

SENATE FINANCE COMMITTEE  
February 11, 2025  
9:02 a.m.

[9:02:21 AM](#)

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Mike Cronk  
Senator James Kaufman  
Senator Jesse Kiehl  
Senator Kelly Merrick

MEMBERS ABSENT

Senator Donny Olson, Co-Chair

ALSO PRESENT

Jason Brune, Chair, Alaska Permanent Fund Corporation Board of Trustees; Deven Mitchell, Executive Director, Alaska Permanent Fund Corporation; Jim Parise, Deputy Chief Investment Officer, Alaska Permanent Fund Corporation; Allen Waldrop, Deputy Chief Investment Officer, Alaska Permanent Fund Corporation; John Binkley, Member, Alaska Permanent Fund Corporation Board of Trustees, Senator Cathy Giessel.

SUMMARY

ALASKA PERMANENT FUND CORPORATION

Co-Chair Hoffman discussed the agenda.

^ALASKA PERMANENT FUND CORPORATION

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JASON BRUNE, CHAIR, ALASKA PERMANENT FUND CORPORATION BOARD OF TRUSTEES, introduced himself.

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DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, introduced himself.

Mr. Brune relayed that there were six members of the Alaska Permanent Fund Corporation (APFC) Board of Trustees, including Vice-Chair Adam Crum, the Commissioner of the Department of Revenue (DOR). He relayed that two of the members must be heads of principal departments of state government, one of whom shall be the commissioner of DOR. He listed members of the APFC Board of Trustees, which also included Department of Transportation and Public Facilities (DOT) Commissioner Ryan Anderson. He clarified that the board did not make investment decisions like specific managers but rather set ranges as the APFC set specific investments and policies. He relayed that he would later discuss potential legislative and constitutional changes that he had discussed with Senate President Gary Stevens and Senate Majority Leader Cathy Giessel.

Co-Chair Hoffman recognized that Senator Cathy Giessel was in attendance.

Mr. Mitchell discussed a presentation entitled "Senate Finance Committee - Alaska Permanent Fund - February 2025" (copy on file). He relayed that there were senior members of the investment team present for questions. He mentioned that Deputy Chief Investment Officer Jim Parise and Deputy Chief Investment Officer Allan Waldrop were present.

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Mr. Mitchell looked at slide 2, "A Legacy of Intergenerational Resource Contribution":

In 1976 -

Alaskans chose to permanently forgo immediate use of at least 25% of oil and mineral revenues, saving instead to create a renewable financial resource for generations - the Alaska Permanent Fund.

Today, the Fund -

- Leads the Nation

The largest U.S. sovereign wealth fund, globally recognized for converting finite resources into lasting wealth.

- Supports Alaska

Provides over 50% of the state's unrestricted general fund revenue for dividends and essential services.

Mr. Mitchell mentioned that the Permanent Fund (PF) was created out of large revenue received by the state from sales in Prudhoe Bay. He mentioned the high oil price after the Trans-Alaska Pipeline System (TAPS) was done. He emphasized that the fund was not created with a specific purpose, but as a savings mechanism for the state with 25 percent of the royalty from the North Slope. The vast majority came from North Slope oil production. He cited that Alaska had the largest United States (U.S.) sovereign wealth fund.

Mr. Mitchell spoke to slide 3, "Investing for Alaska," which showed the framework the APFC operated under. The mission was to act as the state's investment house, and APFC with a professional investment staff and an institutional investment bent it pursued. The asset classes were comparable to any world-class institutional investor. He described a level of sophistication that was not found at every fund. He referenced the previous ten years and the management by APFC, which had added close to \$5 billion in value by beating its performance benchmark over the period. Total nominal dollars that had been generated during the ten-year time frame was \$55 billion in gains. He referenced a passive benchmark, which was closer to \$14 billion over the ten-year period.

Mr. Mitchell emphasized the long-term vision of APFC. He referenced the entities that were listed on the right-hand side of the slide. The Alaska Mental Health Trust Fund (AMHTF) and the Power Cost Equalization (PCE) Endowment were co-invested with the Permanent Fund.

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Mr. Brune showed slide 4, "Positive Impact."

APFC appreciates the support from the Executive Branch and the Legislature. Policy & budget resources play a crucial role in the effective investment management of the Alaska Permanent Fund.

To maintain a high level of investment management, budget resources enhance our ability to recruit and retain top professional talent:

- Fully funded incentive compensation
- Increase due diligence capacity of the internal investment team
- Continue IT strategic roadmap to ensure security and architect solutions for data vault implementation

Support has provided the ability to enhance the capacity of our internal investment team by:

- Bringing the Fixed Income asset class entirely in-house, which generates performance returns comparable to those of external managers.

- Developing integrated data and investment systems.

To ensure the Fund's security and protection, resources and talent have strengthened our IT systems and business continuity plan.

Mr. Brune thanked members of the legislature for fully funding APFC's incentive compensation it put forward a couple of years previously. He acknowledged that there had been controversy about some actions taken by APFC and stressed that the organization wanted the best people possible to maximize returns for the state. He emphasized that the headquarters of the fund was in Juneau.

Mr. Brune advanced to slide 5, "APFC Related Legislation." He noted that APFC had forthcoming legislative requests.

Co-Chair Hoffman commented that the percent of market value (POMV) draw was initiated in 2019 through a piece of legislation introduced and worked on by the Senate Finance Committee. Prior to that time, PF earnings were set aside. The members had taken much time, energy, and courage to pass the bill. The draw was now the basis for the primary funding source for state services.

Senator Kiehl commented on slide 4 and made note of the bottom right bullet related to accountability. He thought the concept was new.

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Mr. Brune agreed that it was wise leadership from the Senate Finance Committee that started the POMV draw, which he thought the business community had been asking about for years. He noted that the business community as well as the

trustees had also been asking for the merging of the accounts, which would be addressed later in the presentation. He responded to Senator Kiehl that the APFC was absolutely accountable to the legislature, valued its input, and wanted to work collaboratively. He noted that part of what the staff had done was to bring a lot of the investment work in-house.

Mr. Brune referenced slide 5 and worries about getting honest and true feedback in writing to senior leadership because of the discoverability. He mentioned concerns about high-level candidates for positions at APFC being exposed to the public without a level of confidentiality. The slide discussed potential changes the legislature could make to bring a level of confidentiality to staff. He thought the issue was important considering that APFC endeavored to hire the best and the brightest. He noted that the idea was not a bill that the administration had put forward, and he was happy to engage in further discussion on the topic.

Mr. Mitchell displayed slide 7, which showed the statute describing legislative findings for the purpose of the PF. The purpose included the creation of a permanent savings account. He emphasized that the only reason for the existence of the fund was the actions of past individuals that made choices to save funds that could have been used. He referenced a conversation he had with Senator Kaufman the previous day regarding inflation-proofing and saving in the fund.

Co-Chair Hoffman thought the magic of the fund was that it turned a non-renewable resource into a renewable resource, which he thought Alaskans could be proud of.

[9:19:33 AM](#)

Mr. Mitchell highlighted slide 8, "Principal: Savings," which showed a bar graph depicting cumulative deposits and unrealized gains balances by year from FY 19 to FY 25 to-date. He highlighted \$20 billion in mineral royalties deposited into the fund, \$27.6 billion in inflation proofing, and \$11 billion in special appropriations. He discussed unrealized gains which were allocated to the principal. He cited \$91 billion in realized earnings generated by the funds' investments over the life of the fund. With an additional \$15 billion in unrealized earnings, \$106 billion in gains that the fund had generated

for the residents of the state. Since FY 19, there had been \$22.6 paid out in the POMV distribution. He mentioned dividend appropriations of \$24.4 billion, and the Alaska Capital Income Fund. He referenced the Amerada Hess settlement [related to oil royalty disputes]; funds from which were deposited into a sub-account of the Permanent Fund.

Mr. Mitchell mentioned FY 25 inflation-proofing of \$1 billion, which was appropriated and would be transferred to the principal at the end of the fiscal year. He expanded that the amount was a little under the statutory amount. He referenced Trustee Paper 10, and the stress the POMV draw put on the Earnings Reserve Account (ERA).

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Co-Chair Stedman asked Mr. Mitchell to use simple terms to describe extra appropriations and how the state was doing with inflation-proofing.

Mr. Mitchell noted that over the last ten years, there had been more variability to the appropriations for inflation-proofing that started when the price of oil dropped in 2014. The state was experiencing roughly \$3 billion deficits and thought it unwise to segregate money within the ERA while experiencing the uncertainty of the timeframe. It was the first time that there had been a break in historical inflation-proofing based on the statutory guidance provided.

Mr. Mitchell discussed the makeup of the \$4 billion that paid the current year's inflation proofing as well as provided for foregone inflation proofing and into the future. He referenced the two enlarged checks in the committee room. The \$4 billion check dated July of 2021 was not identified as inflation-proofing. He continued that the simple language of the appropriation had not identified the funds as inflation-proofing so the APFC did not identify it as such, but if the funds were counted as inflation proofing the funds would change the calculation fairly drastically. If the amount was not counted the fund was about \$2 billion behind on inflation-proofing, and if the amount was counted the fund would be \$2 billion ahead.

Co-Chair Stedman recounted that he had advocated for the \$4 billion, and that the funding was intended for inflation-

proofing even though the language may not have been present. He thought the funds needed to be counted as inflation-proofing. He was concerned that the state may be in a position where it was several billion behind in inflation-proofing. He referenced the current year's discussion of funding \$1 billion for inflation-proofing, at which time the committee had looked at total inflation-proofing over the life of the fund.

Co-Chair Stedman referenced the second check and noted that the reason it was specifically noted as inflation-proofing was that the board had ignored the issue on the first check. He commented that the politics on the first check was different. He stressed that the intent was to keep inflation from eroding the value of the fund for future generations.

Co-Chair Hoffman relayed that he was the chairman of the operating budget at the time, and suggested the board take note of Co-Chair Stedman's comment.

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Mr. Mitchell relayed that there was strong concurrence with the sentiments expressed by Co-Chair Stedman throughout the organization and the state. He appreciated the comment.

Mr. Mitchell looked at slide 9, "Global Investment," which showed a world map depicting areas of investment. He referenced Co-Chair Hoffman's comment about shifting a non-renewable resource to a renewable resource. He commented that the state had a relatively narrow economy, and relatively small economy compared with the rest of the country. He noted that the PF had the ability to rely on the world's economy through investment of fund proceeds to provide revenues to the state. He remarked upon the sophistication of the fund's asset allocation, which had grown over time. He recounted that in 1980 there was primarily fixed income exposure, with real estate and some private equity introduced in the proceeding decade. In 2006 absolute return and private equity were added. Private income and tactical ops had been added in recent years. He referenced the current eight asset classes, which were designed to interact with one another in a way that minimized risk while maximizing expectation of hitting the targeted rates of return for the fund.

Mr. Mitchell addressed slide 10, "Investing for the Long Term," which showed a bar graph depicting real returns with return objectives and inflation. He thought the graph showed the target return objectives of the fund were difficult to achieve. He referenced three benchmarks: a performance benchmark, a passive benchmark, and the return objective. The gold dot on the bar graph reflected the target of the Consumer Price Index (CPI) inflation plus five percent.

Mr. Mitchell qualified that the target maintained the purchasing power of the fund while maintaining the outflow to the state. He pointed out a ten-year period in which the fund did not achieve the target of CPI plus five percent. He thought the graph illustrated the cyclical nature of markets and the difficulty of achieving the targeted rate of return. He thought the year he started at APFC in 2022 the inflation rate was seven percent, and the fund earned negative 1.2 percent. The fund had outperformed its benchmark and the passive benchmark. He commented that being 13 percent behind in one year was not that significant of a market event in comparison to other events such as the global financial crisis of 2008 or other market experiences in the history of U.S. markets.

[9:31:59 AM](#)

Co-Chair Stedman thought there was some concern that the 5 percent draw was too high and took all potential growth out of the fund. He referenced the performance of the AMHTF portfolio, which he thought had a 4.25 percent target rate and had some growth. He thought the matter should be discussed when restructuring the fund was considered. He recognized that by taking the POMV payout from 5 percent to a lower amount would be less revenue for the state. He thought the inability to grow the fund should not go unnoticed. He emphasized the benefit to future generations if the fund was allowed to grow. He had not seen presentations that referenced drawing over 5 percent. He referenced SB 26 [2018 legislation that established the POMV draw] and discussion of 5 percent being the maximum draw. He thought there needed to be future dialogue about maximizing the current revenue stream with no fund growth or work to provide future benefit going forward.

Co-Chair Hoffman thought it should be noted that in SB 26, the first two years had been 5.25 percent.

Mr. Mitchell noted that he had neglected to introduce his staff. He listed his staff and referenced Co-Chair Stedman's comments about the question of whether the 5 percent draw was too high or low. He explained that Chief Risk and Compliance Officer Sebastian Vadakumcherry had recently had been examining the mathematical question of whether 5 percent was achievable over the long term given the historical performance of markets. The initial takeaway was that 5 percent was aggressive. He recalled that there had been a 30 percent probability that there would be a failure at some point, with a 70 percent chance of not having a failure if the draw was reduced to around 4.3 percent. He noted that the analysis had not been complete. He thought it was possible to break down the conversation to a mathematical question. He stressed that it was not possible to know the future but thought there was cause for consideration about the appropriate draw rate. He thought the chart on slide 10 showed that 5 percent was a high target.

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Mr. Brune clarified that the board believed it was legislature's job to determine the appropriate level of the draw. He continued that the board wanted to maximize the fund's returns. He stated that the board would not take a position on what the amount should be.

Co-Chair Stedman thought that the POMV draw could be compared to that of the AMHTF, and take a look at its performance compared to the PF. He referenced Mr. Mitchell's comments and discussed concerns pushing asset allocation into illiquid investments that did not return cash flow to the state for years resulting in pressure on the ERA. He recognized that there was greater probability of return for some illiquid investments, but thought more weight needed to be given to consideration of the legislature and the draw. He thought too high an allocation in liquid investments would threaten the concept of the endowment.

Mr. Brune acknowledged Co-Chair Stedman's comments and noted that the board's statutory charge was to maximize the fund's return for the people of Alaska. He noted that the board recognized the partnerships with the legislature and needed to listen as well as provide liquidity. He thought

the statutory charge of maximizing returns as well as the responsibility to listen to the legislature was difficult. He noted that the board had a responsibility to follow the law, and the board and APFC had many discussions on the topic.

Mr. Mitchell showed slide 11, "Investment Management," and noted that staff would come to the table to discuss some specifics about investment strategies.

[9:41:17 AM](#)

JIM PARISE, DEPUTY CHIEF INVESTMENT OFFICER, ALASKA PERMANENT FUND CORPORATION, looked at slide 12, "Asset Allocation & Callan Projections," which showed a table of current target asset allocation and a table of Callan Associates Forecasted 10-year return. He noted that his job was to manage the fund's fixed income portfolio. He shared that he would offer the perspective of the investors and how they worked with and managed benchmarks. He drew attention to the right hand of the slide, which showed Callan Associates forecasted 10-year returns. The market projections were presented to the board, after which the board set the asset allocations in consultation with staff. The allocations were set to get the highest return with the least amount of risk. The allocations were set with a range. The allocations served as a mandate.

[9:43:37 AM](#)

Mr. Parise showed slide 13, "Benchmarks - Internal Fixed Income," which showed a set of graphs with portfolio components. He emphasized that the investors had the sole goal of beating the benchmarks. He addressed the \$16.6 billion fixed income portfolio that is internally managed. He noted that three years previously the fund had brought the management in-house, due to outside managers not performing as expected and less control than desired. He noted that there was \$8 million in fee savings. He thought the charts showed that value had been added. The six charts on the right showed individual portfolios that were managed in house. He used the example of the U.S. Corporate portfolio, a \$4.5 billion portfolio he managed. He noted that the portfolio had earned \$25 million per year over the previous five years.

Mr. Parise explained that each of the portfolios were weighted and bundled to achieve the fixed income composite on the left. He discussed the portfolio components. He addressed the fixed income composite chart on the left and discussed the focus of which portfolio component could beat the benchmark.

9:47:08 AM

Mr. Parise referenced slide 14, "Recent Performance & Benchmarks," which showed a graph of fund performance. He explained that performance benchmarks were based on board allocations. He described that the fund had beat the benchmark at three-, five-, and ten-year periods. The fund had outperformed all benchmarks over a ten-year period and had added \$6 billion in actual dollars due to staff talent in beating individual benchmarks. He discussed performance benchmarks, passive benchmarks, and return objectives. He mentioned achievements through asset mix and other means.

Mr. Parise discussed the challenge of the return objective of CPI plus five percent. The board focused on the return objective, but the staff focused on the performance benchmark beating the passive benchmark.

9:49:53 AM

ALLEN WALDROP, DEPUTY CHIEF INVESTMENT OFFICER, ALASKA PERMANENT FUND CORPORATION, turned to slide 15, "Private Markets," which showed a line graph of private equity gain and loss comparisons with public benchmarks. He relayed that he spent most of his time overseeing the private equity portfolio but also oversaw the private income category, which included private credit and infrastructure as well as real estate. He noted that APFC had been investing in the private market since 2004 when it started in private equity, and it had generated significant value. He directed attention to the graph on the slide, that showed the value generated relative to if the same dollars had been invested in just a public markets index. He quantified that the private market investment had generated roughly \$9.2 billion of additional value. He commented that the concern in private markets was liquidity. The fund's private equity portfolio had been cashflow positive for fifteen of the past sixteen quarters, and four of the last five fiscal years. He thought the performance was due to thoughtful management and allocation.

Mr. Mr. Waldrop described the concern of substantially higher fees in private markets than public markets. The trade-off was additional returns on the value capture shown on the chart. He noted that APFC negotiated the best terms possible and used the opportunity to co-invest alongside investment partners on a fee-free basis. He used the example of a \$45 million co-investment in 2023 in a company in the energy space that generated \$55 million in one year.

Mr. Mitchell clarified that APFC was a limited partner with a general partner in investment opportunities in the private equity space. The general partner would identify a company it wanted to acquire, and complete due diligence. The PF had an opportunity to participate in co-investment with a reduction of fees.

Mr. Waldrop continued discussing partnering in investment. While the APFC had earned \$55 on the co-investment endeavor in 2023, it had additionally avoided paying \$11 million in fees on the gain. In the fiscal year to date in the six months from July to December, APFC had put \$250 million in such investments and thought if the investments performed as plans the fund would save roughly \$65 million.

[9:54:39 AM](#)

Senator Kiehl thought slides 14 and 15 were impressive and showed the possibilities available with a great team. He referenced private investments and mentioned liquidity questions. He thought Mr. Waldrop had indicated that private markets or private equity were unusual to have consistent cashflow and consistent gains. He asked how it was possible to calculate the risk the fund was taking. He asked about the fund's riskiest investments, which he thought had increased in recent years.

Mr. Waldrop explained that from an asset allocation perspective, when Callan did modelling and looked at risk, the private markets were the highest risk. He explained that there were different risk levels within private equities and private markets, and there were strategies to engage in to manage risk. He mentioned elements for managing risk through choices. He mentioned managing risk by investing with experienced entities. He acknowledged that the areas were risky, but APFC endeavored to manage the risk as much as possible.

Mr. Mitchell thought part of Senator Kiehl's question related to the fund's account structure. He noted that unrealized gains within private market portfolios were much less liquid. He explained that with a growing portfolio there would be a growing unrealized class of gains that was not spendable in the two-account structure. He discussed the age of a portfolio and the illiquidity occurring in the middle.

[9:59:19 AM](#)

Senator Kiehl thought he heard something about private markets being 18 percent of the portfolio. He understood he was hearing that the fund was not interested in increasing the amount.

Mr. Mitchell noted that the asset allocation and investment policy was set by the board and APFC was in conformance with the policy. He did not believe staff would be making recommendations to increase the allocations to private market asset classes. He mentioned a book by David Rose, the first director of the PF, who bragged about Tyson's Corner, APFC's first real estate purchase. The property was still in the PF portfolio, was purchased for less than \$100 million, and had hundreds of millions of unrealized gains associated with it. It was strong performing asset and had \$130 million in annual revenues. He pondered if the fund wanted to sell the property to access the unrealized gains and referenced the two-account structure.

Mr. Parise relayed that the fund had 20 percent allocation to fixed income, which was a liquidity provider. He commented on the slow movement of private markets. He relayed that the bands were there to take advantage of certain situations. He relayed that Mr. Frampton did not like to deviate from targets and was very conscious about the liquidity of the portfolio and how it could be managed.

[10:02:49 AM](#)

Mr. Waldrop considered slide 16, "A Peer Comparison: Norges Bank," which showed a comparison of the PF and the sovereign wealth fund of Norway. He noted that surface level comparisons were challenges due to organizational mandates related to liability management, liquidity streams, principal preservation, which could drive

different approaches and allocations. He cautioned that comparisons should only be made with a detailed understanding of the differences. He noted that Norges Bank managed the oil and foreign exchange reserves for Norway and also served as a central bank of Norway. Norges Bank had much broader responsibilities, including managing economic stability through monetary policy.

Mr. Waldrop summarized that the main difference between the fund and Norges Bank was the asset allocation. The bank was primarily public markets with 70 percent equities and 20 percent fixed income. The bank had different objectives, different regulations, and a different size. It was very difficult for Norges Bank to access any illiquid markets because it was \$1.7 trillion. If the bank went into the private markets, real estate, or anything in size it could destabilize the markets. He noted that APFC had a much more diversified portfolio (32 percent equities, 20 percent fixed income, 12 percent real estate, 27 percent private equity/private income, 10 percent in hedge funds and other), with different allocations intended to achieve the state's targeted return with managed volatility, principal protection, and generating the needed liquidity.

Mr. Waldrop continued that the comparisons tended to be made when public markets when up. Because of the differences in allocations, groups that had a higher weighting to equities like Norges Bank (at 70 percent) would outperform more diversified portfolios when public markets when up, and would underperform when the public markets went down. He referenced 2022, when there were significant declines in public markets in the second part of the year. During that time the PF had a negative return of minus 1.2 or 1.3 percent while Norges Bank had experienced a negative 14.1 percent. The bank tended to experience significantly more volatility, while the PF tended to avoid volatility due to the payout structure. He pointed out other differences between the PF and Norges Bank, related to currency, fees, and time periods.

[10:06:22 AM](#)

Co-Chair Hoffman commented that he had visited Norway and spoken with bank managers. He noted that two of thing notable items was that Norges Bank was a country and the PF was a state. The second notable difference was that Norway kept its income tax.

Co-Chair Stedman did not think the Norges Bank paid a dividend.

Co-Chair Hoffman agreed.

Senator Kiehl noted that while the Norges Bank home office in the capital city, there was not another office in Bergen, which was about 225,000 people.

Mr. Waldrop displayed slide 17, "Investment Committee":

- Approves new investments
- Oversees, monitors, and reviews performance, and strategic and tactical investment decisions
- Meeting open to all Investment Staff and the Risk Officer
- Diverse, balanced, and open-minded interaction
- IC voting members: CIO, Deputy CIO-Private Markets, and Deputy CIO-Public markets

Mr. Waldrop described a weekly internal investment meeting open to all investment staff. The meeting was typically head by each asset class, who gave updates and shared ideas. The meeting was an open forum with diverse viewpoints and candid discussion which he found to be good for exchanging ideas.

Mr. Waldrop highlighted slide 18, "Investment Department Org Chart," which showed an organizational chart for the investment team at APFC. There were 11 people on the public market side, 13 people on the private market side, and others assisting the CIO and covering hedge funds. He made note of a couple of vacancies on the private side, and thought APFC was making good progress.

[10:08:44 AM](#)

Mr. Mitchell looked at slide 19, "Producing Income," which showed two graphs. He mentioned the issue of the difference between statutory net income and gap income. When the PF was created, there was not a definition of gap income that included unrealized gains. Now on the PF's financial statements it reported gap income, which included securities the fund held that had increased in value. He pointed out the graph on the left, which showed that

statutory net income was less volatile than gap income. There had been a trend of growing unrealized gains as Co-Chair Stedman had noted. He summarized that the unrealized gains were not spendable in the PF construct, and created greater volatility but greater earnings over time. He thought the construct could be seen on the chart on the right of the slide reflected in a different fashion. He thought the matter was partly leading to the discussion of the two-account structure and how it might be modified to diminish uncertainty in the future.

Mr. Mitchell addressed slide 20, "Statutory Net Income - History and Projections," which showed a graph depicting the PF's actual statutory net income and what was projected. He pondered that if there were "extraordinary" statutory net income years like 2002, 2003, and 2007; there was an inability to deal with such years in the current construct. He relayed that there could be issues with the PF providing the POMV draw in the current construct if there was a negative market experience. He pointed out the average statutory net income for the ten-year period from 2015 to 2024 was \$4 billion, while the need for the coming fiscal year was \$5.5 billion. The fund had grown during the time period, and the five-year average was closer to the target at \$4.5 billion.

[10:12:16 AM](#)

Co-Chair Stedman asked Mr. Mitchell to review the timing of transfers of appropriated funding. He thought the legislature had some flexibility on the decision up until the last appropriation bill left the committee in May.

Mr. Mitchell responded that inflation-proofing was appropriated at the end of a fiscal year, and there was flexibility for the legislature to adjust the timing through a supplemental process or a budget. He considered that the accounting practice of the PF had been conservative. The fund committed the coming year's POMV transfer on July 1, and at the same time committed the current year's inflation-proofing of \$1 billion. In the current year, the fund was \$400 million short of the available balance in the ERA to provide for the conservative structure, and it was the first time it had happened. He noted that the state had reached the point of a "shortening runway" between the needs of the state and the resources available in the ERA.

Co-Chair Stedman clarified that there was a safety valve through which the appropriation could be zeroed out if necessary. He did not think the legislature would intentionally set up a transfer to the corpus from the ERA for inflation-proofing, knowing it was unattainable. He emphasized that the legislature knew of the available funds and had made the decision to transfer \$1 billion in recognition of the liquidity issue the state was facing. He thought the legislature would review the subject in a couple of months when addressing the operating budget. He did not think the committee had any issues with anything in the presentation. He mentioned the statutory dividend calculation, and consideration when making policy decisions.

[10:16:07 AM](#)

Mr. Mitchell advanced to slide 21, "Statutory Net Income Drivers," which showed two graphs and described where statutory net income was sourced. He explained that statutory net income was realized income received such as rent or payment on a bond. The funds averaged about \$1.7 billion per year currently. The portfolio churned around 20 percent per year across asset classes. The actual amounts on unrealized gains were shown in the middle of the chart on the right. He pointed out \$4.6 billion in public equities, \$4.4 billion in private equity, \$1.9 billion in absolute return, \$1.4 billion in real estate, \$1.6 billion in private income, while fixed income was negative.

Mr. Mitchell explained that private markets would be less likely to have chunky disbursements in realized gains because of the investing/realization cycle that was about ten years. He mentioned market conditions and potential market changes. He mentioned a stress test that had been put on the chart for public equities and pointed out the impact of a market correction of 25 percent and the positive unrealized gain turning to a negative unrealized loss. Conversely there were positive market experiences. He highlighted the impact of market experience on unrealized gain.

Mr. Mitchell looked at slide 22, "Realized Earnings by Asset Class," which showed a table with earnings by asset class for FY 23 through the year to date for FY 25. He identified the largest contributor as public equity

(labeled as "preferred and common stock" as a contributor to realized earnings. He highlighted the balances at the bottom of the table and thought the realized earnings number could have an identified target of the POMV draw plus inflation. He pointed out that the totals did not quite meet the target. He thought there was still hope for FY 25, if there were gains in statutory net income to match the first part of the year the total would about break even.

[10:20:40 AM](#)

Mr. Mitchell referenced slide 24, "Structural Challenge," which addressed the issue of collapsing two accounts into one account. He thought the concept was broadly accepted in the world he dwelled within. He mentioned the concern of a negative market experience and an invasion of principal. He pondered the question of the principal in the current account construct. He pondered the principal in the current account construct. He thought arguably the principal was the \$58 billion that was allocated to principal, not counting the unrealized gains that were allocated to principal. He pondered that it would not be that difficult to layer in a floor, which could be inflation-proofed. He discussed more traditional endowments, which almost always uniformly had some POMV draw, because the concept resonated within the investing community for a fund that was designed to live in perpetuity.

Mr. Mitchell referenced structural challenges in the two-account system of the PF and thought they were in no small part due to the POMV. Prior to 2019, the fund was in "build mode." He recounted that the fund was giving out a Permanent Fund Dividend, with half of the earnings being saved in the fund. Currently, the 5 percent draw put the fund in "harvest mode."

Co-Chair Hoffman noted that previously the PF was known as the "rainy day fund."

Mr. Mitchell thought FY 15 through FY 18 were tough.

Mr. Mitchell turned to slide 25, "Alaska's Largest Revenue Source." He referenced the chart on the right entitled 'State of Alaska Unrestricted General Fund Revenues in \$ millions, ' and pointed out the low state revenue years in FY 15 to FY 18. The time was difficult for the state and

the POMV came online in 2019, which was the most stable and largest revenue stream for the state on an Unrestricted General Fund (UGF) basis. The financial stream had been a huge resolution to a problem that existed for a long time for a state that was reliant on volatile revenues.

Mr. Mitchell pointed out the calculations on the left-hand side of the slide, which showed the previous five fiscal year's ending balance and POMV draw calculation. The draw rate for the coming fiscal year FY 27 was projected at \$4 billion, while FY 26 was \$3.8 billion.

[10:26:07 AM](#)

Mr. Mitchell considered slide 26, "Fund Values - Structure," and discussed the fund structure and principal balance. He cited a total of \$79 billion in the principal, which was technically \$58.6 billion if unrealized gains were carved out. The ERA showed a \$9.1 billion balance, with a budgeted \$3.8 billion committed for the POMV draw, \$1 billion for inflation proofing. The unrealized gains would go to the principal and \$2.7 billion in spendable realized earnings would be for the projected \$5.5 billion need that would appear on July 1.

Co-Chair Stedman referenced slide 26 and referenced discussion about overdrawing the 5 percent. He pondered the state's liquidity position if the legislature had overdrawn the 5 percent (as recommended by the previous DOR commissioner and others).

Mr. Mitchell thought the most important feature of any financial construct was discipline, and any time one deviated it could set you up for failure. He did not have a calculation of where the fund would be if there had been larger draws, but thought it was easy to say that it was likely the current fiscal stress would be exacerbated. He stressed that financial discipline and limits were important.

Co-Chair Hoffman referenced Co-Chair Stedman's comments about overdrawing the five percent, and qualified that it had never been a recommendation of the committee. He thought the conservatism of the committee over the last decade should be well noted.

[10:29:23 AM](#)

Mr. Mitchell displayed slide 27, "Spending is Limited to the ERA," and pointed out the table reflecting ERA balances from FY 19 through the start of FY 25 going from \$12.9 billion to negative \$.4 billion. He thought the trend was concerning and warranted the consideration of change. He mentioned potentially a different direction on how funds were deployed to try to match to definitions of what was revenue, or consideration of one fund that had a draw that relied on total return. He thought liquidity was not the problem, but statutory construct.

Mr. Mitchell highlighted slide 28, "Earnings Reserve Account - Decreasing Availability - Impacts. He pointed out statutory net income in the numbers below the bar chart. He pointed out volatility of the revenue stream. He noted that the POMV commitments and inflation-proofing were shown for each of the years on the table. He pointed out high inflation in FY 23, which had required a much larger transfer to keep up. The net impact of the ERA was reflected on the bottom of the chart. The plurality of the experiences was the draw on the ERA balance.

[10:32:16 AM](#)

Mr. Mitchell looked at slide 29, "Manual Inflation Proofing," which showed a table of amounts appropriated from FY 16 to FY 26 estimation. He qualified that the numbers were how APFC portrayed the amounts based on the 2022 special \$4 billion appropriation that did not have the same inflation language that the 2020 special \$4 billion appropriation had. The result was a reflection of a \$2 billion underfunding represented on the chart, and if it was mischaracterized resulted in a \$2 billion overfunding.

Mr. Brune addressed slide 30, "Trustees' Paper Volume 10." He affirmed that he had heard Co-Chair Hoffman and Co-Chair Stedman's thoughts related to thoughts of the committee at the time the \$4 billion was appropriated. He pondered that specific language reminding APFC of the thought with the budget would be helpful. He thought it was difficult without specific direction from the legislature. He thought consistency was needed. He referenced the Trustee paper 10, distributed the previous year, which was not the first time the trustees had come forward with the concept of joining the accounts. He mentioned that the Council of Alaskans had met in 2023 with a similar recommendation. He highlighted

that the paper showed that the current two-account structure introduced significant risk to the ability to fund the annual POMV draw, which supported over half of the state budget and the PFD. He noted that the following two slides addressed the topic more in-depth. He affirmed that copies of the paper would be delivered to new members.

Mr. Brune noted that slide 30 discussed combining the two accounts to create a permanent endowment model in statute, which would require a constitutional amendment. He reiterated that he had conversations with Senate President Stevens and Senator Giessel, and Senator Stevens had wanted to ensure any change would be supported by the governor and the legislature.

10:36:30 AM

Mr. Brune advanced to slide 31, "Potential Long-Term Stability Approaches," and relayed that he was happy to help bridge differences and come up with something that was palatable to both branches of governments. He noted that the board would not take a position. He noted that Trustee Paper 10 did focus on the specifics of joining the two accounts, although many additional items had been discussed. The board did take a position on joining the two accounts.

Co-Chair Stedman thought it would be nice if the board reinforced the advantage of the POMV approach blocking overdrafts without a vote of the people. He thought there was significant concern that the fund would be raided. He thought it was only a matter of time before there was a structure within the legislature that resulted in the easiest course being to loot the fund. He wanted to see the concept reinforced.

Co-Chair Hoffman relayed that he was chairman of the House Finance Committee when the language was drafted for the resolution to create the CBR. There was a constitutional amendment, which required 27 members of the House and 14 members of the Senate for approval. He noted that it had taken much time and effort to get the resolution through the legislature. He thought the benefits of the change were well-known in the building and in the public. He thought the change proposed to the structure of the fund would take He thought more time and attention should be given to

setting up the new account. He thought the change would take as much or more work but needed to be done.

Mr. Brune showed slide 32, "Current Structure: Two Accounts," which showed a flow chart.

Co-Chair Hoffman thought the committee would wait for the resolution to come forward before getting into more detail on the subject of the account structure.

Mr. Mitchell addressed slide 32, and thought the slide reflected streamlining and simplification. The change would not require manually inflation-proofing and would not give the ability to overdraw without a vote of the people.

Mr. Mitchell advanced to slide 33, Proposed: Classic Endowment Structure."

[10:40:09 AM](#)

Senator Kiehl appreciated the work that went into Trustee Paper 10 and generally agreed with the reasoning. He thought that a lot of conversation was needed, and a lot of modelling should be done with regard to the draw limit. He thought the legislature would look to the APFC for its expertise on what was sustainability. He thought slide 33 slightly oversimplified the matter.

Mr. Mitchell noted that Mr. Vadakumcherry had done several analyses, including why diversification for a fund like the PF made sense rather than 100 percent equity portfolio because of volatility and the draw on the fund. In addition, Mr. Vadakumcherry had done some work on the success and failure of different potential draw rates.

Mr. Brune wanted to clarify that Trustee Paper 10 was the position of the independent board trustees but was not the position of the Dunleavy Administration. He furthered that each of the trustees were appointed by the governor but had taken the position independently. Similarly, trustees had independently taken the position on confidentiality of personnel records. He appreciated the partnership with the full process and vetting of the administration. He was committed to talking with the governor and legislators as the discussion went forward. He thought the merging of the two accounts was important and needed to go forward for the stability of the fund and the draw. He praised the staff at

APFC. He thanked the legislature for its help in recruiting and retaining valuable staff. He mentioned the in-house work that was meeting benchmarks and saving money.

[10:44:26 AM](#)

Mr. Mitchell thanked the committee for the opportunity, which he thought was time well spent. He appreciated constructive criticism, which he viewed as an opportunity for improvement.

Co-Chair Hoffman thanked Mr. Mitchell and APFC staff for their professionalism. He thanked the board for its work.

Co-Chair Hoffman welcomed former Senator JOHN BINKLEY, MEMBER, ALASKA PERMANENT FUND CORPORATION BOARD OF TRUSTEES.

#

ADJOURNMENT

[10:46:12 AM](#)

The meeting was adjourned at 10:46 a.m.