

News Release

For Immediate Release: February 20, 2020

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The APFC Board of Trustees Recognizes Fund's Evolving Role

Juneau – The Board of Trustees held its quarterly meeting in Juneau, Alaska on February 19-20, 2020 to review the performance of the Fund through the first half of the fiscal year 2020 (FY20), to consider the current asset allocation and investment policy, and to discuss the structure of the Alaska Permanent Fund. As noted by Angela Rodell, APFC's Chief Executive Officer, "this meeting highlighted the changing environment the Corporation faces. Where once we focused simply on the market driven forces of the portfolio, we must now take into consideration the concerns of our constituents, as well as those of our legislative and administrative partners. I appreciate all of the interest and input from Alaskans in the work that APFC is doing."

As December 31, 2019, the unaudited, total value of the Alaska Permanent Fund is \$66.9 billion.

- The Principal value is \$49.0 billion; which includes \$41.7 billion in constitutionally protected deposits and \$7.3 billion in unrealized gains.
- The value of the Earnings Reserve Account (ERA) is \$17.9 billion; which includes \$7.5 billion of unspent realized earnings, \$2.7 billion in unrealized gains, and \$7.7 billion of committed realized earnings for the FY21 percent of market value distribution (POMV), as well as the FY20 special appropriation and inflation proofing transfers to Principal.

The Alaska Permanent Fund's (Fund) investments were up 5.38% in value during the first half of the fiscal year 2020 and up 15.71% in the 12-month period for the calendar year 2019. The Public Market portfolios performed particularly well with Public Equity generating a return of 9.49% through the first six months of FY20 and 26.53% for the 2019 calendar year. Fixed Income Plus also generated a return for FY20 Q2 of 3.89% and 13.70% for the 12-month period of 2019. The Private Markets' strategies have generated outstanding long-term returns and contributions to the Fund that are best measured over more extended periods, the shorter-term performance for the first six months was lower than for public assets. Returns for each asset class and their respective benchmarks are available on our website at <https://apfc.org/financial-and-performance-reports/>.

In building upon the recommendations brought forth in the Trustees' Paper Volume 9 released in January of 2020, the Board of Trustees evaluated the structure of the Fund and its ability to meet the expectations of providing both enduring intergenerational growth and reliable income-generation functions. Based on the Board's direction, policy recommendations will continue to be developed and brought forth at a later meeting for consideration

Chair Craig Richards remarked that "the separation of the Permanent Fund into two accounts, the Principal and the Earnings Reserve, is a historical artifice of 1970's accounting concepts. As the Board heard today, not having a single fund creates an approximately 50% chance that the Permanent Fund will not be able to fund the POMV distribution including dividends, in one or more years over the next 20-year period. Ideally, we will work toward legal changes that combine the two accounts. Alternatively, we must have a clear strategy to maintain a robust ERA balance during down market cycles."

APFC was pleased to welcome Senate President Giessel and Speaker of the House Edgmon to the meeting together with Senator von Imhof and Representatives Foster, Johnston, and Kopp. Legislative support for the work that the Board of Trustees and the APFC Staff are doing to manage and invest the Fund is essential for our continued success. In working together, we will build on the legacy established over the past 40 years and provide renewable financial resources for Alaskans to benefit from for the next 40 years and beyond.

In addition to receiving overviews from Callan, APFC's general performance consultant, on both capital markets and APFC's asset class performance, the Board of Trustees:

- Were provided a comprehensive overview of risk management components by APFC's Chief Risk and Compliance Officer, Sebastian Vadakumcherry. Articulating overall risk appetite, including the need to align APFC's aspirations with capabilities and resources, is an important component of this ongoing discussion.
- Discussed APFC's Investment Policy and Asset Allocation that proposes a new five-year asset allocation that would be effective July 1, 2020. Included in the asset allocation plan and proposed investment policy is a diversified real assets portfolio designed to hold inflation protected investments, while Staff builds the Fund's private Real Estate exposure up to a target of 12% over the next five years. Included in this Real Assets Completion Portfolio is Gold, inflation sensitive equities, and inflation sensitive fixed income investments, including Treasury Inflation Protected Securities (TIP's) and Leveraged Loans. The presentation at this meeting was informational, during the May 2020 Quarterly Board meeting, Staff will bring forth the proposed Investment Policy for formal approval.
- Were presented with an update on the Alternatives Investment Program, including innovative strategies to leverage APFC's talent and model of success in a joint venture with private counterparts.
- Approved the negotiation of an eight-year contract with KPMG for independent financial audit services.
- Made no changes to the Governance Bylaws and Charters of APFC.
- Recognized this was Tim Walsh's last meeting and thanked him for his service to the Board and Alaska as an Investment Advisor.

The Board also welcomed Commissioner of Revenue Lucinda Mahoney as a Trustee, having just been appointed by Governor Dunleavy. The Board thanked Mike Barnhill for his service during his time on the Board as the Acting Commissioner of Revenue and for his ongoing work in the review of endowment provisions.

In summary of the two-day meeting, Angela Rodell offered: "My takeaway for Alaskans is this meeting highlights the effort that the Staff and Trustees continue to make in balancing the needs of our State and current generation, while ensuring we have a robust asset to benefit future generations of Alaskans."

The next quarterly meeting of the Board of Trustees will be held on May 20-21, 2020 in Kenai, Alaska.

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