

News Release

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Alaska Permanent Fund Returns 2.13% for the first quarter of FY19

Juneau – The Alaska Permanent Fund's (Fund) investments gained 2.13% during the first quarter of fiscal year 2019 (FY19) and the Fund ended September 30, 2018 with total assets under management valued at \$63.9 billion (unaudited). The Fund is comprised of two accounts, the Principal and the Earnings Reserve Account (ERA), that are invested using the same asset allocation with pro-rata shares attributed to each account. As of September 30, 2018, the value of the Principal is \$46.9 billion and the value of the ERA is \$17.0 billion. The 5.25% POMV (percent of market value) draw of \$2.7 billion in FY19 to pay for government services and the 2018 fall dividend has been partially distributed with a transfer of \$1.4 billion to the general fund. The remainder of the draw equaling \$1.3 billion remains invested in the Fund and recorded as a liability for transfer through-out the remainder of the fiscal year.

Angela Rodell, APFC's CEO, notes that "diversification and meaningful allocations to private market assets continue to benefit the Fund. As the market becomes increasingly volatile, it is more important than ever to remember we invest with a 10, 25, 50 year or longer time horizon. Our APFC team continues to be focused on building real financial wealth and resources for the State of Alaska."

The performance of the total Fund is measured against three benchmarks: the Board of Trustee's Strategic return objective of CPI+5%, which provides a long term benchmark for the Fund's real rate of return; the blended performance benchmark comprised of a blend of indices reflective of the Funds' asset allocation, which measures how effectively staff has implemented the investment strategy; and a passive benchmark reflective of a traditional portfolio of stocks and bonds.

Reflected in the chart below, the Fund has outperformed the 3 and 5 year benchmarks, while the results for the first quarter year to date in FY19 reflect performance that is trailing the performance benchmark, and slightly ahead of the passive benchmark and the long term strategic objective of inflation +5%.

Performance vs Benchmark Objectives (as of September 30, 2018)

	FYTD 19 Q1	3 Years	5 Years
Total Fund Performance	2.13%	10.22%	8.34%
Passive Index Benchmark (60% Stocks 30% Bonds 10% RE & TIPS)	2.06%	9.24%	6.08%
Performance Blended Benchmark	2.66%	9.85%	7.18%
Board of Trustees Strategic Return Objective (CPI + 5%)	1.40%	6.99%	6.52%

As we enter the second quarter of the fiscal year, the markets are experiencing increased volatility that is projected to continue through the course of the year. To mitigate the effect of volatile markets, the Fund's portfolio is well diversified across public and private markets in seven asset classes.

Following are the FY19 first quarter year to date returns for the Fund's asset classes.

Public Equities – APFC's \$28.0 billion Public Equities allocation delivered a 3.18% return during the first quarter of FY19, 13.67% returns over the past 3 years, and 8.44% returns within the past five years. Fiscal year to date performance for the entire asset class was slightly behind the benchmark of MSCI ACWI IMI which is attributed to relatively weak performance by the Fund's external managers. During the first quarter of FY19, market's gain was led by stocks viewed as relatively expensive by the Fund's active and quasi passive managers and are under owned in the Public Equities allocation. Across the sectors performance was strongest for Domestic Equities up 5.42% and Global Equities up 4.15%, while International Equities was down -0.63% for this period.

Fixed Income Plus – the Fixed Income Plus portfolio of \$14.8 billion, offered consistent performance for the first quarter of FY19 with a return of 0.65%, which outperformed the established benchmark by 29 basis points. The largest contributors to the strong relative performance were the internally managed US Investment Grade Corporate and Global High Yield portfolios. During these times of increased volatility, the Fixed Income portfolio has performed as expected. It acts as stabilizing force for the entire portfolio and can be used as a liquidity vehicle when opportunities present themselves in other asset classes.

Private Equity and Special Opportunities – APFC's Private Equity and Special Opportunities portfolios total \$7.8 billion combined. During the first quarter of FY19, this asset class delivered net returns of 4.82%, outperforming the Cambridge Private Equity benchmark of 4.51% for the period. During the quarter, the \$4.7 billion global Private Equity portfolio delivered net returns of 6.38%, while the Special Opportunities portfolio delivered 2.32%, reflecting the volatility of two post-IPO public equity positions. Over the 1-year, 3-year and 5-year periods the combined portfolios delivered net annualized returns of 29.90%, 16.63% and 23.34% respectively, well ahead of all private and public equity benchmarks.

Infrastructure, Private Credit, and Income Opportunities – Infrastructure, Private Credit, and Income Opportunities assets total \$4.8 billion and offer a strategy designed to couple attractive net returns, steady income, and limited volatility. The largest area of this portfolio, Infrastructure, returned 3.96% year to date in fiscal year 2019 bringing the 3 and 5 year to 19.82% and 17.00%, respectively. Private Credit, which is benchmarked to US High Yield Bonds, has outperformed this index for all periods earning 2.32%, 6.81%, and 7.42% in the quarter, 3 years, and 5 years ended September 30, 2018.

Real Estate - APFC's Real Estate portfolio is currently valued at \$3.9 billion, it consists primarily of direct holdings of institutional quality, core real estate assets and is designed to provide a steady source of current income over market cycles. The negative 2.28% return for fiscal Q1 was driven by quarter-to-quarter appraisal movement that the Investment team expects to reverse over time in future quarters. The fundamentals of the real estate portfolio remain quite strong with its modestly levered core properties generating strong yield to the APFC and three and five years annualized returns of 7.37% and 8.87%, respectively. In the midst of public market volatility in fiscal Q2, the Real Estate portfolio has continued its strong fundamental performance and is expected to earn positive cash flow and total return for the quarter, demonstrating its value to the Fund's overall asset allocation

Absolute Return – APFC's \$3.1 billion internally managed Absolute Return portfolio is invested with managers that employ a variety of alternative investment strategies and is designed to deliver uncorrelated returns in excess of the Fund's total return objective. The Absolute Return portfolio generated a 0.85% return for the quarter ended September 30, 2018, and returns of 4.24% and 3.49% for the 3 and 5 year periods respectively. As of September 30, 2018, the portfolio is invested with 17 managers, including two legacy fund-of-funds investments that are currently in redemption.

Asset Allocation Strategies – During the first quarter of FY19, the \$3.3 billion asset allocation group returned .48% with a portfolio comprised of internal cash, currency management, and multi-asset strategies. Cash returned .46% and the cash overlay, designed to reduce cash drag through targeted synthetic exposure to the equity and fixed income markets, had the strongest performance in this asset class for the period with a return of 2.31% benefiting from positive returns in equity markets. In addition, the currency management portfolio, designed to hedge foreign currency, returned 0.05% for the quarter. The dollar was weaker against most developed and emerging market currencies as markets stabilized following the volatility experienced in August, and currency returns were mainly driven by active positions gains in the Swedish Krona and shorts in Japanese Yen and Swiss Franc. The multi-asset strategies category, a diversified portfolio of assets, returned a negative 1.15%.

Statutory net income as defined in AS 37.13.140 totals \$846.7 million as of September 30, 2018 fiscal year to date. This is the statutory calculation that directs the amount of income that flows to the Earnings Reserve Account.

Performance overviews and updates for each asset class will be presented to APFC's Board of Trustees during their quarterly meeting on December 11-12, 2018 in Juneau. Additional detailed information can be found at apfc.org and the following link for the Alaska Permanent Fund's [financial statements and investment performance](#).