



APFC

ALASKA PERMANENT
FUND CORPORATION

Legislative Budget & Audit Committee

January 17, 2022

1976: 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

The logo for the Alaska Permanent Fund Corporation (APFC) features the letters "APFC" in a white, serif font, centered within a dark blue rectangular box. In the background of the slide, there is a faint, light blue map of the state of Alaska.

APFC

ALASKA PERMANENT
FUND CORPORATION

Alaska Statute 37.13

The Alaska State Legislature passed,
and the Governor signed SB 161
establishing the Alaska Permanent Fund
Corporation and Statutes governing the
Fund.

APFC operates as a separate state entity
under the oversight of an
independent Board of Trustees who
serve as the Fund fiduciaries.

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.*

Vision

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

The image is a full-page background featuring a scenic landscape. In the foreground, there is a body of water with a small, light-colored patch of land or sand in the lower center. Several dark rocks are scattered in the water. The middle ground shows a range of mountains, with the right side being more prominent and showing some 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 "Governance" is centered in the middle of the image in a white, sans-serif font.

Governance



ALASKA PERMANENT
FUND CORPORATION

Governance

- Alaska State Constitution
- Alaska State Statutes
- Regulations
- APFC Investment Policy
- APFC By-Laws
- APFC Charters & Policies
- Board Resolutions
- Budget Appropriations



Governance

- Independent management & organizational structure
- Accountability disclosures
- Defined legal & regulatory responsibilities
- Established policies & procedures
- Leader in established best practice standards

Independence

The creation of an independent Board was to help shield the investments of the Permanent Fund from political influence.

Accountability

APFC has financial controls and regular reporting practices. The Board of Trustees must follow the Open Meeting Act, and the Corporation's non-proprietary records are available for public inspection under state law.



Duties

AS 37.13.100

Employ and determine the salary
of an Executive Director

AS 37.13.120

Establish investment regulations
and policies

Board of Trustees

A six-member, governor-appointed volunteer Board is entrusted with the fiduciary oversight of the Fund

- 4 public seats
- 2 cabinet - 1 is designated for DOR Commissioner.

Trustees must have recognized competence and wide experience in finance, investments, or other business management-related fields.

The Governor may remove a public member of the Board only for cause.

Four members of the Board constitute a quorum; action may be taken only upon affirmative vote of a majority of the full membership of the Board.



Executive Director

Roles and Responsibilities

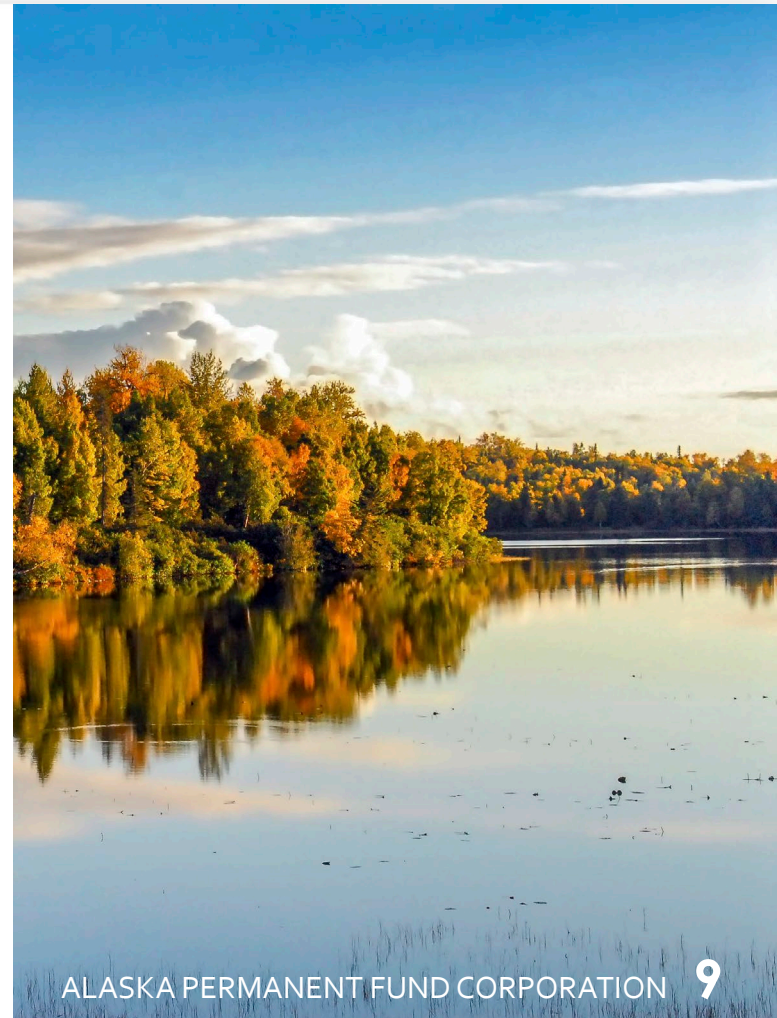
APFC Bylaws

Section 4. Executive Director.

The Board of Trustees shall appoint an Executive Director for the Corporation who serves as the Chief Executive Officer of the Corporation.

The Executive Director serves at the pleasure of the Board.

The Executive Director serves as one of the official spokespersons for the Corporation, together with the Chair of the Board.



APFC Bylaws

The Duties of the Executive Director include:

- (a) Provide for execution of all operational, administrative, and investment functions of the Corporation on a daily basis;
- (b) Act as Secretary/Treasurer of the Corporation and sign all contracts, deeds, and other instruments of the Corporation;
- (c) Provide for recording of all votes and proceedings of the Board of Trustees, electronically whenever possible;
- (d) Provide for the custody, recordkeeping, and monitoring of all assets managed by the Corporation, either directly or through one or more financial institutions or fiduciaries qualified and experienced in the safekeeping of financial assets of large institutional investors;
- (e) Provide for the retention and safekeeping of all instruments that reflect the assets managed by the Corporation;
- (f) Provide for disbursements of funds for Corporation-managed investments, expenses, and obligations;
- (g) Provide periodic reports to the Board of Trustees;
- (h) Perform such duties and responsibilities assigned to the Executive Director in the Board of Trustees Charters and Governance Policies; and
- (i) Perform such other duties as may be assigned from time to time by the Board of Trustees by resolution or motion.



Charter of the Executive Director

APFC Charters & Governance Policies

- Alaska Statute 37.13.100 states that the Board of the APFC may employ and determine the salary of an Executive Director.
- The Bylaws of the APFC state that the Executive Director will be the chief executive officer of the Corporation and serve at the pleasure of the Board. The Bylaws, set out, in general terms, the duties of the Executive Director.
- The Board has, for greater clarity, established this Charter which sets out, in more specific terms, the duties and responsibilities of the Executive Director.
- The Executive Director may delegate certain of these duties to staff. The Executive Director will, however, remain responsible for ensuring that these duties are carried out.

Executive Director

Oversight Duties & Responsibilities

- Leadership
- Policy Development
- Investments
- Finance, Accounting and Audit
- Operations and Human Resources
- Communications
- Appointments
- Monitoring and Reporting



Chief Investment Officer

APFC Investment Policy

- Oversees the 25 member Investment Department.
- The CIO holds regular investment department investment committee meetings with APFC Staff to make investment decisions. If the Executive Director varies from CIO decisions, it is reported to the Board in 30 days.
- The CIO may update Investment guidelines from time to time; updates are provided for approval to the Board at its next regularly scheduled meeting.
- Numerous internal portfolios and assets are managed at the direction of the CIO, who has the primary responsibility in executing the total Fund investment strategy.
- CIO actively participates in all stages of limit range and compliance cure process.



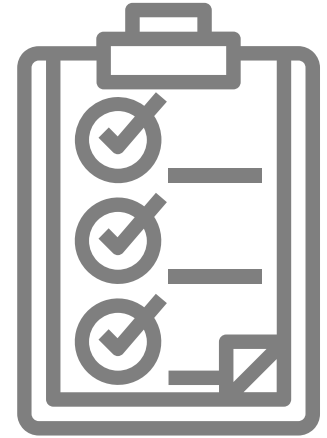
Executive Director Review

APFC Governance Manual

Governance Manual: Process

The Executive Director Performance Evaluation Policy outlines the following steps to ensure appropriate and valuable feedback on an annual basis by:

- Establishing a survey to provide Trustees with a tool for evaluating Executive Director performance based on set criteria;
- Distribution of materials to each Trustee to include the Executive Director's self-assessment, strategic plan and budget reports, and the evaluation survey;
- Preparation of an evaluation report by the Governance Committee to include the self-assessment and the summary of the evaluation results;
- Meeting of the full Board in executive session to review and discuss the results of the evaluation;
- Sign-off of the report by the Chair, Vice-Chair and Executive Director; and
- Approval of the final evaluation report by the Board and placement in the personnel file.



Review Process since 2016

- Throughout employment at APFC, including the most recent period of 2021, APFC's Executive Director received annual performance evaluations per the Governance Manual.
- During the review process from 2016-2019, the performance evaluation focused on the Board's direct evaluation.
- In 2020, based on APFC's leadership initiative, a 360 review was conducted to incorporate relevant feedback from the Board, direct reports and a random sample of staff selected by an external consultant hired to help the Board in this process.
- In 2021, the 360 survey was expanded to provide corporate-wide feedback on the Executive Director.



2021 Review Process

- The Executive Director's performance evaluation began in the fall of 2021.
- The Chair of the Governance Committee developed a survey that was distributed to all staff and the Board of Trustees.
- The 360 survey was anonymous, and APFC staff were encouraged to provide relevant feedback and corporate-wide perspectives on the Executive Director's performance.
 - It contained quantitative scoring on several metrics and an opportunity to comment on each area.
- The Chair of the Governance Committee summarized the survey results which was double-checked by the head of Human Resources.
- Other inputs to the Board's evaluation of the Executive Director's performance included a self-evaluation for the year and a response to the summary of the 360 survey results.



Investment Responsibilities

AS 37.13.020 Legislative Findings

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

- 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.

What is a Fiduciary?

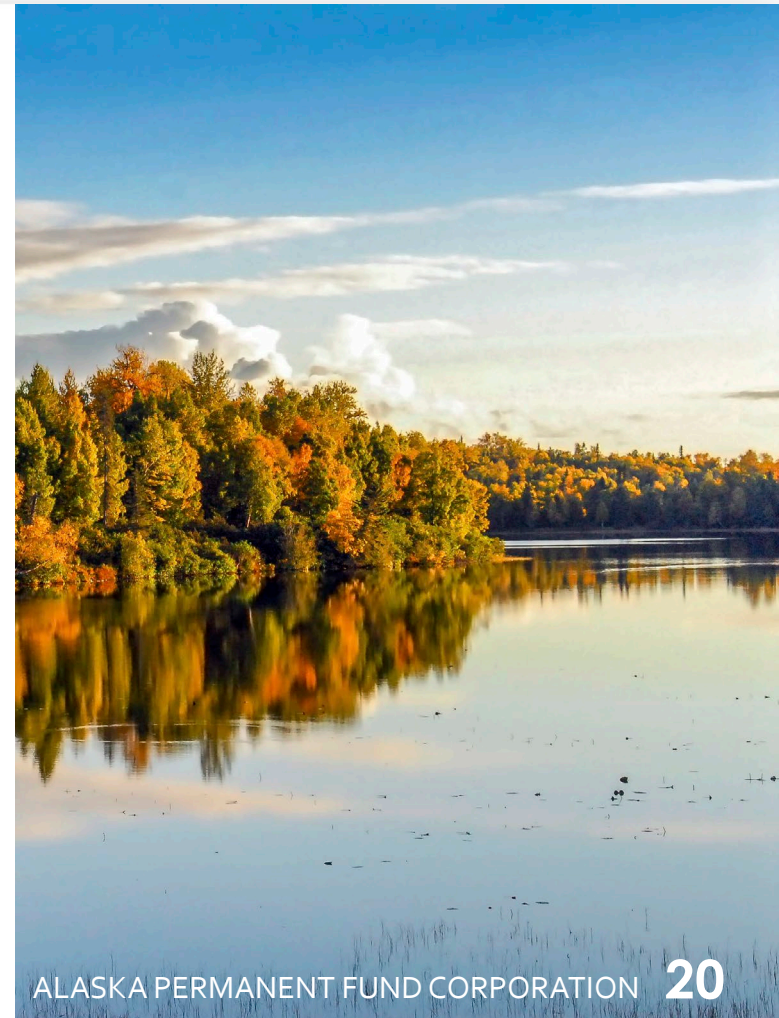
A fiduciary is a person or entity that acts on behalf of another to manage assets. A fiduciary owes to that other entity the duties of good faith and trust. The highest legal duty of one party to another, being a fiduciary, requires being bound ethically to act in the other's best interests.

Authority

Sec. 37.13.040.

Alaska Permanent Fund Corporation.

There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by the board of trustees. The purpose of the corporation is 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





AS 37.13.120. Investment Responsibilities

- Board adopts regulations defining eligible investments.
- Board will follow the prudent investor rule as it relates to institutional investors.
- APFC may only borrow money if there is no recourse to the Fund.
- Board will maintain a reasonable diversification of assets.
- APFC shall invest the assets of the Fund in in-state investments if comparable in risk level and expected return to alternative investments.

What Is the Prudent Investor Rule?

The prudent investment rule requires a fiduciary to invest trust assets as if they were her or his own.

This managing investor should consider the needs of the trust's beneficiaries and should avoid investments that are excessively risky. Today the rule is codified in the Uniform Prudent Investor Act (UPIA) of 1992.

Investment Oversight

Board of Trustees

As Fiduciaries of the Fund, Full Authority to Make Investment and Management Decisions.

- Provide Authority to Invest Within Set Bands
- Approve Target Asset Allocation
- Adopt Investment Policy

Executive Director

Assures Strategies Adopted by the Board are Successfully Implemented.

Chief Investment Officer

Makes Strategic and Tactical Allocations to Allow the Fund to Grow in Value.

Portfolio Managers

Responsible for the Investment and Performance of Each Asset Class.



APFC Investment Management Benchmarking

Measuring Success

The Total Fund Return Objective is a long-term investment goal is to achieve an average real rate of return of 5% per year (CPI/inflation +5%) at risk levels consistent with large public and private funds.

The Performance Benchmark indicator is a blend of indices covering all asset classes, reflective of the Fund's target asset allocation.

The Passive Index Benchmark is a short-term performance indicator is based on a blend of passive indices reflective of a traditional portfolio consisting of public equities, fixed income and real estate investments.
60% Public Equity / 20% Fixed Income / 10% Real Estate / 10% Inflation-Protected Treasuries

VALUE ADDED OVER 10 YEARS

Returns over the passive index benchmark

\$10.4 B

value add

1.80%

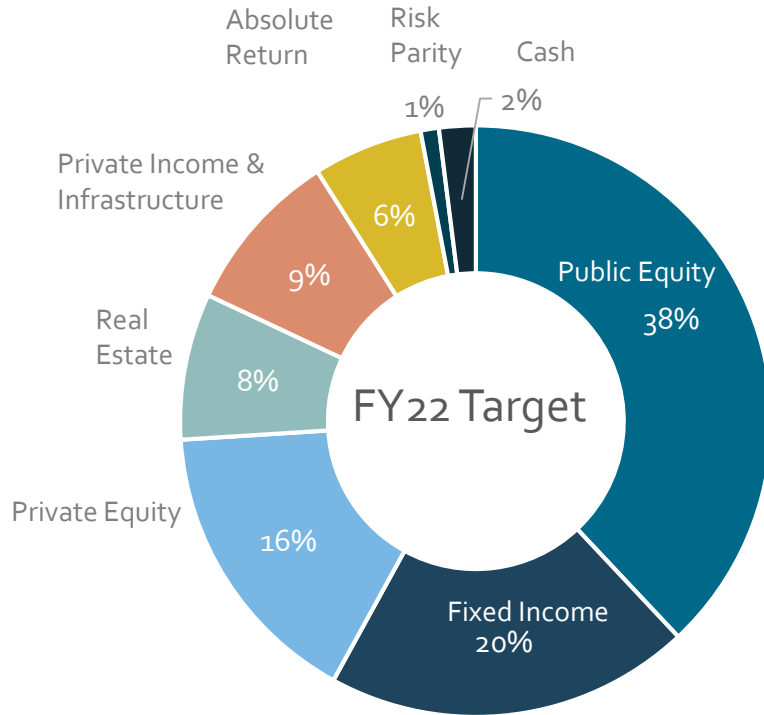
performance add

as of FY21 year end

APFC's publishes monthly financial statements, a performance reports, and a comprehensive annual report which highlight the Alaska Permanent Fund's

- Assets, liabilities, and values
- Income and expenses
- Performance and benchmarks

Asset Allocation & Asset Class Descriptions



Public Equity – Domestic, international, and global stocks.

Fixed Income – Diverse portfolio of publicly traded, income-oriented investments (bonds, treasuries, etc.) designed to provide stability and a source of liquidity to the total fund.

Private Equity – Illiquid, growth oriented assets that are expected to generate risk-adjusted, after-fee returns that are superior to the Public Equity portfolio.

Real Estate – Portfolio consisting of directly held properties, co-investments, equity and debt real estate funds, and REITs that is designed to provide attractive inflation-resistant returns with characteristics of both debt and equity.

Private Income & Infrastructure – Infrastructure and private debt investments, predominantly funds and some co-investments, designed to provide returns between public equity and fixed income.

Absolute Return – Portfolio of hedge funds with the target of providing a stream of uncorrelated and defensive returns while offering better liquidity than other alternative investments.

Risk Parity – Diversified portfolio using allocation of risk rather than allocation of capital to generate long-term returns exceeding a 60% stock/40% bond portfolio.

Cash – To meet operational needs and a nearly risk-free asset class.

Asset Class Benchmarks

* Benchmark is lagged by one quarter

	Benchmark	Description
Public Equity	MSCI ACWI IMI	Index capturing large, mid, and small-cap stocks across 23 developed and 25 emerging market countries (99% of global equity universe).
Fixed Income	Fixed Income Composite	Composite consisting of various fixed income benchmarks according to target weights in the portfolio.
Private Equity	Cambridge Private Equity*	Calculated based on data from over 2000 private equity funds formed between 1986 and 2021.
Real Estate	85% NCREIF Property*; 15% MSCI US REIT*	NCREIF: Quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only. MSCI US REIT: Market cap weighted index comprised of Real Estate Investment Trusts.
Private Income & Infrastructure	60% Cambridge Global Private Infrastructure*; 40% Cambridge Private Credit*	Calculated based on data from a pool of global private infrastructure and private credit funds.
Absolute Return	HFRI Total HFOF Universe	Broadly constructed index designed to capture the performance of hedge funds across all strategies and regions using a diversified pool of hedge fund managers.
Risk Parity	HFRI 12% Vol Institutional	Performance of a pool of risk parity managers that have a volatility target of 10% - 15%.
Cash	90 Day T-Bills	Index tracking the performance of 3 month T-Bills.
Total Fund	Composite Performance Benchmark	Based on APFC's target asset allocation and asset class benchmarks.

Fund Performance

For period ending 9/30/21

	Total Fund	Passive Index	Performance Benchmark	Objective CPI + 5%
1 year	26.60%	20.36%	23.53%	10.39%
3 Year	12.28%	10.16%	11.74%	7.81%
5 Year	11.68%	9.40%	10.82%	7.59%
10 Year	10.34%	8.46%	9.75%	6.92%

1. Fixed Income returns go back 8 years, so last column shows annualized 8-year return.

2. Absolute Return returns go back 9 years, so last column shows annualized 9-year return.

Source: Callan (as of September 30, 2021)

	1 year	3 year	5 year	10 year
Total Fund	26.60%	12.28%	11.68%	10.34%
<i>Performance Benchmark</i>	23.53%	11.74%	10.82%	9.75%
Public Equity	35.51%	13.55%	13.79%	12.23%
<i>Benchmark</i>	28.92%	12.38%	13.06%	11.96%
Fixed Income⁽¹⁾	2.14%	5.49%	3.85%	4.07%
<i>Benchmark</i>	1.62%	4.77%	3.26%	3.99%
Private Equity	63.24%	27.85%	26.34%	21.89%
<i>Benchmark</i>	56.87%	23.79%	20.97%	14.09%
Real Estate	5.77%	1.78%	2.88%	6.81%
<i>Benchmark</i>	11.65%	7.55%	7.36%	9.42%
Private Income	21.91%	10.39%	11.66%	10.16%
<i>Benchmark</i>	18.86%	7.74%	7.72%	8.24%
Absolute Return⁽²⁾	12.79%	6.24%	6.28%	4.76%
<i>Benchmark</i>	21.65%	8.39%	7.23%	6.48%
Risk Parity	17.99%	NA	NA	NA
<i>Benchmark</i>	19.22%	NA	NA	NA
Cash	0.19%	NA	NA	NA
<i>Benchmark</i>	0.07%	NA	NA	NA



APFC Investment Management Risk



APFC is in the Business of Taking Risk

APFC has to take risks in order to achieve its return objectives.

The goal of risk management is not to avoid risks, it is to:

- ✓ know and understand the risks taken,
- ✓ measure, monitor and report these risks, and
- ✓ Manage risks to acceptable levels, and review whether returns are commensurate

The key measures of risk include: **Value at Risk (VaR), Tracking Error (TE), Liquidity, Concentrations, Tail Risk & Stress Analysis**

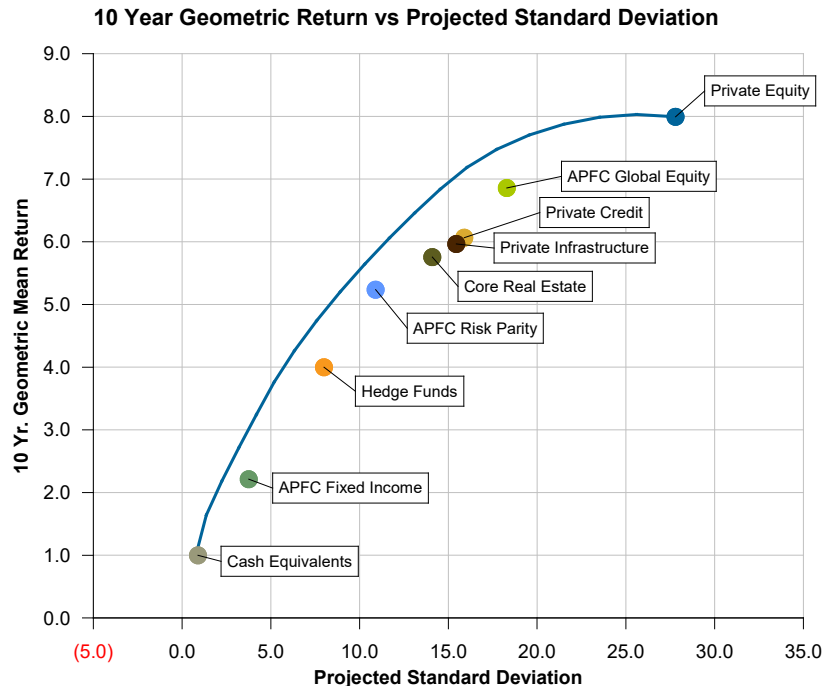
Risk appetite is a broad based articulation of the corporation's thresholds, in terms of risks it is willing to take, in pursuit of its objectives. Risk Appetite is defined in terms of a reference portfolio - 'Risk Tolerance Portfolio' (RTP)

Projected Return and Volatility

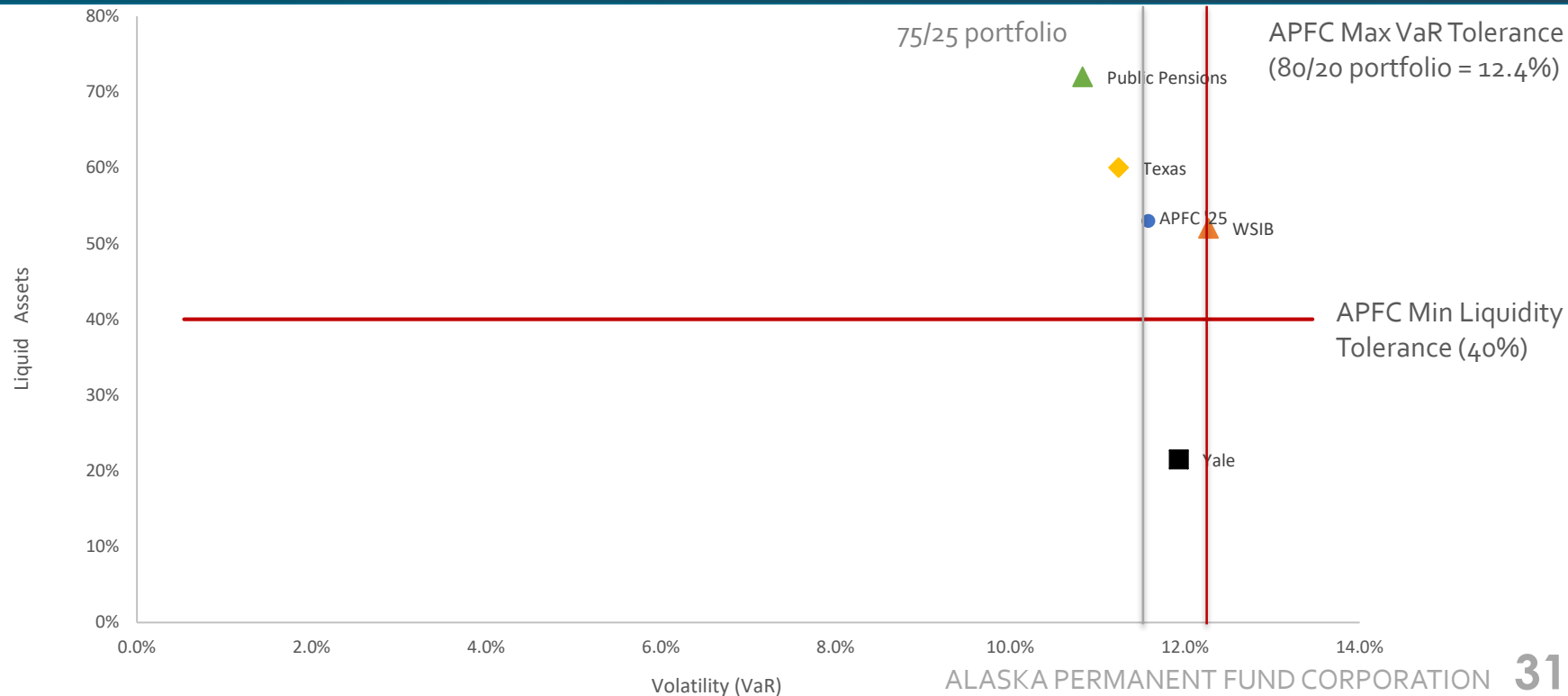
From Callan's April 2021 presentation

Return, Volatility, Efficient Frontier

- Standard deviation is a measure of volatility and is used as the proxy for the riskiness of each asset class.
- Efficient markets mean that asset classes are generally arrayed from the lower left to the upper right along a relatively straight line.
- The blue locus of points represents the “efficient frontier”, the risk minimizing portfolios at each level of return (using the asset classes shown on the chart).

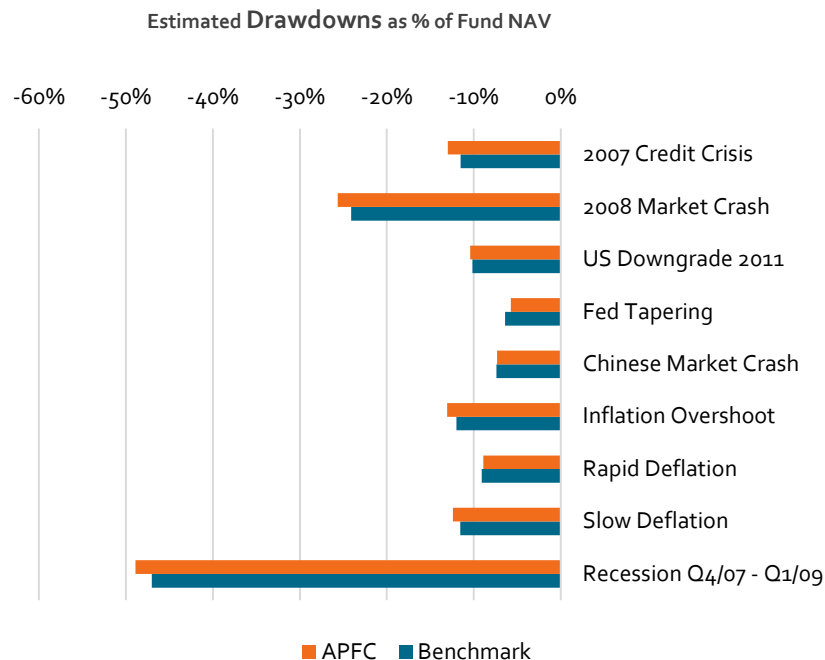


Portfolio Comparisons: Risk Metrics



Tail Risk: Current portfolio during extreme events

Scenario	Definition
2007 Credit Crisis	Credit & liquidity crisis stemming from a severe slowdown in the housing market causing significant widening of credit spreads, higher implied volatility.
2008 Market Crash	S&P 500 down 20% (2000 bps).
US Downgrade 2011	The period starts with 50% chance US downgrade indication from S&P standards and ends with Operational Twist announcement from the Fed
Fed Tapering Talk 2013	Equity & bond markets sold off. EM suffered badly due to hot money flight back to U.S.
Chinese Market Crash	Chinese stock market crash beginning with the popping of the stock market bubble on June 12, 2015.
Inflation Overshoot	Economic recovery, pent-up demand, supply chain bottlenecks, and fiscal stimulus cause a surge in inflation, prompting higher interest rates in a taper tantrum-style sell-off.
Rapid Deflation	Oil down 60% (6000 bps); ST Inflation down 350 bps; Mortgage spreads tighten 25 bps.
Slow Deflation	LT deflation down 200 bps; LT Treasury Rates down 100 bps; Mortgage spreads tighten 25 bps.
Recession Q4/07-Q1/09	Recent recessionary period starting Dec3, 2007 and ending March9, 2009





ERA Depletion Risk

- One type of risk that the Permanent Fund and its stakeholders face is the risk of Earnings Reserve Account (ERA) depletion rendering the annual POMV draw unable to be fulfilled.
- Economic modeling done by Callan Associates indicates:
 - In the short-term, less investment risk assumed by the Fund decreases the probability of ERA depletion.
 - However, in the long-term, lower expected returns associated with less investment risk may increase the probability of ERA depletion.
- To minimize the risk of long-term ERA depletion, the Fund must assume investment risk to generate sufficient returns over time to generate earnings to maintain a healthy ERA.



APFC

Integrity - Stewardship - Passion