



APFC

ALASKA PERMANENT  
FUND CORPORATION

House Ways & Means Committee  
The Alaska Permanent Fund  
March 1, 2023



## CREATING A RENEWABLE RESOURCE

### A Decade of Action

1969

The Prudhoe Bay lease sale brings more than \$900 million to the State for drilling rights

1971

President Nixon signs Alaska Native Claims Settlement Act (ANCSA)

1973

Congress passes Trans Alaska Pipeline Authorization Act

1974

Pipeline Construction Begins

1976

Alaska voters approve Constitutional Amendment establishing the Permanent Fund  
2/3<sup>rd</sup>s margin 75,588 to 38,518

1977

The Permanent Fund receives its first deposit of dedicated oil royalties

1980

The Alaska Permanent Fund Corporation is established to manage and invest the Fund

# The Permanent Fund

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## **Alaska Constitution Article IX, Section 15**

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.



### Intergenerational

Since its establishment, every Alaskan has forgone some present-day support to benefit future generations.

# Consistent Discipline

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

## APFC's Stewardship –

- Honoring the vision and sacrifices of the Alaskans that created the Fund and enduring leadership committed to intergenerational benefit.
- Recognizing the savings function established in the Constitution ensures that a portion of our mineral wealth is saved and invested to benefit all Alaskans, today and tomorrow.
- Protecting the Principal and maximizing investment returns for the benefit of current and future generations of Alaskans.
- Providing a predictable revenue stream to help balance the State's budget now and into the future.

## A Renewable Financial Resource –

Through income producing investments, the Fund has generated more than \$82.1 billion of realized net earnings to the Earnings Reserve Account.

- |  |  |
|--|--|
| ▪ Inflation Proofing Principal \$18.0 B        | ▪ Dividend Fund through FY18 \$24.4 B        |
| ▪ Special Appropriations to Principal \$12.3 B | ▪ Percent of Market Value FY19-FY23 \$15.1 B |
| ▪ Alaska Capital Income, Amerada Hess ~\$0.4 B |  |



A photograph of an office interior, likely a reception area, with a blue overlay. In the background, there is a reception desk with a person behind it. To the right, a sign on the wall reads "APFC ALASKA PERMANENT FUND CORPORATION". In the foreground, there is a light-colored sectional sofa and a small round coffee table with some papers on it. Two flags are visible in the background.

# To Manage and Invest for Generations



# Legislative Directive - Investing for the Long-Term

## AS 37.13.020 Legislative Findings for the purpose of the Permanent Fund

- 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 purposes designated by law.

## AS 37.13.120 Investment Responsibilities

The Board of Trustees objective for the Fund is to achieve the highest level of performance based on prudent investment practices.

### **Investment Performance**

Ability to generate an annualized return of inflation (CPI) + 5% over a 10-year period (long-term target).

### **Investment Risk**

Ability of the Fund to achieve the long-term target while conforming to the Board's approved risk appetite metric.

# Principal Contributions

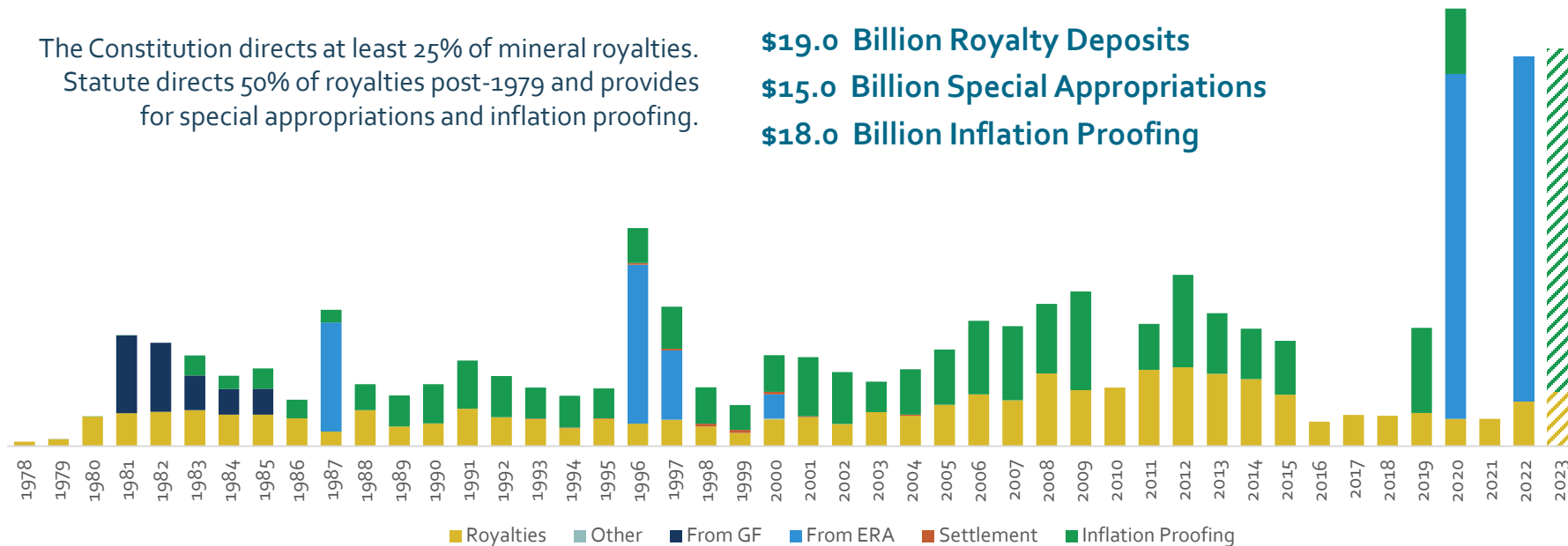
## Intergenerational Savings

The Constitution directs at least 25% of mineral royalties.  
Statute directs 50% of royalties post-1979 and provides  
for special appropriations and inflation proofing.

**\$19.0 Billion Royalty Deposits**

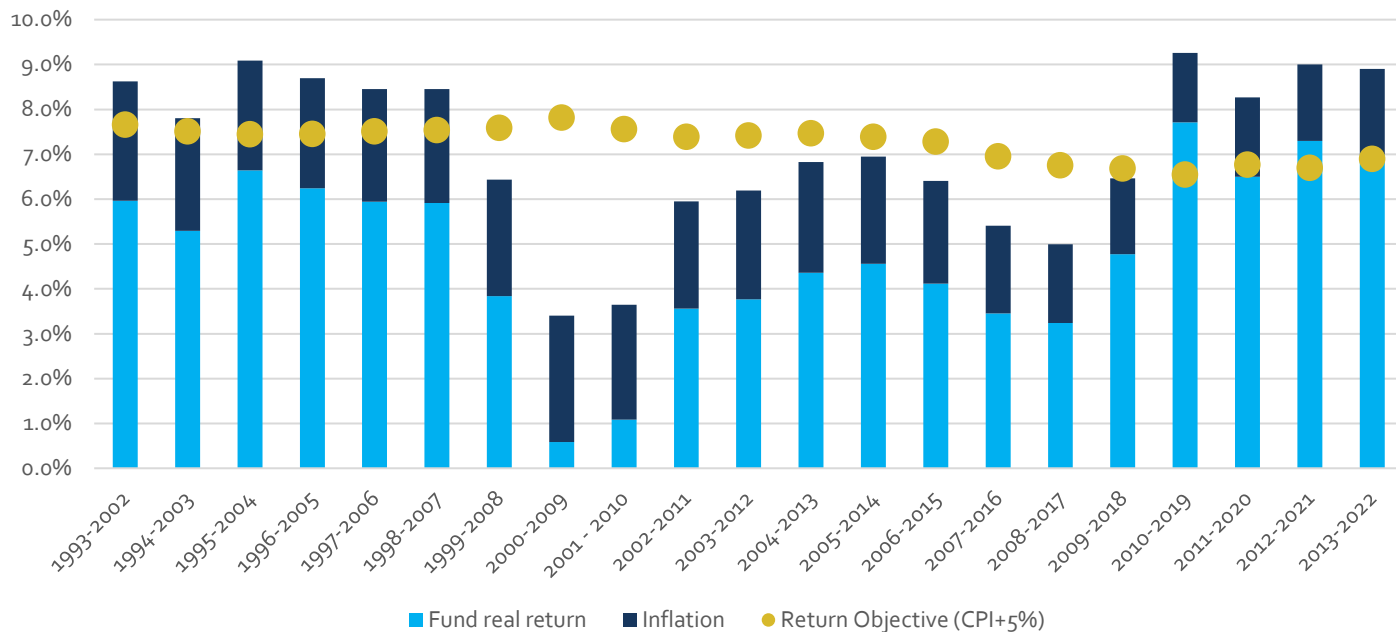
**\$15.0 Billion Special Appropriations**

**\$18.0 Billion Inflation Proofing**



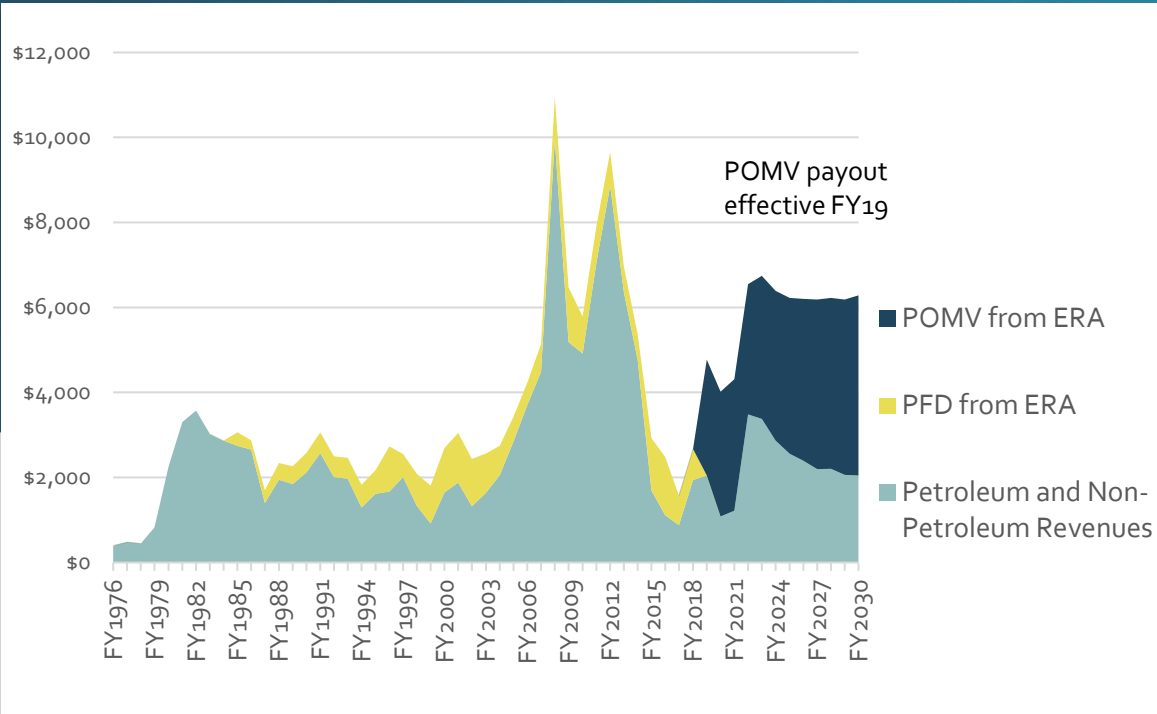
# Long-Term Stability - Real Return

Annual investment performance adjusted for inflation indicates sustained value and purchasing power





# Revenues & ERA Distribution \$s millions



Historically, the Alaska Permanent Fund has been used as a savings device to generate revenues and pay dividends to eligible Alaskans.

Today, the Fund is used to support the State's General Fund through the POMV Draw for statewide services and programs, including the dividend.

# Distribution Calculations

## Income Based

### Sec. 37.13.140. Income.

- Income available for distribution equals 21 percent of the net income of the fund for the last five fiscal years, including the fiscal year just ended

### Sec. 37.13.145. Disposition of income.

- 50 percent of the income available for distribution under AS 37.13.140 to the dividend fund

Historically, the additional 50% available for distribution beyond the dividend fund transfer, wasn't utilized. Rather it remained invested

## Value Based

### Sec. 37.13.140. Income.

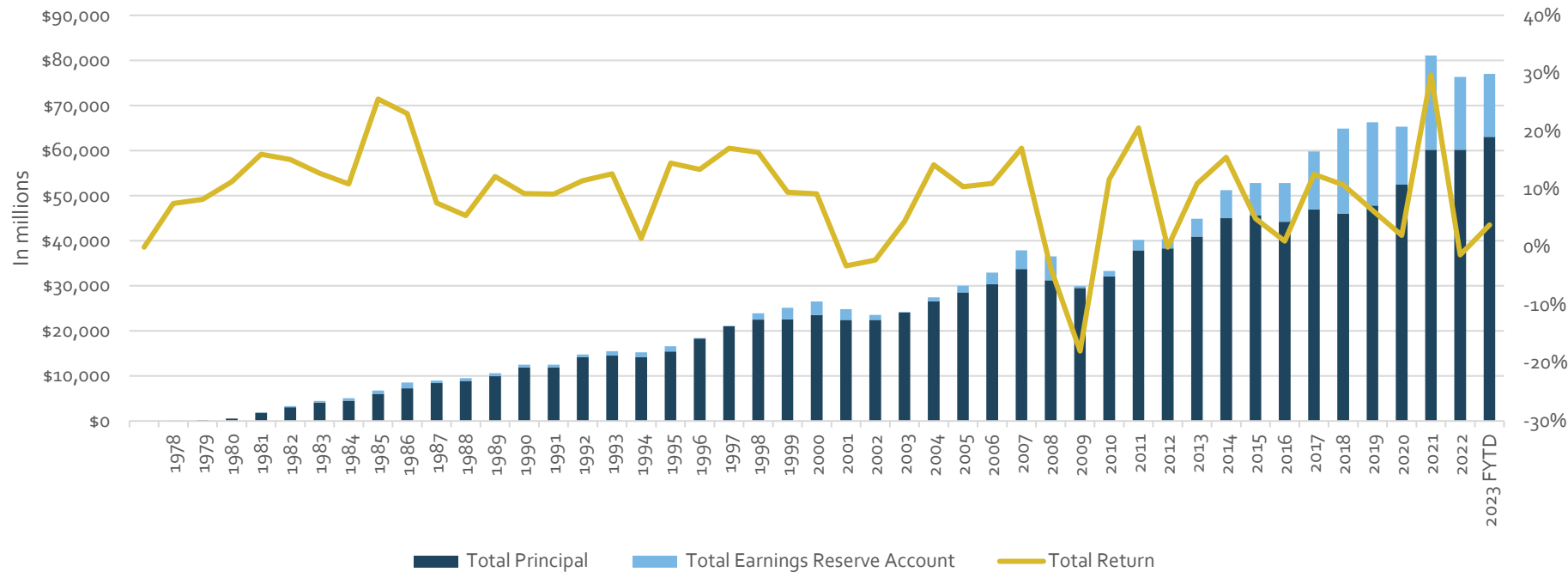
- The amount available for appropriation is 5.00% percent of the average market value of the fund for the first five of the preceding six fiscal years, including the fiscal year just ended

### Sec. 37.13.145. Disposition of income.

- Appropriations from the earnings reserve account to the general fund not to exceed the amount available for appropriation under AS 37.13.140(b) in a fiscal year
- The combined total distribution from the Earnings Reserve Account may not exceed the amount available under the POMV

# Fund Growth and Returns

through January 31, 2023



# State Revenues & POMV Contribution Predictable – Stable – Known

## FY24 POMV Calculation

Fiscal Year      \$ millions

FY 22              \$75,912.1

FY 21              \$81,472.6

FY 20              \$64,877.1

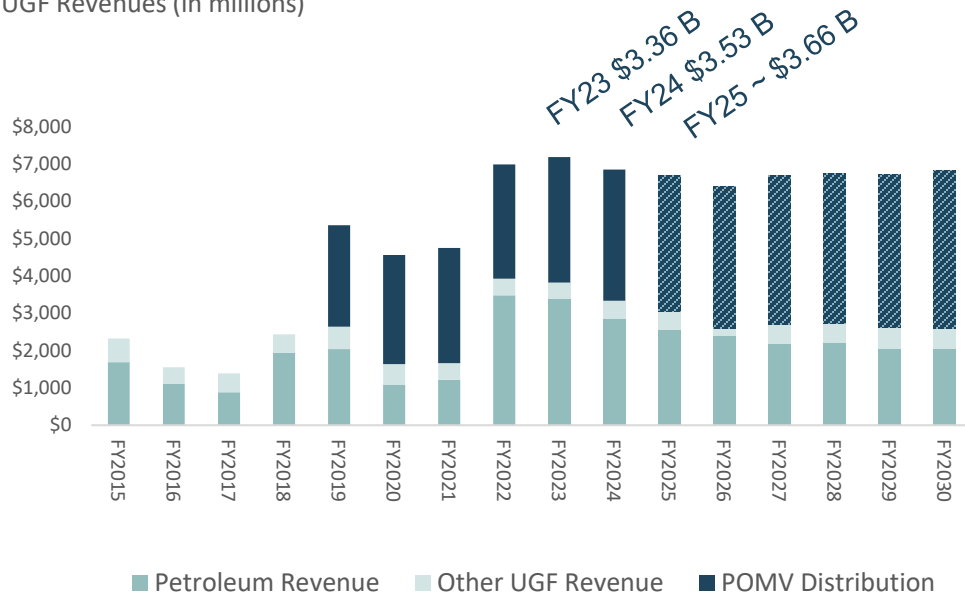
FY 19              \$65,876.4

FY 18              \$64,469.5

5 yr AVG          \$70,521.5

**5% Draw          \$3,526.1**

UGF Revenues (in millions)



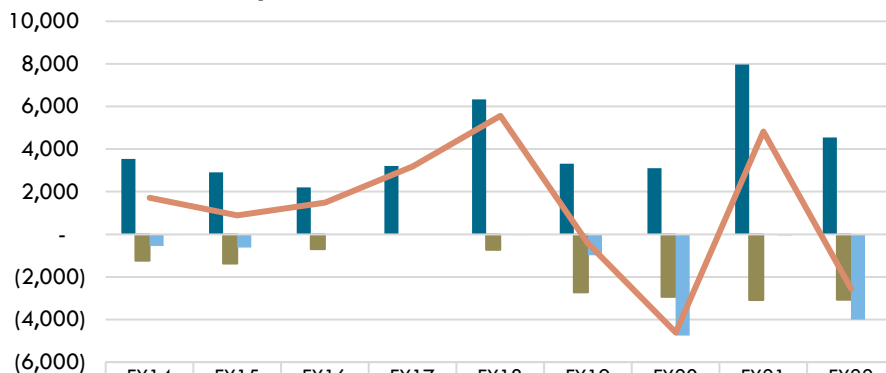
AS 37.13.140(b) Percent of Market Value - The average market value of the Fund for the first five of the preceding six fiscal years.

# Earnings Reserve Account (ERA)

Fiscal Year 2014-2022

AS 37.13.140 (a) directs the net investment earnings to the Earnings Reserve Account excluding unrealized gains & losses.

Deposits & Withdrawals in \$millions



	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Statutory Net Income	3,531	2,907	2,198	3,214	6,324	3,305	3,106	7,962	4,544
Dividend/POMV Transfer	(1,235)	(1,373)	(696)	-	(726)	(2,723)	(2,933)	(3,091)	(3,069)
Inflation Proofing & Special Approp.	(546)	(624)	-	-	-	(989)	(4,758)	-	(4,000)
Alaska Capital Income	(32)	(24)	(18)	(25)	(43)	(22)	(21)	(50)	(24)
Net Impact	1,718	886	1,484	3,189	5,555	(429)	(4,606)	4,821	(2,549)
Effective POMV Rate						4.13%	4.52%	3.79%	4.04%

## Statutory Net Income Realized Investment Earnings

### Monthly cash inflows:

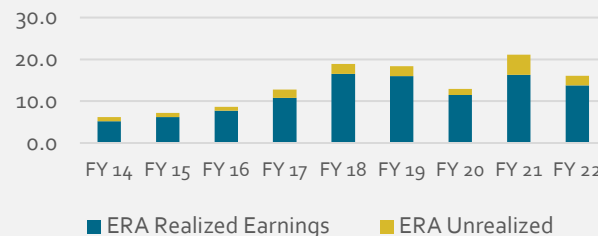
stock dividends, bond interest, real estate leases

### Realized Capital Gains/Losses:

net income generated by the sale of investments

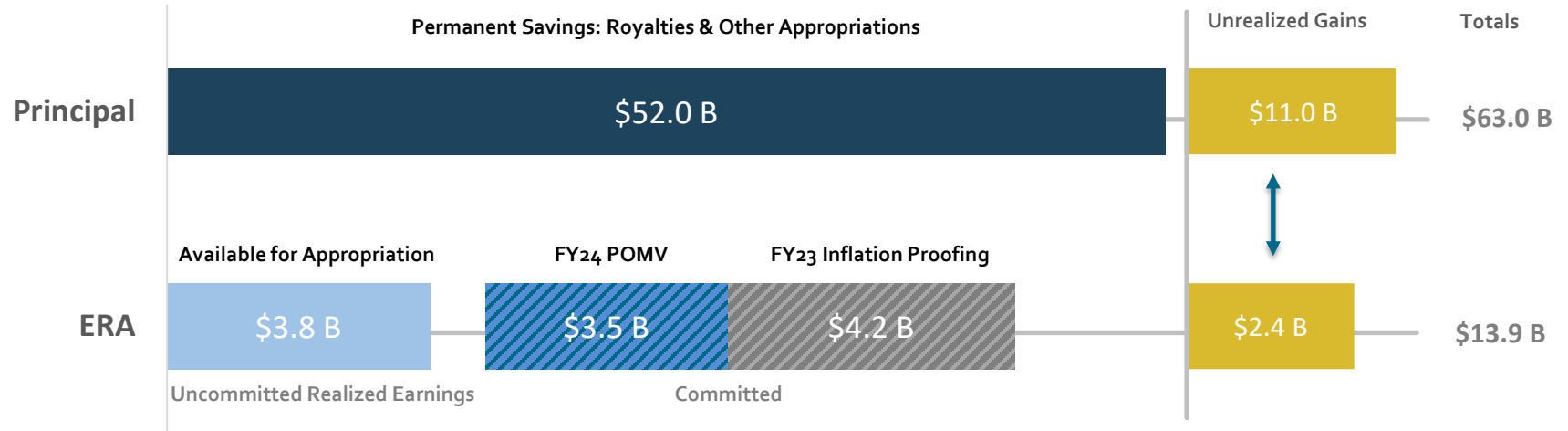
Statutory Net Income = \$1,057,600,000  
FYTD 23 as of January 31, 2023

ERA in \$ billions



TOTAL FUND VALUE **\$76,990,000,000**

Unaudited as of January 31, 2023







# Enduring Financial Resource



#### Contributions

- Royalties
- Special Appropriations
- Inflation Proofing



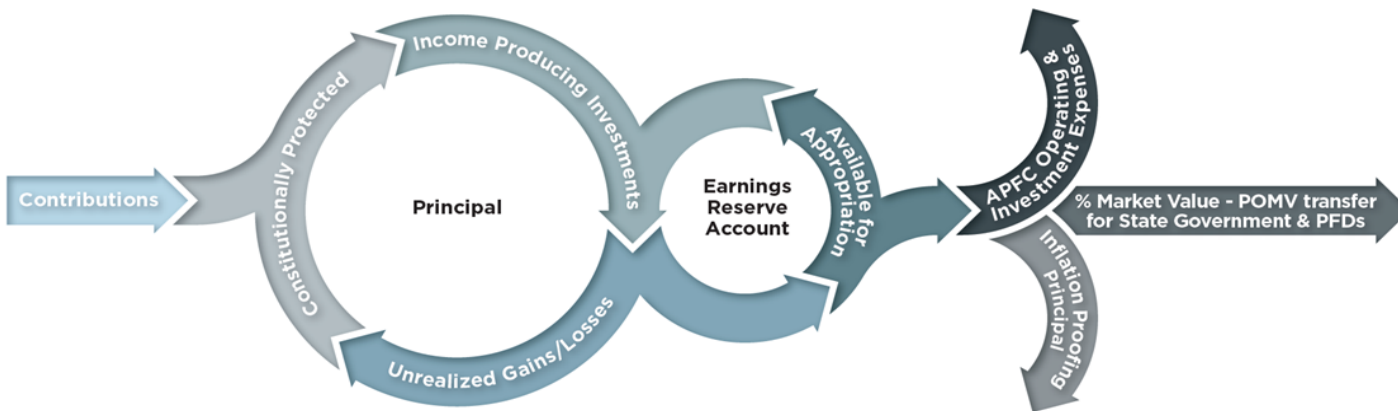
#### Principal

- Alaska Constitution, Article IX, Section 15



#### Income Producing Investments

- Alaska Permanent Fund Corporation
- Management and Investment of the Fund
- Single Asset Allocation (pro-rata shares)
- Stocks, Bonds, Real Estate, Alternatives



#### Sale and Distribution of Assets

- Statutory Net Income AS 37.13.140
- Cash Flow Income
- Realized gains/losses



#### Earnings Reserve Account

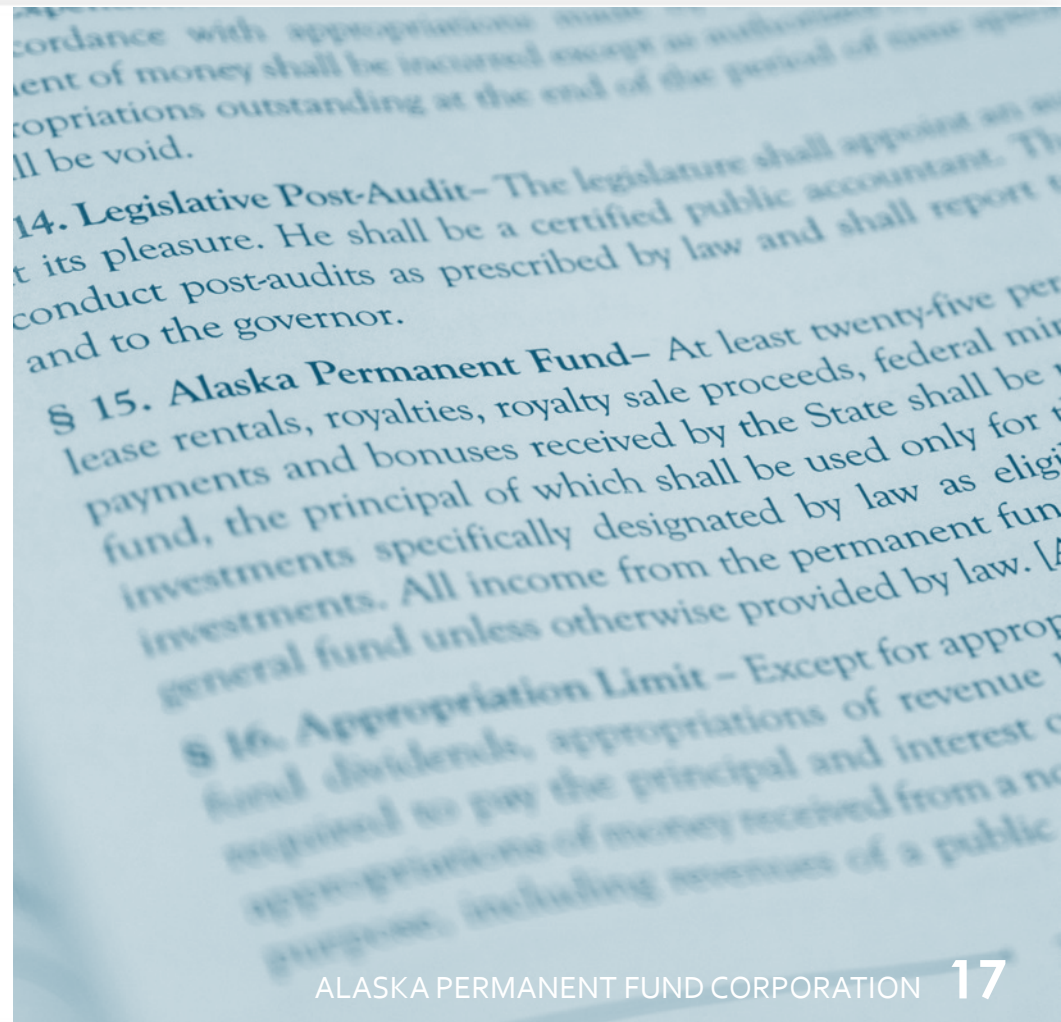
- Alaska Statutes AS 37.13.145(a)
- Realized gains/losses from sale of assets
- Pro-Rata share of investments and net unrealized gains

# Constitutionalize Annual Fund Draw

Board Resolutions 03-05 , 04-09

## Percent of Market Value (POMV)

- Supporting a constitutional amendment to limit the annual Fund payout to not more than a 5% POMV averaged over a period of 5 years.
- Implementation of a constitutional POMV spending limit for the Fund, has the accompanying benefit of assuring permanent inflation proofing of the Fund.

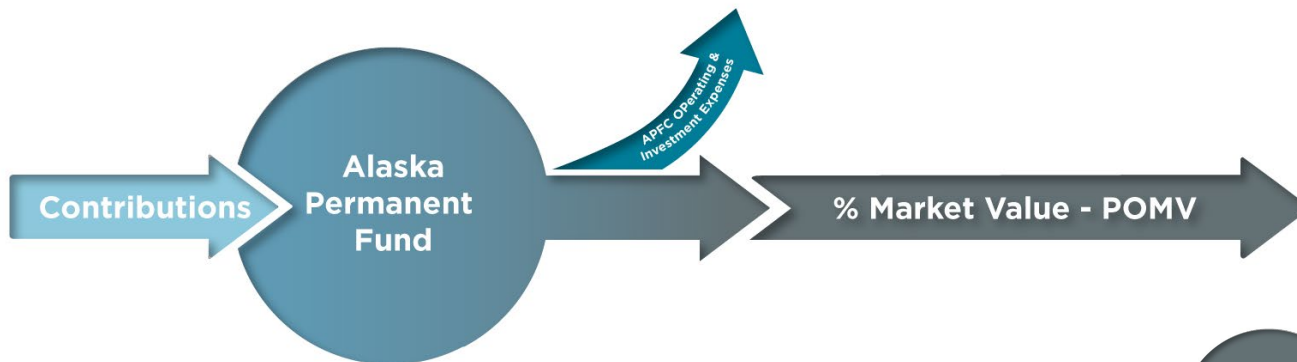




Contributions  
Royalties  
Special Deposits



Income Producing Investments  
Alaska Permanent Fund Corporation  
Management and Investment of the Fund



Percent of Market Value  
Average Market Value for the  
First 5 of the preceding 6 Fiscal Years

**POMV**



# Board Resolutions

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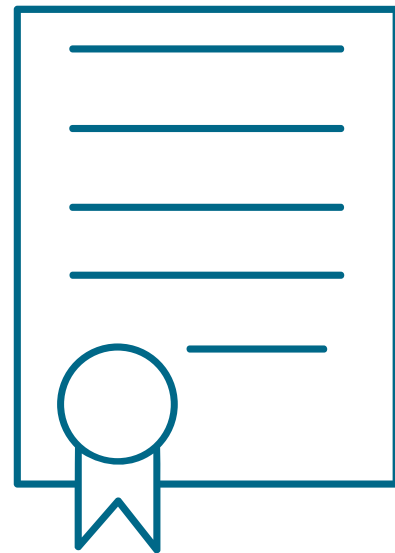
**00-13, 03-05, 04-09:** Constitutionalize Annual Fund Draw. Limit the annual Fund payout to not more than a 5% POMV averaged over a period of 5 years. Assures permanent inflation proofing.

**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

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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

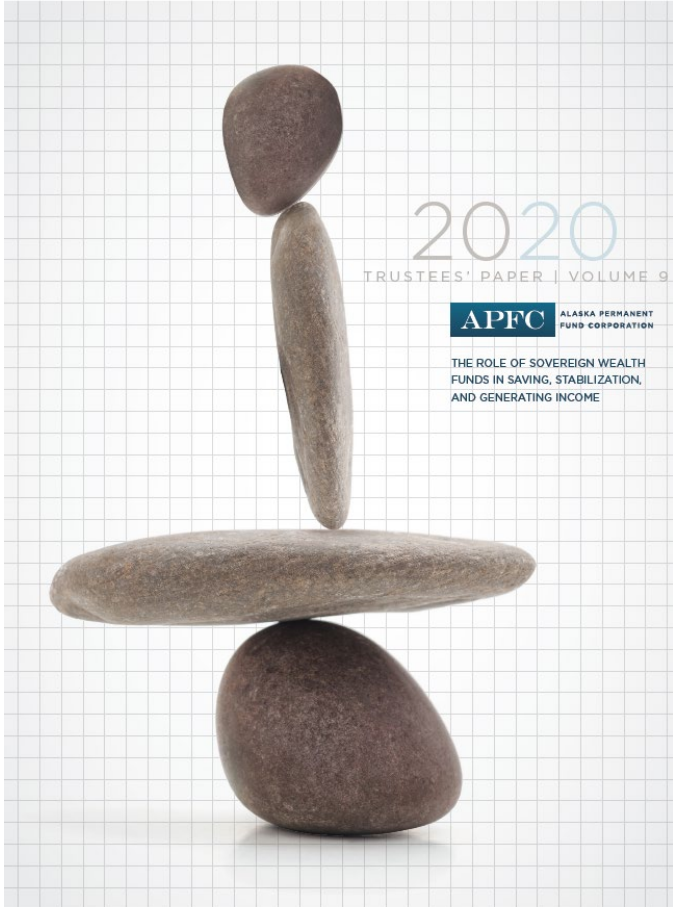
LESSON #2: THE IMPORTANCE OF RULES

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>

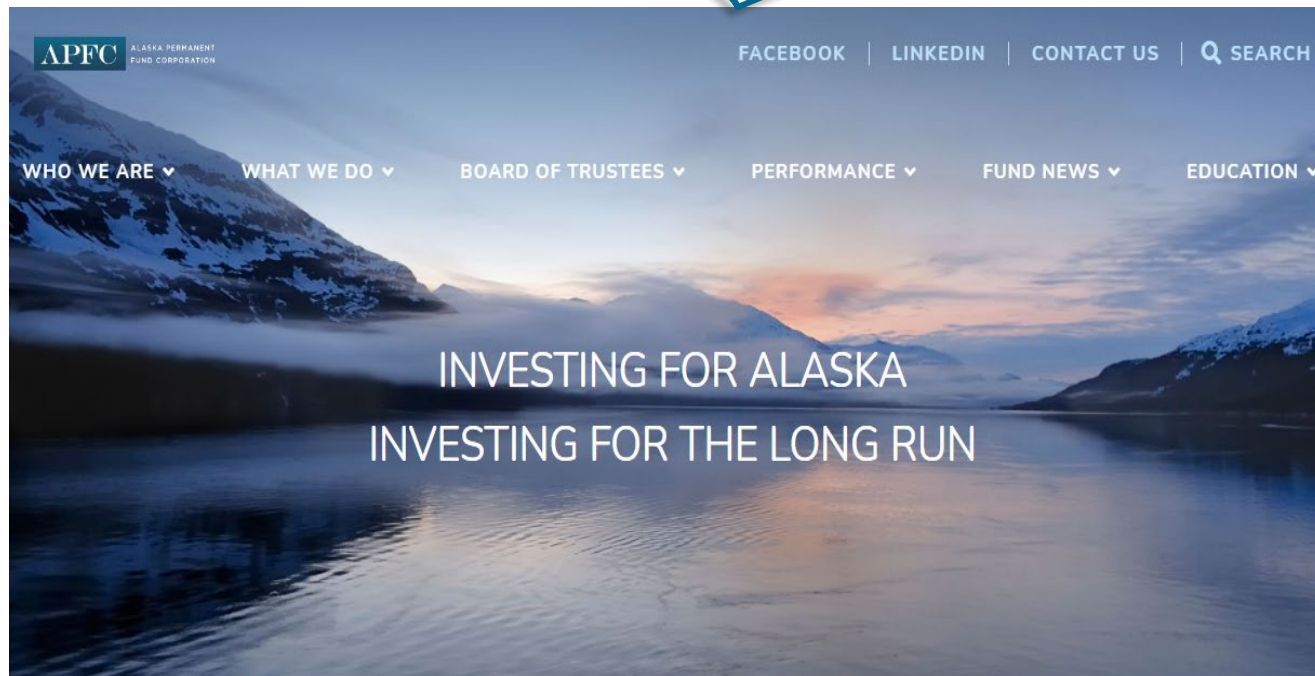




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In our commitment to Alaskans, APFC publishes accurate and timely information on the work we do investing the Fund.



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