Permanent Fund Corp. earns 12.6% in FY17

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While the State of Alaska is still mired in a damaging cycle of multibillion-dollar budget deficits, it’s hard to imagine a scenario in which its biggest financial asset could be doing better.

The Alaska Permanent Fund Corp. achieved a 12.57 percent return on its namesake Fund during the 2017 fiscal year that ended June 30. The Permanent Fund ended the year with a record value of $59.8 billion.

The corpus, or principal, of the Permanent Fund is constitutionally prohibited from being spent; however, the Fund’s Earnings Reserve Account is available for appropriation and it ended fiscal 2017 with more than $12.8 billion of Fund income. Of that, more than $10.8 billion was available realized earnings.

More than $3.2 billion in statutory net income was added to the Earnings Reserve in 2017.

Historically, the Fund’s investment income has been only been distributed as dividends to Alaska residents based on a statutory formula.

In the weeks since the end of the state fiscal year, the Fund has continued to grow to more than $60.6 billion as of Aug. 21, according to the corporation’s unaudited results.

Permanent Fund Board of Trustees Chair Bill Moran said in an APFC release that the “high mark is a testament to the Alaskans who had the foresight to create the Fund, the leaders of yesterday and today who have maintained the integrity of the Fund and the dedicated professionals of the Alaska Permanent Fund Corp. who have attentively invested the Fund.”

CEO Angela Rodell said the Permanent Fund has gained international recognition “as a model for converting a non-renewable (oil) resource into a renewable financial resource.”

The strong 2017 results counter fiscal 2016 when volatile public financial markets kept Fund growth at a modest 1.35 percent.

Gov. Bill Walker’s administration and many legislators have pegged a long-term return average of 6.9 percent as a foundational assumption for starting to spin off about 5 percent of the Fund’s annual value to support government services and continue to pay out annual dividends in the $1,000 to $1,200 range.

Doing so could sustainably provide up to about $1.8 billion per year to reduce the state’s deficits, they contend.

The below-average 2016 put the Fund’s three-year return average below the 6.9 percent target at 6.18 percent, but the corporation’s active management still greatly out produced passive benchmark investments of 60 percent stocks, 30 percent bonds and 10 percent real estate and inflation-protected securities that would have returned 3.37 percent over that time.

Over the previous five years the corporation’s management has produced an 8.94 percent return, compared to a projected passive return of 7.10 percent.

The 2017 performance was led by a roughly 20 percent return on the $26.1 billion of the Fund invested in public equities, or stocks.

For rough comparison, the Dow Jones Industrial Average closed Aug. 22 up 18.19 percent over the previous 12 months.

Another nearly $7 billion invested in private equities returned 20.98 percent and the Fund’s $5.5 billion of real estate investments earned 4.45 percent, according to the corporation’s June performance report.

Infrastructure and private credit investments averaged roughly 9 percent paybacks, while $11.7 billion in fixed income assets naturally yielded more modest returns.

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