

SENATE FINANCE COMMITTEE
February 13, 2023
9:01 a.m.

9:01:01 AM

CALL TO ORDER

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

MEMBERS PRESENT

Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair
Senator Click Bishop

ALSO PRESENT

Deven Mitchell, Executive Director, Alaska Permanent Fund Corporation; Marcus Frampton, Chief Investment Officer, Alaska Permanent Fund Corporation.

SUMMARY

PRESENTATION: ALASKA PERMANENT FUND CORPORATION

Co-Chair Stedman relayed that the presentation would address the Earnings Reserve Account (ERA), which is the spendable portion of the permanent fund, not protected by the constitution, and accessible by a three-quarter vote of the legislature. He noted that the state relied heavily on the ERA to fund the permanent fund dividend (PFD) and for state expenditures. He stressed that the health of the fund was a major priority. He relayed that the matter of the PFD had the attention of the legislature. He hoped that the other body would consider the information in the presentation and use it to educate new legislators.

^PRESENTATION: ALASKA PERMANENT FUND CORPORATION

9:04:16 AM

DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, introduced himself and his support staff. He discussed his background as the state's debt manager. He shared that he had been in his current position for three months.

Mr. Mitchell discussed a PowerPoint presentation entitled "Senate Finance Committee - February 13, 2023," (copy on file).

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Mr. Mitchell looked at slide 2, which was a timeline of milestones related to the creation of the Permanent Fund:

1969 The Prudhoe Bay lease sale brings more than \$900 million to the State for drilling rights

1971 President Nixon signs Alaska Native Claims Settlement Act (ANCSA)

1973 Congress passes Trans Alaska Pipeline Authorization Act

1974 Pipeline construction begins

1976 Alaska voters approve Constitutional Amendment establishing the Permanent Fund 2/3rds margin 75,588 to 38,518

1977 The Permanent Fund receives its first deposit of dedicated oil royalties totaling \$734,000

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

Mr. Mitchell noted that the fur trade had been a revenue source prior to 1969. He thought that by 1976 it was clear that oil funds should be managed for future use, resulting in the creation of the Permanent Fund. He stated that the APFC was created to maintain the fund as an intergenerational resource for Alaska and Alaskans.

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Mr. Mitchell reviewed slide 3, which cited Article IX, Section 15 of the Alaska Constitution:

The Permanent Fund
Alaska Constitution
Article IX, Section 15

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

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Mr. Mitchell referenced slide 4, "Renewable Financial Resource,"

Savings

Since the First Royalty Deposit of \$734 thousand
The Principal has grown to \$52 billion

Income-Producing

The Earnings Reserve Account has received more
than \$82.1 billion

Earnings Use

Inflation Proofing Principal \$18.0 B

- Special Appropriations to Principal \$12.3 B
- Alaska Capital Income -Amerada Hess ~\$0.4 B
- Dividend Fund through FY18 \$24.4 B
- Percent of Market Value FY19-FY23 \$15.9 B

Mr. Mitchell explained that there were different ways to discuss the concept of "principal." He outlined that there had been financial and accounting changings in the world that the account has needed to catch up with. He discussed the Alaska Capital Income Account, which was a sub-account formed from a court case, resulting in the Amerada Hess settlement. In the case, the defense argued that the jury would potentially be biased by a deposit into the Permanent

Fund, so the judge ordered the funds to be segregated into a separated account.

Mr. Mitchell discussed the percent of market value (POMV) draw, which was established in FY19 and increased reliance on the permanent fund.

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Mr. Mitchell showed slide 5, "To Manage and Invest for Generations."

Mr. Mitchell considered slide 6, "Investing for the Long-Term":

Legislature's findings for the purpose of the Permanent Fund in AS 37.13.020,

- the fund should provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans;
- the fund's goal should be to maintain safety of principal while maximizing total return;
- the fund should be used as a savings device managed to allow the maximum use of disposable income from the fund for purposes designated by law.

The Board's objective for the Fund, as set forth in the Investment Policy, is to achieve the highest level of performance within the investment responsibilities of AS 37.13.120 and prudent investment practices.

Investment Performance

Ability to generate an annualized return of inflation (CPI) + 5% over a 10-year period (long-term target).

Investment Risk

Ability of the Fund to achieve the long-term target while conforming to the Board's approved risk appetite metric.

Mr. Mitchell summarized that the investment strategies of the fund were broad, and included a methodical, board reviewed process. He said that opportunities that added value on a long-term basis was the priority.

Mr. Mitchell explained that the primary focus was to protect principal. He mentioned the role of the risk officer, who sometimes had to have difficult conversations concerning how to maintain the balance and protect principal overtime.

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Co-Chair Stedman asked for further discussion related to the POMV draw, which was split between PFDs, inflation proofing, and state spending. He recalled that in the past the state continually reinvested into the fund to ensure its growth.

Mr. Mitchell agreed with Co-Chair Stedman that there were two statutory formulas for drawing from the Permanent Fund. The first manner was using the statutory 21 percent of the last 5 years net income divided in half - half for the PFD and half for the, which was subsequently reinvested rather than used for operating costs. He commented that the gift and sacrifice made by past generations of Alaskans, to provides the resource that exists today. He followed that the obligation of today's generation was like that of the past to adhere to prudent policy and restraint.

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Co-Chair Stedman thought the point was an important one to be remembered. He said that for decades the state reinvested its percentage, which resulted in a near doubling of the fund.

[9:17:04 AM](#)

Co-Chair Olson considered slide 4, which showed a fund principal of \$52 billion and the earnings reserve fund (ERA) of \$82.2 billion. He asked whether the board considered the two funds differently.

Mr. Mitchell answered in the affirmative. He explained that the principal was a combination of deposits that included the constitutional and statutory contributions. He said that the balance of the fund was a result of appropriations from the General Fund, and the ERA for inflation proofing and special appropriations.

Co-Chair Olson wondered whether protections for drawing on the funds were similar.

Mr. Mitchell relayed that there was no limit on how much the state could segregate and provide into the permanent fund and protect as principal.

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Co-Chair Olson understood that only the corpus of the fund at \$52 billion was protected as opposed to the remainder of the entire fund. He wondered what would happen if the protection was challenged legally.

Mr. Mitchell shared that his opinion, based on conversation with legal counsel, was that the \$52 billion was irrevocably placed in the fund despite the source of the deposits, whether they be royalties or other.

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Senator Merrick asked if it was feasible and whether there were benefits to combining the Earnings Reserve Account and the principal.

Co-Chair Stedman requested that the questions remain in the order of the slides.

Mr. Mitchell replied in the affirmative to Senator Merrick's question and said that more information would be provided in a future slide.

[9:22:06 AM](#)

Mr. Mitchell displayed slide 7, "Diversified Portfolio," which showed a world map that depicted Permanent Fund investments around the world. He cited that the state had a small economy for a gross domestic product (GDP) point of view. He qualified that Permanent Fund revenue was not derived from the state's economy, but rather from the world economy. He said that, from a credit perspective, this reduced reliance on the state's economy for providing for Alaska. He reiterated that this was an achievement borne from the sacrifices of the past.

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Senator Kiehl noted that North America comprised approximately one-quarter of the global economy, while the slide showed an APFC investment of three-quarters in North America.

Mr. Mitchell deferred the question to the Chief Investment Officer of APFC.

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MARCUS FRAMPTON, CHIEF INVESTMENT OFFICER, ALASKA PERMANENT FUND CORPORATION, explained that the largest asset class in the portfolio was public stocks, with a benchmark a global equity index. He said that U.S. Stocks were roughly 60 percent of the index. He said that there was limited advantage in international real estate investments. He said that there was a bit of a home country bias, but less than some other peers.

Senator Kiehl thought Mr. Frampton's answer offered a helpful perspective. He wondered about the underlying reasons for the home country bias.

Mr. Frampton thought the underlying reasons were familiarity, rule of law, and the development of the financial system. He considered the United Kingdom, where the fund had a higher mix of assets than the United Kingdom's GDP mix. He used China as an example, which would become the highest GDP country, with only 5 percent of the fund's portfolio.

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Co-Chair Stedman asked for more detail regarding the fund's exposure in Russia.

Mr. Frampton cited that the APFC had not divested its investments in Russia at the time of the invasion of Ukraine. Those investments had been ridden down by approximately 90 percent. He said that APFC did not ascribe much value to the currently held assets in Russia.

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Mr. Mitchell highlighted slide 8, which was a group of pie charts to give a snapshot of the fund's asset allocation evolution.

[9:29:11 AM](#)

Mr. Mitchell looked at slide 9, which showed a bar graph to illustrate annual investment performance adjusted for inflation. He noted that the gold dots represented the target return objective, which was shown to move due to changing inflation. He said that the combination of fund real return and inflation equaled experience. He explained that longer-term lookbacks of 20 years to 30 years would show times of unmet return objectives, but that the slide showed that annual investment performance, adjusted for inflation, indicated sustained value, and purchasing power.

Co-Chair Stedman relayed that there was a considerable amount of concern related to the risk exposure of the ERA. He thought the slide showed that there were 10-year increments when the target was surpassed, but also increments when the target was not met. He asked for help in understanding the range of outcomes. He considered the underperformance of the early 2000s and wondered how concerned they committee should be about 10-year increments of underperformance.

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Mr. Mitchell thought there should be a concern that there were periods of time when the market would not provide the targeted return. He reminded the committee that there was no POMV payout during the timeframes of low performance on the slide, which made it easier to withstand negative market experiences and even maintain or grow the fund. He mentioned working with partners in the Legislative Finance Division (LFD) which had built a probabilistic model to explore what the different scenarios of the future might provide for the fund. He believed it was important to have both the expected and the average expected outcomes, alongside the downside experiences of the past and consider the outcome should those experiences happen today.

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Co-Chair Stedman recalled that in 2008 and 2009 many current committee members were sitting at the table, or were staff in the room, with a collective worry of paying out a dividend in those years. He noted that the combination of good fortune and creativity had resulted in

the ability to pay a dividend at that time, but the experience had not been forgotten.

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Mr. Frampton addressed slide 10, which showed a bar graph that showed fund performance versus benchmarks. He discussed asset allocation and investment strategy. He explained that the fund had a return objective of inflation plus five percent. The board met each year to consider asset allocation and chose a mix of asset types that would be expected to earn a return of CPI plus five, reflected on the grey bar on the slide. The gold bars represented the fund's performance. He shared that asset allocations with Callan would occur in the coming week.

Mr. Frampton furthered that a security did not exist that delivered CPI plus five, so a mix of assets was chosen, and year to year performance was benchmarked against the asset mix. He said that this was done on both on a passive basis, represented by the dark blue bar on the slide, and by performance benchmark, reflected in light blue. He thought that the performance benchmark measured whether the complexity of the asset allocation was paying off. He said that the key focus on the 10-year column showed that the performance benchmark had outperformed the passive benchmark. He said that people in London and New York City were closer to the market and had greater resources. He shared that the corporation tried to use a long-term orientation and patient approach to investing to step into situations where they were not transacting with people who had an informational adage. He provided several examples.

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Mr. Frampton explained that APFC was most proud of the previous performance benchmark that had returned 29 percent. He cited that the previous year had declined a bit.

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Co-Chair Stedman asked for more detail on understanding the illiquidity portion of the portfolio.

Mr. Frampton explained that for private areas, which was about 40 percent of the fund's portfolio, the indexes were

broadly appraisal based; on a quarterly basis the assets were valued. Conversely, public securities prices were reflected in periodicals daily. He said that the illiquid assets did not move with the same volatility as public stocks. He said that the comparison versus the benchmark as apples to apples.

Co-Chair Stedman mentioned the illiquid portion of the holdings.

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Senator Kiehl pondered that the illiquid nature, as well as the example used by Mr. Frampton, and the complexity of the issue. He wondered whether selling the rental houses mentioned worked in terms of the market value after the sale and the realized income of the statutory net income.

Mr. Frampton explained that in the last ten years, when APFC sold assets on a private basis, it was generally above where they had been marked. He said that private assets were harder to sell in a down market. He discussed sale of the rental homes. He explained that the care was taken about how assets were unloaded and selling in a compressed timeframe put pressure on asset values. He discussed rental home sales over the last 10-years. He said that unrealized gains, by asset class, as of December 2022 showed over 90 percent (approximately \$10 billion) of the unrealized gains were in the private portfolio, with a fixed income portfolio of approximately \$1 billion and a stock portfolio of \$1.5 billion. He said that currently, as the portfolio was turned over, not as much was being generated by the public portfolio. He stated that as markets had been more challenging, exits of private companies were down about 50 percent. He relayed that the factors he had just described had led to a

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Mr. Frampton explained that the factors he had described had led to the year-to-date statutory income being lower than had what had been seen in past years.

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Senator Kiehl appreciated Mr. Frampton's level of detail. He referenced slide 8 and understood that it was difficult

to determine the value of the assets represented by the pink wedge and other private assets. He thought that the decision to sell those assets would move the statutory net income "all over the place" but would not change the value of the fund.

Mr. Frampton answered affirmatively.

Senator Kiehl emphasized that the statutory net income was how the state determines the PFD formula. He said that the value of the fund did not necessarily spike and drop.

Co-Chair Stedman thought in FY19 and FY20, there was approximately \$3 billion in statutory net income. He furthered that in FY21, real estate sales brought that total to \$7.9 billion. He thought that that moved the PFD calculation up, and that the total remained well above \$3 billion for FY19 and FY20. He stated that, looking at historical numbers of \$2 and \$3 billion would bring the PFD number down under the formula. He shared that when the state went from \$3.1 billion to \$7.9 billion in a year APFC had cautioned the legislature of the decrease. He related that the numbers significantly moved the PFD calculation. He noted that references to his comments could be found in a historic review of the fund, which included a table illustrating the numbers, on the APFC website.

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Mr. Frampton advanced to slide 11, "Benchmarks - Internal Fixed Income Example," which showed a bar graph of the internal fixed income portfolio. He explained that the portfolio was comprised of 6 sub-composites, which had managers and analysts reviewing all the securities available. He described the process of reviewing performance security by security.

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Mr. Frampton looked at slide 12, "Focus on Increasing Internal Management":

Strategies brought in-house since 2013

- 2013 - Private market co-investments and direct investments
- 2014 - Internal tactical equities
- 2015 - Hedge fund-of-fund management

- 2018 - High yield bonds
- 2020 - Real estate directly managed properties
- 2021 - Internal factor equities
- 2022 -All of fixed income

Mr. Frampton stated that APFC attempted to be deliberate in what was brought "in-house." The left side of the slide showed a pie chart illustrating fiscal year 2023 target asset allocation.

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Senator Wilson referenced \$8 million in savings through bringing some items in-house. He asked whether there had been any failures from bringing items in-house.

Mr. Frampton replied in the negative.

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Senator Kiehl asked whether the lack of failures indicated that the APFC should be more assertive.

Mr. Frampton thought Senator Kiehl's question was a concept that he and Mr. Mitchell would spend more time considering. He said that each initiative saves millions. He said that public stocks had been considered as \$1 million per year was spent on external public stock manager fees.

Co-Chair Stedman suggested not managing the fund into breaking.

Senator Kiehl agreed.

[9:57:04 AM](#)

Co-Chair Olson considered the pie chart on slide 12, which showed FY 23 target asset allocation. He asked about the absolute return.

Mr. Frampton explained that absolute return was commonly referred to as "hedge funds," which had several meanings. He said that what it meant to APFC was that external managers, that managed money with zero correlation to public markets. He said that the largest area were stock managers whose whole return was how well they chose stocks and not how well the market performed. He said another area

was macro hedge fund managers who invested in different currencies around the world in ways unrelated to traditional markets. He said that initially APFC had hired fund-to-fund managers and in 2015 they decided that the managers could be selected by the fund.

Co-Chair Olson asked whether the practice had been profitable for the Permanent Fund.

Mr. Frampton answered in the affirmative.

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Mr. Frampton showed slide 13, "APFC Performance Relative to Large Public Funds," which showed returns for periods ended December 31, 2022. He noted that the page was from Callan, which tracked 72 public funds over \$1 billion.

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Mr. Frampton referenced slide 14, "Tenured and Seasoned Investment Leadership." He shared that the corporation had a "very strong team."

Co-Chair Stedman referenced slide 13 and queried the corporation's attempt to improve performance of real estate performance benchmarks.

Mr. Frampton mentioned that in the previous year the fund had beat its benchmark for real estate and remained satisfied with real estate performance.

[10:01:14 AM](#)

Mr. Mitchell turned to slide 15, "Enduring Financial Resource," and reiterated the strength of the investment staff. He emphasized that that the support staff for the investment staff was equally strong. He noted that the mission of the fund was maximum return with limited risk, while being responsive to the needs of the organization.

[10:02:43 AM](#)

Mr. Mitchell considered slide 16, "Financial Resource for Alaska,":

Now, more than ever, the State is dependent upon APFC's effective management and investment of the Fund, one of Alaska's primary sources of renewable revenue.

APFC's stewardship fulfills dual roles:

- Protecting the Principal and maximizing investment returns for the benefit of current and future generations of Alaskans.
- Providing a predictable revenue stream to help balance the State's budget now and into the future.

Mission Driven: To manage and invest the asset of the permanent fund and other funds designated by law in accordance with Alaska Statutes 37.13.010 - 37.13.190

Fiduciaries: The Board of Trustees has a duty to assure that the Fund is managed and invested in a manner consistent with constitutional and statutory mandates.

[10:03:38 AM](#)

Mr. Mitchell displayed slide 17, "State Revenue," which showed a bar graph of UGF revenues from the fund. He noted that the slide reflected the impact of the POMV distribution as the largest single revenue source received by the state. He pointed to the right-hand side of the slide, which showed the POMB formula. Listed were the calculations for fiscal years back to FY18.

Co-Chair Stedman thought that the numbers for the fund looked relatively flat.

Mr. Mitchell noted that there was a slight amount of growth in the POMV transfer that was hidden by the other categories reflected by the bars. He said that a clearer picture of only the POMV transfer could be provided.

Co-Chair Stedman said that that information would be helpful to understand the growth of the transfer.

Mr. Mitchell thought Co-Chair Stedman made a legitimate point.

[10:06:00 AM](#)

Mr. Mitchell highlighted slide 18, "Principal Contributions - Intergenerational Benefit":

The Constitution directs at least 25 percent of mineral royalties. Statute directs 50 percent of royalties post-1979 and provides for special appropriations and inflation proofing.

Mr. Mitchell which showed a bar graph depicting transfers into the principal of the fund from royalties, special appropriations, and inflation proofing. He said that most of the deposits were constitutionally mandated. He said that the inflation proofing was appropriated for FY23 in the governor's proposed budget. He said that the projection for 2023 relied on the price of oil and production from the North Slope.

Co-Chair Stedman queried the appropriation request for FY23.

Mr. Mitchell cited that the amount was \$4.2 billion, based on FY21 and FY22 inflation rates.

Co-Chair Stedman asked Mr. Mitchell to explain what would happen if the legislature failed to fund the appropriation. He requested an explanation of the mechanism of the corpus of the fund versus the ERA.

Mr. Mitchell explained that the ERA was the source of inflation proofing, so to the extent that inflation-proofing was foregone, the balance of the ERA that could be used for other purposes increased. He observed the lack of inflation-proofing in FY16, FY17, FY18, and FY21 illustrated on the slide. He noted that the lack of inflation proofing from FY16 through FY18 was the result of fiscal stress experienced but the state, in addition to the state not following the historical dividend formula for the first time. He asserted that the significant drop in the price of oil at that time, coupled with the fiscal gap, ultimately resulted in the implementation of the POMV construct. He opined that if the inflation-proofing was not made, it was a breaking of the compact with past generation who had made the appropriations, and more. He said that a deferral of inflation proofing should only be done when there was a plan of replacing those funds in the future. He said that retaining the ability to draw funds, without

maintaining inflation proofing, was unsustainable into the future.

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Mr. Mitchell looked at slide 19, which addressed the ERA with a graph of the account's deposits and withdrawals. He observed a tension in the current two-account system, that as the ERA balance grew to levels that were beyond the need of the POMV construct, it could become tempting to use the excess funds for current generation's needs. He stated that legislatures of the past had placed the excess funds into principal and removed the temptation to spend, which resulted in the net impact of money flowing out of the ERA.

Mr. Mitchell discussed the difficulty of the construct in a negative market experience where the state could face the danger of not having enough funds. He emphasized that the board had the goal of moving away from the two-account system and have only one principal account with a true POMV payout embedded in the construct of the fund itself. He felt that this could be the most impactful change that could be made to the fund. He pointed to the bottom of the chart, which had the effective POMV rates. He said that the historical fund value for determining the POMV had been increasing, which had resulted in the draw being less than the 5 percent minimum - between 3.79 and 4.52 percent. He stated that as the fund value stabilized or decreased in a less robust market the percentages would increase to closer to 5 percent. He noted that if there were a longer time when the fund did not ascend in value the numbers would be greater than 5 percent.

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Mr. Mitchell addressed slide 20, which showed the total funds value of \$74,455,800,000, unaudited as of December 31, 2022; the total value on the slide included the permanent savings and the unrealized gains of both the principal and the ERA. The principal contained \$52.0 billion in royalties and appropriations and \$9.0 billion in unrealized gains. The ERA had \$3.8 billion available for appropriation and included the statutory net income received by December 31, 2022. He noted that the ERA also contained \$3.5 in FY24 POMV draw, \$4.2 billion in inflation proofing, and \$2.0 billion in unrealized gains. He opined that when money left the ERA, the unrealized gains

associated that proportional piece of the fund piece of the fund moved to the principal because of the smaller balance. He said that there was a proportional allocation between principal and the ERA for distributing the unrealized gains, which meant that there was approximately \$11.5 billion available for appropriation, and as those funds were appropriated the \$2 billion in unrealized gains flowed up to the principal portion of the fund. He noted that the unrealized gains could still be realized and transferred back to the ERA, but the fund's portfolio was comprised of a mix of liquid and illiquid assets and 90 percent of the unrealized gains were in illiquid assets. He thought that these unrealized gains might not flow back to the ERA so easily.

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Co-Chair Stedman asked for Mr. Mitchell to clarify if 90 percent of the \$2 billion was illiquid.

Mr. Mitchell affirmed that was correct. He said that there was an evolution; January was a strong month in the equities market, but the current case could be different.

Co-Chair Stedman asked for more detail on a projection for the risk exposure of crippling the ERA to the point where inflation proofing and the POMV were difficult. He suggested that if a choice needed to be made, inflation proofing would be deferred into future years when performance improved. He queried what kind of market conditions would put the state a precarious position.

Mr. Mitchell relayed that it was difficult to predict.

Co-Chair Stedman recognized that a lot of the fund's portfolio was illiquid and static with quarterly appraisals. He asked what a broad market at 5 or 3 percent on average over the next few years would do to the financial goals of the fund.

Mr. Mitchell replied that he would provide the information to the committee.

Co-Chair Stedman asked for the information to include a bugle chart that reflected the information in dollars. He understood that the numbers would be estimates but thought the exercise could be helpful.

Mr. Mitchell asked whether Co-Chair Stedman was referring to statutory net income rather than general market performance.

Co-Chair Stedman clarified he was interested in the general market performance and then the mechanical boiling down to the statutory calculation relative to the POMV. He hoped to get an idea of the financial impacts that the committee would face mediocre markets versus strong markets.

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Mr. Mitchell pointed out that the first line of the lower portion of the table on slide 19 showed statutory net income. He cited that there was a range of transfers from a low in FY16 of \$2.2 billion to \$8 billion in FY21. He viewed that the durability of two accounts was questionable.

Co-Chair Stedman thought the range of expectations under certain market assumptions would be helpful to the committee.

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Senator Kiehl looked at slide 20 and considered keeping the ERA four times the amount that would be drawn out for the POMV. He asked about inflation proofing needing more than a full year's POMV draw. He wondered how precarious the situation was.

Mr. Mitchell relayed that the APFC did not have a robust model such as the one used by LFD, since predicting future outcomes was not part of the corporation's charge. He continued that if there were high inflation at 5 percent and the fund assumed the low band for Callan's return expectations, there would be an inability to inflation proof in FY25 due to an insufficient balance in the ERA. He said that the POMV would still be possible. He did not think the potential for difficult decisions was that far in the future.

Co-Chair Stedman announced that many presentations on the issue before the committee would be done by LFD as they would be working with AFPC and collecting data. He thought

that this would stabilize the accuracy of the information and reduce question redundancy.

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Mr. Mitchell advanced to slide 21, which was a flow chart designed to show the construct of the current two-part account system. He noted the complexity of the structure and walked through the illustration.

[10:27:35 AM](#)

Mr. Mitchell showed slide 22, "Constitutionalize Annual Fund Draw":

Board Resolutions 03-05, 04-09
Percent of Market Value (POMV)

- Supporting a constitutional amendment to limit the annual Fund payout to not more than a 5% POMV averaged over a period of 5 years.
- Implementation of a constitutional POMV spending limit for the Fund, has the accompanying benefit of assuring permanent inflation proofing of the Fund.

Mr. Mitchell expanded on the benefits to constitutionalizing the draw. Slide 23 showed the flow chart illustrating the proposed classic endowment structure.

[10:28:35 AM](#)

Mr. Mitchell showed slide 24, which showed other proposed board resolutions listed on APFC's website:

00-13, 03-05, 04-09: Constitutionalize annual Fund Draw. Limit the annual Fund payout to not more than a 5 percent averaged over a period of 5 years. Assures permanent inflation proofing.

17-01: Identify and pursue legislation or legislative support for some form of inflation-proofing that will preserve the purchasing power of the principal of the permanent fund for all generations.

18-01: Supporting a Rules Based Legal Framework to govern Fund inflows, outflows, and internal transfers. A holistic framework rationalized by policymakers

regarding the rules for savings, withdrawals, and growing the real value of the Fund results in a consistent approach to transfers and sustainability of the Fund over the long-term.

18-04: Affirming the importance of formulaic management of transfers into and out of the ERA to ensure sustainability and long-term growth of the Fund, by identifying four key principals: Adherence to Rules, Ensuring Sustainability, Automatic Inflation Proofing, Promoting Real Growth.

20-01: Additional measures to enhance the sustainable use of the Fund include restructuring the Fund from its' current two account system into a single Fund as well as periodic review of Fund Return Assumption and ERA Balance Buffer (4xBuffer).

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Mr. Mitchell turned to slide 25, which showed a snapshot of the APFC's web page. The slide provided a list of the information available to the public.

[10:29:19 AM](#)

Senator Merrick mentioned the classic endowment structure, which had been an issue of discussion for decades. She asked why the change to the classic structure had not occurred.

Mr. Mitchell relayed that such a change was a heavy lift and required a constitutional amendment to have an enduring endowment structure. He thought that there had been an inability to look at protecting the fund first without talking about a permanent fund dividend transfer. He noted that the PFD was an emotional issue for Alaskans, which would make it difficult to reach the majorities required for the constitutional change.

Senator Merrick asked why when the POMV was passed the old statutory PFD formula was not repealed.

Mr. Mitchell replied in the negative.

Co-Chair Stedman recalled that when the POMV legislation had left committee the split had been 75/25, with 25

percent going to the PFD. The discussion since that time had been having the PFD substantially above the 25 percentage. He thought the matter of the split and the endowment construct were separate discussions. He said that the concern that the rate would be set at a too high percentage.

Co-Chair Stedman thanked Mr. Mitchell and Mr. Frampton for their testimony. He reiterated that the LFD would be working with APFC to create other models and projections. He stressed that the market was not linear.

Co-Chair Stedman discussed housekeeping.

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ADJOURNMENT

10:33:55 AM

The meeting was adjourned at 10:33 a.m.