

SENATE FINANCE COMMITTEE  
January 26, 2024  
9:01 a.m.

[9:01:32 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Donny Olson, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Click Bishop  
Senator Jesse Kiehl  
Senator Kelly Merrick  
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Ethan Shutt, Board Chair, Alaska Permanent Fund Corporation; Deven Mitchel, Executive Director, Alaska Permanent Fund Corporation; Marcus Frampton, Chief Investment Officer, Alaska Permanent Fund Corporation; Senator Cathy Giessel.

SUMMARY

^ALASKA PERMANENT FUND CORPORATION

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ETHAN SHUTT, BOARD CHAIR, ALASKA PERMANENT FUND CORPORATION, (APFC) introduced himself.

DEVEN MITCHEL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, discussed the presentation, "Senate Finance Committee Alaska Permanent Fund January 2024" (copy on file). He highlighted slide 2, "Assets Under Management":

### Mission

To manage and invest the assets of the Permanent Fund and other funds designated by law in accordance with AS 37.13.

### Vision

To deliver outstanding returns for the benefit of all current and future generations of Alaskans.

### Fiduciaries

The Board of Trustees has a duty to ensure that the Fund is managed and invested in a manner consistent with constitutional and statutory mandates, including the Prudent Investor Rule.

### Invested Under the Same Asset Allocation

Total Fund Portfolio Performance

Monthly Financial Reconciliation of Accounts

### Alaska Permanent Fund

Principal - Constitution and AS 37.13.010

Earnings Reserve Account - AS 37.13.145 (a)

Savings - Income Producing Investments - Annual Value-Based Distribution

Amerada Hess Settlement - AS 37.13.145 (d)

\$424.4 million from 1977 royalty disputes, ring-fenced within Principal

Earnings for appropriation to the AK Capital Income Fund AS 37.05.565

Alaska Mental Health Trust Fund - AS 37.13.300

\$727.3 million invested on behalf of the Alaska Mental Health Trust Authority

Deposits and Withdrawals managed by AMHTA

Power Cost Equalization Endowment - AS 42.45.080 (a)

\$957.1 million invested on behalf of the Power Cost Equalization Program

Annual value and earnings-based distributions by appropriation with program management through the Alaska Energy Authority

Mr. Shutt pointed to slide 3, "Legacy Of Intergenerational Resource Contribution":

As a public endowment, the wealth of the Permanent Fund is the responsibility of every Alaskan.

Together, we are obligated to protect it for both today and tomorrow.

Alaska Constitution Article IX, Section 15  
Alaska Permanent Fund

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

Mr. Shutt addressed slide 4, "Fiduciary Duties":

AS 37.13.120  
Duty of Prudence  
Duty of Loyalty  
Duty to Diversify  
Duty of Impartiality

APFC operates as a separate state entity under the oversight of an independent Board of Trustees who serve as the Fund fiduciaries.

Honoring The Past  
Upholding the vision and sacrifices of the Alaskans who created the Fund with enduring leadership committed to intergenerational benefit.  
Renewable Financial Resources from Mineral Royalties

Stewardship  
Protecting the Principal and maximizing investment returns for the benefit of current and future generations of Alaskans.  
Through Dynamic Market Conditions  
With A Long-term Investment Horizon

Public Accountability  
Continuously earning the public's trust through a commitment to accountability by demonstrating

competence, reliability, and honesty in open and responsive communication.

Financial Controls and Regular Reporting  
Open Meeting Act and Records Disclosures

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Mr. Shutt displayed slide 5, "Updated Strategic Plan":

Building an Organization that Sets the Standard for  
Endowment-Style Sovereign Wealth Funds

Grow the Fund to \$100 Billion Consideration of Limited  
Leverage, Alpha Outperformance, Asset Class Goal  
Alignment

Improve Corporate Functionality Executive Director and  
Chief Investment Officer Recruitment, Key Person Risk  
and Incentive Compensation, Evaluation of Location  
Expansion, Data Management Capability

Advance Comprehensive Communications Plan Instate  
Education and Awareness, Nationwide and Global Focus  
In Support of Investment Management

Review and Assess the Optimal Structure of the Alaska  
Permanent Fund Rules-based Endowment Practices and  
Modernization

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Senator Kiehl asked about the perceived split between the team was improving the problem.

Mr. Shutt replied that it was a focus of the leadership to do things to ensure that the employees were considered a member of one team.

Senator Kiehl wanted to learn more about the positive impact on the change, because history showed a very low employee turnover.

Mr. Shutt noted that the evaluation had not occurred on the impact. He remarked that he was skeptical about an outside office, and felt that there would be real consequences.

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Senator Bishop wondered whether there was a timeline with benchmarks on the office decision.

Mr. Shutt replied that letting the structure run for a few years would impact the decision, but there was not a current timeline on the decision.

Co-Chair Stedman noted that there were some inquiries to committee members, which resulted in some caution because there was a lack of process in the decision making process. He wondered whether there would be a salary reduction for those that were moving to Anchorage.

Mr. Shutt replied that he did not believe so.

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Co-Chair Stedman made a frying fish analogy. He expressed appreciation that added leverage had not been pursued and highlighted the committee's concern for cash flow. He feared underperformance of the fund. He lamented constraints on the revenue side of the scale.

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Mr. Schutt addressed slide 6, "Proposed Legislation; Seeking Amendments to Improve Corporate Functionality":

Amend Existing Law to -

Protect from public records disclosure the identity of all candidates who would like to be considered for the positions of Executive Director and Chief Investment Officer;

Provide the Board with the authority to interview the finalists for the positions of Executive Director and Chief Investment Officer in an executive session;

Provide for the confidentiality of personnel records of all APFC staff.

Sec. 37.13.100 Corporation Staff.

The board may employ and determine the salary of the executive director. The list of applicants and information regarding the applicants for the position

of executive director is confidential and is not a public record, and the board may meet in executive session for the purpose of interviewing candidates for the position of executive director notwithstanding any other provision of law to the contrary. The executive director may, with the approval of the board, select and employ additional staff as necessary. An employee of the corporation, including the executive director, may not be a member of the board. The executive director and the other employees of the board are in the exempt service under AS 39.25. Except for the information described in AS 39.25.080(b)(1) -(7), the personnel records of the executive director and other employees of the corporation, including employment applications and examinations and other assessment materials, are confidential and are not open for public inspection.

Mr. Schutt expressed that conducting interviews in executive session would lead to more honest and meaningful interviews because people could speak freely.

Senator Kiehl questioned the interviewing and evaluation of chief staff. He expressed concern with the secrecy of the board as of late. He believed that the public fund should have transparency. He posited that the board might hold meetings out of state to avoid the public meetings act.

Co-Chair Stedman

Mr. Schutt did not believe that the board would behave as Senator Kiehl had suggested.

Co-Chair Stedman

Mr. Schutt pointed to slide 7, "Investing for 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,

□Achieve the highest level of performance within the investment responsibilities of AS 37.13.120 and a long-term investment perspective based on

Investment Performance

Ability to generate an annualized return of inflation (CPI) + 5 percent 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.

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Mr. Mitchell pointed to slide 9, "Diversification":

APFC seeks to balance the goals of maximizing returns and minimizing risks.

Risk Management

The goal of risk management is not to avoid risk but to identify, understand, and manage it to acceptable levels.

Mr. Mitchell suggested that Alaska had the most

Co-Chair Stedman discussed the different structure of the 5 percent draw rate.

Mr. Mitchell spoke of modern endowments and the percent of market value based on structure. He said that the underlying framework created a cash crunch that led to liquidity issues.

[9:45:13 AM](#)

Mr. Mitchell addressed slide 10, "Renewable Financial Resource inception through December 2023":

Savings

Since the First Royalty Deposit of \$734 thousand  
The Principal has grown to \$56.7 billion of permanent  
deposits.

Income Producing  
Realized Earnings have totaled more than \$85.4  
billion.

Earnings  
Dividend Draws through FY18 \$24.4 B  
Percent of Market Value Draws FY19-FY24 \$19.0 B  
Inflation Proofing Principal \$23.6 B  
ERA Special Appropriations to Principal \$12.3 B  
Alaska Capital Income - Amerada Hess \$0.5B

Mr. Mitchell discussed the enhanced use of the fund by the  
state.

Mr. Mitchell highlighted slide 11, "Savings, Principal  
Contributions - Inception through FY 24 Projected":

\$19.5 Billion Royalty Deposits  
AS 37.13.010 (a) (1) and (a) (2)  
25 percent of constitutionally dedicated royalty  
proceeds and 50 percent of statutorily mandated  
deposits for leases after 1979.

\$15.0 Billion Special Appropriations  
AS 37.13.010 (a) (3)  
Legislative deposits from the General Fund \$2.7 B and  
the ERA \$12.3 B.

\$23.6 Billion Inflation Proofing  
AS 37.13.145 (c)  
Principal deposits are adjusted annually by the  
inflation rate as calculated per statute and based on  
appropriation.  
Inflation Proofing FY 16-24  
Owed = \$12.6 B  
Appropriated \$11.3 B\*  
\*includes the FY20 special appropriation of \$4.0 B per  
intent language, but not FY22.

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Co-Chair Stedman remarked that inflation did not erode the  
state's purchasing power.

Mr. Mitchell highlighted slide 12, "Producing Income, Two-Account Fund Structure":

The Principal is constitutionally established for permanent savings to be used only for income-producing investments.

The Earnings Reserve Account is statutorily established to hold investment net income and be available for appropriation.

Co-Chair Stedman wondered about the real estate sales.

Mr. Mitchell remarked that the real estate portfolio was growing, but was not a strong generator of statutory incomes.

Mr. Mitchell discussed slide 13, "Earnings Reserve Account (ERA), Deposits and Withdrawals, in millions, Fiscal Year 2014- 2023."

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Mr. Mitchell pointed to slide 14, "Revenue Stability Supporting the State's General Fund Revenue."

Mr. Mitchell discussed slide 15, "FUND Values as of December 31, 2023."

Mr. Mitchell displayed 16, "10 Year Annualized Returns."

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Co-Chair Stedman asked about the impact of a potential decrease in oil prices, and how to assist the state in its financial obligations.

Mr. Mitchell responded that the state had fewer options that it did in 2014. He remarked that there were also concerns about the Permanent Fund's ability to provide for the state's needs.

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Co-Chair Stedman surmised that an overdraw would result in more risk exposure.

Mr. Mitchell recalled that the state does not often allow for a drain effect. He stated that it was reliant on the leadership to recognize the deficiencies. He stressed that overdrawing would result in an eventual elimination of the fund.

Co-Chair Stedman surmised that it would cease to exist.

Mr. Mitchell agreed.

[10:07:58 AM](#)

MARCUS FRAMPTON, CHIEF INVESTMENT OFFICER, ALASKA PERMANENT FUND CORPORATION, continued to highlight slide 16.

Mr. Frampton highlighted slide 18, "Fund Performance vs Benchmarks."

Mr. Frampton addressed slide 19, "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
- 2023 - In-process International Equities

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Senator Kiehl wondered where the private equities were in the timeframe.

Mr. Frampton replied that private equity had a mix of internal and external managers.

Mr. Frampton discussed slide 20, "APFC Performance Relative to Large Public Funds."

Mr. Frampton pointed to slide 21, "Tenured and Seasoned Investment Leadership Leaders of APFC's major asset classes have substantial industry experience and tenure with APFC."

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Senator Bishop wondered whether there was trend on the exit surveys.

Mr. Mitchell replied that there was a variety of reasons of those that left the firm.

Mr. Frampton discussed slide 22, "Permanent Fund Balance Sheet as of December 31, 2023, in millions."

Mr. Frampton pointed to slide 23, "Statutory Net Income - History and Projections."

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Mr. Frampton addressed slide 24, "Baseline Statutory Net Income."

Mr. Mitchell highlighted slide 25, "Realized Gains by Asset Class (2012 -Present)."

Mr. Frampton displayed slide 26, "How Available Unrealized Gains Were Realized."

Mr. Frampton discussed slide 27, "Consistent Discipline":

- Recognizing the savings function established in the Constitution ensures that a portion of our mineral wealth is saved and invested to benefit all Alaskans, today and tomorrow.

- Protecting the Principal and maximizing a long-term risk-adjusted return for intergenerational benefit.

- Providing stewardship to ensure the Fund can provide for all generations. The Board of Trustees has been on record for more than 20 years to transition the Fund from its current two-account system to a one-unified account system with a constitutional distribution for enduring sustainability and benefit.

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Co-Chair Stedman remarked that the instate investment issues would be discussed at a later date. He also wanted to examine the issue of the new board members.

Senator Bishop thanked the testifiers. He pointed out that the picture on the last slide "started it all." He felt that there should be a tour of Prudhoe Bay to see the oil field production that feeds the fund.

Co-Chair Stedman discussed housekeeping.

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ADJOURNMENT

10:36:52 AM

The meeting was adjourned at 10:36 a.m.