APFC ALASKA PERMANENT FUND CORPORATION

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Memorandum

To: Representative Wool, Chair
House Finance Budget Sub-Committee – Department of Revenue
Alaska State Legislature

From: Valerie Mertz, Chief Financial Officer & Acting Executive Director
Alaska Permanent Fund Corporation

Valerie

Date: February 25, 2022

Re: Follow Up to February 14, 2022 Meeting

Thank you for the opportunity to present to the House Finance Revenue Budget Sub-Committee on the Alaska Permanent Fund, the Corporation's work to manage and invest Alaska's largest renewable financial resource, and APFC's associated FY23 Operating Budget request.

In response to the remaining questions, we provide the following –

1) How does Incentive Comp compare to Lower 48 peers? Was this factored in during APFC's policy development?

    - On May 24, 2018, the Board of Trustees of the Alaska Permanent Fund Corporation adopted Resolution 18-02, which modified the compensation for the Investment Staff and Chief Investment Officer to provide a base salary plus an annual incentive payment targeted at the median total cash compensation paid to the APFC peer equivalent. Across the country, most of the peer plans with which we compete for talent do have incentive compensation plans. Incentive compensation plans help retain, motivate and recruit investment staff.

    - In developing an incentive program, APFC formally adopted a compensation peer group for all staff to inform the development of a compensation structure. The Board adopted a blended peer group comprised of 75% public fund and 25% private fund for the following reasons:

        - APFC views itself as a "sovereign endowment." It recognizes that it is inherently public. However, much of the investment strategy is driven by "endowment-like" mandates.
        - Generally speaking, investment staff have departed APFC to work for significantly higher compensation at both public and private institutions, including endowment funds.
        - It is important to continue to compensate all staff fairly and ensure staff not eligible for incentive compensation do receive merit increases to base compensation.

    - Recognizing that APFC competes with a broad range of firms for investment talent, the Corporation hired McLagan, a division of AON, to evaluate our organization and make recommendations. The McLagan team met with both investment and operational staff to identify our organization's key attributes, allowing them to align us with similarly structured firms. That analysis resulted in a peer group consisting of the following factors:

- US and Canadian public funds with internal/direct asset management capability.
- Private sector investment organizations with AUM less than $100B, including advisory firms, banks, insurance companies, endowments, foundations, and corporate plan sponsors.
- A blended peer group: 75% public fund and 25% private sector firms.

- This data shows that 75% of public fund peers and virtually all private-sector peers offer incentive compensation. Generally, all investment positions and select investment support positions are covered by incentive plans within public fund peers. At private sector firms, virtually all staff are eligible. Incentives are generally weighted to quantitative and qualitative factors. Quantitative factors are formulaically calculated on investment performance and are the basis of APFC's incentive compensation policy.

2) How does APFC's fee structure compare to other plans?

   - Attached is the Callan 2021 Fee Study, which provides a detailed analysis of fee levels and asset class trends.

   - In FY21, APFC reported fees of 50 bps for the portfolio; this includes the APFC operating budget for the operations allocation (2bps), the investment management allocation (12bps), and the fees paid from investments that are netted from the income of the investment (36bps).

3) Who was the sponsor of the bill (SB 122) that created the first Permanent Fund Dividend Program in 1980?

   - With the assistance of the Legislative Library – thank you! - the original sponsor of Senate Bill 122, which led to the enactment of the first permanent fund dividend program, is Senator Bill Sumner. The enacted bill was Free Conference Committee Substitute to Senate Bill 122 signed into Law as Chapter 21 SLA 1980. This program was later ruled unconstitutional by the United States Supreme Court because individual dividend payments varied based on length of residency.

4) Are the calculations for value add over the passive index gross or net of fees?

   - Performance returns in APFC's Monthly Performance Report that are used to calculate the value add are net of fees starting for the period after 7/1/2020. There is a combination of gross and net fees for any period calculated before that date.

As always, please contact us if there are further questions. APFC's Director of Communications, Paulyn Swanson, can be reached via email pswanson@apfc.org or 907-796-1502.