

**02/06/15**

**PRESENTATION**

**ALASKA**

**PERMANENT**

**FUND**

**CORPORATION**

<TARGET><BILL></BILL><SUBJECT>02-06-15 PRESENTATION  
ALASKA PERMANENT FUND  
CORPORATION</SUBJECT><COMM>SFIN29</COMM></TARGET>

# Alaska Permanent Fund

February 6, 2015



Alaska Permanent Fund Corporation

# Renewable resource

**\$18.1  
billion**

deposited  
in Fund to  
date

**\$21.6  
billion**

dividends  
paid to date

**\$52.5  
billion**

current  
value



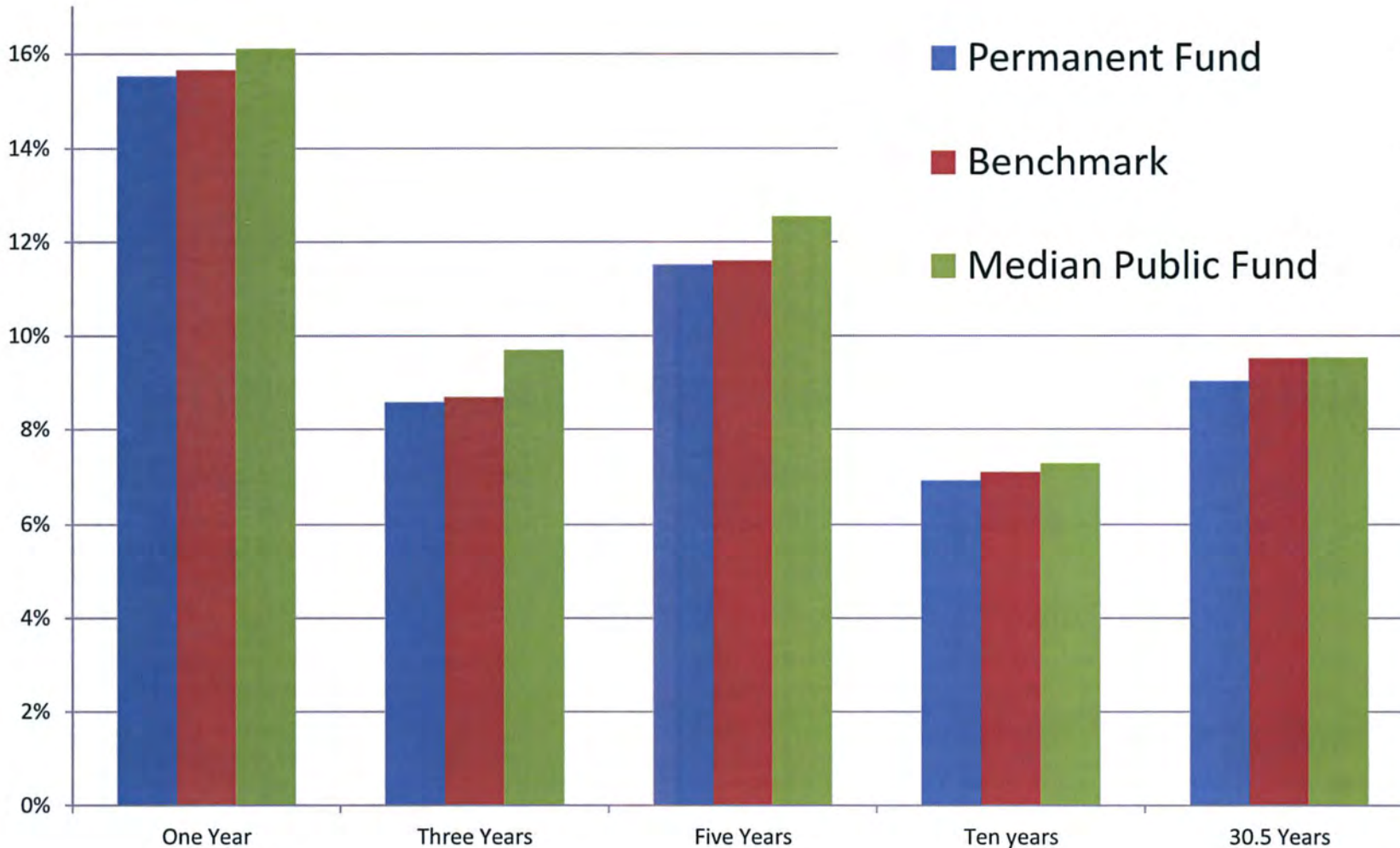
# FY2014 performance

<b>Total return</b>	<b>15.5%</b>
<b>Benchmark return</b>	<b>15.7%</b>
<b>Ending balance</b>	<b>\$51.2 billion</b>
<b>Change from FY13</b>	<b>\$6.3 billion</b>
<b>Dividend</b>	<b>\$1.2 billion</b>



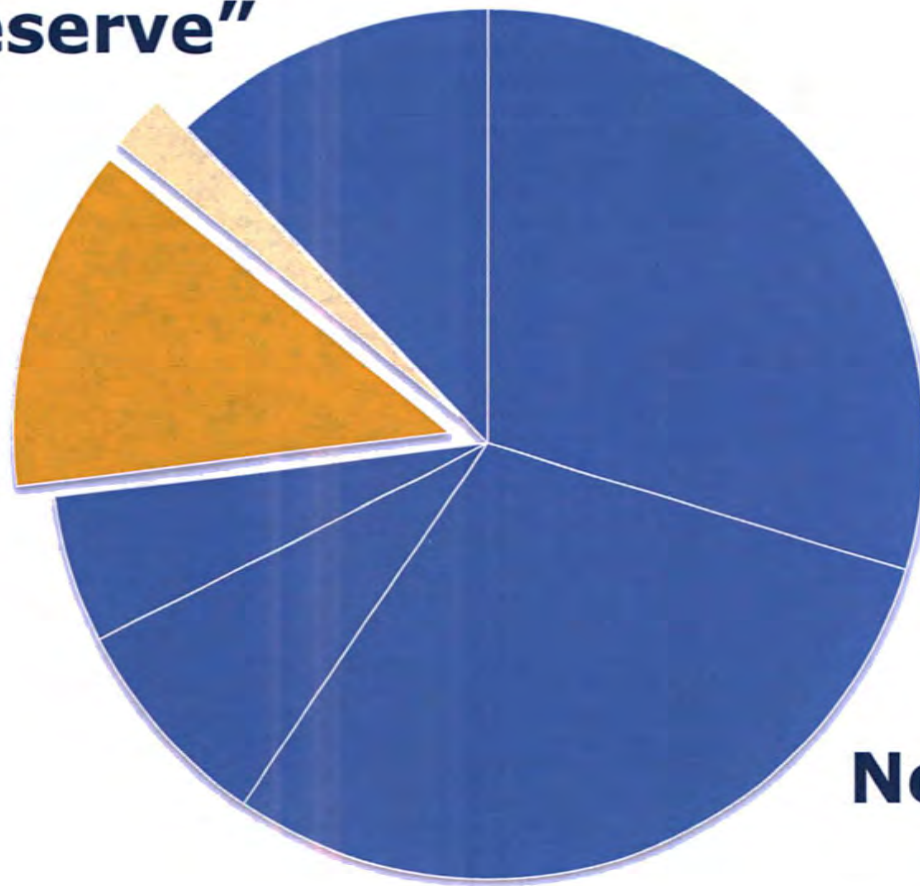
# Fund Performance

## for periods ending June 30, 2014



# \$52.4 billion as of 12/31/14

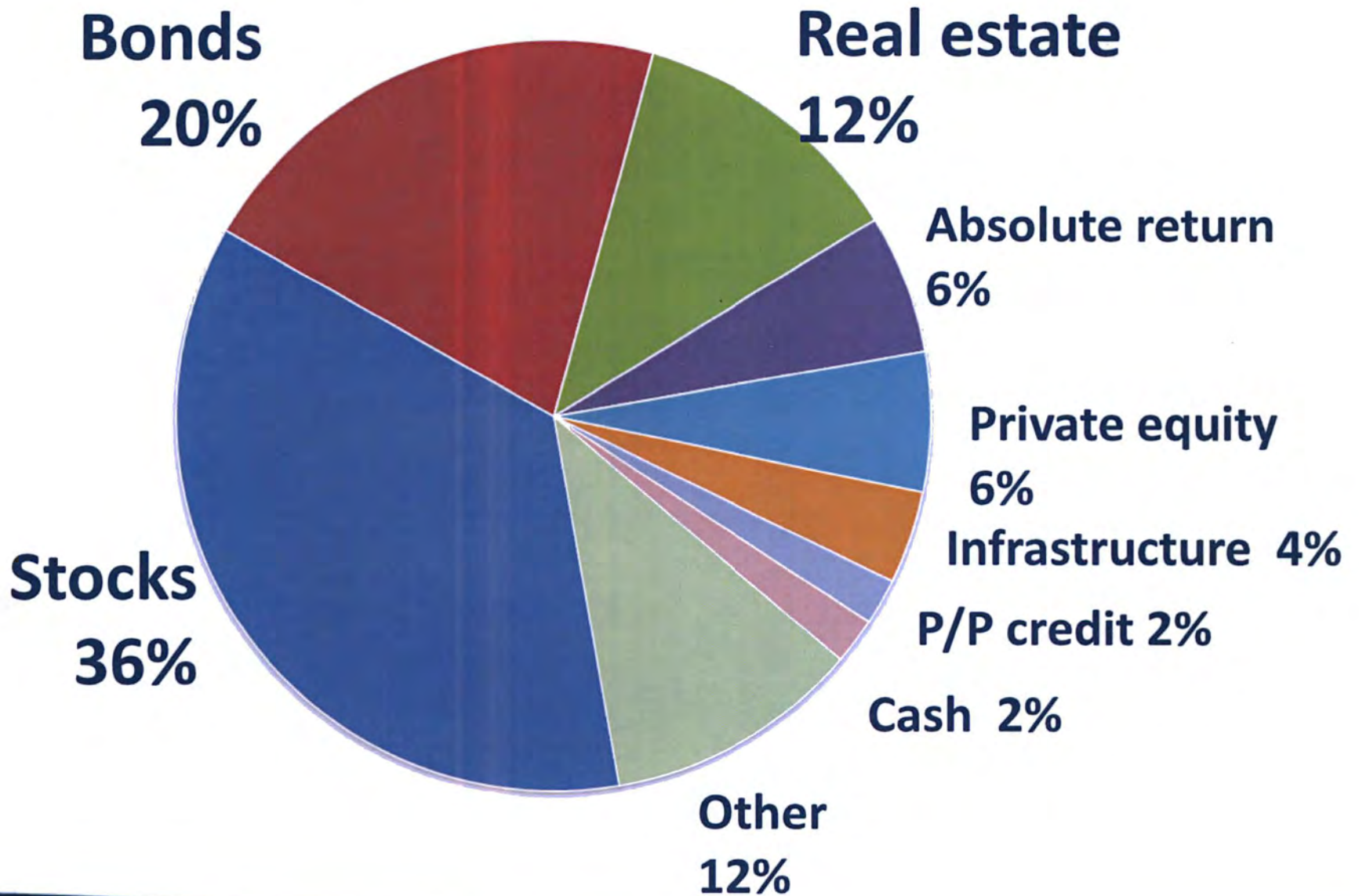
**Assigned  
"Earnings Reserve"  
\$7.8 billion**



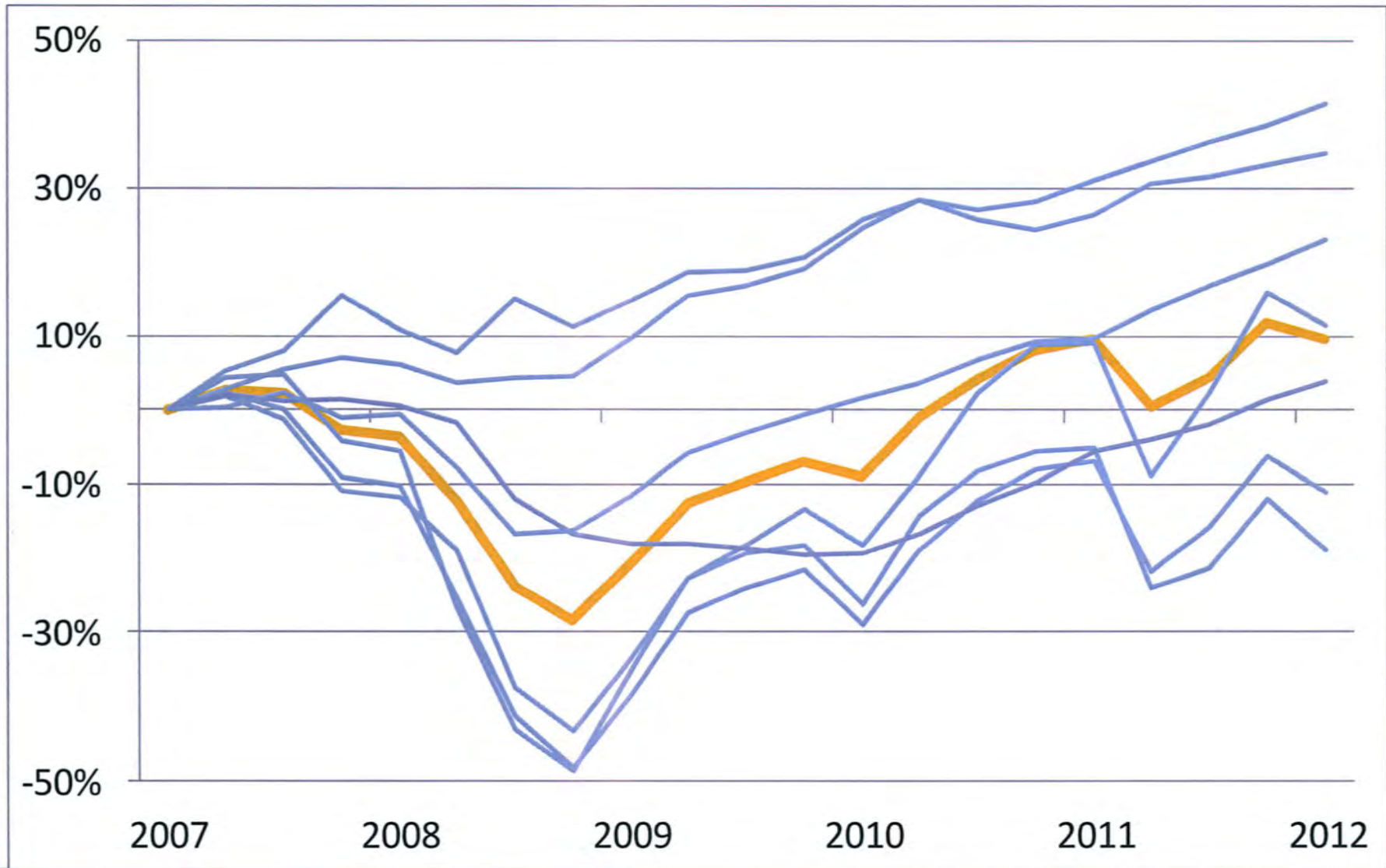
**Nonspendable  
"Principal"  
\$44.6 billion**



# Target asset allocation



# The effect of diversification



# Fund advantages

## Size

- Access to investments
- Ability to negotiate fee savings

## Time Horizon

- No set liability



# Fund Challenges

## Location

- Business travel to financial centers
- Recruitment from financial centers

## Flexibility

- New resources often arrive long after needed due to lengthy budget process

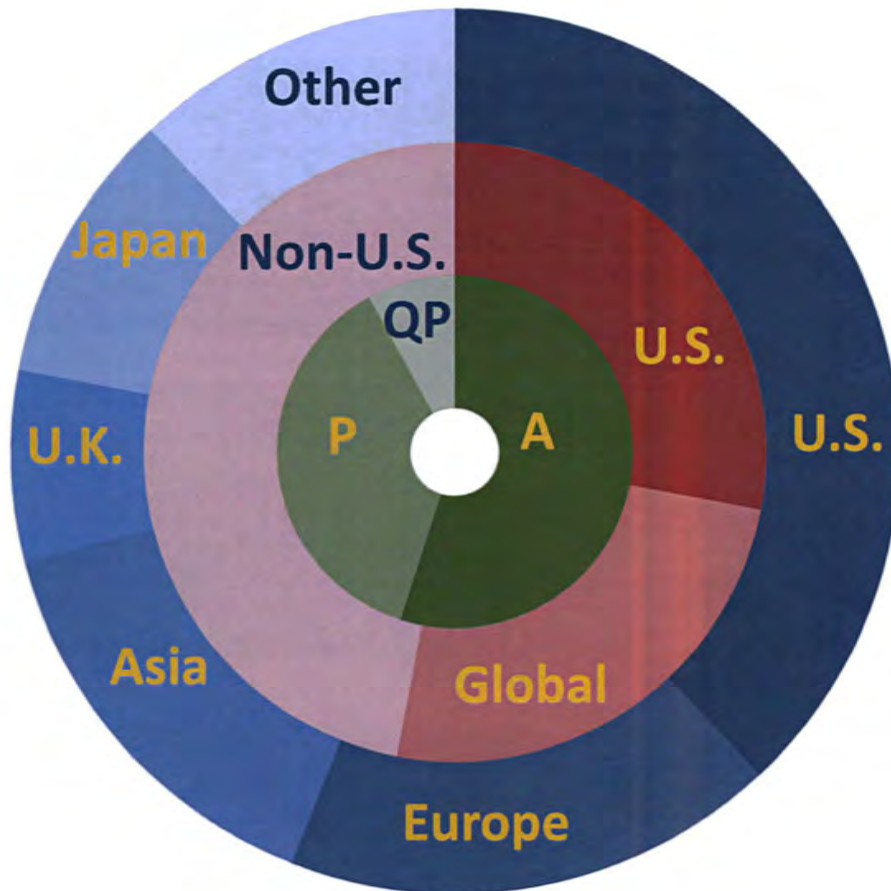
## Staff size

- Small staff limits bench strength, creates gaps during travel and vacancies



# Stock portfolio

**\$20.4 billion as of  
06/30/2014**



- By country or region
- By mandate:  
U.S., Global, Non-U.S.
- By management:  
Active, Passive,  
Quasi-passive



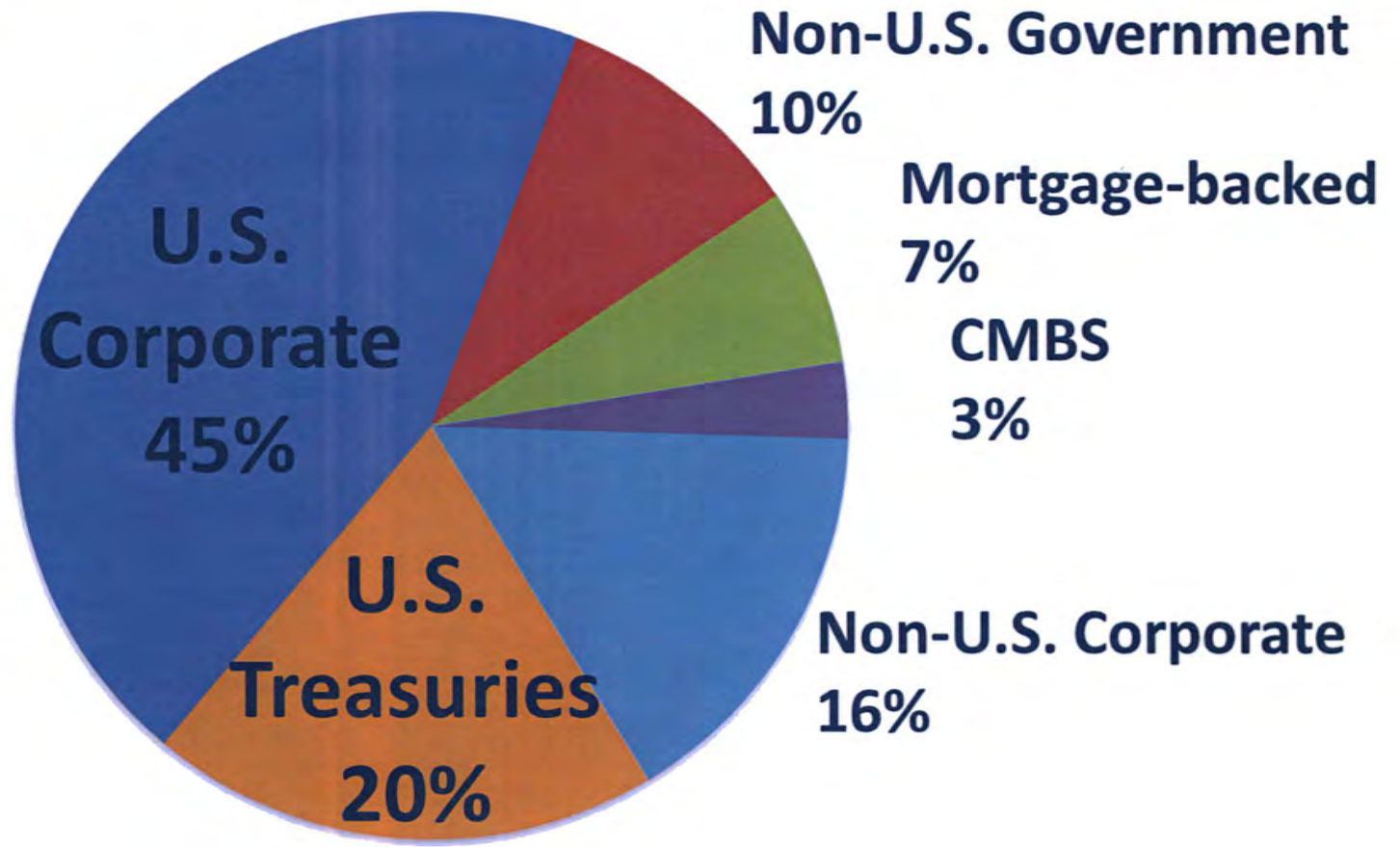
# Top 5 stocks as of 12/31/2014

<b>Apple</b>	<b>\$195 million</b>
<b>Microsoft</b>	<b>\$126 million</b>
<b>Exxon Mobil</b>	<b>\$117 million</b>
<b>Hewlett-Packard</b>	<b>\$110 million</b>
<b>JPMorgan Chase</b>	<b>\$95.4 million</b>

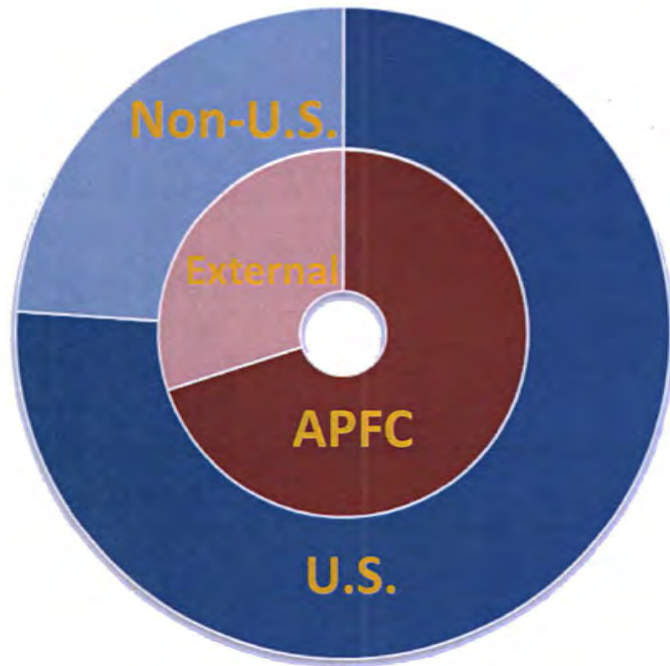


# Bond portfolio composition

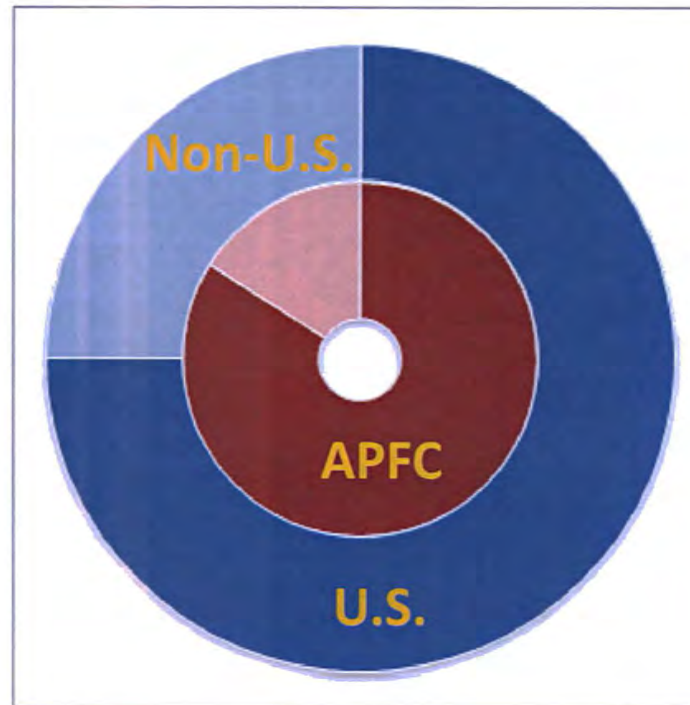
\$12.0 billion as of  
06/30/2014




# Bond portfolio management



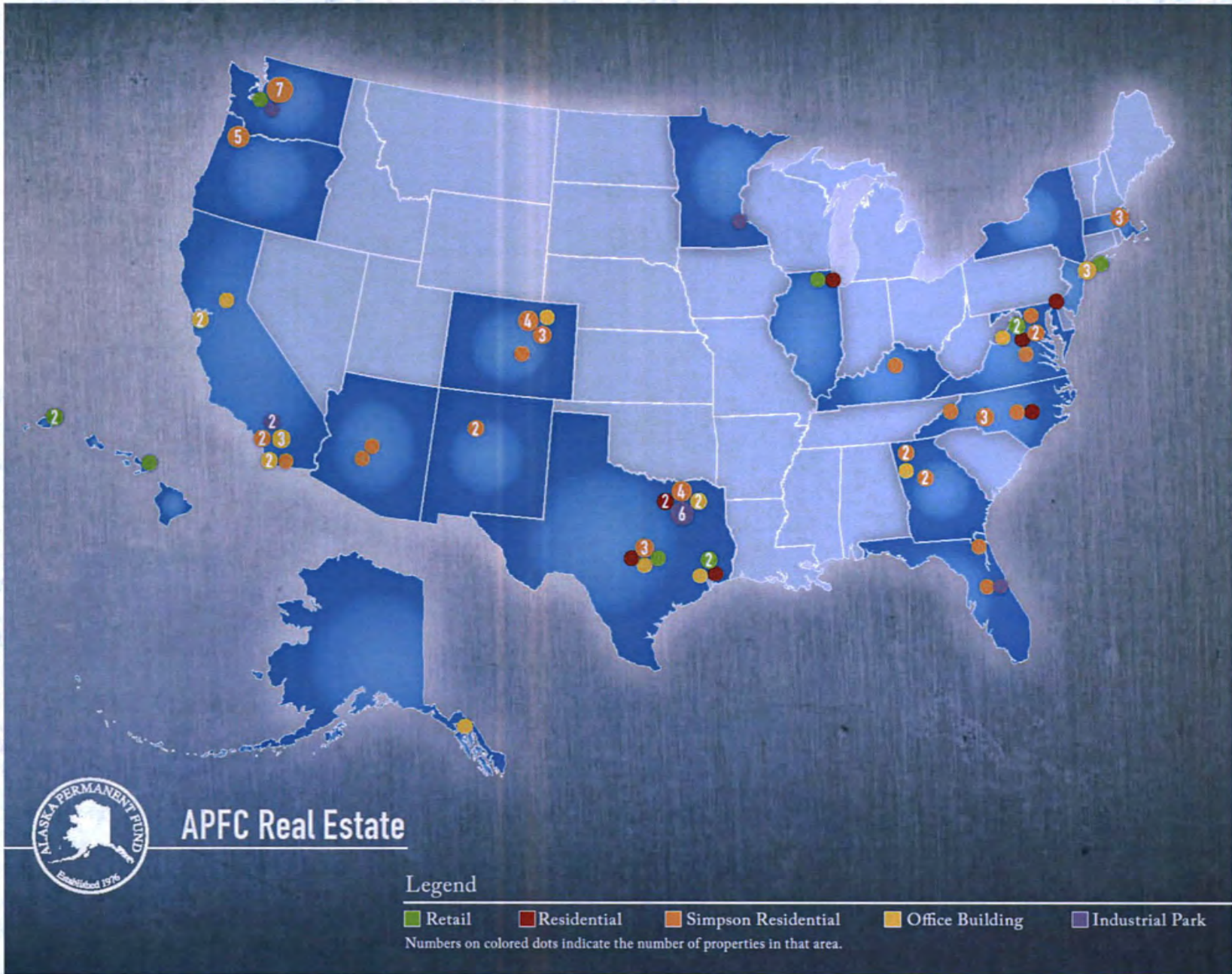
**06/30/2012**  
**\$7.6 billion**



**06/30/2014**  
**\$12.0 billion**

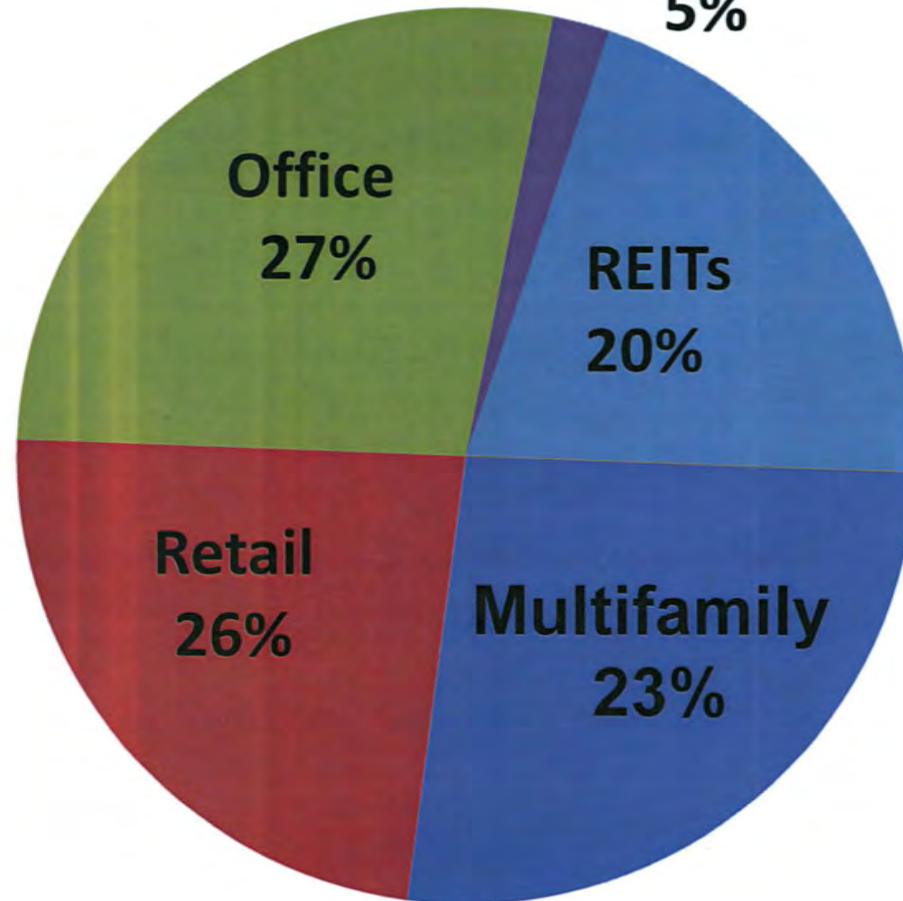
-  By country or region
-  By manager: APFC or External





# Real estate

Industrial  
5%



**\$5.9 billion as of  
06/30/2014**

**5 U.S. direct  
equity managers**

**1 REIT manager**



# Tyson's Corner Center



# Simpson Housing LLLP

50/50 partners with State of Michigan

20,000+ apartments

APFC's share valued at \$992 million as of 06/30/2014.



# Simpson Housing LLLP



# Simpson Housing LLLP



# American Homes 4 Rent

\$625 million invested, present value of share is \$797 million as of 06/30/2014.

Private company to public company in June, 2013

25,900 houses in 16 states



# CityCentre II, III & IV



Houston, TX

Office & Retail

400,000 square feet  
total



# Parc Huron



Chicago, IL

Residential

221 units



# The Shops at North Bridge



# Non-U.S. real estate

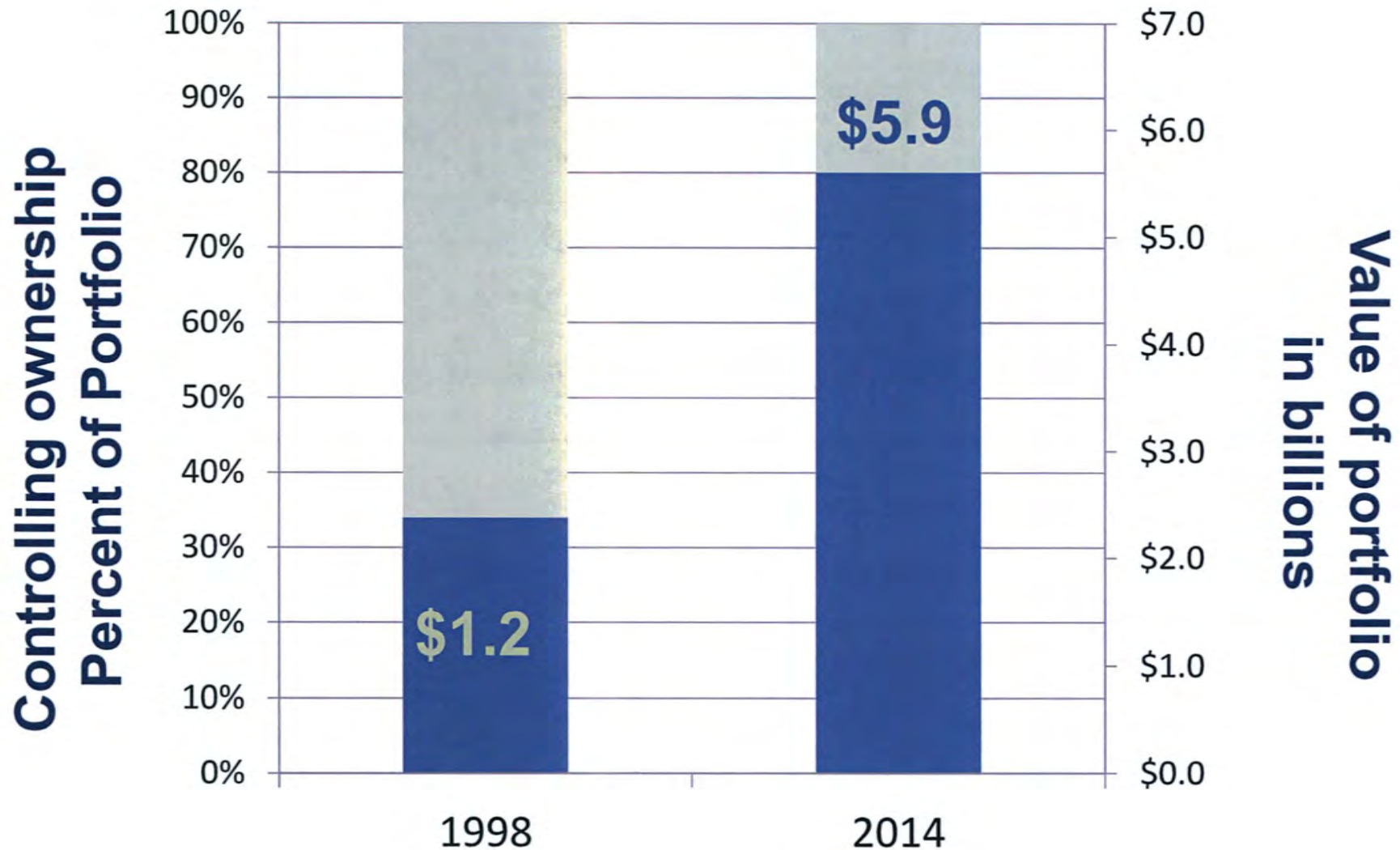


**Golden Square  
Shopping Centre  
Warrington, UK**

**Zenia Boulevard  
Shopping Centre  
Alicante, Spain**



# Real estate management



# Absolute return

**\$2.8 billion as of 06/30/2014**

**3 gatekeepers**

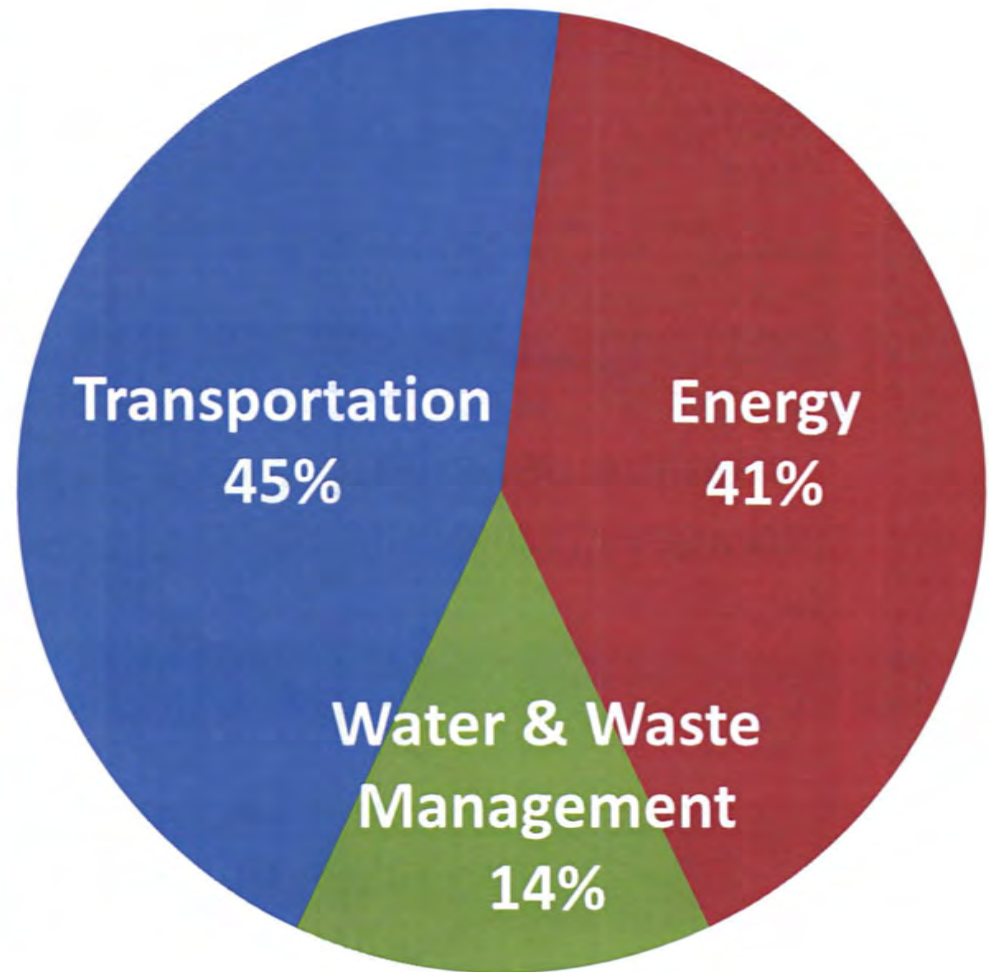


# Infrastructure holdings

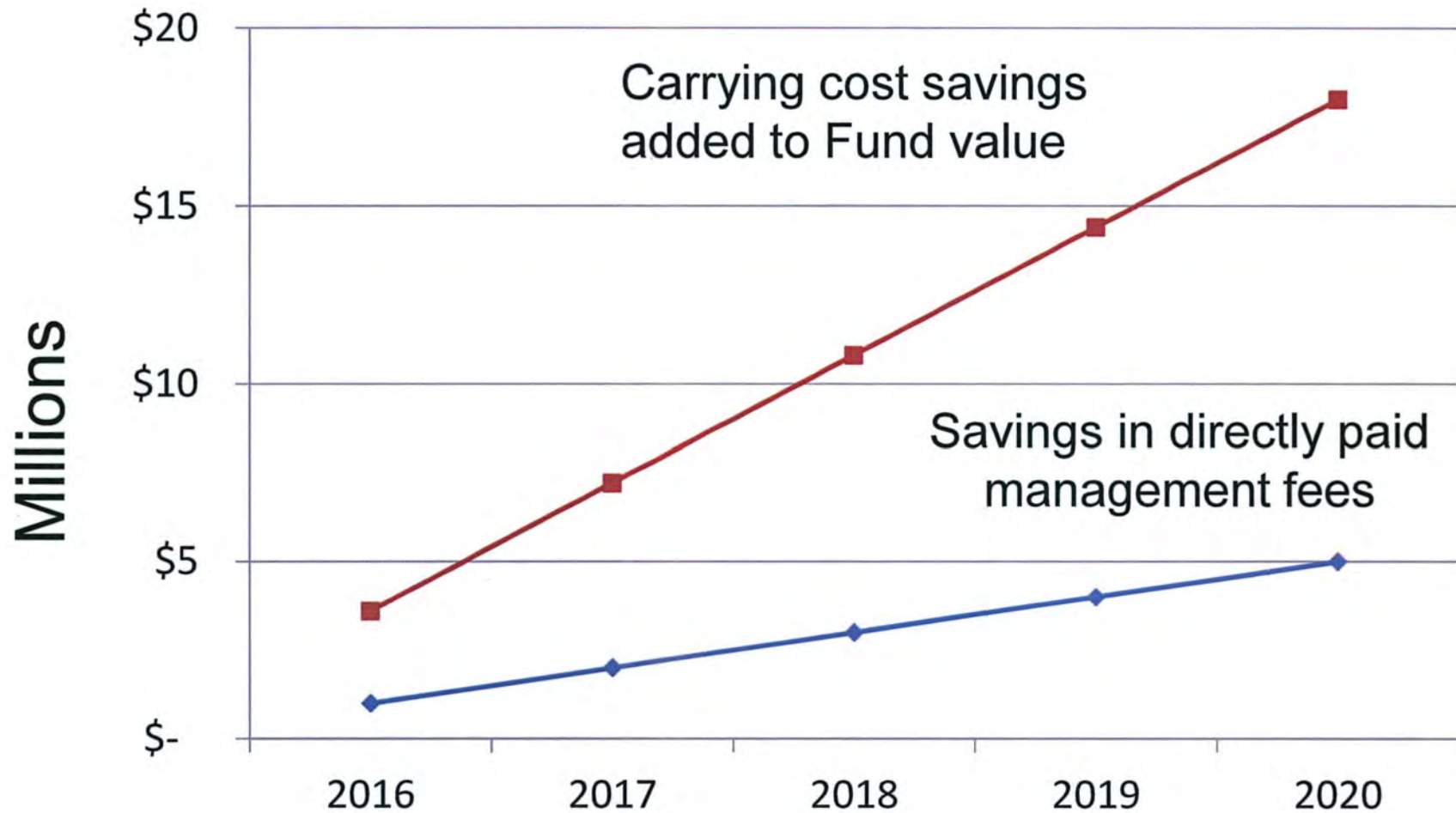
\$1.1 billion as of  
06/30/2014

Properties in the U.S., U.K.,  
India, Argentina and Canada

Co-investment program  
implemented in FY14



# Savings from 3 deals/year

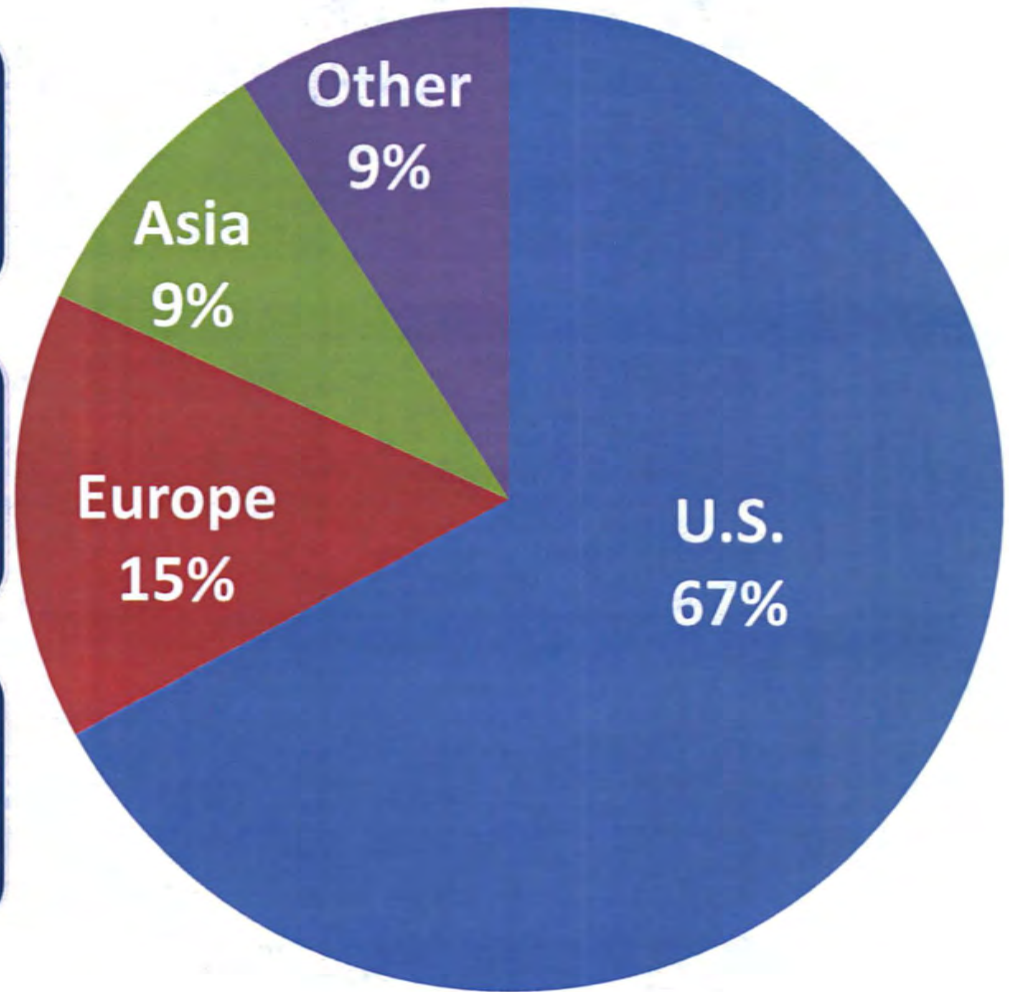


# Private equity

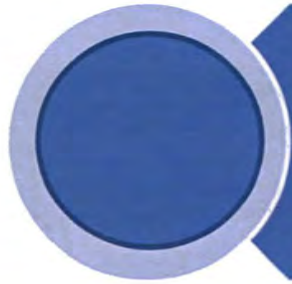
\$2.6 billion as of 06/30/2014

2,800 underlying companies

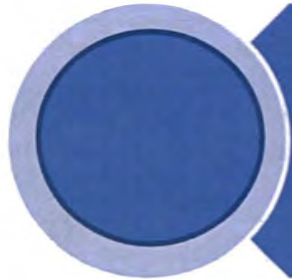
Co-investment program  
implemented in FY2014



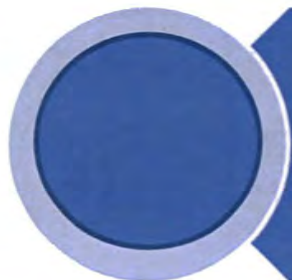
# Special opportunities



Direct investments in private companies



Direct investments in specialized funds



Multi-asset mandates



# Direct fund investment \$1 billion

	Industry	APFC
Terms	1.5/20 over five years	\$500 million @ 1.5/20 \$500 million free 5% total revenue share
Fees	\$75 million management fees \$200 million carry	\$37.5 million direct management fees \$100 million carry
GP revenue sharing	- 0 -	\$150 million Based on total fund, not APFC share
Gross profit	\$1 billion	\$1 billion
Net profit	\$725 million	\$1.0 billion



# Private assets, one year:

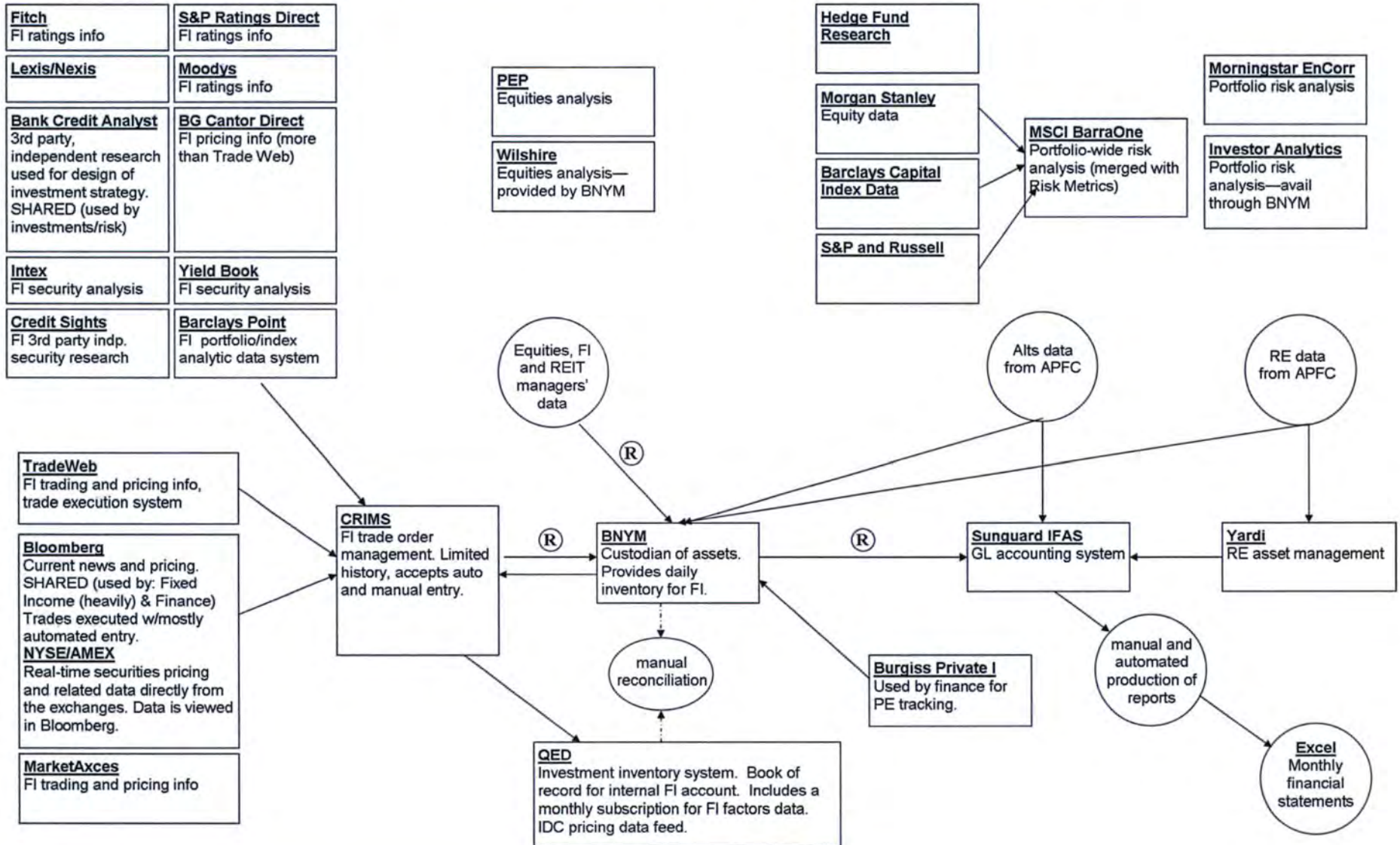
60 deals screened

12 reviewed

6  
closed



# Financial networks



# Dividend calculation

Fiscal Year	Statutory net income
2009	(\$2.5 billion)
2010	\$1.6 billion
2011	\$2.1 billion
2012	\$1.6 billion
2013	\$2.9 billion
2014	\$3.5 billion
<b>Sum</b>	<b>\$11.7 billion</b>



# Dividend calculation

\$11.7 billion x .21%

\$2.5 billion divided in half

Send \$1.25 billion to PFDD

After adjustments, divide by 641,489

2014 individual PFDD = \$1,884



# Oil prices and the dividend

**Oil royalties are not part of the dividend calculation!**

	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>
<b>Fund ending value</b>	<b>\$40.3</b>	<b>\$44.9</b>	<b>\$51.2</b>
<b>Oil deposits</b>	<b>\$ 0.9</b>	<b>\$ 0.8</b>	<b>\$ 0.8</b>

**values in billions**





# ALASKA PERMANENT FUND CORPORATION



## TYSONS CORNER CENTER

### Silver Line Metro Station

Linking downtown Washington, D.C., to Dulles Airport, the first phase of the Silver Line Metro brings over 36,000 riders through the Tysons Corner station every weekend. The final phase will add six more stops and expands the line to Dulles International Airport by 2018.

### Plaza

The one-acre Plaza is set 32 feet above street level, and links directly to the Silver Line Metro station and Tysons Corner Center. Outdoor activities include movies, concerts and a farmers market in the summer, and ice skating in the winter. Four restaurants surround the Plaza, including Shake Shack and Eddie V's.

### A - Luxury Apartments

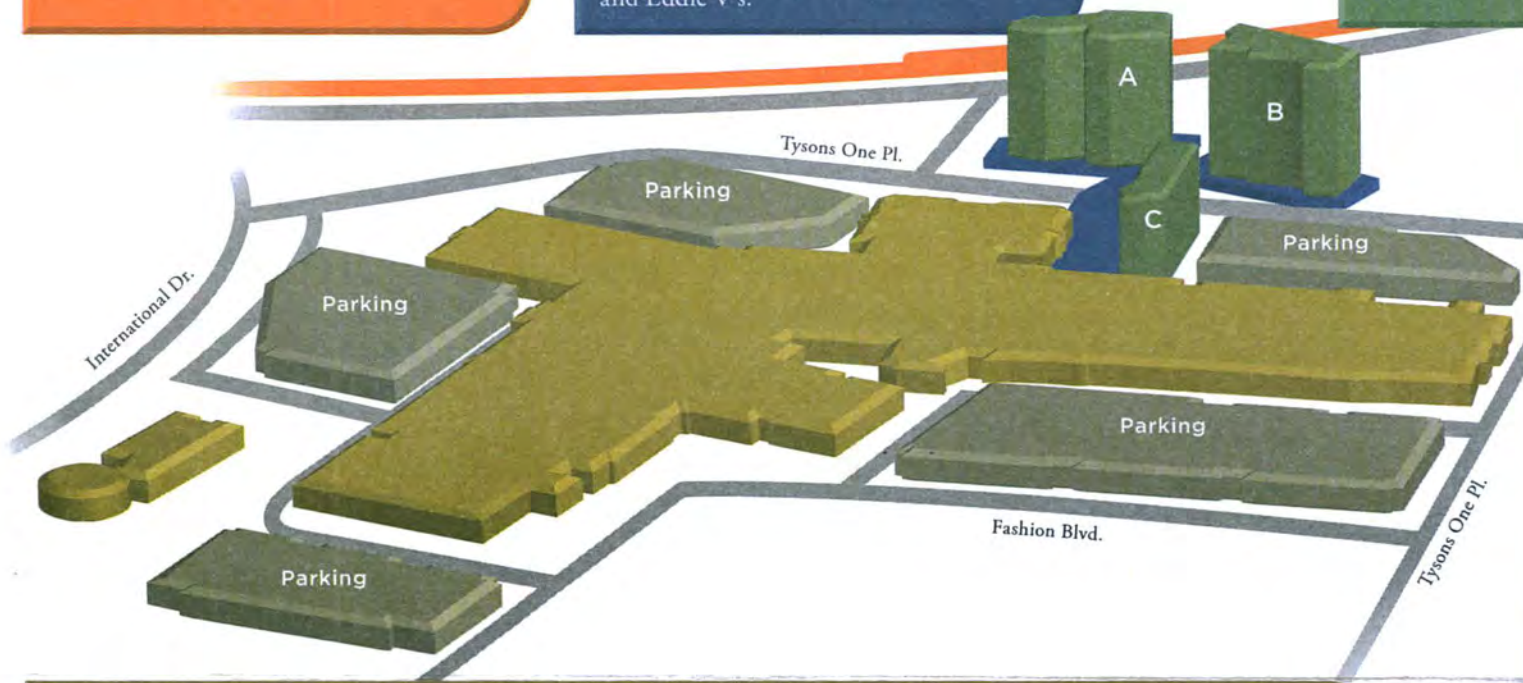
Residents of the VITA Apartments will have their choice of one, two, or three bedroom apartments from the 429 units in total, as well as penthouse apartments on the 30th floor. On-site services include a lounge and entertainment facilities, fitness club and an outdoor terrace complete with gas grills, fire pits and conversation nooks.

### B - Tysons Tower

The 22-story Tysons Tower provides panoramic views of Northern Virginia, and will serve as the regional headquarters for some of the most prominent consulting, technology and federal contracting firms in the world. Intelsat is the lead tenant, joined by Deloitte, Splunk, GTT Communications and Reed Smith.

### C - Hotel

310 guest rooms and suites make up the luxury The Hyatt Regency at Tysons Corner Center, along with a lounge, restaurant, seasonal outdoor seating, pool and fitness center. An executive conference center will complement the 15,500 feet of meeting and event space.



### Shopping

First opened in 1968, Tysons Corner Center has grown over the years to encompass roughly 2.2 million square feet, with more than 300 shops and specialty restaurants, and a 16-screen movie theater. Approximately 22 million shoppers each year come to Tysons, which is a magnet for first-to-market concepts. The first-ever Apple Store opened at Tysons, as well as the first L.L. Bean outside of Maine and the East Coast's first Nordstrom.

Tysons' location ensures that it will continue to be a valuable holding for the Permanent Fund in the years to come. Located in an area dominated by government employment, Tysons Corner Center fared better than most other shopping centers around the U.S. during the recent recession. And the dense development around Tysons ensures that no new shopping centers will spring up as competition in the area.

Tysons Corner Center, located 20 minutes outside Washington, D.C., opened the first phase of its 1.4 million-square-foot mixed-use expansion in July 2014. An office tower, a hotel and a luxury apartment building are connected by an outdoor plaza, creating a live-work-play environment. The construction of the Silver Metro Line from downtown Washington, D.C., to Dulles Airport made this expansion a viable opportunity, and has already increased traffic to the shopping center.

Since 1985, Tysons Corner Center has been an important part of the Alaska Permanent Fund's real estate holdings. As the Fund's ownership share has grown over the years, the APFC has actively worked to maximize the value of this investment, undertaking expansions in 1989 and 2005. Along with its current 50 percent operating partner, Macerich, the Corporation made the decision to undertake the most recent project, seizing the opportunity to dramatically increase the value and earning potential of this flagship property.

The Board of Trustees believes that real estate is an important part of a well-balanced portfolio. The value of real estate properties tends to rise along with inflation and as a result these investments help preserve the Fund's real value over time. In addition, the rent from real estate holdings flows into the Fund as statutory net income, directly contributing to the annual Permanent Fund Dividend calculation. In recent years, Tysons has contributed \$25 million annually to the dividend formula, a number that is expected to grow as the new expansion comes on line.

APFC staff ensures that the real estate portfolio will provide the most benefit to Alaskans through seeking out experienced on-site management firms and high quality tenants, and making necessary capital improvements to preserve and enhance the value of the properties. The new expansion at Tysons Corner Center does just that.

## TYSONS TIMELINE



1854

William Tyson buys land in rural Virginia, near Washington, D.C., and begins his tenure as postmaster. In the 1950's, a general store (pictured) stood at the intersection of Routes 7 and 123.



1968

Tysons Corner Regional Shopping Center first opens its doors.

1985

The Alaska Permanent Fund invests \$21.8 million to acquire a 14 percent ownership share in Tysons Corner Center. By 2002, the Fund's share will reach 50 percent.

2007

Approval of the forthcoming Silver Metro Line from downtown Washington, D.C., to Dulles Airport with a stop at Tysons leads the APFC and partner Macerich to consider expansion options.



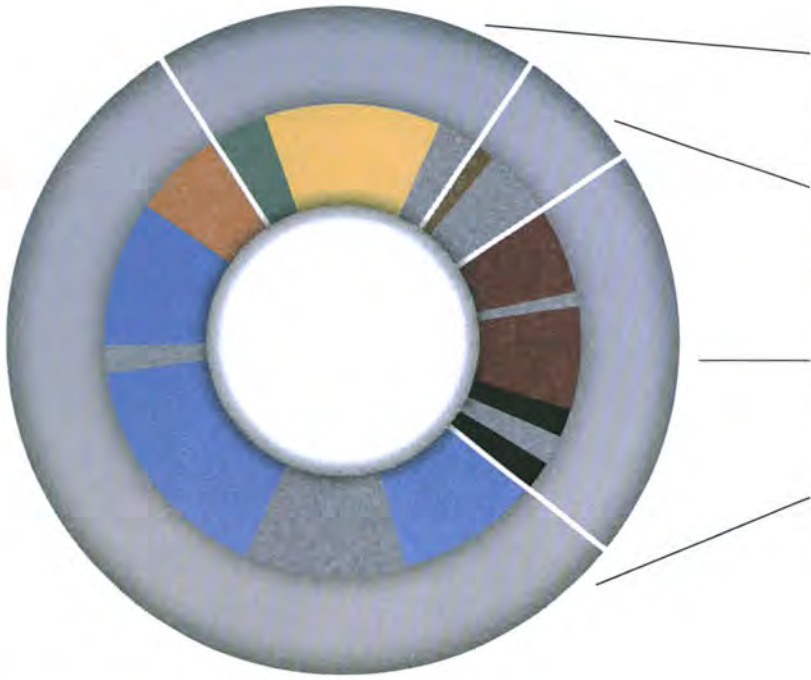
2014

Tysons Tower office building and the Plaza are open. The Hyatt Regency Hotel and VITA residential tower will follow in 2015.

# ASSET ALLOCATION

Each year, the Board sets the target allocation for the Permanent Fund's investments. This provides a broad investment strategy, within which individual investment decisions can be made. In setting this strategy, the Board doesn't try to time the markets or focus on short-term market conditions. Instead, it builds a portfolio that will provide more stable returns under a variety of market conditions.

The image below shows the risk-based allocation adopted by the Board in 2009 on the outside of the graph. The traditional asset classes are shown on the inside of the graph, in the corresponding areas where they fall.



## Real Assets, 19%

The value of real assets hedges inflation risk, helping protect the Fund's real value over time.

## Cash and Interest Rates, 6%

The cash allocation is designed to let the Fund build up reserves over the course of the year to meet its expected liabilities, primarily the annual dividend payment each July.

## Special Opportunities, 20%

This allocation allows the Permanent Fund to invest in special opportunities and to take advantage of dislocations in the markets.

## Company Exposure, 55%

When the economy is performing well, most public and private companies are performing well. Investing in these corporations allows the Permanent Fund to benefit in times of growth and prosperity.

## Asset Classes

- Stocks** represent a share of ownership in public companies. The Permanent Fund owns shares in more than 3,000 corporations around the world.
- Bonds** are a form of loan. A bond "issuer" – a corporation or government – borrows money at a preset interest rate for a preset period of time.
- Real estate** includes both direct investments in properties across the U.S., including malls, office buildings and apartment complexes, and real estate investment trusts (REITs). These are publicly traded financial instruments that invest in income-producing real estate and are traded like stocks.

- Private equity** investments are made directly in private corporations — corporations that are not publicly traded in stock markets. The APFC uses gatekeepers to evaluate the firms that make these investments on the Fund's behalf.
- Absolute return** investments (also called hedge funds) are private investment partnerships that use multiple stock and bond investment strategies to achieve a target return on investments.

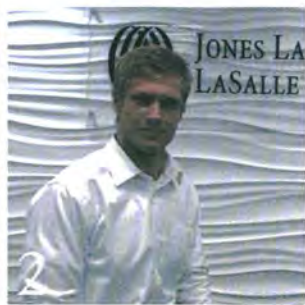
- Infrastructure** investments are facilities or services that are typically owned and managed by governments, such as toll roads or electric utilities. Infrastructure investments provide a steady return over a long period of time.
- Cash** investments are liquid investments with durations of less than 12 months.
- Other**

# APFC INTERNSHIP PROGRAM

The Alaska Permanent Fund Corporation and our participating investment managers are committed to preparing Alaska students for careers in finance and investing through the APFC Summer Internship Program.

Throughout the 27 years of this program's history, a total of over 40 Fund management firms have provided summer employment to qualified Alaska students. Many of our partner firms value their students' work contributions and therefore regularly partner in the

program each summer. This has resulted in over 300 Alaska students enriching their academic studies through these internships since 1988. Many former interns have gone on to work in the industry, having had a chance to experience it first hand as a student.



One former intern now working in the industry is Joseph Shinn. Joe joined APFC as an Accountant in October 2013 and is a key contributor to the development of a distinct middle office function, which includes trade settlement and related work. Joe earned a BBA with a concentration in Finance from the University of Alaska Fairbanks in 2012. In 2011, Joe's experience with the UAF Student Investment Fund helped him to secure an internship with APFC fund manager Rogge Global Partners, in New York City. Joe loved his Rogge experience, but after graduation he chose Alaska over New York. As an APFC employee, Joe can live in Alaska with a career in his chosen field.



1. Kirsten Halpin  
University of Alaska Fairbanks  
McKinley Capital Management / Anchorage
2. Ryan Conroy  
Johns Hopkins University  
LaSalle Investment Management, Inc. / San Diego
3. Yishu Xu  
Alaska Pacific University  
Crestline Investors, Inc. / Fort Worth

4. Peter Jorgensen  
Georgetown University  
Allianz Global Investors (RCM) / San Francisco
5. Jane Sherbrooke  
University of Alaska Southeast  
Alaska Permanent Fund Corporation / Juneau
6. Trey Chenier  
University of Puget Sound  
Alaska Permanent Capital Management / Anchorage

We wish to thank our 2014 participating managers, who, along with APFC in Juneau, employed and mentored six students this summer:

- McKinley Capital Management
- Allianz Global Investors (RCM)
- Alaska Permanent Capital Management
- Crestline Investors, Inc.
- LaSalle Investment Management, Inc.

# HOW IS THE DIVIDEND CALCULATED?

Each year, the amount of the dividend is calculated using a formula set in state law. The formula is based on an average of the Fund's income over five years in order to produce a more stable flow of dividend amounts from year to year. Because the foundation of the Permanent Fund comes from a portion of Alaska's

oil royalties, many people think that the dividend amount is affected by the price of oil. In fact, the price of oil has no immediate effect on the dividend, as the calculation below demonstrates.

Using the amounts for the 2014 dividend:

## Alaska Permanent Fund Corporation Responsibilities

**1** Add the statutory net income from investments for the last five years (in billions).

2010	\$ 1.590
2011	2.143
2012	1.568
2013	2.928
2014	3.531
	\$ 11.760

**2** Multiply the sum by 21 percent.  
\$11.760 billion x 21% = \$2.470 billion

**3** Divide by 2.  
\$2.470 billion ÷ 2 = \$1.235 billion

**4** Check the balance of the realized earnings account.  
Alaska state law says that no more than half of the balance may be paid out for dividends.

In 2014, the balance of the realized earnings account on June 30 was about \$8.0 billion, so the full calculated amount of \$1.235 billion was available to transfer to the Permanent Fund Dividend Division (PFDD).

## Permanent Fund Dividend Division Responsibilities

**5** Make adjustments for residual funds, designated state expenses and the cost of operating the PFDD.

\$1.235 billion  
- \$26 million  
\$1.209 billion

**6** The balance is divided by the number of successful applicants.  
\$1,208,600,000 ÷ 641,489

**= \$1,884 per person dividend**

## A TWO-PART FUND

While the entire Fund is invested in assets such as stocks, bonds and real estate, for accounting purposes it is divided into two parts: principal and the realized earnings account. The Alaska Constitution says that the principal may not be spent. The realized earnings in the realized earnings account may be spent by the Legislature for any public purpose, which includes the Permanent Fund Dividend distribution.

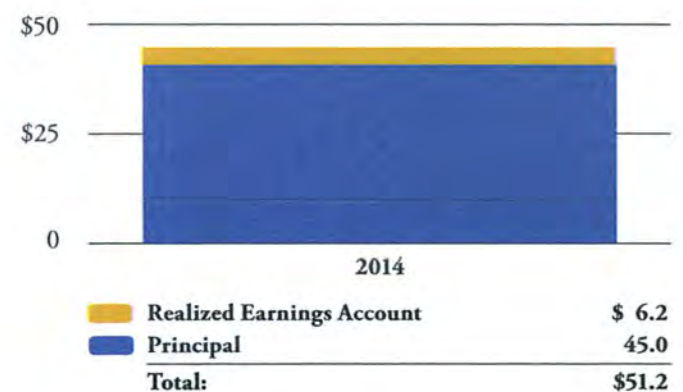
What are realized earnings? Realized earnings are the income from bond interest, real estate rent payments and stock dividends as well as the profits from selling assets that have increased in value. Any losses from selling assets that have decreased in value are deducted

from the realized earnings. Realized earnings are accounted for in the realized earnings account and, once received, are reinvested in the same assets as the principal to increase the Fund's earning potential.

What about unrealized gains? Unrealized gains (and losses) are the increases (or decreases) in value of assets that the Permanent Fund currently holds. These gains (and losses) are considered part of the principal until the asset is sold, and then any net realized gains (or losses) are recorded in the realized earnings account.

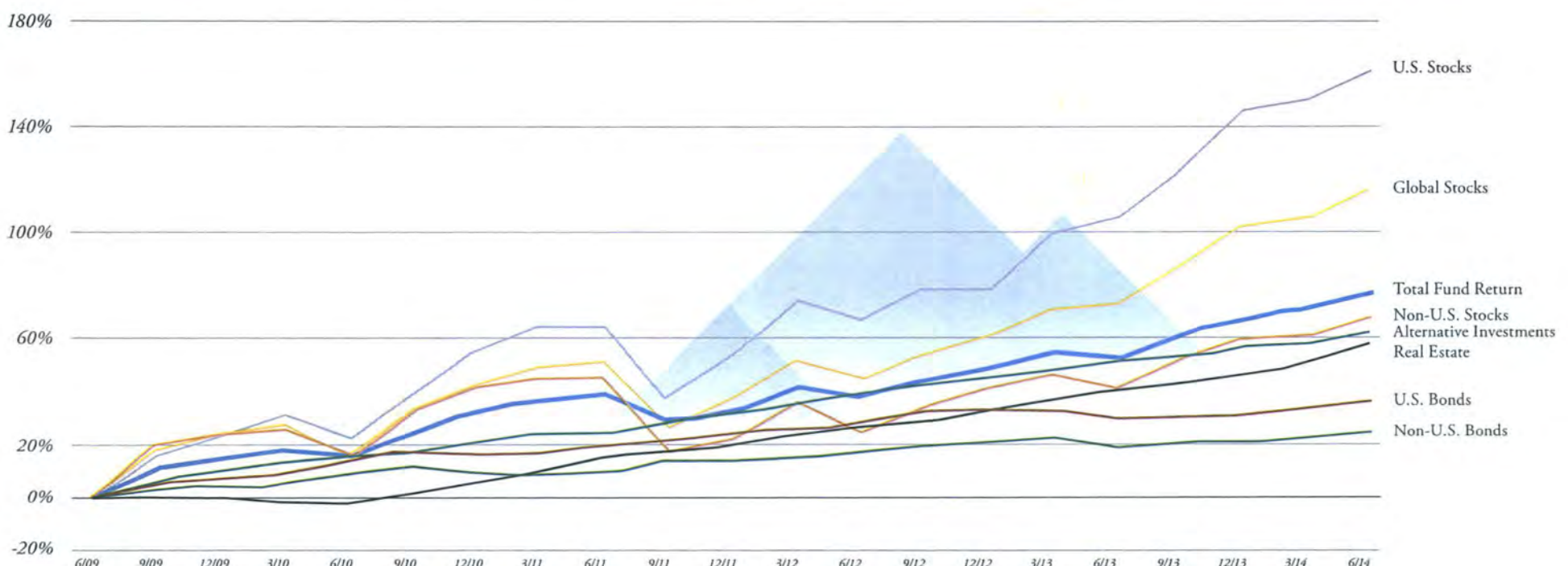
## Principal and Realized Earnings Account

*As of June 30, 2014, ending balance (in billions):*



## THE EFFECTS OF DIVERSIFICATION

Five-Year Cumulative Return



The Permanent Fund's portfolio is designed to take advantage of different types of investments that generally work in disharmony with one another and bring different risk and return profiles to the mix. By investing in a range of diverse assets, the Fund is better positioned to achieve a positive return in various market conditions.

# LETTER FROM THE EXECUTIVE DIRECTOR



Michael J. Burns

## BOARD MEMBERS

- Bill Moran (Chair)
- Carl Brady (Vice-Chair)
- Larry Cash
- Gary Dalton
- Larry Hartig
- Randall Hoffbeck

The Permanent Fund recorded another year of positive performance, up 15.5 percent for fiscal year 2014, ending the year with a value of \$51.2 billion. This is the first time that the Fund has ended a fiscal year above \$50 billion, and is a \$6.3 billion increase over the closing value for the prior fiscal year. The Fund's return trailed the composite benchmark return of 15.7 percent, a result of taking on less risk in the Fund's investments than this benchmark and other public funds.

All of the Permanent Fund's asset classes produced positive returns for the fiscal year, from 5 percent gains for the bond portfolio, to almost 30 percent returns on the Fund's U.S. stock holdings. While it does happen at times, it is not usual for all of the Fund's asset classes to be in positive territory, and it certainly contributed to the strong total return for fiscal year 2014.

Although early economic indicators suggested that we should have seen more sluggish stock returns, both U.S. and overseas markets ended the first quarter with 8 percent gains. The path

wasn't completely smooth. Concern over whether the Fed would continue its stimulus program led to a dip in U.S. stocks mid-quarter, but the Fed held steady, leading to a September rally. While the gains were not as dramatic, the Permanent Fund's other investments also saw positive returns for the period.

Continued turmoil in the Middle East and the federal government shutdown last fall caused short-term effects on markets, but the ongoing stimulus funding from the Federal Reserve helped U.S. markets continue their climb. As a result, 2013 was the best year for U.S. stocks since 1995, and wasn't bad for non-U.S. stocks either. The bond

markets showed the effect of stock market gains, as investors looked away from what are traditionally considered safe, low-yielding investments and toward stocks. However, the Fund's bond portfolios still provided positive returns for the period, as did the Fund's other asset classes.

While continuing to be positive, in the third quarter stock returns slowed from the strong performance seen in the first half of the year. However, as the stock markets slowed, bonds picked up the pace. Private equity and infrastructure also powered up in the third quarter, and the Fund's real estate holdings fared well.

The Fund's investments rounded out the year with continued gains overall. U.S. and non-U.S. bonds were up as interest rates dropped and the European Central Bank announced stimulus packages. Stocks also saw gains, though dampened compared to the fall rally. Real estate continued with a fourth quarter of solid performance, and the other asset classes were in positive territory as well.

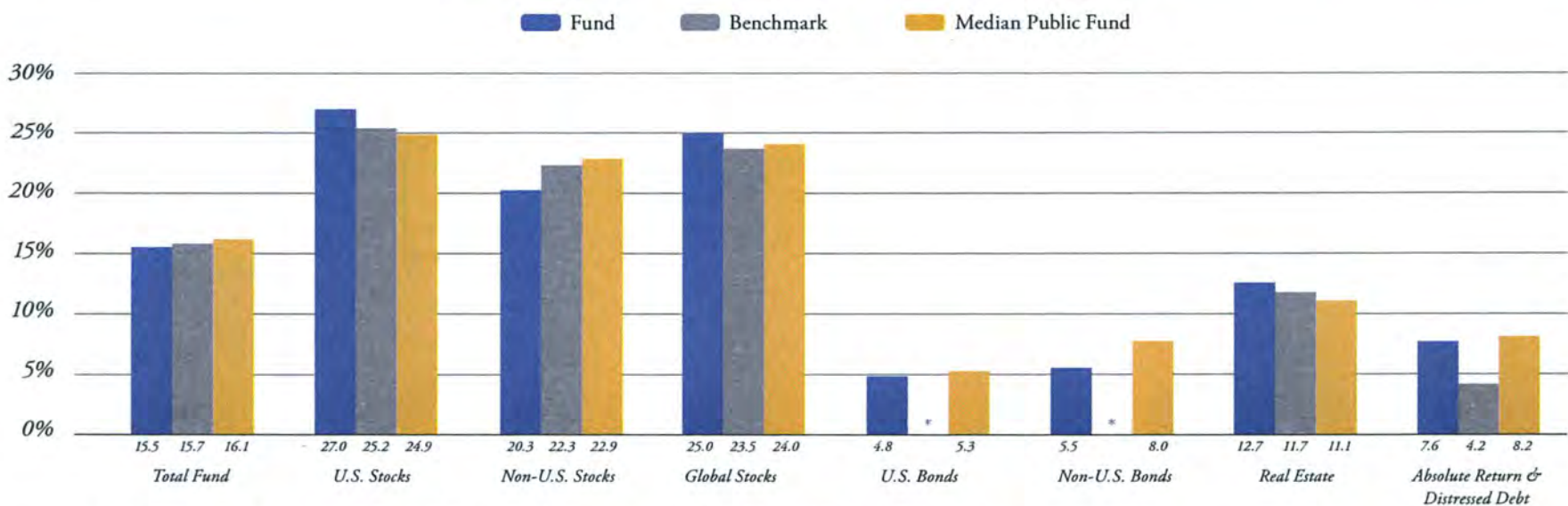
Statutory net income is the amount used to calculate the annual Permanent Fund Dividend. The Fund earned \$3.5 billion in statutory net income for fiscal year 2014, and transferred \$1.2 billion to the Permanent Fund Dividend Division for the 2014 dividend payment.

Accountants Pete Fergin and Joe Shinn joined APFC's Finance Department this year. In the Investments Department, Steve Moseley came on board as a Senior Portfolio Manager for Private Markets, and Matt Olmsted was hired as a Fixed Income Credit Analyst. We are pleased to add these new members to the team!

Sincerely,

Michael J. Burns

## FUND FISCAL 2014 PERFORMANCE



\*APFC does not have a benchmark for the full portfolio. Segments within the portfolio have comparable benchmarks.

Due to differences in hedging strategies, there is no meaningful peer group against which to measure returns.

- 15.5% Total Fund return
- \$779 million Constitutional deposit from mineral resources for the fiscal year
- \$51.2 billion Fund balance on June 30, 2014 (after dividends)
- \$6.3 billion Increase from ending balance on June 30, 2013 (after dividends)
- \$1,235 million Total paid for fall 2014 dividends
- \$546 million Inflation proofing of principal, based on the statutory calculation

## APFC.ORG

Find the most up-to-date information on the Fund at [apfc.org](http://apfc.org).

Information on past values and performance

Important Fund news

Most current financial statements and investment performance



Current Fund value

Upcoming board meetings