

**ALASKA STATE LEGISLATURE  
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

Anchorage, Alaska

June 24, 2024

9:13 a.m.

**MEMBERS PRESENT**

Representative Ben Carpenter, Chair  
Representative DeLena Johnson (via teleconference)  
Representative Sarah Vance (via teleconference)  
Representative Frank Tomaszewski (via teleconference)  
Representative Andy Josephson  
Senator James Kaufman  
Senator Scott Kawasaki (via teleconference)

**MEMBERS ABSENT**

Senator Bert Stedman, Vice Chair  
Senator Bill Wielechowski  
Senator Lyman Hoffman  
Representative Mike Cronk (alternate)  
Senator Click Bishop (alternate)

**COMMITTEE CALENDARh**

APPROVAL OF MINUTES  
ALASKA PERMANENT FUND CORPORATION UPDATE

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

DEVON MITCHELL, Executive Director  
Alaska Permanent Fund Corporation  
Juneau, Alaska

**POSITION STATEMENT:** Co-presented a PowerPoint presentation on APFC.

MARCUS FRAMPTON, Chief Investment Officer  
Alaska Permeant Fund Corporation  
Juneau, Alaska

**POSITION STATEMENT:** Co-presented a PowerPoint presentation on APFC.

SEBASTIAN VADAKUMCHERRY, Chief Risk & Compliance Officer  
Alaska Permanent Fund Corporation  
Juneau, Alaska

**POSITION STATEMENT:** Co-presented a PowerPoint presentation on APFC.

**ACTION NARRATIVE**

[9:13:51 AM](#)

**CHAIR BEN CARPENTER** called the Legislative Budget and Audit Committee meeting to order at 9:13 a.m. Representatives D. Johnson (via teleconference), Tomaszewski (via teleconference), Josephson, and Carpenter, and Senators Kaufman and Kawasaki (via teleconference) were present at the call to order. Representative Vance (via teleconference) arrived as the meeting was in progress. Also present were Senators Kiehl (via teleconference) and Wilson (via teleconference), and Representative Edgmon (via teleconference).

**APPROVAL OF MINUTES**

[9:14:57 AM](#)

CHAIR CARPENTER announced that the first order of business would be the approval of minutes.

[9:15:06 AM](#)

SENATOR KAUFMAN moved that the Legislative Budget and Audit Committee approve the minutes for the May 9, 2024, meeting, as presented. There being no objection, the minutes were approved.

**ALASKA PERMANENT FUND CORPORATION UPDATE**

[9:15:30 AM](#)

CHAIR CARPENTER announced that the next order of business would be a presentation by Devon Mitchell from the Alaska Permanent Fund Corporation (APFC).

[9:15:47 AM](#)

DEVON MITCHELL, Executive Director, Alaska Permanent Fund Corporation (APFC), said he wanted to have an opportunity to address any outstanding issues with the committee and give an

overview of how he perceives APFC, as well as the investment of the Alaska Permanent Fund.

[9:16:57 AM](#)

The committee took a brief at-ease.

[9:17:20 AM](#)

MR. MITCHELL directed attention to a PowerPoint presentation on APFC [hard copy included in the committee packet]. He began on slide 2 and briefly described the history of Alaska Permanent Fund ("the Fund"), which was created almost 50 years ago through a constitutional amendment that dedicated certain royalty revenues for the benefit of future generations. He continued to slide 3, "Accountability," and explained that APFC aims to be accountable to the people through their elected officials and the oversight of the Legislative Budget & Audit Committee. APFC's management system aims to protect the Fund from undue political influence, instead opting to maximize the risk-adjusted rate of return for the Alaska Permanent Fund's investment.

CHAIR CARPENTER pointed out that AS 37.13.160 references an annual post audit and annual operational and performance evaluation of the Fund's investments and investment programs, specifically in the purview of the Legislative Budget and Audit Committee. He stated that the committee needs to assess whether the audits are needed or not.

MR. MITCHELL explained that the corporation is audited by an external auditor every year, which is reviewed by the Legislative Audit Division as part of the state's audit process.

[9:21:27 AM](#)

MR. MITCHELL resumed the presentation on slide 4, "Governance," noting that certain investment strategies and private market investments aren't subject to disclosure to the general public due to the proprietary nature of the investment opportunities. He said APFC tries to be as transparent as possible; however, participating with investors in the private market who demand confidentiality is the cost of doing business. He said APFC migrated into this space because it's hard to ignore the private market return potential. He emphasized the importance of balancing maximum return with the goal of transparency.

[9:23:20 AM](#)

MR. MITCHELL continued to slide 5, "Investing for the Long Term," and reported that the target of the Fund is inflation plus 5 percent. He said currently, the Fund hits that target on a 10-year lookback but not a 5-year lookback. In other words, the consumer price index (CPI) plus 5 percent has been greater than the returns of the Fund over the last 5 years, but not over the last 10-year average.

[9:25:19 AM](#)

MR. MITCHELL turned to slide 6, "Diversification," which featured the progression of the portfolio through the years. In 1980, the Alaska Permanent Fund was invested entirely in fixed income securities. 1990 saw the beginning of diversification with real estate and public equities, followed by the addition of private equity and absolute return in 2006. The 2025 target allocation adds private income and tactical ops to create a diverse pie of asset classes designed to minimize the impact of market volatility while maximizing return. He added that the goal is to shift those pieces of the pie around based on capital market assumptions that the external advisor provides to target the maximum risk-adjusted rate of return. He said it's interesting that Alaska took a non-renewable resource from the North Slope and made it into a renewable resource that's funded through the world's economy. As a result, he argued that there isn't a state with as diverse of a revenue stream.

[9:29:00 AM](#)

MR. MITCHELL proceeded to slide 7, "10 Year Annualized Returns," which shows 10-year lookbacks of the CPI plus 5 percent return objective and the difficulty of meeting that target. He highlighted a period of 11 years [2008-2018] where the return objective was not met.

[9:31:04 AM](#)

MR. MITCHELL turned to slide 9, "Revenue Stability," which featured two charts. The chart on the left showed the historical volatility of revenues driven by commodity and oil prices. The bar chart on the right showed the stability created by the percent of market value (POMV) transfer. He highlighted the POMV formula and reported that in FY 25, the draw would be \$3,657.2.

[9:32:42 AM](#)

CHAIR CARPENTER asked, to the extent that asset diversification includes larger amounts of private equity, whether there is a risk of not being able to meet the reliable revenue sources in the future.

MR. MITCHELL said yes, that continues to be a concern. He explained that certain income is classified as unrealized gains and gave the example of a commercial building that was bought for \$1 million and is now worth \$5 million after 10 years, resulting in \$4 million in unrealized gains. Today, the Alaska Permanent Fund has around \$14 billion in unrealized gains, which was gradually earned. However, those investments have not been sold, so they are not available to spend. At the same time, recent years have seen relatively austere realized income. As a result, in FY 23, the combination of inflation proofing and POMV transfer was \$5 billion more than the realized statutory net income (SNI). He suspected that FY 24 would be smaller, but similar.

[9:38:16 AM](#)

MR. MITCHELL resumed the presentation on slide 10, "Producing Income," and highlighted the chart on the right, which showed the past 6 years of SNI. FY 24 is shaping up to be a median of the 6 years at \$3.7 billion. The chart on the left showed the progression of the Fund with realized earnings and total return. He noted that APFC's portfolio is structured towards total return. He reiterated that realized return and total return can vary significantly from year to year, which challenges one of the Fund's great strengths, the stability factor.

[9:40:36 AM](#)

CHAIR CARPENTER asked whether APFC is experiencing a downward trend in realized return from its inception.

MR. MITCHELL acknowledged that there appears to be a downward trend. He explained that markets have become more sophisticated over time, so what might have been possible in the past, might not be possible today. There are also fixed income trends that have more recently created additional challenges for portfolio construction. He resumed the presentation on slide 11, which showed the composition of the Fund. He reported that as of May 31, the Fund's total value is \$80.2 billion with the non-spendable Principal portion amounting to \$56.9 billion. He

noted that the unrealized gains are allocated between the Principal and the Earnings Reserve Account (ERA). The FY 25 POMV transfer is \$3.7 billion; the current FY 24 inflation proofing is \$1.4 billion, which is transferred at the end of the fiscal year on June 30; and the uncommitted, realized earnings that are available for appropriation is \$3.9 billion.

CHAIR CARPENTER sought questions from committee members.

[9:45:27 AM](#)

REPRESENTATIVE JOSEPHSON said the press had reported that the Fund ran a substantial risk of not being able to complete the 5 percent draw. He asked whether the simple answer is to draw less than 5 percent rather than a statutory reform. In addition, he questioned whether APFC had ever formally recommended drawing less than 5 percent.

MR. MITCHELL said he was not at APFC when the transition to a POMV draw occurred. He added that at this time, there is no recommendation by the Board of Trustees to adjust the rate.

[9:48:25 AM](#)

SENATOR KAUFMAN pondered a sustainable percentage for the draw and asked whether APFC runs projections that show inflation adjusted draws over time.

MR. MITCHELL answered yes, APFC has publicly available projections on their website that are adjusted monthly, and projections based on Callan's assumptions, which he likened to oil price projections. In addition, modeling on the ERA's durability had been performed in various scenarios, each with a probability of breaking the ERA due to a lack of realized earnings over the next 10 years. He noted that the Board of Trustees has advocated for a constitutional amendment that would resolve a number of issues by creating one fund with a defined draw. This would eliminate the concern about one generation of Alaskans taking more than their "fair share" and the concern that there wouldn't be enough to spend.

[9:53:24 AM](#)

SENATOR KAUFMAN commented on risk management and opined that the Fund's current structure impedes the ability to manage for total return. He shared his belief that cash flow constraints would go away if the Fund was conjoined with a constitutional

amendment. If the constitutional constraints of having the ERA and the corpus were removed, he asked whether the cash would flow appropriately with the current asset allocation.

MR. MITCHELL acknowledged that there are no statutory directives to provide for liquidity. As asset classes increase in value, he explained that bands around the target allocations trigger divestment in that asset class to maintain a balance and bring in realized gains. He added that private market exposure leads to less ability to rebalance due to illiquidity. An asset class might fit in well with the portfolio construction to meet a maximum adjusted rate of return without providing consistent cash flow.

[9:58:29 AM](#)

CHAIR CARPENTER inquired about asset allocation and its impact on unrealized gains. He referenced AS 37.13.020, which states that the Alaska Permanent Fund should be used as a savings device managed to allow for the maximum use of disposable income from the fund for purposes designated by law. He questioned whether disposable income and uncommitted, realized earnings fit within the same category, and asked where disposable income would come from if it was not uncommitted, realized earnings.

MR. MITCHELL said the interpretation adopted by the Board of Trustees is to maximize the risk-adjusted rate of return, which ultimately provides for disposition, but not necessarily on a year-by-year basis. He highlighted a difference in the interpretation of AS 37.13.030, in that APFC perceives it as a directive to maximize return and is agnostic on whether its liquid or illiquid.

CHAIR CARPENTER asked what portion of the unrealized gains would be liquidated to meet the statutory requirement in a single account structure if there was not enough money for a 5 percent draw.

[10:04:21 AM](#)

MR. MITCHELL said in a one fund construct, that conversation would be "water under the bridge" and not as germane, because a constitutionalized draw based on a certain formula would supersede the significance of how the money got there and how its categorized.

CHAIR CARPENTER contended that the conversation is germane because decisions on asset classification appear to be more focused on growing the total value of the Fund than realized earnings. Without the ERA, he posited that the 5 percent draw would be pulled from the corpus to meet the statutory requirement, and questioned whether that money would come from royalties or money that the legislature had set aside. He asked whether a performance audit is necessary to assess whether actions taken by the Board of Trustees are meeting the legislature's intended purpose of the fund.

MR. MITCHELL said with the existing construct today, there could be a draw if there was an insufficient amount of realized income in the ERA because the money would come from either unrealized gains or the Principal.

CHAIR CARPENTER added, "Hence the need for an ERA if the people want to protect their fund." Without an ERA, the balance of the Fund would be the only place to pull from.

MR. MITCHELL said shifting the Fund's structure to one account would instantly add \$14 billion of available earnings for expenditure to a theoretical ERA balance. With one fund, if there was a need to start drawing from what was historically classified as the Principal, he asked how that would compare to where the Fund is currently and whether some sort of buffer would be needed in the constitutional construct.

[10:09:46 AM](#)

SENATOR KAUFMAN opined that the legislature should consider avoiding overlapping protective layers. If the Principal and the ERA were conjoined and managed for total return while providing for the draw, there would be a safe shot at achieving that cash flow through interest rather than growth expectations, he said. He suggested that the Fund's current structure could be tweaked for revenue to avoid the sequence of return risk that causes an asset to be sold before its ready. Furthermore, he shared his belief that restructuring the Fund while protecting its value and providing for the anticipated draw would be doable.

CHAIR CARPENTER reiterated that per statute, the Fund's goal should be to maintain safety of the Principal while maximizing total return. Further, the fund should be used as a savings device to allow the maximum use of disposable income. He questioned whether the Fund is being managed appropriately if

what's being presented are uncommitted, unrealized earnings that aren't enough to meet the statutory 5 percent draw. He asked how a single account structure would change that.

MR. MITCHELL said it's a matter of how one thinks about earnings versus Principal. He shared his belief that additional thought could be put towards ensuring that the suggested path is viable and in alignment with historic goals.

[10:14:09 AM](#)

MR. MITCHELL resumed the presentation on slide 12, "The Permanent Fund's Two Accounts," which charted the composition of the Principal and the ERA. He explained that the coming year's POMV transfer, as well as the current year's inflation proofing, has been reserved and identified on July 1 to ensure to the legislature that its available. He noted that \$3.8 billion had been segregated for the FY 26 POMV, and for the first time, the \$3.9 billion in realized earnings is insufficient to cover the draw plus FY 25 inflation proofing. Consequently, that future appropriation would rely on FY 25 earnings to make those transfers.

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REPRESENTATIVE JOSEPHSON asked whether the need for additional realized earnings would come organically or whether investors would pivot to account for a 5 percent need.

MR. MITCHELL acknowledged that the statutory framework for providing for disposable income could be explored. Theoretically, the investments in unrealized gains can be sold and bought back to realize those earnings; however, it would be a one-time opportunity and there would be a cost. Furthermore, the majority of unrealized gains are in the private market where there's not the same ability to churn portfolio. In addition, large commercial real estate holdings take at least one or two years to divest, and there are time restrictions on divesting from hedge fund portfolios. At this point, APFC operates as if it would not churn portfolios solely for the POMV draw unless there were a statutory mandate. Otherwise, there would be an inability to provide for the transfer. Nonetheless, he cautioned against being "alarmist," as there are many opportunities to make adjustments to eliminate this perceived cliff.

CHAIR CARPENTER said he's fully aware that this is not a black and white issue. He questioned the long-term plan for the Fund, and asked whether the goal is to grow the Fund to some arbitrary number for a purpose that's not well defined in statute, or whether the purpose is what's stated in statute.

[10:22:49 AM](#)

MR. MITCHELL said a target has not been identified by the Board of Trustees. Nonetheless, he said there have been discussions about celebrating when the fund hits \$100 billion. He continued the presentation on slide 13, "What Portion of the Fund is Available for Appropriation?" He reiterated that within the ERA, \$3.9 billion of uncommitted, realized earnings are available for future use. These earnings can be appropriated to support the FY 26 POMV draw and the FY 25 inflation proofing. If the amount is insufficient to provide for the POMV draw as well as inflation proofing, APFC would come to the legislature and suggest that appropriations be modified to accommodate the deficiency. He shared his belief that the POMV draw would be funded before inflation proofing. He turned to slide 14, "Looking Ahead Projection - Beginning of Fiscal Year 2025," which listed the projected amounts in the Principal and ERA. He reiterated that with a \$3.8 billion POMV draw to the General Fund (GF) in FY 26, only \$400 million would be available to provide for the \$1 billion appropriated for FY 25 inflation proofing, resulting in a shortfall of \$600 million. Mr. Mitchell briefly highlighted the last bullet point on slide 15, "Revenue Stability," reiterating that with a total return portfolio, the focus is not on an asset allocation that was envisioned when the statutory framework was constructed. He addressed the Trustees' Paper Volume 10 on slide 16, which outlined various reforms to mitigate the risk of depleting the ERA, including suspending inflation proofing; realizing gains in public markets to ensure that there is sufficient SNI to provide for transfers; and collapsing the two funds into one, which has been the perspective of the board for more than 20 years.

[10:29:24 AM](#)

REPRESENTATIVE JOSEPHSON asked Mr. Mitchell to share his analysis of what would be missing without a constitutional endowment versus the statutory approach.

MR. MITCHELL answered, "Durability." He stated that statutory changes are laudable as well, and encouraged the legislature to

consider those; however, the risks of overdrawing and inflation proofing remain on the table.

[10:31:19 AM](#)

MARCUS FRAMPTON, Chief Investment Officer, Alaska Permanent Fund Corporation (APFC), returned to slide 10 and commented on the slight downward trend of realized earnings, which he attributed several different factors, including yield on the portfolio, as well as volatility as the fund moves away from fixed income.

[10:35:21 AM](#)

MR. FRAMPTON jumped to slide 19, "Target Asset Allocation - FY 2025 Vs. FY 2024." He acknowledged the low ability to predict where the asset classes will go in the next year, but an estimate over the next 10-year horizon is necessary to build a portfolio that is expected to earn the target of inflation (CPI) plus 5 percent. He reviewed the changes in each asset class from FY 24 to FY 25, indicating that all changes combined result in approximately .001 of a percent higher on expected return.

[10:38:35 AM](#)

SEBASTIAN VADAKUMCHERRY, Chief Risk & Compliance Officer, Alaska Permanent Fund Corporation (APFC), turned to slide 20, "Risk Metrics," and explained that the board has instilled a target risk, or the maximum level of risk that can be taken to achieve the target return. Risk numbers were computed for the FY 25 target asset allocation as per the board approved risk appetite policy. On all three dimensions - Value at Risk (VaR), stress drawdown levels, and liquidity - the proposed 2025 allocations were within the risk tolerance portfolio.

CHAIR CARPENTER asked whether a risk analysis for each asset class could be provided to the committee.

MR. VADAKUMCHERRY offered to follow up with the requested information.

[10:41:35 AM](#)

MR. FRAMPTON continued to slide 21, "Long-term Investment Performance Exceeds Relevant Benchmarks." He explained that fiscal year to date, it's been a difficult year with the total Fund performing at 5.4 percent versus the 6.3 percent performance benchmark. He noted that private market performance

is best scrutinized over a long-term lens, and while the Fund is underperforming by 2 or 3 percent against the benchmark this fiscal year, the Fund's 10-year private equity performance is one of the best among large state funds. The real return objective, or CPI plus 5, is underperforming on all three analyses (fiscal year to date, 3-year lookback, and 5-year lookback); however, most institutional portfolios have underperformed on that marker given the level of inflation in the country.

[10:48:50 AM](#)

MR. MITCHELL concluded the presentation on slide 22, "Consistent Discipline," which highlighted the following three components: honoring the past, stewardship, and providing stability. He emphasized the corporation's desire to adhere its conduct and performance to the highest standards and provide that value to the state of Alaska.

CHAIR CARPENTER referred to a recent issue with the Board of Trustees, which lead to an open investigation within the corporation. He asked why the release of information as a matter of public record is being investigated.

MR. MITCHELL said the concern is that the information wasn't released through the proper channels. He explained that emails were provided to someone outside the corporation in an inappropriate fashion. He reported that APFC spends 98 percent of its budget on protection from the outside in, as opposed to inside out, which makes this event unprecedented. Consequently, ensuring that confidential information stays within the organization has been one aspect of APFC's discussions.

[10:53:37 AM](#)

CHAIR CARPENTER suggested that the public sharing of information by employees may be evidence of conflict. With regard to legislative oversight, he asked whether there is evidence that a performance audit should be conducted to assure Alaskans that this conflict isn't negatively impacting the ability to manage the Fund. He asked whether there has been an increase in internal conflict that has led to delayed responses or negatively impacted the corporation's ability to follow statutory requirements.

MR. MITCHELL shared his belief that the staff's professionalism and dedication to duty has not been impacted. In his role, he

said he encouraged staff to focus on their job despite "outside noise" and to continue doing the best they can for the state of Alaska.

[10:58:29 AM](#)

REPRESENTATIVE JOSEPHSON said Mr. Mitchell has his trust and faith, but he would not refer to this situation as "noise" due to an accumulation of issues, like the dispute over the Anchorage office and the email leak which lead to questions about investment decisions outside the norm and the decision to invest money in state. He said what he wants most is "the typical historic story about the permanent fund doing its work, hopefully building towards that \$100 billion" even if those stories are mundane. He acknowledged the need to protect internal communications; however, these are important things that the public needs to hear about because there is legitimate concern.

MR. MITCHELL agreed that it would be nice to be boring. He said APFC staff strives towards putting their heads down and doing their job.

[11:01:35 AM](#)

REPRESENTATIVE D. JOHNSON shared her understanding that the Board of Trustee's intent is to maintain the Anchorage office and disregard the legislature's intent not to fund the Anchorage office.

MR. MITCHELL confirmed that the board had determined that the Anchorage office is an important component of the operation. He shared his understanding that despite the appropriation language, there is flexibility to continue to fund that office.

REPRESENTATIVE D. JOHNSON clarified that the legislature does not want offices established anywhere without legislative approval. She asked whether there is any intent to establish offices elsewhere in the continental U.S.

MR. MITCHELL answered not at this time. He acknowledged that there have been discussions about offices in other locations closer to financial centers; however, he said APFC would need to ensure that a physical office would bring added value.

REPRESENTATIVE D. JOHNSON emphasized that the only time to have that conversation is in front of the House or Senate Finance

Committee during the budget process. She encouraged APFC to maintain a strong relationship with the legislature.

[11:06:14 AM](#)

CHAIR CARPENTER said with regard to the emails, he agreed with Representative [Josephson] that the series of events paints a different picture. He said he looked forward to seeing what the governor does with the budget and how that impacts the Anchorage office. He reiterated that the Legislative Budget and Audit Committee has a responsibility to Alaskans to provide oversight for the corporation and thanked Mr. Mitchell for his willingness to have a conversation in that light.

[11:07:26 AM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 11:07 a.m.