

HOUSE FINANCE COMMITTEE
February 19, 2025
1:59 p.m.

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CALL TO ORDER

Co-Chair Josephson called the House Finance Committee meeting to order at 1:59 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Andy Josephson, Co-Chair
Representative Calvin Schrage, Co-Chair
Representative Jamie Allard
Representative Jeremy Bynum
Representative Alyse Galvin
Representative Sara Hannan
Representative Nellie Unangiq Jimmie
Representative DeLena Johnson
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Deven Mitchell, Executive Director, Alaska Permanent Fund Corporation; Ethan Schutt, Trustee, Board of Trustees, Alaska Permanent Fund Corporation; Marcus Frampton, Chief Investment Officer, Alaska Permanent Fund Corporation; Jim Parise, Deputy Chief Investment Officer, Alaska Permanent Fund Corporation; Representative Rebecca Himschoot, Sponsor; Representative Rebecca Himschoot; Representative Rebecca Schwanke.

SUMMARY

HB 69 EDUCATION FUNDING: INCREASE BSA

HB 69 was SCHEDULED but not HEARD.

OVERVIEW: ALASKA PERMANENT FUND CORPORATION

Co-Chair Josephson reviewed the meeting agenda.

^OVERVIEW: ALASKA PERMANENT FUND CORPORATION

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Co-Chair Josephson welcomed individuals from Alaska Permanent Fund Corporation (APFC) and noted there was about 50 minutes for the presentation.

DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, provided a PowerPoint presentation titled "House Finance Committee: Alaska Permanent Fund," dated February 2025 (copy on file). He began with an overview of APFC's stewardship.

Representative Stapp noted that most of the state's revenue came from the Permanent Fund. He thought the committee had a longer period of time to hear from APFC.

Co-Chair Josephson noted there had been a recent reception with APFC. He did not know there would be another opportunity. He stated the answer may be no.

Representative Hannan asked if it was 15 minutes or 50.

Co-Chair Josephson stated 50.

Representative Allard encouraged more time to hear from APFC the next time because it was for the public.

Mr. Mitchell moved to slide 3 titled "A Legacy of Intergenerational Resource Contribution." In 1976 Alaskans chose to permanently forgo immediate use of at least 25 percent of oil and mineral revenues, saving to create a renewable financial resource for generations. He moved to slide 4 titled "Investing for Alaska."

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ETHAN SCHUTT, TRUSTEE, BOARD OF TRUSTEES, ALASKA PERMANENT FUND CORPORATION, spoke about resources on slide 5. He stated that APFC's ability to achieve maximum risk-adjusted returns relied on stable resources to support its infrastructure. He moved to slide 6 titled "Positive

Impact: Insulation without Isolation." The intention of the slide was to provide clarity and transparency in governance.

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Mr. Mitchell discussed slide 7 titled "Budget Resources FY26 Request." He stated that cyber security was of the utmost importance that the fund was secure that priority.

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Representative Johnson noticed the \$391,000 for an additional PCN in private income. She did not see any associated reduction in outside contracts. She asked if it was just an addition.

Mr. Mitchell replied in the affirmative.

MARCUS FRAMPTON, CHIEF INVESTMENT OFFICER, ALASKA PERMANENT FUND CORPORATION, replied that it was on future profit sharing that would be avoided in the proposal.

Representative Galvin asked about the corporation's vacancy rate.

Mr. Mitchell believed there were currently seven vacant positions out of 67.

Representative Galvin asked if the \$810,000 was part of maintaining a low vacancy rate.

Mr. Mitchell replied affirmatively.

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Mr. Mitchell spoke about investment management fees on slide 8. The slide included \$521,000 for investment due diligence, \$810,000 for investment systems, and custody fees at flat funding.

Mr. Mitchell moved to "Investment Management Fees" on slide 9.

Mr. Frampton continued to address slide 9. The report tried to capture every expense involved in a portfolio. There were three categories beginning with the operating budget

of the Permanent Fund, which allocated the operating budget across the asset categories. The management fee allocation was before private equity and alternative investment. He explained that when they cut a check to a manager at the fund and paid a contractual fee, a new category of fees emerged and the management fees were among the highest in the industry.

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Mr. Frampton continued to review slide 9. There was an asset allocation that had a fair amount of private investments and alternative investments. He highlighted that performance was net of all the fees and was a number that reflected the private and alternative investments.

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Representative Stapp asked about the 23 basis points collected pertaining to private equity. He asked for the rate of return on private equity.

Mr. Frampton answered that the private equity portfolio returned 14.7 percent compared to its benchmark return of 12.6 percent.

Representative Stapp asked for the net difference in basis points, versus the total management fees.

Mr. Frampton answered the corporation looked at everything net.

Representative Johnson looked at the paid from investments column on slide 9. She asked whether there was tracking associated with the investments.

Mr. Frampton replied there were a couple of checks and balances. He noted that the finance department also reviewed them and there were staff reviewing the investments.

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Co-Chair Foster realized the fund source for the increments was Permanent Fund receipts and not general funds. He asked about growth in the expense line.

Mr. Mitchell stated his understanding of the question. He would follow up. He thought it was between 8 and 12 percent.

Co-Chair Foster asked for a specific number without the investment fees in a follow up.

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Mr. Mitchell addressed the APFC return on investment on slide 10. He noted the income of \$4.3 million, and remarked that accounting net income took into consideration increases or decreases in value of investments.

Mr. Schutt addressed slide 11 titled "APFC Related Legislation." He remarked that they were requesting amendments to existing law.

Co-Chair Josephson asked if there was an existing bill.

Mr. Schutt replied in the negative.

Co-Chair Foster asked how it was different than the rest of state workers. He thought everyone had confidentiality.

Mr. Schutt understood that everyone's personnel records may be subject to disclosure. He thought it was a matter of profile, and felt that they should not have their public records subject for request.

Co-Chair Foster assumed everyone had some level of confidentiality.

Mr. Schutt answered that the corporation was not trying to hide anything, and stated that it was more of the mundane information about ordinary employees.

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Representative Allard asked if it was any difference for other state employees. She stated that legislators were exposed to APOC.

Mr. Mitchell believed exempt employees fell subject to the ruling. There was an evaluation of the position and the need of the public to be aware of their performance.

Representative Allard asked if the presenters were exempt from public scrutiny.

Mr. Mitchell answered they were not exempt from scrutiny. They were exempt employees.

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Mr. Mitchell noted that slide 13 set the stage for the given guidance from the state.

Representative Allard asked if the corporation did background checks on employees.

Mr. Mitchell replied affirmatively. He stated that it was a rigorous check involving law enforcement information.

Mr. Mitchell moved to slide 14 titled "Principal: Savings."

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Mr. Mitchell looked at manual inflation proofing on slide 15. He remarked that North Slope crude had dropped, which resulted in significant financial distress for the state. He shared that it was rectified in FY 20 with a transfer and there was an additional appropriation of \$4 billion in FY 22.

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Representative Johnson knew there was a constitutional requirement to put 25 percent of the royalties into the Permanent Fund. She understood that for some time 50 percent was put in the fund.

Mr. Mitchell answered that they discontinued the 25 percent.

Co-Chair Josephson asked if it resulted in a combined 30 percent.

Mr. Mitchell agreed.

Co-Chair Josephson asked if he was looking at the appendix.

Mr. Mitchell replied he was referencing the final page in the appendix.

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Mr. Mitchell moved to "Global Investment" on slide 16.

Co-Chair Josephson asked for verification that Alaska was known around the world for its sovereign wealth fund.

Mr. Mitchell agreed. He moved to slide 17 titled "Investing for the Long Term."

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Mr. Frampton addressed slide 19 titled "Asset Allocation and Callan Projections." He shared that the fund expected to earn inflation plus 5 percent, and explained the mix on the left of the slide was what they arrived at the past year.

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JIM PARISE, DEPUTY CHIEF INVESTMENT OFFICER, ALASKA PERMANENT FUND CORPORATION, addressed slide 20 titled "Benchmarks - Internal Fixed Income." He addressed recent performance and benchmarks on slide 21.

Mr. Frampton addressed private markets on slide 22. He moved to slide 23 titled "A Peer Comparison: Norges Bank." He noted that the Norway sovereign wealth fund was 70 percent stocks, 28 percent fixed income, and 2 percent real estate. He moved to slide 24 titled "Investment Committee."

Representative Johnson asked about the employees at the Anchorage office.

Mr. Frampton answered that there was one fixed income analyst, an operations person to settle trades, an associate on the private income team, and three members of the private equity team. They were reflected in the analysts private equity line on the slide.

Representative Johnson asked where the new employee would be.

Mr. Frampton answered that they had not yet decided; it would probably be an option.

Mr. Mitchell moved to slide 26 titled "Producing Income." He moved to statutory net income history and projections on slide 27.

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Co-Chair Josephson asked about the \$3.5 million draw.

Mr. Mitchell replied that the current year inflation proofing was appropriated at \$5.5 billion and the percent of market value (POMV) draw was \$3.7 billion. The issue highlights the difficulty of the two-account structure.

Mr. Mitchell moved to statutory net income drivers on slide 28.

Mr. Frampton remarked that the sensitivity demonstrated that a correction in the stock market resulted in major impacts on the fund.

Co-Chair Josephson remarked that the two large \$4 billion deposits in the corpus were intended to ensure that the state did not overspend, but made the situation troublesome.

Mr. Mitchell agreed, and felt that the paradigm of the two account structure resulted in one account becoming a very tempting funding source.

Representative Hannan wondered whether they should amend the constitution to go to a single account structure, but stated that it would not go to the voters until 2026 and stressed that it looked like the problem may occur the following year. She was hearing some alarms going off. She thought they may not be addressing it in time, and even meet the basic percentage of market value (POMV) draw the following year.

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Mr. Mitchell answered that APFC had a very conservative structure, and the FY 26 POMV was committed on July 1, 2024.

Co-Chair Josephson believed in the last seven years there were unprecedented events in the permanent fund.

Mr. Mitchell answered that the reliance had put more stress on the target rate of return.

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Mr. Frampton looked at slide 29 and discussed realized earnings by asset class.

Mr. Mitchell corrected his earlier statement about the POMV draw. He moved to slide 31 and discussed the structural challenge.

Mr. Mitchell noted his correction on slide 32 pertaining to Alaska's largest revenue source.

Mr. Mitchell addressed fund values and structure on slide 33, and pointed to \$1 billion in inflation proofing. He noted the \$1.7 billion in unrealized gains allocated on a pro rata basis between principal and the ERA.

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Mr. Mitchell addressed slide 34 titled "Spending is Limited to the ERA."

Mr. Mitchell moved to slide 35 and addressed the ERA decreasing availability and impacts.

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Mr. Schutt turned top slide 36 titled "Trustees' Paper Volume 10." He attempted to address the scenario and provide potential solutions, which were statutorily within the power of the legislature. He remarked that the most durable was the potential constitutional amendment to collapse the two account structure into one to ensure regardless of market conditions and cycle the fund had the ability to make a POMV transfer to the state.

Co-Chair Josephson recalled the first resolution on the topic was 25 years back.

Mr. Schutt agreed.

Mr. Mitchell added that slide 39 showed the current construction, and the royalty contributions held within the fund.

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Representative Stapp asked about the drawing down on the total of the fund, which was not the same as not inflation proofing.

Mr. Mitchell agreed

Representative Allard asked if there were 67 vacancies.

Mr. Mitchell responded in the affirmative.

Representative Allard asked if he had a job description for new positions.

Mr. Mitchell responded that people in the financial industry often had high salaries.

Representative Allard asked if they already had an individual in mind.

Mr. Mitchell responded that it could be difficult, and there were some employees who worked remotely outside of Alaska.

Representative Johnson noted that there were some structural changes. She asked him to speak to the structural changes. She emphasized the importance of balance.

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Mr. Mitchell explained that from flexibility perspective, it was determined that it was more beneficial to have the same appropriations. Typically they had been handled separately. The flexibility was perceived as valuable asset.

Representative Bynum had two comments and a question. He would take the comments offline. He asked what should be done with the POMV to maintain the value of the fund.

Mr. Mitchell replied that it was reasonable to have 5 percent.

Mr. Frampton added that year to year it was a tough benchmark.

Representative Bynum would follow up offline.

Co-Chair Josephson thanked the presenters. He noted the committee would move to the next item on the agenda. He handed the gavel to Co-Chair Foster.

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RECONVENED

Co-Chair Foster congratulated Mr. Frampton on the birth of his baby.

He noted the meeting was at the end of its time.

Representative Stapp asked why they rushed the bill up to hear it if they were not going to hear it.

Co-Chair Foster replied that they had run out of time. He reviewed the schedule for the following day.

#

ADJOURNMENT

[3:39:27 PM](#)

The meeting was adjourned at 3:39 p.m.