

SENATE FINANCE COMMITTEE  
February 9, 2016  
9:05 a.m.

[9:05:18 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Peter Micciche, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Angela Rodell, Executive Director, Alaska Permanent Fund Corporation; Valerie Mertz, Chief Financial Officer, Alaska Permanent Fund Corporation.

PRESENT VIA TELECONFERENCE

SUMMARY

^PRESENTATION: ALASKA PERMANENT FUND CORPORATION

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ANGELA RODELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, discussed the history of the ALASKA PERMANENT FUND CORPORATION (APFC), current asset allocation, and mechanics of managing the fund.

Ms. Rodell presented the PowerPoint "Alaska Permanent Fund - Senate Finance Committee, February 9, 2016."

She discussed slide 2, "1969: The debate begins":

Alaska receives \$900 million in Prudhoe lease sale bonuses

Prior year state budget: \$112 million

Ms. Rodell showed slide 3, "1976 voters' guide":

"Alaska's state government [should] set aside a rainy day fund to benefit this and future generations of Alaskans."

Alaska State Chamber of Commerce

Alaska Voters Agreed:

By a margin of 75,588 to 38,518, voters decided to create the permanent fund

Ms. Rodell commented on slide 4, "The Alaska Constitution":

Article IX, Section 15, provides:

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 [Effective February 21, 1977].

Ms. Rodell remarked that the statute establishing the permanent fund was short and straightforward and the more exhaustive rules governing the fund were set in statute.

Ms. Rodell displayed slide 5, "From 1976 to 1980, Alaskans debated the Fund's purpose":

Development Bank or Investment Fund

Ms. Rodell turned to slide 6, "1980: Investment Fund Concept adopted, and with it":

Senate Bill 161

Created the Alaska Permanent Fund Corporation to manage the investments of the Fund, separate from the state's other investments managed by the Department of Revenue. This bill also created a Board of Trustees to oversee the Fund and started the legal list of allowed investments.

Senate Bill 122

Created the Permanent Fund Dividend program.

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Ms. Rodell discussed slide 7, "APFC Board of Trustees":

- Six board members
- Two state members
- Four public members
  - Appointed by Governor
  - Experience in finance, investments, or business management
  - May only be removed "for cause"

Senator Dunleavy referred to slide 6, and wondered whether 1980 was the beginning of the "divergence of ideas" regarding the Permanent Fund (PF) as an investment fund for state spending versus the peoples corporation for the dividend. Ms. Rodell answered in the affirmative. Senator Dunleavy asked whether the original concept to save money included the purpose of the fund. Ms. Rodell shared that in order to get the constitutional amendment passed, the focus was not on how the funds would be spent. Once the decision was made, the debate and conversation with regard to purpose began.

Ms. Rodell moved to slide 8, "Statutory investment rules evolve":

- Evolution from legal list to prudent-investor
- Starting in 2005: "Prudent-investor rule" guides investment of Fund assets
  - Duty of care
  - Duty of loyalty
- The Board will maintain a reasonable diversification of assets

Vice-Chair Micciche noted that the original concept Proposed depositing the earnings into the general fund. He

wondered when the Earnings Reserve Account (ERA) was created. Ms. Rodell specified that the ERA was established in 1983. Vice-Chair Micciche asked whether the investment distribution mirrored that of the corpus. Ms. Rodell answered in the affirmative. Vice-Chair Micciche asked about the logic of segregating the funds. He felt that the action created the "perception" that the corpus was "sacred" versus an account that could be spent for its intended purpose. Ms. Rodell was not sure what the debate was behind the creation of the ERA. She recounted that the ERA was created before the Constitutional Budget Reserve (CBR) and allowed the state to create a "rainy day account." She agreed to provide additional information.

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Ms. Rodell presented slide 9, "Fund Advantages":

Size

- Access to investments
- Ability to negotiate fee savings

Time Horizon

- No set liability

Ms. Rodell commented on slide 10, "Fund Challenges":

Location

- Business travel to financial centers
- Recruitment from financial centers

Flexibility

- New resources often arrive long after they are needed due to lengthy budget process

Staff Size

- Small staff limits bench strength, creates gaps during travel and vacancies

Ms. Rodell discussed slide 11, "Target Asset Allocation," which displayed a pie chart indicating the asset allocation percentages.

Target Asset Allocation:

Bonds 20%  
Stocks 36%

Real Estate 12%  
Special Opportunity 4%  
Private equity 6%  
Infrastructure 4%  
TIPS 2%  
Cash 2%  
Absolute Return 11%

Ms. Rodell displayed slide 12, "Risk vs. Return," which depicted a graph depicting returns versus risks in percentages. She noted that APFC endeavored to balance risk and return when investing and achieved a good balance. The chart demonstrated that if the amount of return chosen was too high, in the area of 8 percent the state carried higher risk volatility.

Ms. Rodell commented on slide 13, "The effect of diversification." She pointed out that the blue lines represented various asset classes and the graph depicted how they performed differently depending on the stock market. She concluded that the overall effect was to create an "all-weather portfolio" and "raise the overall return of the fund."

Vice-Chair Micciche requested Ms. Rodell provide the return with each category of asset allocation. Ms. Rodell agreed to provide the information.

Ms. Rodell displayed slide 14, "Stock Portfolio." She pointed out that as of June 30, 2015 the fund contained \$20.9 billion in stocks. The graphic depicted the breakdown of the stock investments. The heaviest concentration of stocks were in the United States (US) economy. Approximately one third of the stocks were invested in the US market and the remainder was invested globally. The funds were also invested by management strategy; active, passive, and quasi-passive. She noted that the quasi-passive management strategy was unique to Index Funds or Exchange Traded Funds.

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Ms. Rodell discussed slide 15, "Bond Portfolio Composition."

Bond Portfolio Composition

\$11.1 billion as of 06/30/2015:  
U.S. Corporate 48%  
U.S. Treasuries 20%  
Non-U.S. Government 11%  
Mortgage-backed 7%  
CMBS 4%  
Non-U.S. Corporate 10%

Ms. Rodell turned to the pie chart on slide 16, "Real Estate:"

Real Estate

\$6.5 billion as of 06/30/2015  
58 directly held properties  
Exposure to Europe growing

Office 27%  
Industrial 4%  
REITs 20%  
Multifamily 24%  
Retail 25%

[REIT - real estate investment trust]

Ms. Rodell remarked that the corporation's goal was to increase the industrial real estate exposure and reduce the office investments.

Ms. Rodell showed slide 17, which displayed a map of the United States, entitled "APFC Real Estate." The map indicated geographic locations for real estate holdings owned by APFC. The color of the dot reflected the type of property. She revealed that in addition to the property listed on the map, APFC held direct stakes in two real estate operating companies; Simpson Housing and Permanent Fund Share of the Partnership, jointly owned with the state of Michigan Retirement System. The investments were worth approximately \$1 billion. She noted that Simpson Housing owned and operated large multi-family properties across the country. She added that the fund held a 21 percent stake in the publically traded company, American Homes for Rent, which purchased single family homes for rental properties.

Ms. Rodell commented on slide 18, "Tysons Corner Center." She indicated that Tysons Corner Center was a property owned by APFC since 1985. She communicated that the center

was located in Tysons, Virginia and APFC held 50 percent ownership in partnership with Macerich who owned the remaining 50 percent. In 2010, the Commonwealth of Virginia constructed the Silver Metro Line that included a stop at Tysons Corner. Subsequently, the corporation engaged in its first construction project that expanded the property to include a luxury apartment building, a 22 story office building with two anchor tenants; Deloitte and Intelsat. She added that a Hyatt Regency Hotel was also added along with an outdoor plaza. She directed attention to the aerial photograph, which depicted the expansion.

Ms. Rodell displayed slide 19, "Absolute Return:"

Absolute Return

\$5.3 billion as of 06/30/2015

Externally Managed-\$2.5 billion

Internally Managed-\$2.8 billion

Ms. Rodell presented slide 20, "Private Equity:"

Private Equity

\$3.2 billion as of 06/30/2015

2,800 underlying companies

Co-investment program implemented in FY2014

U.S. 67%

Europe 15%

Asia 9%

Other 9%

Ms. Rodell detailed that the co-investment program allowed APFC to co-invest side by side with fund managers in various companies.

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Ms. Rodell continued to slide 21, "Infrastructure Holdings"

Infrastructure Holdings

\$1.5 billion as of 06/30/2015

Transportation 38%  
Energy 50%  
Water & Waste Management 11%

Co-investment program implemented in FY14, currently at \$35 million

Properties in the U.S., U.K., India, Argentina and Canada

Senator Bishop referred to slide 21 asked whether the APFC would be interested in an IPO for the Saudi Arabian company Aramco. Ms. Rodell responded that the corporation looked at many investments, however many factors were considered in order to make a final decision with regard to risks and rewards.

Ms. Rodell moved to slide 22, "Special Opportunities":

- Direct investments in private companies-examples: Juno Therapeutics and Denali Therapeutics
- Direct investments in specialized funds-examples: Dyal and Blackstone funds
- \$1.9 billion as of 06/30/2015

Ms. Rodell explained that Juno Therapeutics was a venture capital investment. The venture was a strategy to fight blood born cancers through cell manipulation. The APFC invested \$129 million in the venture. The biotech venture offered an initial public offering (IPO) in December 2014 and was currently valued in excess of \$600 million.

Ms. Rodell moved to slide 23, "Statutory Net Income:"

Statutory Net Income

Principal (income-producing investments)

Net Income gets deposited into the ERA {Earnings Reserve Account}

Income in ERA available for Appropriation

Ms. Rodell discussed slide 24, "Pro rata share of main fund assets, not cash, are transferred to ERA." She explained that a slice of every investment was assigned a pro rata share each to the ERA and the main fund until it was sold.

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Vice-Chair Micciche asked whether the proportion of unrealized gains mirrored the proportional distribution of the corpus and ERA. Ms. Rodell thought that the distribution was pro rata. She explained that the corpus contained the unrealized earnings for accounting purposes. However, earnings were distributed into the ERA, so unrealized earnings actually belonged to the ERA even though, they were unrealized funds and did not move into the account.

Vice-Chair Micciche asked how Ms. Rodell would describe the liquidity of the ERA. He wondered how a draw on the ERA in order to fund a budget shortfall worked in terms of a cash transfer between the corpus and the ERA. Ms. Rodell explained that the answer was difficult because the situation never happened before and the actual plan was yet unknown. She thought that internal discussions on how the transfers would work were necessary when a plan was developed. Vice-Chair Micciche wondered if APFC was constructing a hypothetical procedure as to how a draw would work to avoid a time lag between the funding request and fund transfer. Ms. Rodell stated that 6 percent of APFCs portfolio was in cash. She referred to the corporation's mandate as producing income and protecting the principle, and suggested that it would be premature to start liquidating investments without a specific plan for the ERA in place. She asserted that management and coordination of the draws needed to happen between APFC, the Department of Revenue (DOR), and the Office of Management and Budget (OMB) in order to avoid a cash drag on investment income. She informed the committee that 3 percent of the fund (over \$3 billion) was in cash and 60 percent of the fund was in liquid investments (stocks and bonds).

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Vice-Chair Micciche clarified that he was not suggesting liquidating assets in preparation of an unknown amount, but was curious if APFC was thinking about a future potential draw.

Co-Chair Kelly wondered whether there was a need for emergency provisions to allow the corporation flexibility to produce funds in case a lag time occurred.

Co-Chair MacKinnon asked whether it was fair to say that APFC was monitoring the situation and currently working under existing statute. Ms. Rodell answered in the affirmative. She specified that none of the holdings had been shifted to cash in any way in anticipation of action by the legislature. The amount of 6 percent cash was the standard for the previous 6 years.

Ms. Rodell showed slide 25, "Fund breakdown:"

ERA \$7.2 (\$6.6 deposits, \$1.1 unrealized gains)

Principal \$45.6

- \$39.2 in deposits
- \$6.4 unrealized gains

Ms. Rodell referred to the realized versus unrealized gains on the chart.

Ms. Rodell commented on slide 26, "Statutory Net Income" and explicated that the chart portrayed the realized net income and realized returns (listed as a percentage over the last ten years) for fiscal years 2005 through 2015. She pointed to the losses in 2009.

Ms. Rodell moved to slide 27, "Use of Realized Net Income:" She highlighted that the pie chart illustrated the distribution of realized income as follows:

General fund \$536.3 million

Dividend appropriations \$23,002.7 billion

Inflation proofing transfer to principal \$16,236.4 billion

Special appropriations to principal \$4,340.3 billion

Undistributed realized income balance \$6,146.5 billion

Ms. Rodell remarked that the undistributed realized income was deposited into the ERA.

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Ms. Rodell presented slide 28, "Inflation proofing."

Inflation proofing

- Provides a deposit back to corpus
- Maintains purchasing power of corpus
- Added \$16.2 billion to corpus

- Based on value of corpus on June 30 and inflation rate for prior two calendar years

Fiscal Year	Transfer
2005	\$641
2006	\$856
2007	\$860
2008	\$808
2009	\$1,144
2010	\$0
2011	\$533
2012	\$1,073
2013	\$743
2014	\$546
2015	\$624

Ms. Rodell explained that inflation proofing provided a deposit to the corpus of the fund. She noted that in FY 16 the total amount of inflation proofing was \$47 million due to a low inflationary environment. She used a hypothetical situation to illustrate inflation-proofing. She offered that if the Tyson's Corner investment was purchased for \$10 million and grew to \$200 million today and was sold, the \$190 million in earnings would be deposited into the ERA. She deemed that even though the value increased despite inflation all of the realized earnings were deposited into the ERA and inflation proofing appropriations allowed the corpus of the fund to "recognize some of that wealth effect from making the investment and grow the corpus of the fund." She voiced that the only way for the corpus to build up wealth was through inflation proofing appropriations.

Ms. Rodell displayed slide 29, "Money in and out, and current value:"

\$39.2 billion Deposited into Principal  
 \$45.6 billion Market Value of Principal  
 \$52.8 billion Total Fund Value 6/30/15

Ms. Rodell emphasized that even after paying out a total of over \$20 billion in dividends the fund still grew.

Ms. Rodell discussed slide 30, "The Income-Producing Blueberry Pie:"

- Assume the basic following facts:

- Fund buys blueberry pie for \$20
- Earnings reserve reflects 25% of total fund
- So, \$20 pie was funded with

- \$15 of principal, and
- \$5 of earnings

Ms. Rodell remarked that the following 5 slides illustrated a hypothetical investment in a pie to explain the distribution of funds with gains and losses within the Permanent Fund.

Ms. Rodell continued to slide 31, "Capital Appreciation":

- Assume a horrible storm destroys most of existing blueberry stock
  - Supply goes down, but demand is static
  - Value of our pie appreciates from \$20 to \$40
    - Principal's share now worth \$30 (initial cost \$15)
    - Earnings reserve share now worth \$10
  - But, unless we sell (realize) a portion of the pie,
    - The increased value reflects unrealized gain, not statutory net income
    - No income is transferred from principal to earnings

Ms. Rodell continued on slide 32, "Harvesting Gains":

- Assume we learn blueberry supply will recover in 6 months and our unrealized gains will disappear
- So, we sell the whole pie for \$40
  - \$15 remains in principal to cover its cost
  - \$15 realized gain is transferred to earnings reserve
  - Earnings reserve now has \$25
    - \$5 original cost
    - \$5 of its realized gain and
    - \$15 of realized gain from principal

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Ms. Rodell moved to slide 33, "Capital Depreciation":

- Assume a health report comes out announcing that blueberries cause insomnia

- Demand for our pie is decreased and the value drops from \$20 to \$12
  - principal investment is valued at \$9, reflecting unrealized loss of \$6
  - Earnings investment is valued at \$3, reflecting unrealized loss of \$2
- Should we sell or hold?

Ms. Rodell presented slide 34, "Realizing Losses":

- Assume we conclude demand will continue to erode, making it prudent to cut our losses
- So, we sell the whole pie for \$12
  - \$12 is returned to principal from sale proceeds
  - \$3 is moved to principal from earnings reserve
  - Leaving earnings reserve with a loss of \$8
- Note: with a long-term time investment horizon, this activity is rare (example-2009)

Ms. Rodell discussed slide 35, "ERA Going Forward":

- Liquidity Consideration:
  - Some APFC asset classes, like private equity, are illiquid, making a portion of the ERA illiquid
  - Yet all of the ERA is "available for appropriation"
- Volatility Consideration:
  - Permanent Fund and ERA are subject to ups and downs experienced by capital markets
  - Going forward, is a long-term time horizon for ERA workable?

Senator Bishop asked whether the ERA "acted like a shock absorber" in the hypothetical case of the blueberry pie. Ms. Rodell replied in the affirmative.

Co-Chair MacKinnon interjected that the fictitious example demonstrated how the unrealized gains and losses were reflected in the corpus and ERA.

Ms. Rodell discussed slide 36, "ERA Going Forward":

- Counterweight:
  - Net Income in ERA is immediately invested alongside main fund

- allowing the nominal value of this income to remain deployed and continue earning income until it is appropriated
- Over the last ten years, the Fund's annualized return was 6.4%
- Can we have our cake and eat it too?

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Co-Chair MacKinnon asked about inflation proofing, and referred to slides 11, 28, 13. She referred to the ERAs description as a "cushion" that could be used to help fill revenue shortfall. She mentioned the governor's proposal to utilize the state's assets to help guide the state through the fiscal challenge. Co-Chair MacKinnon referred to slide 11, and agreed that the asset diversification was protecting the corpus of the fund. She asked how the asset allocation, inflation, and the "cushion" intersected in relation to legislative considerations on use of the funds. She asked what the finance committee should consider when discussing the issue. Ms. Rodell wanted the committee to consider the recognition that there was an "inherent conflict" within the fund. She recounted that the constitutional amendment was written in 1976 and was a simple directive. She compared the time under which the fund was established, with the current time when the fund was investing world-wide and was highly diversified, which resulted in minimized risk and highest returns. She wondered how it was possible to grow the wealth of the corpus of the fund if all of the income from the fund was deposited into the General Fund (GF). She thought the policy call for the committee was how to continue to grow the wealth of the fund, if the oil revenues continue to decline, and inflation proofing and other deposits into the corpus were halted. She reported that "there was no natural mechanism under the constitution for the wealth of the fund to grow the corpus." She cited that the challenge was that all of the gain of the fund was available for appropriation via the ERA. She suggested that changes to the asset allocation may be required for liquidity and volatility needs depending on the plan chosen to utilize earnings. She posited the crucial question back to the committee of "how do you want the wealth of the fund to grow in the future."

9:55:12 AM

Co-Chair MacKinnon asked whether the board still had an "active resolution for the support for an endowment approach for the payout" as a percent of market value (POMV). She referred to her service on the Anchorage Assembly and shared an example of decisions regarding a windfall from the sale of a utility and trusting the advice from the APFC on how to invest it as a POMV. She wondered whether the POMV or an annual percentage payout was still an active resolution of the board. Ms. Rodell responded in the affirmative and detailed that the active resolution was in support of a 2003 proposed Board of Trustees constitutional amendment that would "simplify" the current language from "all income" to "a POMV transferred over." She clarified that the resolution's purpose eliminated the "concept of realized, unrealized, and inflation."

Senator Olson referred to slides 26 and 28, and understood that inflation proofing was based on a two year average. He pointed to the negative realized return and the high inflation proofing allocation of \$1.1 billion for 2009, and asked for clarification. Ms. Rodell specified that slide 26 depicted the actual realized losses on investment income and slide 28 reflected the change in inflation rates over two years, which drove the inflation proofing appropriation.

Vice-Chair Micciche discussed the events in 1983 and wondered why APFC did not include language that provided for a level of corpus growth versus "all funds." He thought it would be interesting to listen to the transcripts of discussions at the time. Vice-Chair Micciche asked what kind of philosophy was put in to place to ensure growth of the corpus using a POMV approach. Ms. Rodell thought that one of the unintended consequences of inflation proofing was how much it added to the value of the corpus. She voiced that the legislature had the authority to create a mechanism to grow the corpus. She opined that the challenge of placing funds into the corpus was that only the earnings were available and not the face value of the appropriation.

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Co-Chair MacKinnon discussed Standard and Poor's downgrade of the state's credit rating from AAA to AA+. She referred to the rating agency's document suggesting that to follow the governor's spending plan the corpus would need to amount to \$100 billion. She had asked the Department of

Revenue what the plan was to raise sufficient funds to maintain current spending. She wondered whether there was a way to try to raise the state's assets to \$100 billion to sustain the current level of services in the state. Ms. Rodell stated that APFC was looking at all the proposed plans, and examining models during a February 19, 2016 meeting. She detailed that the Board of Trustees would be meeting and the premise of the discussion was for the board to understand the proposals and consider whether management adjustments were necessary for the ERA. She referred to state statute which dictated management of the ERA in the same manner as the corpus and needed a direction change from the legislature to revise management of the account.

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Co-Chair MacKinnon clarified that she had not engaged in discussions regarding the issues with Ms. Rodell at any time prior to the meeting. Ms. Rodell affirmed the statement. Co-Chair MacKinnon pointed out that Ms. Rodell had the "privilege" of managing a fund that had been well managed and non-political. She wondered whether there was a way to grow the fund to \$100 billion and maintain the status quo budget and services, without cuts or taxes. She requested that the board seriously consider the idea and offer guidance and expertise as financial managers to the legislature. Ms. Rodell maintained that the Board of Trustees recognized that its main priority was to manage the corpus of the fund and purchase income producing assets to maximize income and protect the fund. She reiterated that the board would "wrangle" with the question of whether any plan adopted by the legislature would require different management of the ERA.

[10:07:56 AM](#)

Co-Chair MacKinnon stated that she chaired the Senate Finance Subcommittee on DOR. She relayed that previous APFC directors and DOR commissioners "asserted" that by managing state assets "in-house" greater returns would be realized through gains and cost savings on managing the funds. She suggested that the APFC manage all of the state's assets in order to maximize returns. She observed that DOR and APFC managed that state's assets and at times DOR had exceeded the APFC but typically the Permanent Fund had greater earnings. She wondered whether all of the state's assets should be "consolidated" and managed by the APFC in order

to gain greater returns for the state. She reminded the committee that Ms. Rodell was the previous commissioner of DOR.

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Ms. Rodell relayed that she had not discussed the idea of consolidation with the Board of Trustees, and did not have an idea of how the board would respond. She continued that the corporation currently managed some funds for the Alaska Mental Health Trust Authority (AMHTA) and revealed that a statute allowed DOR to turn over any of the state's assets to APFC for management.

Vice-Chair Micciche referred to the fund as a "shock absorber" in times of commodity price volatility and thought that inflation proofing's purpose was maintaining the proportional value of the fund in 2036 at its current value. He hoped that the fund was not being viewed as a primary funding source for government, but as a shock absorber for revenue downturns. He voiced that without budget reductions the state did not have enough assets to fund government.

Co-Chair MacKinnon reiterated that the state needed \$100 billion to maintain the governor's spending plan as indicated in the Standard and Poor's report. She believed that spending reductions were necessary. She hoped that the administration would look at the Standard and Poor's conclusions.

Senator Bishop thought that there was "a point of no return" with budget reductions in a low oil market. He believed that revenue generation was necessary at some point.

[10:15:18 AM](#)

Co-Chair MacKinnon referred back to slide 9, and noted the advantages of the size of the fund and no time horizon. She wondered whether the state should adopt a fiscal plan to include some use of the corpus and earnings in support of the government via a fixed draw or a POMV. She asked whether Ms. Rodell could suggest any considerations beyond the size of the fund and the time horizon when discussing the governor's fiscal plan. Ms. Rodell thought that the time horizon was important as a continued advantage for the

corpus. She reminded the committee that currently each investment was purchased with the corpus along with a share for the ERA. She continued that if the ERA had a limited time horizon in the future, under current statute, it was possible to use a different asset allocation for the ERA and manage it separately from the fund. She indicated that the corpus of the fund's advantages would remain with any changes to the ERA management.

Co-Chair MacKinnon referred to slide 10, and related that she had heard past leadership of the fund express challenges. She wondered if there would be an advantage or disadvantage to having a satellite office outside of Alaska, and wondered if the board had considered the idea. She recounted that during examination of the DOR budget, she discovered the challenges of filling the corporation's investment positions. She discussed hiring challenges, and wondered if a different location would make the jobs easier to fill or whether it was advantageous to keep the investors in Alaska.

10:20:07 AM

Ms. Rodell relayed that the APFC had received four positions in the FY 16 budget, of which three were investment staff and all were filled with "good talent." She reported that satellite offices were a topic of discussion and relayed that the board had mixed feelings. She was unsure of the current board's position. She noted benefits of satellite offices. She shared her concern that staff located in offices in the Lower 48 may not understand the culture of the fund and its place in the state of Alaska. She believed it was an investment fund owned by the state and she would only allow transfers of seasoned investors who understood the culture and value of the fund to Alaskans to staff a satellite office. She spoke to the increased costs of operating offices in remote locations like New York City and San Francisco. She thought that part of the board's reticence over satellite offices was not gaining approval from the "oversight bodies" of the fund. She spoke to the benefits of utilizing communications technology.

Vice-Chair Micciche asked whether external management was more cost effective and if the corporation was "shifting" towards more external reliance. Ms. Rodell related that internal management was increasing in various asset classes

and began in fixed income assets and spread to some real estate and private equity infrastructure investments. She continued that the externally managed portfolio was primarily in the equity portfolio. She added that more passive strategy management was performed in-house. She relayed that external management brought benefits such as staff capabilities and research that the corporation could not perform. The corporation measured the value of external management by the return and to the extent that in-house management could do as well or better, than the focus would shift to in-house management.

[10:26:29 AM](#)

Co-Chair MacKinnon referred to slide 14, and asked Ms. Rodell to discuss the passive and active management of assets. Ms. Rodell explained that active management included buy and sell decisions based on their observations of companies strategies and performance and moved stocks in and out the portfolio. A passive strategy could be considered rules-based; a well-known passive strategy was to invest in something like the S and P 500 index fund. She continued that a quasi-passive approach was in-between passive and active and employed the consideration of "certain factors" to inform the rules under which investments were bought and sold.

VALERIE MERTZ, CHIEF FINANCIAL OFFICER, ALASKA PERMANENT FUND CORPORATION, stated that she was available to provide historical information or information regarding the mechanics of the fund.

[10:29:33 AM](#)

Senator Bishop asked for the time and location of the next board meeting. Ms. Rodell stated that the board meeting was being held at 1:00 PM [February 19, 2016] at the Atwood Building in Anchorage, Alaska.

Senator Bishop asked whether the meeting was open to the public. Ms. Rodell stated that the meeting was completely open to the public.

Co-Chair MacKinnon discussed the schedule.

#  
ADJOURNMENT

10:31:03 AM

The meeting was adjourned at 10:31 a.m.