



APFC

ALASKA PERMANENT
FUND CORPORATION

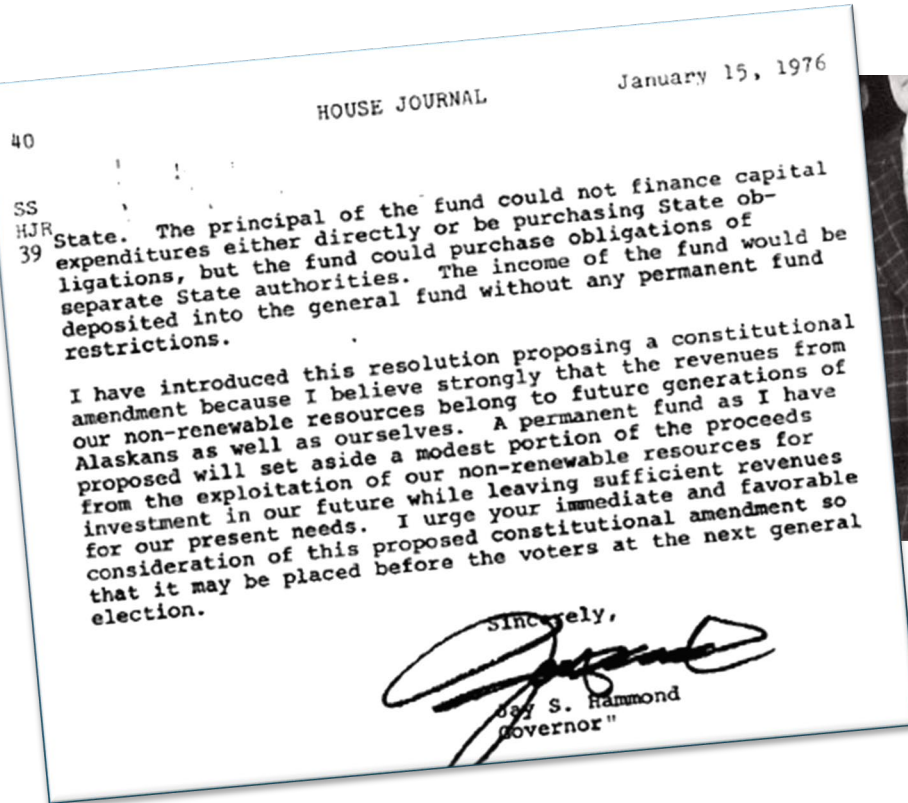
League of Women Voters
The Alaska Permanent Fund
April 2021



A Vision for the Future

A Vision for Today

Transmittal Letter SS HJR 39 excerpt



1976

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 PERMANENT
FUND CORPORATION

1980



POUCH V
JUNEAU, ALASKA 99811
OFFICIAL BUSINESS

Alaska State Legislature

FREE CONFERENCE COMMITTEE REPORT

FCCS 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).

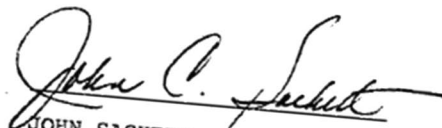
The contribution rate has been set at 50% of mineral lease bonuses (except from the Beaufort Sea, which has been left at 25%) and 50% of mineral lease royalties and net profits from the Beaufort Sea and other future sales. The rate for Prudhoe Bay remains at 25% plus any other money appropriated annually 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 assures that there will be income and does not preclude any 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 responsible fiscal policy.


TERRY GARDINER, Chairman
Conference Committee


JOHN SACKETT, Chairman
Conference Committee

Renewable Resource



Contributions

- Royalties
- Special Appropriations
- Inflation Proofing



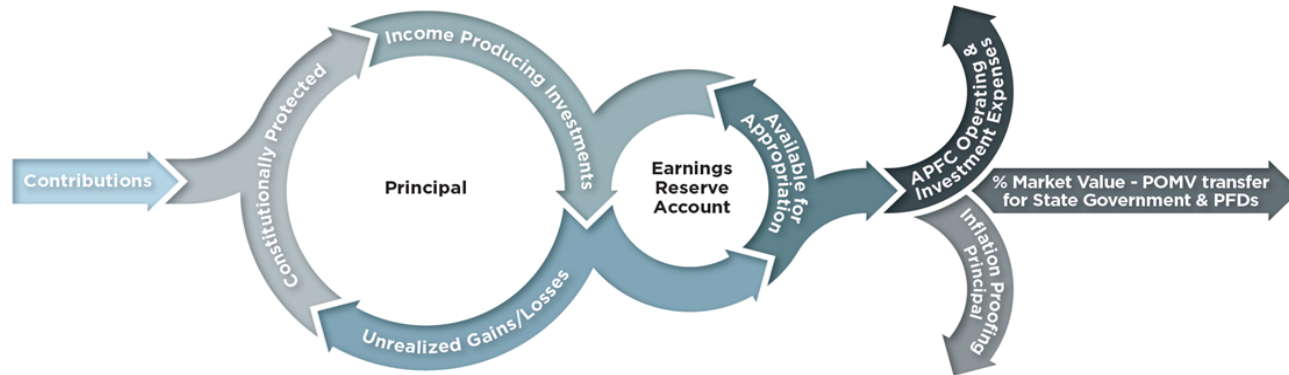
Principal

- 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



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

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



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?

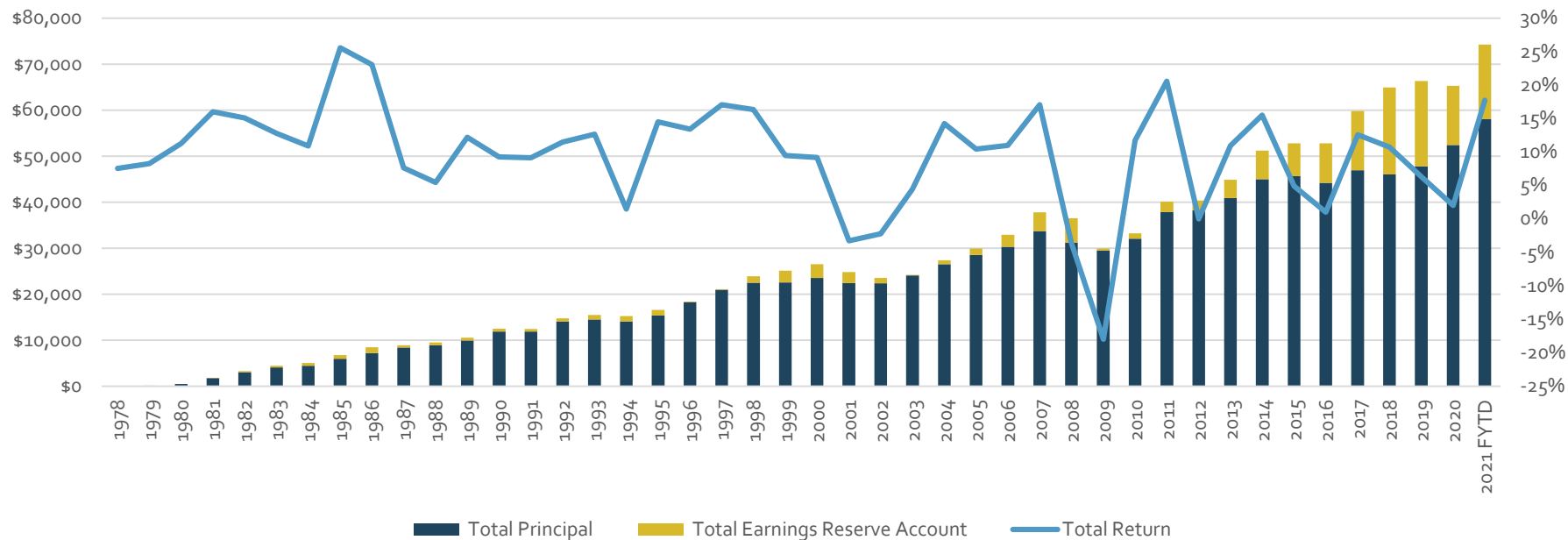


How much do we make?

Fund Totals

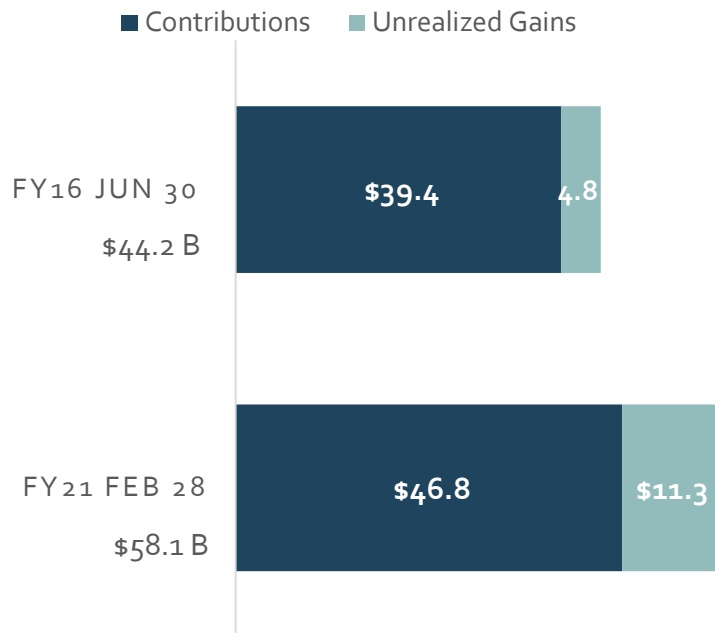
in millions, as of February 28, 2021

Returns and Values

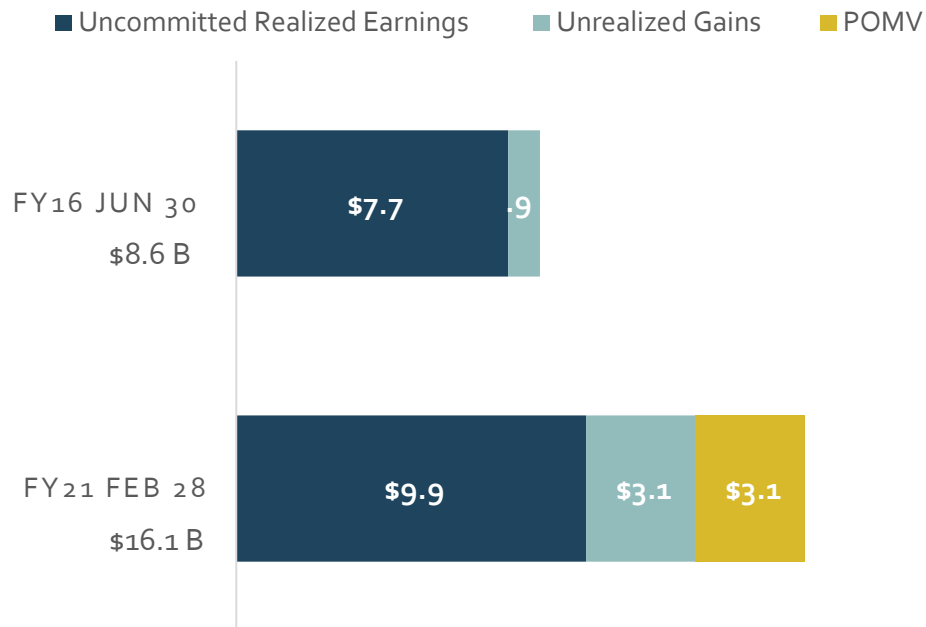


Values in Billions

PRINCIPAL



EARNINGS RESERVE ACCOUNT



Benchmarked Performance as of February 28, 2021

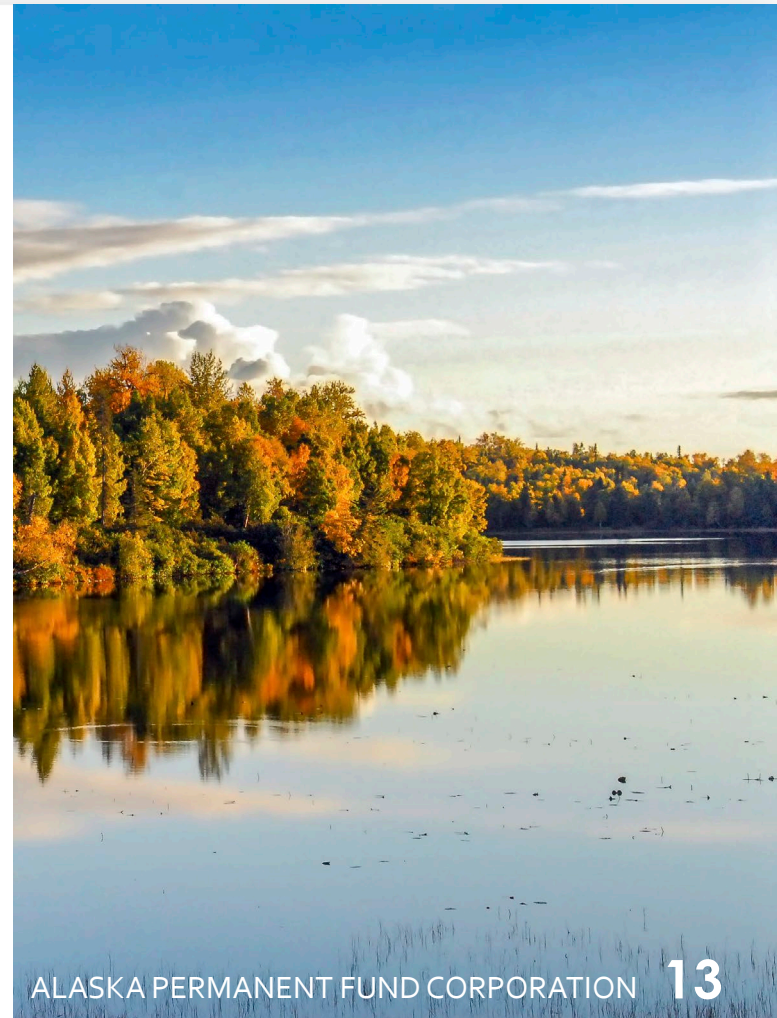
	FYEnd 2020	FYTD 2021	3 Years	5 Years	Inception thru FY2021 Q2
Total Fund	2.01%	17.72%	8.98%	10.82%	8.91%
Passive Index Benchmark <small>(60 Stocks 20 Bonds 10 RE 10 TIPs)</small>	1.28%	19.55%	8.57%	10.39%	-na-
Performance Benchmark	2.05%	16.58%	8.64%	10.61%	9.05%
Total Fund Return Objective CPI+5%	5.65%	5.30%	6.85%	7.10%	7.59%

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.

Monthly Reporting – apfc.org

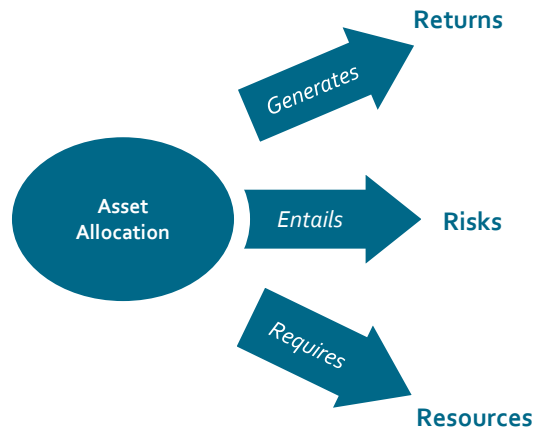
- Accountability and transparency have driven our operations from our very beginnings as an independent state corporation accountable to the public.
- Financial and performance reports are produced monthly to ensure point-in-time accuracy of data and compliance with policies and laws.
- APFC finance 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.





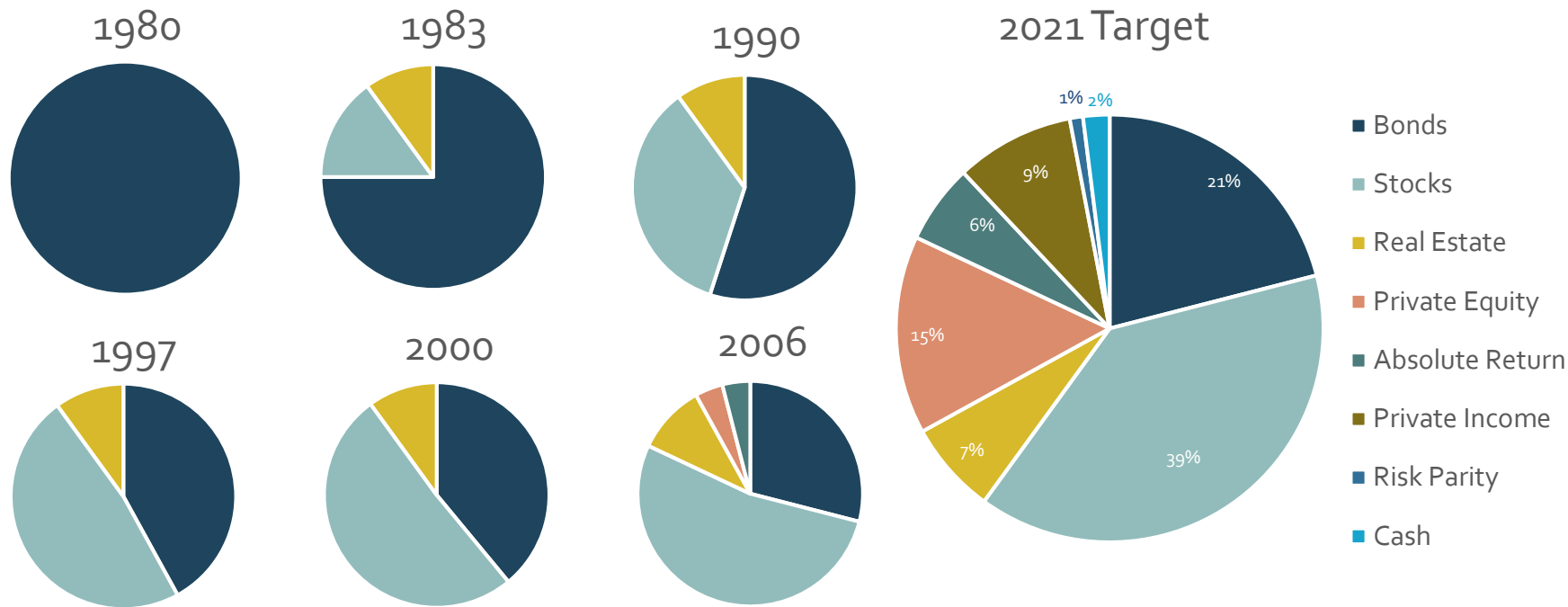
How do we invest?

Asset Allocation – Multi Dimensional Implications



- 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





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
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Realized Revenue to the ERA

Statutory Net Income (less unrealized gains/losses)	\$ 4,592,300,000
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Based on 253 trading days = \$18.2 million per day

APFC FY 2022 Budget Request	\$ 151,840,800
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~ 8.4 trading days = expenses covered



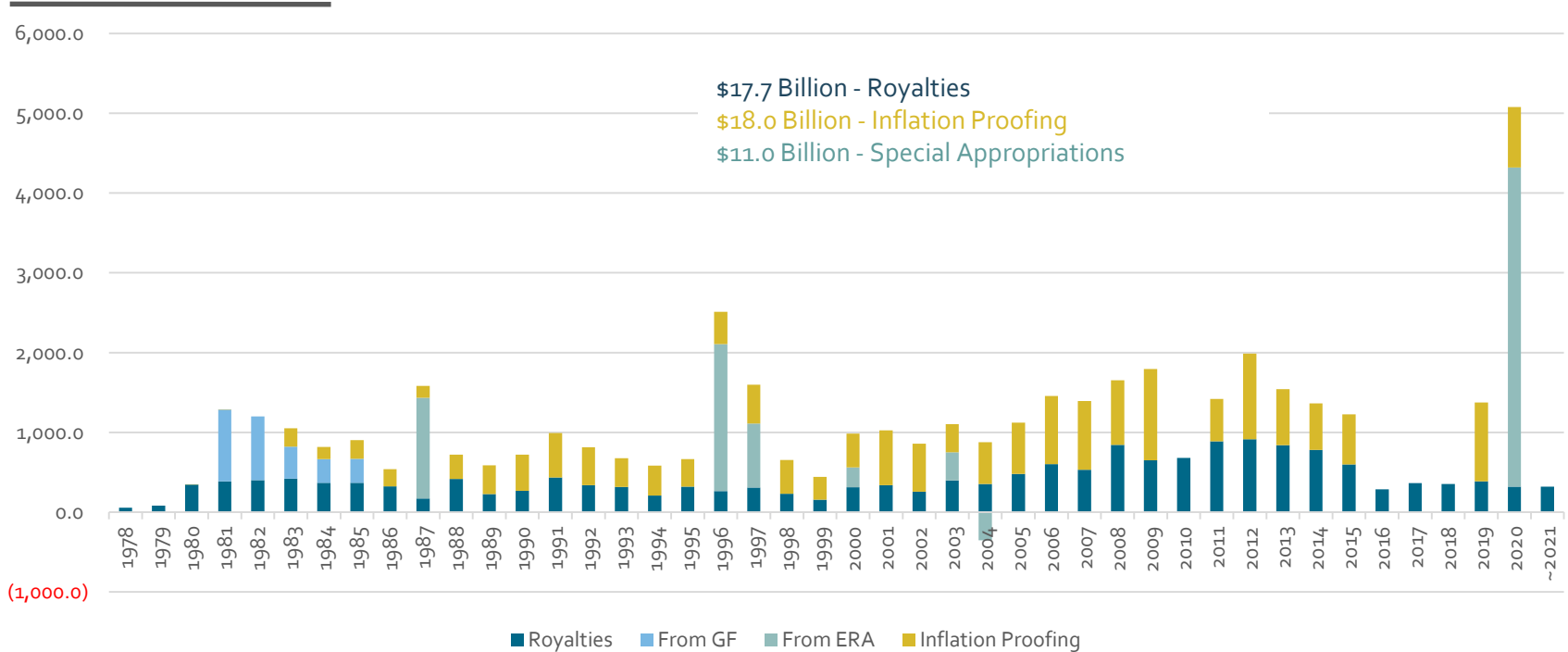
How does Principal grow?



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

Contributions to Principal in millions



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.



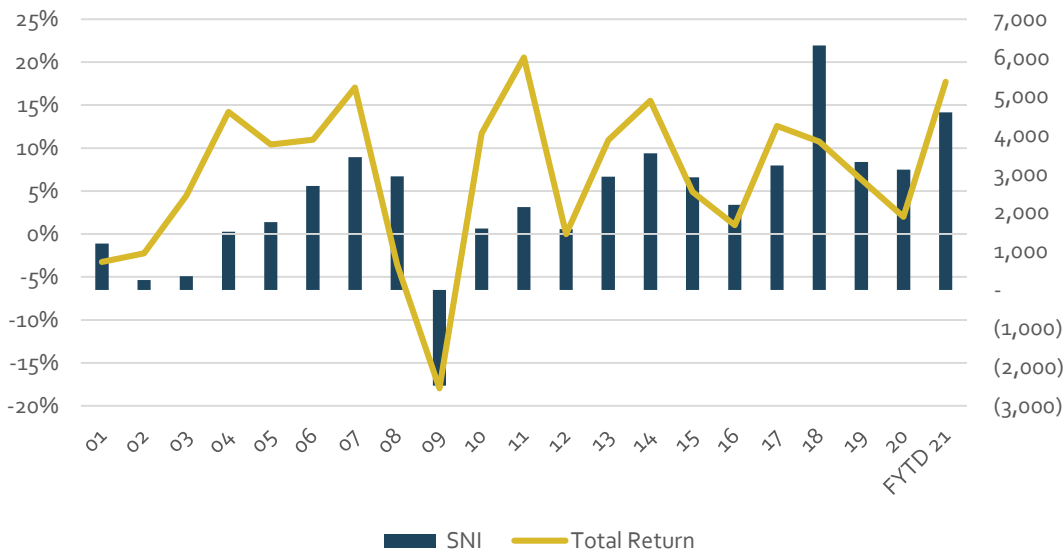
How does the ERA grow?

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

ERA: Statutory Net Income

Total Return vs Statutory Net Income (millions)



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.

FY21 as of February 28, 2021
Statutory Net Income = \$4,592,300,000



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 Effective Rate

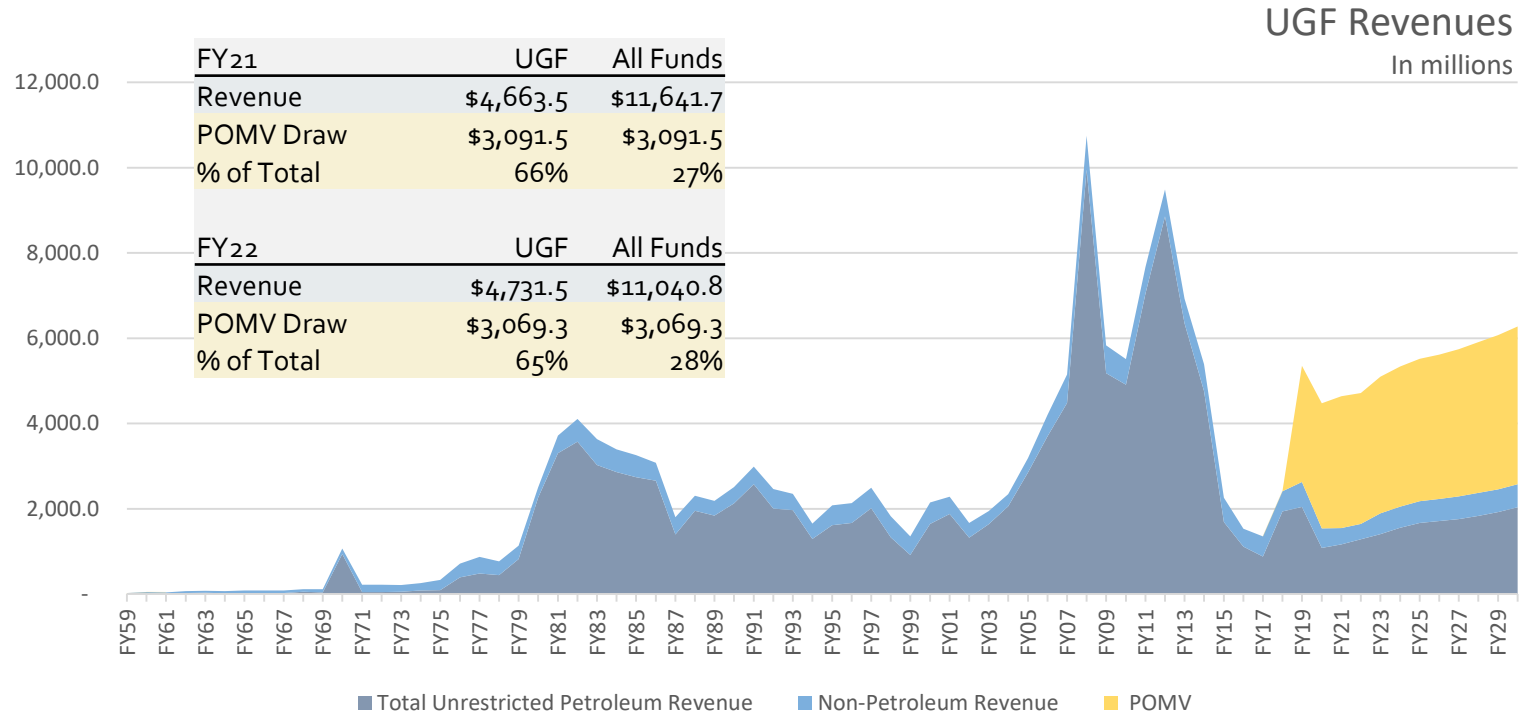
▪ FY19 POMV	\$2.72 billion	4.13%
▪ FY20 POMV	\$2.93 billion	4.52%
▪ FY21 POMV	\$3.09 billion	~4.68%

5.0% - July 1, 2021, FY22 Effective Rate

▪ FY22 POMV	\$3.07 billion	~4.55%
▪ FY23 POMV	~\$3.21 billion	~4.66%
▪ FY24 POMV	~\$3.29 billion	~4.68%

italics, Callan's mid-case projections

Through the Years: Reliability - Volatility - Stability



Board of Trustees' Resolution 18-04

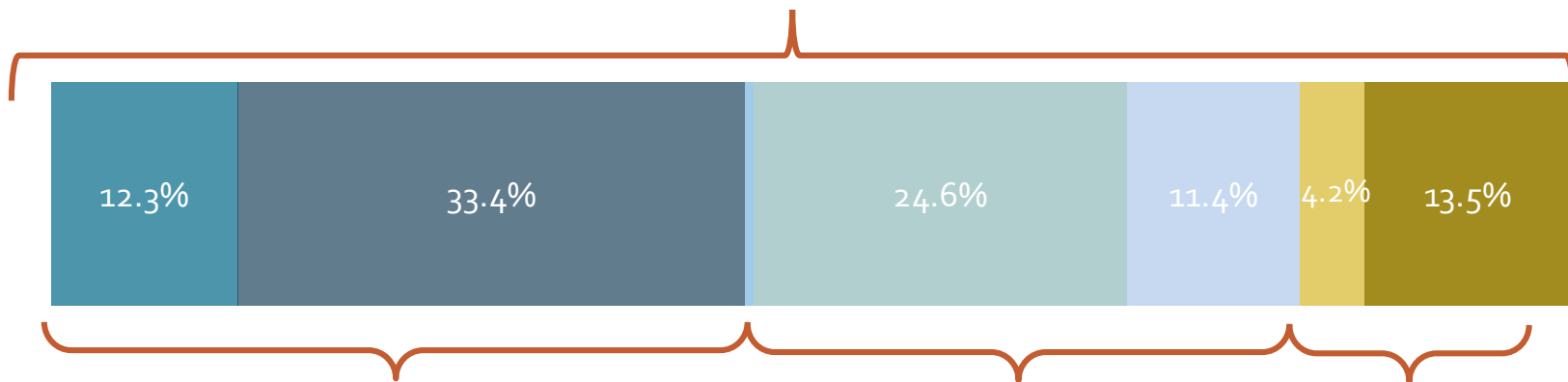
In providing guidance on withdrawals for the Fund and to help ensure the long-term sustainability of using Fund earnings for the benefit of all generations of Alaskans, the Board passed Resolution 18-04 at a special meeting on October 17, 2018.

- 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

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.

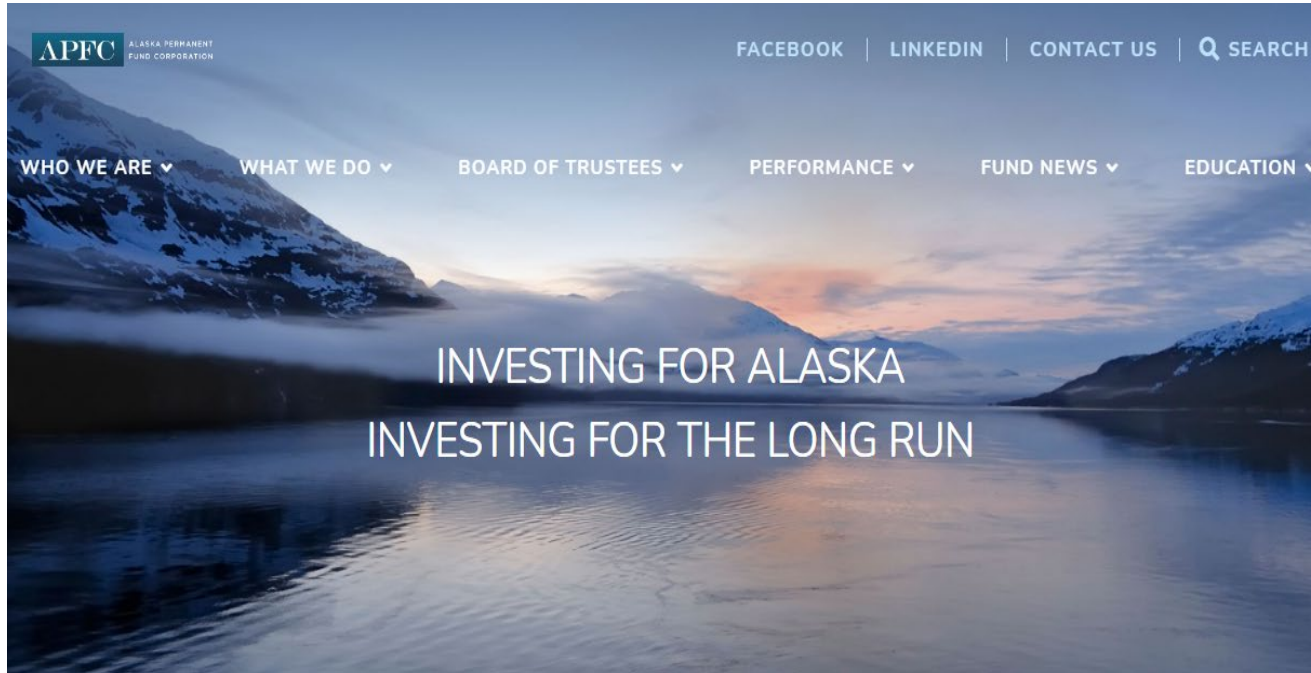
2021 Awards

- 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*



www.apfc.org



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The background of the slide is a scenic landscape of a lake, mountains, and a sunburst, all tinted in shades of blue. The APFC logo is centered in the upper half of the image.

APFC

Integrity - Stewardship - Passion