

HOUSE FINANCE COMMITTEE  
February 23, 2021  
1:32 p.m.

1:32:56 PM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Kelly Merrick, Co-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Bryce Edgmon  
Representative DeLena Johnson  
Representative Andy Josephson  
Representative Bart LeBon  
Representative Sara Rasmussen  
Representative Steve Thompson  
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Angela Angela Rodell, Executive Director, Alaska Permanent Fund Corporation.

SUMMARY

PRESENTATION: THE ALASKA PERMANENT FUND

Co-Chair Foster reviewed the agenda for the day. The committee would be hearing from the Alaska Permanent Fund Corporation (APFC). He asked members to hold their questions until the middle and end of the presentation.  
Self-conscious

^PRESENTATION: THE ALASKA PERMANENT FUND

[1:34:22 PM](#)

ANGELA RODELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, introduced the PowerPoint Presentation: "The Alaska Permanent Fund." She looked to the state's roots on slide 2. In 1969 the debate began when Alaska received \$900 million in a Prudhoe lease sale. All of the money was spent. At the time, Alaska was a young state, and much of the money was needed for various infrastructure around the state. She provided some context. The state budget was \$173 million. She was not sure the debate began in 1969. She suspected it began 100 to 200 years earlier, as Alaska had a history of boom and bust cycles. Alaska had received large chunks of money periodically or had assets such as fish, oil, and furs. She did not think the debate was new.

Ms. Rodell discussed the Alaska Constitution on slide 3. In 1976 Alaskans voted 75,588 to 38,518 in favor of amending Alaska's constitution. She noted that the constitutional amendment was very simple and straight forward. It required that the state saved a minimum of 25 percent of all of the state's mineral lease rentals, royalties, sale proceeds, revenue sharing payments, and bonuses. The only thing the state could do with the money was to invest it as designated by law in eligible investments. All income from the Permanent Fund (PF) was required to be deposited into the general fund. There were no provisions about how much would be spent, where the money would go, or what programs the money would be used to support. The spending parameters were left very flexible. She thought it was interesting to note there was overwhelming support for saving something for future generations at a time when the state had great needs. She indicated there had been debate and dissent regarding the issue due to the state having tremendous needs. She thought it was very difficult at times for everyone to look at the long-term rather than the short-term.

[1:37:32 PM](#)

Ms. Rodell provided some information about the corporation and its mission on slide 4. Four years after the PF was approved by voters, APFC was created through SB 116 in 1980. In the prior year, APFC celebrated 40 years in existence. The corporation's mission was set forth in statute. It was to manage and invest the assets of the PF and other funds designated by law. The corporation simply

invested money rather than spending it or investing in other programs. The Alaska Permanent Fund accounts included the principal and the earnings reserve account (ERA). The corporation also managed the Alaska Capital Income Fund which was funded with the settlement of Amerada Hess. The corporation also managed money on behalf of the Alaska Mental Health Trust Authority.

Ms. Rodell moved to slide 5: "Board of Trustees." The Corporation was governed by a six-member, governor-appointed board of trustees. As fiduciaries, they had a duty Alaskans in assuring that the fund was managed and invested in a manner consistent with the trust findings. The legislative findings constituted the trust the corporation had with the State of Alaska. First, the fund should provide a means of conserving a portion of the state's revenue to benefit all generations of Alaskans. Second, the fund's goal should be to maintain safety of the principal while maximizing the total return. Third, the fund should be used as a savings device to allow the maximum use of disposable income from the fund for the purposes designated by law.

Ms. Rodell continued to the topic of investment management on slide 6. She reported that the corporation had statutory and constitutional mandates. The principal provided a permanent savings, and the ERA held the investment income for appropriation. There were prudent rules in place governing savings, spending, and the growth of the fund. The corporation's stewardship was quasi-independent which was intentional. The Alaska Permanent Fund Corporation was under the administrative umbrella of the Department of Revenue (DOR) but a stand-alone agency. The corporation had a long-term horizon with prudent diversification, accountability to the board and Alaskans, and a need for managing its own resources wisely. A robust, healthy PF was important to all generations of Alaskans.

[1:40:09 PM](#)

Ms. Rodell turned to slide 7 and indicated her presentation was designed around some key questions she received on a regular basis. She reviewed the list of questions on the slide:

- How much do we make?
- How do we invest?

- How does Principal grow?
- How does the ERA grow?
- How much can we draw?

Ms. Rodell moved to the first question of how much the corporation made by discussing Monthly Reporting on slide 9. One of the things the corporation did internally was monthly reporting. Accountability and transparency had driven APFC from the beginning. The corporation prepared financial and performance reports monthly to ensure point-of-time accuracy of data and compliance with policies such as the corporation's investment policies and state and federal laws. The Corporation's finance staff reconciled the values of the principal and the ERA at the close of every month. She thought it was important to recognize that the fund had more than 700 individual investment accounts. Each represented anywhere from one private investment to hundreds of public equity holdings. There was a considerable amount of work done to complete the reconciliations balancing out each of the accounts at the end of every month.

Ms. Rodell reviewed the values of the principal and the ERA on slide 10. The slide showed the fund values as of January 31, 2021 compared to 5 years prior on June 30, 2016. The slide was included to show how the fund had grown and the areas in which it had not grown. She highlighted that the contributions of principal just 5 years prior totaled \$39.4 billion. The amount had grown to \$46.8 billion through the contributions and appropriations such as the \$4 billion special appropriation made in FY 20. It was also in the form of inflation-proofing. She emphasized the importance of inflation-proofing to ensure the health of the fund. The principal had unrealized gains of \$11 billion, much of which was due to the stock market activity over the previous 6 months. In the ERA the state had uncommitted realized earnings of \$7.7 billion in 2016 which had grown to \$9 billion. There was also \$2.8 billion in unrealized gains, and the corporation had already set aside \$3.1 billion for the FY 22 percent of market value (POMV) draw in anticipation of an appropriation. The calculation was based on a time period that had already been closed out. The corporation knew, to-the-penny, what the calculation yielded and allowed the corporation to set the amount aside in its financial statements.

[1:43:34 PM](#)

Ms. Rodell turned to slide 11: "Sources of Change in Value: FY 20 to FY 21 To Date January 31, 2021." She pointed out that when looking at the changes to-date over the 7 months since July 1, the fund ended FY 20 at \$65.3 billion. In a 7-month period the fund had gained an extraordinary \$10.3 billion in investment revenues. Royalties of \$143.9 million had been deposited into the principal fund. She thought the figures demonstrated the importance of investment revenue compared to royalties.

Ms. Rodell continued that the POMV draw for FY 21 was \$3.091 billion leaving a fund value of \$72.7 billion. Statutory net income was determined by subtracting the unrealized gains and the amount allocated to the Alaska Capital Income Fund from the net investment revenues of \$10.3 billion. The result was a statutory net income to the ERA of \$3.675 billion year-to-date. It was more than was added in 2020 and 2019.

Ms. Rodell detailed the corporation's financial statements on slide 12. The corporation issued monthly financial statements that reconciled the values. She pointed to the balance sheet which was on APFC's website. The balance sheet total assets equaled \$76.4 billion. She reminded members that the total equaled the assets under management at the current point-in-time. The corporation also had accounts payable of \$2.6974 - mostly trades that had not settled. Income distributable to the State of Alaska in the amount of \$1.91 billion could be found under liabilities. It represented the balance of the \$3.91 POMV draw left to distribute in FY 21. Over the following 5 months the amount would go to zero.

Ms. Rodell suggested looking at the non-spendable portion to know the actual fund balance. The total non-spendable amount was \$57.7 billion in the principal account. She pointed to the committed general fund appropriation of \$3.069 billion for FY 22. She also highlighted the total assigned amount of \$11.826 billion for a total of \$72.6 billion in fund balances - the true fund balance tied to the numbers she had discussed earlier.

[1:46:44 PM](#)

Ms. Rodell discussed slide 13 which showed the front page of the 6-page monthly performance report. It provided

1-month, 3-month, and 5-year performances. The report showed the total fund and categories such as international equity, global equity, and domestic equity under public equity. The other pages of the report showed the performance of each of the managers in the different categories.

Ms. Rodell relayed that when looking at APFC's performance as of January 31, 2021 the FY 20 total fund was 2.01 percent. The corporation managed to beat its passive benchmark that came in at 1.28 percent and slightly underperformed its performance benchmark of 2.05 percent. The passive index benchmark was similar to investing in a passive stock index, a passive bond index, some treasury inflation-proof securities, and some real estate investment trust rates. The corporation beat its passive benchmark without any active management of the fund.

Ms. Rodell continued that the chart showed the value added by the active management of the fund. The performance benchmark was expected of all of the managers, and their benchmarks achieved 2.05 percent. In FY 21 to-date the corporation was well ahead of the prior year. On a total fund basis, the corporation was at 15.8 percent versus a passive index of 17.8 percent. The increase was largely due to the corporation's under-allocation (the corporation only had an allocation of 40 percent to public stocks). The passive index had a much higher allocation to the stock market. The performance benchmark came in at 15.35 percent which the corporation was beating. Long-term, the fund had done very well over the years.

[1:49:20 PM](#)

Ms. Rodell addressed the question of how the corporation invested turning to slide 16: "Fund Total Value and Returns in millions." She reported that it had changed substantially over the years. Initially, APFC was permitted an investment list that only included fixed income securities such as treasury bonds. Over the years, the investment list expanded to include U.S. stocks, direct real estate in the U.S., and international bond and stock markets. In 2005, the legislature removed the list of allowable investments giving the trustees full authority to invest under a prudent investor rule. Trustees made investment decisions through a series of regulations, investment policies, and guidelines.

Ms. Rodell continued that over the years the fund had benefited. In 2005, before the financial crisis, the fund had reached an all-time high. Since the recovery of the financial crisis 11 years prior, the fund had skyrocketed in value. She emphasized the volatility of returns. She pointed to the light blue line which highlighted her point. However, overall, there was a steady state of positive returns within the band of zero to 15 percent over the period. She noted the long-term time horizon APFC used to invest. She dismissed concerns about the ups and downs of the market on a daily, monthly, or even annual basis.

Ms. Rodell looked at the pie charts referencing asset allocations on slide 17. She noted the diversity of investments in comparison to the early years of the fund. The FY 21 target allocation included stocks, bonds, private equity, absolute return (hedge funds), private income, and an allocation to cash. There had been a tremendous growth in the asset allocation and the sophistication of the fund over time.

Ms. Rodell reviewed the FY 21 projections as of January 31, 2021 on slide 18. She reported that each year the corporation projected the fund's returns and growth. The only adjustments the corporation made monthly to the history and projections was to recognize royalty as it came in. However, APFC did not adjust returns based on actuals. The midyear return forecast for FY 21 was 6.48 percent. The corporation assumed inflation would be 2.25 percent with a real return of 4.23 percent. The range around the returns was a low of -2.4 percent to a high of 11.6 percent. Presently, the fund was well above the high forecast of 11.64 percent real return. The statutory return was very different and had a much narrower band of outcomes. It was based on investment decisions being made versus being tied to market activity. The statutory return was the receipt of cash which was not necessarily tied to market activity. She reported there was not a negative statutory return because the fund was still receiving positive cash from real estate and bond interest payments.

[1:53:20 PM](#)

Ms. Rodell continued to slide 19: "History and Projections." She noted how small the numbers were and relayed that the chart could be found on the website where

it was easier to read. She indicated the slide showed the historical and forecasted growth of the fund. It also showed the calculations for the POMV distribution and the statutory dividend transfer for FY 21 and FY 22.

Ms. Rodell pointed to the boxes in the lower right-hand side of the slide showing the exact years (pulling from different years). The dividend calculation was based on statutory net income. Whereas, the POMV calculation was based on market values.

Ms. Rodell detailed slide 20: "Callan's Long-Term Capital Market Projections." She reported that when the board was doing asset allocations it took Callan's long-term capital market projections into account. She relayed that last week at the board of trustees meeting Callan presented their calendar year 2021 capital market projections and their 10-year forecast as adjusted. She thought there were two very important outcomes for FY 22 through FY 31 as the corporation adjusted its projections going into July 1. First, there was an expectation of slow growth even though current global markets were very robust coming out of the pandemic. The growth rate would not be sustainable over the following 10 years. The other interesting outcome was the recognition that inflation was not expected to increase or enter into hyper-inflation. Callan reduced the inflation assumption from 2.25 percent to 2 percent. The total fund projection based on the asset allocation was 6.2 percent. Minus inflation, she anticipated a real return of 4.2 percent over the next 10 years. She paused for questions.

[1:56:32 PM](#)

Representative LeBon brought up inflation over the past 20 years. In 2000 the value of the fund in nominal terms would have been \$72 billion. He wondered if the fund had kept up with inflation over the previous 20 years.

Ms. Rodell responded that the corporation had kept pace with inflation if looking at the total 45-year period. She thought it was due to a couple of key factors. She returned to slide 14. She pointed out that the long-term objective was CPI plus 5 percent. The Alaska Permanent Fund Corporation had data going back 37 years rather than 45 years. The Consumer Price Index plus 5 percent resulted in a benchmark of 7.59 percent. Yet, the corporation generated a return of 8.91 percent over the same period demonstrating

that the fund more than kept up with inflation. She indicated that if 5 percent was subtracted from 7.59 percent it would indicate an inflation rate of about 2.59 percent over 37 years. The corporation had kept up on a 10-year basis, a 5-year basis, and a 3-year basis. She thought it was difficult to look at just a 1-year basis, as CPI plus 5 percent was a much longer time horizon.

Representative Wool referred to slide 20. He asked if a 5 percent POMV draw with a yield of 4.2 percent should be of concern. Ms. Rodell responded that if the forecast was accurate, the fund would contract rather than expand.

[2:00:08 PM](#)

Vice-Chair Ortiz noted the previous 5-year rule. he suggested that the state would be drawing less than 5 percent. He wondered how much less than 5 percent the state was drawing.

Ms. Rodell thought the answer was in a later slide. She skipped ahead to slide 30 which showed the calculation of the effective rate based on what she was seeing currently for FY 23 and FY 24. She further explained that as the fund grew, the effective rate became smaller. What could be seen on the chart between FY 21 and FY 22 was that the fund only experienced 2 percent growth in FY 20. In the same year, the legislature took out a draw of 5.25 percent. She added that even though the effective rate for FY 20 was 4.52 percent, it was still well in excess. She thought it created a smoothing effect for withdraws.

Vice-Chair Ortiz referred to slide 17 regarding asset allocations. He asked the meaning of "absolute return" in relation to an asset allocation.

Ms. Rodell relayed that absolute return had to do with the corporation's hedge fund allocation. She explained that they were trying to replicate a similar total fund return that was not correlated to APFC's asset allocation or to the market. She thought it was like a counterweight. She suggested that if the fund had exposure in an absolute return portfolio and the overall market was down, the fund could expect to make money. If the overall market was up, the fund would not likely bring in much of a return. Absolute return was included as a diversification benefit.

Vice-Chair Ortiz asked for further information about private income as it related to asset allocation. Ms. Rodell explained that private income was a slice of debt that was available to invest in that did not come to the corporation through bond markets. Bond markets were public debt. For example, large corporations would issue corporate debt which were the corporate bonds APFC would invest in. Banks might lend to small businesses. However, generally, there was a middle category of corporations that were too small, or their credit was too unusual to invest in the public market, but too large for a single bank to lend to them. Private income provided an opportunity to invest in companies through debt structures that was not available in trades in an open market.

[2:04:01 PM](#)

Representative Rasmussen recalled that the legislature had done significant inflation proofing in 2019. She asked what impact it had when the legislature exceeded the current levels of inflation. She expressed concerns about possibly not meeting inflation levels in the future.

Ms. Rodell responded that in 2019 the legislature passed an FY 20 budget that called for the transfer of \$4 billion from the ERA to the principal. The corporation could not make the transfer until June 30, 2020. The corporation had to do everything else first based on how the budget was written. The original budget that passed had a significantly higher number of more than \$9 billion and included legislative intent language that outlined the legislature's intent to cover inflation-proofing for the following 8 years with the appropriation. When the legislation was transferred to the governor for enactment, he reduced the amount to \$4 billion. However, the intent language was left unchanged. The intent language really applied to 4 of the years. At the time, the amount was an estimate. The corporation calculated inflation in a calendar year based on the amount in the principal account. Therefore, the ERA was not included. The number of years would be reduced.

Representative Rasmussen clarified that in FY 20 the money was not actually transferred until the beginning of FY 21. Ms. Rodell responded that it was done on June 30th and was the last thing done on that day. Representative Rasmussen

further clarified that in theory, the legislature should have inflation-proofed through FY 24.

[2:07:24 PM](#)

Representative Josephson referred to page 10. He thought the governor had proposed a dividend payment of \$4900 per Alaskan that would cover the portion of the formula not paid in FY 21 and the FY 22 dividend. He estimated that with approximately 650,000 recipients the total cost of the payment would be about \$3 billion. He believed the money would have to be paid from the uncommitted realized earnings of the ERA. He asked if he was correct. Ms. Rodell responded that he was correct.

Representative Josephson speculated that the \$9 billion was actually \$5.9 billion because the legislature would need \$3.1 for FY 22. He asked if he was correct. Ms. Rodell responded, "That is incorrect." She explained that the \$3.1 billion was already set aside. The earnings reserve account had a total balance of \$14.9 billion as of January 31, 2021. The corporation had set aside the \$3.1 billion for the FY 22 POMV draw. The governor's proposal was to take the dividend payments for FY 22 and a supplemental payment for FY 21 out of what was \$9 billion.

Representative Josephson asked Ms. Rodell to comment why the payment might be problematic. He asked how FY 23 would be affected.

Ms. Rodell commented that Representative Josephson asked an important question. The difficulty was not the dollar amount. Part of the challenge for the corporation was having a set of prudent spending rules. The trustees had made numerous resolutions advocating for a set of prudent spending rules that would enable planning. Currently, the corporation was in a positive situation with a very robust market that was generating significant income for the fund. It was representative of the boom and bust cycle Alaska had lived off of for years. A negative situation would be drawing down the account while it was not earning as much and reducing the market value draw every year in perpetuity.

Ms. Rodell referred to slide 30 which showed all of the draws on one page. She estimated the draws for FY 23 and FY 24 to be \$3.2 billion and \$3.3 billion assuming

everything stayed the same and without ad hoc draws. She indicated that extra draws would draw down potential revenue in the future. She advised that the legislature needed to start thinking about how to replace revenues or reduce spending in the long-term. For the first time in Alaska's history, the legislature had a known revenue number going into budget discussions. She recalled sitting before the legislature when she was the commissioner of the Department of Revenue discussing the revenue forecast and the sheer volatility around production and price. It was up to the legislature to weigh the consequences of spending. There was nothing in APFC's mission about spending, only about investing.

[2:13:32 PM](#)

Representative Edgmon referred to slide 17. He asked Ms. Rodell talk the committee through what allocations would be targeted if the legislature were to follow through with the governor's FY 22 budget request requiring a double draw (he referred to SB 26, legislation establishing a POMV passed in 2018). She would be asked to go beyond the planned withdraws for the year. He wondered what it would look like.

Ms. Rodell responded that stocks and bonds made up about 60 percent of the asset allocations and were highly liquid along with cash. Stocks and bonds could be turned into cash within approximately 3 days. The balance of the allocation was liquid in different ways. She indicated cash could be generated from real estate, but it might take 6 months to a year to do so. Absolute return typically had a 30-day liquidity requirement. The corporation had worked with the Division of Treasury within the Department of Revenue for 3 years regarding the POMV transfer, determining DOR's cash needs, and how to withdraw money. The percent of market value amount never moved over to DOR as a lump sum on July 1st.

Ms. Rodell reported that the corporation generated roughly \$1.5 billion to \$2 billion in regular cash. It had a steady flow of income consisting of rental payments, dividend payments, and interest coupons. Therefore, the corporation did not have to liquidate huge sums. If the governor's proposal were to pass, there would be a large payment of about \$1.6 billion or \$1.9 billion that would be made prior to June 30th. The corporation would be working with the

Treasury Division to determine what would need to be liquidated. She suggested the corporation would have to sell stocks and bonds.

Ms. Rodell further explained that the corporation would be looking at what was coming due and for new investment opportunities, and it would hold cash back. The reason the corporation had a 2 percent allocation of cash was that it needed cash to run its investment business. In the fall, the corporation would do the same thing. She relayed that the dynamics were different if the corporation had to sell in an up market with significant returns versus having to sell in a down market and experiencing losses. Money could flow into the ERA but required an appropriation to flow out of the fund.

[2:18:28 PM](#)

Representative Edgmon did not see any calculations for a 10-year horizon. He suggested it was the corporation's responsibility to provide a trend analysis showing the impact of unplanned draws. He asked where he would find a model. Ms. Rodell replied that the Legislative Finance Division (LFD) had done significant modeling and could make assumptions about all of the other parts of the budget including revenue and spending expectations. The corporation did not have any control over the amounts invested under its purview.

Representative Edgmon wondered that if he wanted such an analysis whether he could contact her to request one. Ms. Rodell responded that she would ask him to contact Alexi Painter at LFD to do the modeling.

Representative Edgmon recalled presenting a similar line of questioning in 2015 or 2016. He thought it was interesting that the fiduciary duty to present a picture rested with the legislature's finance division rather than with APFC, the entity charged with investing and communicating with the public about what the future might hold for the fund.

Ms. Rodell clarified that APFC's fiduciary duty was to invest and manage the funds entrusted to the corporation. The corporation did not have a duty with regard to spending the money or a say in how it was spent. The Alaska Permanent Fund Corporation was providing the best information it could in terms of return expectations and

its duty for asset allocation. She indicated that what might be in the best interest of the fund in terms of an investment, might not be in the best interest of the state and visa versa. For example, it might be in the best interest of the fund to stay fully invested. However, it might be in the best interest of the state to withdraw the money. It was not the duty of the board of trustees to make such a decision - which was the reason the corporation only provided information about how it expected the fund to grow, all things being equal.

Representative Edgmon still had the same question several years later about who was obligated to provide the information he was looking for. He supposed it was the obligation of the legislature. He claimed that as a policy maker he did not have access to the team APFC had to provide analytical quantitative data. He thought the legislature was on the cusp of making significant decisions that might affect the state long-term. He believed that the general public had a mixed understanding because they had not seen an analysis.

Ms. Rodell relayed that in 2016 when the POMV was under debate the board looked at a 5 percent draw. There was significant discussion whether 5 percent was the right percentage. The legislature passed a bill signed by the governor that stepped down the percentage over 3 years. The trustees engaged in trustee paper 9 which looked at lessons learned with other sovereign wealth funds, prudent spending rules, and applying a 4X rule (keeping 4 times the draw amount in the ERA) as a cushion for market volatility. All of the things she mentioned remained in place currently.

Ms. Rodell commented on presenting information. The Alaska Permanent Fund Corporation had worked closely with LFD in the interest of having a common model with the same assumptions used by everyone. The corporation also ensured that LFD's model reflected APFC's forecast and other factors such as spending and other revenue measures. The corporation continued to work closely with LFD to avoid having competing models which was the reason she was encouraging people to go to LFD for modeling.

[2:25:57 PM](#)

Representative Wool referred to slide 20 which showed a net growth of 4.2 percent over the following 10 years. He

wondered if the growth rate was consistent with the 5 percent draw assessment from a few years prior. He asked if there was cause for concern.

Ms. Rodell responded that the slide highlighted the value of a POMV draw that was set up to smooth things out. There would be periods of time where more money would be taken out and would not keep pace and vice versa. She relayed that the reason the presentation showed the 37 years of data was to demonstrate the long-term time horizon. She indicated that 5 percent worked and was a known and supported number. She suggested that 5 percent was a disciplined steady draw.

Representative Wool noted people talking about the infinite life of the Permanent Fund as opposed to Alaska's finite supply of oil. He hoped that the draw would be such that the Permanent Fund would be infinite and grow with time. He noted the governor's plan would draw roughly 10 percent in the current year. He asked whether the corporation would have to adjust its investments if the legislature were to exceed the 5 percent draw.

Ms. Rodell thought it would be interesting to see whether the board would want to make any changes. She relayed there were some concerns with an additional appropriation the size the governor was proposing accompanied by a market draw down. She recalled that in March 2020 the fund lost nearly 30 percent of its value in 30 days bringing the fund balance down to \$60 billion. The market snapped back. However, if the fiscal year closed at \$60 billion on March 31, 2020 rather than June 30, 2020, the fund would have a very different value included in the POMV calculation. She stressed the importance of recognizing where the fund was on June 30th versus on other days.

Ms. Rodell continued that if there was a market draw down and the draw was the amount suggested by the governor, the corporation would have to take a hard look at where the fund was in the private markets. Private markets were illiquid and required pacing and modeling of the fund. The corporation would have to look at the asset classes and consider adjustments. She referred to slide 20 which showed that private equity was what was generating the 8 percent forecasted return. If the corporation had to take funds out of the illiquid class, there could be a negative return

effect. Investing was forecasting, and there was never certainty in forecasting.

[2:32:14 PM](#)

Representative Rasmussen thought it was important to recognize that APFC was not responsible for making policy decisions. Trying to gather the information from the best sources was important. She agreed that LFD was probably the appropriate source for legislators to go to for an overall economic picture. She referred to slide 14. She suggested that a sudden withdraw of \$3 billion, when the fund had a potential 15 percent return on investment, would have a major long-term impact. She did not want the legislature to rob future generations. She had a 5-year-old and a 2-year-old, and their future in Alaska was very important to her. She brought up the example of a retired couple with a limited income having to make an adjustment to their investment strategy if their furnace were to go out. She wondered what the effects would be if the corporation did not capitalize on a 15 percent return on \$3 billion for the following year.

Ms. Rodell was unclear of the representative's question. She pointed to the performance of the fund in FY 20 of 2.01 percent. The return in FY 21 to-date was 15.2 percent which showed the volatility of the market in the short-term. The 5-year return was 10.4 percent and the 10-year return was 8.4 percent. The reality was that if the legislature had to appropriate the money, it had the ability to do so. The money that was drawn from the fund would not earn a return. She was not sure what the right number was for each legislator. She believed LFD had done a tremendous job of building in numbers and being able to adjust them. The Legislative Finance Division used Callan's 6.75 percent long-term assumption included which was the same assumption APFC would use. She emphasized the importance of having the information and thought LFD could provide it.

[2:36:43 PM](#)

Representative Josephson referred to slide 10 in combination with slide 30. He suggested that if the governor had not vetoed the other \$5 billion that the legislature requested be placed in the corpus, the earnings would have grown. He thought the governor's motivation was

that the legislature would spend the funding. He asked Ms. Rodell how she would respond to someone remarking that the governor's draw for dividends was less than what the legislature proposed to put into the corpus. He wondered how she would explain the difference.

Ms. Rodell referred to slide 10. There would be \$5 billion less in the ERA - \$4 billion rather than \$9 billion in dark blue. There would be \$51.8 billion in the principal of the fund in dark blue. She also noted that the unrealized gains would be reapportioned because they were assigned on a pro-rata basis based on the denominator. The unrealized gains would be about \$1.4 billion rather than \$2.8 billion.

Ms. Rodell continued that in response to Representative Josephson's philosophical question about how it was different, she explained that the \$3.1 billion in the POMV was an investment in Alaska. It paid for the state's public safety, teachers, and all the things that made Alaska a robust state. The Alaska Permanent Fund Corporation was covering 70 percent of the state's budget, generating more revenue for the state budget than any single oil and gas company at the height of the oil boom. She emphasized that not one company on a stand-alone basis produced the level of revenue the legislature was asking APFC to generate currently. She indicated that in terms of moving money into the corpus, any money moved would spin off money for all the things the state needed - the key difference.

[2:40:26 PM](#)

Vice-Chair Ortiz referred to investment management on slide 6. He pointed to APFC stewardship and the first bullet: quasi-independent. He asked how the corporation was a quasi-independent organization. He asked Ms. Rodell to clarify the term.

Ms. Rodell replied that APFC had significant responsibility assigned to it - managing and investing assets. The corporation was independent in that it decided how to manage and invest assets - whether to invest in stock "A", bond "B", or private equity "C." The Alaska Permanent Fund Corporation was independent of political influence, and the board set the framework for making decisions. The legislature did not.

Ms. Rodell continued that the corporation was quasi in that she would be before the legislature. She would discuss the budget and the resources needed to make decisions, but that was where the independence stopped.

Ms. Rodell would try to get through the balance of the slides before taking questions. She addressed the question of how the Permanent Fund principal grew beginning on slide 22: "Principal." She explained that the principal was the constitutionally established part of the fund. It only grew through three mechanisms: royalty contributions, special appropriations, and inflation-proofing. She emphasized that it did not grow through market value or market activity of any kind, rather, it required action of savings to make the principle grow. The principle could only be used for income-producing investments.

Ms. Rodell turned to slide 23: "Principal Contributions: Inception through January 31, 2021." She explained that over the years through January 31, 2021 the corporation had experienced \$17.7 billion in royalty deposits. There was a constitutional minimum requirement of 25 percent and a statutorily mandated deposit of 50 percent for leases entered into after 1970. The corporation had also received over \$18 billion in inflation-proofing. Inflation-proofing was based on deposits into the principal of the fund and the inflation rate calculated per statute. Over the years, the corporation also had \$11 billion in special appropriations which included transfers from the general fund in the amount of \$2.7 billion and from the ERA in the amount of \$8.3 billion. She reported that the \$4 billion discussed earlier was part of the \$8.3 billion.

Ms. Rodell explained how the ERA grew beginning on slide 25. The earnings reserve account was established in statute as a separate account to hold investment income. She thought of it as a receptacle for collecting everything. The funding had to be invested in investments authorized under the same statute that authorized investments for the principal of the account. It grew through the receipt of statutory net income and was available for legislative appropriation.

Ms. Rodell continued to the flow chart on slide 26: "Renewable Resource." Money moved through the system beginning with the corporation receiving contributions that were constitutionally protected. The contributions were put

into income-producing investments with associated unrealized gains and losses. The investments were then sold. All of the gain was moved into the ERA and invested side-by-side with the principal which also generated income. The corporation took out money for APFC operations and investment expenses, inflation-proofing, special appropriations, the POMV transfer for state government, and dividends.

[2:45:03 PM](#)

Ms. Rodell reviewed the statutory net income of the ERA. In looking at the previous 20 years of the total return versus statutory net income, the chart highlighted how statutory net income was not necessarily tied to total return. Over the years, the fund had high returns, negative returns, and returns in between. In the study the statutory net income crept up, drew down, then crept up again. The great financial crisis occurred in 2019, a year in which the fund experienced significant losses. In 2018, the corporation sold a major asset at a huge gain causing a spike in statutory net income even though returns were not very high that year.

Ms. Rodell explained that in a high market like it was presently, and with a target asset allocation, part of the discipline was rebalancing. The corporation did not have mandatory rebalancing. It rebalanced as it saw certain limits and marks being reached. Some of the corporation's rebalancing was instinctive and some was quantitative. Anytime APFC rebalanced and sold stocks, it generated gains into statutory net income. She indicated it was the reason the chart showed a statutory net income of \$3.6 billion in the current year. The corporation had been extremely disciplined in holding the line on its exposure to stocks. As they ran up and became a larger piece, APFC trimmed it down. Such activity had the effect of generating significant income.

Ms. Rodell explored the question of how much could be drawn. She turned to slide 29: "Fund and ERA Appropriations." The slide provided a sense of the proposals the legislature had been discussing. For FY 21 an operating budget for APFC of \$17.6 million was enacted. There was also an asset allocation for investment management fees of \$129.4 million and a POMV draw of just over \$3 billion. The corporation had received

constitutional royalties of \$276 million. The statutory royalties were an additional \$67.9 million. There was no inflation-proofing appropriated for FY 21. She continued that \$30 million went to the capital income fund, and there were various distributions to the Department of Law, the Department of Natural Resources, and the Department of Revenue for the administration and collection of royalties.

Ms. Rodell continued that the governor had proposed to support APFC operating investment management, either through supplements to the FY 21 budget or through the FY 22 proposal. The corporation also had a supplemental request for \$50 million in additional investment management fees given the current high earnings rate. The governor had also proposed the POMV draw of \$3.069 billion and the additional Permanent Fund Dividend (PFD) payments for FY 21 and FY 22. She noted the royalty expectations forecasted by the Department of Revenue, the additional money to the Alaska Capital Income Fund, and the requests to the various agencies in support of APFC. She had mentioned everything touching the ERA currently and everything that was going out of the ERA.

Ms. Rodell detailed the state's POMV on slide 30. She explained the POMV was based on actual market value rather than realized income. The percent of market value was predictable and based on the average market value of the fund for the first 5 of the preceding 6 fiscal years. In FY 19 the POMV was a 5.25 percent draw which was set for 3 years with a step down to 5 percent in FY 22. The slide showed the approximate effective rates making the assumptions about the fund balance at the end of each year. She noted the effective rate was growing. In other words, the draw amount was growing slightly faster than the fund itself.

[2:50:29 PM](#)

Ms. Rodell reviewed the trustee's Resolution 18-04 on slide 31. She indicated that the sustainability of the fund required annual formulaic withdraws from the ERA at an amount that the long-term balance of the account was able to fund. The board had long supported the POMV concept, including a constitutional amendment that would ensure that no more than a sustainable amount was taken from the annual earnings of the Permanent Fund. The resolution dated back 21 years to 2000. She added that adherence, sustainability,

inflation-proofing, and real growth were the measures by which the corporation could keep the fund going for the long-term.

Ms. Rodell examined the contributions of the ERA to the state's unrestricted general fund (UGF) on slide 32. The Permanent Fund was the primary source of UGF revenue. She pointed out that for FY 21 the UGF revenue was expected to be \$4.4 billion of which the POMV was \$3.1 billion (not open for estimation) equaling 70 percent of the state's revenue. In FY 22 the POMV draw was expected to be 72 percent of UGF revenue.

Ms. Rodell continued to slide 33: "ERA Monthly Values since POMV." She relayed that the ERA had stayed steady in terms of monthly values since the POMV draw. She thought it highlighted the discipline around spending and the agreement with the Treasury Division about how to manage through various periods. She noted that the market volatility that occurred month-over-month did not significantly impact the ERA. The impact on the ERA was driven by activity other than market driven activity. The chart showed the balances going up, the draws occurring, and the account building up again in a cycle.

Ms. Rodell addressed the graph on slide 34 which provided a 20-year look back of the total return versus the ERA balance. The slide highlighted the non-correlation between the ERA and market volatility. The earnings reserve account balance started to grow significantly and had grown in recent years substantially. Historically there was a practice of sweeping the monies left over after paying dividends in other months. It was only in recent years that there had been a significant build-up in the ERA balance.

Ms. Rodell advanced to slide 35: "Use of Fund Earnings since inception through January 31, 2021." She noted the coincidence of the amount on the slide being near the value of the fund. She thought the slide highlighted the amount of economic activity and the importance of the fund to the State of Alaska since its inception. The corporation had paid out \$33.8 billion through POMV distributions, dividend appropriations, and the Capital Income Fund. She summarized that \$33.8 billion had been generated and pushed into Alaska's economy. The corporation had also saved \$26.3 billion because inflation-proofing and special appropriations came from other activities. She mentioned

the unappropriated \$12.1 billion that was still in the account. She thought it was an amazing story of what had been accomplished over the previous 45 years and something Alaskans should be proud of.

[2:55:06 PM](#)

Ms. Rodell spoke about the evolving role of APFC on slide 37. In the past the corporation had not been required to manage to a liability. The corporation took a very long-term time horizon. A portion of the statutory net income was used to make a payment. She thought everyone was trying to determine the role of APFC and the fund going forward in terms of how much the short-term would way on APFC's long-term thinking. She mentioned that the trustees had recently published its trustee paper, volume 9. She recommended legislators take a look at it. It looked at sovereign wealth funds including success stories, failures, and the reason for failures. The trustees came away with 5 lessons on successful funds. They included mission clarity, the importance of rules, the successful enforcement of saving rules, designing a POMV spending rule, and reforming the ERA.

Ms. Rodell continued to slide 38: "Revenue Generation." She concluded her presentation. She relayed that presently, more than ever the state was dependent on APFC's effective management and investment of the fund. She continued that the POMV draw currently supported 70 percent of Alaska's UGF budget. The corporation's stewardship fulfilled two roles. First, it protected the principal for the benefit of future generations, and it provided a predictable revenue stream for the state budget. She was happy to answer any questions.

Representative Wool wondered if 5 percent was a common draw percentage for a sovereign wealth fund. Ms. Rodell noted the board had supported a 5 percent draw for about 20 years. Originally when the board looked at university endowments rather than sovereign wealth fund they gravitated to 5 percent. It was difficult to know the answer to his question because not all sovereign wealth funds were transparent. She thought there was a tendency for sovereign wealth funds to reduce the percentage in light of lower growth expectations or to create a floor and ceiling percentage in order to preserve the fund. A steady revenue growth picture was very important.

Representative Wool referred to slide 35 and the figure of \$38 billion. He highlighted the \$22 billion dividend appropriation. He wondered if she know how much the fund would be worth if dividends had not been paid. Ms. Rodell could not provide the number, as the asset allocation had changed significantly over the years.

Representative Wool asked if Ms. Rodell had a recommended POMV balance. Currently the amount was \$12 billion; \$3 billion for the draw and \$9 billion in the ERA. Ms. Rodell indicated that 5 percent was a comfortable number.

[3:01:41 PM](#)

Representative LeBon recalled in the news that the board of trustees had gone on record supporting a consolidation of the principal and the ERA into one endowment fund. He asked if the information was correct. Ms. Rodell confirmed that the board had recommended a consolidation of the two funds.

Representative LeBon provided a hypothetical scenario in which the corporation purchased a property and later sold it for a profit. He asked whether the original investment amount would be returned to the principal and whether the gain would go into the earnings reserve. He wondered if his summary of the process was accurate. Ms. Rodell responded, "That is correct."

Representative LeBon asked if there was a provision that would allow the fund to take a 10 percent inflation rate over the investment period and place it into the principal. Ms. Rodell indicated it would require an appropriation by the legislature. Representative LeBon clarified that the legislature would have to make the appropriation. Ms. Rodell responded affirmatively.

Representative LeBon asked whether overdrawing the 5 percent POMV draw would create volatility in the corporation's asset mix, the planning, and how the corporation managed investments, particularly unplanned draws. Ms. Rodell responded in the affirmative.

Vice-Chair Ortiz referred to slide 37 regarding lesson 5. He asked Ms. Rodell to clarify her meaning of reforming the ERA. He asked if it meant consolidating the fund into one. Ms. Rodell responded affirmatively. She noted the

importance of recognizing that the ERA was a standalone receptacle of earnings that was currently doing other things. She contended that by harmonizing the principal and the ERA there would be a much cleaner discussion about what was happening with the fund.

Vice-Chair Ortiz wondered if other funds had been managed in a similar way where the principal and the earnings were combined into one fund. Ms. Rodell thought there was a number of lessons that could be found in the trustee paper that talked about confusing the mission. She conveyed that when there was a confusion of missions accompanied by a series of unscheduled draws there would be less funding available. She noted the New Mexico Heritage Fund had experienced some issues over the years because of overdraws or not saving enough. She emphasized that both savings and spending created a robust healthy fund.

[3:06:14 PM](#)

Representative Josephson suggested that to make lesson 5 meaningful a resolution would have to go to the voters. If there were dividends in the future, they would be impacted. Currently, the corpus was not spendable. He thought what was being proposed represented every significant issue.

Ms. Rodell thought what Alaska had done in creating the fund was extraordinary. She did not include the votes of the House and the Senate on the slide before the issue went to the vote of the people. She noted that it was also extraordinary how there was nothing defining how the money would be spent. Rather, it was to be saved and used for future generations. It was simple.

Representative Carpenter had a question about royalty payments and a constitutionally required 25 percent payment since 1979. He wondered if the legislature had made the 25 percent payments into the corpus as directed in the constitution and in statute since 2016.

Ms. Rodell replied that APFC had made every payment under the constitution. She believed that in FY 16, FY 17, and FY 18 the appropriation for the statutorily required payment was not made. The payment resumed in FY 21 and was included in the governor's FY 22 budget. There was a gap for 3 or 4 years. She would have to double check the exact years and get back to the committee.

[3:09:26 PM](#)

Representative Edgmon agreed with the remarkableness of the history and management of the fund. He thought Alaska was the only state that funded the majority of its government services with an endowment. The other states with endowments had smaller funds which played a much smaller role in funding state government. He also noted that Alaska was the only sovereign wealth fund in the world that paid a PFD. The combination of the fund being a source for government funding and an annual outlay to citizens made Alaska extremely unique. He queried if there was a need to open an office in Anchorage.

Ms. Rodell indicated her staff had been working from home since March 2020. It had opened many people's eyes about having a flexible schedule. The traditional work schedule was not a good fit with the work of the corporation. She indicated if there were folks who wanted to live in Anchorage and work from home, she would consider it on a case-by-case basis.

Representative Thompson complimented Ms. Rodell's team of investors. He asked if they were paid a competitive salary and whether they offered bonuses. Ms. Rodell responded that the board had adopted an incentive compensation policy. The corporation had never paid it out due to appropriations. Payment of the bonuses was included in the governor's budget that he had put forward. It was in APFC's personal services request in the budget. The corporation had a study done in 2017 that showed that the corporation was at about 30 percent of median, well below the bottom quartile of pay.

[3:14:31 PM](#)

Representative Rasmussen thanked Ms. Rodell and her team for all of their efforts.

Representative LeBon was around to vote for the Alaska Permanent Fund in 1976. At the time there was significant pressure, as oil had not passed through the pipeline. Voters were asked to have some vision. He indicated that the vote numbers were 75,000 to 38,000. He thought that part of the vision was based on a sense of urgency. He reported that the estimated life of Prudhoe Bay in 1976 was

about 25 years. The purpose of the fund was to substitute a finite resource for an infinite resource. The success of the Permanent Fund was outstanding. He was proud of Alaskans who had had a vision in 1976. He was one of them by voting in favor of the fund.

Representative Wool acknowledged the finite life span of oil and the infinite quality of the Permanent Fund. He wondered if Ms. Rodell felt confident that the fund was truly an infinite asset. He asked if she would be concerned if the legislature were to break the sovereign wealth fund rule of limiting the draw to 5 percent.

Ms. Rodell was confident that the same vision that existed in Alaskans in 1976 existed in legislators and Alaskans presently. She did have some concerns. She came to Alaska in 2011. It was her tenth year in front of the House Finance Committee and her sixth legislative session. When she came before the committee as the deputy commissioner of the Department of Revenue the state had a significant amount of money. She had watched the same debate for 10 years. She worried that if the legislature did not follow a POMV spending rule, the flood gates would open.

Ms. Rodell agreed people were hurting due to the pandemic. She also wondered what the legislature was creating for the future. She wondered what people wanted Alaska to look like in 25 years. The Coronavirus Aid, Relief, and Economic Security (CARES) Act money would not last long. She sat on the Juneau Airport Board and discussed having CARES Act money through 2024 to help keep the airport going. It was not owned or operated by the State of Alaska. Yet, the airport had a \$3 million deficit in the current year. She wondered what would happen to a community such as Juneau if the airport was forced to close. She thought people should be looking at what was available for FY 23, FY 24, or FY 25. It was a difficult place to be in because it would require saying no sometimes. She did not envy legislators.

Co-Chair Foster reviewed the agenda for the following day.

#

ADJOURNMENT

[3:20:55 PM](#)

The meeting was adjourned at 3:20 p.m.