



APFC

ALASKA PERMANENT
FUND CORPORATION

House Budget Subcommittee

FY 23 Operating Budget

February 2022

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.

Vision

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



FY2023 Board Approved – Governor Proposed

Recognizing the importance of the Alaska Permanent Fund as Alaska's largest renewable financial resource, the Board of Trustees and staff carefully consider the best structure, asset allocation, and budgetary needs of the Corporation to meet the high expectation of stakeholders.

APFC brings forth an increment of \$5.2 million for the FY2023 Operating Budget, which reflects growing assets under management and the need to maintain and recruit talent to manage the Fund effectively.

	Authorized	BOT Approved	GOV Proposed	FY2022 To GOV
	FY2022	FY2023	FY2023	Variance
Operating Allocation	\$19,536,000	\$22,396,000	*\$21,934,000	\$2,398,000
Investment Management Allocation	\$193,039,100	\$195,868,000	\$195,868,000	\$2,828,900
Total Appropriation	\$212,575,100	\$218,264,000	\$217,802,000	\$5,226,900

Fund: 1105 Permanent Fund Corporation Gross Receipts

*Benefit rates for PERS, AlaskaCare, and Department Risk Management changed post APFC's Board approving a budget

Stewardship

The Alaska Permanent Fund is recognized globally as a model for converting a non-renewable natural resource into a renewable financial resource.

February 1977, **\$734,000** was deposited in the Alaska Permanent Fund after the first oil passed through the newly completed Trans Alaska Pipeline System.

Successful stewardship of the Fund through:

- Governance that includes an effective independent management and organizational structure, adherence to accountability measures, a defined legal framework, established security measures, and defined policies and procedures.
- An Investment Strategy which provides a risk adjusted return based on a diversified portfolio invested for the long-term horizon.

By mid fiscal year 2022, the Fund was valued at over **\$82,412,500,000** with 9.16% Annualized Return since inception as of December 31, 2021



5% Percent of Market Value

AS 37.13.140 (b) - Average market value of the Fund for the first five of the preceding six fiscal years

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

\$3.36 B

FY23 POMV \$3.36 billion
Effective Rate ~3.98%

~\$3.60 B

FY24 POMV ~ \$3.60 billion
Effective Rate ~4.17%

~ \$3.80 B

FY25 POMV \$3.80 billion
Effective Rate ~4.32%

- Based on market value, rather than realized income
- Subject to annual appropriation
- Predictable – Stable

APFC Operating Allocation

Travel, Contractual, Commodities, Equipment

Holds Travel flat

Travel remains unpredictable though necessary to perform due diligence, maintain partner relationships, and vet new investments.

Increases Contractual Services | \$176,000

APFC IT is exploring the Corporation's future data needs. This multi-phase effort includes analysis of current data, sources, platforms and analytics capabilities. Also included for Communications is contractual support for youth education outreach.

Generates a minimal decrement to Commodities | (\$5,200)

APFC IT continues to refresh and deploy new workstation equipment necessary to conduct business seamlessly and securely in changing environments. This request supports ongoing IT and office needs.

Generates a minimal decrement to Equipment | (\$100,000)

The requested funding accommodates regular upgrades for APFC primary data center and disaster recovery site.

	Authorized	BOT Approved	GOV Proposed	FY2022 To GOV
	FY2022	FY2023	FY2023	Variance
Personal Services	\$14,771,300	\$17,560,270	\$17,098,300	\$2,327,000
Travel	\$800,000	\$800,000	\$800,000	-
Contractual Services	\$3,213,600	\$3,389,830	\$3,389,800	\$176,200
Commodities	\$201,100	\$195,900	\$195,900	(\$5,200)
Equipment	\$550,000	\$450,000	\$450,000	(\$100,000)
Total Operating Allocation	\$19,536,000	\$22,396,000	\$21,934,000	\$2,398,000

Fund: 1105 Alaska Permanent Fund Corporation Receipts

APFC Operating Allocation

Personal Services

Incentive Compensation | \$710,000

Approved by the Board, as most pension, endowment and sovereign wealth funds offer some type of performance based compensation to their investment professionals. This increment brings the total to \$1.6 million.

7 New positions | \$1,572,600

5 Investment
(salaries \$867,264, benefits \$411,590)
2 Operational
(salaries \$184,992, benefits \$108,718)

Retention and Merit Adjustments | \$438,400

Essential to maintaining continuity of our program and successful efforts in supporting, retaining, and recruiting experienced professionals.

State-wide rate adjustments | (\$397,400)

Benefit rates for PERS, AlaskaCare, and Department Risk Management changed post APFC's Board approving a budget.

Board Honorarium | \$3,400

AS 37.13.090 Compensation for Board Members.

An increment for special meetings

Vacancy factor | 3% adjustment

	Authorized	GOV Proposed	FY2022 To GOV
	FY2022	FY2023	Variance
Personal Services	\$14,771,300	\$17,098,300	\$2,327,000

Fund: 1105 Alaska Permanent Fund Corporation Receipts

Incentive Compensation Program

Only investment staff are eligible for incentive compensation - the Chief Investment Officer, Investment Directors, Portfolio Managers, and Analysts.

Maximum variable compensation award equals 50% of salary for senior professionals, with lower maximum awards for junior staff. No employee can make more than 1.5 times of their previous year's compensation.

Both total Fund performance and individual asset class performance contribute to the calculation.

If fiscal year total performance return for the Fund is negative, there will be no payment of incentive compensation.

Maximum distribution is estimated to be \$3,183,000. The Board is requesting a portion of that to bring the total to \$1,600,000, based on the actual FY21 calculation prior to pro-rata adjustments in accordance with the appropriated amount.



Title	Total Fund Weight	Asset Class Weight	% of Salary Eligible
Chief Investment Officer	100%	0%	50%
Asset Class Director	50%	50%	50%
Senior Portfolio Manager	45%	55%	50%
Portfolio Manager	40%	60%	35%
Senior Analyst	35%	65%	25%
Analyst	25%	75%	15%

Incentive Compensation Examples

Example: Private Equity Analyst

Base Salary = \$80,000

Max Bonus Award = \$12,000 (15% of \$80,000)

Title	Total Fund Weight	Asset Class Weight	% of Salary Eligible
Analyst	25%	75%	15%
Performance assumption: (performance band caps)	1 Year (20%)	5 Year (80%)	
Total Fund (100bp = 100% = max)	75bp	150bp	
Private Equity Asset Class (200bp = 100% = max)	300bp	100bp	
Calculation:	1 Year (20%)	5 Year (80%)	
Total Fund	$(.75 * 20 * .25) = 3.75$	$(1.00 * 80 * .25) = 20$	
Private Equity Asset Class	$(1.00 * 20 * .75) = 15$	$(.50 * 80 * .75) = 30$	
Total Points	18.75	50.00	

Total Points = 18.75 (1 year) + 50.00 (5 year) = 68.75 out of 100

Total Bonus = 68.75% * \$12,000 (max bonus) = \$8,250

Total Compensation = \$80,000 (base salary) + \$8,250 (comp) = \$88,250

Example: Private Equity Director

Base Salary = \$200,000

Max Bonus Award = \$100,000 (50% of \$200,000)

Title	Total Fund Weight	Asset Class Weight	% of Salary Eligible
Asset Class Director	50%	50%	50%
Performance assumption: (performance band caps)	1 Year (20%)	5 Year (80%)	
Total Fund (100bp = 100% = max)	75bp	150bp	
Private Equity Asset Class (200bp = 100% = max)	300bp	100bp	
Calculation:	1 Year (20%)	5 Year (80%)	
Total Fund	$(.75 * 20 * .50) = 7.5$	$(1.00 * 80 * .50) = 40$	
Private Equity Asset Class	$(1.00 * 20 * .50) = 10$	$(.50 * 80 * .50) = 20$	
Total Points	17.5	60.00	

Total Points = 17.5 (1 year) + 60.00 (5 year) = 77.50 out of 100

Total Bonus = 77.50% * \$100,000 (max bonus) = \$77,500

Total Compensation = \$200,000 (base salary) + \$77,500 (comp) = \$277,500

Positive Impact

APFC is grateful for the support it has received over the years from the Legislature and the Administration in the form of new positions which have played an essential role in the growth in size and complexity of the Fund.

- Adding staff has allowed for the implementation of internal mandates in the public markets such as investment in global fixed income markets and most recently, launching two new factor-based strategies in public equities.
- We have been able to bring oversight of some real estate properties in-house, saving advisory fees.
- Additional staff in the alternatives area has allowed for increased due diligence on a greater number of investment opportunities, leading to outstanding performance.



New Positions

Personal Services

We have tremendous pride in what we do and take our core value of stewardship to heart in every decision we make.

Department	Position Title	Value
Private Markets	Portfolio Managers (3)	Alternative investments require comprehensive due diligence and experienced professionals to vet complex non-public information thoroughly. Adding Portfolio Manager positions will allow the team to develop subsector specializations, which will increase operational efficiency, sustainability, and foster a knowledge-based competitive advantage.
	Data Analyst	Data analytics are a critical driver of investment decision-making. Having staff dedicated to managing the multitude of data is crucial to the team's continued success.
Real Estate	Senior Investment Analyst	The Real Estate portfolio is expected to double in five years, including development projects, joint ventures, and internal management. The increased complexity and size of the portfolio require expanded internal analysis, due diligence, and investment oversight.
IT	IT Security Specialist	Malware threats are up 485% and rising each year, and it is in the organization's best interest to have staff dedicated to daily monitoring all aspects of our security
Operations	Project Manager	As APFC continues to modernize our operational capabilities, having a clear strategy and the resources necessary to effectively implement new systems and processes will be imperative to the success and potential of these projects. An in-house project manager will build continuity amongst projects and help ensure adequate resource allocation.

Growth

Growth in value, complexity and sophistication

- Increased diversity & complexity of asset classes and investments
- Multiplied transaction volumes
- Expanded number, diversity & remoteness of counterparts

Ratio of Assets Under Management to Staff

CURRENT: Investments 2.9B:1 • Operations 2.3B:1 • Finance 7.4B:1

PROPOSED (FY23 projected 86B):

Investments 2.6B:1 • Operations 2.3B:1 • Finance 7.8B:1

Rapid changes in operating environment

- Adoption of innovative technologies
- Cyber & technology security
- Fraud and malpractice monitoring
- Legal & regulatory framework changes

	Size (\$bn)	#Asset Classes	People PFT
1980	\$0.5	1	
1985	\$7	3	11
1990	\$11	3	18
1995	\$15	3	25
2000	\$28	3	33
2005	\$31	5	35
2010	\$34	7	37
2015	\$46	7	38
2020	\$65	7	57
2022	\$82	8	59
2023	\$86*	8	66**

*Callan Projection

**Proposed FY23

Retention and Vacancy

Personal Services

Retention and Merit Adjustments | \$438,400

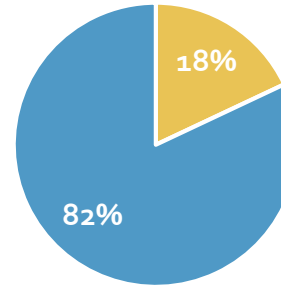
- The board and employees of the corporation are in exempt service under AS 39.25.110. As an exempt employee, agreements with collective bargaining units do not apply, including:
 - COLA adjustments
 - built in salary step adjustments
- The **FY23 request includes a 3% merit for operational staff and a 4% adjustment for investment staff**. Actual merits are awarded based performance reviews.

Vacancy

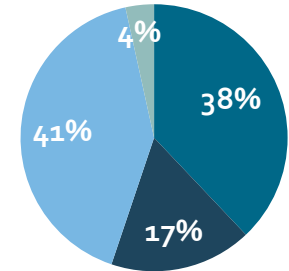
- 5 year Staff Turnover includes 35 individuals
- Current vacancy is 13.6%
- Average time to fill a position is 89 days with a max of 557 days

5 Year Staff Turnover

■ Continued with State Service ■ Left State Service



OF THE 82% THAT LEFT STATE SERVICE



■ Investment ■ Finance ■ Operations ■ Risk & Compliance

Personal Services Budget Authorization

Fiscal Year	FY2020	FY2021	FY2022	FY2023
Salaries	\$ 8,740,087	\$ 9,100,948	\$ 9,401,747	\$ 10,791,151
Benefits	\$ 3,958,274	\$ 4,053,737	\$ 4,942,599*	\$ 5,161,280
Vacancy factor	\$ (871,586)	\$ (342,825)	\$ (484,046)	\$ (478,574)
Board honoraria	\$ 34,426	\$ 27,540	\$ 21,000	\$ 24,443
Incentive Compensation			\$ 890,000	\$ 1,600,000
Total	\$ 11,861,201	\$ 12,839,400	\$ 14,771,300	\$ 17,098,300

Net Change of Total	\$ 0	\$ 978,199	\$ 1,931,900*	\$ 2,327,000
% Change of Total	0%	8%	15%	16%

Request	4 full-time positions, retention adjustment, & incentive compensation	1 full-time position, retention adjustment for current and prior year, & incentive compensation	1 full-time position, retention adjustment, & incentive compensation	7 full-time positions, retention adjustment, & incentive compensation
Funded		1 full-time position & retention adjustment for the current/prior year, & incentive compensation (vetoed)	1 full-time position, retention adjustment, & incentive compensation	

*Authorization includes funds, \$734,300, from HB55 to increase benefit contributions from 22 percent to 31 percent.

APFC Investment Management Allocation

Increases Investment Management Fees

The methodology for forecasting the FY2023 fees was modified as a result of FY2021 performance. Base fees were still calculated based on Callan's growth assumptions by asset class, the Fund's asset allocation, and contractual fee terms. Incentive fees were based on basis points (BPS) paid by a manager in FY2021 unless the historical average was still an accurate representation.

Generates an overall decrement to Investment Due Diligence

The request includes a reduction based on FY2021 actuals for legal fees specific to investments.

Increase to Investment Systems:

As the Corporation focuses on increasing data feeds and platforms to broaden our analytical capabilities for investment decisions and risk management, this budget area will be an area of concentration for the next few years.

Increases in Custody Fees:

APFC is obligated to annual flat fees, collateral management, tax advisory services, and unforeseen changes to the portfolio are variable costs. The FY2023 increase is in anticipation of the outsourcing of new collateral margining requirements.

	Authorized	BOT Approved/ GOV Proposed	From FY2022 To Gov
	FY2022	FY2023	Variance
Investment Management Fees	\$177,221,500	\$179,312,910	\$2,091,410
Investment Due Diligence	\$6,136,700	\$5,763,390	(\$373,310)
Investment Systems	\$8,080,900	\$8,891,700	\$810,800
Custody Fees	\$1,600,000	\$1,900,000	\$300,000
Total Investment Management	\$193,039,100	\$195,868,000	\$2,828,900

Fund: 1105 Alaska Permanent Fund Corporation Receipts

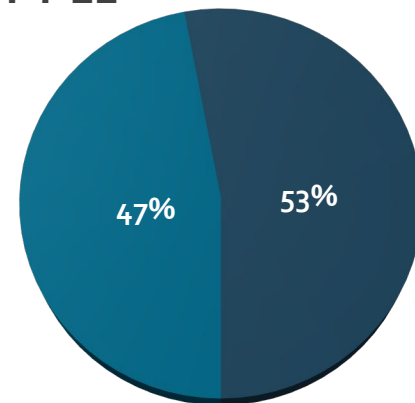
Management of the Fund

The key to APFC's success has been the deliberate expansion of an internal portfolio management strategy. APFC 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

FY 21



■ Internal \$38.4 B ■ External \$42.7 B

Fee Budget Development

Base Fees: related to market performance

Forecasting: contract terms in conjunction with Callan's market assumptions

Performance Fees: contracted and paid based on outperformance of relative benchmarks

Forecasting: basis points based on historical average. Modified as a result of FY2021 performance.

Report Date
Total Fund Balance
YTD Change in Total Fund Balance (Net of Transfers)

FY21 Fees

June 30, 2021
82,601,517,000
19,584,616,000

Investment Management Fees

	Paid from Investments	Paid from Investment Management Allocation	Paid from Operations Allocation	Total
Public Equity	1,968,000	59,105,000	1,527,000	62,600,000
Fixed Income	257,000	10,553,000	4,115,000	14,925,000
Absolute Return	55,656,000	259,000	368,000	56,283,000
Risk Parity	2,704,000	296,000	92,000	3,092,000
Total Fund Cash	0	127,000	276,000	403,000
Private Equity & Special Opps	134,237,000	23,253,000	2,871,000	160,361,000
Infrastructure & Private Income	66,877,000	2,736,000	1,417,000	71,030,000
Real Estate	33,802,000	5,136,000	3,381,000	42,319,000
Total Mgmt Fees by Source	295,501,000	101,465,000	14,047,000	411,013,000
Basis Points	36	12	2	50

Profit Sharing/Performance

	Paid from Investments	Paid from Investment Management Allocation	Paid from Operations Allocation	Total
Public Equity	0	51,905,000	0	51,905,000
Absolute Return	93,663,000	0	0	93,663,000
Private Equity & Special Opps	214,276,000	0	0	214,276,000
Infrastructure & Private Income	13,087,000	106,000	0	13,193,000
Real Estate	3,059,000	0	0	3,059,000
	324,085,000	52,011,000	0	376,096,000

APFC Return on Investment

	GOV Proposed Operating Budget	FY21 Statutory Net Income	FY22 Projection Statutory Net Income
	FY2023	\$7,962,400,000 avg. \$31.2 M per day *	\$5,630,000,000 ** avg. \$22.3 M per day *
Operating	\$21,934,000	0.7 days	1.0 days
Investment Management	\$195,868,000	6.2 days	8.8 days
Total Appropriation	\$217,802,000	6.9 days	9.8 days

*Based on 253 active trading days per fiscal year.

** Callan projection.



ALASKA PERMANENT
FUND 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, a long-term investment horizon, and converting Alaska's non-renewable resources into a long-term financial resource for the benefit of generations.

Integrity • Stewardship • Passion