

SENATE FINANCE COMMITTEE
January 31, 2020
9:01 a.m.

[9:01:03 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Donny Olson
Senator Bill Wielechowski

MEMBERS ABSENT

Senator Lyman Hoffman
Senator David Wilson

ALSO PRESENT

Angela Rodell, Executive Director, Alaska Permanent Fund Corporation; Senator Cathy Giessel.

SUMMARY

^ALASKA PERMANENT FUND CORPORATION

[9:03:01 AM](#)

ANGELA RODELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, introduced herself. She stated that she had been in her position since fall of 2015, and had been in Alaska since 2011. She introduced some members of her staff. She introduced Mr. Frampton and Mr. Vadakumcherry.

Co-Chair Stedman suggested that the slides take up approximately 75 minutes.

[9:05:12 AM](#)

Ms. Rodell discussed the presentation, "Senate Finance Committee; APFC and The Alaska Permanent Fund" (copy on file). She looked at slide 2, "1969":

Alaska receives \$900 million in Prudhoe lease sale bonuses.

FY70 state budget: \$173 million.

Ms. Rodell discussed slide 3, "The Alaska Permanent Fund":

1976 Alaska voters approve a Constitutional Amendment establishing the Permanent Fund.

1977 Permanent Fund receives its first deposit of constitutionally dedicated oil revenues, \$734,000.

1980 The Alaska Permanent Fund Corporation is established to manage and invest the Fund.

2020 The Fund now has over \$66 billion in assets under management.

Ms. Rodell highlighted slide 4, "APFC - 40 Years":

Forty years ago, on April 8, 1980

□ Governor Jay Hammond signed SB 161 into law, establishing the Alaska Permanent Fund Corporation as an independent state entity tasked with the management and investment of the Alaska Permanent Fund.

Today

□ APFC is a talented, award-winning, investment firm that embodies the resiliency, integrity, and pioneer spirit of Alaska.

□ The influence of our dynamic, Alaskan corporation extends around the world based on APFC's practices of good governance, transparency, and a long-term investment horizon.

Ms. Rodell highlighted slide 5, "Generating Revenue for AK":

As stewards of the Alaska Permanent Fund, our team possesses the skill and efficiency to ensure that Alaskans benefit from this resource for generations to come.

APFC's Mission

To manage and invest the assets of the permanent fund and other funds designated by law.

APFC's Vision

To deliver sustained, compelling investment returns as the United States' leading sovereign endowment manager, benefitting all current and future generations of Alaskans.

APFC's Values

Integrity - Stewardship - Passion

Ms. Rodell discussed slide 6, "Number 1 Source of Revenue." She remarked that the slide was from the Fall Revenue Forecasts from FY 15 to FY 19, and it showed that the Permanent Fund was the number one source of revenue for the state.

Co-Chair von Imhof noted that the light blue portion was the investment income.

Ms. Rodell replied in the affirmative, and stated that it was the POMV calculation.

Co-Chair Stedman asked for a definition of POMV.

Ms. Rodell replied with slide 7, "POMV -AS 37.13.140 (b)":

Percent of Market Value (POMV)

Draw of the average market value of the Fund for the first five of the preceding six fiscal years, subject to annual appropriation by the Legislature.

5.25 percent - Effective July 1, 2018 (FY19)

□ FY19 5.25 percent POMV = \$2.7 billion

- FY20 5.25 percent POMV = \$2.9 billion
- FY21 5.25 percent POMV = \$3.1 billion

5.0 percent - Effective July 1, 2021 (FY22)

- FY22 5.0 percent POMV = \$3.1 billion
- FY23 5.0 percent POMV = \$3.3 billion
- FY24 5.0 percent POMV = \$3.4 billion

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Senator Bishop looked at page 6, and noted that the state did better than ExxonMobil year after year on profit.

Ms. Rodell highlighted slide 9, "Investment Responsibilities AS 37.13.120":

When adopting regulations or managing and investing fund assets, the prudent-investor rule shall be applied by the corporation. The corporation shall exercise the judgment and care that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the designation and management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering preservation of the purchasing power of the fund over time while maximizing the expected total return from both income and the appreciation of capital.

The corporation may not borrow money or guarantee from principal of the fund the obligations of others. Except the corporation may, either directly or through an entity in which the investment is made, borrow money if the borrowing is nonrecourse to the corporation and the fund.

The board shall maintain a reasonable diversification among investments unless, under the circumstances, it is clearly prudent not to do so. The board shall invest the assets of the fund in in-state investments to the extent that in-state investments are available and if the in-state investment provides the same risk-reward benefit as other investment opportunities.

Ms. Rodell addressed slide 10, "Historical Asset Allocation based on actuals." She explained that the asset allocation had changed due to many different factors. She noted that it showed that the corporation was responding to many different economies, and bring those returns back to the state. She remarked that the state had one of the most diverse sets of economies of any state. She felt that there was a resilient asset allocation that could withstand many volatilities within the market.

Ms. Rodell displayed slide 11, "Allocation Structure":

- The asset allocation structure is organized by growth and income strategies, as well as liquidity objectives.
- This strategic categorization provides a framework for ensuring that investment return targets are commensurate with the risks undertaken.
- The Board of Trustees reviews the Asset Allocation annually.

Ms. Rodell looked at slide 12, "Management of the Fund":

The Board of Trustees continues to work towards an optimal mix of in-house versus external management capabilities based on resources and opportunities.

In-House Management Allows for:

- Alignment of investment goals and mandates
- Increased flexibility in timing/tactical decisions
- Lower fees with investment benefit of active management

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Ms. Rodell addressed slide 13, "Management of the Fund by Asset Class":

Internal Management

Public Markets -APFC investment staff directly buys and sells the publicly traded securities.

Private Markets -APFC investment staff directly conduct the investment and legal due diligence for the fund or investment and make the decision to invest.

Ms. Rodell looked at slide 14, "Awards and Accomplishments":

- Angela Rodell, CEO ranked in the Top 5 of Sovereign Wealth Quarterly's 100 Most Significant and Impactful Asset Owner and Public Executives of 2019.
- Marcus Frampton, CIO named one of Private Equity International's 40 under 40 Future Leaders of Private Equity and Trusted Insight's Sovereign Wealth Fund CIO of the Year for 2019. Recognized amongst CIO Magazines' Power 100 of 2019 and for their 2019 Industry Innovation Awards.
- PEI's Private Debt Magazine recognized APFC in their inaugural 30 Most Influential Investors in Private Credit for our internal management team's pioneering contributions in this asset class.
- Chad Brown, Human Resources Manager was accepted into Forbes Human Resource Council.
- Tom O'Day, Portfolio Manager - Fixed Income, selected by Chief Investment Officer Magazine for their Class of 2019 NextGen Award.
- Steve Moseley, Director of Alternative Assets was recognized as one of the 2018 Top 30 Private Equity, Venture Capital Investors by Trusted Insight.
- The Alaska Permanent Fund selected as North American Limited Partner of the Year for 2018 by Private Equity International for the second year in a row.
- APFC received dual nominations for 2018 Partnership of the Year for Institutional Investor's Allocators' Choice Awards and won the award for our Capital Constellation Partnership.

Ms. Rodell looked at slide 15, "Global Diversification as of June 30, 2019." She noted that the map showed the

locations of investments around the world. She stressed the importance of the work outside of Alaska, and that the money was brought back to the state.

Ms. Rodell discussed slide 17, "Fiscal Year 2019 Performance as of June 30, 2019." She stated that many of the strategies were not designed to be daily strategies, but rather were intended for success over a period of time. She noted the difference in return between the one-year and three-year terms. She stated that the first benchmark was the Passive Index Benchmark.

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Co-Chair von Imhof noted that APFC exceeded all of its benchmarks. She appreciated the efforts.

Senator Wielechowski wondered whether there were any lessons to be learned or mistakes.

Ms. Rodell responded that there was a tilt toward non-US funds, so emerging markets did not fair as well. She shared that looking at the S and P 500, and the effect of Facebook, Netflix, Google and other stocks showed great outperformance. She stressed that moving away from those stocks would not yield as good of a result. She shared that the real estate portfolio was in the process of being rebuilt after a major sale of an asset. She felt that as the staff continued to work through the portfolio, it considerably lagged its performance benchmark. She announced that there was an expectation that it would turn around. She stressed that the board had spent time looking into that portfolio.

Senator Wielechowski felt that the private equity had grown, and wondered what investments were being made and what how it was different than investment in the stock market.

Ms. Rodell replied that private equity had gained traction by institutional investors recently. She stated that it could run from U.S. insurance companies to European retail. She explained that private equity was about finding the companies that were privately held that may have an opportunity for additional capital or scale their operations. She stressed that going public may not be the

right avenue. She stated that it allowed for tapping into a market that may not otherwise be accessible.

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Senator Wielechowski queried the returns in private equity. He asked for information about investment in Alaskan companies.

Ms. Rodell replied that it was a \$200 million mandate. She stated that \$100 million was awarded to Barings, who had tremendous experience in building instate programs across the country. She announced that \$100 million was awarded to McKinley Capital, who understood the opportunities in Alaska. She stated that there were no draws on those amounts. She explained that APFC did not have veto power in those agreements. She understood that they were seeing some interesting things across the state that might surprise Alaskans. She explained that many people thought of investments in rail lines or pipelines and other major infrastructure projects. She announced that there were many smaller opportunities in the information space and alternative energy.

Senator Wielechowski queried the performance of private equity.

Ms. Rodell replied that APFC had traditionally gotten into double digits.

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AT EASE

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RECONVENED

Ms. Rodell looked at the one-year return, which was 17.6 percent. The three-year return was 22.8 percent.

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Senator Wielechowski looked at slide 10 and queried the performance of infrastructure and asset allocation.

Ms. Rodell noted that monthly performance reports were on the website. She explained that infrastructure was investing in things like ports, toll roads, and utility

systems. She shared that there was exposure to those systems around the world. She announced that the infrastructure returns for one year were 7.4 percent; for three years 15.1 percent; and for five years 16.4 percent. She explained that they provided regularized income similar to real estate. She stated that asset allocation was a "catch all" for all other individual asset classes. The asset allocation may manage cash, foreign currency exposure, or liquidity exposure. She explained that asset allocation was also the location of the risk parody investment. She stated that it must have an outlook over the total fund versus any specific type of asset. She announced that the returns for one year was 9 percent; for three years was 2.8 percent; and for five years was 2.5 percent. She remarked that the bond market was reflective in that portfolio.

Ms. Rodell highlighted slide 18, "Fund Value and Returns in millions."

1977 Initial Legislation permitted an investment list that included only fixed income securities such as treasury bonds.

1983 Following changes to the statutory investment list, the Fund makes its first investment in the stock market, and later that year, indirectly held real estate.

1990 After the Legislature expands the statutory investment list, the Fund begins to invest in stock and bond markets outside the United States.

2005 The Legislature makes a significant change in how Permanent Fund investments are determined, by removing the allowed investment list from state law. The Trustees will make investment decisions under the guidelines of the prudent investor rule.

Ms. Rodell addressed slide 20, "Future Growth of the Fund - 10 Year Capital Markets Forecast":

□ For planning purposes, APFC references both a current fiscal year and a 10-year forecast for the projected return of the Fund that is provided by our performance consultant, Callan Associates.

□ It is understood that there will be a wide range of returns delivered by each asset class to the total Fund performance over any given time.

□ Callan Associates projects a total return of 7 percent over the next 10-year period for the portfolio that APFC has constructed for the Fund.

□ They also project an inflation rate of 2.25 percent over that same period, which brings the real return for the portfolio to 4.75 percent over the 10-year period from FY21- FY29.

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Senator Wielechowski wondered whether APFC changed its investing philosophy now that the government was using a significant amount of the ERA. He wondered whether the investments were more conservative.

Ms. Rodell replied that there was no change in the investment strategy. She explained that it was a constant topic at the most recent board meetings because the trustees were focused on that issue. She shared that there was a tremendous amount of work to inform the board on taking risk adjusted returns. She announced that approximately \$49 billion would be in the corpus of the fund and must be invested in perpetuity. She shared that there was an effort to balance the long-term requirement with the short-term need was the focus of the board.

Co-Chair Stedman felt that Senator Wielechowski's questions could be addressed later in the presentation.

Ms. Rodell highlighted slide 21, "Callan's Capital Markets Forecast." She noted that no single asset class was expected to return double digits over the next ten-year period. She explained that the annualized standard deviation showed the difference around the returns. She looked at the cash equivalence, which was only expected to vary plus or minus 0.9 percent.

Ms. Rodell pointed to slide 22, "Projections FY 20 excerpt from APFC's History and Projections as of December 31, 2019." She announced the low expected return of negative 0.52 percent. She explained that adding the effective inflation would result in a total return of negative 0.52

percent. She shared that there was a tendency to use the mid, which was 6.61 percent, with inflation would be slightly above 5 percent. She shared that it was only a coincidence that both the total return and the statutory return were the same.

Ms. Rodell discussed slide 23, "History and Projections - Dec 31, 2019":

The Fund is projected to have a balance of \$84.6 Billion at the end of FY29.

- This projection assumes the 7 percent total return over ten years, and
- Adherence to rules-based deposits into and withdrawals from the Fund.

Royalty Deposits - AS 37.13.010 (a) (1) and (a) (2)

- Constitutional minimum of 25 percent
- Statutory 50 percent for leases after 1979

Inflation Proofing -AS 37.13.145 (c)

- Annual CPI calculated on the Principal Amount

POMV - AS 37.13.140 (b) and AS 37.13.145 (e) and (f)

- (e) The legislature may not appropriate from the earnings reserve account to the general fund a total amount that exceeds the amount available for appropriation under AS 37.13.140(b) in a fiscal year.

- (f) The combined total of the transfer under (b) of this section and an appropriation under (e) of this section may not exceed the amount available for appropriation under AS 37.13.140(b).

Co-Chair Stedman felt that the committee was interested in following the guidelines of the royalty contributions.

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Ms. Rodell looked at slide 24. She stated that the slide included the actual POMV calculations for both FY 20 and FY 21.

Co-Chair Stedman remarked that the information was available on the website, which was updated monthly. He

shared that in the year prior, \$4 billion was added to the corpus. He stated that there was also language to ensure that the contribution was for forward inflation proofing. He requested a perspective on the buildup of the ERA, because there was some interest in doing another contribution from the ERA to the corpus to protect it from legislative appropriations.

Ms. Rodell noted the yellow highlighted bars on slide 24. She explained that it showed the low, mid, and high cases, which were the rates of returns from the previous slide. She explained that the mid case expected that by the end of the fiscal year there would be a balance in the principal of the fund of approximately \$53.4 billion.

Ms. Rodell discussed slide 26, "The Alaska Constitution":

In 1976, Alaskans voted, 75,588 to 38,518, in favor to amend the Constitution of the State of Alaska and created the Alaska Permanent Fund.

Alaska Constitution Article IX, Section 15
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.

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Ms. Rodell addressed slide 27, "Renewable Resource." She shared that every year there was an attempt to create a graphic to show how the funds were interacting and how the money was moving through the fund. She noted that money came in, was invested, there were unrealized gains associated with the principal, money moves into the ERA from gains, expenses were paid, percent of market value was paid, and then reinvest whatever is left behind.

Co-Chair von Imhof noted the separate smaller circle for the ERA. She queried any other fund in the world that had a separate earnings reserve account utilized for draws. She wondered whether the ERA was unique to the Alaska Permanent Fund.

Ms. Rodell replied in the affirmative. She stated that the constitution was written as such.

Co-Chair von Imhof felt that most endowments, foundations, and sovereign wealth funds had only one large fund that was managed as a whole; and then manage the assets to provide the funding throughout the year for their 5 percent draw.

Ms. Rodell agreed, and furthered that most endowments and trusts had one pool of money with a spend limit. She stated that there was no opportunity to affect change on the POMV distribution.

Co-Chair Stedman noted that the Alaska Mental Health Trust fund did not have an earnings reserve. He explained that they did 4.25 POMV.

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Co-Chair von Imhof felt that an ERA of over \$14 billion in potential vulnerability to be accessed, thereby taking a quarter of the fund pretty quickly. She felt that folding the ERA into the corpus would protect the corpus and the fund over time.

Ms. Rodell replied in the affirmative. She stressed that the challenge with the ERA was that it was a unique feature due to the constitutional language.

[9:50:51 AM](#)

Co-Chair Stedman he stressed that there were conflicting statutes with the statutory dividend versus the maximum draw of POMV that would be addressed until resolution.

Senator Wielechowski wondered whether work would be made easier if the ERA were folding into the corpus via constitutional amendment, and there were constitutional provisions for the PFD and a valve for government.

Ms. Rodell responded that their job was to invest the fund, so she did not know if it would make their job easier. She stressed that the challenge came with reconciling the investment strategies with the intent of the ERA. She explained that the board supported a POMV and eliminating the concept of income versus the rest of the fund. She remarked that it would not affect the work, but that one fund would make it cleaner.

Co-Chair von Imhof surmised that the board was more interested in the amount of the draw versus what the legislature did with the money.

Ms. Rodell agreed, and furthered that it reduced appropriation risk with inflation proofing and did many things to create the one fund. She stressed that the intent of the board was to build a robust asset for all generations of Alaskans.

Ms. Rodell highlighted slide 28, "Contributions to Principal in millions." She stated that it was the largest deposit in the history of the fund. She noted the influx of the royalties and the contributions by inflation proofing. She noted that in 2010, inflation was flat, so there was no inflation proofing. She remarked that in 2016, 2017, and 2018 there was no appropriation for inflation proofing. She thanked the legislature and governor for that contribution.

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Co-Chair Stedman stated that there was a symbolic presentation with a large cardboard check that would be presented to Ms. Rodell.

Co-Chair von Imhof presented a large check to Ms. Rodell.

Co-Chair Stedman stressed that the committee spent time on problematic issues.

Ms. Rodell agreed, and noted the debate about the challenge of the budget. She applauded the committee for their actions.

Senator Bishop stressed that the legislature put \$7 billion above and beyond, not including the recent deposit.

Co-Chair Stedman remarked that the legislature had not historically drawn out the 50 percent portion over time, which made a significant impact.

Ms. Rodell discussed slide 29, "Values in billions - as of December 31, FY20 Q2." She announced that the ERA had \$7.5 billion in realized earnings, which was available for appropriation. She furthered that there was an unrealized gain of an additional \$2.7 billion. She shared that \$3.1 billion was set aside for the FY 21 POMV. She announced that the \$4 billion principal contribution was set aside, and it was required to come at the end of the fiscal year. She stated that inflation proofing was marked based on actual inflation.

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Co-Chair Stedman remarked that there was a concern about the breach of PFD appropriation. He requested help in reviewing the ERA, because there would be a discussion about an additional deposit into the constitutionally protected portion. He noted that the board was not taking into account politics in the portfolio mathematics. He noted that the board might feel that the fund should carry a larger ERA than the Senate Finance Committee.

[10:05:31 AM](#)

Co-Chair von Imhof noted the POMV on the slide. She surmised that the POMV was moved to the general fund on a periodic basis. She noted that the CBR was approximately \$2 billion. She remarked that an upcoming supplemental budget might draw on the CBR slightly. She wondered whether there were conversations between APFC and the managers of the general fund to change the cadence of the frequency of the POMV. She queried the need for cash sooner than the schedule.

Ms. Rodell replied that there was close work with the Treasury Division in DOR. She stated that the DOR website had all the cash draws as needed. She shared that the first year, FY 19, there was a significant delay in the draw due to a cash flow issue. She explained that a quarterly schedule was the initial setup. She stressed that the PFD would not be a part of this aspect of the discussion. She shared that the agreement stated that the schedule could be decelerated or accelerated. She noted that there was a

large transfer at the end of FY 19. She remarked that FY 20 showed the opposite, so there was more of an acceleration of the use of that money. She deferred to the Treasury Division to inquire about the reason for that issue. She stated that the Treasury Division had used approximately \$2.4 billion of the \$2.9 billion for FY 20 thus far.

Co-Chair Stedman felt that a conversation with the Treasury Division was important because a proposed budget would take the balance of the CBR from \$2 billion to around \$500 million depending on performance and supplemental requests. He stressed that it would be a significant erosion of its value.

Ms. Rodell explained that the \$2.4 billion included a \$1 billion payout for the PFD in October.

Co-Chair Stedman understood and stressed that it was examined in the entirety. He explained that the Treasury Division and APFC worked out the logistics.

[10:10:24 AM](#)

Co-Chair von Imhof stressed that the CBR was meant to be a short-term daily source and revenue payback. The ERA was a long-term fund. She stressed that there was no desire for the ERA to become the short-term cushion for the general fund. She stressed that the short-term cushion was the CBR, because it was invested differently. She felt that the investment numbers could decrease if the ERA became a short-term solution. She wanted to ensure that the CBR had a robust balance to provide the necessary daily cash flow in a short-term basis that was required by the general fund.

Co-Chair Stedman remarked that the CBR used to have more than \$10 billion, and was divided into two components. He remarked that they saw the CBR become reduced, and he did not want to see the same thing happen to the Permanent Fund. He stressed that they needed to be careful with the draw rate of the Permanent Fund.

Senator Wielechowski remarked that he shared the concerns about the ease of access that the legislature had to the ERA. He queried the minimum balance in the ERA needed for survival. He also wondered whether APFC would be violating

its prudent investor obligation if it were forced to sell assets to provide funds for government or a PFD.

Co-Chair Stedman felt that the minimum balance discussion should be postponed until later in session, because it related to the contribution amount. He stated that there would be a robust discussion that may or may not agree with the board on that issue.

Ms. Rodell did not believe that it was a violation of fiduciary responsibility to meet the obligations that were expected of the fund. She stressed that the prudence was related to going through the investment portfolio; understanding the locations of the potential unrealized gains; and the most prudent course of action to meet the obligations. She stressed that there was a challenge to determine whether or not it was prudent to be in a seven or twelve year investment anymore.

Ms. Rodell looked at slide 30, "Return on Investment":

FY 19

Revenues: \$ 3,907,500,000

Operating/Investment Expenses: \$ 132,600,000

Value Generated Per Day (based on 251 active trading days through FY19)

Total Fund: \$ 3.91 B / 251 = \$15.6 M per day

Statutory Net Income: \$ 3.3 B / 251 = \$13.1 M per day

Revenue Generation for the State of Alaska

ERA POMV Draw -

42 percent of total General Fund revenues in the FY 19 budget

47 percent of total General Fund revenues in the FY 20 budget.

52 percent of total General Fund revenues in the FY21 proposed budget.

[10:15:23 AM](#)

Ms. Rodell addressed slide 31, "Reliance on Corporate Activity":

- SB 26, CH 16 SLA 18 established a POMV rules based structure for Fund withdrawals - a percentage of the

average market value of the Fund for the first five of the preceding six fiscal years.

Inflation Proofing AS 37.13.145 (c) protects the future value of the Principal by transferring a portion of the earnings to the Principal to maintain the long term sustainability of the Fund.

APFC's operations and investment management of the Fund's assets are supported by the ERA.

Agencies working on the collection of royalties also receive appropriations from the ERA.

Ms. Rodell pointed to slide 33, "Board of Trustees":

As the fiduciaries, the Trustees have a duty to Alaskans in assuring that the Permanent Fund is managed and invested in a manner consistent with legislative findings 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 the purposes designated by law.

A fiduciary is a person or organization that acts on behalf of another person or persons to manage assets. Essentially, a fiduciary owes to that other entity the duties of good faith and trust. The highest legal duty of one party to another, being a fiduciary requires being bound ethically to act in the other's best interests.

- Investopedia

Ms. Rodell addressed slide 34, "Resolution 18-04":

Sustainable Rules- Based Legal Framework For Fund Transfers

In providing guidance on rules-based withdrawals for the Fund and to help ensure the long-term sustainability of using Fund earnings for the benefit of all generations of Alaskans, the board passed Resolution 18-04 at a special meeting on October 17, 2018.

This resolution affirms 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 - Sustainability - Inflation Proofing -
Real Growth

Ms. Rodell looked at slide 35, "Evolving Role of the Fund":

Successful SWFs operate within a rules-based system that allows them to perform a combination of saving, stabilization, and income generation functions. In Alaska, the latter function has come into sharper focus, as the Fund income supports the State budget in an era of lower oil revenues.

Alaska has a robust system of constitutionally mandated savings, a long history of preserving and growing the real value of the fund, and a strong track record in investment management.

This paper proposes a number of reforms that will strengthen the stability and sustainability of Alaska's Permanent Fund:

- LESSON 1: MISSION CLARITY
- LESSON 2: THE IMPORTANCE OF RULES
- LESSON 3: SUCCESSFUL ENFORCEMENT OF SAVING RULES
- LESSON 4: DESIGNING A POMV SPENDING RULE
- LESSON 5: REFORMING THE ERA

Ms. Rodell discussed slide 36, "APFC's Strategic 5 Year Plan":

Priorities for FY 20-FY25:

1. Position the organization and Fund for implementation of annual POMV draw

2. Develop and implement comprehensive risk management for the organization
3. Integrate best-in-class investment management capabilities to maximize investment returns
4. Enhance talent and staff across APFC

Ms. Rodell looked at slide 38, "FY21 Budget":

APFC recognizes this evolution in the Fund's role to generate revenue to support state services and programs; as such, APFC looks to the State to ensure that resources are available to support APFC's investment and management needs for ongoing success in generating long-term returns.

Operating Budget FY21

Merit and Retention Adjustments \$720.6
Real Estate Manager Position \$257.5
Operational Reductions (\$1097.9)
Investment Management Fees (\$21,098.1)

Co-Chair Stedman thanked the presenter. He stated that he would not be present for the upcoming Monday's meeting. He continued to explain the schedule for the next week.

ADJOURNMENT
[10:21:41 AM](#)

The meeting was adjourned at 10:21 a.m.