ALASKA PERMANENT FUND CORPORATION

ANNUAL MEETING OF THE BOARD OF TRUSTEES

September 26-27, 2018

Location of Meeting:
Marriott Downtown Hotel
Anchorage, Alaska

SUMMARY MINUTES

Trustees Present:	William G. Moran, Chair Carl Brady, Vice Chair Sheldon Fisher Craig Richards Marty Rutherford Andrew Mack
Investment Advisor:	George Zinn
Staff Present:	Angela Rodell, CEO Marcus Frampton Danielle Graham Valerie Mertz, CFO Valeria Martinez Chris Poag Paulyn Swanson Rose Duran Jared Brimberry Stephen Moseley Jim Parise Fawad Razzaque Chad Brown Robin Mason
Other participants:	Greg Allen, Callan Associates Beth Stuart, KPMG Taylor Mammen, RCLCO Ben Maslan, RCLCO Myles Sanger, CBRE Chris Harris, Brookfield Barry Blattman, Brookfield Paul Yett, Hamilton Lane Jason Howard, GMC Grosvenor Jeb Burns, CIO candidate David Kushner, CIO candidate

SEPTEMBER 26, 2018

CALL TO ORDER

CHAIR MORAN asked for a roll call.

ROLL CALL

VICE CHAIR BRADY, CHAIR MORAN, TRUSTEES RICHARDS, RUTHERFORD, MACK and FISHER were present to form a quorum.

APPROVAL OF AGENDA

CHAIR MORAN stated that if there are no suggestions or changes from the board, the agenda is considered approved.

APPROVAL OF MINUTES (May 23-24, 2018; July 24, 2018)

MOTION: TRUSTEE RUTHERFORD made a motion to approve the minutes of the May 23-24, 2018 and the July 24, 2018 board meetings. Seconded by TRUSTEE FISHER.

The MOTION WAS APPROVED with no objection.

SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION

CHAIR MORAN stated that there were no scheduled appearances. He asked if there was anyone from the public that wished to address the board. There being no one, he moved to the Chief Executive Officer's report.

CHIEF EXECUTIVE OFFICER'S REPORT

CEO RODELL began by talking about attending the International Forum of Sovereign Wealth Funds annual meeting in Marrakesh. She continued that every three years this group elects a board of five members, three nonelevated members, a deputy chair and a chair. She was elected deputy chair, which she will serve as for three years, and then will serve as chair for three years. This is quite an honor and the first time the U.S. has been represented on the board. She moved to the communications report and stated that the website redesign has been up and running for a year, and went over some of the statistics seen since the launching. She continued to the annual report and thanked Paulyn Swanson and staff for writing up what is going on with the individual asset classes within the corporation in general. She also highlighted the investment management fee report which is revised on a regular basis to make it more transparent, explaining the types of fees.

CHIEF INVESTMENT OFFICER'S REPORT

MR. FRAMPTON stated that one of the purposes of this meeting is to review the investment performance through June 30, 2018. He continued that it was a successful year with the 10.7 percent return, which compares to an 8.2 percent performance benchmark return. The performance was strong across the board, and more detail will be provided by the investment directors. He added that this period now is of historically high multiples of public stocks and historically low yield on securities. The good news is that the investment team is very strong and aware of the market, and they continue to manage the portfolio to get the returns that are expected.

REPORT OF ANNUAL AUDIT

MS. MERTZ stated that the fiscal 2018 audit has been completed. She introduced Beth Stuart, the managing partner for KPMG in Anchorage, to go through the audit process and the results.

MS. STUART stated that she had presented to the Audit Committee on September 6th just before the audit issuance, and they accepted the audit report and financial statements at that time. She continued that the audit report reflects an unmodified opinion on the financial statements. There are two emphasis paragraphs within the opinion: one emphasizes that the financial statements are the financial statements of the fund and not of the State of Alaska; the other relates to the management's discussion and analysis that is within the financial statements, but not subject to the audit performance. She added that the more significant accounting policies within the financial statements are reported in Note 2 to the financial statements. There were new accounting policies adopted during the year. There is also information discussed with the Audit Committee on the presentation of fund balance classification and the impact that the percent of market value and change in law this year had on the classification of fund balance. She stated that two significant risks were identified within the financial statement audit, and those areas were emphasized during the audit process. She continued that the audit is designed to evaluate the internal control that management has to prevent errors. She added that no errors for management override were identified. The other significant area related to the valuation of alternative investment is that the valuation of the private investments is more subjective and more of an audit challenge. She stated that in the packet is a page that summarizes the audit work over private investments and those procedures. There were no adjustments that management was required to record as a result of the audit procedure. The valuation of real estate investments was reviewed, and there were no adjustments proposed relating to real estate. Also concluded was that the financial statements were materially correct. She continued that, during the audit, internal controls are evaluated at a process level and are particularly focused on wire transfer and investment transaction controls, as well as the monthly reconciliations that management performs against the custodial bank. She added that the purpose of the audit is not to test or opine on internal control of financial reporting. The audit did not identify any significant deficiencies or material issue in that.

> **MOTION:** <u>TRUSTEE RUTHERFORD made a motion to accept the annual audit performed by KPMG, and to thank them for the good job and the staff support, seconded by TRUSTEE RICHARDS.</u>
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> Following a roll call vote, THE MOTION WAS APPROVED by the Trustees (RUTHERFORD, MACK, BRADY, RICHARDS, FISHER and MORAN).

PERFORMANCE REVIEW

MR. ALLEN began by going through the standard practice and stated that non-U.S. equities have been challenging in this quarter; in particular, emerging markets. He stated that U.S. equities were the leading asset classes going back ten years. He continued that it has also been a challenging time to be a consultant because diversification is preached, and, in almost every case, diversification for the last ten years does not help relative to a stock portfolio. He stated that there have been a number of things that have been headwinds in the emerging markets, but the currency has been a component of that. The strong dollar has helped a bit in terms of keeping inflation down, but it has hurt overseas investments because of the currency effect. He added that the U.S. economy is doing fine, and inflation is coming up a bit. The markets are starting to see some of it, and there are signs that more will continue. It is also causing the Fed to start ramping up interest rates with projections of it getting to 2.5 or 2.75 by the end of the year. He stated that small cap outperformed large cap for the year to date. Growth continued to outperform value, which has been a struggle for asset managers. These stocks are already big and indexed, and overweighting them is unusual. He continued that most asset managers have been underweighting the stocks, making it hard to beat the index when performance is essentially driven by essentially five names; Google, Apple, Amazon, Netflix, and Microsoft. The fixed income market has been pretty much negative across the board for the quarter, and it would be difficult to generate a positive return for the quarter. He moved to real estate where cap rates are close to all-time lows. He added that there is still a lot of transaction volume and a fair amount of money still flowing from institutional investors. He stated that hedge funds had a difficult quarter and, on average, turned around zero. He continued that private equity is fundraising at all-time highs, and the degree of buyout space is getting higher. It is not a time to accelerate funding. The best time to invest historically has been when everyone is panicking and selling this asset class. He added that the key is to continue a measured pace and not react to the markets, and to keep the vintage year diversification even and steady. He moved to the good news that public equities is the biggest asset category with a high allocation between fixed income and cash. He continued that performance has been good. Total fund for the quarter outperformed two out of three of its benchmarks. It was not able to outperform the CPI plus 5 percent. The fiscal year and last year were the same. He moved on and talked about individual asset classes. On a risk-adjusted basis, it has done well relative to peers; excess return ratio is well above median, top quartile. There is not a lot of bias in this portfolio, with a slight overweight to value and a slight overweight to small cap. He stated that the large cap portfolio is behind the benchmark for the quarter, slightly behind for the fiscal year a couple basis points. He continued that it was a difficult quarter for non-U.S. equities which were negative across the board. There was not a single response to generate a positive return to international equity for the quarter. The international equity portfolio underperformed the benchmark for the quarter, but is ahead for the year. It has a fairly high weight to emerging markets which could explain the performance for the quarter. He added that the emerging markets outperformed its benchmark and was above median for the quarter. The fiscal year is up above the median and the benchmark. He stated that it is doing well lately relative to peers and the benchmark. The global equity portfolio is ahead of the benchmark for the quarter and above median for the year. He added that putting equity into a fixed income composite will swing around from top to bottom, depending on how equities do. This tends to dwarf anything that the bond managers can do relative to the benchmarks in terms of explaining relative performance. It is important to keep an eye on what happened to REITs and infrastructure when trying to evaluate the rankings. He added that over the 1.75-year period, the fund is ahead of most peers, as well as the benchmark.

(Break.)

RISK OVERVIEW

MR. FRAMPTON presented the risk presentation of the current framework with the green zones and VAR, and tracking error base framework, which was created under the Jeff Scott CIO period. He stated that a series of new charts for historical volatilities and Sharpe Ratios were introduced at the last board meeting. He continued that he is trying to include all of the data and charts that were used in risk presentations in the past several years. Everyone is aware of the restructuring of the approach to risk, including adding a chief risk officer. He added that through that structure more emphasis is being put on risk as an independent function, and that is in keeping with where the industry is headed. He highlighted that risk is a critical part of any portfolio manager's job, and we are not trying to deemphasize risk within the investments department. The graphical presentation of the APFC's key risk measures include statistics that measure realized volatility and Sharpe Ratios, asset class and factor contributions to risk, tracking error to benchmarks, risk scenarios, and Value-at-Risk. There is a need to understand what the risk systems are saying, but also the need to understand that there are a lot of assumptions going on behind the scenes that may not be valid, and understanding that different systems treat risk differently. He continued that the new system attempts to have a more nuanced evaluation and is a factor-based approach.

PUBLIC EQUITIES

MR. RAZZAQUE stated that public equities had solid, double-digit returns for the fiscal year. He continued that the returns for the MSCI index over the fiscal year were almost entirely delivered in the first half of the fiscal year, from July to December, but they were pretty flat the second half from January to June. He added that during the first half economic expansion was in full swing and everyone was in expansionary mode. There was no volatility with lower rates, and multiples continued to expand until the end of December. In the second half, inflation picked up, rates started to move up sharply, and volatilities spiked. There was some divergence between the U.S. economic fundamentals with tax stimulus where the rest of the world did not have tax stimulus. There was some cyclical weakness in Europe and Japan in some of the emerging markets. He stated that overall in the year gains were led by growth in the tech sectors; with technology and consumer discretionary, the market became narrower. He continued that about 60 percent of the managers outperformed for the last fiscal year. He stated that the U.S. economy is growing fast, and the rest of the world is not growing that much. This growth eventually favors the U.S. equities. He continued that yields are also tracking U.S. equities, and we also have to worry about deficits, especially the debt and fiscal deficit, which is going to grow. That is not good for the dollar, which is a risk factor to be managed.

CHAIR MORAN called a lunch break.

(Lunch break.)

FIXED INCOME

MR. PARISE stated that he will talk about the fixed-income-plus portfolio and delved into the details of how the portfolio is positioned and some of the moves made over the last quarter. He began with the portfolios that are 100 percent internally managed in-house, meaning that securities are being bought and sold to build these portfolios. He gave an overview of the performance, going though the internally managed in-house portfolios. He continued that fixed-income-plus only has one year of numbers for the composite, and it outperformed by 13 basis points.

PRIVATE EQUITIES & SPECIAL OPPORTUNITIES

MR. MOSELY stated that the portfolio continues to generate strong risk-adjusted returns, contributing $5.5 billion in cumulative net gains. He noted that the decisions made by the team in special opportunities were the right choice. He stated that the purchase price multiples and fundraising velocity require caution. He continued that the exit activity has decelerated in the first half of 2018, and the U.S. M&A activity continues to be robust.

CEO RODELL stated that she was asked by every single sovereign wealth fund in attendance at the meeting last week on what the Fund was doing different or special; what kind of resources were being attached to this asset class that was generating this type of return. She added that this sets the Fund up as a best-in-class performer in this asset class that people want to replicate. She continued that she answered this by saying that it has been a lot of work. What is not seen, that has proven beneficial, is the secondary sales and how they were weeded out and sold, and the ones we kept were very deliberate.

(Break.)

ASSET ALLOCATION STRATEGIES

MS. MARTINEZ began with the overall fund allocation, which is divided into two different groups: Asset classes that provide income; and asset classes that are for growth opportunity. Then it is divided into income, 39%, and then growth and strategies 61%. Within those two groups the assets have been divided in the illiquid market for the income category and illiquid income for private assets. She stated that there is an overweight to public equities and some underweight into fixed income; overweight private equity; significantly underweight in real estate; underweight infrastructure and special income; underweights in absolute return; and a significant overweight in the asset allocation. She continued that this is important because the way asset allocation is set up, not only the strategic asset allocation, but also how the portfolio is positioned translates to the risk that will be taken. Basically, the Permanent Fund is very well diversified and has outperformed all the benchmarks for the year, the last three and five years; liquid benchmarks, as well as the return objectives, CPI plus 5. She added that some of it is a decision made as an investment committee and team, and others are just technical underweights. She moved to the currency overlay strategy, which is a $2 billion currency overlay, and this is where the currencies in the portfolio are seen. She stated that last year the board had an opportunity to add a new tool which was to invest in derivatives and expose this excess cash to the market. It is still in liquid form and easy to fund obligations as they come along. At the same time, the duration of the cash flows can be matched to have better management of the liquidity of the fund at this time. She continued that this structure managed the overlay of the equity of the fund in decisions for the extra cash. Any excess cash will be split between equities and bonds. In this asset allocation there is a benchmark which is 60 percent bonds and 40 percent T-bills. She added that a balance needs to be kept within this portfolio and cannot be mismatched with that benchmark. She moved on and highlighted what is being done in the risk parity program approved in May with the belief that it would add more diversification to the fund. It is expected that, over time, there will be better risk-adjusted returns that will be an ultimate benefit to the fund. She added that this program will be started with three managers, and the dilution is expected to be 2.5 percent of the fund. She continued that these are completely liquid strategies, and, like ECIO, they are not allowed to have any private assets.

CHAIR MORAN called a break.

(Break.)

REAL ASSETS, PRIVATE INCOME & ABSOLUTE RETURN

MR. FRAMPTON stated that he will cover the real assets and absolute return area. He noted that there is a lot going on in this portfolio, and to some extent this is being improved together because it is the same team managing absolute return and real assets, more so than consistent underlying drivers. This includes the private real estate portfolio, infrastructure, private credit and income opportunities. He added that the blended benchmark for the four areas has summed up the performance in that it has been a strong performer and a great source of income for the fund. He stated that the absolute return portfolio was a little under target as of June 30. It has been a portfolio that has performed well in recent periods; specifically the last two years since the strategy was changed. This portfolio is one that is relied on for uncorrelated returns and the ability to make money in more adverse market environments.

MR. BRIMBERRY stated that the market asset returns portfolio is about two years from when the strategy was redone, and the focus is on a much lower, zero beta exposure portfolio, still targeting the returns related to the fund. Historically, the returns of the legacy portfolio and the new direct program are right around where the returns were hoped to be on an annual basis. This portfolio has very little equity data and, instead, is looking for idiosyncratic return drivers in the underlying equity management. What unifies these different funds is they are taking a top-down view of the world and incorporating that into the portfolio with derivative instruments. He moved to the commodity trading advisers and global asset allocators, explaining that the CTAs are known as trend followers and look for signals. They will frequently change and use derivatives, more frequently use FX contractions, equity indices and forward. The managers are looking for an actual signal that is showing a trade is going to revert or continue going forward in the future investment.

MS. DURAN stated that real estate produces an inflation-protected income stream. It is expected to produce returns that are between fixed income; and then public equity markets, as well. She pointed out in looking at the returns the objective is met and, factoring in the 45 basis points, they do line up with the benchmark. She continued that, predominantly, 100 percent of the fund property is owned. The larger properties have a 50/50 percent joint venture with large operating partners. Managing the portfolio like that gives the control or co-control in being able to make key investment decisions like exiting, selling, timing the exit, operating budgets, along with re-leasing. She went through the portfolio composition with $4.1 billion invested across industrial, hotel, multi-family, office and retail. She stated that there is still work to do at 299 Park, and we have been patient in terms of making sure the right credit tenant gets in there. It is actually a more diversified asset at this point, being 85% rented now. She stated that, like fixed income, real estate has been a beneficiary of these extracurricular asset class reclassifications by the prior CIO. She noted that they are 2.5 billion under their allocation. She continued that, in terms of underwriting, the issue is that it is needed, and we have to proceed in a disciplined fashion, which is what is being done. She summarized that cap rates are holding firm and fundamentals remain steady. The space markets, three of five are in equilibrium. The overall take-away is that real estate is pricey.

MR. FRAMPTON talked about the $2.5 billion private infrastructure portfolio and stated that the infrastructure market does not reach the private benchmark services, and the sector kind of represents the market mix of most institutional investors which will have about 40 percent of transportation, 40 percent in energy; and added that this portfolio has done well.

MR. BRIMBERRY stated that on the private credit, the portfolio continues to perform well in a low-default environment. The two greatest comparisons are the high-yield index and the leveraged loan market. In the portfolio, a strategic decision has been made to lend to smaller companies, which adds a bit more value on the sourcing side and also allows the managers to have stricter loan documents, but still have the ability to get back to the table if the underlying companies start to decay in fundamentals. The syndicated loan market has eclipsed the high-yield market in terms of volume and is over a trillion dollars, driven primarily by CLO insurance as moneys coming in from foreign sources, particularly Japan. This has driven a lot of demand for collateralized loan obligation funds, and has helped push the dynamics of looser covenants into the documents. He stated that the performance has done well primarily due to the lack of default in the underlying yield on the loans coming in. He moved to the income opportunities portfolio which had a few different investments added. The bulk of this portfolio is American Homes 4 Rent and Generate.

REVIEW OF THE STRATEGIC PLAN

CEO RODELL stated that the review of the strategic plan is important in terms of setting up the budget discussion and the legislative initiatives discussion because it is the foundation on which those recommendations are being made. The five-year-strategic plan is about halfway through, and good progress has been made. She pointed out that the goals have been outlined in the strategic plan, and then any recommendations that are needed going forward. She stated that the strategy is to continue to work on moving the budget into the language section as a priority because that will give the control needed to manage internal and external managers as one asset owner management basis. The second goal was implementing the trade order management system, which was effective July 2017. The third goal was tabled to implement a central network data management solution, which is being reviewed for a solution for a path to go down. Next is to develop and fully implement best-in-class asset allocation and asset class investment capability to produce the performance benchmarks. She continued that the final goal is to implement a competitive incentive compensation program by fiscal year ’19. She added that the policy of how this will run will come back to the board in December, separating the budget requests from the policy requests.

FY20 BUDGET APPROVAL

MS. MERTZ reviewed the proposed FY20 budget request. She continued that the budget will be submitted to OMB for inclusion in the Governor's budget that will be presented to the Legislature no later than December 15th for their consideration. She noted that in order to compare the '20 request it will be presented consistently with the way FY19 was authorized. Overall, for corporate operations with the incentive compensation funding, the request is an increment of $2.9 million over the FY19 authorized. She added that is the internal operating budget only; no investment management fees.

CEO RODELL mentioned that there was a recovery in September from a class-action lawsuit of over a million dollars related to the LIBOR trading scandal. She stated that was the actual value of having lawyers.

> **MOTION:** TRUSTEE RICHARDS made a motion to carry forward the fiscal year 2020 proposed operating and investment management allocations, including funding for an incentive compensation program for investment staff to the Governor and Legislature. He further moved to request the Corporation's budget be included in the language section of the operating budget bill as follows: "an amount not to exceed $176,781,600 is appropriated from the Alaska Permanent Fund corporate receipts for the investment and operating costs of the Alaska Permanent Fund Corporation." TRUSTEE RUTHERFORD seconded and offered a friendly amendment that would request that the staff also provide for the December board meeting a legislative narrative that supports this budget and talks about some of the elements of it, assuming that an agreement was gotten on the incentive program and we are moving ahead with the internship program.
>
> TRUSTEE RICHARDS seconded the friendly amendment.

CHAIR MORAN asked for any further discussion.

TRUSTEE MACK asked if the $176,781,600 includes the proposed incentive comp plan.

CEO RODELL replied yes.

TRUSTEE MACK stated that he will vote no because he has carefully examined the incentive comp plan and has become a skeptic of going down that road. He continued that he fully supported the other parts of this budget, but has to go back to his day job with folks that are working very hard and doing critical tasks for the State of Alaska, generating huge amounts of benefits to the State of Alaska. He added that he thinks it needs more work.

CHAIR MORAN stated that it was his understanding that the request for the incentive compensation program was not being forwarded until it is agreed on at the next meeting.

TRUSTEE MACK replied that he understood and is open to more conversation and discussion, but it is included in that number. He reiterated that he stood by his decision.

TRUSTEE RICHARDS commented that he shared a lot of the same concerns, and the difference is that he thinks we should get to the incentive compensation, but we just do not have it figured out yet. He stated that he will vote yes because it is a goal we should get to.

TRUSTEE FISHER commented that he did not feel that the budget was adequately supported and will be looking for some fairly meaty input from staff in December. He understood the need to go forward, but voted yes with that statement.

> Following a roll call vote, THE MOTION WAS APPROVED by the Trustees (RUTHERFORD, BRADY, RICHARDS, FISHER and MORAN voted yes, and MACK voted no).

LEGISLATIVE REQUESTS

CEO RODELL requested that the board endorse or direct staff to pursue various legislative options to the extent that they appear feasible. There are three here that have been before the board in the past. The first is procurement, because trying to find a way through a procurement process continues to be an issue. The strategy this year, rather than pursuing a full-on exemption from the State procurement code, to get contracts defined under 36.38.50, which would then be exempt from procurement. She added that it regularly makes it difficult to pursue certain investment opportunities because of the procurement requirements. She stated that the second is inflation-proofing. Sample language had been proposed stating that rather than relying on regular appropriations for inflation-proofing, that the amount of inflation-proofing be met out of the amount that would be transferred into the earnings reserves account. It would replenish the corpus immediately for its contribution in the earnings reserve account.

TRUSTEE RICHARDS stated support for this idea and that it needs to be brought forward with a series of other guidelines on how the board is going to weigh in on the structure. He requested a work session sometime in late October to sit down and talk about those guideposts.

CEO RODELL continued to the third, which is the sample language budget which is that the costs of making investments be included in designating State income. There are alternatives to that, making it more complicated. Part of this is to create some consistency so there are no ongoing battles, while at the same time having to develop a significant portion of unrestricted General Fund operating budgets. She added that this requires a motion.

TRUSTEE RICHARDS stated that this is one of about seven things that need to be part of a comprehensive Permanent Fund structuring package. It is a good piece, but there is a need to outline all the things that we want to do.

MR. POAG stated that the question was regarding whether or not the proposed language would remove the fund from the Executive Budget Act. He continued that it would not. The proposed language in 3(c) would authorize the board to adopt by regulation the types of investments for which the Permanent Fund can use assets. This would add to that the ability to include internal and external costs associated with those. There would be regulations following that. The second part of the budget is still being covered by the Executive Budget Act. The Executive Budget

Act, because it is on the annual basis, would be at odds with the language and would not apply to this budget. That would mean that the board's budget would go directly to the legislative process and would bypass the Governor's process because it would no longer fit within the annual budget process.

After discussion, the trustees decided to schedule a work session and get as much work done as they could.

CHAIR MORAN recesses the meeting until 8:30 a.m.

(Alaska Permanent Fund Corporation Full Board meeting recessed at 5:16 p.m.)

SEPTEMBER 27, 2018

CHAIR MORAN reconvened the meeting, and recognized Marcus Frampton.

MR. FRAMPTON stated that there are three partners here that each approach global real estate investing from a slightly different angle. He introduced Barry Blattman, one of the senior executives at Brookfield, a large publicly traded real estate investment fund. The Permanent Fund has committed $300 million to their Flagship Global Opportunistic Fund. He will provide some background and some news about that market.

MR. BLATTMAN stated that Brookfield is a large-scale global alternative asset manager focusing on three main sectors: property, infrastructure, and private equity. He continued that their style and culture is quite different because the history of the company is having owned global industrial complexes. Mining, energy, metals, timber and what was found through the ownership of those types of organizations going back to the late 1800's in Brazil and then more generally across the world. He added that the real assets that underlie the strategies of businesses are critically understood if one appreciates how they fit into the economic chain. He explained that the company is publicly traded with an equity market capital of about $45 million and control about $110 billion of their own permanent capital. They try to invest in the type of assets that generate high-quality cash flows that grow over time, backed by assets that appreciate over time. He stated that as a senior executive team they own 20 percent of the public float of the company in a separate class of shares that gives them control of the board of the company. He continued that this organization is based on buying where opportunities arise. He added that the alignment interest puts focus on the results that are ultimately for the money that is invested, as opposed to choosing options that will maximize fees. This is an organization that was built on the investment approach to acquire very high quality assets.

TRUSTEE FISHER asked about what is meant by enhancing value through operations.

MR. BLATTMAN replied that the main goal is to activate space so that it becomes worthy of higher rents. Value is something that can be enhanced and can be taken advantage of when there is a value opportunity as a buyer. He stated that leverage is relatively uncontrolled, and very low cost of liabilities are being created.

TRUSTEE RICHARDS asked why they are contrarian on retail.

MR. BLATTMAN replied that they are contrarian on retail because they have been a very active player in retail since the advantage prices when they led the capitalization of general growth. He stated that they have been an owner, operator and do not ignore the impact of on-line and other trends in the industry.

MS. DURAN asked if he could describe the opportunistic strategy.

MR. BLATTMAN replied that it is in all of those asset classes, through complexity, multifaceted transactions, finding broken ownership situations, broken operation situations, globally. He stated that they will buy an existing portfolio that has some development opportunities associated with it and execute on that development as part of the plan; but development on its own would be higher risk. He added that if they can buy now, own them for a cycle, and then sell them when everything gets back to what the real economy is demonstrating, that is a good strategy.

MS. DURAN introduced Myles Sanger and Tim Munn from CBRE Global.

MR. SANGER thanked all and stated the investments made has returned 23 percent random IRRs since inception four years ago, which represents about a 230 percent increase in the equity investments. He noted that CBRE global investments focuses on real estate and infrastructure. Infrastructure has installed the recent purchase of Caledon, which is well aligned to real estate. He stated that they are here to talk about the why and the how of investing internationally or globally. He began with the proposition that higher risk-adjusted returns potentially can be achieved through sensible long-term global allocation.

MR. ZINN asked how they would manage a situation where the U.S. is described in a cycle and there are opportunities, but they are not getting through the target.

MR. MUNN replied that there would be a strategic bandwidth, both regional and sector allocations, where there is a low-return target which is in the middle of that range. Then, based on the five-year forecasts to the different markets, the tactical allocation between that strategic bandwidth would be moved. If there is a feeling of a limited opportunity within particular markets for a particular region, then they will up-weight the allocation to other markets.

MR. MUNN stated that the global investable real estate universe is growing. Over the next five years, the developed world's share of that investable universe is set to reduce; therefore, as the U.S. shrinks, there will be more opportunities for investments in real estate outside of the U.S. He continued that markets do not move in a synchronized fashion across the globe, and therefore, adding investments in different countries improves the overall risk profile through positive active diversification, better risks and fantastic returns. He added that the reason this is important is the belief that by creating globally diversified portfolios mitigates downside risks. He stated that the main point is that there are clearly markets that are able to produce or cover the forecast to produce higher returns, that that plays to the points that there will be a greater opportunity set, which is considered the globe as a whole more than just the U.S.

TRUSTEE RICHARDS stated that there is a cost in terms of the learning curve and there is a cost in terms of risk of the markets. He continued that real estate seems harder than other areas in getting comfortable. He asked how are those risks gotten over to know when it is a good market, and everything is being done right.

MR. MUNN replied that it begins with partnering with the right people. The first point is having a strategic plan established in terms of what the global allocation is going to look like. They generally proposed deals in developed core markets and only invest where there is local knowledge. He went through some of the standard allocations for core events. Based on a five-year forecast, tactical adjustments are made to the strategic long-term targets. That is reviewed six months based upon the forecast across the globe and sector.

MR. SANGER noted that a global trend is that populations are largely moving from rural areas to the cities, whether in the U.S., Asia, or Europe. This influences where to have the real estate possessions. With populations growing, it is really the growth being returns. Generally, they have seen an overweight position to offices and favor residential and retail where those same factors are combined. Inner city retail is a strong factor. Residential in these locations where people are moving to have strong fundamentals of supply.

MS. DURAN introduced Taylor Mammen and Ben Maslan from RCLCO.

MR. MAMMEN stated that RCLCO was founded 51 years ago and celebrated their 50th anniversary as a real estate consultancy last year. He continued that they primarily worked with operators, developers, and public-sector clients during the early years and helped them understand how to translate economic and demographic trends into real estate demand. He added that they kind of invented the business of market feasibility consulting for real estate in the late ‘60s and 1970s; and continue to do that as a firm. He stated that they also have a management consulting practice and the newest addition is institutional investment advisory.

MR. MASLAN stated that he spends most of his time in the institutional practice group which advises public funds, pension funds in Alaska, TIP portfolios. He also serves on the management consulting practice group which advises exclusively real estate offering companies on how they approach strategic decisions associated with their companies.

MR. MAMMEN highlighted two aspects of the approach to thinking about investments in real estate. First is the belief that investments first and foremost should be demand-driven. Understanding the demand for real estate supersedes in importance all other decisions related to it. The primary risk in real estate is having an empty building; and we want to make sure that risk is mitigated. The second primary thing is to always evaluate, assess, and understand the two real estate markets. One is the property market for space, units, et cetera. The second is the market for transactions. Both of those dictate long-term investment performance. Real estate is categorized into three categories: Where people live; where people work; and where people shop. He stated that what is impacting where people are living is significant, demographic trends. Enduring lifestyle changes and shifts as people change how they live has an impact on housing. He explained that where people work is that companies are in a fierce competition for talent and are paying a great deal of attention to where talent wants to be, both in terms of neighborhoods, as well as the structural obsolescence of a lot of offices throughout the world, and significantly acquired capital expenditures. He added that industrial is really the new retail, where people shop has benefited enormously for the past few years because of that. He stated that the threats to retail are real and significant and began long before e-commerce came around.

MR. MASLAN added that there are properties that are internet-resistant, either they cannot be a service performed, or they offer an experience that cannot be replicated on the internet.

MR. MAMMEN stated that what is important is what is going to happen to these property types going forward as the economy crests, potentially goes into downturn conditions. The belief is that it is most important to focus on what is going to be demanded.

MR. MASLAN added that for the first time in five years new demand has exceeded new supply for apartments. There is a large supply pipeline for the next two years.

MR. MAMMEN stated that there are potential threats to continued value appreciation of assets with the most obvious threat being rising interest rates which directly or indirectly impact cap rates. Cap rates and interest rates have important long-term relationships, but are not perfectly correlated together. He states that there is an opportunity to look for potential inefficiencies in valuation, where the investor finishes over- or undervaluing the risks for these different property types.

MR. MASLAN stated that there are three categories of risk: One is property level risks in the United States; two is political risk where the same protections or regulations may not continue to be there; three is currency risks, which is difficult and expensive.

MR. MAMMEN stated that investing internationally in real estate, in particular, requires being highly cognizant of the risks and ensuring that those risks are priced in to what is being done internationally. He highlighted that, based on the data that is being looked at, the institutional market outside the United States is far more concentrated in particular property types, particularly office. There is far more investable institutional real estate in the United States, such as multifamily and industrial, than there is in other countries. Those are the spaces that investors should be focusing on in the next few years.

CHAIR MORAN called a brief break.

(Break.)

CHAIR MORAN recognized Mr. Moseley.

MR. MOSELEY introduced Jason Howard from GCM Grosvenor, and Paul Yett from Hamilton Lane to talk about in-state investing. Both of these individuals represent the largest managers of alternative asset funds, and both have a lot of specific on-the-ground experiences managing different types of geographically targeted funds.

MR. HOWARD stated that he is a partner on the investments team at GCM Grosvenor in the California office. GCM was founded in 1971, and is one of the largest alternative investment managers focused completely on alternatives. He continued that his area of focus is on private market investments; that private market activity started in 1999. That is important because one of the clients came and said that they had an area of specific interest but did not have the team and the resources to be able to allocate time to pursue those opportunities. That is how the private markets business began. Since then 75% of customized solutions have been developed for clients. There is just over $50 billion of assets under management. Two key parts of the business is the focus on emerging managers and in-state programs. He added that today they invest and manage programs on behalf of eight states, and invest over $1.7 billion in programs.

MR. YETT stated that he is a managing director with Hamilton Lane and is celebrating his 20th year with the firm this year. It was a small firm when he started and has grown into 15 global offices, about $415 billion of assets under advisement, with about $55 billion in discretional dollars. He continued that their focus is exclusively private markets.

MR. HOWARD began with the basic questions that determine how successful a program could be in Alaska and how thoughtful the discussion is about those questions. The key things to focus on are the program objectives and how the Alaska Permanent Fund defines success. The minimum size of the investment is important, and then the exposure it should have for it to count as an Alaska investment.

TRUSTEE RICHARDS asked about venture capital.

MR. HOWARD replied that venture capital is included within private equity.

MR. MOSELEY asked Mr. Yett about any cases of inadequate long-term funding for managers for deals.

MR. YETT replied that is one of the challenges. Another challenge is that once a program is started, is the ability to determine a target investment program. Nothing happens overnight. He went through an in-state program in Idaho that he started working with about 15 years ago, and the idea was never a set dollar amount. There were no private equity shops in Idaho when the program started. There was a lot of engineering talent and some entrepreneurial culture through HP. There was also an engineering lab where there were a lot of companies being seeded. This was developed through creativity. Today those three funds that were invested in are generating very good returns, and it is one of the drivers of performance in their overall private equity program. These programs do take a long time.

MR. HOWARD stated that it can take a long time for the programs to show success, but there are ways to mitigate that, as well. If there is a focus on equity, co-investments, as well as credit supporting companies where they need to grow or an opportunity to buy companies, having capital to support them is extraordinarily important.

MR. YETT stated that at the end of the day this is a long-term asset class. They like to see people that have a track record, have some affinity for looking at deals, have looked at deals, maybe have done deals, and that the person that is going to be in the office has to be a decision-maker within the organizations. If they do not represent the capital and the dollars, then it is not an effective program. He continued that the program leads with returns, and the returns have to be whatever that metric is. Then there are a host of the ancillary benefits.

TRUSTEE RICHARDS asked about the typical level of decision-making in terms of the external manager versus staff.

MR. HOWARD replied that, typically, they have discretion, but that is in close collaboration. There are clients that are spoken to weekly, and others that are annually. They have the ability to flex up and flex down. The typical approach is to schedule a kickoff call to set the parameters of how the program should be managed, and then determine the frequency for updates.

MR. YETT echoed the same and stated that all of their programs are discretion from full discretion with a report once a quarter to something a bit more quasi where the involvement with the investment office is more direct.

TRUSTEE RICHARDS asked about fee structure.

MR. HOWARD replied that it is structured to take the management fee and carry just like any other program.

CHAIR MORAN asked if there was a size to this, a kind of threshold size that below would be wasting time.

MR. YETT stated that the deal sizes go back to the strategic plan, developing that around what goals will be measured. The goal is that this is going to be a growth company.

CHAIR MORAN thanked both gentlemen, and recognized CEO Rodell.

ALASKA INVESTMENT POLICY

CEO RODELL stated, in terms of the Alaska Investment Policy, language was presented at the work session and feedback was taken from the trustees at that time. The language on the tab reflects the edits that were passed along from trustees. Everything that was requested was included. She continued that the goals for the years under section B, the percentages are targets, and the scope by 2023, at least $2.4 billion of the fund, if the fund stayed flat, would be invested in-state. She added that this is all external manager fund investments.

TRUSTEE RICHARDS pointed out that the memo has the old language about 1 percent, but is accurate in the Alaska Investment Policy as discussed in the work session.

CEO RODELL replied that the existing language is currently in effect in the memo, and the proposed changes are on page 447.

TRUSTEE RUTHERFORD asked if there was a need to consider expanding or amending the purposes section under B. As it is right now, it is rather loose, given the discussions today.

TRUSTEE RICHARDS replied that the emerging manager program is taken care of in the resolution on the next page, whereas this investment policy goes more towards the assets under management and direct Alaska investing. It is the way the staff chose to break up the direction.

CHAIR MORAN stated, after a discussion on some of the details of this policy, that the fund is to a point where the trustees need to make a statement in support of the State of Alaska, and that there are at least aspirational goals. He continued that the resolution supporting an in-state emerging manager program is a way to kick the program off. Neither of them really commits investing any money at this point, and it is just trying to encourage the process along.

MOTION: A motion to adopt the Alaska Investment Policy was made by TRUSTEE RICHARDS and seconded by TRUSTEE MACK.

After a roll call vote, the MOTION WAS APPROVED by the trustees (RUTHERFORD, FISHER, BRADY, RICHARDS, MACK and MORAN).

MOTION: A motion to adopt Resolution 18-03 was made by TRUSTEE FISHER and seconded by TRUSTEE RUTHERFORD.

After a roll call vote, the MOTION WAS APPROVED by the trustees (RUTHERFORD, FISHER, BRADY, RICHARDS, MACK and MORAN)

CHAIR MORAN broke for lunch.

(Lunch break.)

CHIEF INVESTMENT OFFICER INTERVIEWS

Jeb Burns, Marcus Frampton, and David Kushner were interviewed for the position of chief investment officer of the Alaska Permanent Fund Corporation.

(Break.)

CHAIR MORAN stated that the plan is to go into executive session and asked for a motion.

MOTION: In accordance with Alaska's Open Meetings Act, VICE CHAIR BRADY made a motion that the Board convene in executive session for the purpose of discussing the relative qualifications of the three candidates for Chief Investment Officer and potential economic terms. And because this discussion could be harmful to the reputation or character of these candidates, and could have an adverse effect upon the finances of the Corporation, under applicable Alaska law, this discussion should take place in executive session, unless any of these candidates request a public discussion. Seconded by TRUSTEE MACK.

After a roll call vote, the MOTION WAS APPROVED by the trustees (RUTHERFORD, FISHER, BRADY, RICHARDS, MACK and MORAN).

(Executive session from 3:16 p.m. until 4:22 p.m.)

CHAIR MORAN noted that while in executive session the trustees considered only the matters mentioned in the motion and took no action. He moved to the next item on the agenda, election of corporate officers.

ELECTION OF CORPORATE OFFICERS

VICE CHAIR BRADY nominated BILL MORAN be re-elected as chairman.

TRUSTEE RICHARDS stated that he would like to throw his name in the hat. Right now in Alaska, with the option of the POMV bill and the Permanent Fund restructuring, this is a unique time and it is appropriate during these meetings now for the Board to weigh-in in a very positive, constructive way. He continued that he is uniquely suited to do the work as the chairman. He was the architect of the Permanent Fund Protection Act, has written extensively on the subject, and knows the legislation.

TRUSTEE RUTHERFORD nominated Craig Richards for chairman.

TRUSTEE MACK nominated Trustee Brady to be the vice chair.

TRUSTEE FISHER asked Chair Moran if he would be interested in making a statement.

CHAIR MORAN stated that he likes the job and would love to continue in the position. He considers it an honor. It is one of the more interesting things he has ever done in his entire adult career. If the trustees would like him to continue, he would love to do it. He continued that he is not of the same mindset to be overly active with the Legislature and the executive branches on some of the issues, but does not have any problem with being more involved on our views with regard to things like inflation-proofing and the sustainability of the POMV once it gets to that point. He continued that his position will continue to be the need to keep us separate from too much of the political activities and focus more on the job to invest in the fund and provide whatever technical resources that can be provided to the Legislature. He does not believe that we should tell them how to do their job. That would be his position.

CEO RODELL stated that Chris Poag will collect the ballots.

MR. POAG states that a formal motion will be needed, and the Board will vote on that for the record. He recommended that there be a motion that Trustee Richards be appointed Chair. He offered to share the ballots to anyone that would like to view them.

> **MOTION:** <u>A motion that Trustee Richards be appointed as Chair was made by TRUSTEE MACK and seconded by VICE CHAIR BRADY.</u>
>
> After a roll call vote, the MOTION WAS APPROVED by the trustees (RUTHERFORD, FISHER, BRADY, RICHARDS, MACK and MORAN).

MR. POAG asked for a motion for Vice Chair.

MOTION: A motion that Trustee Brady be elected Vice Chair was made by TRUSTEE MACK and seconded by TRUSTEE RUTHERFORD.

After a roll call vote, the MOTION WAS APPROVED by the trustees (RUTHERFORD, FISHER, BRADY, RICHARDS, MACK and MORAN).

OTHER MATTERS

CEO RODELL stated that there are two things on other matters. The first is the calendar of meetings which needs a vote. She stated that this calendar of meetings was put together assuming that the Board wanted to continue to have its regularized quarterly meetings. Second, all the meetings are scheduled to be in Juneau. She explained that, in that capital project, we are building out a meeting conference space designed to broadcast the meetings with technology to broadcast the meetings throughout the state. It is challenging.

TRUSTEE RICHARDS stated that all the arguments for Juneau make sense, but this is an Alaska-based corporation and having access to multiple places in Alaska to come to meetings is valuable, particularly in this time period. His personal take would be to have one meeting in Fairbanks and one in Anchorage.

VICE CHAIR BRADY stated, historically, we have traveled around the state and went to Nome. The only marketing device was the newspapers, and ads were put in all the newspapers around the state. He commented that sometimes it is good to be available elsewhere.

TRUSTEE MACK agreed with both.

CHAIR MORAN asked if this needed a motion.

CEO RODELL replied yes. September 5, 2019 is the Audit Committee work session; September 26, 2019 in Anchorage; December 3-4, 2019 in Juneau; February 2020 in Juneau; May 20, 2020 Fairbanks; September 3rd will be in Juneau; September 23-24 will be in Anchorage; December 9-10 will be in Juneau.

MOTION: A motion was made by TRUSTEE RUTHERFORD to accept the calendar for 2019 and 2020, as articulated by CEO Rodell.

After a roll call vote, the MOTION WAS APPROVED by the trustees (RUTHERFORD, FISHER, BRADY, RICHARDS, MACK and MORAN).

CEO RODELL stated that Robert's Rules is very straightforward about the minutes. They basically need to reflect the actions that the Board takes. She wanted to get a sense from the Board if they like getting the full transcript of minutes or if a very succinct set of minutes could be considered with the digital audio.

TRUSTEE RUTHERFORD asked if that is online and how to access the digital online.

CEO RODELL replied that it would need to be fast-forwarded to get to the point, but the minutes would tell you at what point.

TRUSTEE FISHER asked if that is a cost-savings measure, and what is the savings.

MS. MERTZ replied that she thinks the budget is about $30,000.

TRUSTEE RICHARDS stated that he likes having the minutes out there as a matter of public record, and it is a warehouse of knowledge. The particular knowledge and decisions of this Board are reference materials for generations in the future, and he is personally biased towards keeping it. He does recognize it is a lot of money. He asked to think on this and get back to it.

TRUSTEE RUTHERFORD asked that in the minutes it would note where the subject matter is in the digital.

CEO RODELL replied yes.

TRUSTEE RUTHERFORD asked if that would be accessible through the APFC Website.

CEO RODELL believes that it can be made accessible. There are requests sometimes and the audio files are sent directly to the people that request files.

CHAIR MORAN asked if it could be done both ways for a couple of times.

TRUSTEE RICHARDS stated that he would like an actual written summary of the cost savings, too.

TRUSTEE RUTHERFORD stated that it is really important to have it easily accessible because there are a lot of us that do go back and listen and reread.

TRUSTEE FISHER stated that he will never listen to it, but would read it.

CEO RODELL stated that she is happy to keep it as it is. She added that there are no other matters.

INVESTOR ADVISOR COMMENTS

MR. ZINN stated that he holds himself accountable and will follow up with the introduction of the cybersecurity firm and the CEM benchmarking for the AUM fees under management. He continued that it was a terrific meeting and staff is to be commended. One of the comments that was clear from the trustees that he reiterates from the staff is some simplification of the legacy reporting for essentially executive-level consumption. He would consider thinking about having a way to look at the dual mandate, essentially the Fed has a dual mandate for inflation and employment. He thinks that the dual mandate should be between the CPI and the performance benchmarks. He stated that he was unaware of some of the FX activity and would be happy to bring on get-togethers in order to get to best practices.

CHAIR MORAN moved to trustee comments.

TRUSTEE COMMENTS

TRUSTEE FISHER stated that yesterday they talked about having a meeting later this month. He asked if that had to be formalized.

CEO RODELL stated that the board will be polled as to dates. Her understanding is that an in-person meeting in Anchorage was desired.

TRUSTEE RICHARDS stated that it could be in Juneau, whichever is convenient. He wanted to make sure it is a meeting where action can be taken.

TRUSTEE FISHER asked if there was any enthusiasm to talk about the memo distributed yesterday or should that be put off until the next meeting.

TRUSTEE MACK asked to defer until the next meeting to discuss. He stated that he voted in the negative on the budget issue precisely because of his concerns about the compensation. He had not read that memo prior to his comments. He likes the ideas in that memo, and appreciates taking time to look at other plans.

TRUSTEE FISHER stated to just include it in the next meeting. He expressed his tremendous appreciation for Chair Moran. He learned a tremendous amount just talking to the Chair in the sidebars, the comments, and really appreciates all of his work. He knows that will continue, but wanted to publicly say "thank you."

VICE CHAIR BRADY stated that the asset allocation which is the target sometimes gets out of whack. The affected area may be caused by other areas. He continued that he is talking about the percentages and does not want the feeling of doing something just because. We should understand the freedom to be where you are is okay until the right opportunity comes along. Another good meeting, Mr. Chairman.

CHAIR MORAN stated appreciation for all the support over the years and wishes Craig all the best. He added that he gives his full support.

TRUSTEE RICHARDS thanked Chair Moran.

TRUSTEE MACK stated that his last comment is that this was a very productive meeting and is really appreciative of the work that the CEO and folks put in on the emerging manager program and some of the things that have been approved as policies. It gives a lot of latitude, but it also puts us in the right direction. Thank you.

TRUSTEE RUTHERFORD noted that we recognize how much work goes into putting together these meetings and validating the materials that provide the education, move the information, and bringing these panels together. She appreciated the fact that there is such good follow-up from the discussions and the requests made. It is the work everyone in this room does, and it is greatly appreciated. She thinks that everybody is incredibly responsive, and the quality of the products are outstanding.

CHAIR MORAN adjourned the meeting.

(Alaska Permanent Fund Corporation adjourned at 4:54 p.m.)