



ALASKA PERMANENT
FUND CORPORATION

House Budget Subcommittee FY 22 Operating Budget March 2021

The Alaska Constitution

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

Alaska Constitution Article IX

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.

The Corporation

Mission

To manage and invest the assets of the permanent fund and other funds designated by law in accordance with AS 37.13.010-37.13.190.

Alaska Permanent Fund

- Principal – Constitution and AS 37.13.010
- Earnings Reserve Account – AS 37.13.145 (a)

Amerada Hess – AS 37.13.145 (d)

- AK Capital Income Fund – AS 37.05.565

Alaska Mental Health Trust Fund – AS 37.13.300

- Alaska Mental Health Trust Authority



ALASKA PERMANENT
FUND CORPORATION

Vision

To deliver outstanding returns for the benefit of all current and future generations of Alaskans.

Revenue Generation

As documented in the Fall 2020 Revenue Sources Book released by the Department of Revenue -

- The POMV- percent of market value annual draw from the Fund is the state's largest source of undesignated general fund revenue.
- The POMV draw from the Earnings Reserve Account is forecasted to contribute
 - 71% of UGF in FY 2021
 - 72% of UGF in FY 2022
 - at least 67% of UGF annually until FY 2030.

Now, more than ever, the State is dependent upon the Corporation's effective management and investment of the Alaska Permanent Fund.





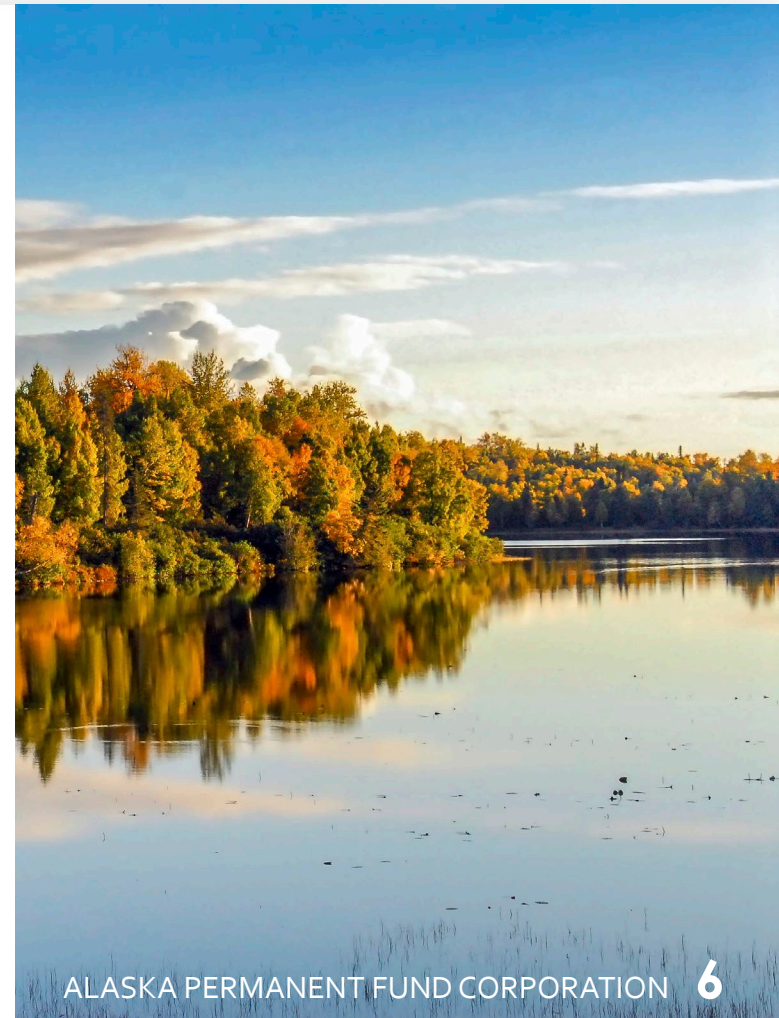
Reliance on Corporate Activity

The Earnings Reserve Account is subject to legislative appropriation and currently used to:

- Cover the cost of investing and managing the Alaska Permanent Fund
- Provide a predictable state revenue stream for current generations
- Protect the value of the Principal for future generations
- Support state agencies' collection of royalties

Fund & ERA Appropriations

	Enacted FY2021	Governor FY2021 & 2022
APFC Operating	\$17,680,700	\$18,801,700
APFC Investment Mgmt.	\$129,400,600	\$133,039,100
FY21 Supplemental Mgmt Fees		\$50,000,000
POMV Draw	\$3,091,492,927	\$3,069,296,016
FY21 PFD Draw	\$0	\$1,225,518,055
FY22 PFD Draw	\$0	\$2,023,947,000
Royalties - Constitutional	\$276,300,000	\$199,200,000
Royalties - Statutory	\$67,900,000	\$41,400,000
Inflation Proofing	\$0	\$0
AK Capital Income Fund	\$30,000,000	\$27,161,600
Agencies		
Law	\$2,619,100	\$2,619,600
Natural Resources	\$6,147,600	\$6,167,900
Revenue	\$98,700	\$99,600



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.

APFC's Stewardship

Snapshot of Fund Management

Public Equities

- A majority of the portfolio is managed by external managers with roughly 15% internally managed through ETFs and single stock investment programs.

Fixed Income

- Investment grade bond portfolio is managed entirely in house.
- Non-investment grade bonds are mostly managed externally.

Real Estate

- Vast majority of properties are held directly in APFC's name; a variety of external advisors are used on the different properties.

Private Markets (includes Private Equity and Private Income)

- Roughly $\frac{3}{4}$ of the portfolio is managed through external funds; roughly $\frac{1}{4}$ is managed internally through direct investments and co-investments.

Absolute Return

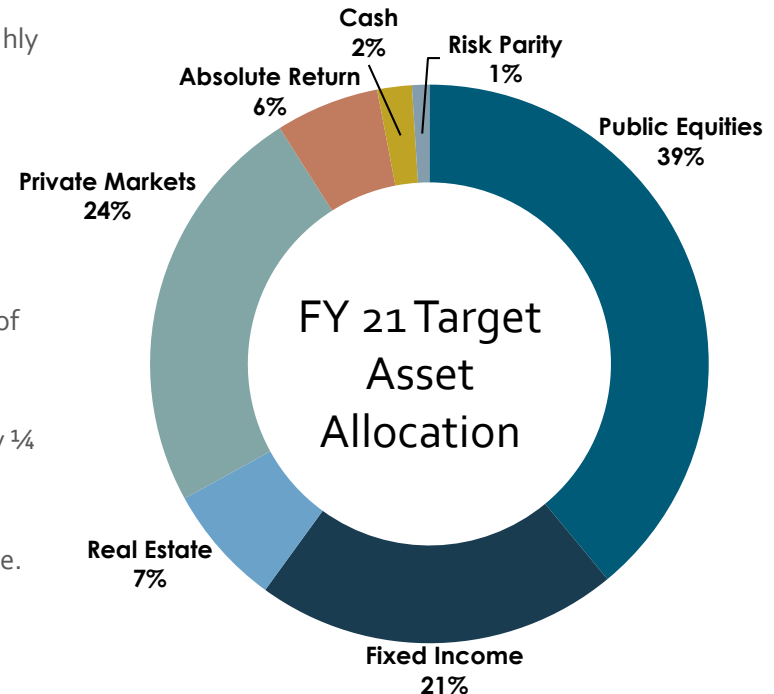
- ~5 years ago the external fund-of-funds program was brought in-house.

Cash

- Internally managed

Risk Parity

- Externally managed



Internal Management

Public Markets - APFC investment staff directly buys and sells the publicly traded securities.

Private Markets - APFC investment staff directly conduct the investment and legal due diligence for the fund or investment and make the decision to invest.

Pros

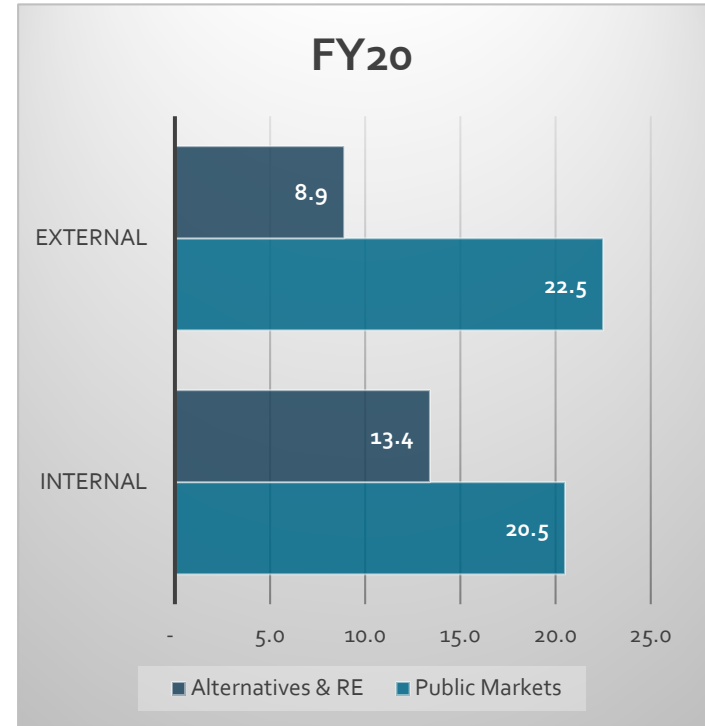
Internal management provides for better alignment for enacting the board's asset allocation which is designed to achieve a long term return of 5% plus CPI while taking the minimum amount of risk.

Lower cost - any of the activities that are currently outsourced have the potential to come in-house, thereby reducing the layer of fees paid to outside parties.

Cons

Ability to attract talent is difficult given our budget constraints.

Total FY20
52% Internal 48% External



Fees

Fiscal Year 21

As of
December 31,
2020

Investment Management Fees

	Paid From Investments	Paid from Investment Management Allocation	Paid from Operations Allocation	Total
Public Equity	922,000	27,287,000	676,000	28,885,000
Fixed Income	142,000	5,117,000	1,819,000	7,078,000
Absolute Return	27,120,000	65,000	153,000	27,338,000
Risk Parity	1,202,000	256,000	38,000	1,496,000
Total Fund Cash	0	48,000	115,000	163,000
Private Equity & Special Opps	64,325,000	10,903,000	1,236,000	76,464,000
Infrastructure & Private Income	31,816,000	1,324,000	792,000	33,932,000
Real Estate	17,289,000	1,925,000	1,305,000	20,519,000
Total Mgmt Fees by Source	142,816,000	46,925,000	6,134,000	195,875,000
Basis Points	20	6	1	27

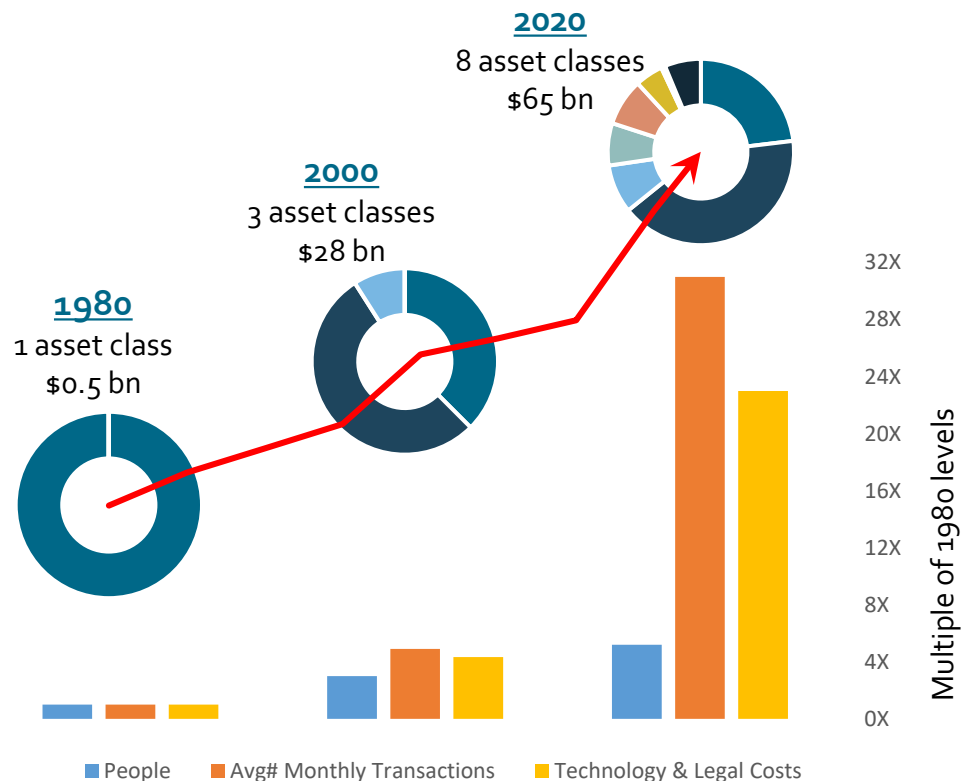
Profit Sharing/Performance

	Paid From Investments	Paid from Investment Management Allocation	Paid from Operations Allocation	Total
Absolute Return	46,798,000	0	0	46,798,000
Private Equity & Special Opps	69,232,000	0	0	69,232,000
Infrastructure & Private Income	4,913,000	106,000	0	5,019,000
Real Estate	865,000	0	0	865,000
	121,808,000	106,000	0	121,914,000

Alignment

It is vital to recognize the transformation of the portfolio and align APFC to the future

- Types, complexity and velocity of risks have significantly increased, due to both internal transformation and external factors. The trend is likely to continue, if not accelerate.
- We should expect the Fund to reach the \$90 - \$100 billion mark in ~ 10 years
 - Mid-Fiscal Year 21 = \$71.8 billion
- The need to expand resources, mature and strengthen control frameworks, in line with growth, is real.



Growth

Growth not just in Fund size

- Increased diversity & complexity of asset classes
- Transaction volumes have multiplied
- Number, diversity & remoteness of counterparts have expanded
- Technology has taken over almost every facet of business conduct

Besides these *internal* trends continuing, the operating environment is rapidly changing as well

- Cyber & technology crime
- Fraud and malpractices
- Climate change
- Legal & regulatory frameworks

	Size (\$bn)	#Asset Classes	People PFT	Avg Internal #Monthly Transactions	Legal & Electronic Svs Costs (\$th)
1980	0.5	1		n/a	
1985	7	3	11	16	299
1990	11	3	18	n/a	356
1995	15	3	25	n/a	861
2000	28	3	33	79	1,297
2005	31	5	35	n/a	1,160
2010	34	7	37	66	2,158
2015	46	7	38	224	2,141
2020	65	8	58	494	6,979

*Numbers in above table are approximate and in some cases derived.
The objective was to identify & highlight broad trends.*

The background of the slide is a solid teal color. Overlaid on this is a close-up photograph of a pine branch with several clusters of small, light-colored pine cones. The image is semi-transparent, allowing the teal background to show through.

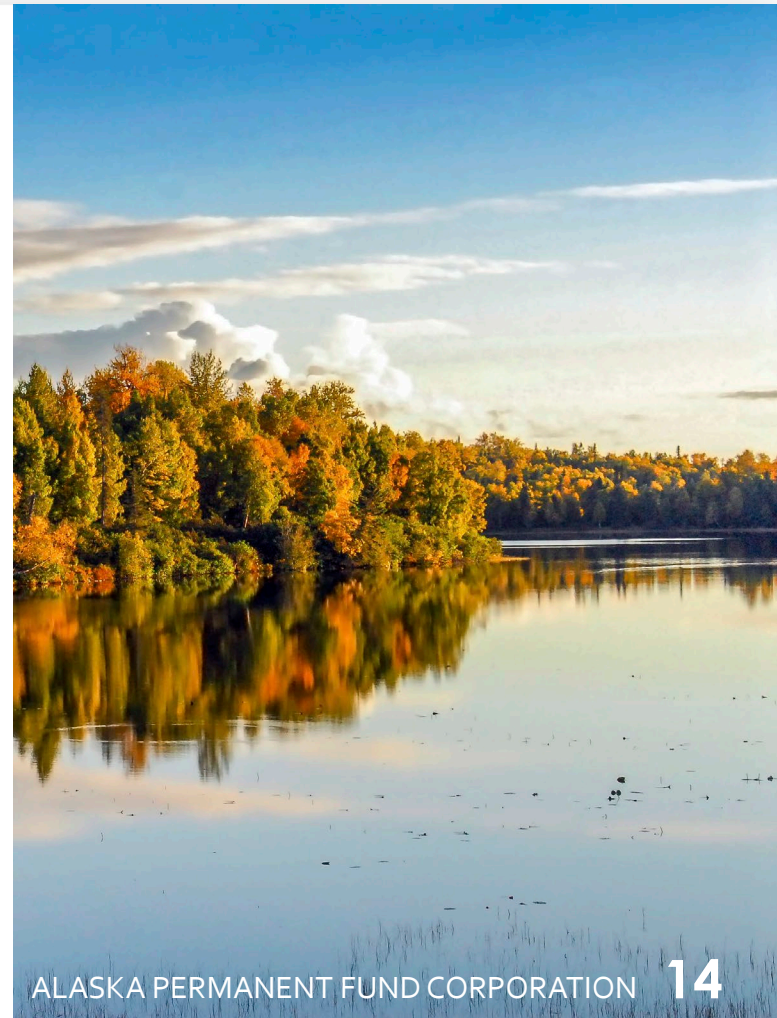
APFC's Budget

Transparency

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

APFC's budget is developed on zero-based budgeting principles and built each year to reflect anticipated needs in managing the assets under our stewardship.



FY 22 Board Approved – Governor Proposed

	Authorized	Request	Variance
Fund: 1105 Permanent Fund Corporation Gross Receipts	FY 2021	FY 2022	
Operating Allocation	\$17,680,700	\$18,801,700	\$1,121,000
Investment Management Allocation	\$129,400,600	\$133,039,100	\$3,638,500
Total Appropriation	\$147,081,300	\$151,840,800	\$4,759,500

- The Board of Trustees and staff carefully consider the best structure for the Corporation and the asset allocation to meet stakeholders' high expectations.
- APFC brings forth an increment of \$4.8 million for the FY 22 Operating Budget, which reflects growing assets under management and the need to maintain and recruit talent to manage them effectively.
- The Board proposed a single appropriation structure in the language section to provide a holistic view of appropriations related to the Fund (royalties, inflation proofing, revenue generation, management costs) and operational flexibility.
 - The Governor's proposal includes two allocations in the numbers section.
 - The language section includes the other appropriations related to the Fund.

APFC Operating Allocation - Components

Personal Services -

Incentive Compensation I \$890,000

This program has been approved by the Board as 75% of public fund peers and virtually all private-sector peers offer incentive compensation, to their investment professionals.

Details on next slide.

Global Rates Analyst Position I \$195,000

This position will bring value to the corporation by maximizing the evaluation processes of new Fixed Income opportunities and minimizing potential problems with exposures.

Merit Retention I \$181,406

These adjustments are essential to maintaining continuity of our program and our successful efforts in supporting and recruiting our APFC professionals.

Board Honorarium I (\$6,540)

3% vacancy factor adjustment I (\$63,069)

Travel I \$100,000

Based on the anticipation that travel will resume to a pre-COVID schedule by FY2022.

Contractual Services I (\$190,800)

Mainly attributable to reductions in IT. Since 2017 the Corporation has been working on an initiative to modernize all technologies and now moving to a diligent maintenance mode.

Commodities I (\$135,800)

Several IT initiatives are complete – now on a regular replacement schedule for computers.

Equipment over \$5k I \$150,000

Disaster recovery is an essential component of business continuity, upgrades, and increased capabilities are needed to complete setting up the disaster recovery site in Fairbanks and ensure the Juneau data center is equipped with modern technology.

APFC Compensation

- APFC strives for a compensation program that competes well in the market and motivates all employees to bring their best efforts to the workplace.
- The program provides a systematic means of tracking, measuring, and compensating employee performance and allows flexibility.

Incentive Compensation Plan

- Based on APFC's adopted Incentive Compensation Plan, the only personnel eligible for incentive compensation are the Chief Investment Officer, Investment Officers, Analysts, and Associates. This group comprises 27 of our total APFC employee count of 58 full-time positions.
- Contingent upon funding and the Fund achieving its short-term and long-term policy benchmarks, the award of incentive compensation to individual Plan Participants equals 50% of senior professionals' salary, with lower maximum awards for junior staff from 15%-35%. The maximum incentive award to an individual employee shall not exceed 1.50 times an individual's previous year's total compensation. Investment staff salaries range from \$75,000 - \$375,000.
- At the maximum, the distribution for FY22 based on FY21 performance is estimated to be \$2,530,400. The Board is requesting a portion of that, \$890,00, based on what the actual distribution would have been for FY21 based on FY20 performance. If appropriated, the available funds may need to be pro-rated given current FY21 performance levels.
- The Board adopted a blended peer group comprised of 75% public fund and 25% private fund. APFC is inherently public in nature. However, much of the investment goal is driven by "endowment-like" mandates.
- McLagan, a leading compensation consultant, reviewed the competitiveness of APFC's compensation program in 2017 and work is currently underway for an updated review. Based on the 2017 study, APFC's salaries are mainstream while total cash compensation is positioned well below peers.

APFC Investment Mgmt Allocation

Investment Management Fees | \$2,924,300

Based upon Callan's growth assumptions by asset class, the Fund's asset allocation, and the contractual fee terms for external management. The increase is primarily due to anticipated growth in assets under oversight, it is offset by some savings achieved in downsizing the externally managed REIT and listed infrastructure portfolios.

Note: Given outperformance in FY 21, APFC is requesting a \$50 million supplemental.

Investment Due Diligence | (\$450,300)

Reduction based on FY20 actuals and future plans. This program includes funding for fiduciary advisors, general consulting, and manager searches. Reductions were taken in all areas, except general subject matter experts and performance measurements.

Investment Systems | \$1,364,500

Reflects natural growth in existing systems subscription costs, as well as the implementation of a Public Equities Portfolio Risk System and a Private Assets Analytics system. APFC's current Risk & Analytics system provides data for public market assets, but has limitations and offers virtually no analytical capabilities for private assets.

Custody Fees | (\$200,000)

Custody fees are decremented as a result of contract terms being reduced to a yearly flat fee.



Return on Investment

APFC Return on Investment

	Request	FY20 Statutory Net Income	FY21 To Date Statutory Net Income
	FY2022	\$3,105,953,000 avg. \$12.3 million per day *	\$3,675,800,000 avg. \$14.5 million per day *
Operating	\$18,801,700	1.5 days	1.3 days
Investment Management	\$133,039,100	10.8 days	9.2 days
Total Appropriation	\$151,840,800	12.4 days	10.5 days

*Based on 253 active trading days.

Fund Totals

in millions, as of January 31, 2021

Returns and Values



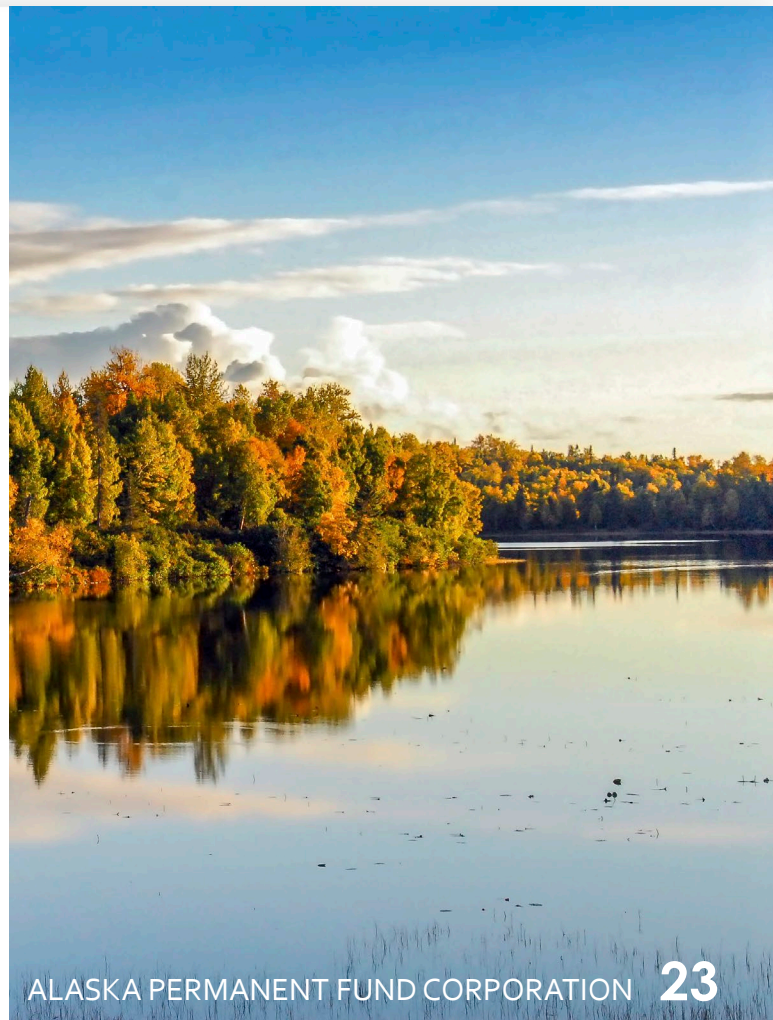
The Corporation

APFC is grateful for the support of the Executive Branch, the Legislature and our fellow Alaskans.

Given that backing, the influence of our dynamic, Alaskan corporation extends around the world. APFC is globally recognized for practices of good governance, transparency, and a long-term investment horizon.

In serving Alaska, we provide a

- Value Adding & Worthy Purpose
- Excellent Performance Track Record
- Strong Leadership and Culture
- Passionate & High Caliber Team
- Proven Business Model
- Guidance from the Board of Trustees



The APFC logo is a dark blue rectangle with the letters 'APFC' in white, serif, all-caps font. The background of the slide is a teal-tinted photograph of a coastal scene with mountains and a sunburst effect.

APFC

Integrity - Stewardship - Passion