | \$ 1,420.3 |

| FY19 Accounting (GAAP) Net Income | |
|--|------------|
| Statutory net income (loss) | \$ 1,420.3 |
| Unrealized gains (losses) on invested assets | (1,478.3) |
| AK Capital Income Fund realized earnings | 9.7 |
| | \$ (48.3) |

| FY19 POMV Distribution (actual) | | FY20 Statutory Dividend Transfer (projected) | |
|------------------------------------|-------------|---|------------|
| Ending Fund Value (ex Am Hess) | | Statutory Net Income | |
| FY17 | \$ 59,360.6 | FY19 | \$ 3,873.5 |
| FY16 | 52,344.9 | FY18 | 6,324.4 |
| FY15 | 52,375.9 | FY17 | 3,214.2 |
| FY14 | 50,789.4 | FY16 | 2,198.0 |
| FY13 | 44,428.9 | FY15 | 2,907.0 |
| Average Value | \$ 51,860.0 | Avail for Dist (21%) | \$ 3,888.6 |
| Statutory Distribution | \$ 2,722.6 | Statutory Trnsfr Amt | \$ 1,944.3 |

| FY20 POMV Distribution (actual) | | FY21 Statutory Dividend Transfer (projected) | |
|------------------------------------|-------------|---|------------|
| Ending Fund Value (ex Am Hess) | | Statutory Net Income | |
| FY18 | \$ 64,469.7 | FY20 | \$ 3,941.4 |
| FY17 | 59,360.6 | FY19 | 3,873.5 |
| FY16 | 52,344.9 | FY18 | 6,324.4 |
| FY15 | 52,375.9 | FY17 | 3,214.2 |
| FY14 | 50,789.4 | FY16 | 2,198.0 |
| Average Value | \$ 55,868.1 | Avail for Dist (21%) | \$ 4,105.8 |
| Statutory Distribution | \$ 2,933.1 | Statutory Trnsfr Amt | \$ 2,052.9 |

Projections FY19

excerpt from APFC's History & Projections as of December 31, 2018

| Assumptions | Total Return | Inflation | Total Real Return | FYTD 19 11/30/18 | Statutory Return |
|---------------|--------------|-----------|-------------------|---------------------|------------------|
| Lo FY19 | -5.25% | 2.25% | -7.50% | -1.09% | Lo 5.00% |
| Mid FY19 | 5.95% | 2.25% | 3.70% | | Mid 6.40% |
| Hi FY19 | 14.00% | 2.25% | 11.75% | | Hi 7.80% |
| | | | | | |
| Mid FY20-FY28 | 6.55% | 2.25% | 4.30% | | 6.40% |

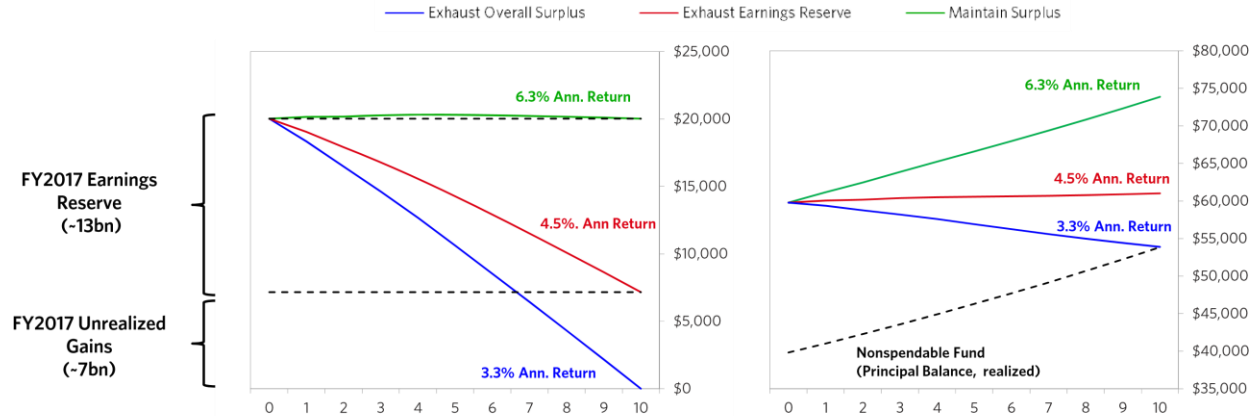
Based on 2018 Callan Capital Market Assumptions. Actual Results will vary.

Known vs. Unknown Draws from the Fund

- Board of Trustees Resolutions 18-01 and 18-04
 - Importance of Rules Based System
 - Structure, Predictability and Planning
 - Investment Management Best Practice
 - FY20 POMV Draw = \$2.9 billion
- Policy Debate – Role of the Fund
 - Budget Stabilization
 - Endowment
 - Principal vs ERA
- The Math
 - More Drawn = Less available for future expenditures and generation of investment income.
 - Spend Today or Invest for Tomorrow



Bridgewater Stress Analysis – December 2017



Assuming 2.25% Annual Inflation Proofing:

| | Required Return | Odds of Falling Short |
|--------------------------|-----------------|-----------------------|
| Exhaust Overall Surplus | 3.3% | 20% |
| Exhaust Earnings Reserve | 4.5% | 30% |
| Maintain Surplus | 6.3% | 48% |

Note: Probabilities based on Callan Return Estimates

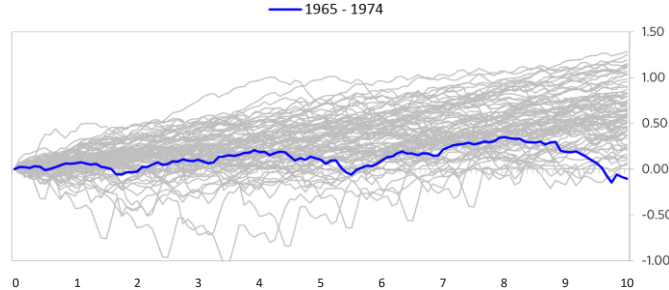
Note: the probabilities shown above assume all distributions are made in full. To the extent payments are reduced after depleting the earnings reserve, the odds of exhausting the "Overall Surplus" would be lower.

Data shown is based on cash flows provided by APFC and Bridgewater analysis. Assumes 5.25% distributions in years 1 & 2, and 5.00% distributions thereafter, calculated based on the rolling 5-year total fund balance. Probabilities of achieving stated returns are based on Callan assumptions provided by APFC, which indicate a 6.5% total return, 4.25% excess return, and 12.35% annual volatility. There is no guarantee the results shown will be achieved. Please review the "Important Disclosures and Other Information" located at the end of this document.

Bridgewater Stress Analysis – December 2017

STRESS TEST EXAMPLE: 1965-1974

Stress Test of Returns (Sim. Historical Returns Adjusted To Current 1.3% Cash Rate)



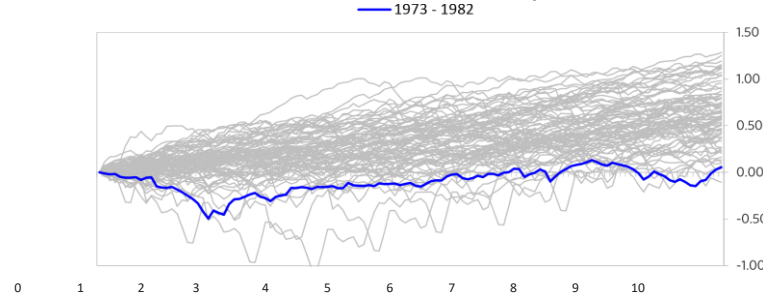
| Stagflation ('65-'74) | | | | | | | | | | |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Projection Year | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| Returns Year | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 |
| Rolling 5yr Fund Size (BOY) | \$52.3 | \$55.6 | \$56.0 | \$57.1 | \$58.8 | \$57.6 | \$56.0 | \$57.4 | \$59.0 | \$57.7 |
| Target Distribution (%) | 5.25% | 5.25% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Target Distribution (\$) | \$2.7 | \$2.9 | \$2.8 | \$2.9 | \$2.9 | \$2.9 | \$2.8 | \$2.9 | \$3.0 | \$2.9 |
| Asset Portfolio Return | 6.6% | -8.6% | 13.7% | 8.7% | -7.7% | -0.8% | 12.6% | 14.0% | -14.8% | -25.0% |
| Actual Distribution (\$) | \$2.7 | \$2.9 | \$2.8 | \$2.9 | \$2.9 | \$0.2 | \$0.0 | \$2.9 | \$3.0 | \$0.0 |
| % of Desired | 100% | 100% | 100% | 100% | 100% | 7% | 0% | 100% | 100% | 0% |
| Total Fund Size (EOY) | \$61.3 | \$53.5 | \$58.4 | \$60.9 | \$53.7 | \$53.4 | \$60.5 | \$66.5 | \$54.2 | \$41.1 |
| Earnings Reserve (EOY) | \$13.2 | \$4.1 | \$7.6 | \$8.8 | \$0.2 | \$0.0 | \$6.3 | \$10.8 | \$0.0 | \$0.0 |
| Economic Surplus (EOY) | \$20.3 | \$11.2 | \$14.8 | \$16.0 | \$7.4 | \$6.7 | \$13.5 | \$18.0 | \$4.1 | -\$9.5 |
| Cumulative Distributions | \$2.7 | \$5.7 | \$8.5 | \$11.3 | \$14.3 | \$14.5 | \$14.5 | \$17.3 | \$20.3 | \$20.3 |
| Cum. Expected @ 6.5% Return | \$2.7 | \$5.7 | \$8.6 | \$11.6 | \$14.7 | \$17.9 | \$21.2 | \$24.6 | \$28.0 | \$31.5 |
| % of Expected (@6.5% Return) | 100% | 100% | 99% | 98% | 97% | 81% | 68% | 71% | 72% | 64% |
| Cumulative Missed Inf. Payments | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | -\$1.0 | -\$2.1 | -\$2.1 | -\$2.1 | -\$3.3 |
| Real Value of Principal Balance | \$40.1 | \$40.4 | \$40.8 | \$41.1 | \$41.4 | \$40.8 | \$40.3 | \$40.6 | \$41.0 | \$40.5 |

In the analysis above, simulated excess return of the APFC portfolio are added to Bridgewater forward looking cash rate of 1.3%. Each gray line represents a distinct 10-year period, beginning in January 1925. Estimates of the distributions and future capacity measures are based on the cash flows provided by APFC and Bridgewater analysis. Assumes 5.25% distributions in years 1 & 2, and 5.00% distributions thereafter, calculated based on the rolling 5-year total fund balance, and annual 2.25% inflation proofing payments. For more detail on the APFC modeling assumptions, please refer to the disclosures at the end of the presentation. HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING OR THE COSTS OF MANAGING THE PORTFOLIO. ALSO, SINCE THE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. Past performance is not indicative of future results. Please review the "Important Disclosures and Other Information" located at the end of this document.

Bridgewater Stress Analysis – December 2017

STRESS TEST EXAMPLE: 1973-1982

Stress Test of Returns (Sim. Historical Returns Adjusted To Current 1.3% Cash Rate)



| Inflation + Volcker Tightening ('73-'82) | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Projection Year | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| Returns Year | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
| Rolling 5yr Fund Size (BOY) | \$52.3 | \$53.0 | \$50.1 | \$48.5 | \$48.3 | \$46.3 | \$47.1 | \$50.6 | \$53.1 | \$52.5 |
| Target Distribution (%) | 5.25% | 5.25% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Target Distribution (\$) | \$2.7 | \$2.8 | \$2.5 | \$2.4 | \$2.4 | \$2.3 | \$2.4 | \$2.5 | \$2.7 | \$2.6 |
| Asset Portfolio Return | -14.8% | -25.0% | 23.6% | 13.4% | 0.2% | 5.0% | 5.9% | 12.0% | -11.9% | 7.4% |
| Actual Distribution (\$) | \$2.7 | \$0.4 | \$0.0 | \$0.0 | \$2.4 | \$0.1 | \$2.4 | \$2.5 | \$2.7 | \$0.0 |
| % of Desired | 100% | 14% | 0% | 0% | 100% | 4% | 100% | 100% | 100% | 0% |
| Total Fund Size (EOY) | \$48.6 | \$36.4 | \$45.3 | \$51.7 | \$49.7 | \$52.5 | \$53.6 | \$58.0 | \$48.8 | \$52.9 |
| Earnings Reserve (EOY) | \$0.4 | \$0.0 | \$0.0 | \$2.5 | \$0.1 | \$2.5 | \$3.1 | \$6.4 | \$0.0 | \$0.0 |
| Economic Surplus (EOY) | \$7.6 | -\$5.0 | \$3.6 | \$9.6 | \$7.2 | \$9.7 | \$10.3 | \$13.6 | \$2.9 | \$6.5 |
| Cumulative Distributions | \$2.7 | \$3.1 | \$3.1 | \$3.1 | \$5.6 | \$5.6 | \$8.0 | \$10.5 | \$13.2 | \$13.2 |
| Cum. Expected @ 6.5% Return | \$2.7 | \$5.7 | \$8.6 | \$11.6 | \$14.7 | \$17.9 | \$21.2 | \$24.6 | \$28.0 | \$31.5 |
| % of Expected (@6.5% Return) | 100% | 56% | 37% | 27% | 38% | 32% | 38% | 43% | 47% | 42% |
| Cumulative Missed Inf. Payments | \$0.0 | -\$0.9 | -\$1.9 | -\$2.9 | -\$3.8 | -\$4.8 | -\$5.8 | -\$6.3 | -\$6.3 | -\$7.5 |
| Real Value of Principal Balance | \$40.1 | \$39.6 | \$39.0 | \$38.5 | \$38.0 | \$37.5 | \$37.1 | \$37.1 | \$37.6 | \$37.1 |

In the analysis above, simulated excess return of the APFC portfolio are added to Bridgewater forward looking cash rate of 1.3%. Each gray line represents a distinct 10-year period, beginning in January 1925. Estimates of the distributions and future capacity measures are based on the cash flows provided by APFC and Bridgewater analysis. Assumes 5.25% distributions in years 1 & 2, and 5.00% distributions thereafter, calculated based on the rolling 5-year total fund balance, and annual 2.25% inflation proofing payments. For more detail on the APFC modeling assumptions, please refer to the disclosures at the end of the presentation. HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING OR THE COSTS OF MANAGING THE PORTFOLIO. ALSO, SINCE THE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVER COMPENSATED FOR THE IMPACT IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. Past performance is not indicative of future results. Please review the "Important Disclosures and Other Information" located at the end of this document.

The background of the slide is a solid teal color. Overlaid on this background is a close-up photograph of a pine branch with several clusters of pine cones. The image is semi-transparent, allowing the teal background to show through. The pine needles are sharp and pointed, while the cones are more rounded and textured.

Moving Forward

Growing the Fund – Legislative Initiatives

FY20 Budget Initiatives

- The Board of Trustees has authorized a FY20 budget request totaling \$176,781,600 as a means of ensuring APFC has the resources necessary to continue to effectively manage the Corporation and the assets under its stewardship. This request includes 4 new positions, an incentive compensation program for investment staff, retention and merit adjustments for all staff, and an increment for the investment management allocation which reflects growing assets under management.

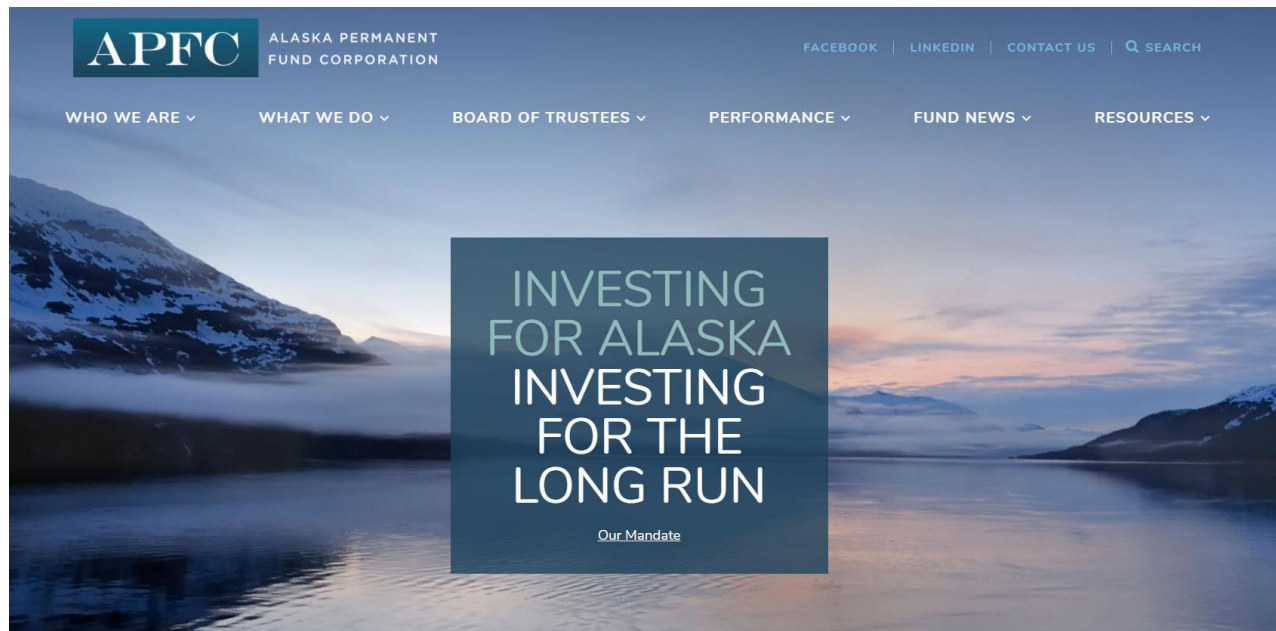
Procurement Streamlining

- To improve APFC's ability to quickly and efficiently contract with vendors needed to assist APFC staff when directly investing Fund assets, the Board has authorized the pursuit of an exemption from the State Procurement Code for APFC contracts where the work to be performed is related to the investment and monitoring of assets managed by APFC.

Inflation Proofing the Principal

- Consensus on inflation proofing the principal of the Alaska Permanent Fund is essential to ensuring that the Principal maintains its purchasing power over time for the benefit of future generations of Alaskans. The Board has provided guidance in Resolution 18-04 and authorized the pursuit of a statutory provision to guarantee an annual inflation proofing transfer.

Additional Resources



www.apfc.org

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

Follow APFC





Questions?



Appendix

Financial Statements

ALASKA PERMANENT FUND

Balance Sheets

| Unaudited (millions of dollars) | December 31, 2018 | June 30, 2018 |
|--|----------------------|------------------|
| Assets | | |
| Cash and temporary investments | \$ 3,971.9 | 4,906.1 |
| Receivables, prepaid expenses and other assets | 400.3 | 664.1 |
| Investments: | | |
| Marketable debt securities | 12,370.3 | 11,546.6 |
| Preferred and common stock | 22,562.8 | 26,248.8 |
| Real estate | 5,451.7 | 5,460.9 |
| Absolute return | 3,815.3 | 5,288.1 |
| Private credit | 1,665.2 | 1,311.4 |
| Private equity | 8,146.9 | 7,198.3 |
| Infrastructure | 3,460.3 | 3,035.3 |
| Total investments | 57,472.5 | 60,089.4 |
| TOTAL ASSETS | \$ 61,844.7 | 65,659.6 |
| Liabilities | | |
| Accounts payable | \$ 414.5 | 721.8 |
| Income distributable to the State of Alaska | 1,060.5 | 43.4 |
| TOTAL LIABILITIES | 1,475.0 | 765.2 |
| Fund Balances | | |
| Nonspendable: | | |
| Permanent Fund corpus - contributions and appropriations | 40,373.6 | 40,167.4 |
| Not in spendable form - unrealized appreciation on invested assets | 3,362.1 | 5,862.6 |
| Total nonspendable | 43,735.7 | 46,030.0 |
| Committed: | | |
| General Fund Commitment | 0.0 | 2,722.7 |
| Current FY inflation proofing | 985.1 | 0.0 |
| Current FY AK Capital Income Fund | 10.9 | 0.0 |
| Total committed | 996.0 | 2,722.7 |
| Assigned for future appropriations: | | |
| Realized earnings | 14,359.3 | 13,739.0 |
| Unrealized appreciation on invested assets | 1,278.7 | 2,402.7 |
| Total assigned | 15,638.0 | 16,141.7 |
| TOTAL FUND BALANCES | 60,369.7 | 64,894.3 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 61,844.7 | 65,659.6 |

ALASKA PERMANENT FUND

Statements of Revenues, Expenditures and Changes in Fund Balances

| Unaudited (millions of dollars) | Month ended December 31, 2018 | Six months ended December 31, 2018 | Fiscal year-end audited June 30, 2018 |
|--|-------------------------------------|--|---|
| Revenues | | | |
| Interest | \$ 52.4 | 267.7 | 459.4 |
| Dividends | 56.2 | 269.3 | 640.6 |
| Real estate and other income | 13.5 | 163.5 | 480.5 |
| Total interest, dividends, real estate and other income | 122.1 | 700.5 | 1,580.5 |
| Net increase (decrease) in the fair value of investments: | | | |
| Marketable debt securities | 95.5 | (150.3) | (424.6) |
| Preferred and common stock | (1,931.8) | (3,067.1) | 2,362.8 |
| Real estate | (82.8) | (131.5) | 65.6 |
| Absolute return | (31.2) | (91.8) | 221.7 |
| Private credit | 8.7 | 26.5 | 62.5 |
| Private equity | (0.8) | 750.8 | 1,599.8 |
| Infrastructure | 11.6 | 163.6 | 337.4 |
| Derivative Instruments | (115.6) | (26.3) | (19.5) |
| Currency | (27.0) | (122.6) | (114.7) |
| Total net increase (decrease) in investments | (2,073.4) | (2,648.7) | 4,091.0 |
| TOTAL REVENUES | (1,951.3) | (1,948.2) | 5,671.5 |
| Expenditures | | | |
| Operating expenditures | (8.5) | (57.4) | (138.8) |
| Other legislative appropriations | 0.0 | (2.6) | (7.2) |
| TOTAL EXPENDITURES | (8.5) | (60.0) | (146.0) |
| Excess (deficiency) of revenue over expenditures | \$ (1,959.8) | (2,008.2) | 5,525.5 |
| Other Financing Sources (Uses) | | | |
| Transfers in | 34.7 | 206.2 | 353.1 |
| General Fund commitment | (250.0) | (1,060.5) | 0.0 |
| Transfers out | 250.0 | (1,662.1) | (769.3) |
| NET CHANGE IN FUND BALANCES | (1,925.1) | (4,524.6) | 5,109.3 |
| Fund Balances | | | |
| Beginning of period | 62,294.8 | 64,894.3 | 59,785.1 |
| End of period | \$ 60,369.7 | 60,369.7 | 64,894.3 |

Statutory Income Calculation

| | | | |
|---|-----------|-----------|---------|
| Excess (deficiency) of revenues over (under) expenditures | (1,959.8) | (2,008.2) | 5,525.5 |
| Adjustments to bring net income to statutory net income: | | | |
| Unrealized (gains) losses | 2,146.1 | 3,624.4 | 842.3 |
| Alaska Capital Income Fund realized income | (1.2) | (10.8) | (43.4) |
| STATUTORY NET INCOME | \$ 185.1 | 1,605.4 | 6,324.4 |

ALASKA PERMANENT FUND

Receivables and Payables

| Unaudited (millions of dollars) | December 31, 2018 |
|------------------------------------|----------------------|
|------------------------------------|----------------------|

Accounts Receivable

| | |
|---------------------------------------|-----------------|
| Interest Receivable | \$ 111.4 |
| Dividends Receivable | 50.2 |
| Foreign Exchange Contracts Receivable | 0.0 |
| Pending Sales Fixed Income | 165.2 |
| Pending Sales Equities | 18.5 |
| Pending Sales Alternative Investments | 0.9 |
| State Dedicated Revenues Receivable | 54.1 |
| Pending Sales Real Estate/REITs | 0.0 |
| Prepaid and Other Receivables | 0.0 |
| TOTAL RECEIVABLES | <u>\$ 400.3</u> |

Accounts Payable

| | |
|------------------------------------|-----------------|
| Accrued Operating Payables | \$ 23.5 |
| Pending Purchase Fixed Income | 351.3 |
| Pending Purchase Equities | 36.3 |
| Pending Purch. Alt. Investmnt | 3.2 |
| Pending Purchase Real Estate/REITs | 0.2 |
| TOTAL PAYABLES | <u>\$ 414.5</u> |