



APFC

ALASKA PERMANENT
FUND CORPORATION

House Finance Committee

January 25, 2022



ALASKA PERMANENT
FUND CORPORATION

Established 1980

Fiduciary Duty

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

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.

Alaska Permanent Fund Principal

Constitution and AS 37.13.010
Earnings Reserve Account
AS 37.13.145 (a)

Amerada Hess Settlement

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

Fund Value: \$80,984,300,000

Unaudited as of November 30, 2021

PRINCIPAL \$65.3 Billion



■ Permanent Savings: Royalty Deposits & Other Appropriations ■ Unrealized Gains

EARNINGS RESERVE ACCOUNT (ERA) \$15.7 Billion



■ Uncommitted Realized Earnings ■ POMV Commitment FY23 ■ Unrealized Gains

Unrealized gains and losses on invested assets are held until an investment is sold, then the net realized earnings flow to the ERA.

Sources of Change in Value






FY21 End to FY22 as of November 30, 2021

Sources of Change in Value	\$s in millions
FY21 Total Fund	81,896.8
Net Investment Revenues	1,981.9
Cash Flow Income	635.2
Realized Gains	2,432.8
Unrealized Losses	(1,027.5)
Expenditures	(58.6)
Royalties	174.9
FY22 POMV to General Fund	(3,069.3)
FY22 November 30 Total Fund	80,984.3

Statutory Net Income AS 37.13.140

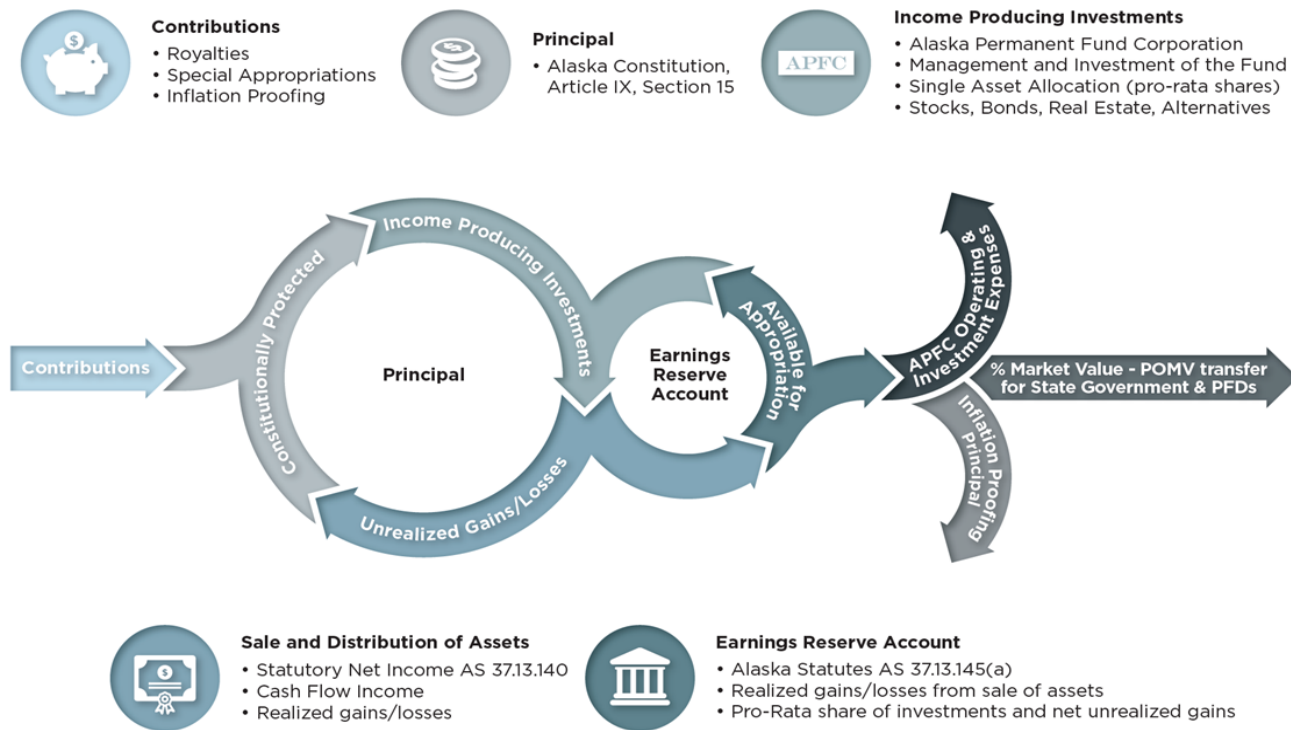
Net Investment Revenues	1,981.9
Unrealized Losses	(1,027.5)
AK Capital Income Fund	(15.8)
FY22 YTD to ERA	2,993.6

APFC Return on Investment

Fiscal Year 2021	Accounting Net Income \$19.4 billion/253* \$76.7 million/day	Statutory Net Income \$7.9 billion/253* \$31.2 million/day	APFC Operations Budget \$14.4 million/year	APFC Investment Management \$153.4 million/year
				
Fiscal Year 2020	Accounting Net Income \$1.7 billion/253* \$6.7 million/day	Statutory Net Income \$3.1 billion/253* \$12.3 million/day	APFC Operations Budget \$14.6 million/year	APFC Investment Management \$105.6 million/year

*253 Trading days per fiscal year

A Renewable Resource



Historically, the Permanent Fund was used as a savings device to generate revenues and pay dividends.

Today, the Fund is used as a savings device to generate revenues for the General Fund through the POMV Draw to support statewide services and programs, including the dividend.

The background of the slide is a solid teal color. Overlaid on this 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.

Principal

Principal

Grows through -

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

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

Inflation Proofing – AS 37.13.145 (c)

The inflation proofing calculation is based on deposits into the Principal and the inflation rate calculated per statute. An appropriation is needed to fulfill this statutory obligation.

Special Appropriations – AS 37.13.010 (a)(3)

Legislative Deposits from both the General Fund and the ERA.

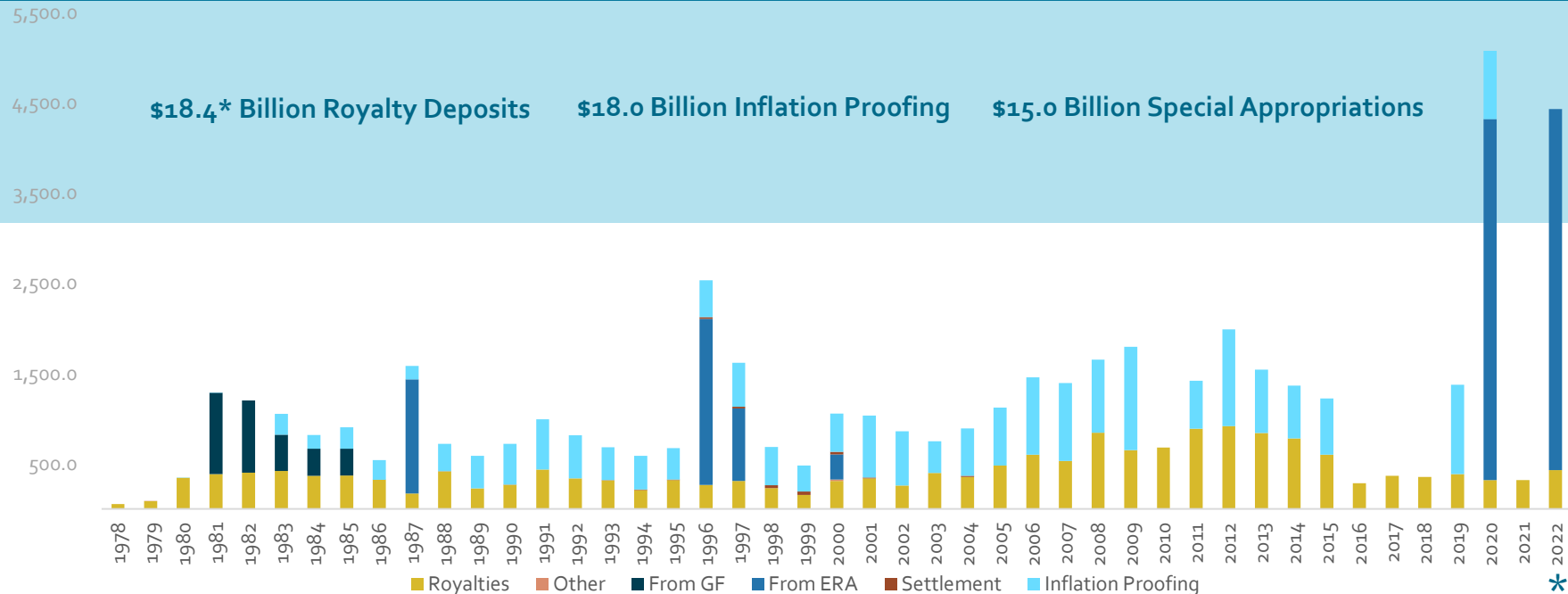
Fiscal Year	In millions	
	Inflation Transfer	Royalty Deposits
2009	\$1,144	\$651
2010	\$0	\$679
2011	\$533	\$887
2012	\$1,073	\$915
2013	\$743	\$840
2014	\$546	\$779
2015	\$624	\$600
2016	\$0	\$285
2017	\$0	\$365
2018	\$0	\$353
2019	\$990	\$385
2020	\$758	\$319
2021	\$0	\$320
2022	\$0	\$429*

* Includes estimated FY22 Royalty Deposits

Constitutionally Established

- Permanent Savings
- Used only for income-producing investments
- Not available for appropriation

Principal Contributions

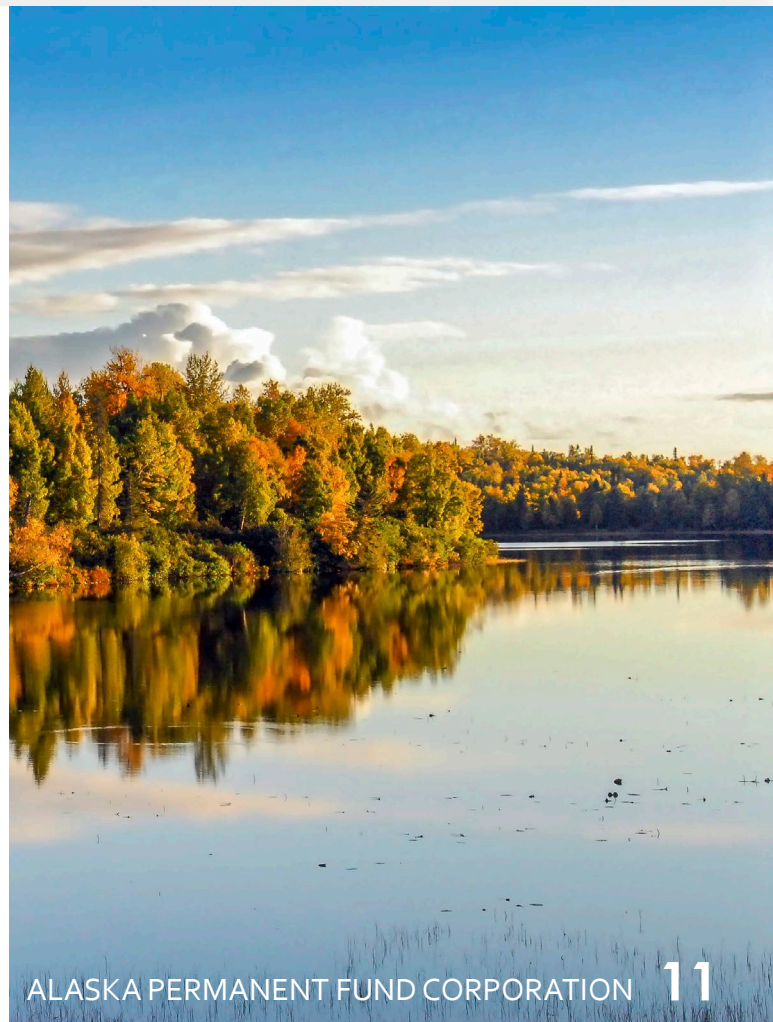


The background of the slide is a solid teal color. Overlaid on this is a faint, high-contrast image of a pine branch with needles and a small, textured pine cone or bud. The image is centered horizontally and occupies the middle portion of the slide.

Earnings Reserve Account

Earnings Reserve Account

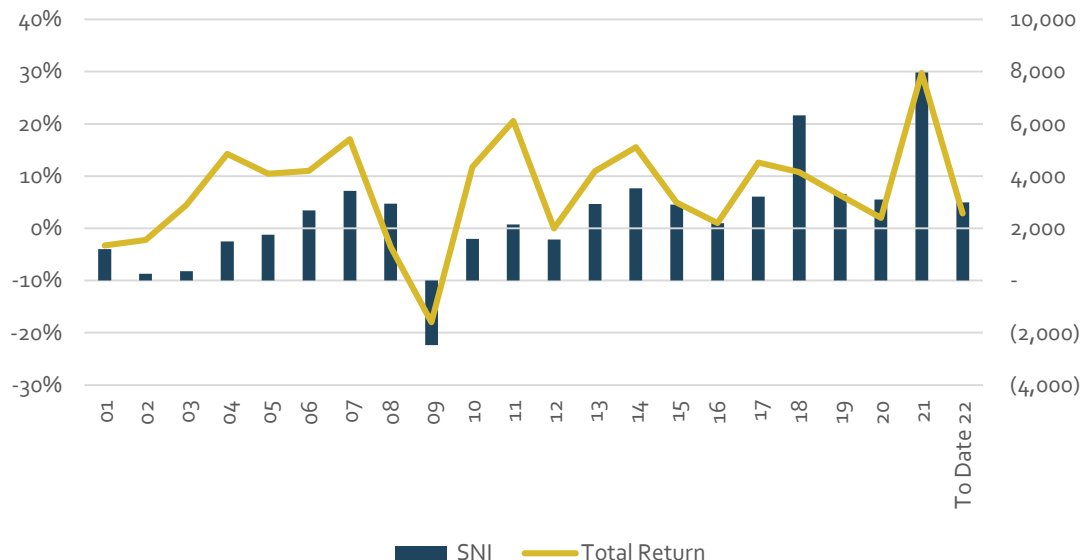
- Established in AS 37.13.145 (a) as a separate account to hold the realized earnings from the Fund's investment portfolio
- Invested under the same asset allocation as the Principal
- Is available for appropriation
- Grows through the receipt of statutory net income



Statutory Net Income

AS 37.13.140 (a) directs the net investment earnings of the Fund to the ERA excluding unrealized gains & losses.

Total Return vs Statutory Net Income (SNI) (millions)



Statutory Net Income is the direct result of investment activity:

Monthly cash inflows from stock dividends, bond interest, and real estate

Realized Capital Gains/Losses: The net income generated by the sale of investments. (i.e., realized gains minus realized losses)

FY21 as of June 30, 2021
SNI = \$7,962,400,000

FY 22 as of November 30, 2021
SNI = \$2,993,600,000

Use of Fund Earnings

as of November 30, 2021

Paid out of ERA = \$36.9 B

- Dividend Appropriations \$24.4 B | 30.7%
- POMV Distributions to General Fund \$12.6 B | 15.8%
- Alaska Capital Income – Amerada Hess \$0.4 B | 1.0%

Savings from ERA to Principal = \$30.3 B

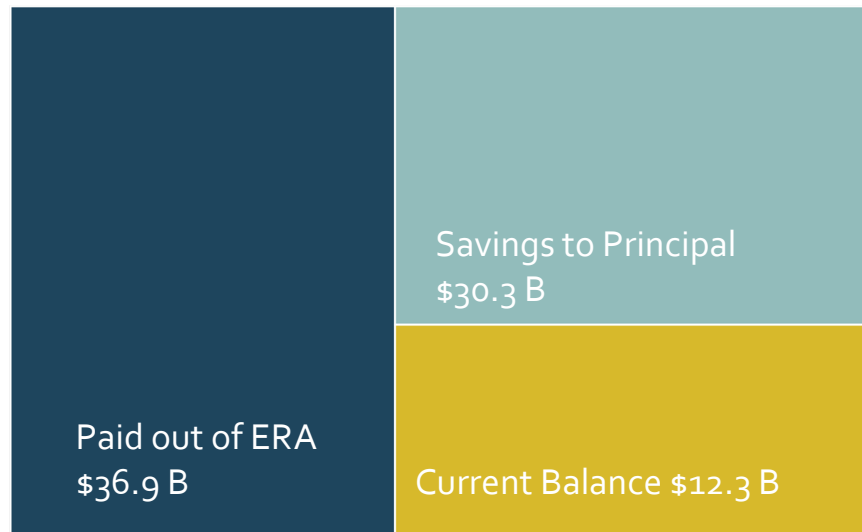
- Inflation Proofing \$18.0 | 22.6%
- Special Appropriations \$12.3 | 15.5%

Current Realized Earnings Balance = \$12.3 B

- FY23 POMV commitment \$3.4 B | 4.2%
- Uncommitted Earnings \$8.9 B | 11.2%

TOTAL REALIZED EARNINGS

\$79,561,200,000



A scenic landscape featuring a body of water in the foreground, a range of mountains in the background, and a bright sun in the sky. The entire image is overlaid with a teal filter. The text "Investment Management" is centered in the middle of the image.

Investment Management

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.

Investment Department

Current Topics

- Performance
- Current Portfolio Positioning
- Personnel, open positions, and recruiting
- Assessment of Internal vs External Management
- Asset Allocation
- Market Environment



A Portfolio of 8 Asset Classes

Public Equity: Domestic, international, and global stocks. A majority of the portfolio is managed by external managers with roughly 15% internally managed through ETFs and single stock investment programs.

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. Investment grade bond portfolio is managed entirely in house.

Private Equity: Growth oriented assets that are expected to generate risk-adjusted, after-fee returns that are superior to the Public Equity portfolio. ~¾ of the portfolio is managed through external funds; ~¼ is managed internally through direct investments and co-investments.

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. External advisors are utilized.

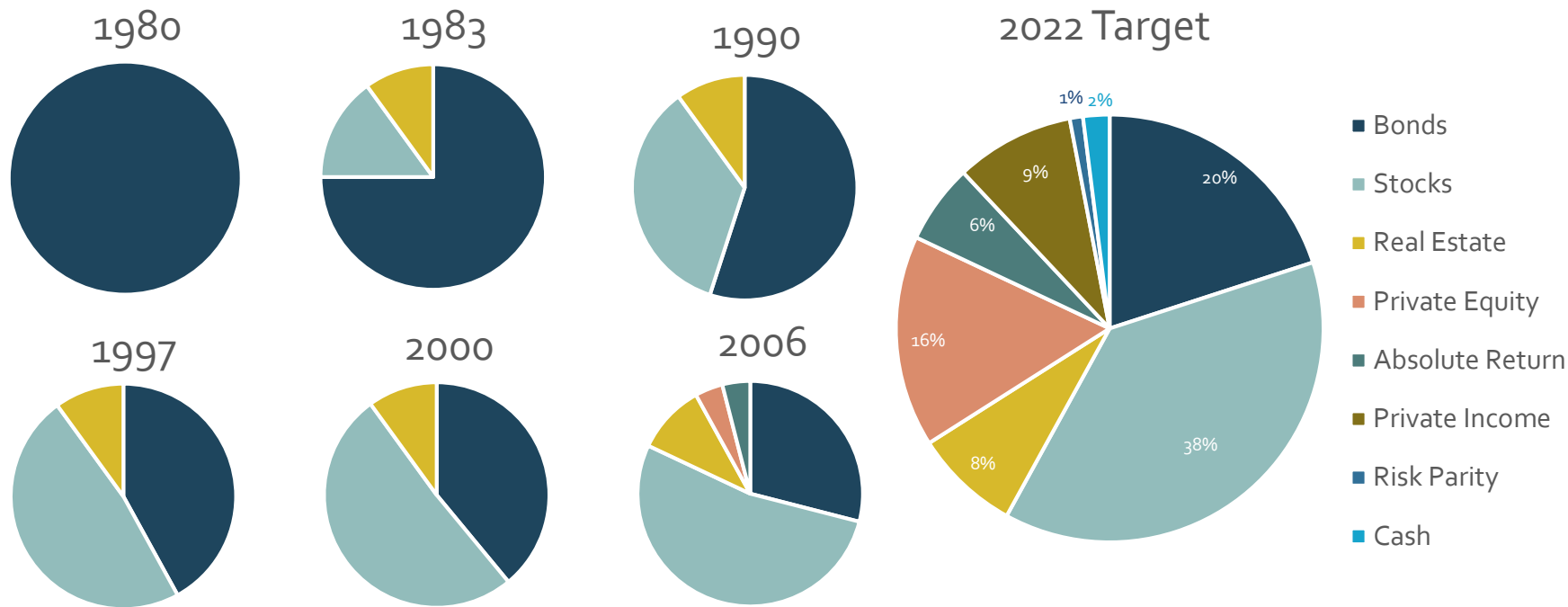
Private Income & Infrastructure: Infrastructure and private debt investments, predominantly funds and some co-investments, designed to provide returns between public equity and fixed income.

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

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 that is externally managed.

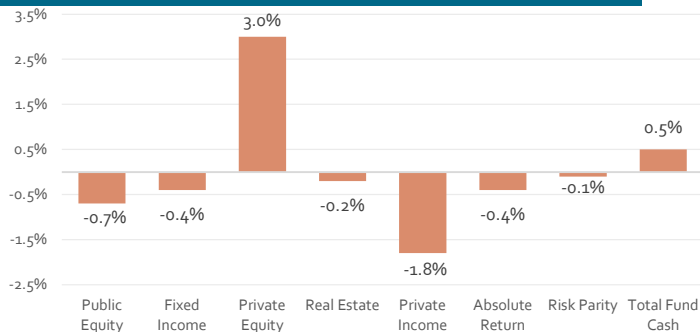
Cash: A nearly risk-free asset class and meets operational needs that is internally managed.

Asset Allocation

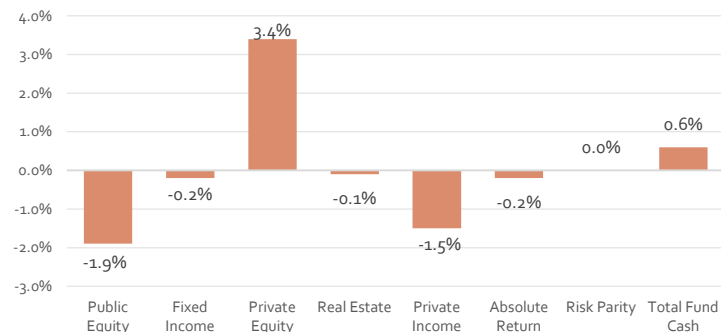


Total Fund Positioning and Performance

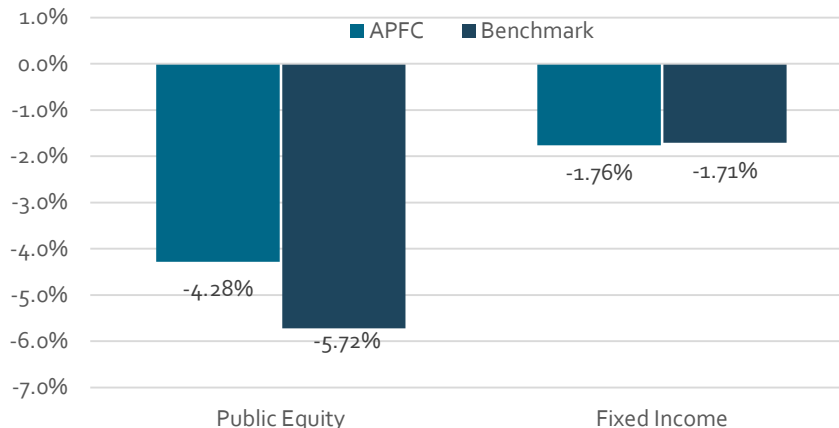
Asset Allocation vs. Target (6/30/21) ⁽¹⁾



Asset Allocation vs. Target (1/21/22) ⁽¹⁾



Calendar Year 2022 Performance as of 1/21/22* ⁽²⁾

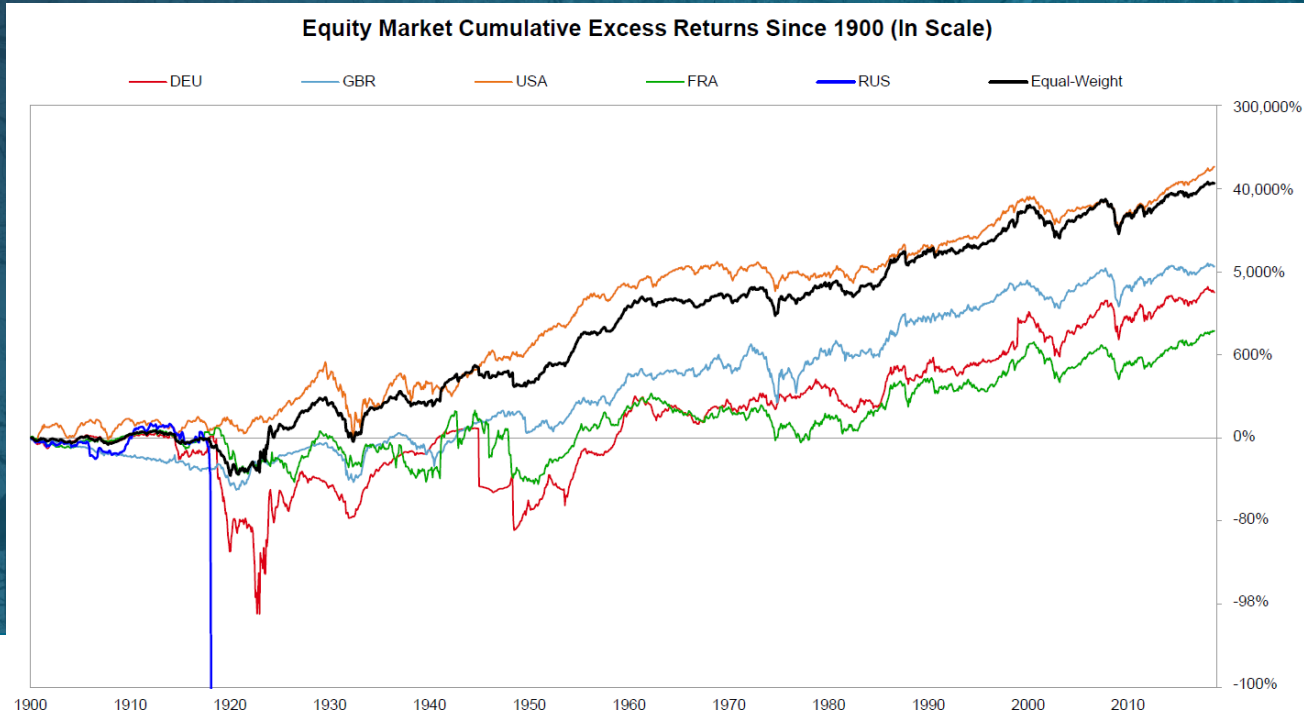


*Note: As of January 21, 2022, accurate calendar year performance is only available for the Public Equity and Fixed Income asset classes.

1. Source: APFC Risk Dashboard report as of 6/30/21 and 1/21/22
2. Source: BNY Mellon Daily Detailed Report as of 1/21/22

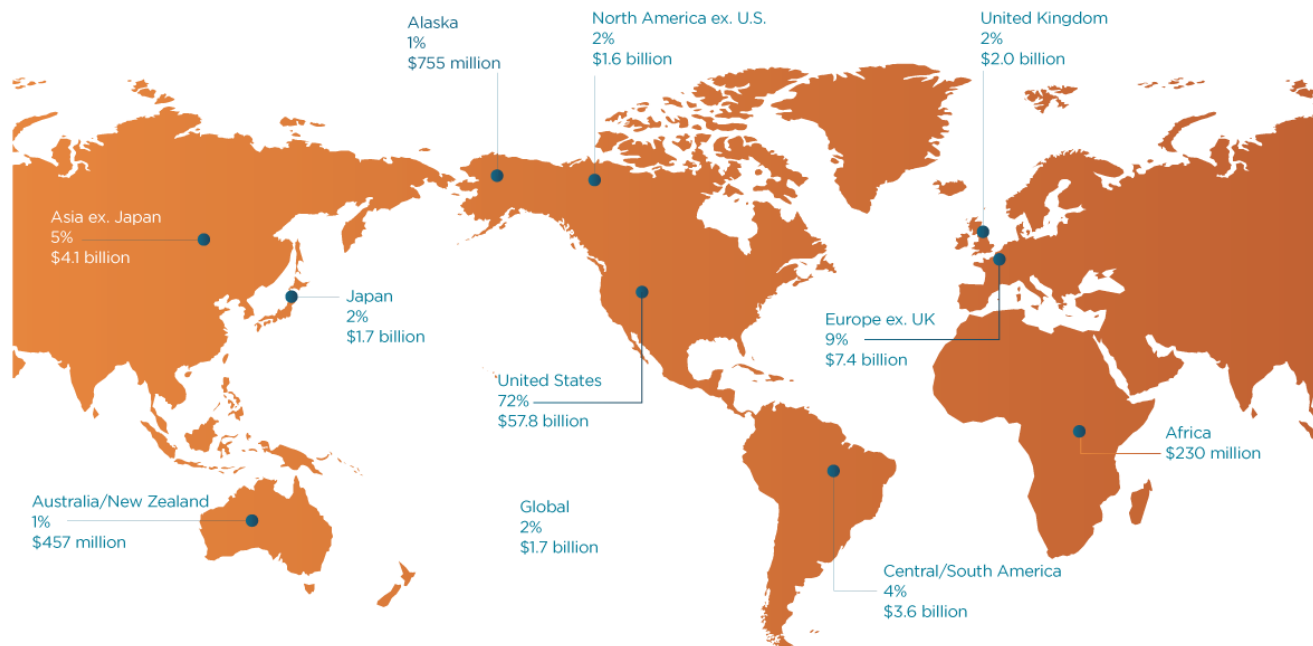
Diversification

almost as good as picking the winner...



Global Portfolio

as of June 30, 2021

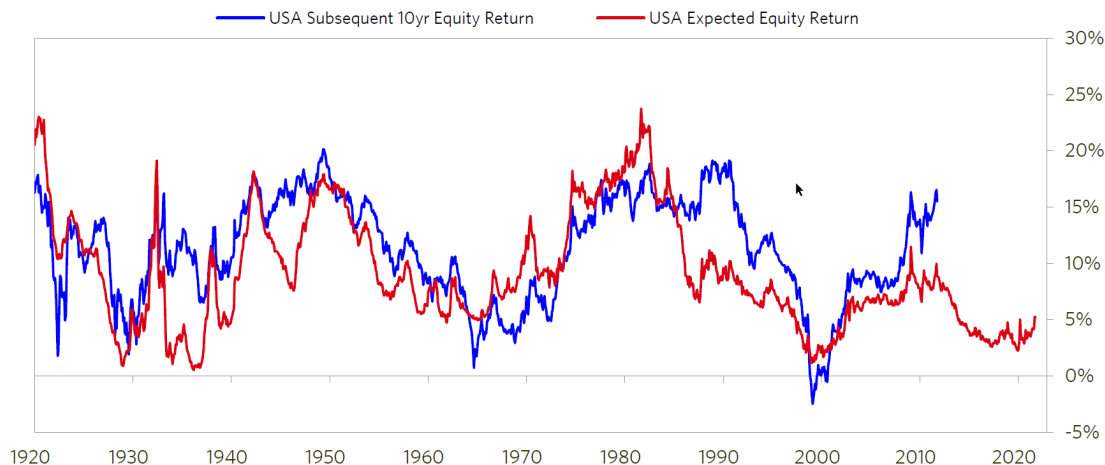


Current Market Environment

US 60/40 Portfolio 10-Year annualized returns over cash



According to Bridgewater Associates, using a valuation-based expected return approach, the 10-year outlook for nominal returns on US equities is ~5%.



Source: Bridgewater Associates

Current Market Environment

Asset Class	Index	10-year annualized expected nominal return
Equities:		
Broad U.S. Equity	Russell 3000	6.60%
Large Cap U.S. Equity	S&P 500	6.50%
Small-Mid Cap U.S. Equity	Russell 2500	6.70%
Global ex-U.S. Equity	MSCI ACWI ex US	6.80%
Developed ex-U.S. Equity	MSCI World ex US	6.50%
Emerging Market Equity	MSCI Emerging Markets	6.90%
Core U.S. Fixed Income	Bloomberg Aggregate	1.75%
Core Real Estate	NCREIF ODCE	5.75%
Private Infrastructure	MSCI Global Infra	6.10%
Private Equity	Cambridge Private Equity	8.00%
Private Credit	N/A	5.50%
Hedge Funds	Callan FOF Database	4.10%
Commodities	Bloomberg Commodity	2.50%
Inflation	CPI-U	2.25%

Source: Callan – 2022 Capital Markets Assumptions



Risk Management

APFC is in the business of taking risks. 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**

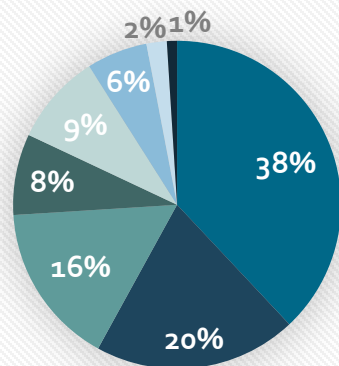
Risk appetite is a broad based articulation of the Corporation's thresholds, in terms of risks it is willing to take, in pursuit of its objectives. Risk Appetite is defined in terms of a reference portfolio - 'Risk Tolerance Portfolio' (RTP).

A scenic landscape featuring a body of water in the foreground, a range of mountains in the middle ground, and a bright sun in the sky. The entire image is overlaid with a teal filter. The word "Performance" is centered in the middle of the image.

Performance

Performance

FY22 Target Asset Classes

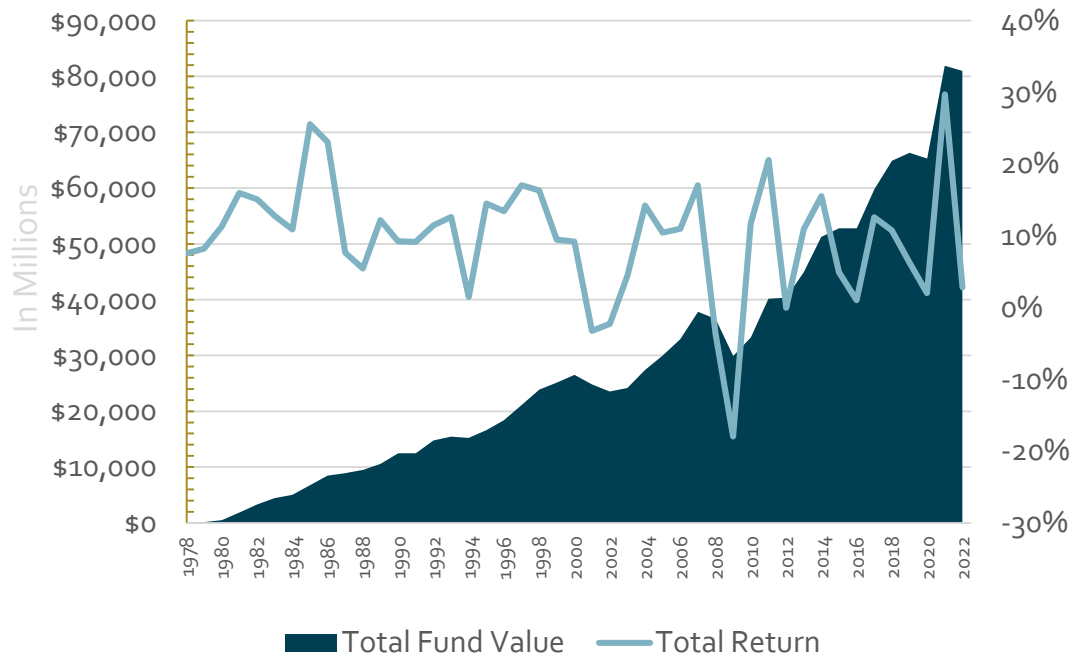


- Public Equities
- Fixed Income Plus
- Private Equity & Special Opportunities
- Real Estate
- Infrastructure, Credit, & Income Opportunities
- Absolute Return
- Cash
- Risk Parity

As of November 30, 2021 in billions	Value	FYTD 22
Total Fund	\$ 83.3	2.82%
<u>Liquid Investments</u>		
Public Equities	\$ 29.8	-0.18%
Fixed Income Plus	\$ 13.0	0.08%
Absolute Return	\$ 4.1	1.41%
Risk Parity	\$ 0.8	2.26%
Cash	\$ 2.3	0.03%
<u>Illiquid Investments</u>		
Private Equity and Special Opportunities	\$ 16.6	11.30%
Real Estate	\$ 6.1	4.22%
Private Income: Infrastructure	\$ 6.2	5.66%

Performance

as of FY22 Performance to Date - November 2021



	Total Fund	Passive Index	Performance Benchmark	Objective CPI + 5%
FY20	2.01 %	1.28 %	2.05 %	5.65 %
FY21	29.73%	28.44 %	27.75 %	10.39%
FY22 to date	2.82%	1.13%	2.96%	4.29%
3 Year	13.27%	12.39%	12.91%	8.32%
5 Year	11.75%	10.46%	11.14%	7.87%

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

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

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

VALUE ADDED OVER 10 YEARS
Returns over the passive index benchmark

\$10.4 B | **1.80%**
value add | performance add

	FY20	FY21	3 Year	5 Year	10 Year
Value Add	\$476.6 M	\$1.1 B	\$1.4 B	\$5.7 B	\$10.4 B

Benchmarks

As of September 30, 2021 – Q1

- Long-term performance has been strong in most areas.
- However, any investor must recognize that we are over 10 years into a historic bull market.
- Real Estate represents an area of improvement going forward.

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



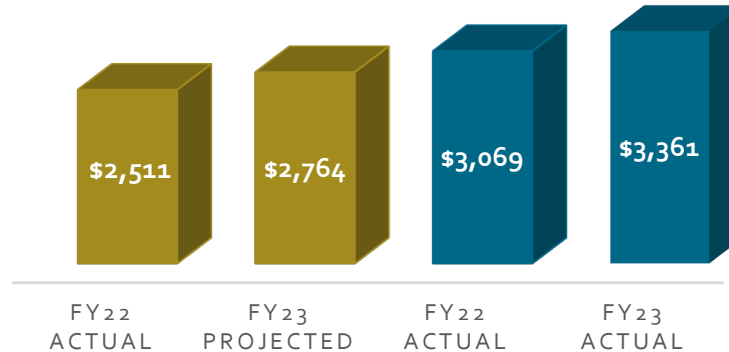
Structure and Sustainability

Distribution Calculations - subject to appropriation

Statutory Dividend Fund Transfer Calculation AS 37.13.145 (b)

INCOME BASED

FY23 projected		in \$millions	
	FY22		5,630.1
	FY21		7,962.0
	FY20		3,106.0
	FY19		3,305.0
+	FY18		6,324.4
x	21%	\$	5,528.8
x	50%	\$	2,764.4



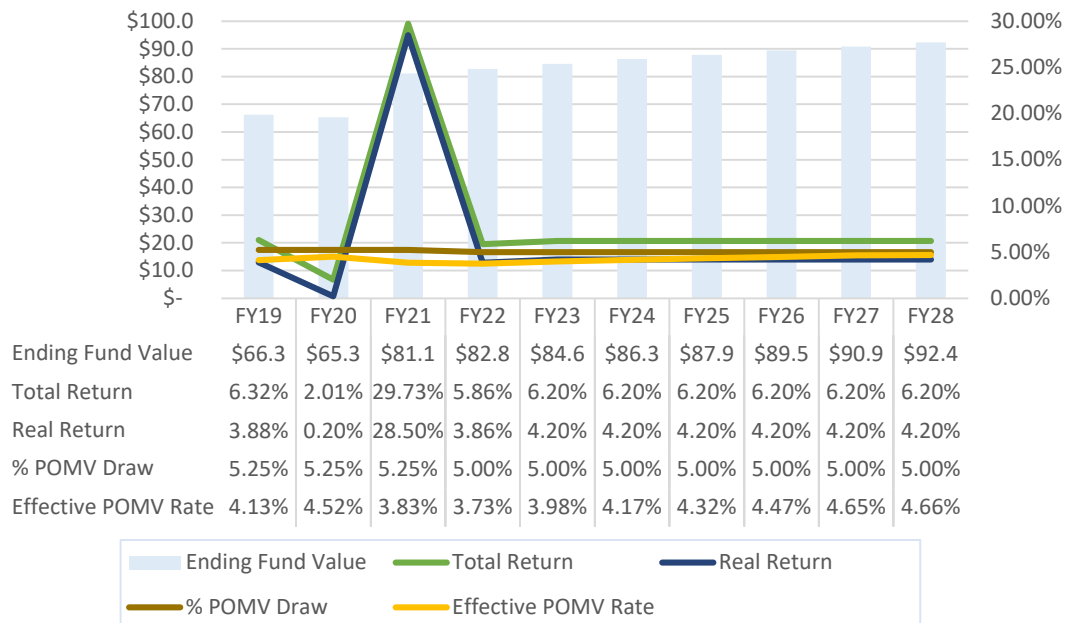
Percent of Market Value Calculation AS 37.13.140 (b)

VALUE BASED

FY23 actual		in \$millions	
	FY21		81,472.6
	FY20		64,877.6
	FY19		65,876.8
	FY18		64,470.0
+	FY17		59,360.9
÷	5 yr AVG	\$	67,211.6
x	5%	\$	3,360.6

Return & POMV Draw

POMV Effective Rates and Returns



- POMV Draw AS 37.13.140 (b) Average market value of the Fund for the first five of the preceding six fiscal years
- 5.25% FY19-FY21/ 5.0% FY22
- Based on market value, rather than realized income
- Subject to annual appropriation
- Predictable – Stable

Based actuals and Callan's FY 22 projections
ALASKA PERMANENT FUND CORPORATION

Resolutions

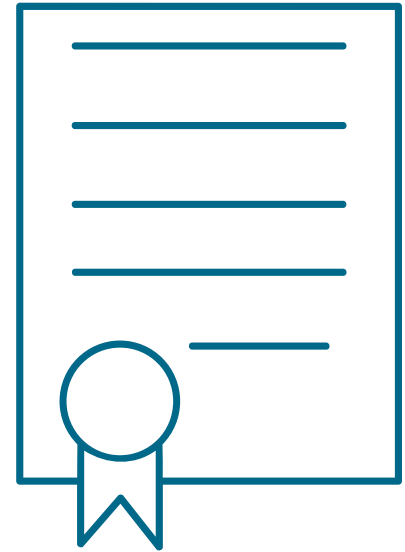
00-13, 03-05, 04-09: Constitutionalize Annual Fund Draw. Limit the annual Fund payout to not more than a 5% POMV averaged over a period of 5 years. Assures permanent inflation proofing.

17-01: Identify and pursue legislation or legislative support for some form of inflation-proofing that will preserve the purchasing power of the principal of the permanent fund for all generations.

18-01: Supporting a Rules Based Legal Framework to govern Fund inflows, outflows, and internal transfers. A holistic framework rationalized by policymakers regarding the rules for savings, withdrawals, and growing the real value of the Fund results in a consistent approach to transfers and sustainability of the Fund over the long-term.

18-04: Affirming 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 to Rules, Ensuring Sustainability, Automatic Inflation Proofing, Promoting Real Growth.

20-01: Additional measures to enhance the sustainable use of the Fund include restructuring the Fund from its' current two account system into a single Fund as well as periodic review of Fund Return Assumption and ERA Balance Buffer (4X Buffer).



Trustees' Paper Volume 9

Successful SWFs operate within a rules-based system that allows them to perform a combination of saving, stabilization, and income-generation functions.

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

LESSON #1: MISSION CLARITY

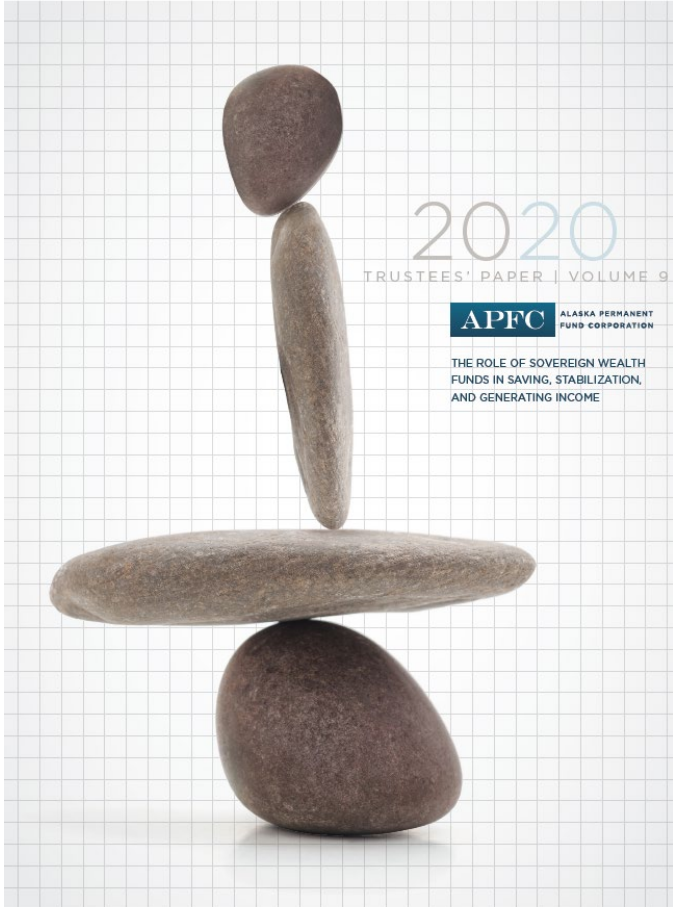
LESSON #2: THE IMPORTANCE OF RULES

LESSON #3: SUCCESSFUL ENFORCEMENT OF SAVING RULES

LESSON #4: DESIGNING A POMV SPENDING RULE

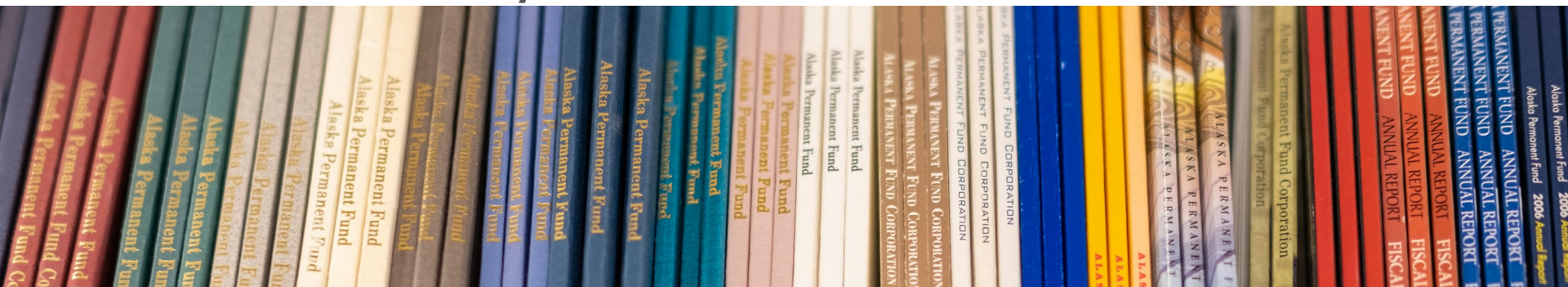
LESSON #5: REFORMING THE ERA

<https://apfc.org/report-archive/#14-33-trustees-papers>



Accountability

In our commitment to Alaskans, APFC publishes accurate and timely information on the work we do investing the Fund.



Statutory Disclosures

AS 37.13.170

Annual Report

Audited Financial Statements

General Election Pamphlet

Publicly Available Information

Monthly Financial Statements

Monthly performance

Daily Fund Value

Fees & expenses

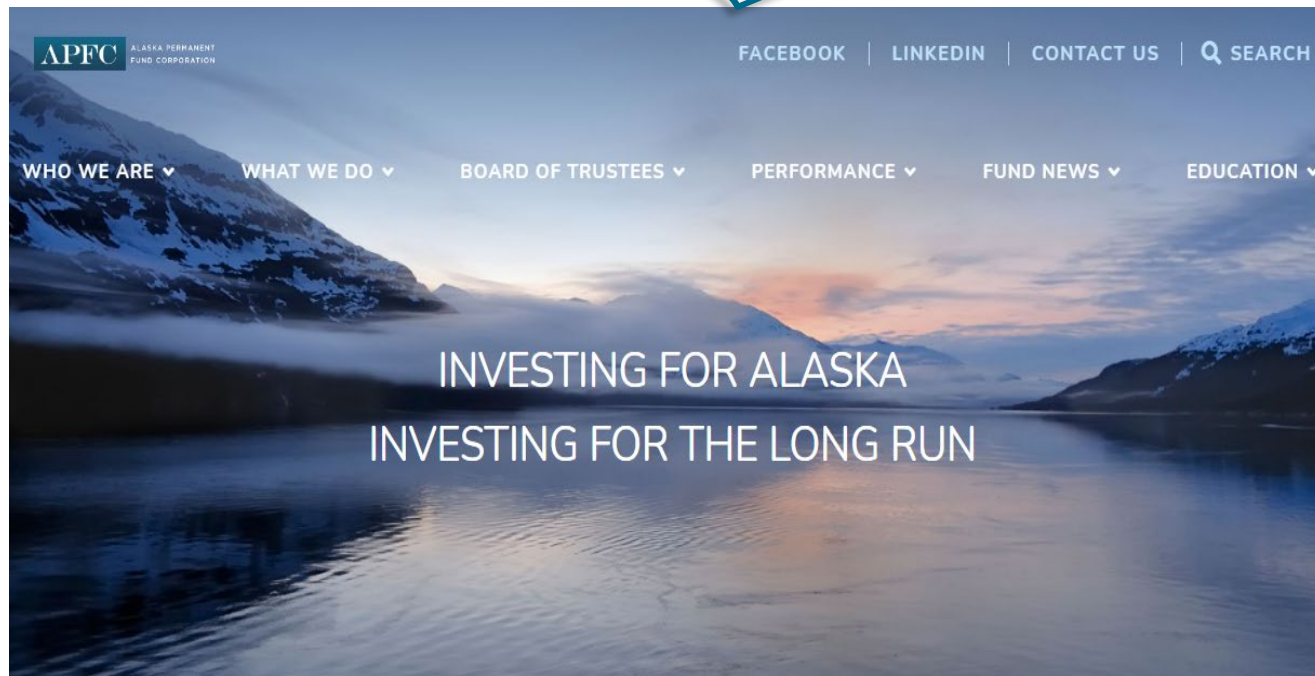
Securities by region

Public equities holdings

Private markets commitments

Board Meeting Packets, Minutes & Videos

www.apfc.org



Annual Report
Board Resolutions
Trustees Papers
Board Meetings
Education
Videos
An Alaskan's Guide
Monthly Fund Values
Financial Statements
Performance Reports

And so much more...
Follow APFC



Integrity – Stewardship – Passion



APFC

ALASKA PERMANENT
FUND CORPORATION