



APFC

ALASKA PERMANENT
FUND CORPORATION

House of Representatives

May 7th, 2019

1969 The Debate Begins



Alaska receives \$900 million in Prudhoe lease sale bonuses.

FY70 state budget: \$173 million.



The Alaska Permanent Fund



1976 Alaska voters approve a Constitutional Amendment establishing the Permanent Fund.

1977 Permanent Fund receives its first deposit of constitutionally dedicated oil revenues; \$734,000.

1980 The Alaska Permanent Fund Corporation is established to manage and invest the Fund.

2019 The Fund now has over \$64 billion in assets under management.

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 Mission & Vision

APFC's Mission

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



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.

The background of the slide is a teal color with a faint, semi-transparent image of pine needles and cones. The text "The Fund" is centered in the upper half of the image.

The Fund

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.

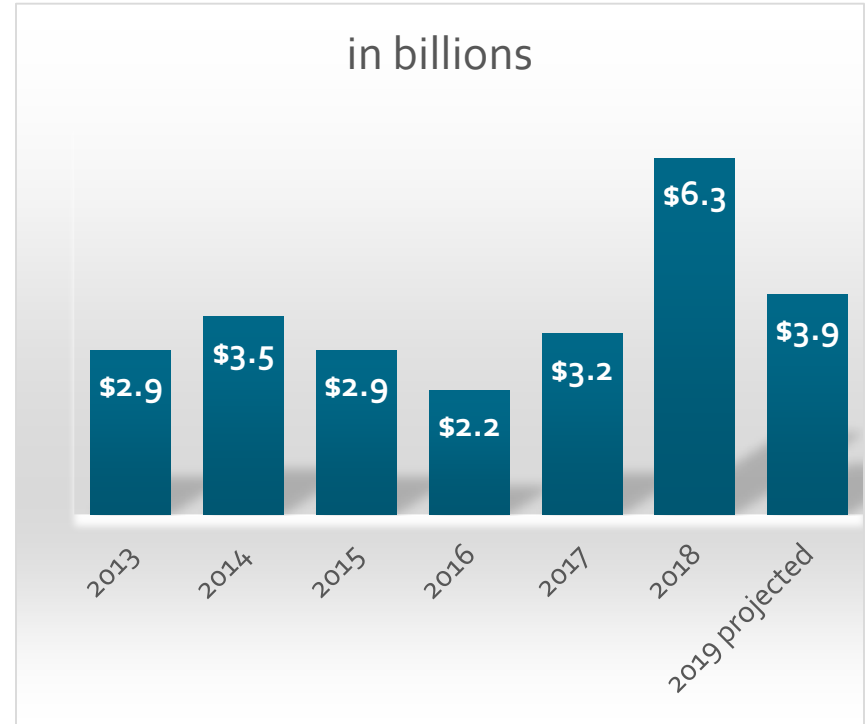
	In millions	
Fiscal Year	Inflation Transfer	Royalty Deposits
2009	\$1,144	\$651
2010	\$0	\$679
2011	\$533	\$887
2012	\$1,073	\$915
2013	\$743	\$840
2014	\$546	\$779
2015	\$624	\$600
2016	\$0	\$285
2017	\$0	\$365
2018	\$0	\$353
2019	\$942*	\$296**
2020	\$943*	394.6*

*Estimated based on projections

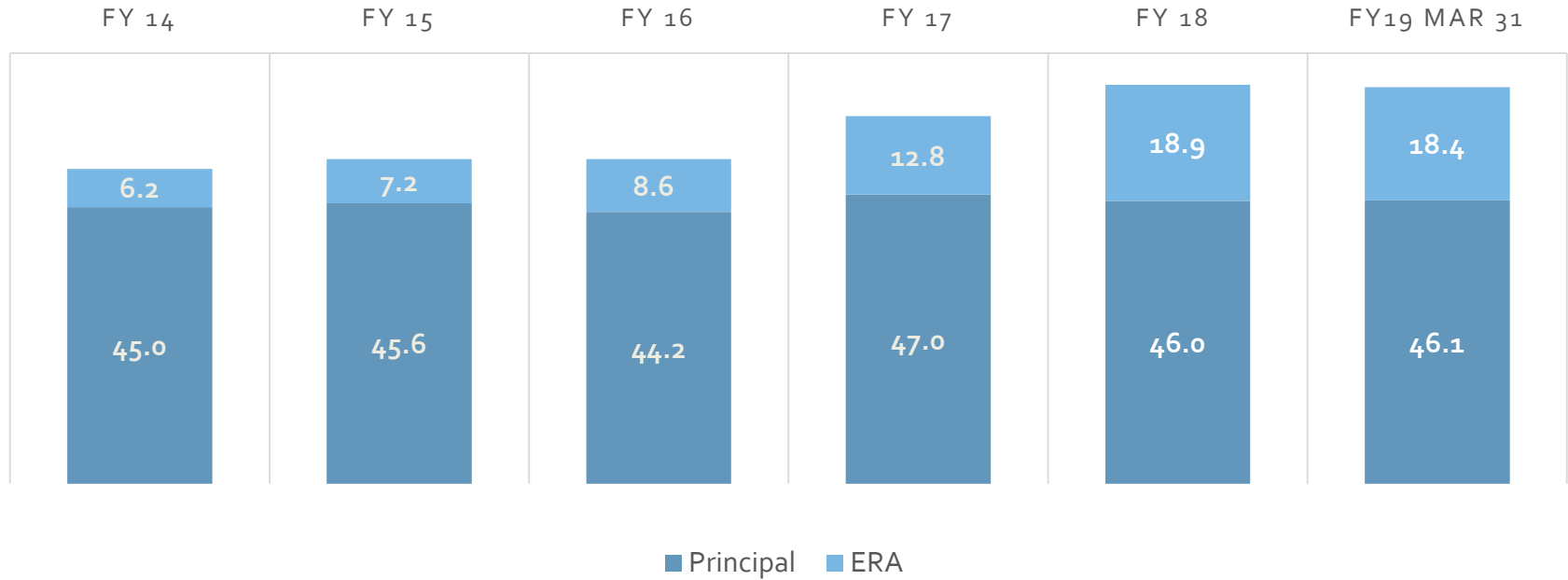
**Only 25% based on appropriation language

Statutory Net Income AS 37.13.140

- Pursuant to state law (AS 37.13.140), at the end of each fiscal year APFC calculates and reports on the net realized gains accounted for during the fiscal year.
 - These net realized gains and investment income are the funds in the ERA that are subject to appropriation by a simple majority of the Alaska Legislature.
- Net realized gains = realized gains accumulated during the fiscal year (-) minus realized losses accounted for during the year.
 - Unrealized gains earned by Principal are part of Principal, only until realized at which time they are transferred to the ERA.



Assets Under Management in billions



Values

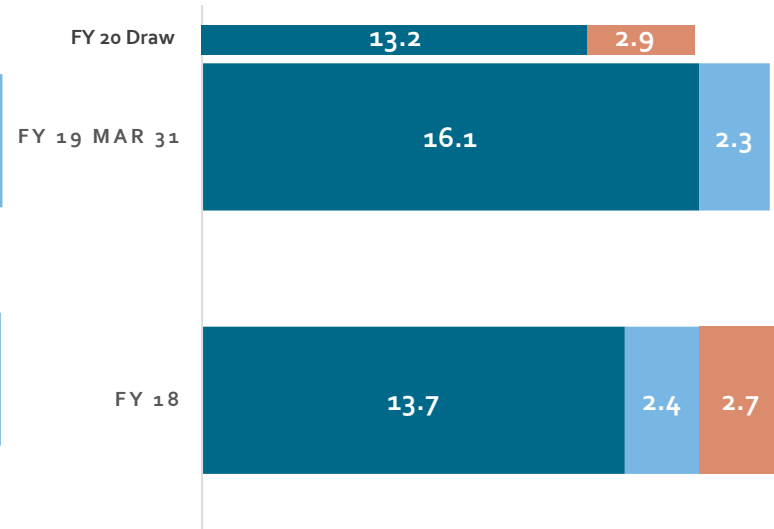
PRINCIPAL

■ Contributions ■ Unrealized Gains



ERA

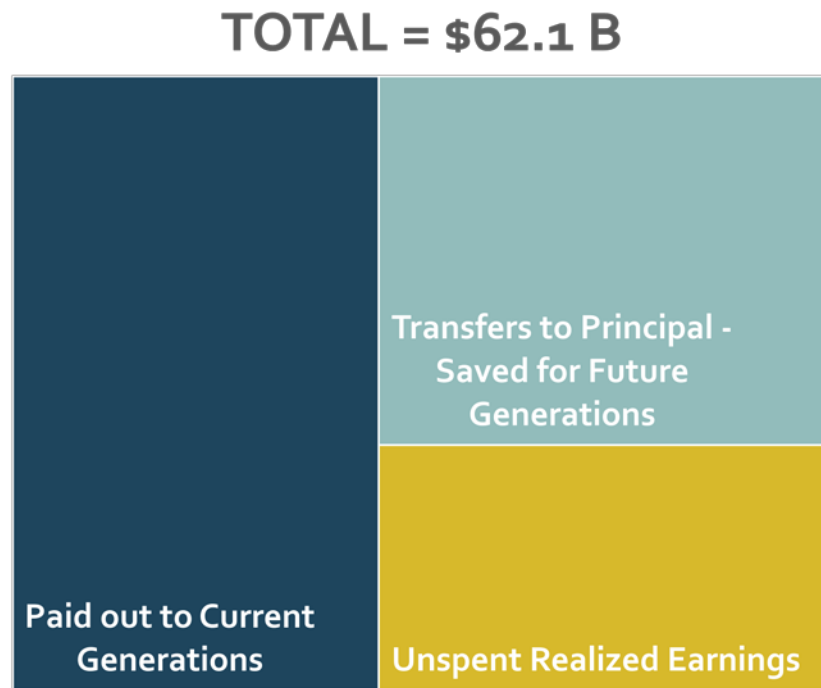
■ Realized Earnings ■ Unrealized Gains ■ POMV



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



Uses of Corporate Activity

- 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 House
Percent of Market Value – POMV	2,722,600,000	2,933,084,100
Inflation Proofing the Principal	942,000,000	943,000,000
APFC Operations	18,074,600	17,800,400
APFC Investment Management Fees	150,498,700	155,795,000
Dept. of Law	2,619,100	2,617,700
Dept. of Natural Resources	6,044,800	6,132,600
Dept. of Revenue	94,500	97,900

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

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)



Investment of the Fund

Allocation Structure

- The asset allocation structure is organized by growth and income strategies, as well as liquidity objectives.
- This strategic categorization provides a framework for ensuring that investment return targets are commensurate with the risks undertaken.

ASSET ALLOCATION STRUCTURE

GROWTH

Tradeable/Liquid
• Public Equities
(Stocks)

Illiquid

- Private Equity
- Absolute Return
- Allocation Strategies

INCOME

Tradeable/Liquid
• Fixed Income Plus
(Bonds)
• Cash

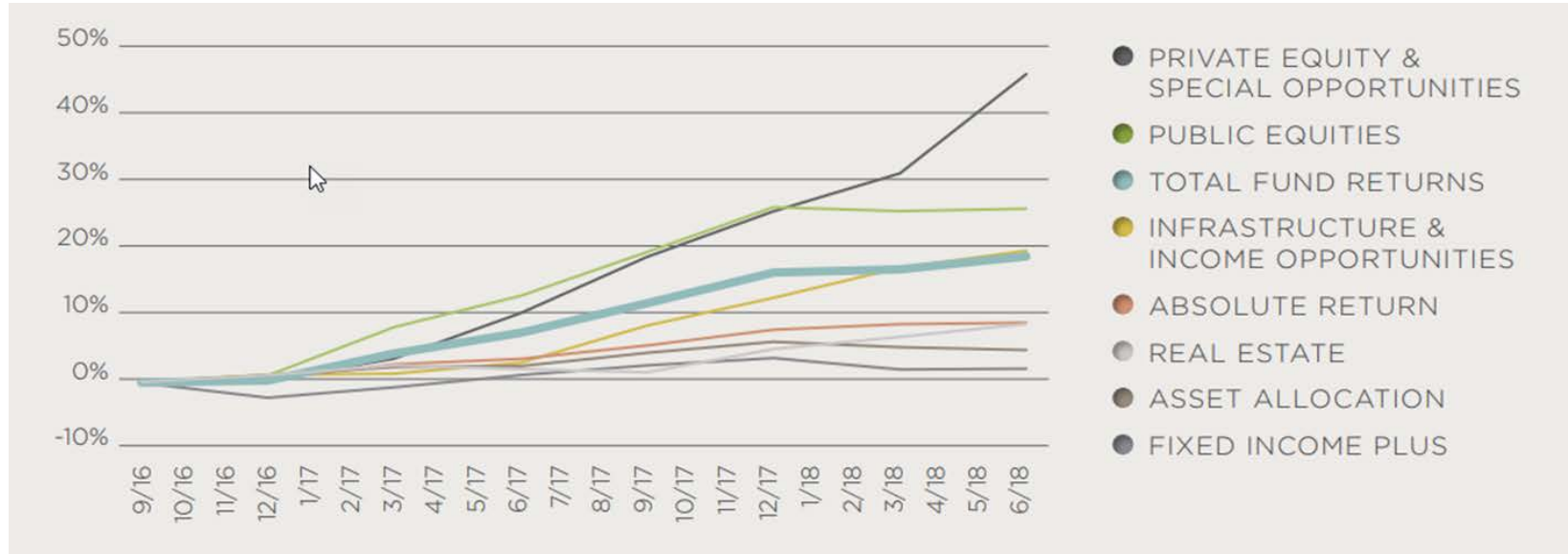
Illiquid

- Real Estate
- Infrastructure

Each asset class contributes to the total Fund return and provides quality and diversity of the portfolio's investments.

Diversified Assets and Returns

The Fund is invested across seven asset classes in both public and private markets, a portfolio designed to deliver compelling long-term returns under a variety of potential market conditions. APFC employs a combination of internally-managed direct investments, alongside externally-managed fund investments, in order to secure access to high-quality, global opportunities.



Where We Invest



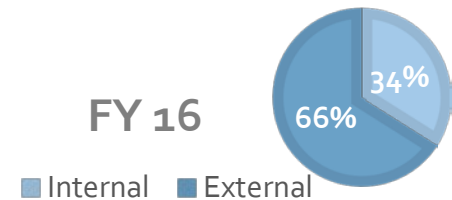
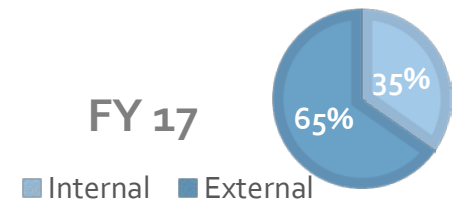
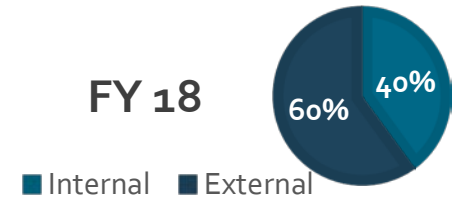
As of June 30, 2018

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

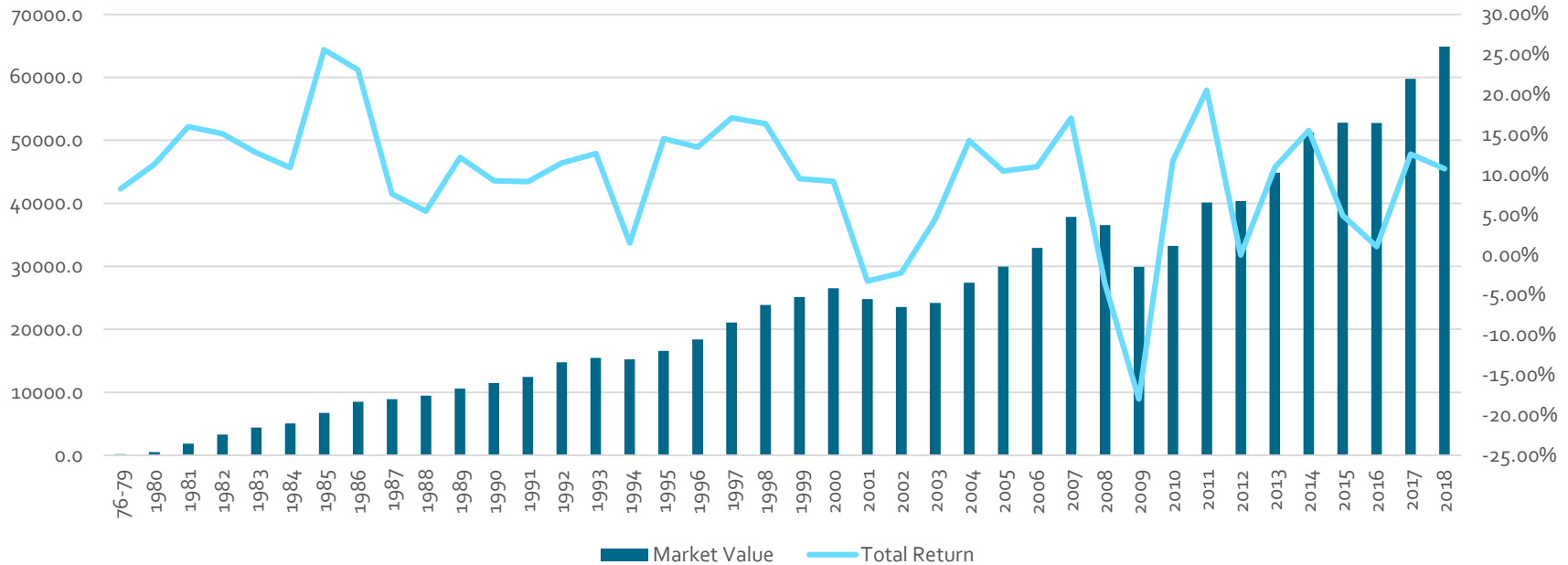




Awards & Accomplishments

- Marcus Frampton, CIO, named one of **Private Equity International's** 40 under 40 Future Leaders of Private Equity
- Jared Brimberry, Senior Portfolio Manager was selected as one of **Private Debt Investor's (PDI) Rising Stars 2019**
- Selected as **North American 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*

Fund Value and Returns



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

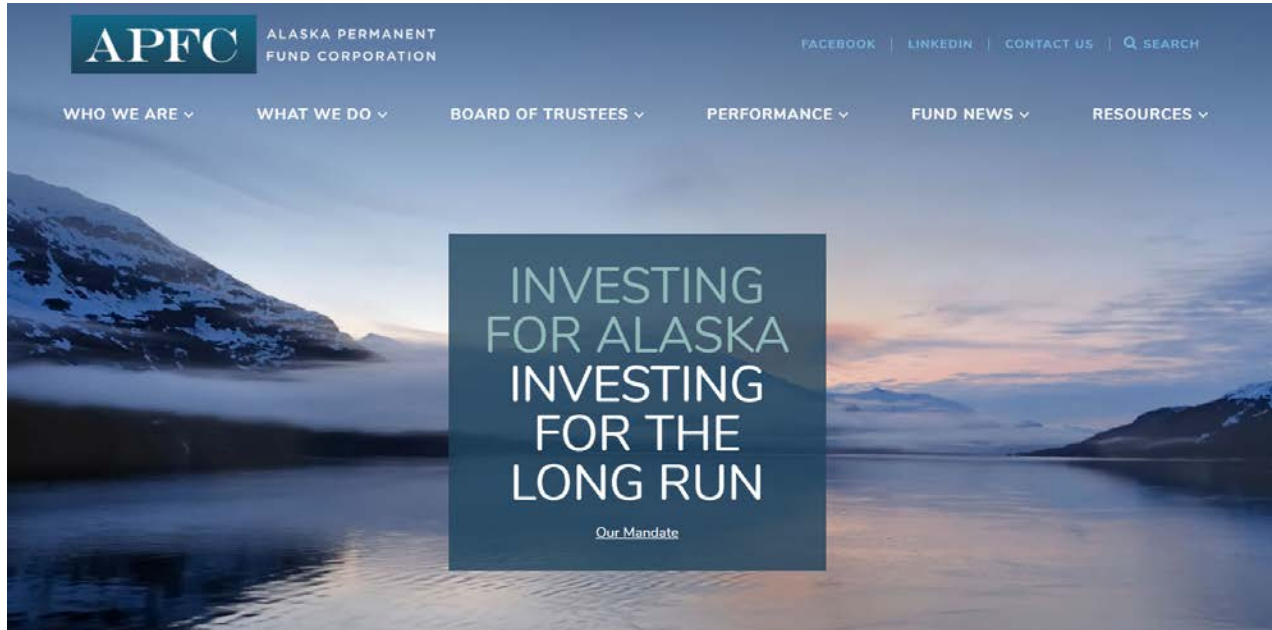
Value Generated Per Day (based on 251 active trading days through FY18)

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

Additional Resources



www.apfc.org

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Questions?