SENATE FINANCE COMMITTEE
March 5, 2021
9:01 a.m.

9:01:35 AM

CALL TO ORDER

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

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Donny Olson (via teleconference)
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman
Senator Natasha von Imhof

ALSO PRESENT

Angela Rodell, Executive Director, Alaska Permanent Fund Corporation.

PRESENT VIA TELECONFERENCE

Greg Allen, Chief Executive Officer and Chief Research Officer, Callan; Steven Center, Senior Vice President, Callan.

SUMMARY

PRESENTATION: CALLAN - PERMANENT FUND PERFORMANCE MEASURES

Co-Chair Stedman discussed housekeeping.

^PRESENTATION: CALLAN - PERMANENT FUND PERFORMANCE MEASURES

9:03:17 AM

GREG ALLEN, CHIEF EXECUTIVE OFFICER AND CHIEF RESEARCH OFFICER, CALLAN (via teleconference), provided a brief introduction.

Co-Chair Stedman relayed that the pace of the presentation would be quick as the committee had only an hour and a half before floor session.

9:04:25 AM

Mr. Allen discussed the presentation "Alaska Permanent Fund and Alaska Retirement Plans Update" (copy on file).

Mr. Allen turned to slide 2, "Outline":

- Callan's capital market projection process
- Current economic and capital market environment
- Summary of Callan's 2021 capital market projections
- Projected return and risk for APFC policy portfolio
- Alaska Permanent Fund-Recent Performance Review
- Projected return and risk for Alaska Retirement Plans - PERS/TRS
- Alaska Retirement Plans - PERS/TERS-Recent Performance Review
- Concluding observations

9:04:50 AM

Mr. Allen showed slide 3, "Callan Capital Market Projection Process":

- Callan updates long term capital market projections each year in January and uses them for the full year with all clients for strategic planning purposes.
- Projections take into account long term relationships balanced with current market conditions.
- Consensus expectations (central banks, economists, asset managers, consultants, etc.) are carefully considered as an integral part of the process.
- Each number -return, risk, correlation - for every asset class must be individually defensible, and the numbers collectively need to work together as a set to generate reasonable portfolios during strategic planning exercises.
- Projections change slowly over time and are not designed to provide tactical insights.

- Process is executed by Callan's capital markets research group and projections are peer reviewed by Client Policy Review Committee as well as the hundreds of the clients that use them every year.
- Process is battle proven – it has evolved and improved, but hasn't fundamentally changed over the last four decades.

9:08:01 AM

Co-Chair Stedman interjected that Allen could pick up the pace of the presentation. He shared that the committee received this same presentation each year and was familiar with the work of Callen and Associates.

9:08:15 AM

Mr. Allen discussed slide 4, "Callan Capital Market Projection Process - Historical Rolling 10-year Return – US Large Cap Equity":

- Historical 10-year return for US large cap has averaged 10.5 percent.
- 2021 Projection is 6.5 percent.
- Very few periods historically of negative 10-year return for US equities.
- Current outlook is in lower third of historical distribution, driven by relatively high valuations and low inflation outlook.
- Generally lower return periods have been associated with higher valuations at the beginning of the period or recession events

9:09:04 AM

Mr. Allen reviewed slide 5, "Callan Capital Market Projection Process - Historical Rolling 30-year Return – US Large Cap Equity":

- Historical 30-year return for US large cap has averaged 11.16 percent.
- 2021 Projection is 6.5percent.
- Worst historical 30-year return for S&P 500 was 8.47 percent.

●30-year annualized returns in fairly tight range around long term average.
●Longer time horizons reward equity risk takers with more consistent positive return

Mr. Allen explained that in 30 years the volatility calmed down - the longer the horizon, the bigger risks that could be taken.

9:09:44 AM

Mr. Allen spoke to slide 6, "Stock Market Returns by Calendar Year," which showed a graph entitled "2020 performance in perspective: History of the U.S. stock market (231 years of returns." He explained that the graph on the slide was a histogram. He highlighted the returns in the stock market over the last 10 years. He thought there was an all-time level of healthiness in terms of the ERA and assets.

9:10:39 AM

Mr. Allen addressed slide 7, "Unprecedented Shock to Global Capital Markets -Unprecedented Recovery?":

> V-shaped recovery in equity—back in black by mid-August, up 18.4 percent for the year!
>
> The sharpest and fastest equity market decline ever: 16 trading days to reach bear market; -33 percent after just 23 days
> -Incredible rebound in U.S. equity market in 2Q and 3Q
> > -The S&P 500 recovered all of its COVID-19 related losses by August 10, only 97 days from the bottom
> > -70 percent return from the market bottom through December 31, 2020
> > -Positive return year-to-date (+18.4 percent through December 31, 2020)

Mr. Allen relayed that the graph on the slide was designed to show the unprecedented pandemic response.

9:11:41 AM

Mr. Allen referenced slide 8, "U.S. Equity Projections":

-Valuations are 1.8 standard deviations above the 25-year average based on forecast earnings
-Longer term historical valuations are also elevated
-Shiller's cyclically adjusted price earnings (CAPE) ratio is 1.1 standard deviation above average
-Stock prices reflect anticipated rather than historical earnings
-Market is concentrated in Tech and Consumer Discretionary which both have high valuations.

Mr. Allen relayed that the purpose of the slide was to show equity valuations and that the current valuations were above one standard deviation, relative to the long-term average.

9:12:16 AM

Mr. Allen looked at slide 9, "Callan Capital Market Projection Process - Historical Return – US Fixed Income":

- Historical 10-year return for US bonds has averaged 5.5percent.
- 2021 Projection is 1.75 percent.
- No periods historically of negative 10-year return for US bonds.
- Current outlook is in bottom decile of historical distribution due to low yields and low inflation outlook.
- Rising interest rates will eventually allow higher forward looking returns but will reduce return in the intermediate term.

Mr. Allen addressed slide 10, "Starting Yield Strongly Predicts Forward Returns":

-There is a strong relationship between starting yields and subsequent 10-Year returns.
-Current yield on the Bloomberg Aggregate index is below 2 percent.
-Projection includes assumption of gradually rising yields over 10-year period.

9:13:51 AM

Mr. Allen spoke to slide 11, "Relative Returns Stocks versus Bonds - 10-year Roll - Long Term Relationship

Between Stocks and Bonds," which showed a line graph entitled "Rolling 10 Year Relative Returns US Stocks versus US Bonds." He noted that stocks had generally returned 5 percent more than bonds and capital market projections reflected the same. He said that bonds were beneficial to portfolios even if the return projections were not substantial.

9:14:33 AM

Co-Chair Stedman noted that the data books with different asset classes and historical returns were in his office and were available to committee members.

9:15:09 AM

Senator Wielechowski had read a few articles in which people had suggested that federal banks had been injecting a great deal of money into the system. He asked whether the federal dollars flooding the system with such low interest rates was cause for concern when considering projections.

Mr. Allen stated that Callan had considered the issue. He thought the projections were consistent with central banks and other who had also considered the issue. He thought there was good reason to be concerned about the amount of liquidity. He thought there would be pockets of exuberance and potentially small bubbles but did not believe the trend was inflationary. He noted that inflation and bonds yields were not of great concern right now.

9:17:45 AM

Senator Wielechowski thought at some point all the money would have to be paid back. He wondered how the experts were predicting what would happen and what would be the potential impact on the market.

Mr. Allen thought there was a general assumption that as the economy recovered taxes would be increased, which would counter the inflationary trend. He said that democrats overseeing all three branches on the federal level meant that taxes would increase. He thought that at some point there would be a need for fiscal restraint and discipline in the system. He worried about passing on the debt to the next generation.

9:19:56 AM

Mr. Allen discussed slide 12," Rolling 10-Year Standard Deviation - Asset Class Volatility Over Time," which showed a line graph. The point of the slide was to show the risk relationships were relatively stable. The red line showed the trailing volatility of the Permanent Fund. He drew attention to the ten-year trailing risk, which had come down, providing the state with a period of fairly stable markets.

9:21:08 AM

Co-Chair Stedman asked about real estate, and how Callan gauged the volatility and derived the underlaying numeric.

Mr. Allen acknowledged that real estate did not trade on a daily basis and was not subject to the kind of volatility of people's opinions changing regularly. He explained that returns on the real estate index were driven by the income produced and appraisals. He said that when projecting for real estate the standard deviation was increased to reflect the economic risk in real estate. He noted that there had been no transaction in the last year, which made the appraisers hesitant to change the appraisal price. He relayed that real estate had help up well, despite the drop off in shopping mall traffic. He said that declines in retail rental prices were expected. He thought that the pandemic would alter the view of office work versus working from home, which would lead to vacancies in office space. He asserted that industrial properties were doing fairly well, which provided some balance.

Co-Chair Stedman asked Mr. Allen to address private equity.

Mr. Allen thought that private equity held more risk than public equity. He commented that the Permanent Fund had one of the best private equity portfolios across their client base, which was reflected in the returns over the last 4 years. He added that there was a wide dispersion of results in private equity. He shared that private equity was valuation driven. He said that private equity observed volatility masked the actual volatility; if private companies had sold their companies at the end of 2018, a much greater drop would have been observed than was what reflected in the private equity return.

9:25:22 AM

Mr. Allen reviewed slide 13, "Relative Returns Stocks versus Bonds - Correlations to US Equity Over Time," which showed a line graph. He elaborated that the correlations were all relatively stable in terms of their relationships. He relayed that what drove the volatility of the permanent fund was the equity markets. He emphasized that it was impossible to remove equity risk from a long-term investment portfolio. He thought the Alaska Permanent Fund Corporation and the Alaska Retirement Management Board had done a well finding diversifying strategies that reduced risk on the margin but at the end of the day the equity market was the top driver.

Co-Chair Stedman asked if the correlations deviated from normal practices and whether they ever ended up aligning.

Mr. Allen thought 2008 and real estate was a good example. He reminded that real estate correlation masked the actual underlying risk of real estate. In 2008 and 2009 there was a real estate driven financial crisis, which had resulted in a drop in real estate prices at the same time as a drop in equities, and the slide reflected the ten-year correlation at that time. He said that all asset classes that involved risk could have low correlations during relatively stable periods, but when people were dumping risk assets would go down, which increased their correlation to equities.

9:27:42 AM

Co-Chair Stedman offered an adage about boats and tides.

Mr. Allen concurred with the assessment.

9:27:55 AM

Mr. Allen addressed slide 14, "Periodic Table of Investment Returns - Diversification Over Recent Calendar Year Periods," which showed a stack of asset classes for each calendar year with the highest at the top and the lowest at the bottom. He stated that there was not a single asset class that was at the top every year, so diversification was key. He pointed out to the committee that the red squares represented the permanent fund, which contained a variety and was somewhere in the middle due to the diversified portfolio.

Mr. Allen noted that it had been a bad period for non-U.S. equity. He said that when the dollar rose, the value of non-U.S. investments decreased.

9:29:12 AM

Mr. Allen referenced slide 15, "Periodic Table of Investment Returns - Diversification Over Ten-Year Periods." He thought the table demonstrated that over a long-time horizon the risk of the asset classes came out on top. He shared that private equity had been one of the top performing asset classes for the charted time period.

9:29:47 AM

Mr. Allen turned to slide 16, "Highlights of 2021 Capital Market Projections - Changes and Observations":

- GDP growth of 2 percent to 2.5 percent for the U.S., 1.5percent to 2 percent for developed ex-U.S. markets, and 4 percent to 5 percent for emerging markets. Embedded in all of these economic forecasts is the expectation that the path to this longer-term growth will include cycles with recessions.
- Inflation expectation lowered to 2.0 percent.
- Global equity, projected return of 6.85 percent with a standard deviation (or risk) of 18.3 percent, roughly a 50 bp. reduction from last year.
- For APFC public fixed income, projected return of 2.2 percent (risk: 3.75percent), roughly an 85 bp. reduction from last year reflecting the low yield environment for fixed income.
- Gradually ratcheted down our expectations over recent years for equities to reflect higher valuations, a lower growth environment, and lower inflation.
- Continue to project a premium for private markets portfolios over public markets assuming long term commitment and institutional implementation.
  - Private equity 8.0 percent projected return;
  - Private real estate 5.75 percent projected return;
  - Private infrastructure/credit 6.40 percent projected return.

9:30:58 AM

Mr. Allen turned to slide 17, " Capital Market Projections - Projected Return, Standard Deviation, and Yield," which showed a table entitled 'Summary of Callan's Long-Term Capital Market Projections for APFC Asset Allocation Model (FY 2022 - 2031).' He relayed that the slide listed all the individual asset classes Callan projected. He did not have significant comments on the slide and suggested that the members view the slide at their leisure.

9:31:12 AM

Mr. Allen discussed slide 18, "7percent Expected Returns Over Past 30+ Years,":

1991

In 1991, our expectations for cash and broad U.S. fixed income were 6.95percent and 8.95percent, respectively

Return-seeking assets were not required to earn a 7percent projected return

2006

15 years later, an investor would have needed over a third of the portfolio in public equities to achieve a 7percent projected return, with 6x the portfolio volatility of 1991

2021

Today an investor is required to include 97percent in return-seeking assets to earn a 7percent projected return at almost 16x the volatility compared to 1991

He spoke to slide 18, which showed three pie charts depicting a history that reflected that declining bond yields had made it increasingly complex to achieve a 7 percent return.

9:32:47 AM

Mr. Allen showed slide 19, "Alaska Permanent Fund Corporation - Projected Returns and Recent Performance

Review." He turned to slide 20, "APFC FY 2022 Total Fund Policy Target - Projected Return and Standard Deviation.":

- Projected median 10-year annualized return of **6.20percent** is a reduction of roughly 55 basis points relative to last year.
- Inflation expectation reduced from 2.25percent to **2.00**percent.
- Projected median 10-year annualized real return of **4.20percent** is a reduction of roughly 30 basis points relative to last year.
- Projected standard deviation of **13.50percent** is roughly the same as last year.
- Percent probability of exceeding 5percent annualized real return over 10-year horizon is estimated to be **45.6percent.**

APFC Total Fund Target
APFC Public Fixed Income 20 percent
Private Equity 16 percent
Real Estate 8 percent
Private Infra/Credit 9 percent
Absolute Return 6 percent
Cash 2 percent
Risk Parity 1 percent
APFC Public Equities 38 percent

Expected 10-year Geometric Return 6.20 percent
Expected Standard Deviation 13.50 percent
Expected Inflation 2.00 percent
Expected real return 4.20 percent

9:33:43 AM

Senator Wielechowski asked Mr. Allen to compare the riskiness of the permanent fund investments to other sovereign wealth funds around the world.

Mr. Allen thought it would fall in the middle risk area. He commended the permanent fund did not over-reach for returns but had worked methodically in their investment practices. He said that sovereign wealth funds generally had long-time horizons and could take illiquidity risks. He said that remaining risk in the portfolio was equity risk and there was a substantial amount of fixed income. He urged that now was not the time to stretch for return and believed that the permanent fund was in a good place relative to their peers.

9:36:04 AM

Senator Wielechowski spoke of the bond to stock ratio. He thought it seemed like the permanent fund split that ratio 75 percent and 25 percent.

Mr. Allen agreed. He related that Callan and Associates had done an analysis of the level of risk implied by the portfolio, translated into a simple stock and bond mix, and had determined the 75 percent 25 percent split.

9:36:43 AM

Co-Chair Bishop asked whether collapsing the ERA and putting it into the corpus of the fund would change the investment suggestions to the permanent fund board.

Mr. Allen asked for more clarification of the question.

Co-Chair Bishop clarified that that he meant drawing the POMV from the corpus and not the ERA.

Mr. Allen stated that generally such a change would allow for the Permanent Fund to take more illiquidity risk and increase their private margins exposure. He said that one of the concerns with the ERA model was if there was a significant period of negative equity markets, combined with a bigger draw on the ERA, the draw could not be made because the ERA would be depleted. He thought that collapsing the ERA could be beneficial but that it did not make much of a difference form an investment standpoint.

9:39:40 AM

Co-Chair Stedman wanted to discuss the draw rate. He noted that Mr. Allen had mentioned the draw rate of 4 and 4.5 percent. He asked how reasonable the 4 to 4.5 percent draw rate was versus 5 percent or 8.5 percent or some other number.

Mr. Allen thought the current formula at 5 percent was sustainable and was consistent with best practices with all of the endowments they worked with. He stated that going above 5 percent for a long period of time would erode the purchasing power of the corpus. He stated that Callan considered a four percent draw was consistent with maintaining the purchasing power of the principal. He thought that the current formula was sustainable and would maintain over time but would not result in the growth of purchasing power.

9:42:00 AM

Co-Chair Stedman asked whether Mr. Allen was referring to four percent of the annual value or the trading average.

Mr. Allen clarified that the current formula was five percent of the average market value for the previous five years. He stated that, given the expectation that the permanent fund was growing by 6 percent over time, and using market values from the past that were smaller on average, the result was not 5 percent of the current market value. He estimated that the actual spend was 4.2 percent to 4.3 percent each year. He thought that there was a 50 percent chance of earning 4.2 percent real, which meant that the principal stayed the same on an inflation adjusted basis.

9:43:36 AM

Co-Chair Stedman asked to see a standard deviation graph on the returns, with a normal distribution. He asked for a bugle chart on ending values, which he thought made the risk component easier to identify. He observed that the return expectations for the next ten years could be over the projections. He asked at what point would the projections come down and at what point discussions about lower the payout should occur.

Mr. Allen recalled that Callan and Associates had gone on record suggesting that the state move to 4.5 percent as soon as possible. He believed 4.5 percent would be more sustainable. He mentioned that lowering of return expectations should happen slowly and commented on the perverse relationship between having too high a draw while pressuring investment staff to take higher investment risks.

9:47:23 AM

Mr. Allen continued his remarks in response to Co-Chair Stedman's question. He said that the POMV model allowed the state to budget properly with a predicable draw, but that to ensure a sustainable payout the percentage draw should be lowered.

9:48:12 AM

Senator Wielechowski asked whether Mr. Allen thought the annualized return would increase under a POMV.

Mr. Allen explained that typically when discussing an expected return on the portfolio, it was in terms of the overall objective. He thought the POMV took risk off the stable for the state. He said that the state was currently operating under a hybrid, with a POMV coupled with consideration of the ERA. He stated that the ERA created potential conflict of objectives and introduced volatility in the draw. He noted that the ERA was healthy and market value to cost was high, which was a good time to consider eliminating the ERA.

9:51:24 AM

Senator Wielechowski relayed that the ongoing discussion about going to a constitutional POMV was heightening. He wondered how much the returns would increase with a stand-alone POMV.

Mr. Allen clarified that the 4.5 percent was 2.5 percent above inflation, and the rest of the amount was to preserve the principal. He said that dealing with the APFC’s complex portfolio, there was no silver bullet that would gain an extra percent. He mentioned "alpha," which was the excepts return created by beating benchmarks and was not considered in their projections. He relayed that the permanent fund had generated positive alpha overtime and there was a little cushion built into Callan's projects because there was an assumed zero alpha. He thought the main benefit in eliminating the ERA was to take away the spending cliff. He thought stable spending had become a priority to APFC.

9:54:54 AM

Co-Chair Stedman clarified that Mr. Allen's reference to "spending' was the payment from the permanent fund to the treasury and not government spending.

Mr. Allen replied in the affirmative.

Co-Chair Stedman referenced the previous day's presentations, which had shown the elimination of the ERA in the future under the status quo. He asked Mr. Allen to discuss what size of the ERA would be prudent with the added risk level.

Mr. Allen did not think there was anything that could be done to control the size of the ERA.

Co-Chair Stedman clarified that about the ERA he was referencing the multiple against the draw.

Mr. Allen affirmed that the smaller the ERA, the higher the possibility that the draw could not be taken in a down market. He noted that anything taken from the ERA increased the risk of the ERA getting too low to take a draw. He thought that if the ERA was kept at 4x the draw, and then it increased to 5x the draw, there would be the temptation to take money out of the ERA and put it in the corpus. He stated that anything taken form the ERA increased the risk that the ERA would become too low to support the draw.

9:58:06 AM

Co-Chair Stedman felt that the issue was complicated by politics. He said that to ensure that the ERA was not exposed to ad hoc draws could put the APFC in the position of having to restructure their asset class or assume higher risk.

Mr. Allen had been modeling the ERA since the mid-1990s. He had appeared in front of the committee in 1997 or 1998, at which time the legislature had done an ad hoc inflation proofing appropriation back to the principal that took the ERA to zero. He had made the case with a model that there was a 25 percent chance that the dividend would go to zero within two years. He thought at the time the legislature was being fiscally conservative. He noted that the ERA "got healthy" again in time to payout dividends. He thought starting with zero in the ERA would increase the probability that there could be no draw, particularly because the draw was currently 3x to 4x higher.

Co-Chair Stedman clarified he was not suggesting taking the ERA to zero. He expressed the concern about facing a precipitous draw rate and putting the state in a position of difficulty with the planned 5 percent draw. He feared the responding to the erratic appropriation request from the legislature could spook the APFC board. He said that discussions on the declining return expectation with the 5 percent draw rate highlighted problems, and that issues were compounded with the addition of politics. He said that the committee would be reaching out to APFC to get a better feel of the impacts to the ERA and liquid assets. He expressed concern that a falling nominal could be put in place that would create an intolerable situation for the state.

10:03:16 AM

Mr. Allen remarked that if the legislature increased the draw above the formula, it strained the ERA. He furthered that if the legislature increased the draw under the POMV model it eliminated the ERA worry but increased the concerns for sustainability of the fund. Increasing the draw would be unsustainable and would result in a more illiquid portfolio overtime.

10:04:31 AM

Co-Chair Stedman recalled past proposals for a $10 billion draw. He spoke to the proposed appropriations at play that were significantly higher than the draw rate.

10:05:16 AM

Mr. Allen likened the PF and every sovereign wealth fund to a fishery or a forest, that which had a limited amount of resource to give. He suggested managing the fund as a sustainable resource.

10:05:56 AM

Senator Wielechowski asked whether Mr. Allen suggested that the APFC become aggressive in response to government spending demands.

Mr. Allen credited the corporation for resisting the urge to become more aggressive because of the bigger draw. He thought that the current formula was sustainable and did not put undue pressure on the APFC investment staff. He thought that there had been an increased focus on liquidity management and that the corporation had resisted taking on additional risk.
Co-Chair Stedman requested moving to slide 26 of the presentation.

10:08:44 AM

STEVEN CENTER, SENIOR VICE PRESIDENT, CALLAN AND ASSOCIATES (via teleconference), spoke to slide 26, "ARMB PERS/TRS Current Total Fund Policy Target - Projected Return and Standard Deviation":

- Projected median 10-year annualized return of **6.15 percent** is a reduction of roughly 65 basis points relative to last year.
- Inflation expectation reduced from 2.25 percent to **2.00 percent.**
- Projected median 10-year annualized real return of **4.15 percent** is a reduction of roughly 40 basis points relative to last year.
- Projected standard deviation of **13.56 percent** is roughly the same as last year.

Real Assets 13.0 percent
Private Equity 12.0 percent
Opportunistic 6.0 percent
Fixed Income 22.0 percent
Public Equity 47.0 percent

Expected 10-year Geometric Return: 6.15 percent
Expected Standard Deviation: 13.56 percent
Expected Inflation: 2.00 percent
Expected Real Return: 4.15 percent

10:10:38 AM

Co-Chair Stedman wanted to see a bugle graph and a standard deviation graph of the information on the slide

Mr. Center admitted that the presentation did not include any risk charts. He affirmed that the PERS plan historically had a risk level that was slightly below median when compared to other public funds.

Co-Chair Stedman said that the bugle chart would give the committee a graphical representation of the risk going forward.

Mr. Center agreed to provide the requested charts.

Co-Chair Stedman relayed concerns about payments for unfunded liability that extended to the end of the century. He referenced historical challenges for various reasons for hitting the dollar target on the portfolio that had led to increased contributions, which had put pressure on the Operating Budget. He lamented that as agency budgets had been reduced the pension obligation had increased.

10:13:30 AM

Senator Wielechowski reference the slide and thought it looked like there was a 5 basis point less return in the permanent fund and an increase in the standard deviation.

Mr. Center relayed that the numbers reflected the higher allocation to public equities versus the permanent fund. He said that public equities were valued on a daily basis and had a higher volatility than public equity.

10:14:15 AM

Co-Chair Stedman thought the committee could have a conversation with the ARM Board after receiving the requested charts.

10:14:43 AM

Mr. Center discussed slide 27, " Alaska PERS Total Fund Annualized Historical Returns - Total Fund versus Total Fund Target," which showed a bar graph. The slide looked at historical performance of the PERS plan. He shared that the PERS and TRS plans had the same asset allocation with slight variances overtime. He relayed that PERS had performed well relative to its benchmark.

10:15:45 AM

Co-Chair Stedman asked members to consider the information on the slide when looking at contribution increases and the suggested rate when dealing with unfunded liability.

10:16:27 AM

Mr. Center referenced slide 28, "Alaska PERS Total Fund Cumulative Returns - Last 10 Years - Total Fund versus Total Fund Target," which showed a line graph depicting cumulative returns for 10 years ending December 31, 2020.

Co-Chair Stedman expected that, when looking at forward projections of the value of the portfolio from 2011, the portfolio would be higher than the projected forward values.

Mr. Center replied in the affirmative. He asserted that the plan outperformed the projected return from 10 years ago.

Co-Chair Stedman restated his interest in seeing the information converted to actual dollars.

Mr. Center affirmed that the PERS market value at the end of December 2020 was approximately $10.8 billion. He did not have the liability numbers.

Co-Chair Stedman thought that the yearly dollar projections would be helpful to the committee.

Mr. Center agreed.

10:18:47 AM

Senator Wielechowski asked how the target index was selected and if it had changed over the previous 20 years.

Mr. Center said that the target index changed frequently due to implementation, such as the addition of an asset class or a change in underlying asset class. He directed the committee's attention to the bottom of the slide, which detailed the current benchmark makeup. He stated that the benchmark makeup changed for year to year. He offered an example of the real estate portfolio within PERS. He related that the goal of the benchmark was to provide a return hurdle for the PERS portfolio that was indicative of the asset allocation for any fiscal year.

10:20:23 AM

Senator Wielechowski assumed the PERS total fund return was inclusive of costs and fees when compared to the target index.

Mr. Center explained that the return was a blend of gross and net of fees. He agreed to get back to the committee with more information.

Co-Chair Stedman suggested that, due to time constraints, the presenter choose from the remaining slides which were most important to share with the committee.

Mr. Center recommended looking at slide 21, which offered a chart illustrating APFC total fund annualized historical returns.

10:21:30 AM

Mr. Center referenced slide 21, "APFC Total Fund Annualized Historical Returns - Total Fund versus Total Fund Targets," which showed a bar graph entitled 'Returns for Periods Ending December 31, 2020.' He said that the fund had several benchmarks that it was tracked against. He spoke to the green bar, which was a blended benchmark that reelected the overall asset allocation of the fund. He related that the orange bar was the passive index, which was a blend of publicly traded benchmarks. He shared that the third was the return investment of CPI, plus 5. He said that the fund was up 10 percent over the last five years and was ahead of all benchmarks. He asserted that the AFOC team had done a stellar job at implementation. He said that the PERS team did a good job of staying on top of asset allocation targets.

10:23:39 AM

Co-Chair Stedman thanked Mr. Allen and Mr. Center for the continued work. He thanked Ms. Angela Rodell and her team for their great work in their management of the permanent fund.

Co-Chair Stedman discussed housekeeping.

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ADJOURNMENT

10:24:58 AM

The meeting was adjourned at 10:24 a.m.