

HOUSE FINANCE COMMITTEE
February 16, 2015
1:33 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Mike Burns, Executive Director, Alaska Permanent Fund Corporation, Department of Revenue; Laura Achee, Director of Communications and Administration, Alaska Permanent Fund Corporation, Department of Revenue.

SUMMARY

^OVERVIEW: ALASKA PERMANENT FUND CORPORATION

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MIKE BURNS, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION (APFC), DEPARTMENT OF REVENUE, provided a PowerPoint presentation titled "Alaska Permanent Fund" dated February 16, 2015 (copy on file). He began on slide 2

titled "Renewable Resource." The slide showed the balance of the fund and deposits and dividends to date. Total balance at present was \$52.5 billion. He turned to slide 3 and discussed FY 14 performance. He detailed that the fund was slightly behind its benchmark; its total return was 15.5 percent and the benchmark return was 15.7 percent. He relayed that the fund was currently less aggressive than many of its peers; it had less exposure to the equity market. He believed it continued to be a time to trim money from the equity market. The corporation's net income was \$6.8 billion in FY 14. He communicated that fund performance had been slightly below some of the corporation's benchmarks. He continued to discuss fund performance on slide 4. The slide included a bar chart that compared the permanent fund performance with its benchmark and the median public fund data. He noted that APFC was working to find comparable benchmarks; the corporation was structured similar to sovereign wealth funds around the world. He relayed that APFC and the U.S. Treasury were the U.S. representatives to an international group.

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Mr. Burns discussed principal and the earnings reserve on a pie chart on slide 5. There was an assigned earnings reserve of \$7.8 billion (shown in dark yellow); a small light yellow section represented the unrealized gains portion of the earnings reserve. He noted that the Department of Law required APFC to break the earnings reserve up into the two sections; the fund was mostly principal at present (shown in blue). He moved to a pie chart on slide 6 showing the fund's target asset allocation. He detailed that in the 1980s the fund had been invested entirely in bonds. Subsequently the legislature had given APFC the authority to invest in stocks and real estate. He shared that in 2005 when the legislature had authorized the trustees to invest in anything prudent it had opened doors for the corporation. One of the advantages was that the strategy enabled the fund to take a long investment look; it allowed the fund to play to its strengths. He moved to slide 7 titled "The Effect of Diversification." The earnings line was represented in yellow. He stated that diversification was the only true free lunch.

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Co-Chair Thompson noted that Representative Gattis joined the meeting.

Mr. Burns discussed fund advantages on slide 8 including its size and time horizon. The fund's size allowed it to access investments and any manager in the world. He detailed that APFC had worked hard to develop its reputation as a good partner. The fund was also large enough to be in the forefront of working to bring down some of the management fees. He noted that costs had been brought down, but were still expensive. He addressed fund challenges on slide 9. One challenge for recruitment and retention was the state's lengthy distance from financial centers. He detailed that related to retention employees had generally self-selected into the lifestyle in Alaska; however, it continued to be difficult to recruit to Alaska. He addressed the challenge of flexibility and communicated that new resources frequently arrived long after they were needed due to a lengthy budget process. He elaborated that opportunities could present themselves but the budget process could take too long to access the opportunity. The small staff limited strength and created gaps during travel and vacancies. He remarked that anything that could be managed in-house was between six and ten times cheaper; however, investment expertise was needed in order to get desired returns. He noted that the legislature had authorized APFC to hire a trader in international fixed income and a finance person; the two positions accounted for a \$300,000 budget increment. He believed the positions had saved close to \$1.5 million.

LAURA ACHEE, DIRECTOR OF COMMUNICATIONS AND ADMINISTRATION, ALASKA PERMANENT FUND CORPORATION, DEPARTMENT OF REVENUE, clarified that the savings had been closer to \$1 million.

Mr. Burns continued that the savings could be made by hiring in-house if it fit within the legislature's budget.

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Mr. Burns addressed the fund's stock portfolio chart on slide 10. The stock portfolio totaled \$20.4 billion as of June 30, 2014. The chart showed the portfolio by country or region, by mandate (U.S., global, non-U.S), and by management (active, passive, quasi-passive). He elaborated that the most expensive funds to manage were active, whereas quasi-passive were cheaper and passive funds were

the cheapest. He detailed that a true passively managed fund was invested to mimic an index fund such as the S&P 500. He explained that if a stock in the fund went up, more of that stock was purchased; it was momentum driven and could lead to buying high. Quasi-passive could be structured in many ways (e.g. set up by sales growth, margins, or both); it was much more fundamentally oriented and tended to be more of a value index, which provided the portfolio with balance.

Vice-Chair Saddler asked for verification that the three circles on the chart were independent from the other.

Mr. Burns agreed. He continued to address the slide. He detailed that the portfolio had been lighter in stocks over the past 18 months. He stated that in the prior fiscal year the U.S. stock portfolio had been up 27 percent, the non-U.S. portfolio had been up 20 percent, and the global portfolio had been up 25 percent. He noted that being slightly under allocated to stocks did not help fund returns. He believed a correction would be made to the fund allocation. He shared that the fund had been successful at picking the low day at the bottom of the market in 2009. He detailed that APFC had been more successful at getting in when markets were down than at getting out when markets were up. He continued that it had been obvious the corporation needed to put money back into the low market; it believed strongly in "reversion to the mean." He noted that currently it was more difficult; almost everything in the portfolio was working very well at present, which was the time to begin moving investments to different areas. He stated that everything outside of the portfolio was expensive; the challenge was to determine where to put money at present. The fund was buying real estate in Europe for the first time including two shopping centers and other, which was different for APFC.

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Representative Edgmon asked how the global price of oil had influenced the fund's investments in the energy sector. Mr. Burns replied that the low oil prices had been bad for the state, but good for the markets. He remarked that an investor's job was to "run into the fire." He did not believe energy would continue to be in the doldrums. He stated that APFC had a much longer time horizon to make investment decisions than the legislature. He communicated

that APFC was taking a hard look at various energy investments. He elaborated that that the corporation had a fair amount of energy investment exposure at present. Some of the deals that had been made 1.5 years back took time to deploy the money. He stated that money that had been deployed would probably not do well; most of the money had not yet been deployed and investment opportunities were looking attractive. He added that APFC was looking to invest more money into similar deals; investment would go to active partnerships and not just to more companies like ExxonMobil and Chevron.

Mr. Burns discussed the fund's top five stocks including Apple, Microsoft, ExxonMobil, Hewlett-Packard, and JPMorgan Chase on slide 11 [investments on the slide ranged from \$95 million to \$195 million]. He noted that the corporation had some large investment positions in public companies that were much larger than the investments shown on slide 11, which was a new strategy. He addressed the bond portfolio on slide 12, which was currently the most challenging component of the overall portfolio. He relayed that rates were incredibly low at present and it was not desirable to "reach out for yield"; therefore, they tried to locate yield in other ways. He explained that bonds were owned for reasons outside of yield, such as in the event of a crisis (i.e. deflation or disinflation). He moved on to discuss bond portfolio management on slide 13. The bond portfolio was \$12 billion on June 30, 2014. He detailed that externally managed investments included high yield, mezzanine financing, public/private debt, emerging markets, and other. The corporation managed high-grade corporate bonds, U.S. issued bonds, Treasury Inflation-Protected Securities (TIPS), and sovereign debt of developed nations and some emerging markets.

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Mr. Burns addressed a map illustrating the fund's U.S. real estate investment locations on slide 14. He noted that each dot on the map did not necessarily denote one investment; there were multiple ownerships in some of the locations. For example, one of the dots on the chart in Texas represented six properties. He pointed to two single-unit residential and retail investments in Chicago.

Vice-Chair Saddler referred to the map and asked if the office building in Southeast Alaska represented the fund's headquarters. Mr. Burns replied in the affirmative.

Mr. Burns continued on slide 15 titled "Real Estate." He stated that in addition to working to invest money overseas, the fund was working to expand its industrial investments. He believed that accessing industrial investments in the U.S. would become easier; however, in the past 10 years manufacturing had largely gone overseas, which had limited the fund's exposure to the allocation. The fund was working to locate intermodal investments near ports with good rail and trucking connections. He addressed the Tyson's Corner Center investment on slide 16. The fund had owned the investment for a minimum of 20 years.

Ms. Achee added that the investment had been purchased in 1985 with a 14 percent ownership.

Mr. Burns elaborated that the fund was currently a 50 percent owner of the investment. He noted that during a brief transition in ownership the fund had owned 100 percent of the property. He detailed that there was new development on the property; there was a metro nearby that connected to downtown. He explained that the apartment building on the left of the picture included 420 units that should begin leasing in April. The middle building was a 550,000 square-foot office building that was currently 80 percent leased. A 325-room hotel was shown on the right. He elaborated that the buildings were all clustered around the main entrance of a shopping center plaza. Tyson's encompassed approximately 2.2 million square-feet of retail space; the development was worth approximately \$600 million. He shared that all three of the buildings had been built simultaneously, which had been challenging. The fund was very pleased with the investment. He stated that it would be a "live, work, play environment."

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Mr. Burns spoke to the Simpson Housing LLLP investment on slide 17. He detailed that APFC and the State of Michigan retirement system were each 48 percent owners; management owned the remaining 4 percent. Simpson Housing had approximately 20,000 apartment units nationwide. He noted that the majority of the housing units owned by APFC near Dallas, Texas were Simpson units. He elaborated that the

company built and managed the properties. He added that APFC sold its properties if the time was right. He communicated that the company operated the properties very well. The fund's share was valued at \$992 million.

Vice-Chair Saddler asked what an LLLP was. Mr. Burns answered that he would get back to the committee.

Representative Pruitt replied that LLLP stood for limited liability limited partnership.

Mr. Burns continued show slides of the Simpson Housing investment on slides 18 and 19. He relayed that when the fund had bought into the deal 7 or 8 years earlier, the average age of the portfolio was about 17 years; currently the average age was 11 years. He stated that the portfolio had grown and had been updated and he believed it was as good as any apartment portfolio in the U.S. He addressed American Homes 4 Rent on slide 20. The fund had recognized an opportunity to purchase and rent single-family homes in the foreclosure market, which could help offset what the fund was not getting out of its fixed income portfolio. He stated that it would have been easy for five or six individuals to invest in numerous foreclosures; however, it was hard to determine the investment on a large scale. He discussed that a founder of a public storage company was interested in the same idea and had invested his personal money. Subsequently, APFC had invested in a partnership with the company and had a 24 percent interest. He elaborated that the partnership had purchased foreclosures that had ultimately been consolidated into a private real estate investment trust, which had gone public in June 2013. Currently the investment held almost 26,000 houses in 16 states. He relayed that the public company was worth approximately \$750 million. He believed the opportunity was very attractive.

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Mr. Burns continued to discuss American Homes 4 Rent on slide 20. The fund had been one of the early investors in the market, which had served APFC well. He elaborated that when institutional money decided to invest, the foreclosure market became very active. He explained that any of the investments APFC had made in the market became more attractive than subsequent investments. The fund was not currently as actively acquiring the investments as it had

been. The partnership had purchased homes for \$120,000 that had once been \$500,000; at the time of purchase about one-third of the renters had been former owners. He thought some former owners may purchase the homes back. He addressed the CityCentre II, III, and IV investments on slide 21. The office and retail investments were located in the energy corridor of Houston, Texas. He noted that construction of a CityCentre V was currently on hold due to reduced energy markets. The fund was currently looking at the possibility of purchasing a medical property in the Houston area. He pointed to the Parc Huron apartment investment on slide 22. The fund had purchased the new building in Chicago, Illinois within the past couple of years. He relayed that it had been initially been built as a condominium complex; the units had high quality features. He remarked that the investment had done well for the fund as apartments and would provide an added bonus if it transitioned back to condominiums.

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Mr. Burns discussed the Shops at North Bridge located in Illinois (slide 23); the investment had the same partner as the Tyson's Corner investment. The investment encompassed eight or nine blocks on Michigan Avenue; Nordstrom was the lead tenant. The partnership had recently purchased a block next to the property; it hoped to expand the center and provide underground parking. Additionally, there was the potential for some residential above.

Mr. Burns looked at non-U.S. real estate investments on slide 24. He pointed to a shopping center in Warrington, United Kingdom, and in Alicante, Spain. He relayed that APFC was looking at additional potential investments in Spain, Portugal, and Warsaw, Poland.

He discussed real estate management on slide 25. He addressed a bar graph and relayed that in 1998 the fund's \$1.2 billion real estate portfolio had been managed by the same number of people as the current \$5.9 billion portfolio. He detailed that the fund's ownership structure had changed dramatically over time and it was currently the owner of most of the investments. He elaborated that the portfolio's complexity and investments were significantly larger. He addressed absolute return (hedge funds) on slide 26 that operated primarily as a risk reducer; APFC was looking to make some changes to the program, most likely

within the coming year. The fund currently had 270 hedge fund managers, which he believed needed to be trimmed back. He relayed that the three gate keepers were fund to funds, which conducted hiring and firing. He explained that there were too many managers for APFC to receive any fee breaks or to have real insight into what the managers were doing.

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Mr. Burns discussed infrastructure holdings on slide 27; APFC had invested in the asset class for the past five or six years. Infrastructure investments were either owned or regulated by government. The investments had high barriers to entry and often governments looked to sell the investments to raise money for other purposes. Investments included energy, transportation, ports, airports, pipelines, water and waste management, and other. He detailed that the investment did not provide a high yield, but acted as a solid base for a portfolio (similar to real estate).

Representative Gara noted that hedge funds hedged against the market. He wondered why it had taken so long to determine that 270 managers were too many. Mr. Burns answered that when APFC expanded its allocation to hedge funds approximately 10 years earlier, the trustees had wanted enough small investments to reduce the risk exposure (if one of the investments did poorly it was only \$18 million compared to a much larger amount). He stated that if there was an absolute return exchange traded fund or index, APFC's investment would have been it. He relayed that with the high number of investments the fund received the market average. He believed the 270 figure he had cited earlier may be high.

Representative Gara made a remark about a publicly traded real estate investment trust.

Mr. Burns continued on slide 28 titled "Savings from 3 Deals/Year." The slide addressed savings that would occur if additional staff were hired to work on infrastructure deals and private equity. The fund had not taken advantage of its right to co-investment until the past couple of years because it had lacked the staff to do so. He elaborated on the strategy. He explained that in the event that a project was over the cost threshold specified in an infrastructure investment partnership the partners could

choose to co-invest in order to invest more money. He stated that the opportunity could be attractive and there were no fees on co-investment, which meant fees were cut in half. He pointed to slide 32 that showed private assets, one year: 60 deals had been screened, 12 were reviewed, and 6 closed. He explained that significant time went into the consideration to co-investments and direct investments. The budget included a line item for third-party fiduciary services; APFC could review a potential investment and then ask for an additional opinion from a third-party. He noted that some institutional investors went only with the third-party advice, but APFC chose to do the due diligence as well.

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Mr. Burns addressed private equity on slide 29. The fund's primary investments were in the U.S. (67 percent). He relayed that APFC liked private equity; it was one of the reasons its public equity was on the lower end compared to others. He noted that the expected return was higher, but the payoff term was longer. He detailed that investments could include buyouts, spinouts, or other. He provided examples of private equity investments. He reiterated that the strategy offered the co-investment opportunity.

Mr. Burns addressed special opportunities that provided an opportunity to earn additional yield or to reduce risk (slide 30). The opportunities included direct investments in private companies, direct investments in specialized funds, and multi-asset mandates. Historically, APFC had used the strategy for risk reduction opportunities, but it was looking to make changes. For example, American Homes 4 Rent had been a special opportunity initially (the investment had moved under the fund's real estate portfolio). He communicated that approximately 15 months earlier APFC had begun discussions with the Hutchinson Cancer Center and Children's Memorial Hospital in Seattle and the Memorial Sloan Kettering Cancer Center in New York. The discussions involved the potential creation of a cancer research company that APFC would invest in. He detailed that the company (Juno Therapeutics) had gone public in December 2014; APFC had invested approximately \$130 million and had about 25 million shares. The investment had been very attractive and was currently trading at about \$40 per share; it was currently worth over \$1 billion to APFC. He stated that 99 percent of the special opportunity deals did

not come together. He stressed that the clinical results coming out of the company were stunning. He encouraged members to look the company up online.

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Mr. Burns addressed direct fund investments on slide 31. He noted that the ability to invest directly provided a cost reduction; fees were 1.5 percent and 20 percent of the profit in direct investment over a five-year period. Under the terms of a direct investment APFC could potentially pay the fee on a portion of an investment and receive a break on fees for the remaining portion (e.g. it could pay fees on \$500 million and pay no fees the remaining \$500 million). He added that APFC could potentially receive a portion of the total revenue share out of the partnership under the direct investment structure. The right number of staff was important to APFC's ability to structure things differently and to take pieces of deals.

Mr. Burns pointed to the complexity of APFC's financial networks on slide 33. He noted the importance of financial networks. The corporation was separate from the state. He stressed that accuracy and security were essential. He pointed to the Alaska Permanent Fund Dividend (PFD) calculation on slides 34 and 35. He explained that 2009 had fallen out of the calculation, which accounted for the increase in the dividend. He highlighted that 2014 had been a good year for statutory net income [\$3.5 billion]. He projected that the dividend would be flat for several years. He addressed oil prices and the dividend on slide 36. He detailed that changes in oil prices did find their way into the dividend formula, albeit very slowly. The slide showed that oil royalties were not included in the dividend calculation.

Representative Wilson asked if the PFD calculation was statutory or regulatory. Mr. Burns replied that the calculation was statutory. He elaborated that the royalty requirement of at least 25 percent and the concept of principal were required by the Alaska Constitution as opposed to by statute.

Co-Chair Thompson believed that in the late 1980s or early 1990s statute had changed the 25 percent requirement to 50 percent. He wondered if the change was still in place or if the number had been reduced back to 25 percent. Ms. Achee

replied that the statutes were still active. She detailed that the 50 percent only applied to royalties on certain oil fields; the net effect was a receipt of approximately 30 percent. She added that legislation to reduce the number back to 25 percent had passed about six years earlier; however, the bill had sunset and the statutes were now back in effect.

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Representative Edgmon remarked that the state was currently looking at a huge deficit. He pointed to the past five years of the PFD calculation on page 34. He asked what revenue would be available for other sources if a mean for the five-year period was determined and inflation proofing was not factored in.

Ms. Achee replied that the mean was \$2.5 billion.

Mr. Burns elaborated that slide 34 showed statutory net income, which was different than net income. He detailed that the dividend's accounting net income for 2014 was \$6.9 billion, which included unrealized gains. Statutory net income only included realized gains and losses and realized capital gains and losses.

Representative Edgmon asked about an earnings reserve. He asked about setting aside the statutory obligations for the earnings reserve and the inflation proofing requirement. He understood that earnings performance fluctuated on an annual basis. He noted that 2014 had been a good year for the fund. He asked for verification that the corpus of the fund was \$45 billion.

Ms. Achee responded in the affirmative.

Representative Edgmon pointed to \$7.8 billion in the earnings reserve. He asked what portion of the figure was required to go towards the PFD and inflation proofing. Mr. Burns replied that under an assumption that the dividend was flat going into the future.

Ms. Achee interjected that the total dividend in FY 14 had been \$1.25 billion. She believed inflation proofing was currently about \$800 million.

Mr. Burns noted that the rate of inflation was determined at the end of December, but it was applied to the fund at the end of the fiscal year. He did not have the figure on hand.

Ms. Achee believed inflation proofing had been running about \$800 million in the past several years.

Mr. Burns surmised that the figure may be \$2 billion.

Representative Edgmon asked for clarification that \$2 billion was [an estimate] of the fund's statutory obligations. Mr. Burns replied that the figure was probably close.

Representative Edgmon asked what a normal earnings year looked like for the fund. He thought the portfolio was impressive and well-diversified.

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Mr. Burns replied that the long-term goal for fund earnings was 5 percent real (after inflation). He expounded that the target was currently a little heftier than most pension funds; APFC was not worried about it because it was not driving a lot of behavior. He stated that it would be different if APFC was a pension fund and the legislature was trying to determine how much to appropriate into the pension based on the 5 percent target.

Representative Edgmon asked for verification that the fund was invested with the goal of long-term returns and performance that was not reactive to events or particular cycle. Mr. Burns agreed that it was the plan. Representative Edgmon noted that APFC was able to inflation proof the fund, maintain the dividend for a population of 641,000 and generate money beyond the requirements. He asked for verification that the APFC board would manage the portfolio in a different way, for different outcomes if some of the additional funds were used for other purposes.

Mr. Burns replied that it would depend on the percent specified if it was for an ongoing program. He detailed that the fund had good liquidity within the fund, but its greatest strength was the ability to investment in long-term. The attributes were quite different; currently he wanted more long-term investment. He did not believe

dedicating a portion for appropriation to the general fund would change the fund strategy dramatically. He discussed the inception of the fund when it had been invested 100 percent in bonds. He believed inflation proofing was one of the smartest decisions the corporation could have made. He believed there was a discussion to be had about whether the fund was inflation proofing by asset allocation with its current asset allocation and asset mix. He questioned whether purely investing in real estate, equities, and other items that should grow with the market was in essence inflation proofing. He believed the question was worth thinking about.

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Representative Wilson pointed to slide 5 and asked what "assigned earnings reserve" meant. Mr. Burns replied that it referred to the earnings reserve; there had been a name change.

Representative Wilson believed that when the permanent fund had been implemented it had been designed to take into account that oil began decreasing in volume as soon as it was developed. She wondered if it had been the original intent for a portion of the fund to be used for general funds in the event that oil went down or ceased. Mr. Burns answered that the ballot proposition that had created the fund had talked about a rainy day account, but it was vague. The ultimate use of the fund had never been entirely determined at its creation. He stated that there was still history to be made regarding the fund's role in a fiscal crisis. There was not a clear road map; the map would be determined by the legislature.

Ms. Achee added that the constitutional language directed that all earnings of the fund go to the general fund. The legislature had changed the requirement in the early 1980s. She elaborated that it was in the scope of the legislature to decide whether or not to appropriate the earnings or to reverse the statutory language.

Representative Wilson referenced the system in Norway. She referred to the pie chart on slide 5 and assumed that the light yellow portion represented the PFD; whereas, the dark yellow portion represented the portion that would have continued to go into the general fund if the law had not been changed [in the early 1980s]. She wondered what the

next year would look like if the money began going into the general fund.

Ms. Achee replied that there were too many variables to provide a "lookback." She stated that APFC could take a look at how taking the \$7.8 billion out of the fund would impact the fund in the coming year; the impact would be significant.

Representative Wilson believed the information would be helpful.

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Representative Gara believed the biggest reason for the earnings reserve was to have sufficient funds for the dividend and for inflation proofing. Mr. Burns agreed that the earnings reserve was used for those items. He did not know if it was specifically the designed purpose.

Representative Gara noted that at present the earnings reserve looked large; however in 2008 and 2009 it had been so small that there had been discussions about potentially needing to use general funds to help pay the dividend. He asked for verification that sometimes the reserve looked too big and other times it looked too small. Mr. Burns agreed.

Representative Gara referred to Mr. Burns' statement that APFC was bracing for a correction in the stock market. He surmised that the earnings reserve would begin to shrink if a stock market correction occurred.

Ms. Achee agreed that the reserve would begin to shrink if a stock market correction occurred and net losses began to be realized. Mr. Burns concurred.

Representative Munoz asked if half of 5 percent of the value of the fund would go to the dividend under the percent of market value theory. She asked for clarification.

Ms. Achee replied that the board's proposal was to go to an average of 5 percent over the market value of several years. She expounded that how the 5 percent would be decided was beyond APFC's scope; it would be for the legislature to decide.

Representative Munoz asked about the 5 percent figure. Ms. Achee explained that it would be 5 percent of the average value over five years.

Mr. Burns elaborated that 5 percent may not currently be the appropriate number as it would have been in past years. He explained that interest rates were much lower than in the past; therefore, 5 percent may be an aggressive number. He stated that the figure would not drive APFC's behavior; however, if it did, the amount would require careful consideration.

Representative Munoz asked if 5 percent would be approximately \$2 billion at present. Mr. Burns replied that it would be \$2.5 billion.

Representative Munoz asked for verification that the amount would cover the PFD and inflation proofing at present. Ms. Achee answered that under a percent of market value proposal by the APFC board, inflation proofing would be eliminated because it would be inherent in the fund's asset mix.

Representative Munoz believed the figure would be approximately equal to the amount currently dedicated to inflation proofing. Mr. Burns replied in the affirmative.

Vice-Chair Saddler stated that there had been various past proposals to make the PFD a constitutional mandate. There was a current proposal as well. He asked if APFC or the board had an opinion on the matter.

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Mr. Burns replied that the board had never taken a position on the issue; its role was to make the investments as prudently as possible. He thought the question would require answers from many players beginning with rating agencies. He elaborated that the rating agencies gave the State of Alaska substantial credit for the permanent fund. He did not know how the agencies would view the fund if it was constitutionally dedicated to the sole purpose of paying dividends. He believed the ratings may not be as favorable. He added that under the current structure the permanent fund could do a lot to help the state if needed. He did not know if the topic was appropriate for the board.

Vice-Chair Saddler wondered which other parties the legislature may want to discuss the issue with. He believed the idea [of a constitutional mandate] was poor.

Mr. Burns replied that he would need to think about it; the rating agencies had come to mind first. He reiterated that rating agencies may not view the permanent fund as favorably if it had one sole constitutionally mandated purpose of paying dividends.

Co-Chair Thompson discussed the schedule for the following day.

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ADJOURNMENT

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The meeting was adjourned at 2:56 p.m.