League of Women Voters
The Alaska Permanent Fund
April 2021
A Vision for the Future

A Vision for Today
Transmittal Letter SS HJR 39 excerpt

State. The principal of the fund could not finance capital expenditures either directly or by purchasing State obligations, but the fund could purchase obligations of separate State authorities. The income of the fund would be deposited into the general fund without any permanent fund restrictions.

I have introduced this resolution proposing a constitutional amendment because I believe strongly that the revenues from our non-renewable resources belong to future generations of Alaskans as well as ourselves. A permanent fund as I have proposed will set aside a modest portion of the proceeds from the exploitation of our non-renewable resources for investment in our future while leaving sufficient revenues for our present needs. I urge your immediate and favorable consideration of this proposed constitutional amendment so that it may be placed before the voters at the next general election.

Sincerely,

Roy S. Hammond
Governor
Alaskans voted 75,588 to 38,518 in favor to amend the Constitution of the State of Alaska and create the Alaska Permanent Fund.

**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.
The Corporation

In 1980, the Alaska State Legislature passed SB 161 establishing the Alaska Permanent Fund Corporation, with the purpose -

- to manage and invest the assets of the permanent fund and other funds designated by law in accordance with AS 37.13.010-37.13.190.

- Alaska Permanent Fund
- Amerada Hess - AK Capital Income Fund
- Alaska Mental Health Trust Fund

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

Our Vision

to deliver outstanding returns for the benefit of all current and future generations of Alaskans.
Alaska State Legislature

FREE CONFERENCE COMMITTEE REPORT

FCCR for HCS for SB 161

In making their decision on the Alaska Permanent Fund, the Free Conference Committee has focused on a single question — the management of the Fund’s principal.

It is to be an inviolate trust which, in the words of this bill, conserves “...a portion of the state’s revenues from mineral resources to benefit all generations of Alaskans...” (page 4).

It is to be an independent trust, yet made accountable in various ways to “...maintain safety of principal while maximizing total return...” (page 4).

The contribution rate has been set at 50% of mineral lease bonuses (except from the Beaufort Sea, which has been left at 25%) and 50% of mineral lease royalties and net profits from the Beaufort Sea and other future sales. The rate for Prudhoe Bay remains at 25% plus any other money appropriated annually by the Legislature.

Three major concerns — safety of principal, accountability, and legislative oversight — are addressed by the legislation.

The Future

As stated earlier, this bill addresses only the question of Fund management and leaves the separate question of how to use the Fund earnings to separate legislation. It merely provides options for its use. Unless another determination is made, the Permanent Fund earnings will be deposited in the general fund. No matter what use(s) are decided for the income, the very establishment of a secure trust will be a sign to the national financial community that Alaska is following a

TERRY GARDNER, Chairman
Conference Committee

JOHN SACKETT, Chairman
Conference Committee
Renewable Resource

Constitutional and Statutory Mandates

Principal
- Permanent Savings

Investment Responsibilities
- Prudent Investor Rule

Earning Reserve Account
- Net Realized Investment Income Available for Appropriation

Prudent Rules
- Govern

Saving
- Deposits to Principal

Withdrawals
- Expenses
- Percent of Market Value

Growth
- Inflation Proofing

Contributions
- Royalties
- Special Appropriations
- Inflation Proofing

Principal
- Alaska Constitution, Article IX, Section 15

Income Producing Investments
- Alaska Permanent Fund Corporation
- Management and Investment of the Fund
- Single Asset Allocation (pro-rata shares)
- Stocks, Bonds, Real Estate, Alternatives

Prudent Rules
- Govern

Sale and Distribution of Assets
- Statutory Net Income AS 37.13.140
- Cash Flow Income
- Realized gains/losses

Earnings Reserve Account
- Alaska Statutes AS 37.13.145(a)
- Realized gains/losses from sale of assets
- Pro-Rata share of investments and net unrealized gains

% Market Value - POMV transfer for State Government & PFDs

Constitutionally Protected

Unrealized Gains/Losses

APFC Other than Investment Expenses

% Market Value - POMV transfer for State Government & PFDs

Constitutionally Protected

Unrealized Gains/Losses

APFC Other than Investment Expenses

% Market Value - POMV transfer for State Government & PFDs
Key Questions...

- How much do we make?
- How do we invest?
- How does Principal grow?
- How does the ERA grow?
- How much can we draw?
How much do we make?
Fund Totals in millions, as of February 28, 2021

Returns and Values

- Total Principal
- Total Earnings Reserve Account
- Total Return

Fund Totals in millions, as of February 28, 2021

- Total Principal
- Total Earnings Reserve Account
- Total Return
Values in Billions

**PRINCIPAL**

- FY16 JUN 30:
  - Contributions: $44.2 B
  - Unrealized Gains: $4.8 B

- FY21 FEB 28:
  - Contributions: $58.1 B
  - Unrealized Gains: $11.3 B

**EARNINGS RESERVE ACCOUNT**

- FY16 JUN 30:
  - Uncommitted Realized Earnings: $7.7 B
  - Unrealized Gains: $0.9 B
  - POMV: $0.0 B

- FY21 FEB 28:
  - Uncommitted Realized Earnings: $9.9 B
  - Unrealized Gains: $3.1 B
  - POMV: $3.1 B
## Benchmark Performance as of February 28, 2021

<table>
<thead>
<tr>
<th></th>
<th>FYEnd 2020</th>
<th>FYTD 2021</th>
<th>3 Years</th>
<th>5 Years</th>
<th>Inception thru FY 2021 Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Fund</strong></td>
<td>2.01%</td>
<td>17.72%</td>
<td>8.98%</td>
<td>10.82%</td>
<td>8.91%</td>
</tr>
<tr>
<td><strong>Passive Index Benchmark</strong></td>
<td>1.28%</td>
<td>19.55%</td>
<td>8.57%</td>
<td>10.39%</td>
<td>-na-</td>
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<tr>
<td>(60 Stocks</td>
<td>20 Bonds</td>
<td>10RE</td>
<td>10 TIPs)</td>
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<tr>
<td><strong>Performance Benchmark</strong></td>
<td>2.05%</td>
<td>16.58%</td>
<td>8.64%</td>
<td>10.61%</td>
<td>9.05%</td>
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<tr>
<td><strong>Total Fund Return Objective</strong></td>
<td>5.65%</td>
<td>5.30%</td>
<td>6.85%</td>
<td>7.10%</td>
<td>7.59%</td>
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**Returns for FY21 to Date are net of fees (calculation methodology as of 7/1/2020). Returns for periods longer are a combination of gross and net.**
Accountability and transparency have driven our operations from our very beginnings as an independent state corporation accountable to the public.

Financial and performance reports are produced monthly to ensure point-in-time accuracy of data and compliance with policies and laws.

APFC finance staff reconcile values for the Principal and ERA accounts at the close of each month. The Fund has more than 700 investment accounts, each represents anywhere from one private investment to hundreds of public equity holdings.
How do we invest?
Asset Allocation should not be driven solely by return considerations; return is just one aspect.

Risk (appetite) should be the other key driver.

In addition to investment/financial risk, operational risks should be considered:

- Adequacy of Resources (operational risk) should be a key sub-consideration.
- Aspirations and Capabilities should be aligned.
- Capability requirements and infrastructure costs vary based on type of asset class, volume, size and dispersion.

- A $1 private asset investment requires a different (possibly higher) resource requirement compared to a $1 public equity investment.
Asset Allocation

<table>
<thead>
<tr>
<th>Year</th>
<th>Bonds</th>
<th>Stocks</th>
<th>Real Estate</th>
<th>Private Equity</th>
<th>Absolute Return</th>
<th>Private Income</th>
<th>Risk Parity</th>
<th>Cash</th>
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<tbody>
<tr>
<td>1980</td>
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<td>2000</td>
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<tr>
<td>2021 Target</td>
<td>21%</td>
<td>39%</td>
<td>7%</td>
<td>15%</td>
<td>6%</td>
<td>9%</td>
<td>1%</td>
<td>2%</td>
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</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Bonds</td>
<td>22%</td>
</tr>
<tr>
<td>Stocks</td>
<td>39%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>7%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>6%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>9%</td>
</tr>
<tr>
<td>Private Income</td>
<td>15%</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>1%</td>
</tr>
<tr>
<td>Cash</td>
<td>21%</td>
</tr>
</tbody>
</table>
Investment Tactics

Our APFC team is constantly on the hunt for relative value opportunities in the public markets.

- Value vs. growth stocks
- Overweighting attractive sectors and geographies
- Participating in compelling new issue opportunities

In alternatives and private markets, our APFC team focuses on using our reputation in the market place and long-term investment horizon to source investment opportunities with excess return potential.

- Early stage, high growth technology and life science venture capital opportunities
- Long term cash generative opportunities in Real Estate, Infrastructure, and Private Credit
- Leveraged buyouts of mature businesses
Reliance on Corporate Activity

The Earnings Reserve Account is subject to legislative appropriation and currently used to:

- Cover the cost of investing and managing the Alaska Permanent Fund
- Provide a predictable state revenue stream for current generations
- Protect the value of the Principal for future generations
- Support state agencies’ collection of royalties
Return on Investment

Growth in Fund Value
1976 first deposit $ 734,000
2021 as of February 28 $ 74,234,000,000

Revenue Generation
FYTD 2021
Revenue (including unrealized gains) $ 11,973,700,000
Realized Revenue to the ERA Statutory Net Income (less unrealized gains/losses) $ 4,592,300,000
Based on 253 trading days = $18.2 million per day

APFC FY 2022 Budget Request $ 151,840,800
~ 8.4 trading days = expenses covered
How does Principal grow?
Principal

- Constitutionally established as the permanent part of the Fund

- Grows into Perpetuity through
  - royalty contributions
  - special appropriations
  - inflation proofing

- Is to be used only for
  - income-producing investments
Note: In FY03 the legislature made a special appropriation to principal of $354.2 million. In FY04 this was reclassified as pre FY04 inflation proofing in accordance with the FY04 supplemental budget bill.
How does the ERA grow?
Earnings Reserve Account (ERA)

- Statutorily established under AS 37.13.145 (a) as a separate account in the Fund to hold the investment income

- Is to be invested in investments authorized under AS 37.13.120

- Grows through receipt of statutory net income

- Is available for Legislative appropriation
AS 37.13.140 (a) directs the net investment earnings of the Fund to the ERA and excludes unrealized gains and losses.

Statutory Net Income is the direct result of investment activity, and includes:
- Monthly cash inflows from stock dividends, bond interest, and real estate
- Realized Capital Gains/Losses: All the net income (i.e., realized gains minus realized losses) generated by the sale of investments.

<table>
<thead>
<tr>
<th>FY</th>
<th>SNI</th>
<th>Total Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>$4,592,300,000</td>
<td>$3,000,000</td>
</tr>
</tbody>
</table>

FY 21 as of February 28, 2021
How much can we draw?
Revenue Generation

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

- The POMV draw from the Earnings Reserve Account now supports ~65-70% of Alaska’s undesignated general fund budget.

APFC’s stewardship fulfills dual roles –

- Protecting the Principal of the Fund for the benefit of current and future generations of Alaskans.
- Providing a predictable revenue stream to help balance the State’s budget.
Percent of Market Value - AS 37.13.140 (b)

- Based on market value, rather than realized income
- Subject to annual appropriation
- Predictable
  - average market value of the Fund for the first five of the preceding six fiscal years

5.25% - July 1, 2018, FY19

- FY19 POMV $2.72 billion 4.13%
- FY20 POMV $2.93 billion 4.52%
- FY21 POMV $3.09 billion ~4.68%

5.0% - July 1, 2021, FY22

- FY22 POMV $3.07 billion ~4.55%
- FY23 POMV ~$3.21 billion ~4.66%
- FY24 POMV ~$3.29 billion ~4.68%
### Through the Years: Reliability - Volatility - Stability

#### UGF Revenues

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>UGF All Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21</td>
<td>$4,663.5</td>
</tr>
<tr>
<td>FY22</td>
<td>$4,731.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>FY21</th>
<th>FY22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$4,663.5</td>
<td>$4,731.5</td>
</tr>
<tr>
<td>POMV Draw</td>
<td>$3,091.5</td>
<td>$3,069.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage of Total</th>
<th>FY21</th>
<th>FY22</th>
</tr>
</thead>
<tbody>
<tr>
<td>UGF</td>
<td>66%</td>
<td>65%</td>
</tr>
<tr>
<td>All Funds</td>
<td>27%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Spring 2021 Revenue Forecast DOR
In providing guidance on withdrawals for the Fund and to help ensure the long-term sustainability of using Fund earnings for the benefit of all generations of Alaskans, the Board passed Resolution 18-04 at a special meeting on October 17, 2018.

- This resolution affirms the importance of formulaic management of transfers into and out of the ERA to ensure sustainability and long-term growth of the Fund, by identifying four key principles: **Adherence – Sustainability – Inflation Proofing – Real Growth**

**Sustainability** ... *requires annual formulaic withdrawals from the Earnings Reserve Account at an amount that the long-term balance of the account is able to fund. The Board has long supported the percent of market value (POMV) concept, including a constitutional amendment that would ensure no more than a sustainable amount was taken from the annual earnings of the Permanent Fund (Resolutions 00-13, 03-05 and 04-09).*
Use of Realized Fund Earnings  
inception through February 28, 2021

$73,160,500,000

Paid Out $33.8 B
- POMV Distributions to the General Fund $9.0B
- Dividend Appropriations $24.4 B
- AK Capital Income Fund (ACIF) $383.7 M

Saved $26.3 B
- Inflation Proofing $18.0 B
- Special Appropriations $8.3 B

Unappropriated $13.0 B
- Uncommitted Earnings $9.9 B
- FY22 POMV Commitment $3.1 B

Appropriated Commitment
- FY21 ACIF Commitment $29.1 M

12.3% 33.4% 24.6% 11.4% 4.2% 13.5%
Stewardship

APFC is grateful for the support of the Executive Branch, the Legislature and our fellow Alaskans. Given that backing, the influence of our dynamic, Alaskan corporation extends around the world for practices of good governance, transparency, and a long-term investment horizon.

2021 Awards

- APFC has once again been named Limited Partner of the Year in North America by the global magazine Private Equity International for our ability to effectively invest in private equity. We also won the award in 2017 and 2018.
- Capital Finance International (CFI) has named the Alaska Permanent Fund Corporation the Best Sovereign Wealth Fund Investment Team of 2021 (Americas).

In serving Alaska, we provide a -
Value Adding & Worthy Purpose
Strong Leadership and Culture
Passionate & High Caliber Team
Board of Trustee Fiduciary Oversight
Integrity - Stewardship - Passion