



APFC

ALASKA PERMANENT
FUND CORPORATION

Senate Finance Committee
APFC & The Alaska Permanent Fund
January 31, 2020

1969



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.

2020 The Fund now has over \$66 billion in assets under management.

APFC – 40 Years

Forty years ago, on April 8, 1980

- Governor Jay Hammond signed SB 161 into law, establishing the Alaska Permanent Fund Corporation as an independent state entity tasked with the management and investment of the Alaska Permanent Fund.

Today

- APFC is a talented, award-winning, investment firm that embodies the resiliency, integrity, and pioneer spirit of Alaska.
- The influence of our dynamic, Alaskan corporation extends around the world based on APFC's practices of good governance, transparency, and a long-term investment horizon.





Generating Revenue for AK

As stewards of the Alaska Permanent Fund, our team possesses the skill and efficiency to ensure that Alaskans benefit from this resource for generations to come.

APFC's Mission

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

APFC's Vision

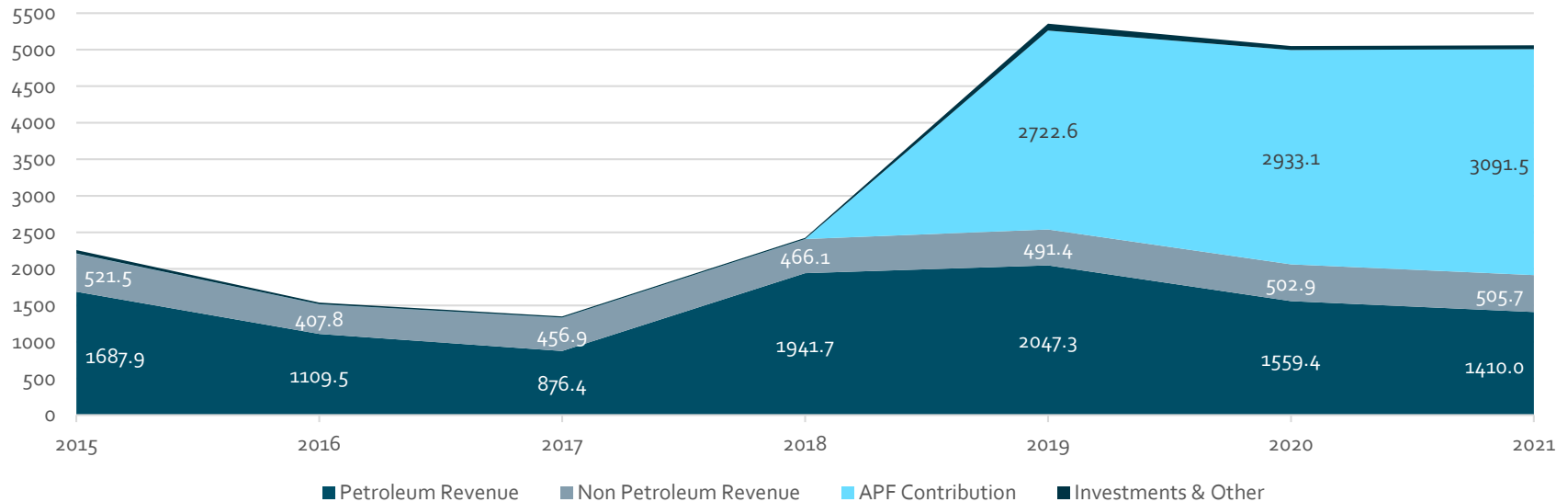
To deliver sustained, compelling investment returns as the United States' leading sovereign endowment manager, benefitting all current and future generations of Alaskans.

APFC's Values

Integrity – Stewardship – Passion

#1 Source of Revenue

Contributions to the Unrestricted General Fund (in millions)



DOR – Fall Revenue Forecasts 2015-2019

POMV – AS 37.13.140 (b)

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

5.0% - Effective July 1, 2021 (FY22)

- FY22 5.0% POMV = \$3.1 billion
- FY23 5.0% POMV = \$3.3 billion
- FY24 5.0% POMV = \$3.4 billion

As of 12/31/2019

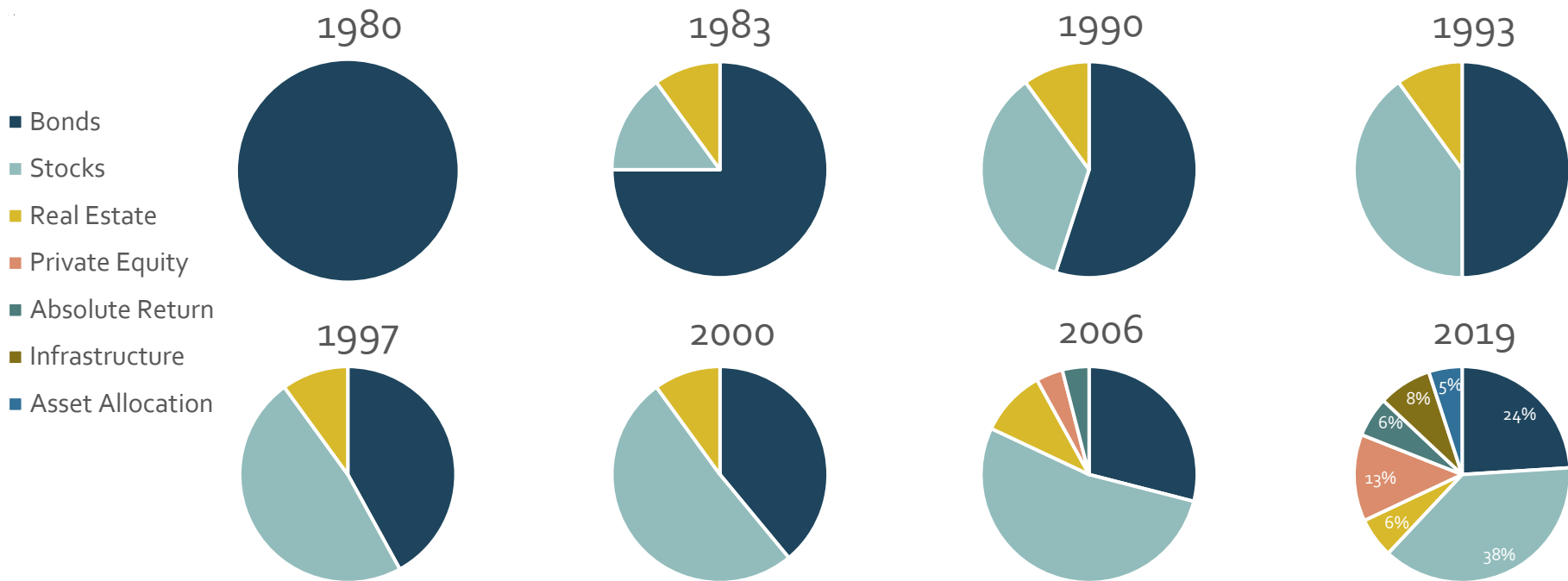
The image is a full-page background featuring a serene landscape. In the foreground, there's a body of water with some rocks and a small sandy patch. The middle ground shows a range of mountains, some with snow or light-colored rock. The sky is a deep blue, and a bright sunburst effect is visible in the upper right quadrant. The word "Investing" is centered in the middle of the image in a white, sans-serif font.

Investing

Investment Responsibilities AS 37.13.120

- **When adopting regulations or managing and investing fund assets, the prudent-investor rule shall be applied by the corporation.** The corporation shall exercise the judgment and care that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the designation and management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering preservation of the purchasing power of the fund over time while maximizing the expected total return from both income and the appreciation of capital.
- **The corporation may not borrow money or guarantee from principal of the fund the obligations of others.** Except the corporation may, either directly or through an entity in which the investment is made, borrow money if the borrowing is nonrecourse to the corporation and the fund.
- **The board shall maintain a reasonable diversification among investments unless, under the circumstances, it is clearly prudent not to do so.** The board shall invest the assets of the fund in in-state investments to the extent that in-state investments are available and if the in-state investment provides the same risk-reward benefit as other investment opportunities.

Historical Asset Allocation based on actuals



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.
- The Board of Trustees reviews the Asset Allocation annually.

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

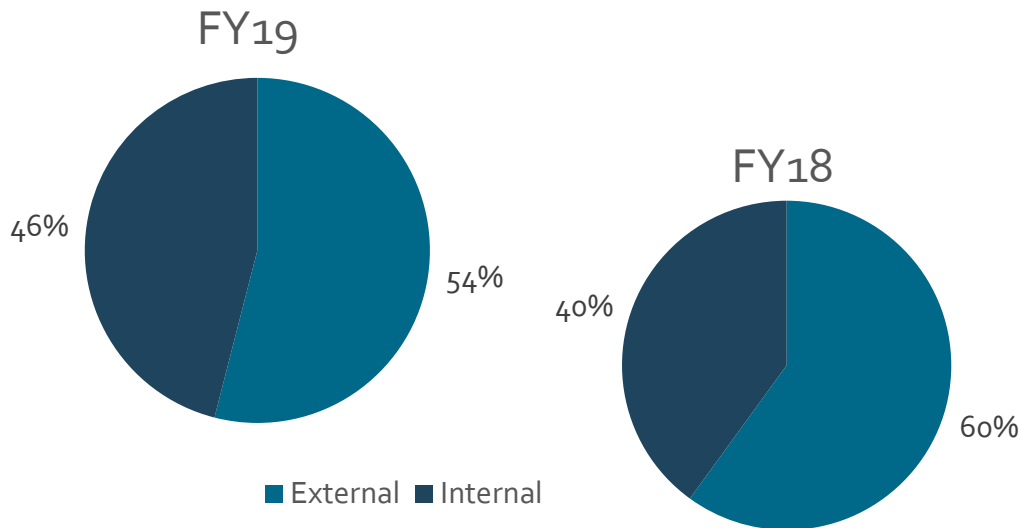
Each asset class contributes to the total Fund return and provides quality and diversity of the portfolio's investments.

Management of the Fund

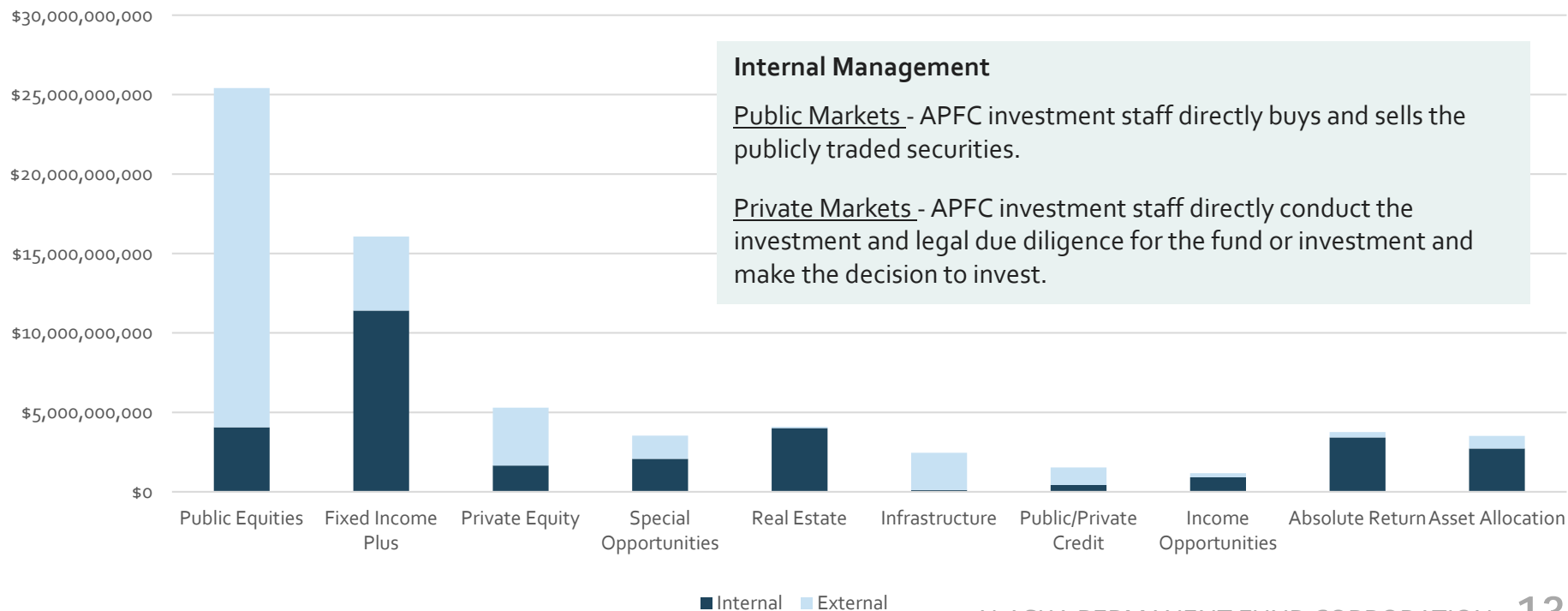
The Board of Trustees continues to work towards an optimal mix of in-house versus external management capabilities based on resources and opportunities.

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

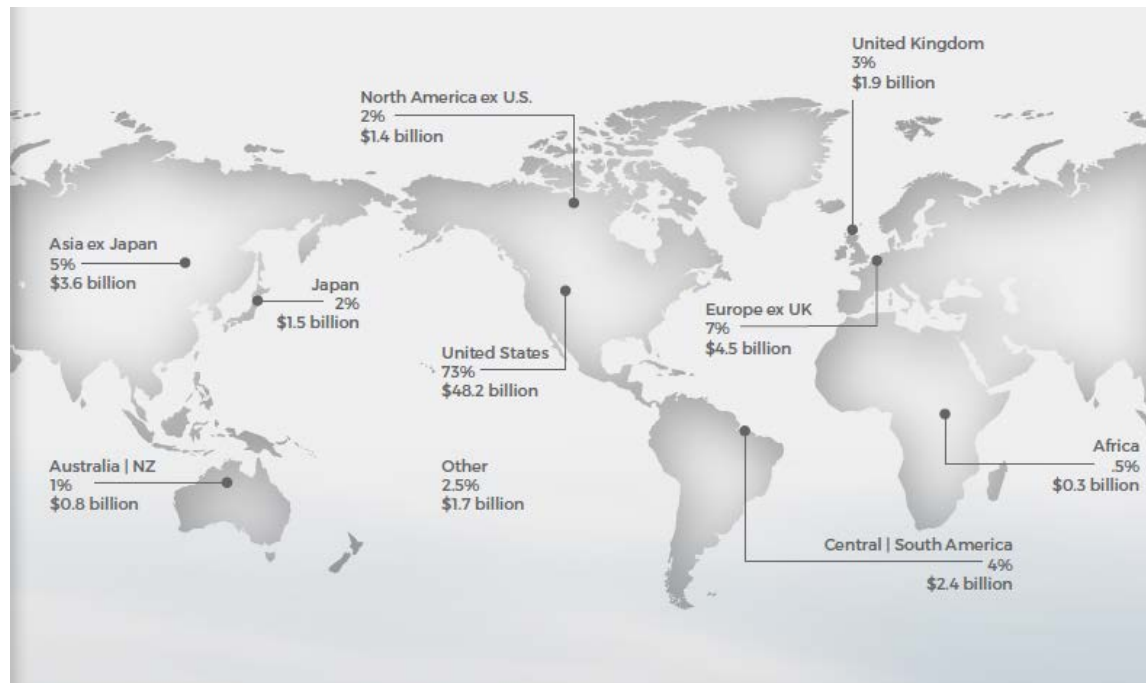




Awards & Accomplishments

- Angela Rodell, CEO ranked in the Top 5 of *Sovereign Wealth Quarterly's* **100 Most Significant and Impactful Asset Owner and Public Executives of 2019**.
- Marcus Frampton, CIO named one of *Private Equity International's* **40 under 40 Future Leaders** of Private Equity and *Trusted Insight's* **Sovereign Wealth Fund CIO of the Year for 2019**. Recognized amongst *CIO Magazines' Power 100* of 2019 and for their **2019 Industry Innovation Awards**.
- *PEI's Private Debt Magazine* recognized APFC in their inaugural **30 Most Influential Investors in Private Credit** for our internal management team's pioneering contributions in this asset class.
- Chad Brown, Human Resources Manager was accepted into *Forbes Human Resource Council*.
- Tom O'Day, Portfolio Manager – Fixed Income, selected by *Chief Investment Officer Magazine* for their **Class of 2019 NextGen Award**.
- Steve Moseley, Director of Alternative Assets was recognized as one of the **2018 Top 30 Private Equity, Venture Capital Investors** by *Trusted Insight*.
- The Alaska Permanent Fund selected as **North American Limited Partner of the Year for 2018** by *Private Equity International* for the second year in a row.
- 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**.

Global Diversification as of June 30, 2019





Outcomes

Fiscal Year 2019 Performance as of June 30th, 2019

	FY 19	3 Years	5 Years	Since Inception
Total Fund	6.32%	9.96%	7.13%	8.79%
Passive Index Benchmark <small>(60 Stocks 20 Bonds 10RE 10 TIPs)</small>	5.59%	7.87%	4.69%	-na-
Performance Benchmark	7.50%	8.97%	6.00%	8.94%
Total Fund Return Objective CPI+5%	6.65%	7.05%	6.45%	7.65%

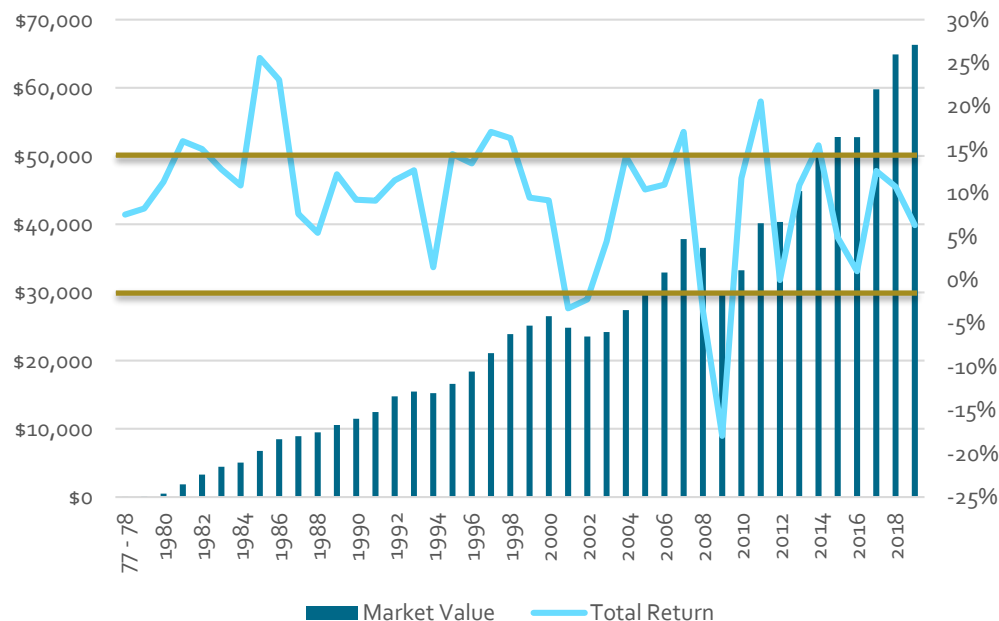
Value Added Over the Passive Index

FY19: \$473.7 million | 0.73%

5 year: \$6.2 billion | 2.44%

Fund Value and Returns in millions

- 1977** Initial Legislation permitted an investment list that included only fixed income securities such as treasury bonds.
- 1983** Following changes to the statutory investment list, the Fund makes its first investment in the stock market, and later that year, indirectly held real estate.
- 1990** After the Legislature expands the statutory investment list, the Fund begins to invest in stock and bond markets outside the United States.
- 2005** The Legislature makes a significant change in how Permanent Fund investments are determined, by removing the allowed investment list from state law. The Trustees will make investment decisions under the guidelines of the prudent investor rule.





Forecasting

Future Growth of the Fund – 10 year Capital Markets Forecast

- For planning purposes, APFC references both a current fiscal year and a 10-year forecast for the projected return of the Fund that is provided by our performance consultant, Callan Associates.
- It is understood that there will be a wide range of returns delivered by each asset class to the total Fund performance over any given time.
- Callan Associates projects a total return of 7% over the next 10-year period for the portfolio that APFC has constructed for the Fund.
- They also project an inflation rate of 2.25% over that same period, which brings the real return for the portfolio to 4.75% over the 10-year period from FY21-FY29.

Callan's Capital Markets Forecast

Asset Category	Projected 10-Year Geometric Return	Annualized Standard Deviation
Global Equities	7.30%	18.65%
Cash Equivalents	2.50%	0.90%
US TIPS	3.75%	5.05%
US Fixed Income	3.75%	3.75%
Investment Grade Credit	4.20%	4.50%
Non US Fixed Income	1.40%	9.20%
Emerging Markets Debt	5.05%	9.50%
High Yield Fixed Income	5.35%	10.35%
Global REITS	6.75%	19.20%
Global Listed Infrastructure	6.50%	17.75%
Private Equity	8.50%	29.30%
Real Estate	6.25%	15.70%
Private Infrastructure	6.75%	18.00%
Absolute Return	5.50%	8.85%

10 year horizon	2018	2019
Total Return	6.55%	7.00%
Statutory Return	6.40%	7.00%
Inflation	2.25%	2.25%

Projections FY 20

excerpt from APFC's History & Projections as of December 31, 2019

Assumptions	Total Return	Inflation	Total Real Return	Statutory Return
Lo FY20	-0.52%	1.53%	-2.05%	5.27%
Mid FY20	6.61%	1.53%	5.08%	6.55%
Hi FY20	13.97%	1.53%	12.44%	7.98%
Mid FY20-FY28	7.00%	2.25%	4.75%	7.00%

Based on 2019 Callan Capital Market Assumptions.
Actual Results will vary.

History & Projections – Dec 31, 2019

The Fund is projected to have a balance of **\$84.6 Billion at the end of FY29.**

- This projection assumes the **7% total return over ten years**, and
- **Adherence** to rules-based deposits into & withdrawals from the Fund.

Royalty Deposits - AS 37.13.010 (a) (1) & (a) (2)

- Constitutional minimum of 25%
- Statutory 50% for leases after 1979

Inflation Proofing - AS 37.13.145 (c)

- Annual CPI calculated on the Principal Amount

POMV - AS 37.13.140 (b) and AS 37.13.145 (e) & (f)

- *(e) The legislature may not appropriate from the earnings reserve account to the general fund a total amount that exceeds the amount available for appropriation under AS 37.13.140(b) in a fiscal year.*
- *(f) The combined total of the transfer under (b) of this section and an appropriation under (e) of this section may not exceed the amount available for appropriation under AS 37.13.140(b).*



ALASKA PERMANENT
FUND CORPORATION

ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of December 31, 2019

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

Nonspendable Fund Balance - Principal							Assigned Fund Balance - Earnings Reserve								TOTAL FUND		
							Distributions				Unrealized						
							Acct. Net		Inflation		FY-End Balance		Gain (Loss)			FY-End	
							Div/POMV	Prfg & Spec	ACIF	Realized	FY-End	Assigned					
FY	Balance	Dedicated ⁽¹⁾ State Revenues	Proofing & Special Approp.	FY-End Balance	Unrealized Gain (Loss) FY-End Balance	FY-End Non- spendable Balance	Income ⁽²⁾	Transfer ⁽⁹⁾	Approp.			Balance	Balance	FY	FY-End Balance		
10	30,944	679	0 ⁽⁶⁾	31,624	421	32,045	3,517	858	0 ⁽⁶⁾	0 ⁽⁵⁾	1,194	16	1,210	10	33,255		
11	31,624	887	533	33,044	4,788	37,832	6,812	801	533	13 ⁽⁵⁾	2,016	292	2,308	11	40,140		
12	33,044	915	1,073	35,033	3,220	38,253	(100)	605	1,073	17	1,905	175	2,081	12	40,333		
13	35,033	840	743	36,615	4,184	40,800	4,314	604	743	30	3,487	567	4,054	13	44,853		
14	36,615	779	546	37,941	7,062	45,002	6,848	1,235	546	32	5,237	975	6,211	14	51,214		
15	37,941	600	624	39,165	6,473	45,638	2,384	1,373	624	24	6,147	1,016	7,162	15	52,800		
16	39,165	284	0	39,449	4,750	44,199	398	696 ⁽⁷⁾	0 ⁽⁸⁾	18	7,649	921	8,570	16	52,769		
17	39,449	365	0	39,814	7,155	46,969	6,676	0	0 ⁽⁸⁾	25	10,863	1,952	12,816	17	59,785		
18	39,814	353	0	40,167	5,863	46,030	5,526	726	0 ⁽⁸⁾	43	16,461	2,403	18,864	18	64,894		
19	40,167	385	989	41,541	6,278	47,820	3,766	2,723	989	22	16,053	2,426	18,481	19	66,300		
Lo	20	41,541	387	4,641 ⁽¹⁰⁾	46,569	3,948	(516)	2,933	4,641 ⁽¹⁰⁾	22	11,706	992	12,700	20	63,216		
Mid	20	41,541	387	4,641 ⁽¹⁰⁾	46,569	6,890	4,121	2,933	4,641 ⁽¹⁰⁾	28	12,532	1,854	14,388	20	67,847		
Hi	20	41,541	387	4,641 ⁽¹⁰⁾	46,569	9,775	8,907	2,933	4,641 ⁽¹⁰⁾	34	13,456	2,825	16,855	20	73,199		
	21	46,569	344	1,056	47,969	6,899	4,471	3,091	1,056	30	12,826	1,845	14,673	21	69,541		
	22	47,969	337	1,087	49,393	6,900	4,584	3,095	1,087	30	13,199	1,844	15,044	22	71,337		
	23	49,393	324	1,119	50,835	6,911	4,698	3,262	1,119	30	13,485	1,833	15,321	23	73,067		
	24	50,835	326	1,151	52,313	6,925	4,809	3,378	1,151	30	13,736	1,818	15,556	24	74,794		
	25	52,313	350	1,185	53,847	6,941	4,922	3,460	1,185	30	13,984	1,803	15,789	25	76,577		
	26	53,847	381	1,220	55,448	6,958	5,039	3,545	1,220	30	14,229	1,786	16,017	26	78,423		
	27	55,448	425	1,257	57,131	6,977	5,161	3,632	1,257	30	14,471	1,767	16,241	27	80,348		
	28	57,131	466	1,296	58,892	6,996	5,288	3,721	1,296	30	14,713	1,748	16,463	28	82,351		
	29	58,892	507	1,336	60,735	7,004	5,553	3,811	1,336	30	15,089	1,740	16,831	29	84,571		
Cumulative Totals																	
Proj. for FY20-FY29							48,646	33,928	15,348	295							

Assumptions: Total Return - Inflation = Total Real Return					Statutory Return	
Lo	FY20	-0.52%	1.53%	-2.05%	Lo	5.27%
Mid	FY20 ⁽³⁾	6.61%	1.53%	5.08%	Mid	6.55%
Hi	FY20	13.97%	1.53%	12.44%	Hi	7.98%
FY21-FY29 ⁽⁴⁾					7.00%	
					7.00%	

Notes related to financial history and projections:

- ⁽¹⁾ Dedicated State Revenues in current and future fiscal years are based on the Fall 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 2019 Callan capital market assumptions. Actual results will vary.
- ⁽⁴⁾ Future returns are based on 2019 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.
- ⁽¹⁰⁾ In FY20, an additional \$4 billion was appropriated from the ERA to principal. The intent of the legislation is to forward fund inflation proofing.
- ⁽¹¹⁾ All transfers out of the Earnings Reserve are subject to Legislative appropriation

Income Year-to-Date as of December 31, 2019

FY20 Statutory Net Income	
Interest, dividends, real estate & other income	\$ 733.3
Realized gains (losses) on the sale of assets	1,476.4
Less operating expenses	(59.4)
Less AK Capital Inc. Fund realized earnings	(14.0)
	\$ 2,136.3

FY20 Accounting (GAAP) Net Income	
Statutory net income (loss)	\$ 2,136.3
Unrealized gains (losses) on invested assets	1,289.6
AK Capital Income Fund realized earnings	14.0
	\$ 3,439.9

FY20 POMV Distribution (actual) ⁽¹¹⁾		FY20 Statutory Dividend Transfer (actual) ⁽¹¹⁾	
Ending Fund Value (ex Am Hess)		Statutory Net Income	
FY18	\$ 64,469.7	FY19	\$ 3,305.0
FY17	59,360.6	FY18	6,324.4
FY16	52,344.9	FY17	3,214.2
FY15	52,375.9	FY16	2,198.0
FY14	50,789.4	FY15	2,907.0
Average Value \$ 55,868.1		Avail for Dist (21%) \$ 3,769.2	
Statutory Distribution \$ 2,933.1		Statutory Trnsfr Amt \$ 1,884.6	

FY21 POMV Distribution (actual) ⁽¹¹⁾		FY21 Statutory Dividend Transfer (projected)	
Ending Fund Value (ex Am Hess)		Statutory Net Income	
FY19	\$ 65,875.6	FY20	\$ 4,054.0
FY18	64,469.7	FY19	3,305.0
FY17	59,360.6	FY18	6,324.4
FY16	52,344.9	FY17	3,214.2
FY15	52,375.9	FY16	2,198.0
Average Value \$ 58,885.4		Avail for Dist (21%) \$ 4,010.1	
Statutory Distribution \$ 3,091.5		Statutory Trnsfr Amt \$ 2,005.0	

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.

Structure of the Fund

The Alaska Constitution

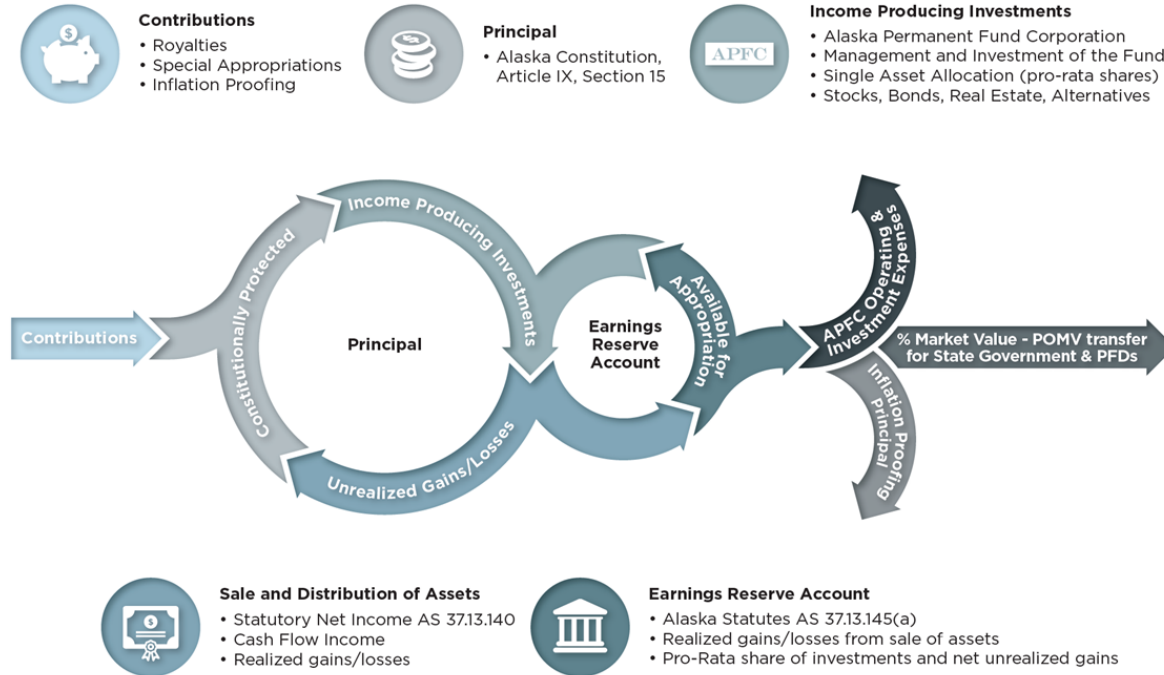
In 1976, Alaskans voted, 75,588 to 38,518, in favor to amend the Constitution of the State of Alaska and created the Alaska Permanent Fund.

Alaska Constitution Article IX, Section 15

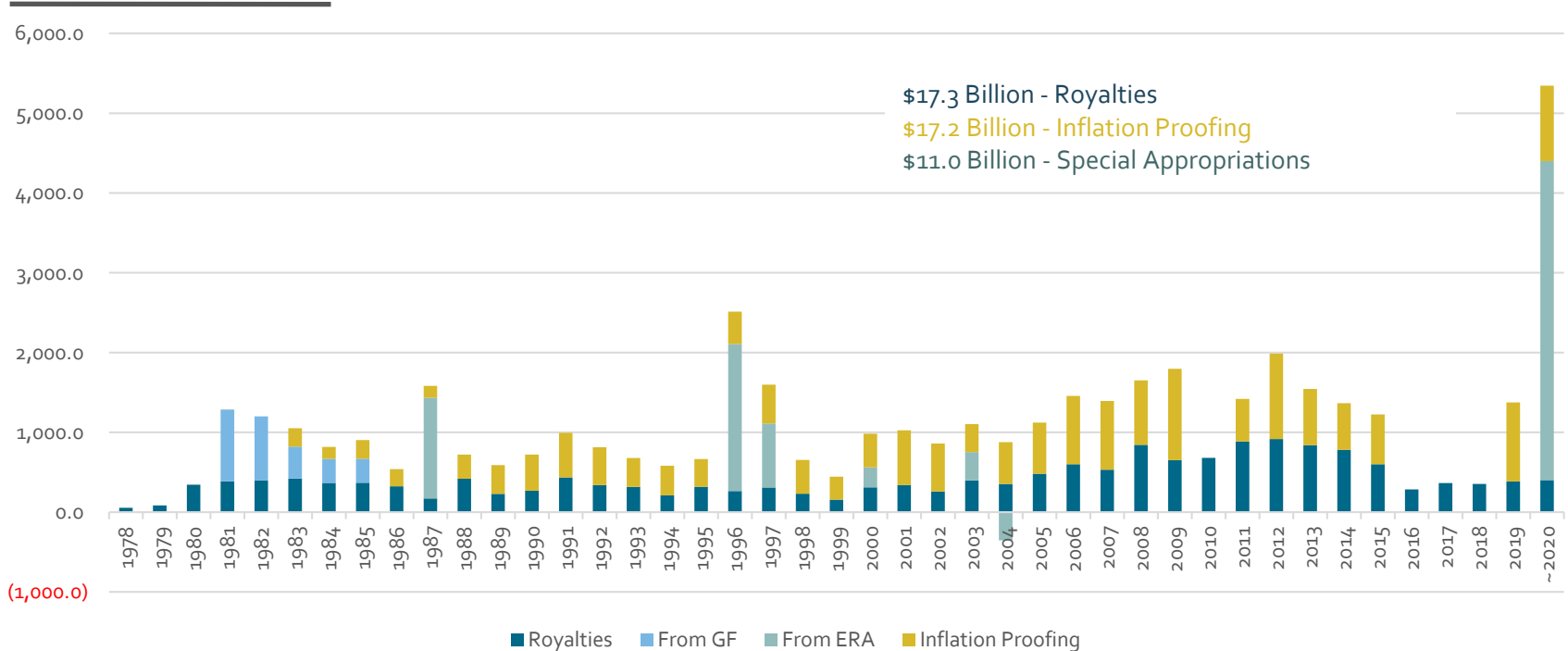
Section 15. Alaska Permanent Fund

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.

Renewable Resource



Contributions to Principal in millions



Note: In FY03 the legislature made a special appropriation to principal of \$354.2 million.

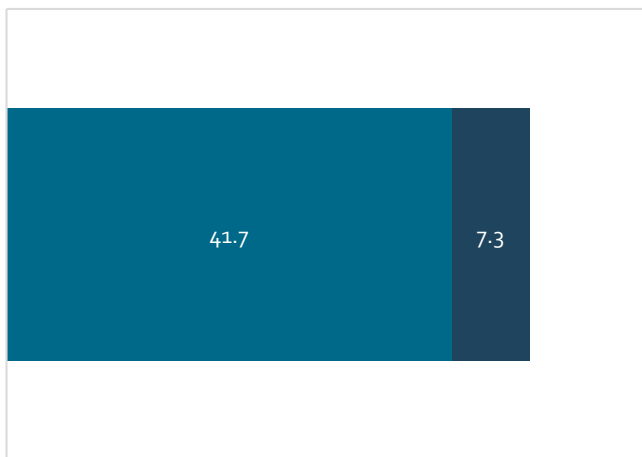
In FY04 this was reclassified as pre FY04 inflation proofing in accordance with the FY04 supplemental budget bill.

Values in billions - as of December 31, FY20 Q2

PRINCIPAL

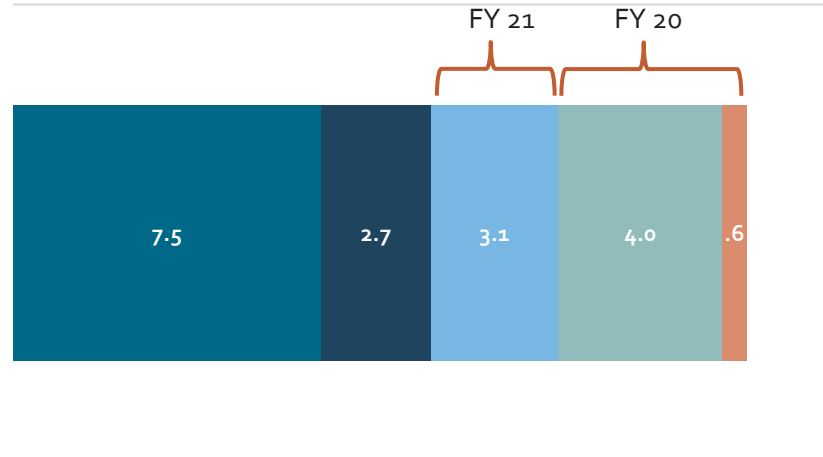
■ Contributions ■ Unrealized Gains

FY 20 DEC 31



ERA

■ Realized Earnings ■ Unrealized Gains
■ POMV ■ Contribution to Principal
■ Inflation Proofing



Return on Investment

FY 19

Revenues	\$ 3,907,500,000
Operating/Investment Expenses	\$ 132,600,000

Value Generated Per Day (based on 251 active trading days through FY19)

Total Fund	\$ 3.91 B / 251 = \$15.6 M per day
Statutory Net Income	\$ 3.3 B / 251 = \$13.1 M per day

Revenue Generation for the State of Alaska

ERA POMV Draw -

42% of total General Fund revenues in the FY 19 budget

47% of total General Fund revenues in the FY 20 budget.

52% of total General Fund revenues in the FY21 proposed budget.

Reliance on Corporate Activity

- 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	FY20	FY21 GOV
Percent of Market Value – POMV	2,933,084,100	3,091,492,927
Inflation Proofing the Principal	943,000,000	0
APFC Operations	17,800,400	17,680,700
APFC Investment Management Fees	150,498,700	129,400,600
Dept. of Law	2,617,700	2,618,300
Dept. of Natural Resources	6,132,600	6,149,500
Dept. of Revenue	97,900	98,400

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

A scenic landscape featuring a body of water in the foreground, a range of mountains in the middle ground, and a bright sunburst effect in the upper right sky. The entire image is overlaid with a teal gradient. The text "Board of Trustees" is centered in the middle of the image.

Board of Trustees

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 in 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.

A fiduciary is a person or organization that acts on behalf of another person or persons to manage assets. Essentially, a fiduciary owes to that other entity the duties of good faith and trust. The highest legal duty of one party to another, being a fiduciary requires being bound ethically to act in the other's best interests.
- Investopedia

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



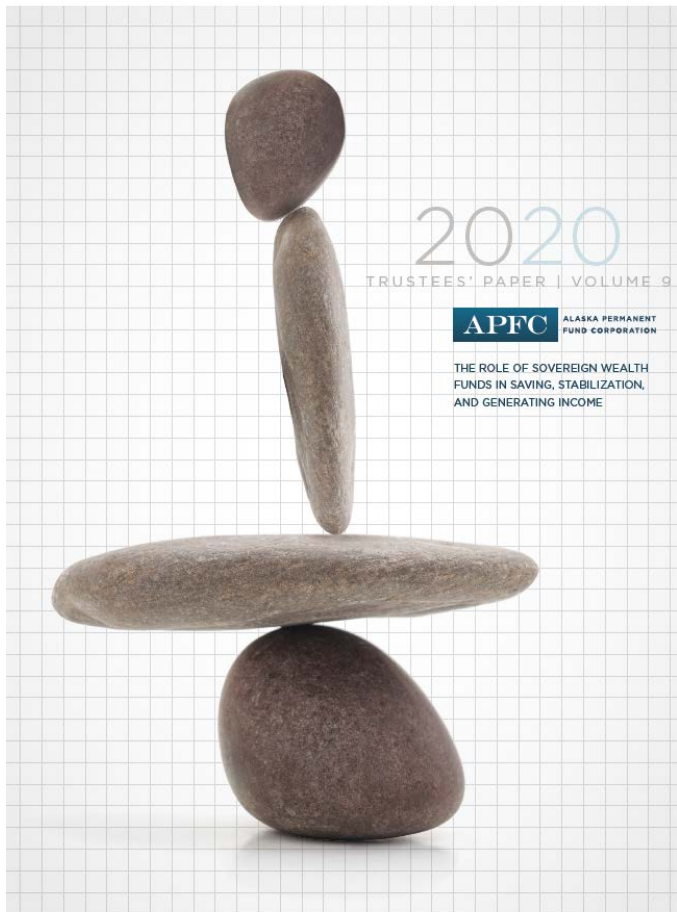
Evolving Role of the Fund

Successful SWFs operate within a rules-based system that allows them to perform a combination of saving, stabilization, and income-generation functions. In Alaska, the latter function has come into sharper focus, as the Fund income supports the State budget in an era of lower oil revenues.

Alaska has a robust system of constitutionally mandated savings, a long history of preserving and growing the real value of the fund, and a strong track record in investment management.

This paper proposes a number of reforms that will strengthen the stability and sustainability of Alaska's Permanent Fund:

- LESSON # 1: MISSION CLARITY
- LESSON #2: THE IMPORTANCE OF RULES
- LESSON #3: SUCCESSFUL ENFORCEMENT OF SAVING RULES
- LESSON #4: DESIGNING A POMV SPENDING RULE
- LESSON #5: REFORMING THE ERA





APFC's Strategic 5 Year Plan

Priorities for FY 20-FY25:

1. Position the organization and Fund for implementation of annual POMV draw
2. Develop and implement comprehensive risk management for the organization
3. Integrate best-in-class investment management capabilities to maximize investment returns
4. Enhance talent and staff across APFC



APFC Resources

FY21 Budget

APFC recognizes this evolution in the Fund's role to generate revenue to support state services and programs; as such, APFC looks to the State to ensure that resources are available to support APFC's investment and management needs for ongoing success in generating long-term returns.

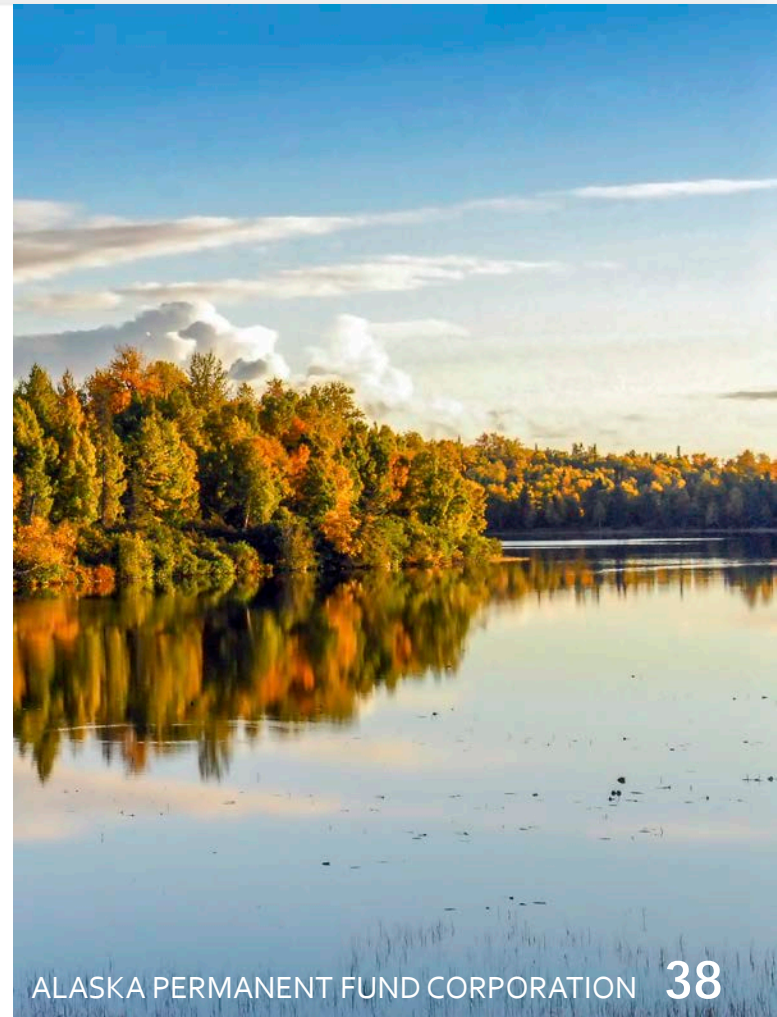
Operating Budget FY21

Merit and Retention Adjustments \$720.6

Real Estate Manager Position \$257.5

Operational Reductions (\$1097.9)

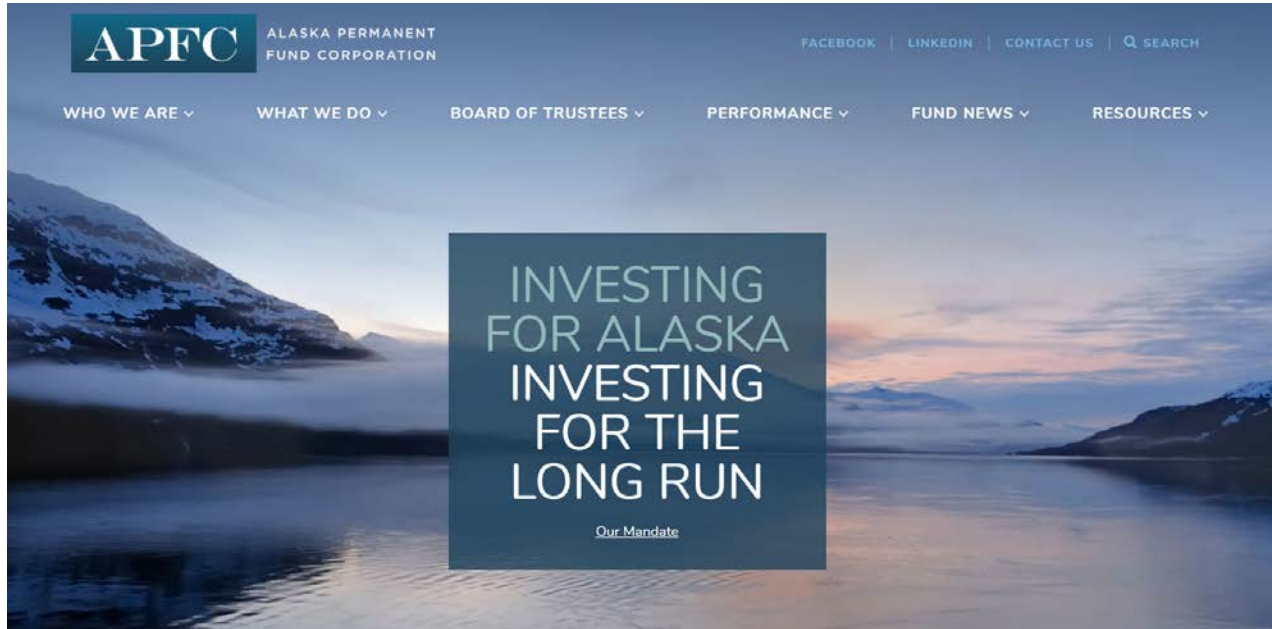
Investment Management Fees (\$21,098.1)





Questions?

Additional Resources



www.apfc.org

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