



APFC

ALASKA PERMANENT
FUND CORPORATION

Senate Finance Committee

February 13, 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
2/3rds margin 75,588 to 38,518

1977

The Permanent Fund receives its first deposit of dedicated oil royalties totaling \$734,000

1980

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

The Permanent Fund

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.



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

This intergenerational contribution ensures that a portion of our mineral wealth is saved and invested to benefit all Alaskans, today and tomorrow.

Renewable Financial Resource

inception through December 2022

Savings

Since the First Royalty Deposit of \$734 thousand
The Principal has grown to \$52 billion

Income-Producing

The Earnings Reserve Account has received more than \$82.1 billion



Earnings Use

- Inflation Proofing Principal \$18.0 B
- Special Appropriations to Principal \$12.3 B
- Alaska Capital Income – Amerada Hess ~\$0.4 B
- Dividend Fund through FY18 \$24.4 B
- Percent of Market Value FY19-FY23 \$15.9 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 the counter. To the right, a sign on the wall reads "APFC ALASKA PERMANENT FUND CORPORATION". Two flags are visible in the background. In the foreground, there is a light-colored sectional sofa and a small round coffee table with some papers on it.

To Manage and Invest for Generations

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, is to achieve the highest level of performance within the investment responsibilities of AS 37.13.120 and prudent investment practices.

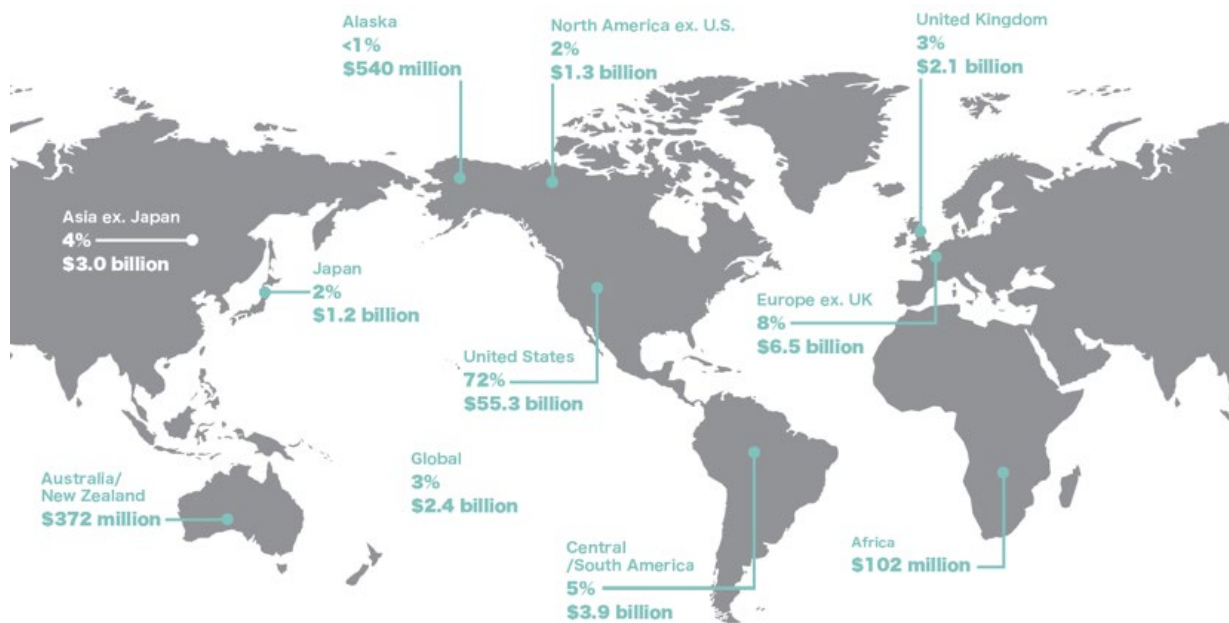
Investment Performance

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.

Diversified Portfolio



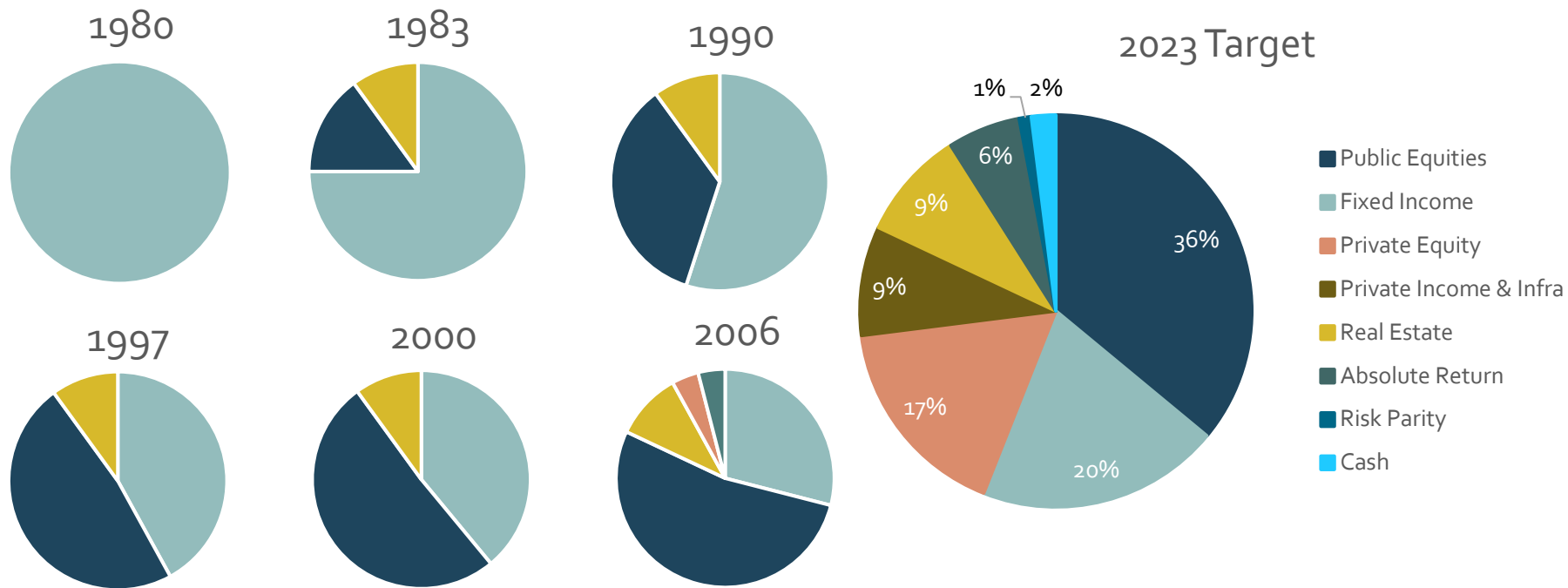
Risk

APFC is in the business of taking risk.

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

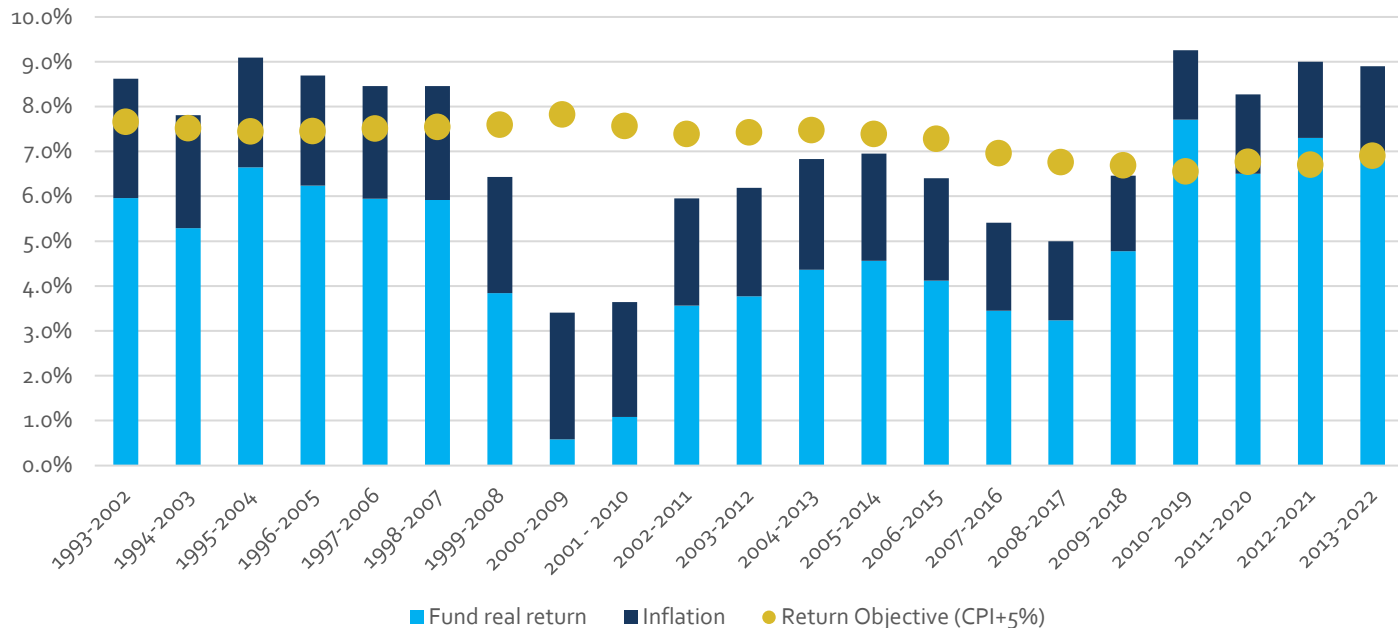
The goal of risk management is not to avoid risk but to identify, understand and manage it to acceptable levels.

Asset Allocation APFC's Investment Policy



Real Return

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

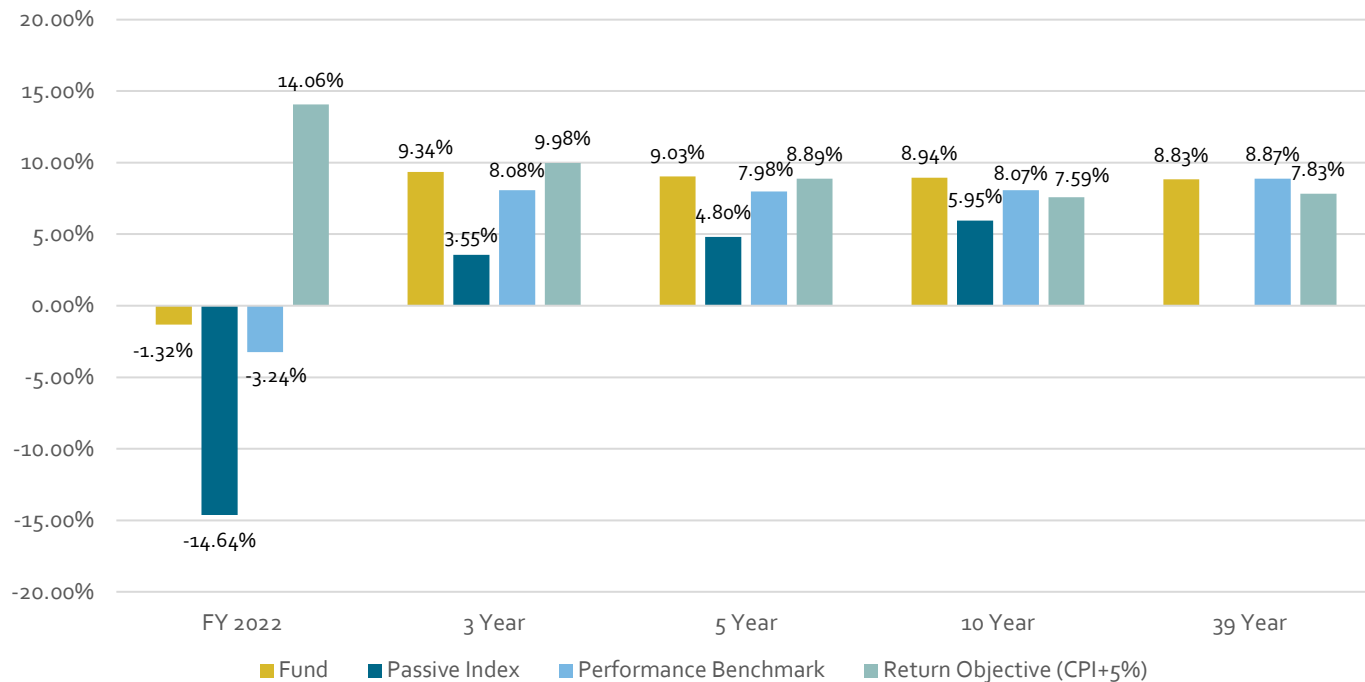


Board of Trustees long-term target return objective: 5% + inflation (CPI)

ALASKA PERMANENT FUND CORPORATION

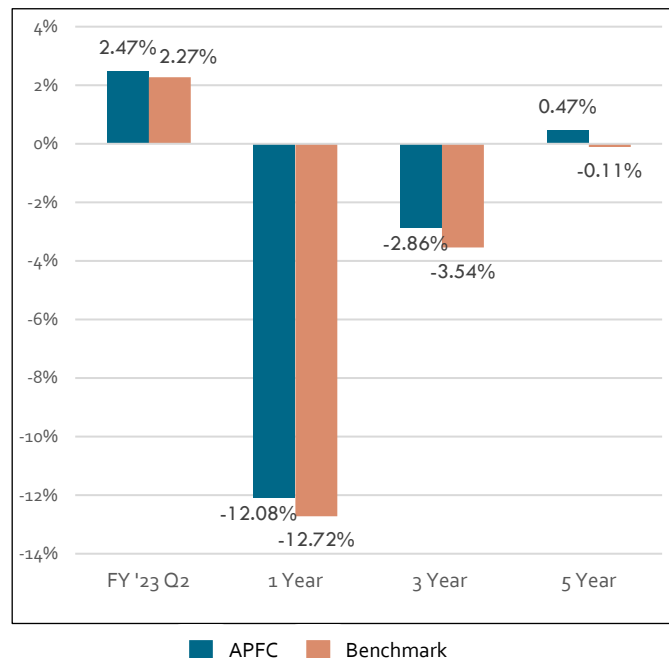
Fund Performance vs Benchmarks

Fiscal Year End June 30, 2022

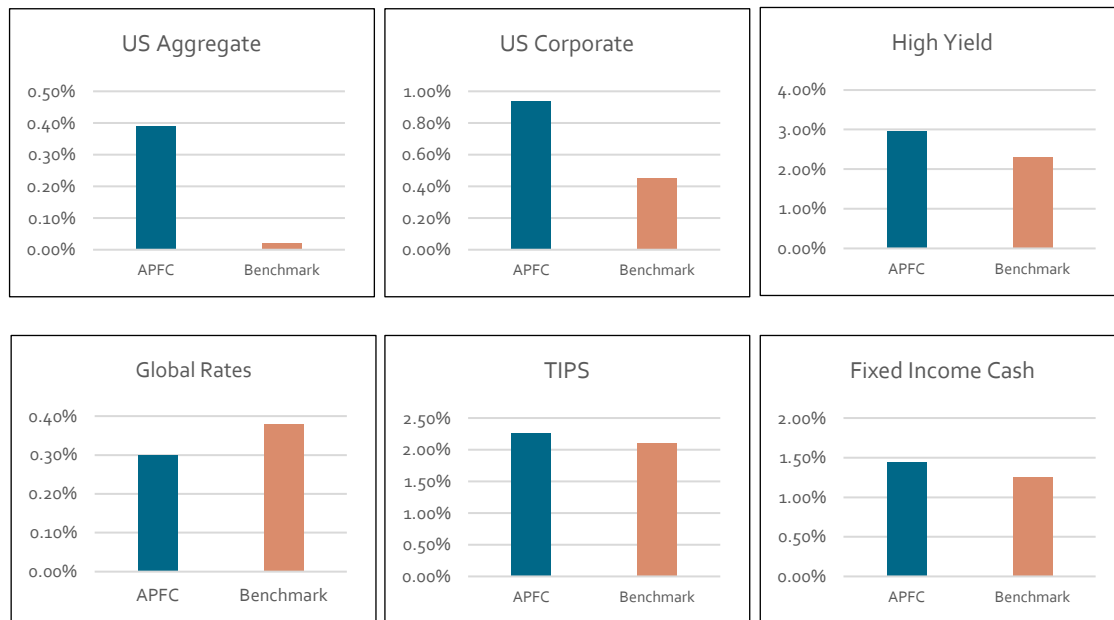


Benchmarks – Internal Fixed Income Example

Fixed Income Composite

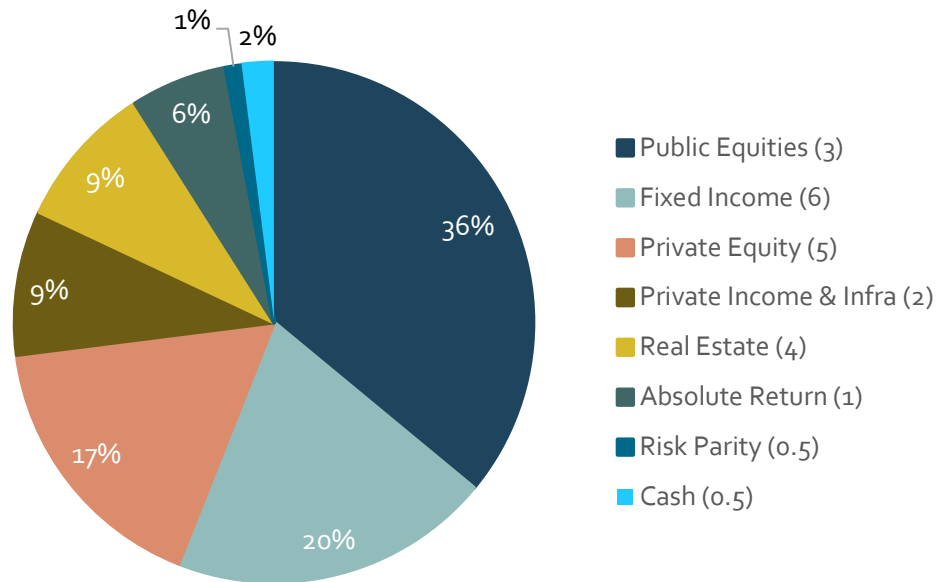


5-Year Performance of Portfolio Components



Focus on Increasing Internal Management

Fiscal Year 2023 Target Asset Allocation (And number of full-time employees per asset class)

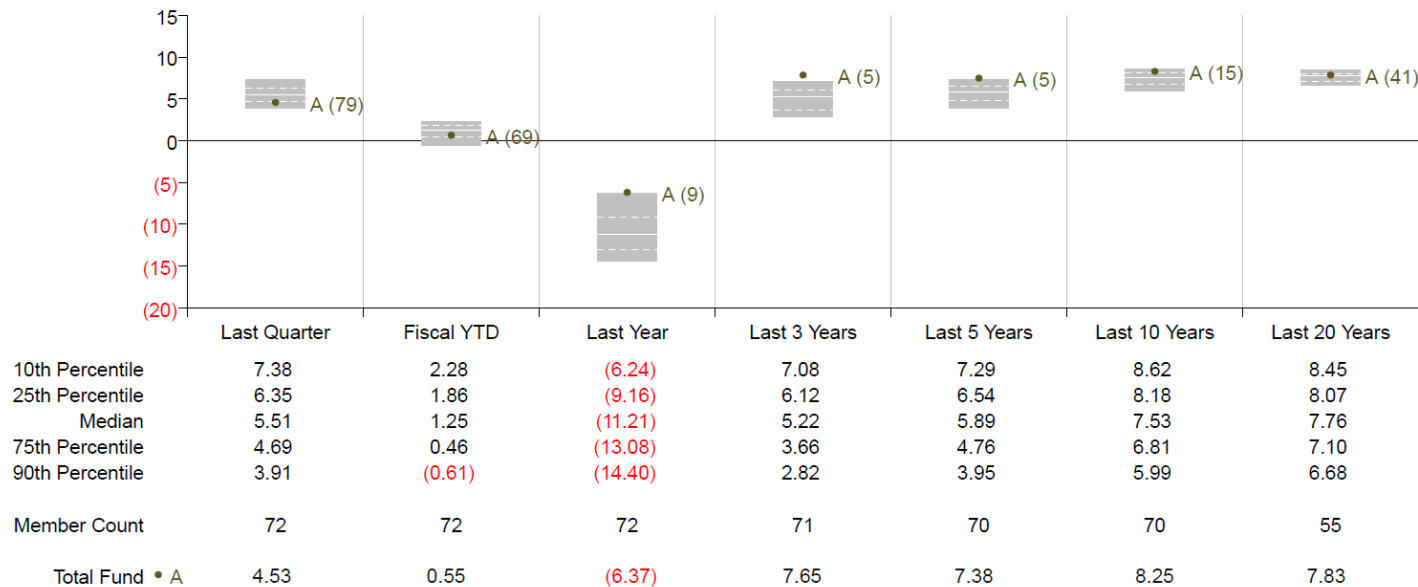


Strategies brought in-house since 2013

- 2013 – Private market co-investments and direct investments
- 2014 – Internal tactical equities
- 2015 – Hedge fund-of-fund management
- 2018 – High yield bonds
- 2020 – Real estate directly managed properties
- 2021 – Internal factor equities
- 2022 – All of fixed income

APFC Performance Relative to Large Public Funds

Returns for Periods Ended December 31, 2022
Group: Callan Public Fund Sponsor - Large (>1B)



Tenured and Seasoned Investment Leadership

Leaders of APFC's major asset classes have substantial industry experience and tenure with APFC

Marcus Frampton, CFA, CAIA, FRM
Chief Investment Officer

Years in industry: **22**
Years at APFC: **11**
Years in current position: **5**

Previous experience:
Lehman Brothers, PCG Capital Partners, LPL Financial

Jim Parise
Deputy CIO & Director of Fixed Income

Years in industry: **31**
Years at APFC: **22**
Years in current position: **19**

Previous experience:
Cedar Hill Associates, Chapdelaine & Co., Chicago Board of Trade

Fawad Razzaque, CFA
Director of Public Equity

Years in industry: **25**
Years at APFC: **11**
Years in current position: **11**

Previous experience:
Russell Investments, A.G. Edwards & Sons, Inc.

Tim Andreyka
Director of Real Estate

Years in industry: **30**
Years at APFC: **8**
Years in current position: **3**

Previous experience:
Citicorp, MetLife, JMB Realty

Allen Waldrop, CFA
Director of Private Equity

Years in industry: **26**
Years at APFC: **6 mo**
Years in current position: **6 mo**

Previous experience:
KPMG, LP Capital Advisors, Grafine Partners

Youlian Ninkov
Senior Portfolio Manager – Absolute Return

Years in industry: **18**
Years at APFC: **6**
Years in current position: **3**

Previous experience:
Credit Agricole, Citadel


Ross Alexander, CAIA
Senior Portfolio Manager - Private Income

Years in industry: **7**
Years at APFC: **5**
Years in current position: **5**

Previous experience:
Alaska Retirement Management Board



Enduring Financial Resource

An aerial photograph of a vast, rugged mountain range covered in snow and ice, with deep valleys and sharp peaks. The image is tinted with a blue color scheme.

Now, more than ever, the State is dependent upon APFC's effective management and investment of the Fund, one of Alaska's primary sources of renewable revenue.

Financial Resource for Alaska

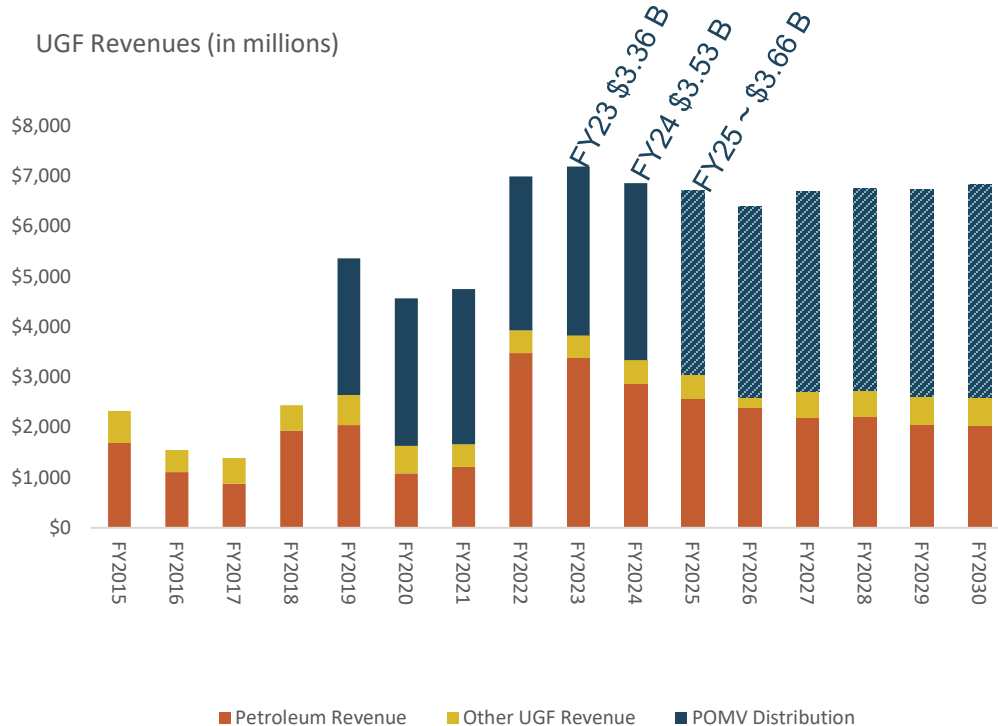
APFC's stewardship fulfills dual roles:

- 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.

Mission Driven: To manage and invest the assets of the permanent fund and other funds designated by law in accordance with Alaska Statutes 37.13.010-37.13.190.

Fiduciaries: The Board of Trustees has a duty to assure that the Fund is managed and invested in a manner consistent with constitutional and statutory mandates.

State Revenue



5% Percent of Market Value (POMV)
Average market value of the Fund for the first five of the preceding six fiscal years

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

Principal Contributions

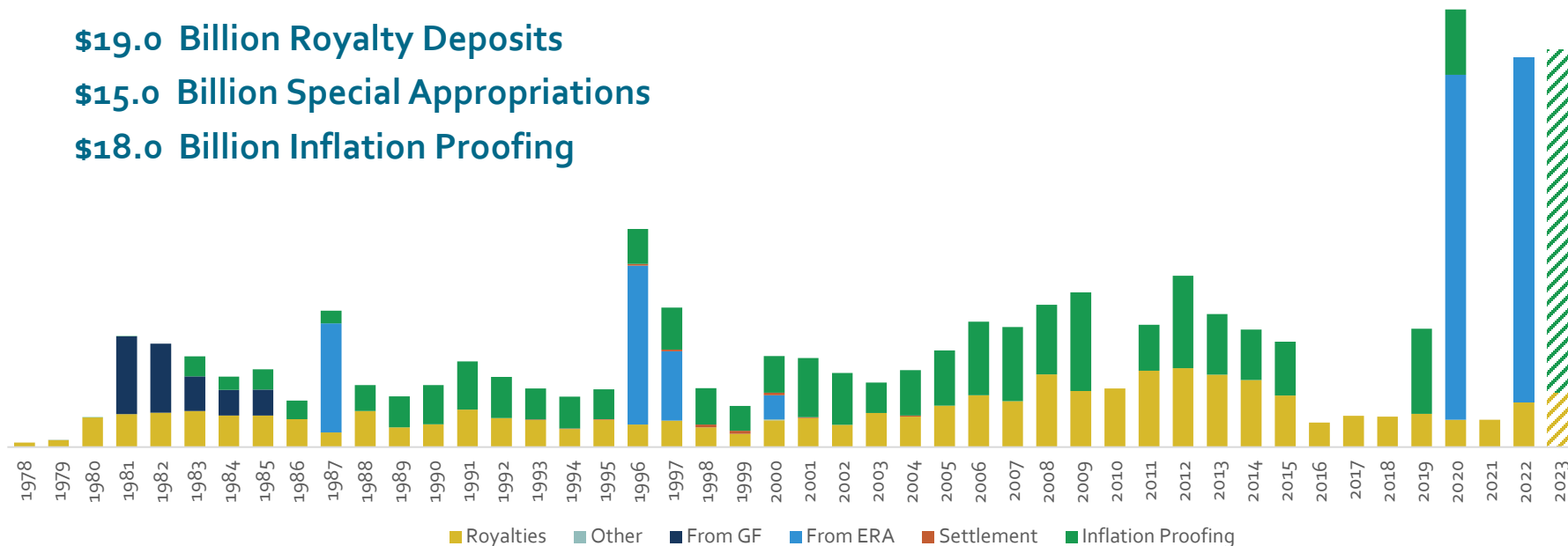
Intergenerational Benefit

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

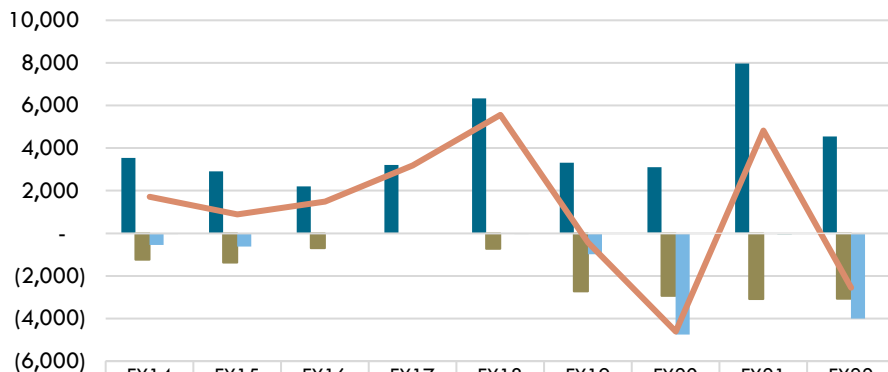


Earnings Reserve Account (ERA)

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:

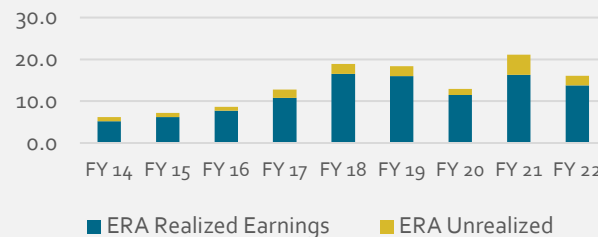
stock dividends, bond interest, real estate leases

Realized Capital Gains/Losses:

net income generated by the sale of investments

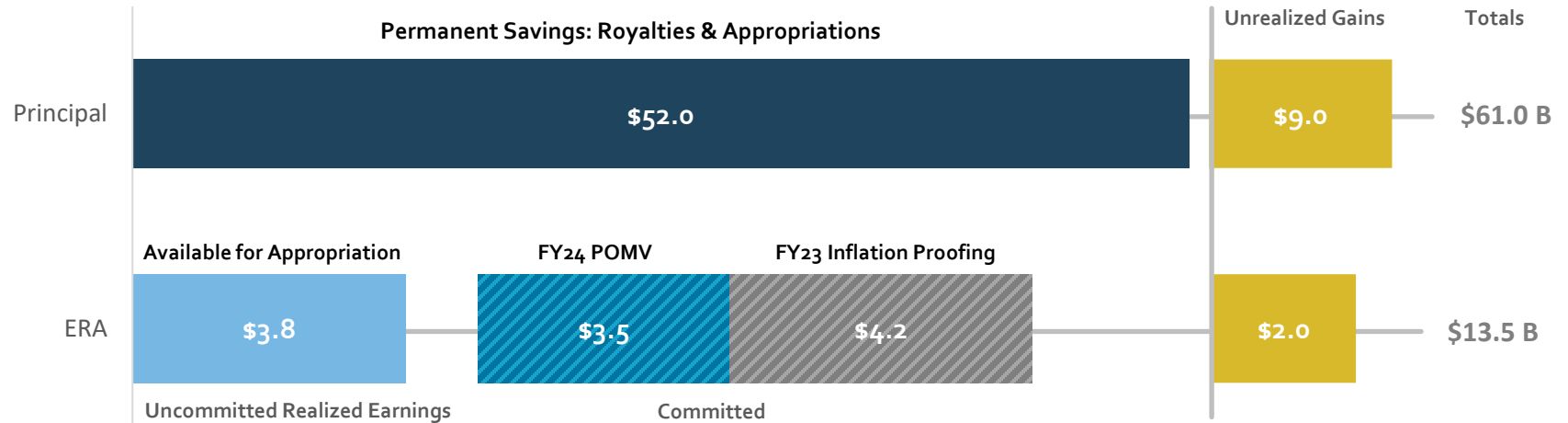
Statutory Net Income = \$1,001,800,000
FYTD 23 as of December 31, 2022

ERA in \$ billions



TOTAL FUND VALUE **\$74,455,800,000**

Unaudited as of December 31, 2022





Contributions

- Royalties
- Special Appropriations
- Inflation Proofing



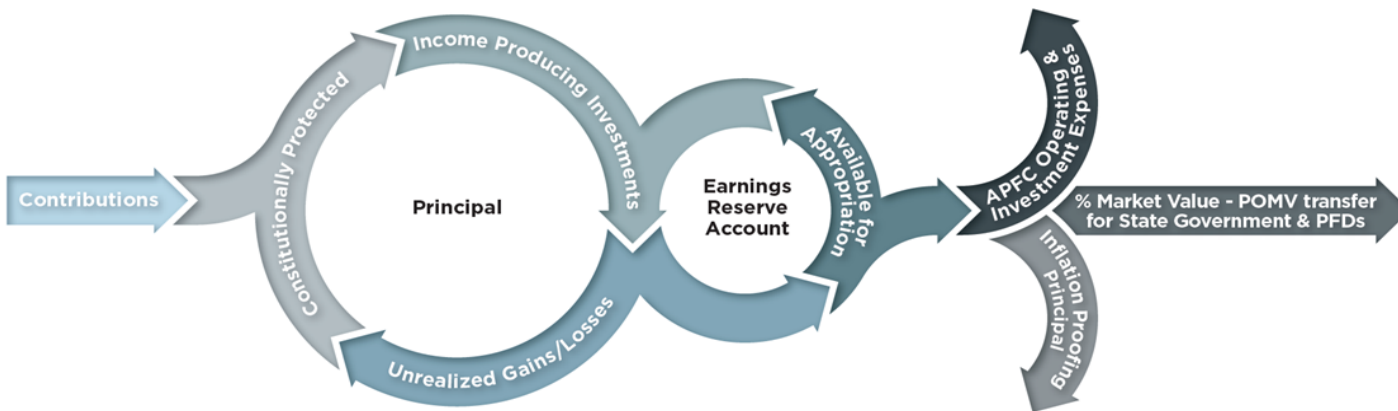
Principal

- 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

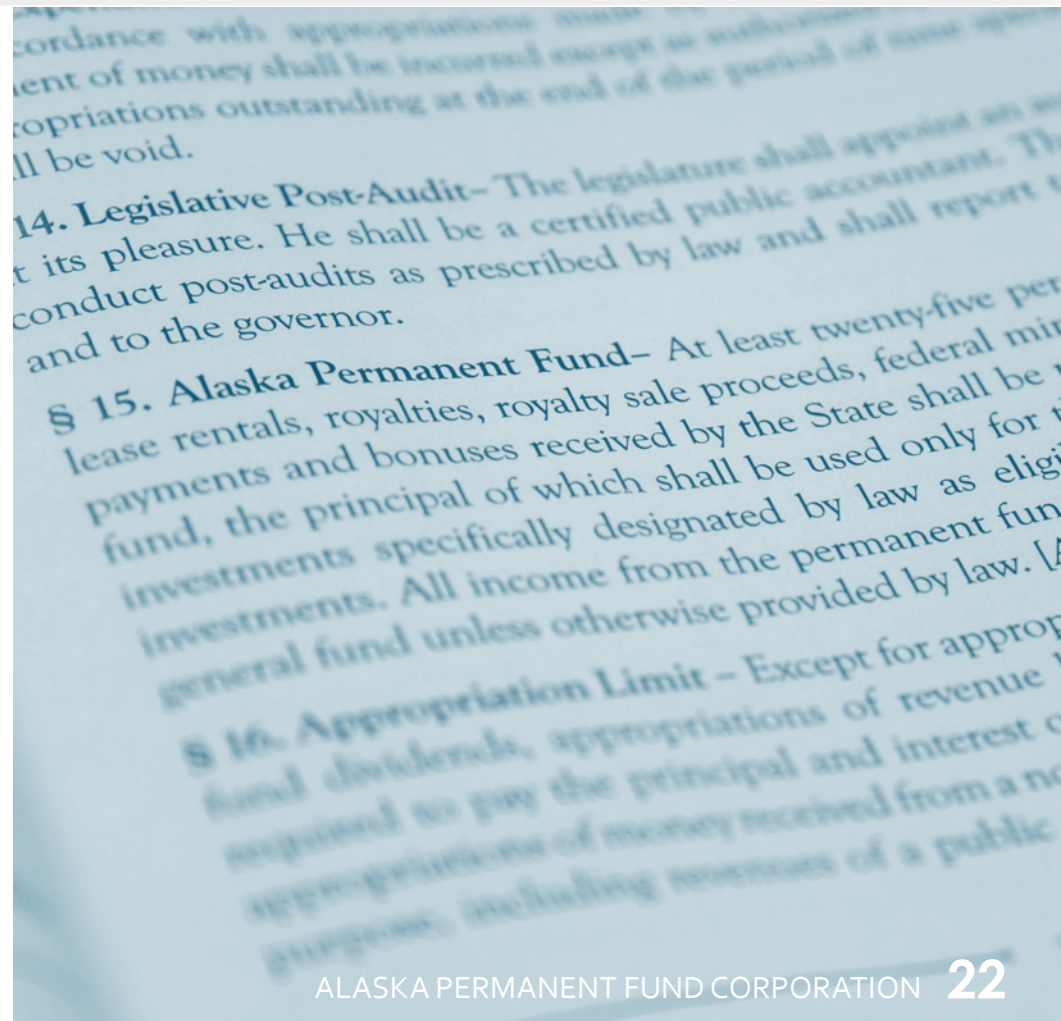
- Alaska Statutes AS 37.13.145(a)
- Realized gains/losses from sale of assets
- Pro-Rata share of investments and net unrealized gains

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.

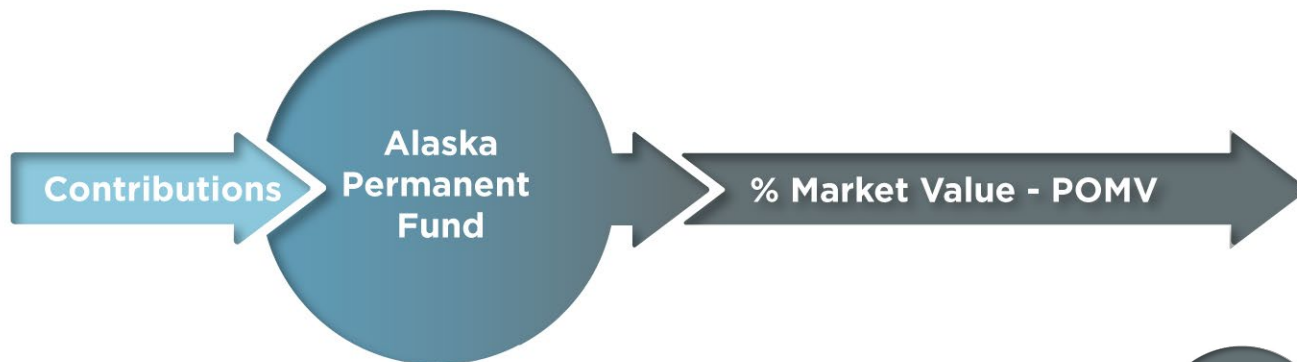




Contributions
Royalties
Special Deposits



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



Board Resolutions

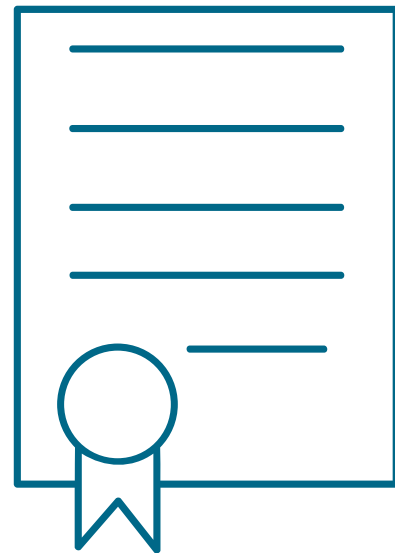
00-13, 03-05, 04-09: Constitutionalize Annual Fund Draw. Limit the annual Fund payout to not more than a 5% POMV averaged over a period of 5 years. Assures permanent inflation proofing.

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.

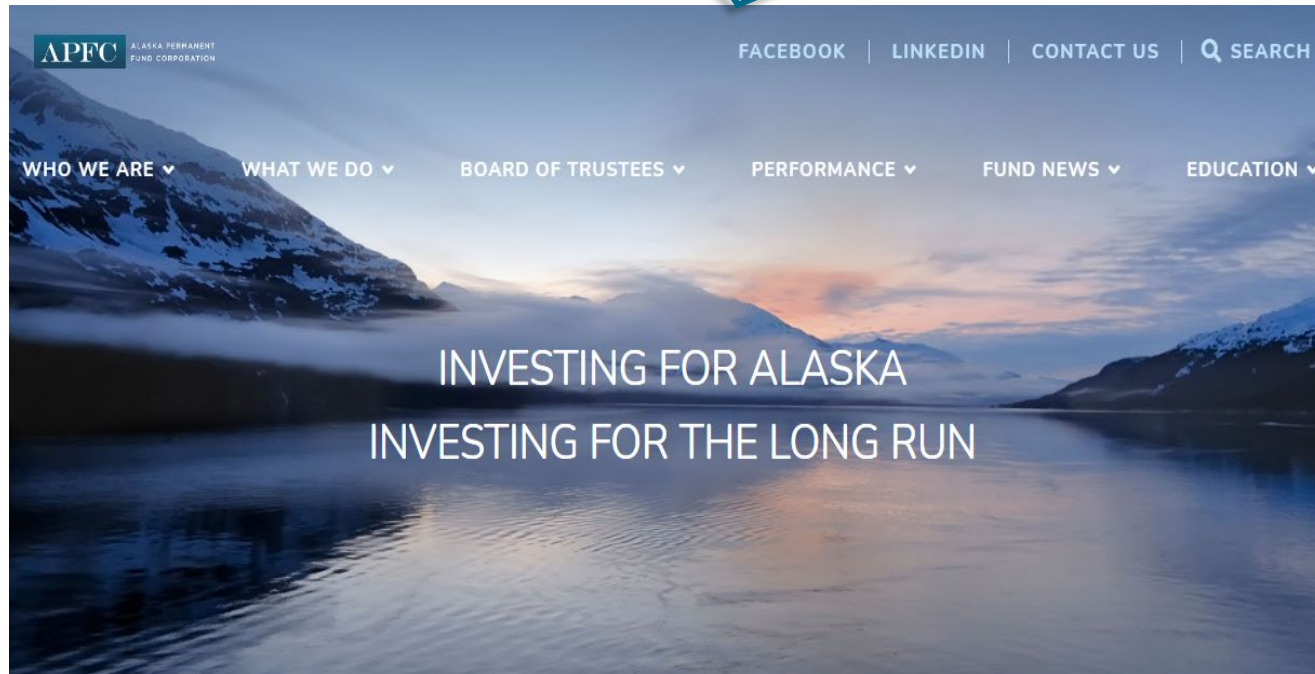
20-01: Additional measures to enhance the sustainable use of the Fund include restructuring the Fund from its' current two account system into a single Fund as well as periodic review of Fund Return Assumption and ERA Balance Buffer (4X Buffer).



www.apfc.org



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



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Public trust is earned over time and requires an ongoing commitment of consistent, capable leadership to uphold and preserve.