



ALASKA PERMANENT
FUND CORPORATION

Legislative Budget & Audit Committee
June 2024



*a legacy of
intergenerational
resource contribution*

As a public endowment, the Permanent Fund's wealth is the responsibility of every Alaskan.

Honoring the vision and sacrifices of the Alaskans who created the Fund and fostering enduring leadership committed to intergenerational benefit.

Together, we are obligated to protect it for both today and tomorrow.

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.



Accountability

In short, the aim was insulation without isolation.

The Board of Trustees is the designated authority over APFC.

The Legislature retains oversight through

- LB&A Committee AS 24.20.206
- Statutory Policy Direction
- The Appropriations Process.

The Alaska Permanent Fund Corporation Establishment 1980

SB 161 Free Conference Committee report addressed accountability through a management system for the Fund that

- would be protected from political influences,
- but at the same time, responsive to changes in state policy,
- and accountable to the people through their elected officials.

Governance

Setting the Standard

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

- Independent management & organizational structure
- Established policies & procedures
- Financial controls and regular reporting practices
 - Annual Third-Party Financial Audit
 - Annual Report
 - Monthly & Quarterly Reporting
- Defined legal & regulatory responsibilities
- Transparency
 - Open Meetings Act
 - Non-proprietary records are available for public inspection under state law

Investing for the Long Term

Legislature's findings for the purpose of the Permanent Fund in AS 37.13.020,

- *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.*

The Board's objective for the Fund, as set forth in the Investment Policy,

- Achieve the highest level of performance within the investment responsibilities of AS 37.13.120 and a long-term investment perspective based on

Investment Performance

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

Investment Risk

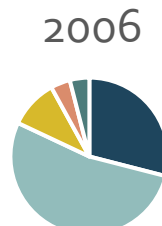
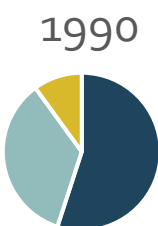
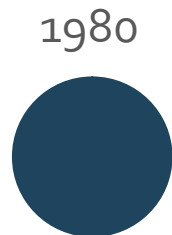
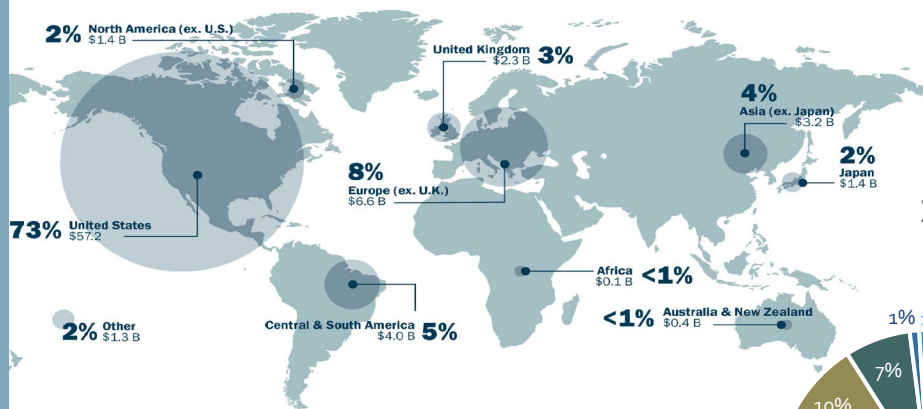
Ability of the Fund to achieve the long-term target while conforming to the Board's approved risk appetite metric.

Diversification

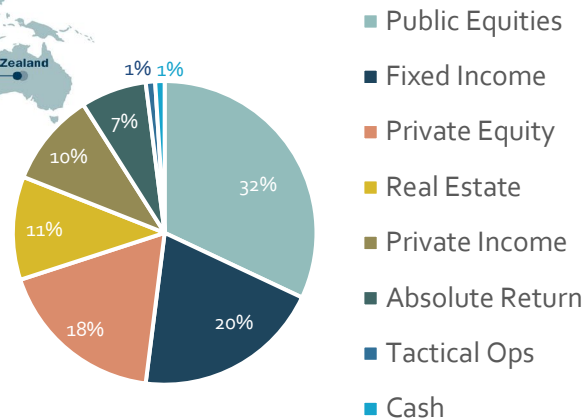
APFC seeks to balance the goals of maximizing returns and minimizing risks.

Risk Management

The goal of risk management is not to avoid risk but to identify, understand, and manage it to acceptable levels.



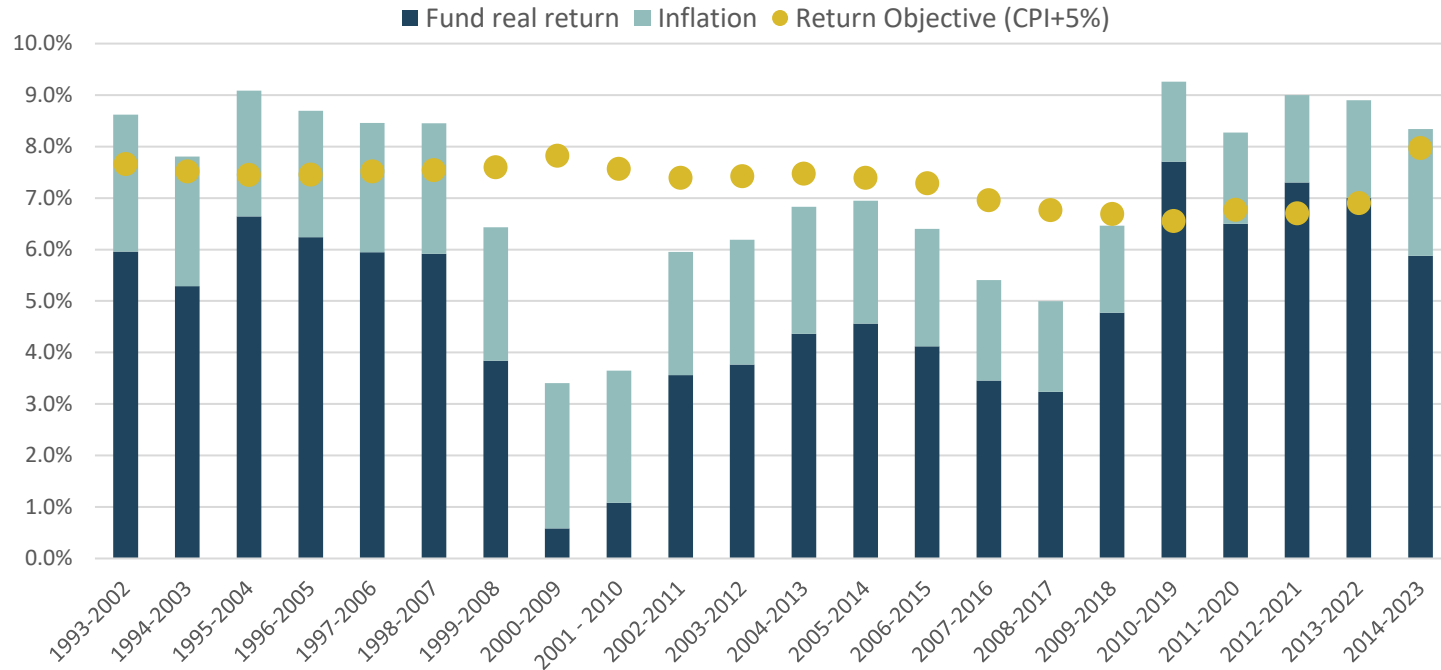
2025 Target Allocation



10 Year Annualized Returns

Long-term target return objective: 5% + inflation (CPI)

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



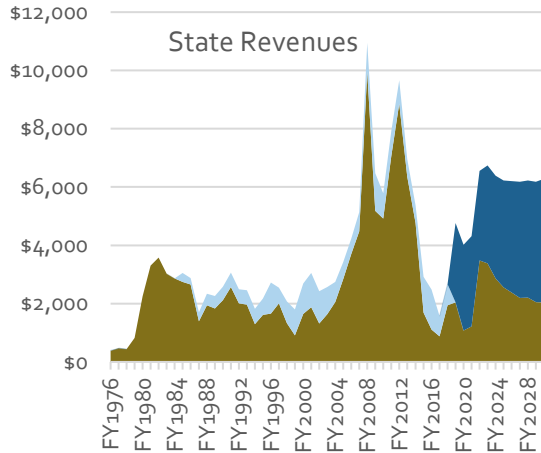


A Renewable Financial Resource

Revenue Stability

Supporting the State's General Fund Revenue

in millions



- POMV from ERA
- PFD from ERA
- Petroleum and Non-Petroleum Revenues

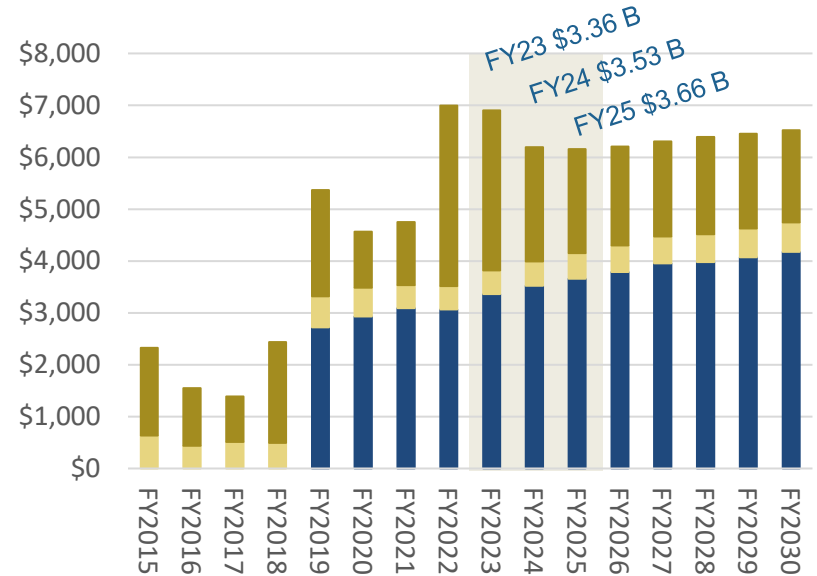
Percent of Market Value (POMV)

Calculation
AS 37.13.140 (b)
Fund Value-Based

FY 25 POMV

FY23	\$77,586.8
FY22	\$75,911.5
FY21	\$81,471.5
FY20	\$64,876.5
FY19	\$65,876.0

Avg. \$73,144.5
5% \$ **3,657.2**



- POMV Distribution
- Other UGF Revenue
- Petroleum Revenue

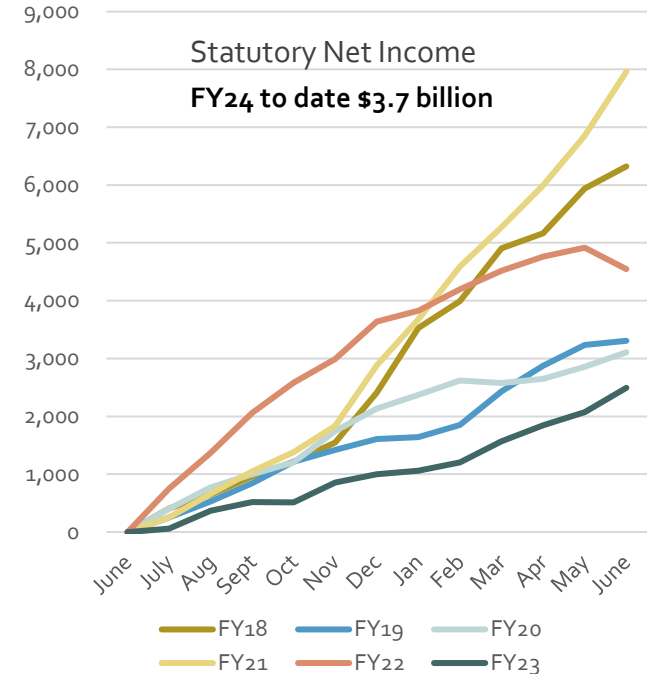
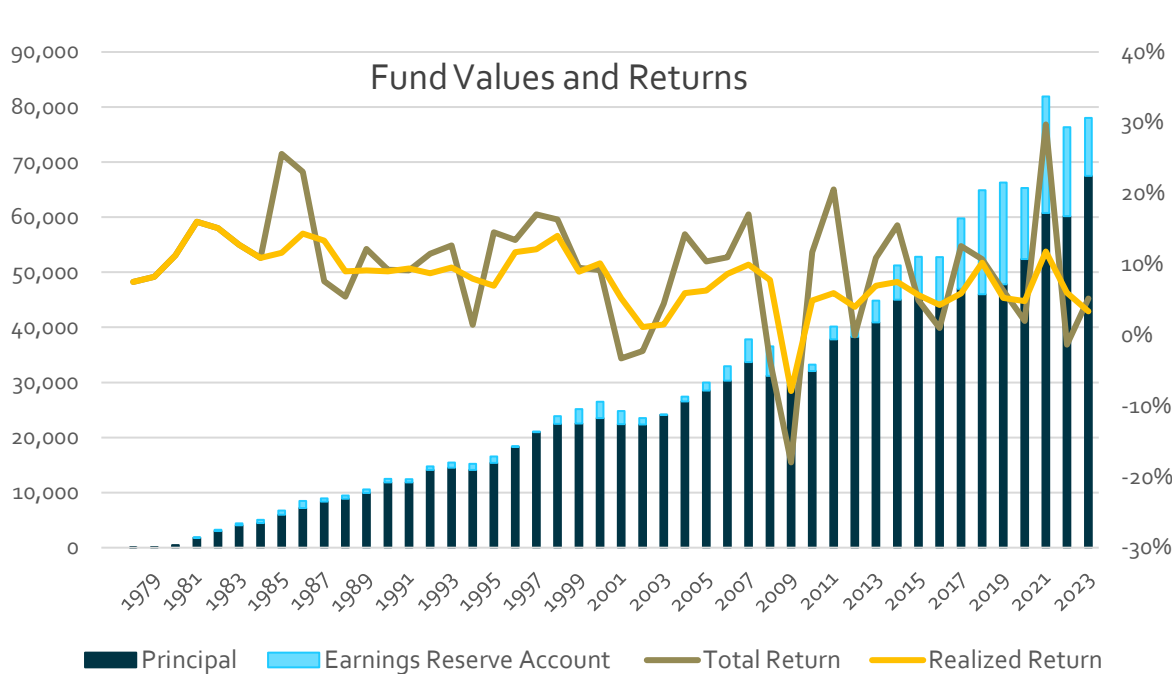
Producing Income

Two-Account Fund Structure

in millions

The Principal is Constitutionally established for permanent savings to be used only for income-producing investments.

The Earnings Reserve Account is statutorily established to hold investment net income and be available for appropriation.

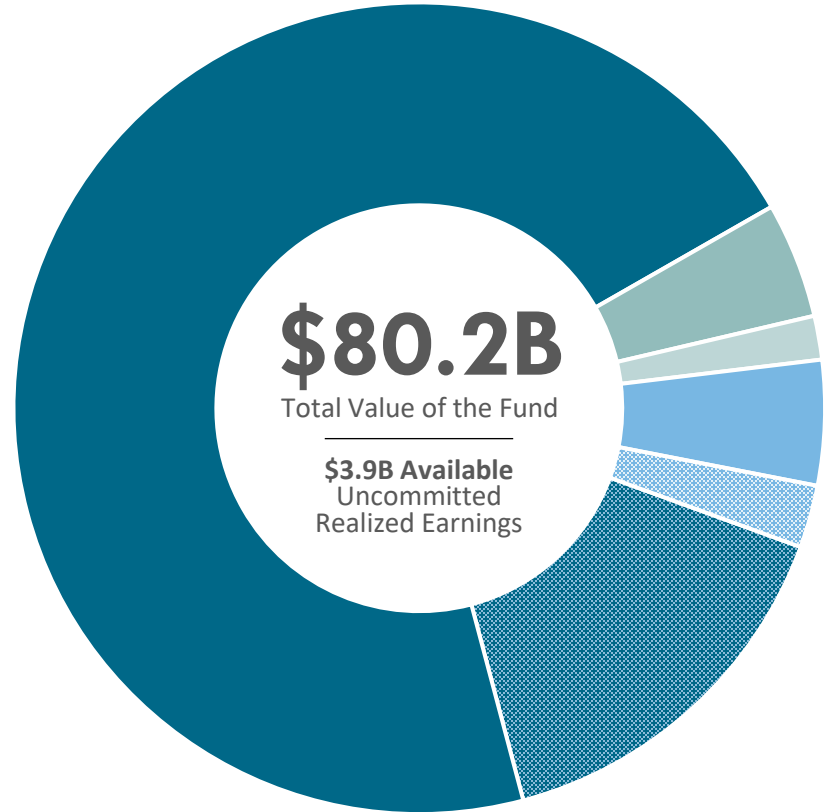


Principal
(Non-Spendable)

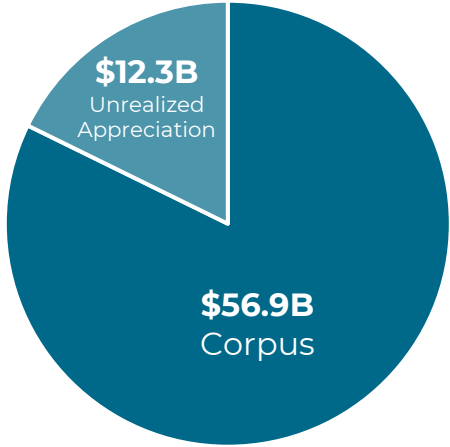
Permanent Savings Contributions	\$56.9B
Principal Unrealized Gains	\$12.3B

Earnings Reserve Account

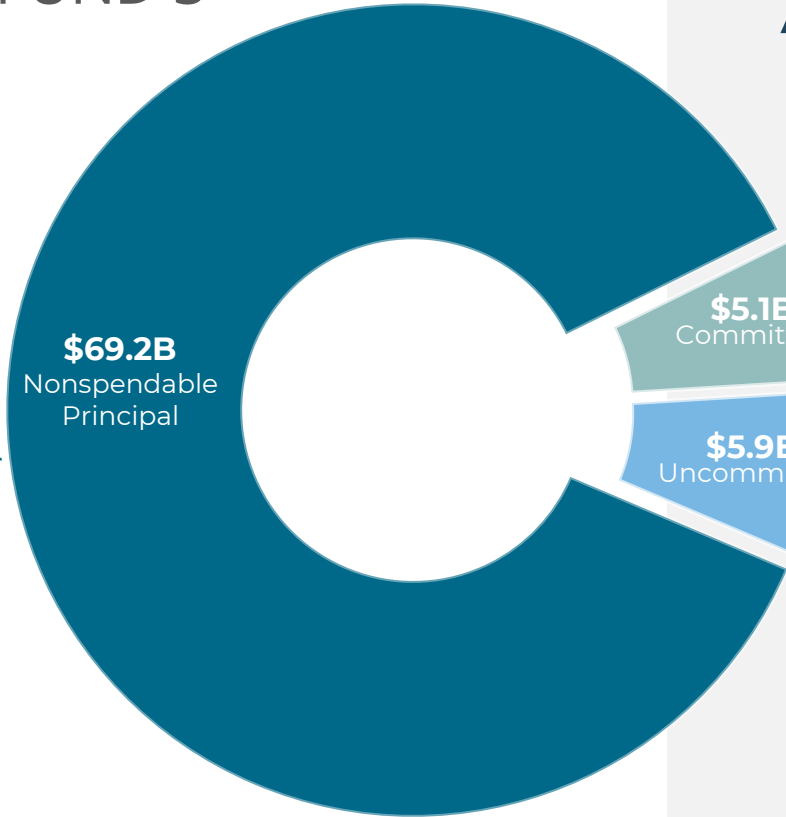
FY25 POMV Draw to the General Fund	\$3.7B
FY24 Inflation Proofing	\$1.4B
Uncommitted Realized Earnings	\$3.9B
Earnings Reserve Unrealized Gains	\$2.0B



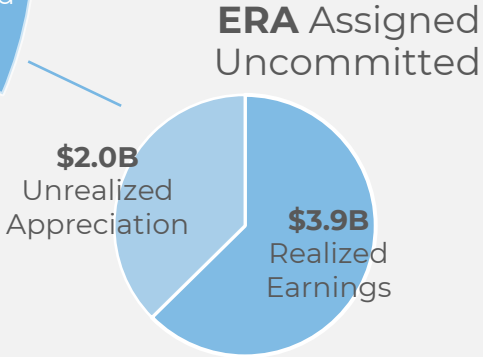
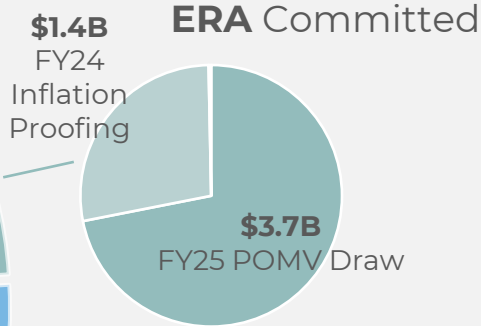
THE PERMANENT FUND'S TWO ACCOUNTS



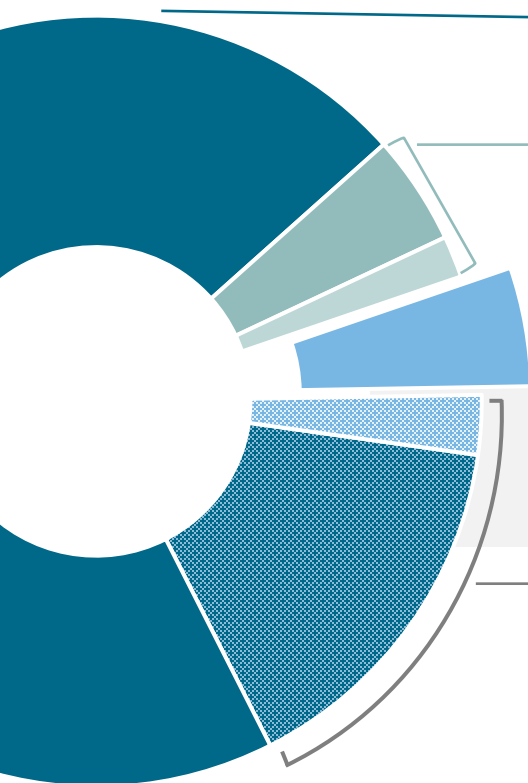
Principal
Unrealized & Corpus



Earnings Reserve Account (ERA)



What Portion of the Fund is Available for Appropriation?



PRINCIPAL, NONSPENDABLE

Per the Constitution, the Principal only be used for income-producing investments.

COMMITMENTS OF REALIZED EARNINGS

Within the ERA, there are \$5.1 billion of committed realized earnings assigned or budgeted based on known appropriations. These earnings are set aside for the:

- FY25 POMV draw of \$3.7 billion for the General Fund
- FY24 Inflation Proofing of \$1.4 billion for the Principal

UNCOMMITTED & REALIZED EARNINGS

\$3.9B

as of May 31, 2024

Within the ERA, \$3.9 billion of uncommitted, realized earnings are available for future use. These earnings can be appropriated to support the FY26 POMV draw and the FY25 inflation proofing.

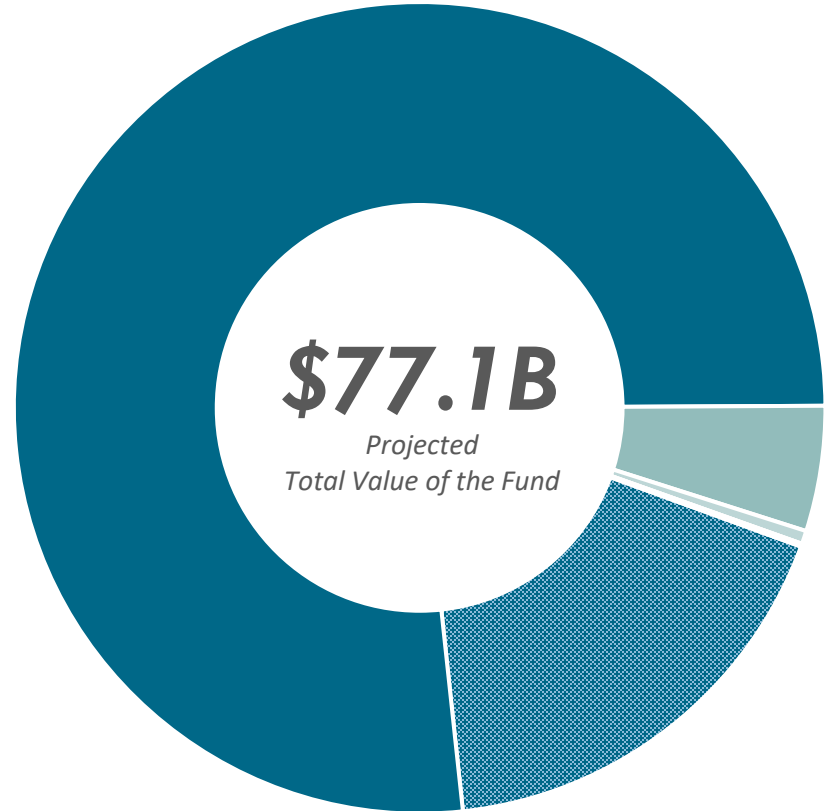
UNREALIZED GAINS - NOT AVAILABLE

Unrealized gains are held in the ERA and Principal; they reflect the current market value of an asset not yet sold minus its original cost. Based on pro-rata shares, the Principal has \$12.3 billion of unrealized gains, and the ERA has \$2.0 billion of unrealized gains as of May 31, 2024.

Looking Ahead Projection - **Beginning of Fiscal Year 2025**

Principal (Non-Spendable)	Permanent Savings Contributions	\$58.3B
	Principal Unrealized Gains	\$13.6B

Earnings Reserve Account	FY26 POMV Draw to the General Fund	\$3.8B
	FY25 Inflation Proofing \$1.0 Billion appropriated	\$0.4B
	Uncommitted Realized Earnings	-\$0.6B
	Earnings Reserve Unrealized Gains	\$1.0B



Revenue Stability

More than 50% of the state's general fund revenue is funded annually through draws from the Earnings Reserve Account (ERA).

The Fund's current two-account structure comprises the Principal, which is not spendable, and the ERA, which is spendable.

Legislative appropriations from the Fund are limited to the balance of realized earnings in the ERA.

This structure is based on a historical endowment model that only invested in bonds and only spent the interest income after adding to the Principal to offset the impacts of inflation.

The Fund's current asset allocation is much more complex, and income is realized only when an asset is sold. Many assets are held for years or decades, so ERA deposits are often not tied to current investment performance.

Potential Long-Term Stability Approaches

Each approach addresses specific challenges and offers potential solutions.

- A constitutional amendment to establish a single-account endowment
- Combining the two accounts and establishing the permanent endowment model in statute
- Suspending inflation-proofing when the ERA balance approaches minimum levels
- Establishing a policy of forced realizations

Trustees' Paper Volume 10



The risk of depleting the Earnings Reserve Account (ERA) has increased in recent years.

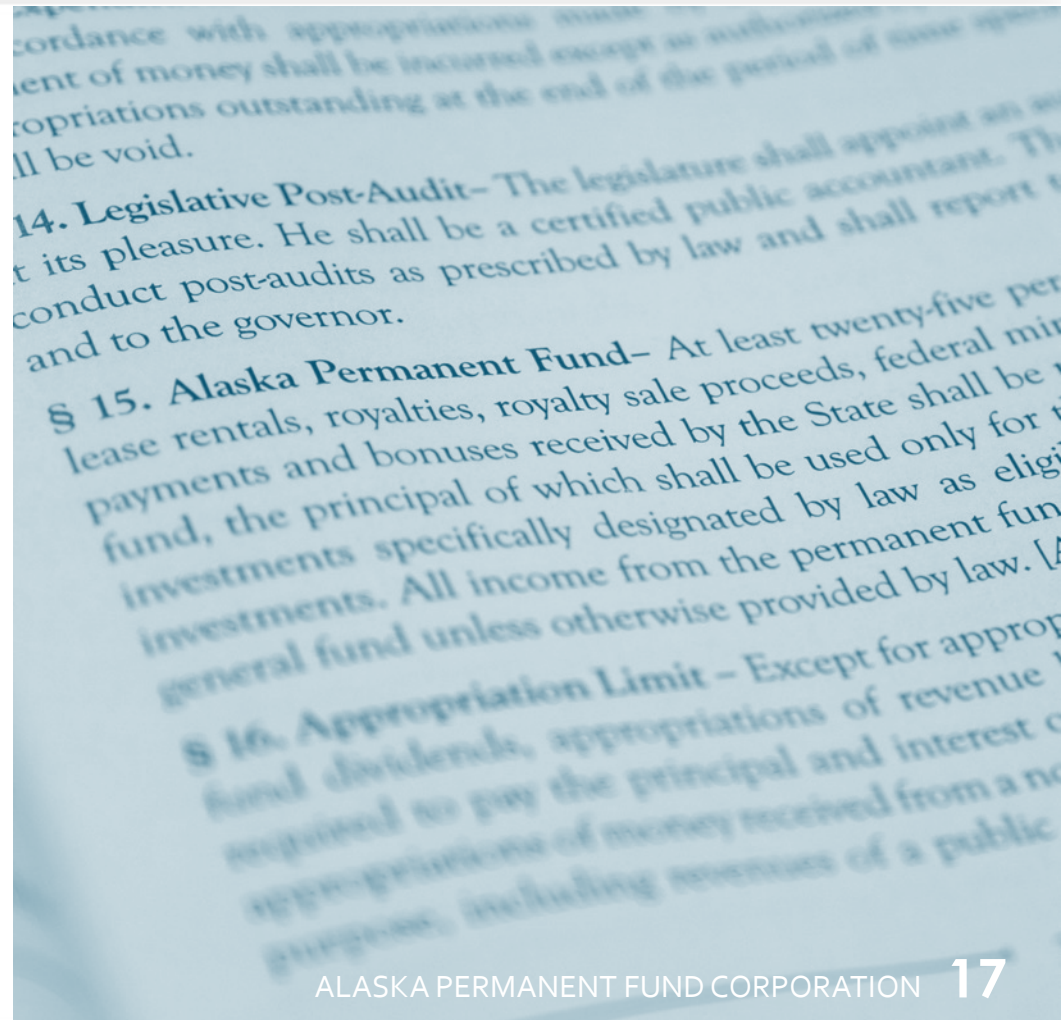
This paper discusses various reforms to mitigate the risk of depleting the ERA.

Constitutional Amendment

The Board of Trustees has been on record for more than 20 years to transition the Fund from its current two-account system to a one unified account system, which would protect the intergenerational sustainability of the Fund to provide for all generations.

Board Resolutions 0-13, 03-05, 04-09, and 20-01

- 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.





Investment & Risk Management

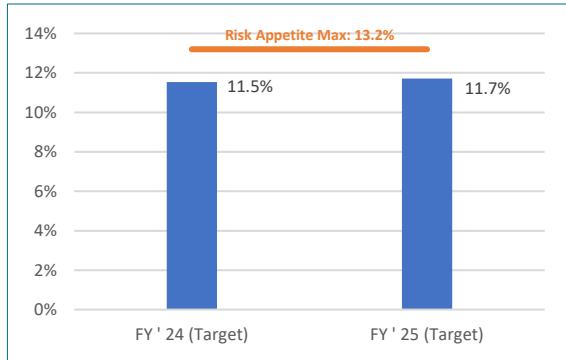
Target Asset Allocation – FY 2025 Vs. FY 2024

Asset Classes	<u>FY ' 24 (Target)</u>	<u>FY ' 25 (Target)</u>	<u>Change</u>
Public Equities	34.0%	32.0%	(2%)
Fixed Income	20.0%	20.0%	-
Private Equity	16.0%	18.0%	+2%
Real Estate	10.0%	11.0%	+1%
Private Income	9.0%	10.0%	+1%
Absolute Return	7.0%	7.0%	-
Tactical Opportunities	2.0%	1.0%	(1%)
Cash	2.0%	1.0%	(1%)
Total	100.0%	100.0%	

Risk Metrics: target allocation is within approved risk appetite

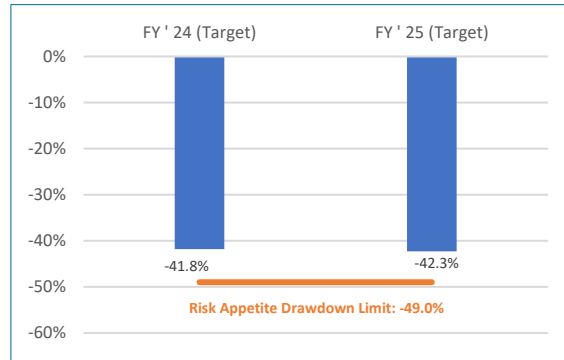
- Risk numbers were computed for the FY 2025 target asset allocation as per board approved risk appetite policy.
- On all three dimensions (VaR, Drawdown, Liquidity), the proposed 2025 allocations were within the Risk Tolerance Portfolio (80/20 bond/equity) levels

Value at Risk (VaR)



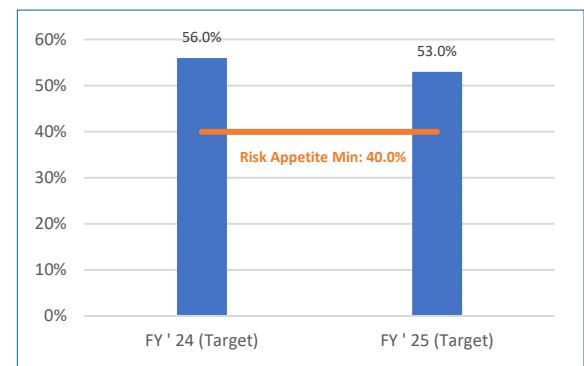
- VaR (1 year, 1SD) was computed based on constant weighted 10-year historical data

Stress Drawdown Levels



- The drawdown levels reflect the estimated market value declines, assuming stress levels of the GFC (2007 – 2009 recession scenario)

Liquidity Levels

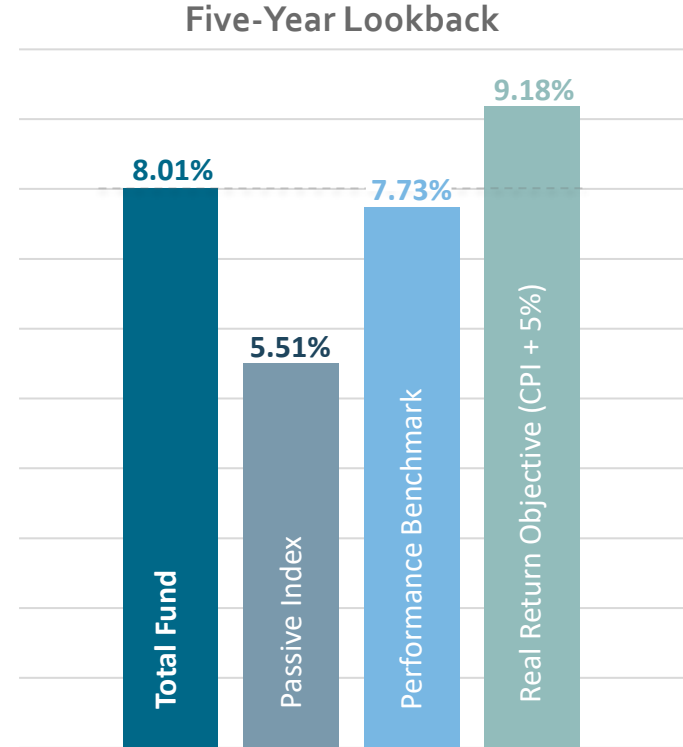
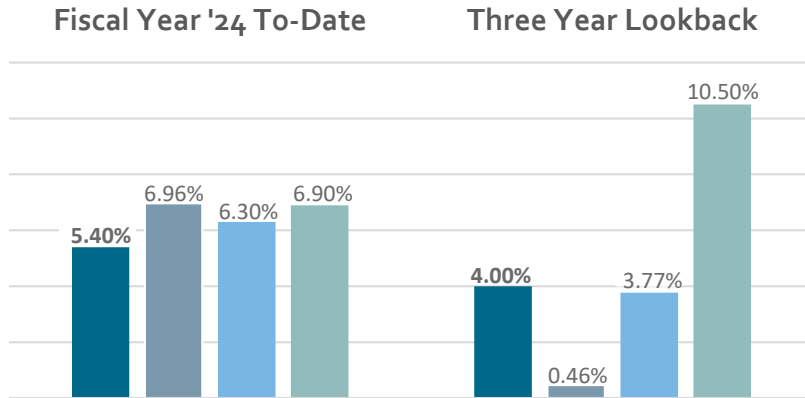


- Liquidity levels reflect the aggregate proportion of public equities, fixed income and cash portfolios

Long-term Investment Performance Exceeds Relevant Benchmarks

Recent (fiscal year to date) performance adversely impacted by:

1. Underweight holdings of large-cap tech stocks (which we expect to revert back to historical levels)
2. Short-term underperformance in private markets asset classes (which are best viewed under a long-term lens)



Consistent Discipline

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

HONORING THE PAST

Honoring the vision and sacrifices of the Alaskans who created the Fund and enduring leadership committed to intergenerational benefit.

STEWARDSHIP

Protecting the Principal and maximizing investment returns for the benefit of current and future generations of Alaskans.

PROVIDING STABILITY

Providing a predictable revenue stream to help balance the State's budget now and into the future.



APFC

ALASKA PERMANENT
FUND CORPORATION