

APFC Investment Policy

Adopted May 21, 2020, Effective Date July 1, 2020

TABLE OF CONTENTS

SECTION

I.	INTRODUCTION	2
II.	TOTAL FUND & PORTFOLIO DESIGN PHILOSOPHY	3
III.	PUBLIC MARKETS	6
IV.	ALTERNATIVE INVESTMENTS	11
V.	ALASKA IN-STATE INVESTMENT POLICY	17
VI.	AUTHORIZED USE OF DERIVATIVES	18
VII.	RISK MANAGEMENT & OVERSIGHT	20
VIII.	PUBLIC MARKETS EXTERNAL MANAGER SELECTION	24
Appendix A:	Investment Guidelines.....	26
Appendix B:	Limit Ranges & Compliance Cure Periods.....	29
Appendix C:	Glossary	31
Appendix D:	Previous Investment Policy Adoption & Amendments	31

I. INTRODUCTION

A. Purpose

1. The purpose of this Investment Policy (“Policy”) is to provide a formal plan for investing and managing the assets of the Alaska Permanent Fund and other state assets as prescribed by law (“Fund”) to achieve the defined investment objectives. This Policy also defines the roles and responsibilities of the various parties involved in the investment process and facilitates external communication of the Policy. The appendices are incorporated into and form part of this Policy. Terms not defined within the body of the Policy have meanings assigned to them in the “Glossary,” Appendix C of this document.
2. This document is not intended to be a static document and will be considered for possible amendment on an annual basis or any time the Board of Trustees (“Board”) modifies the Alaska Permanent Fund Corporation’s (“APFC”) investment-related policies or asset allocation. Amendment of this Policy requires Board action as described in AS 37.13.080 and the APFC By-Laws (“By-Laws”). Following any Board approved amendment to this document, changes will be noted in Board meeting minutes and as soon as practicable this document will be amended to reflect the approved changes and posted on the APFC website.

B. Roles of the Board, Staff, Consultants, and Advisors

1. The Board has a responsibility to invest Fund assets in accordance with the Alaska Constitution and the prudent-investor rule provided in AS 37.13.120(a) – (e). The Board has adopted regulations (15 AAC 137.410 – 15 AAC 137.990), which define the eligible investments of Fund assets (“Regulations”). The Board has also adopted By-Laws, which delegate and empower the APFC Staff to invest and manage Fund assets consistent with the parameters of the Regulations and this Policy. Finally, through regularly scheduled and special meetings, the Board oversees the management of APFC Staff and Fund assets, and ensures that APFC has the resources needed to fulfill its objectives as effectively as possible.
2. The APFC Staff’s task is to invest and manage Fund assets to fulfill the Fund’s objectives, as specified by the Board, in this Investment Policy. Additionally, APFC Staff advises the Board about recommended changes to the asset allocation and this Policy to help the Fund achieve its objectives. Finally, APFC Staff, or external investment managers selected by APFC Staff, negotiates and executes all investment plans and strategies, performs risk-management functions, and helps prepare investment performance and other management reports.
3. External consultants provide advice and implementation assistance to the Board and APFC Staff related to investment programs at both the overall Fund level (“General Consultant”) as well as for specific asset classes. The General Consultant also reports on the progress that the Fund is making with regard to specific investment programs and makes comparisons of Fund performance against its target benchmarks, including Fund peers.

4. Consistent with the Board's Charters and Governance Policies, up to three Investment Advisors are selected by the Board to provide education, advice, commentary, and discussion at Board meetings, or as requested by the Board.

II. TOTAL FUND & PORTFOLIO DESIGN PHILOSOPHY

A. Total Fund Objective

Consistent with the Legislature's findings regarding the purpose of the Alaska Permanent Fund (AS 37.13.020), the Board's objective is for the Fund to achieve the highest level of investment performance that is compatible with the Board's risk tolerance and prudent investment practices. Because of the perpetual nature of the Fund and the Legislature's finding that the Fund should benefit all generations of Alaskans, the Board maintains a long-term perspective when formulating this Policy and in evaluating Fund performance. To that end, the Board expects the Fund's design and performance will be evaluated using the following criteria:

1. **Investment Performance:** ability to generate an annualized return of CPI + 5% over a 10-year period ("long-term target")
2. **Investment Risk:** ability of the Fund to achieve the long-term target while conforming to the risk appetite approved by the Board

B. Total Fund Asset Mix

1. APFC's investment programs are organized by asset class and APFC Staff assist the Board in engaging in an asset allocation study for the Fund at least once every five (5) years to review asset classes, risk-return assumptions, and correlations of investment returns with applicable benchmarks and across asset classes. A key objective of the asset allocation study shall be the development, through quantitative and qualitative modeling techniques, of a diversified portfolio that specifies a "long-term target" position for each asset class. The total Fund portfolio mix will represent the portfolio that is expected to meet the Board's long-term target while conforming to the risk appetite approved by the Board.
2. Each asset class allocation percentage shall designate a "long-term target" position within the overall portfolio as well as maximum and minimum ranges around those targets, as outlined in Table 1. Ranges are specified by a "green zone" which reflect normal expected variability around the targets, "yellow zone" which reflect potential remediation by APFC Staff according to prudent portfolio management over a reasonable period of time, and "red zone" which require Board approval of a remediation plan within 30 days. Ranges of these zones are expressed as percentages of the overall Fund. Details of the zones and compliance cure periods are provided in Appendix B.

Table 1: Asset Allocation (AA) Target Levels by Year as % of Fund

	Public Equity	Fixed Income	Private Equity	Real Estate	Private Income	Absolute Return	Risk Parity	Cash	Total Fund
Green Zone	+/- 5%	+/- 5%	+/- 5%	+/- 3%	+/- 5%	+/- 3%	+/- 1%	+/- 2%	
Yellow Zone	0 - 5%	0 - 5%	0 - 5%	0 - 3%	0 - 5%	0 - 3%	0 - 1%	0 - 2%	
FY2021	39%	21%	15%	7%	9%	6%	1%	2%	100%
FY2022	38%	20%	16%	8%	9%	6%	1%	2%	100%
FY2023	36%	20%	17%	9%	9%	6%	1%	2%	100%
FY2024	35%	19%	18%	10%	9%	6%	1%	2%	100%
FY2025	33%	18%	19%	12%	9%	6%	1%	2%	100%

Notes: Green Zone: expressed as +/- to Target Allocation

Yellow Zone: expressed as range beyond green zone

C. Total Fund and Asset Class Benchmarks

Each asset class is associated with a benchmark that describes in general terms the opportunity set and return characteristics associated with the asset class (“Policy Benchmark”). For certain private market asset classes, the Policy Benchmark serves as a proxy for expected returns rather than an approximation of the actual investments that will characterize the components of the portfolio. Note that the investment returns and Policy Benchmarks for Private Equity & Special Opportunities, Real Estate, and Infrastructure & Private Income are lagged by one quarter for performance calculation purposes, as is common practice among large institutional investors. Each asset class is also associated with a long-term return objective, which cumulatively reflects the Fund’s long-term objective of CPI + 5% or better. The long-term return objectives and Policy Benchmarks for each asset class are reflected in Table 2.

Table 2: Benchmarks - Constituent Indices and Weights

	Public Equity	Fixed Income	Private Equity	Real Estate	Private Income	Absolute Return	Risk Parity	Fund Cash	Total Fund FY 2021	Total Fund FY 2022	Total Fund FY 2023	Total Fund FY 2024	Total Fund FY 2025
Asset Allocation (AA): Target Levels-FY 2021	39.0%	21.0%	15.0%	7.0%	9.0%	6.0%	1.0%	2.0%	100.0%				
Minimum Long-Term Return Target	CPI + 3.1%	CPI + 0.8%	CPI+10.05%	CPI + 4.0%	CPI + 4.2%	CPI + 2.73%	CPI + 3.95%	CPI	CPI + 5.0%				
Benchmark Index Weights	BB ID	Asset Class / Portfolio Weights							Total Fund Weights				
90 Day T-Bills	GOO1	-	5.00%	-	-	-	-	100.00%	3.05%	3.00%	3.00%	2.95%	2.90%
BB US Corporate	LUACTRUU	-	27.50%	-	-	-	-	-	5.78%	5.50%	5.50%	5.23%	4.95%
BB Gbl. Treasury ex-US Hedged	LGT1TRUH	-	10.00%	-	-	-	-	-	2.10%	2.00%	2.00%	1.90%	1.80%
BB US Agg	LBUSTRUU	-	27.50%	-	-	-	-	-	5.78%	5.50%	5.50%	5.23%	4.95%
BB US HY 2% Issuer Cap	LF89TRUU	-	10.00%	-	-	-	-	-	2.10%	2.00%	2.00%	1.90%	1.80%
Cambridge Pvt. Credit (Lagged)	n/a	-	-	-	40.00%	-	-	-	3.60%	3.60%	3.60%	3.60%	3.60%
Barclays US Securitized Index	LD19TRUU	-	10.00%	-	-	-	-	-	2.10%	2.00%	2.00%	1.90%	1.80%
BB US TIPS	LBUTTRUU	-	5.00%	-	-	-	-	-	1.05%	1.00%	1.00%	0.95%	0.90%
Cambridge Pvt. Equity (Lagged)	n/a	-	-	100.00%	-	-	-	-	15.00%	16.00%	17.00%	18.00%	19.00%
Cambridge Gbl. Pvt. Infra. (Lagged)	n/a	-	-	-	60.00%	-	-	-	5.40%	5.40%	5.40%	5.40%	5.40%
HFRI Total HFOF Universe	HFRIFWI	-	-	-	-	100.00%	-	-	6.00%	6.00%	6.00%	6.00%	6.00%
JPM EMBI Gbl Diversified	JGENVUUG	-	2.50%	-	-	-	-	-	0.53%	0.50%	0.50%	0.48%	0.45%
JPM GBI-EM Gbl Diversified	JPGCCOMP	-	2.50%	-	-	-	-	-	0.53%	0.50%	0.50%	0.48%	0.45%
MSCI ACWI IMI	M1WDIM	100.00%	-	-	-	-	-	-	39.00%	38.00%	36.00%	35.00%	33.00%
NCREIF Property (Lagged)	NPPITR	-	-	-	85.00%	-	-	-	5.95%	6.80%	7.65%	8.50%	10.20%
MSCI US REIT (Lagged)	RMSG	-	-	-	15.00%	-	-	-	1.05%	1.20%	1.35%	1.50%	1.80%
HFRI Risk Parity Vol 12	HFRRPV12I	-	-	-	-	-	100.00%	-	1.00%	1.00%	1.00%	1.00%	1.00%
Total		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

D. Total Fund Performance Measurement and Reporting

1. The Board looks to its General Consultant as the primary source of quantitative evaluation of the performance of the Fund and its investment managers. As promptly as possible after the close of each calendar quarter, the General Consultant shall submit a report to the Board, Executive Director (“ED”) and Chief Investment Officer (“CIO”) analyzing the performance of the Fund, its asset classes and investment programs, including both internally and externally managed assets. The report shall include a comparison of total Fund performance with the Board's long-term investment objective, an analysis of the returns of each asset class as measured against established benchmarks; and an analysis of the returns of each manager or relevant groupings of managers as measured against relevant benchmarks. For the purpose of evaluating the value-added by the Fund's investment strategy, the report shall also compare the performance of the total Fund on a one-year basis to a passive benchmark that represents the following: (1) 60% MSCI ACWI IMI; (2) 20% Barclay Global Aggregate (less fees); (3) 10% FTSE EPRA/NAREIT Rental Index; (4) and 10% US TIPs. The General Consultant's report shall also address any special concerns or observations the General Consultant concludes should be brought to the attention of the Board, ED and CIO.
2. At each regular Board meeting, the General Consultant will also report on the investment performance of the Fund and each asset class in comparison with Fund peers (i.e., large US Public Funds and Endowment Funds). The comparative performance of the Fund and each asset class will be assessed and reported across multiple timeframes, including ten-year, five-year, three-year, and one-year. To the extent that peer comparisons may not be directly available for specific asset class comparisons, the General Consultant should use the Fund's Policy Benchmarks (see Table 2) as a proxy.

E. Total Fund Portfolio Implementation and Delegations

APFC Staff directs all investment activities through a delegation of investment authority in the By-Laws from the Board to the ED and then from the ED to specific APFC Staff, as deemed appropriate by the ED. The ED will convene a Public Markets Investment Committee and a Private Markets Investment Committee (together, the “APFC Investment Committee”) on a regular basis in order to discuss and deliberate on investment decisions requiring the ED's authorization. The sole voting member of the APFC Investment Committee shall be the ED. The CIO will also convene an investment department investment committee (“Investment Department Investment Committee”). The Investment Department Investment Committee will meet regularly and will work with APFC Staff to make investment recommendations (“Investment Recommendations”) to be considered for authorization by the ED during the APFC Investment Committee.

Approval of any Investment Recommendation referred by the Investment Department Investment Committee to the APFC Investment Committee requires the affirmative approval of the ED taking into consideration, in a collaborative manner, input from various functions at APFC (e.g. Legal, Finance, Operations, Admin, IT, and Risk). Investment Recommendations from the Investment Department Investment Committee to the APFC Investment Committee shall be in writing and Investment Decisions approved by the APFC Investment Committee shall also be in writing. Variations or the non-approval of an Investment Recommendation of the Investment

Department Investment Committee by the APFC Investment Committee shall be reported to the Board on a monthly basis.

F. Relationship of the Investment Policy with Regulations and Investment Guidelines

As required by AS 37.13.120(a), the Board has adopted Regulations specifically designating the types of investments in which Fund assets can be invested. All investments authorized by this Policy shall be limited to those authorized investments and in the manner prescribed by this Policy and AS 37.13.120.

The Investment Guidelines, attached as Appendix A, supplement the Investment Policy by providing operational guidelines for APFC's internally managed investment programs. The CIO, with the consent of the ED may update the Investment guidelines from time to time; updates will be provided to the Board at its next regularly scheduled meeting.

III. PUBLIC MARKETS

A. Public Equity

1. Objective

The objective of the Public Equity portfolio is to invest in publicly traded securities authorized in 15 AAC 137.440, to exceed the performance of a well-diversified pool of global equities embodied in the **MSCI ACWI IMI Index**, while maintaining risk similar to that of the benchmark. Performance of this portfolio will be evaluated quarterly, but success in achieving the long-term objective (see Table 2) will be measured, net of all costs and fees, on a one-year, three-year, five-year, and ten-year annualized basis.

2. Structure

Consistent with performance objectives, applicable tracking error guidelines, and other investment restrictions described in this Policy and Investment Guidelines, the Public Equity portfolio may include:

- a. Actively and quasi-passively managed equity strategies to enhance the after-fee return of the portfolio relative to its assigned benchmark; and
- b. Passively managed equity strategies to replicate, in a cost-efficient manner, the returns of a benchmark index.

3. Investment Strategy

The Public Equity portfolio will be managed by a mix of external active managers, external passive managers and internal managers. In the case of active external managers, each manager, through an investment manager agreement ("IMA"), will be directed to focus on a subset of the global equity market in which the manager has demonstrated an ability to provide risk-adjusted, after-fee returns in excess of its respective benchmark. Each external manager's IMA will also detail its strategy, performance objectives, permitted investments and restrictions.

The CIO may also approve the internal management of a portion of the Public Equity portfolio by APFC Staff. In place of an IMA, the CIO and ED will require the approval of and adherence to Investment Guidelines that cover the relevant aspects of the portion of the Public Equity portfolio internally managed by APFC Staff. The Director of Public Equity will have primary responsibility for executing the portfolio's investment strategy.

4. Rebalancing and Mandate Modification

The Director of Public Equity may, with the approval of the CIO, rebalance assets to, from, or between individual Public Equity portfolios.

Initiating or terminating external manager mandates requires the consent of CIO and ED and must conform to Section VIII of this Policy (Public Markets External Manager Selection).

5. Risk Limits and Portfolio Restrictions

The Director of Public Equity is responsible for managing the various risks incurred and adhering to the Investment Policy. In addition to general Policy requirements, the following asset class specific restrictions apply to this portfolio:

- a. Risk Limits as detailed in Table 3, Section VII.
- b. Short selling is prohibited by an internal or external manager of assets in this portfolio, unless authorized by the CIO and Chief Risk Officer ("CRO").
- c. All derivatives in this portfolio must comply with Section VI (Authorized Use of Derivatives) of this Policy.
- d. All externally managed mandates must comply with Section VIII (External Manager Selection) of this Policy.

B. Fixed Income

1. Objective

The objective of the Fixed Income portfolio is to provide income-oriented investment returns and diversify the risks of the Fund's equity-oriented programs. The Fixed Income portfolio invests in publicly traded and other liquid income-oriented investments authorized in 15 AAC 137.430, to meet or exceed the performance of the **Fixed Income Composite Benchmark**, while staying within predefined risk constraints. Performance of this portfolio will be evaluated quarterly, but success in achieving the long-term objective (see Table 2) will be measured, net of all costs and fees, on a one-year, three-year, five-year, and ten-year annualized basis.

2. Structure

Consistent with performance objectives, applicable tracking error guidelines, and other investment restrictions described in this Policy and Investment Guidelines, the Fixed Income portfolio may include:

- a. Actively and quasi-passively managed income producing strategies that enhance the after-fee return of the Fixed Income portfolio relative to its assigned benchmark; and
- b. Passively managed income producing strategies to replicate, in a cost-efficient manner, the returns of a benchmark index.

3. Investment Strategy

The Fixed Income portfolio will primarily be implemented by the CIO's internal APFC Staff, which may be supplemented by hiring external investment managers to manage portions of the Fixed Income portfolio which are not appropriate for internal management by APFC. Regarding the Fixed Income assets that are externally managed, each external manager, through an IMA, will be directed to focus on a subset of the Fixed Income portfolio in which the manager has demonstrated an ability to manage in relation to its respective benchmark. Each external manager's IMA will also detail its strategy, performance objectives, permitted investments, and restrictions. The Director of Fixed Income will have primary responsibility in executing the portfolio's investment strategy.

4. Rebalancing and Mandate Modification

The Director of Fixed Income may, with the approval of the CIO, rebalance assets to, from, or between individual Fixed Income portfolios.

Initiating or terminating external manager mandates requires the consent of the CIO and ED, and must conform to Section VIII of this Policy (Public Markets External Manager Selection).

5. Risk Limits and Portfolio Restrictions

The Director of Fixed Income is responsible for managing the various risks incurred and adhering to this Policy. In addition to general Policy requirements, the following asset class specific restrictions apply to this portfolio:

- a. Risk Limits as detailed in Table 3, Section VII.
- b. Short selling is prohibited by an internal or external manager of assets in this portfolio, unless authorized by the CIO and CRO.
- c. All derivatives in this portfolio must comply with Section VI (Authorized Use of Derivatives) of this Policy.
- d. All externally managed mandates must comply with Section VIII (Public Markets External Manager Selection) of this Policy.

C. Risk Parity

1. Objective

The objective of the Risk Parity portfolio is to deliver long-term returns that meet or exceed the performance of a 60% stock/40% bond portfolio through managers which seek to generate returns that are less correlated to global public markets utilizing allocation of risk rather than allocation of capital. Performance of this portfolio will be evaluated quarterly against the Hedge Fund Research **HFR 12% Vol Institutional Index**,

but success in achieving the long-term objective (see Table 2) will be measured, net of all costs and fees, on a one-year, three-year, five-year, and ten-year annualized basis.

2. Investment Strategy

The Risk Parity portfolio will be managed by external managers, selected in accordance with the requirements of this Policy, that provide risk-balanced exposure to multiple sources of excess expected return. Each manager, through an IMA or limited liability fund, will detail its strategy, performance objectives, permitted investments and restrictions. The Director of Risk Parity will have primary responsibility in executing the portfolio's investment strategy and plans.

3. Risk Limits and Portfolio Restrictions

The Director of Risk Parity is responsible for managing the various risks incurred and adhering to this Policy. In addition to general Policy requirements, the following restrictions will apply to this portfolio:

- a. Risk Limits as detailed in Table 3, Section VII.
- b. Short selling is prohibited unless authorized by the CIO and CRO.
- c. All derivatives in this portfolio must comply with Section VI (Authorized Use of Derivatives) of this Policy.
- d. All externally managed mandates must comply with Section VIII (Public Markets External Manager Selection) of this Policy.

D. Total Fund Cash

1. Objective

The objective of the Total Fund Cash portfolio is to:

- a. Be a source of funds available to meet the Fund's operational needs, including capital calls and appropriations from the Earnings Reserve Account to the State's general fund; and
- b. Allocate a small portion of the Fund to an asset class that is nearly risk-free and experiences extremely low volatility.

Performance of this portfolio will be evaluated quarterly and will be measured against the risk and after-fee return of the **90 Day Treasury Bills Index**, but success in achieving the long-term objective (see Table 2) will be measured, net of all costs and fees, on a one-year, three-year, five-years, and ten-year annualized basis.

2. Investment Strategy

The Total Fund Cash portfolio will be internally managed at the direction of the CIO. The size and investment profile of this portfolio may fluctuate month-to-month to accommodate the Fund's liquidity requirements. The CIO will have primary responsibility in executing this portfolio's investment strategy.

3. Authorized Investments

The CIO may invest this portfolio in cash and the following cash equivalents:

- a. US Treasuries with a maximum final maturity of 24 months;
- b. Investment Grade US corporate bonds with a maximum final maturity of 24 months;
- c. Reverse Repurchase Agreements (“Reverse Repo”), as authorized by 15 AAC 137.430(12);
- d. SEC registered money market investment funds; and
- e. Other cash equivalents approved by the CRO and ED.

4. Risk Limits and Portfolio Restrictions

The CIO is responsible for managing the various risks incurred and adhering to this Policy. In addition to general Policy requirements, the following specific restrictions will apply to this portfolio:

- a. Risk Limits as detailed in Table 3, Section VII.
- b. At any point, 80% of the portfolio should be invested in instruments with a final maturity not exceeding 181 days.
- c. Short selling is prohibited in this portfolio.
- d. All derivatives in this portfolio must comply with Section VI (Authorized Use of Derivatives) of this Policy.

E. Securities Lending

1. Authorized Investments

The ED is authorized to enter into a securities lending agreement with the Fund’s custodian to lend domestic and non-domestic Public Equity and Fixed Income securities from the Fund’s portfolio directly to borrowers for a fee in accordance with the following guidelines:

- a. The Fund’s custodian shall agree to indemnify the Fund against any direct loss from:
 - i. a borrower default;
 - ii. the reinvestment of cash collateral; and
 - iii. the failure to comply with the terms and conditions of the lending agreements;
- b. Collateral shall be required at a minimum of 102% of the market value of the loaned securities which are denominated in the same currency as the collateral provided by the borrower;
- c. Collateral shall be required at a minimum of 105% of the market value of the loaned securities which are denominated in a currency other than the collateral provided by the borrower;
- d. Collateral and loaned securities shall be marked-to-market daily; and

- e. The investment of cash collateral posted by borrowers shall be restricted to those investment-grade securities permissible under the provisions of AS 37.13.120 and 15 AAC 137; unless the ED elects to have cash collateral released to the Fund to meet the Fund’s liquidity needs rather than having it invested by the custodian.

IV. ALTERNATIVE INVESTMENTS

A. Private Equity and Special Opportunities

1. Objective

The objective of the Private Equity & Special Opportunities (“PESO”) portfolio is to invest in illiquid growth-oriented assets authorized by 15 AAC 137.460 that are expected to generate risk-adjusted, after-fee returns that are superior to the Public Equity portfolio. Performance of this portfolio will be evaluated quarterly, in aggregate and based upon the vintage year, against the **Cambridge PE (Lagged)**, but success in achieving the long-term objective (see Table 2) will be measured, net of all costs, fees, and carry, on a one-year, three-year, five-year, and ten-year annualized basis.

2. Investment Strategy

PESO investment strategies include: venture capital, growth equity, leveraged buyouts, special opportunities, and distressed debt. PESO portfolio investments will be executed through capital commitments to limited liability funds managed by external investment managers, through co-investments alongside existing external managers, and direct investments into operating companies. Annually, APFC Staff will provide a pacing and investment plan for Board approval that reflects the current PESO exposures, assumptions, and outlook. The Deputy CIO-Private Markets & Alternatives will have primary responsibility in executing the PESO portfolio’s investment strategy.

3. Diversification and Portfolio Restrictions

The Deputy CIO-Private Markets & Alternatives is responsible for managing the portfolio risks and adhering to this Policy. In constructing a diversified PESO portfolio, APFC Staff will consider the following characteristics: strategy, geography, industry, manager, investment size, leverage, vintage year, and market position. In addition to general Policy requirements, the following asset class specific restrictions apply to this portfolio:

- a. Risk Limits as detailed in Table 3, Section VII.
- b. All derivatives in this portfolio must comply with Section VI (Authorized Use of Derivatives) of this Policy.
- c. The PESO portfolio shall be invested within the following strategy diversification ranges:
 - i. Venture Capital – 5% to 45%;
 - ii. Buyouts/Acquisition – 25% to 70%;
 - iii. Specialized Funds/Investments – 0% to 50%;

- d. No more than 20% of the PESO Portfolio shall be invested with a single Investment Manager/General Partner.
- e. No more than 20% of the PESO Portfolio shall be invested in publicly traded securities; and
- f. Following the public listing of any shares of a portfolio company held by an APFC controlled investment vehicle, such shares shall be either liquidated consistent with SEC regulations within a reasonable period of time, not to exceed eighteen months, or written approval to continuing holding such public securities must be received from the ED on a quarterly basis.

B. Real Estate

1. Objective

The objective of the Real Estate portfolio is to generate a risk-adjusted return comprised of an attractive level of current income and capital appreciation, while contributing to diversification of the Fund. Performance of the Real Estate portfolio will be evaluated quarterly against a custom benchmark comprised of **85% NCREIF Property Benchmark (Lagged) and 15% MSCI US REIT Index**, but success in achieving the long-term objective will be measured, net of all costs, fees, and carry, on a one-year, three-year, five-year, and ten-year annualized basis.

2. Investment Strategy

Real Estate investments, as authorized in 15 AAC 137.450, shall primarily target:

- a. Directly-held income producing, core real estate globally;
- b. Directly-held build-to-core or other non-core properties;
- c. Equity and debt funds that invest predominantly in real estate strategies (e.g. core, core-plus, value-added, and opportunistic);
- d. Publicly traded funds (e.g. ETFs or Index), or securities (e.g. REITs, CMBS, or other structured product), where the underlying investments consist of real estate;
- e. Private funds, or securities (e.g., REITs, CMBS, or other structured product), where the underlying investments consist of real estate; and
- f. Co-investments alongside an existing Real Estate manager.

The Director of Real Estate will have primary responsibility in executing the portfolio's investment strategy.

3. Diversification and Portfolio Restrictions

The Director of Real Estate is responsible for managing the various risks incurred and adhering to this Policy. In constructing a diversified Real Estate portfolio, APFC Staff will consider the following characteristics: investment type, property type, geography, manager, and leverage. In addition to general Policy requirements, the following will apply to this portfolio:

- a. Risk Limits as detailed in Table 3, Section VII.
- b. All derivatives in this portfolio must comply with Section VI (Authorized Use of Derivatives) of this Policy.
- c. No more than 60% of the directly-held Real Estate portfolio shall be invested in “non-core” real estate (value-add and opportunistic).
- d. The directly-held portion of the Real Estate portfolio will target the following property types: Multifamily, Industrial, Office, Hotel, and Retail with maximum weightings for each property type measured against NCREIF NPI benchmark weightings. Except for the 10% carve-out for other property described in (f) of this section, maximum risk ceilings of 1.5x the benchmark weighting shall apply for each property type measured against the FY2025 target allocation for the Real Estate portfolio.
- e. In recognition that APFC Staff may pursue some niche property types that are not included in property types of the NCREIF NPI, the directly-held portion of the Real Estate portfolio may, with the consent of the CIO, include up to 10% in property types not included in the NCREIF NPI.
- f. No more than 35% of the Real Estate portfolio shall be invested with a single investment manager/general partner as measured against the FY2025 target allocation for the Real Estate portfolio.
- g. Leverage on investments in the directly-held portion of the Real Estate portfolio shall be limited by investment type as follows:
 - i. Core real estate leverage is limited to 50% of the gross asset value of the investment at the time of debt placement; however, this limit can be increased to 52.5% when including transaction fees and expenses;
 - ii. Non-Core real estate leverage is limited to 65% of the gross asset value of the investment at the time of debt placement or 65% of the project cost on build-to-core investments; however, this limit can be increased to 67.5% when including transaction fees and expenses; and
 - iii. Portfolio-wide leverage is limited to 40% of the gross asset value of the directly-held Real Estate portfolio.

Infrastructure and Private Credit and Income Opportunities Portfolio

The Infrastructure and Private Credit and Income Opportunities portfolio will be comprised of two separate investment strategies in accordance with the Policy requirements below:

C. Infrastructure Portfolio

1. Objective

The objective of the Infrastructure portfolio is to provide attractive risk-adjusted returns that have inflation-protection characteristics and exhibit low correlations with other major asset classes, as authorized by 15 AAC 137.460. Performance of the Infrastructure portfolio will be evaluated quarterly against the **Cambridge Global Private Infrastructure Index (Lagged)**, but success in achieving the long-term objective (see

Table 2) will be measured, net of all costs, fees, and carry, on a one-year, three-year, five-year, and ten-year annualized basis.

2. Investment Strategy

Infrastructure investments involve the purchase of critical assets with high barriers to entry and, due to the “essential services” nature of the assets, often result in low elasticity of demand. Infrastructure investments may include energy infrastructure, transportation, water infrastructure, telecommunications, social infrastructure (e.g. lotteries, student housing, prisons), other infrastructure (e.g. protected income stream assets, other interests of infrastructure issuers, infrastructure-related assets), other real assets (e.g. timberlands, agricultural farmlands, leasable hard assets), and any other tangible or intangible asset that possesses similar characteristics as those outlined in this section.

Infrastructure investments will be executed through long-term commitments to limited liability funds managed by external investment managers, through co-investments alongside existing Infrastructure managers and direct investments into operating companies. Additionally, investments in publicly-traded stocks of companies whose business profile includes ownership of infrastructure assets (Listed Infrastructure) may be included in the portfolio. Annually, APFC Staff will provide a pacing and investment plan for Board approval that reflects the current exposures, assumptions, and outlook. The Deputy CIO-Private Markets & Alternatives will have primary responsibility in executing the portfolio’s investment strategy and plans.

3. Risk Limits and Portfolio Restrictions

The Deputy CIO-Private Markets & Alternatives is responsible for managing the various risks incurred and adhering to investment policy. In constructing a diversified Infrastructure portfolio, APFC Staff will consider the following characteristics: drivers of underlying assets’ cash flow, industry sector, geography, manager, strategy, investment size, and company concentration. In addition to general Policy requirements, the following will apply to this portfolio:

- a. Risk Limits as detailed in Table 3, Section VII.
- b. All derivatives in this portfolio must comply with Section VI (Authorized Use of Derivatives) of this Policy.
- c. Investments in multiple limited liability investment vehicles managed by the same manager are permitted, however, combined investments with a single manager shall not exceed 30% of the total Infrastructure portfolio.
- d. APFC assets invested with each manager shall not represent more than 30% of that manager’s AUM.

D. Private Credit and Income Opportunities

1. Objective

The objective of the Private Credit and Income Opportunities portfolio is to provide attractive risk-adjusted returns that generate a high level of income and potentially

provide for capital appreciation, while safeguarding principal, as authorized by 15 AAC 137.460. Performance of the Private Credit and Income Opportunities portfolio will be evaluated quarterly against the **Cambridge Private Credit Index (Lagged)**, but success in achieving the long-term objective (see Table 2) will be measured, net of all costs, fees, and carry, on a one-year, three-year, five-year, and ten-year annualized basis.

2. Investment Strategy

Private Credit and Income Opportunities investments involve the ownership of higher yielding, illiquid investment debt opportunities that cover a range of risk/return profiles. The Private Credit portion of this portfolio shall target externally managed limited liability funds, co-investments, and direct investments into operating companies that target one or more of the following strategies: direct lending, subordinated and mezzanine lending, distressed debt, and opportunistic credit-oriented funds, with flexibility to pursue illiquid and liquid strategies. The Income Opportunities portion of this portfolio shall include investments such as: timberlands, asset-based lending, structured credit, life settlements, leasing and royalty strategies, and special situations that share the common characteristic of being private markets investments with an objective of income generation and downside protection, but which do not fit neatly into other portfolios. Certain portfolios within Private Credit and Income Opportunities may also include some liquid credit exposures to complement the private investments in this portfolio. Annually, APFC Staff will provide a pacing and investment plan for Board approval that reflects the current exposures, assumptions, and outlook. The Deputy CIO-Private Markets & Alternatives will have primary responsibility in executing the portfolio's investment strategy.

3. Risk Limits and Portfolio Restrictions

The Deputy CIO-Private Markets & Alternatives is responsible for managing the various risks incurred and adhering to this Policy. In constructing a diversified Private Credit and Income Opportunities portfolio, APFC Staff will consider the following characteristics: credit profile, geography, manager, strategy, investment size, and company concentration. In addition to general policy aspects, the following will apply to this portfolio:

- a. Risk Limits as detailed in Table 3, Section VII.
- b. All derivatives in this portfolio must comply with Section VI (Authorized Use of Derivatives) of this Policy.
- c. Investments in multiple vehicles managed by the same manager are permitted, however, combined investments with a single manager shall not exceed 30% of the Private Income portfolio.
- d. APFC assets invested with each manager shall not represent more than 30% of that manager's AUM.

E. Absolute Return

1. Objective

The objective for the Absolute Return portfolio is to deliver reasonably consistent and accretive returns that are largely uncorrelated with traditional, market-driven asset classes. Performance of the Absolute Return portfolio will be evaluated quarterly against the **HFRI Total HFOF Universe benchmark**, but success in achieving the long-term objective (see Table 2) will be measured, net of all costs, fees, and carry, on a one-year, three-year, five-year, and ten-year annualized basis. The long-term objective for this portfolio is to generate a return similar to the total Fund with a correlation to the total Fund of less than fifty percent (50%), as measure over rolling 36-month periods.

2. Investment Strategy

The Absolute Return portfolio will invest directly into comingled limited liability funds as authorized by 15 AAC 137.460. The managers of these funds will invest in public or private securities and other financial instruments and may use leverage consistent with other managers of similar strategies. It is not uncommon for the legal terms of these limited liability funds to have restrictions on liquidity, including redemption windows (e.g. monthly, quarterly, annually), notice periods (e.g. 30, 60, or 90 days), lock-ups (e.g. soft, hard), gates (e.g. investor-level, fund-level), and, at times, withdrawal fees.

The Absolute Return portfolio, whether internally or externally managed, shall pursue one or more of the following investment strategies:

- a. Relative Value, including equity market neutral, fixed income arbitrage, and convertible arbitrage;
- b. Event-Driven, including merger arbitrage, distressed securities/discounted bank debt, and special situations; and
- c. Directional/Tactical/Oppportunistic, including long-short equity, managed futures, and global macro..

The Deputy CIO-Private Markets & Alternatives will have primary responsibility in executing the Absolute Return portfolio's investment strategy.

3. Risk Limits and Portfolio Restrictions

The Deputy CIO-Private Markets & Alternatives is responsible for managing the various risks incurred and adhering to this Policy. In constructing a diversified Absolute Return portfolio, APFC Staff will consider the following characteristics: manager, strategy, investment size, leverage, correlation with other assets of the Fund, and liquidity. In addition to general Policy Requirements, the following restrictions will apply to this portfolio:

- a. Risk Limits as detailed in Table 3, Section VII;
- b. Relative Value Managers in the range of 0 – 75%;
- c. Event Driven Managers in the range of 0 – 50%;
- d. Directional/Tactical/Oppportunistic Managers in the range of 0 – 75%;

- e. At least 50% of the portfolio shall be capable of being liquidated within a 12-month period; and
- f. APFC assets invested with each internal or external manager shall not represent more than 30% of that manager's AUM.

V. ALASKA IN-STATE INVESTMENT POLICY

A. Objective and Considerations

To implement the requirements of AS 37.13.120(c), the Board believes the Fund should have an in-state investment policy that maintains the investment integrity of the Fund and is both proactive and impartial. As such, any internal in-state investment decision made by APFC Staff should include the following considerations:

1. Honor AS 37.13.120(c): Prescribes that if an Alaskan investment has equivalent risk and expected return comparable to or better than a similar non-Alaskan investment, the Alaskan investment should be preferred.
2. Require Compelling Risk-Adjusted Returns: To honor the prudent investor rule provided in AS 37.13.120(a), any Alaskan investment contemplated by APFC must be attractive on a stand-alone basis.
3. Ensure Fund Diversification: In order to provide sufficient risk diversification as required under AS 37.13.120(c), Board approval is required for any in-state investment that would exceed 1% of the Fund, at the time of investment.
4. Seek Participation by Another Institutional Investor: In order to ensure that an Alaskan investment opportunity is attractive on a stand-alone basis and satisfies the institutional quality requirements of 15 AAC 137.420, APFC should generally seek to invest into an Alaskan investment alongside of at least one of its peers (i.e., a large institutional investor, which may include endowments, foundations, sovereign wealth funds, or public or private pension funds).

B. In-State Investment Targets

For the APFC Staff to identify and invest the Fund in additional compelling in-state investments, the following investment targets and guidelines are set to promote compliance with AS 37.13.120(c):

1. By 2021, at least 3% of the Fund should be invested in-state;
2. By 2022, at least 4% of the Fund should be invested in-state;
3. By 2023, at least 5% of the Fund should be invested in-state;

For purposes of this section, a Fund investment will be considered "invested in-state" if,

1. An external investment manager has an office in Alaska and the employee(s) that is primarily responsible for management of the asset(s) is based in Alaska; or

2. An external investment manager has an office in Alaska and the employee(s) that is primarily responsible for management of the asset(s) is based in Alaska; or
3. The Fund's investments managed internally by APFC Staff will not be included in achieving these targets.

VI. AUTHORIZED USE OF DERIVATIVES

A. Objective

The purpose of this section of the Policy is to establish the permitted uses and the limitations on the use of derivatives and establish procedures for managing risks associated with derivatives. The requirements and limitations of this section of the Policy shall apply to all derivatives transactions executed by APFC Staff and all external managers with authority to buy or sell a derivative as an agent on behalf of the of the Alaska Permanent Fund. This section of the Policy does not apply to investments in a limited liability investment vehicle in which derivatives are in the name of the limited liability investment vehicle and the liability is limited to the amount invested.

B. Derivatives Definition; Scope

1. As defined in 15 AAC 137.990(6), "Derivative" means "an instrument whose value, usefulness, and marketability is dependent upon or derives from an underlying asset; classes of derivatives include futures contracts, options, forward contracts, including currency forward contracts, swaps, and options on futures."
2. Both exchange traded and over the counter ("OTC") derivative instruments are under the scope of this Policy. The principal risk of derivatives strategies comes from the potential to lever the portfolio and to express a view on a security or risk factor without committing capital commensurate with the exposure. To mitigate this risk, the successful and prudent use of derivatives depends on:
 - a. Well-defined uses for derivatives, and avoidance of leverage;
 - b. Manager-by-manager limits on economic exposures through derivatives; and
 - c. Investment manager internal control and defined procedures for managing risk.

C. Permitted Uses

1. Permitted uses of derivatives include:
 - a. Hedge and control risks of Fund portfolios so they better align with benchmarks and objectives;
 - b. Efficiently manage portfolio exposures synthetically as opposed to trading underlying securities;
 - c. Build portfolios with targeted risk and return characteristics that otherwise could not be efficiently created with securities; and
 - d. Facilitate rebalancing.

D. Derivatives Risk Management and Compliance

1. Derivative Pre-Approval Requirement

All derivatives strategies, whether internally or externally managed, are prohibited unless specifically allowed in writing for a permitted use as a part of an investment manager's guidelines.

The use of derivatives by an external manager shall be conditioned upon the finding by the CIO and CRO that the external manager:

- a. Has demonstrated investment expertise in the use of derivatives for the strategy they have been selected to implement;
- b. Has appropriate risk management and valuation policies and procedures in place;
- c. Has legal and investment experience to limit downside effects of the proposed derivatives; and
- d. Has demonstrated the ability to effectively monitor and control the use of derivatives and has agreed to provide monthly derivative exposure reports which detail:
 - i. Total derivative exposures on a gross and net basis,
 - ii. Total collateral/margin postings on gross and net basis, and
 - iii. A list of authorized counterparties and exposure by counterparty.

2. Derivative Recourse Limitations

For externally managed portfolios, all liability created by the use of derivatives in the name of the Fund must be limited to the total value of the portfolio being managed by the external manager. To ensure this requirement is met, approval of the IMA/External Manager guidelines by General Counsel is required.

3. Counterparty and other Requirements

- a. The counterparty to any OTC derivative transaction must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's), unless an exception is approved in writing by the CIO and CRO;
- b. The net market value, net of all collateral postings, of all OTC derivatives for any individual counterparty may not exceed 30 basis points of the total market value of the Fund.;
- c. Selling (writing) uncovered options is prohibited;
- d. The net of long and short dollar exposures to assets or currencies, whether derived from physical or derivative securities, must be less than or equal to the dollar market value of the portfolio, except for very small, inadvertent, or temporary amounts that occur in the normal course of portfolio management or authorized by the CRO;
- e. The gross dollar exposures of a portfolio in the Fund from physical and derivative securities (futures, options, swaps) cannot exceed 300% of the market value of the aggregate underlying portfolio at all times unless authorized by the CRO; and

- f. If derivatives are used by a manager to actively manage currency exposure, net short exposure to any single currency remains within limits established for that manager's strategy.

VII. RISK MANAGEMENT & OVERSIGHT

Recognizing the relationship between return and risk, APFC consciously and deliberately assumes various risks in pursuit of its return objectives. The goal of risk management is to understand, analyze and manage these risks. The risk management function strives to create risk awareness, establish and formalize a risk management framework, and ensure risks incurred are within the Board's risk appetite. This Policy outlines the Board's approved risk management framework, which includes the salient investment risk parameters and thresholds.

A. Risk Parameters and Measures

APFC Staff will establish a framework for measuring absolute risk of the Fund and each asset class, as well as relative risks in comparison to established benchmarks. This framework should generally include quantifiable estimates of active and relative risk. APFC Staff will monitor and produce reports as appropriate for the Board, ED, CIO, and APFC Staff.

The salient risk parameters are listed below. Related tolerances and associated ranges are provided in Table 3.

Asset Allocation Limits – Target allocation levels are determined for each asset class based on quantitative modeling and qualitative inputs. Disciplined alignment to these targets is essential, albeit ensuring limited flexibility to cater to changing markets and other factors.

Future Commitments - Future commitments are a function of committed capital to private investments and essentially reflect a contingent cash draw liability. Monitoring and limiting future commitments relative to the Fund's overall size is important.

1. **Active Risk** - Tracking error is a measure of how closely a portfolio follows the index to which it is benchmarked. Tracking error is calculated for this purpose on an ex-ante basis using a holdings-based risk analytical system.
2. **Relative Risk Limit** - Relative Value at Risk (RVaR) provides a comparison of portfolio risk relative to benchmark risk and is measured as a ratio of Portfolio VaR to benchmark VaR.

In addition to relative measures, multiple risk parameters including concentration, credit, market, and liquidity risks are monitored and controlled.

1. **Downside Risk** - Downside risk is risk of significant loss of capital. Staff will actively monitor the Fund's downside risk relative to the risk benchmark using scenario analysis and stress testing.
2. **Proxy Securities and Indices** - If necessary and prudent, as determined by the CRO, APFC Staff will employ index proxies to approximate the economic characteristics of specific investments to the extent that the terms and conditions of those investments or the underlying holdings (in the case of the funds) are not readily available or where the complexity of the underlying investment renders empirical measurement impractical.

3. Private Market Asset Holdings - APFC Staff will actively monitor the portion of the Fund invested in private market asset holdings to ensure that the percent of the total fund invested in private markets adheres to the private investment limits.

B. Credit Ratings for Fixed Income Securities

Credit ratings by the three major ratings agencies, Standard & Poor's, Moody's and Fitch will be the primary source of credit ratings for Fixed Income securities in the Fixed Income and Total Fund Cash portfolios, subject to the following:

1. In case of split ratings, the 'Bloomberg Barclays Middle Rating' methodology shall be applied (i.e. if all three agencies rate a security, the middle rating is adopted; if only two agencies rate a security, the most conservative (lowest) rating is used; if only one rates a security, that single rating is used).
2. If none of the three agencies have assigned a rating, ratings by other agencies and or implied ratings may be used with CRO approval.
3. If no agency ratings are available and a rating cannot be implied, it shall be categorized as 'Unrated'.

C. Legal Risk Management

Legal documentation for all internally managed public and private investments will be reviewed, negotiated and approved by APFC General Counsel prior to execution by the ED. APFC General Counsel shall be responsible for determining when outside legal counsel should be engaged to assist in the review and negotiation of Fund investment matters, subject to applicable statutes and rules adopted by the Office of the Attorney General.

D. Permitted Use of Leverage

APFC Staff and external managers, consistent with the requirements of 15 AAC 137.500 and this Policy (including the risk parameters established by the asset allocation ranges), is authorized to use leverage for an investment of Fund assets, provided that such leverage is non-recourse to APFC or the Fund as described in AS 37.13.120(b) and 15 AAC 137.500.

E. Foreign Exchange Risk

1. External managers and APFC Staff may, with prior approval of the CIO, transact in any foreign exchange instrument (including currency futures and forward contracts, options, and swap agreements), to implement their investment strategies, contingent upon such transactions being consistent with this Policy and the requirements of 15 AAC 137.480.
2. APFC Staff shall analyze foreign exchange risk regularly and present quarterly to the Board. This analysis includes both internal hedging and external foreign exchange overlay manager positioning and performance.

F. Risk Compliance, Monitoring, and Reporting

The APFC Staff assigned to each Asset Class in this Policy will have primary responsibility to ensure adherence to all aspects of this Policy. Additionally, the CRO and risk management team will be responsible for monitoring compliance of Fund investment activity. The Chief Risk

Officer will provide the Board and APFC Staff with a comprehensive risk profile of the Fund on a regular basis. At a minimum, this includes the Daily Risk Dashboard and more detailed quarterly updates. The quarterly reports to the Board shall include the levels for most of the salient risk parameters described in this Policy.

G. Risk Parameters and Limits

Table 3: Asset Allocation (AA) Target Levels

	Public Equity	Fixed Income	Private Equity	Real Estate	Private Income	Absolute Return	Risk Parity	Cash	Total Fund	Low	High	Low	High
Future Outstanding Commitments ¹	0.0%	0.0%	10.0%	3.0%	5.0%	2.0%		0.0%	20.0%	85%	115%	75%	125%
Benchmark	M664204USN	LEHCREYBO	CAM_PE	NCREIFMSCI	CAM_PI	HFRIPROXY	HFRI_LP	90DTBILL	LEHFTJPM				
Tracking Error	3.5%	2.5%							4.0%	n/a	115%	n/a	125%
Relative VaR ²	100.0%	100.0%							100.0%	0%	125%	0%	140%
% of Asset Allocation													
Single Name / Issuer ³	4%	4%	2%	10%	2%	n/a	n/a	n/a		0%	115%	0%	125%
Single Industry ⁴	20%	20%	30%	n/a	30%	n/a	n/a	n/a		0%	115%	0%	125%
Single Country - EX US	10%	10%	20%	20%	20%	n/a	n/a	n/a		0%	115%	0%	125%
Total EX US	50%	30%	50%	50%	50%	n/a	n/a	n/a					
Single Fund Investment ⁵	5%	10%	10%	10%	10%	10%	50%	n/a		0%	115%	0%	125%
Proportion of Ownership	5%	5%	10%	100%	10%	n/a	n/a	n/a		0%	115%	0%	125%
Rating - Below Inv Grade	n/a	25%	n/a	n/a	n/a	n/a	n/a	0%		0%	115%	0%	125%
Rating - Below A- & Unrated	n/a	50%	n/a	n/a	n/a	n/a	n/a	0%		0%	115%	0%	125%
Rating - Unrated	n/a	5%	n/a	n/a	n/a	n/a	n/a	0%		0%	115%	0%	125%
FX - Proportion Unhedged	30%	5%	20%	20%	20%	n/a	n/a	5%		0%	115%	0%	125%
Liquidity - Proportion w/o Daily Liq	10%	10%	100%	100%	100%	100%	100%	5%		0%	115%	0%	125%
Liquidity - Proportion w/o Monthly Liq	2%	2%	100%	100%	100%	70%	70%	0%		0%	115%	0%	125%
Liquidity - Proportion w/o Quarterly Liq	0%	0%	100%	100%	100%	30%	30%	0%		0%	115%	0%	125%
Cash & Equivalents	2%	10%	5%	5%	5%	n/a	n/a	100%		0%	115%	0%	125%
MINIMUM Cash & Equivalents	0%	0%	0%	0%	0%	n/a	n/a	30%		85%	115%	75%	125%

All Targets are Maximum Permitted except-Minimum Cash

Notes:

1 % of Total Fund

2 Ratio of Portfolio VaR to Benchmark VaR

3 Single Name / Issuer: represents security level exposure to single entity or operating company.

US Treasury & Govt Agencies are exempt. For Private Assets, the limit applies at the time of investment or cost basis.

4 Definition: GICS

5 Single Fund Investment: represents exposure to a fund or strategy based vehicle.

VIII. PUBLIC MARKETS EXTERNAL MANAGER SELECTION

A. Manager Search and Selection

This section of the Policy applies to discretionary mandates assigned to external investment managers to transact and manage public market assets on behalf of the Fund (i.e. through an IMA). The Board has authorized APFC Staff to hire new investment managers upon conclusion of an appropriate search with the assistance of a qualified consultant, which can include the Board's General Consultant, contingent upon the search and hiring process adhering to the following steps:

1. Setting of relevant search criteria by APFC Staff of applicable manager qualifications;
2. Identification, with the assistance of the consultant, of a list of potential managers that are qualified to provide the investment management services needed, based on the qualifications and other search criteria established by APFC Staff;
3. Evaluation by a review committee established within the consultant's organization of the list of potential, qualified managers identified for recommendation of consideration by APFC Staff;
4. Informing the CIO of managers recommended by the General Consultant's review committee;
5. Selection by APFC Staff of between three and five finalists from those recommended by the consultant's review committee. This process may include, as part of due diligence, on-site visits by APFC Staff. Presentations to APFC Staff by the recommended managers are at the election of the CIO and ED;
6. Analysis by APFC Staff including a detailed recommendation to the CIO and ED, considering manager-specific characteristics as well as portfolio considerations;
7. Approval of the new manager or advisor by the CIO and ED, assignment of benchmarks as appropriate, and determination of the initial amount to be placed under management with the manager;
8. A manager shall also be required to execute a written IMA with the APFC. The IMA shall address matters of performance, compensation, term/termination, investment guidelines, among others, as the APFC and the manager consider necessary and appropriate. The use of derivatives, if any, within externally managed mandates shall conform to the Derivatives section of this Policy and be explicitly detailed in the IMA; and
9. Review and approval by the CRO and General Counsel of the proposed IMA is required prior to execution.

B. Special Situations

In certain special circumstances, the ED and CIO has the authority to modify or waive the criteria in the selection and hiring process outlined above. Even in such instances, the ED and

CIO retains the final manager selection authority. Use of an alternative manager search process may be considered when any one or more of these conditions exist:

1. A manager under consideration for hire has already been vetted in a significant manner either through a search process with a qualified consultant, or the manager is already employed in a manager capacity by APFC;
2. The skill for which the manager is being considered is related in a substantive manner to the role the manager already fulfills for APFC or was the subject of a manager search that first identified this manager;
3. It is in the best interest of the Fund to move more quickly than the typical search procedure permits; or
4. Due to confidentiality or specificity of the investment strategy or structure, use of the typical search procedure is not prudent.

The CIO and ED are required to report use of the alternative manager search and selection process, along with the rationale for the use, at the next regularly-scheduled Board meeting.

C. Monitoring and Evaluation of Managers

1. The Board expects APFC Staff to monitor the performance of the Fund's external managers, using the quarterly quantitative performance reports prepared by the General Consultant and Asset Class-specific Advisors in the case of Private Markets and Alternative Investments. Monitoring manager performance may also include review of other quantitative and qualitative aspects based on on-site visits to the manager's offices, discussions with other clients of the manager, media reports and other feedback.
2. The CIO and ED shall report to the Board any special concerns or observations they may have with respect to the performance of a manager no later than the next regular meeting of the Board.
3. The Board authorizes the CIO and ED to terminate an investment manager. If the CIO and ED terminate or give notice of unsatisfactory performance to a manager, they shall inform the Board of the actions and rationale at the next regularly scheduled Board meeting.

Appendix A: Investment Guidelines

Objective

The objective of the APFC Investment Guidelines is to supplement the Investment Policy by providing operational guidelines for APFC's internally managed investment programs. The ED may update this Appendix from time-to-time; updates will be provided to the Board at its next regularly scheduled meeting.

A. Alaska Direct Alternative Credit Investment Guidelines

In fiscal year 2018, APFC Staff established an in-house hybrid liquid / illiquid alternative credit effort named Alaska Direct Alternative Credit (or "ADAC"). Investments included in ADAC will be (i) non-investment grade high yield ETF's and individual bonds and cash ("Liquid Portfolio") and (ii) co-investments with Private Credit managers and working capital cash ("Private Portfolio"). The following guidelines apply to ADAC:

- 1. ADAC shall be included in the Special Opportunities / Income Opportunities category.**
- 2. Size and Funding Schedule**
 - a. \$500 million funded at inception, initially invested in Liquid Portfolio.
 - b. Following inception, additional funds will be invested into ADAC through cash transfers to the Liquid Portfolio and capital calls into the Private Portfolio for co-investments, or working capital or organizational expenses for the Private Credit Co-Investment Vehicle.
 - c. Funding of additional cash transfers to the Liquid Portfolio will be done at no greater than a 1:1 ratio with cumulative Private Portfolio capital calls.
 - d. Invested capital of \$1,000 million targeted to be funded within 24 months of inception.
- 3. Portfolio Control and Decision Making**
 - a. Private Income team will have discretion over portfolio-wide decisions including: (i) percentage of portfolio invested in Liquid vs. Private Portfolio, (ii) retaining APFC Fixed Income team as manager of the Liquid Portfolio, and (iii) individual investment decisions in the Private Portfolio.
- 4. Liquid Portfolio and Benchmark**
 - a. Liquid Portfolio, initially 100% of ADAC, ultimately scaling down to less than 50%, will be managed by the APFC Fixed Income team at inception.
 - b. Targeted maximum allocation will be the greater of \$750 million and 75% of ADAC NAV.
 - c. Targeted minimum allocation will be 25% of ADAC NAV.
 - d. ETF Account within Liquid Portfolio benchmarked to Barclays US High Yield Index (after July 1, 2018 to allow for an initial ramp-up).
 - e. Individual securities portfolio will favor BB-B over CCC-rated securities and will be benchmarked to the Barclays BB High Yield Index (after July 1, 2018 to allow for an initial ramp-up). A relatively high tracking error to this index will be tolerated with the aim of outperformance over a full market cycle.

5. Private Portfolio and Benchmark

- a. Private Portfolio, initially 0% of ADAC, ultimately scaling to greater than 50%, will be managed by the Private Income team.
- b. Targeted maximum allocation will be 75% of ADAC NAV.
- c. Targeted minimum allocation will be 25% of ADAC NAV (after initial, 24-month ramp-up).
- d. Private Portfolio will target having a minimum of \$100 million committed within 12 months of inception and a minimum of \$250 million within 24 months of inception.
- e. Co-investment opportunities will be primarily sourced through existing managers.
- f. Maximum commitment per co-investment of \$75 million without ED written approval.
- g. Private Portfolio will be benchmarked to CPI + 500 bps.

6. Overall ADAC Portfolio Benchmarks

- a. Barclays US High Yield Index (relatively high tracking error to this index will be tolerated with the aim of outperformance over a full market cycle).
- b. A long-term target of CPI + 400 bps.

7. Tenor and Termination

- a. This is an evergreen strategy with realized gains re-invested, which means the size of ADAC will be equal to invested capital, *plus* cumulative realized/unrealized gains, *minus* cumulative realized/unrealized losses.
- b. The CIO, with ED consent, may choose to invest additional capital at any time.
- c. The CIO, with Executive Direct consent, may choose to terminate the strategy at any time. Upon termination, available cash will be distributed from ADAC, the Liquid Portfolio will be sold within 180 days, and the Private Portfolio will cease making new commitments (with the exception of follow-on investments to existing portfolio holdings and investments to which a written commitment to invest has already been executed; both to be pursued only with written consent of the ED) and will distribute proceeds upon any partial or full realization of existing investments.

B. U.S. Large Cap Low P/E

In the fall of 2019, APFC Public Equity Staff established an internally traded deep value strategy. The following guidelines apply to this strategy:

1. Benchmark

The performance benchmark is the Russell 1000 Value Index.

2. Risk Limit

The portfolio will be included within the Total Public Equities' Tracking Error and Relative VaR limits. The allocation limit to the strategy will conform to the limits set in the Public Equities investment guidelines.

3. Concentration Risk

When originally purchasing securities for this strategy, the securities will all be equally weighted and from the lowest valuation quintile of the Russell 1000 index. The portfolio

will be rebalanced every 12 months to ensure that the securities that make up this portfolio remain equally weighted and at least 90% of the securities are in the lowest valuation quintile of the Russell 1000 index. At all times, the portfolio will have a minimum of 100 securities.

4. Allowable Investments

The strategy will invest in U.S. listed equity securities from the Russell 1000 Index.

5. Shorting, Leverage, and Derivatives

Not applicable at this time.

6. Liquidity Risk

The strategy is expected to be fairly liquid. For example, at \$500mm in AUM the portfolio is estimated to trade 95% on day 1 and 99% by day 3, under normal market conditions.

7. Portfolio Size Limit

Without strategy is expected to be fairly liquid. For example, at \$500mm in AUM the portfolio is estimated to trade 95% on day 1 and 99% by day 3, under normal market conditions.

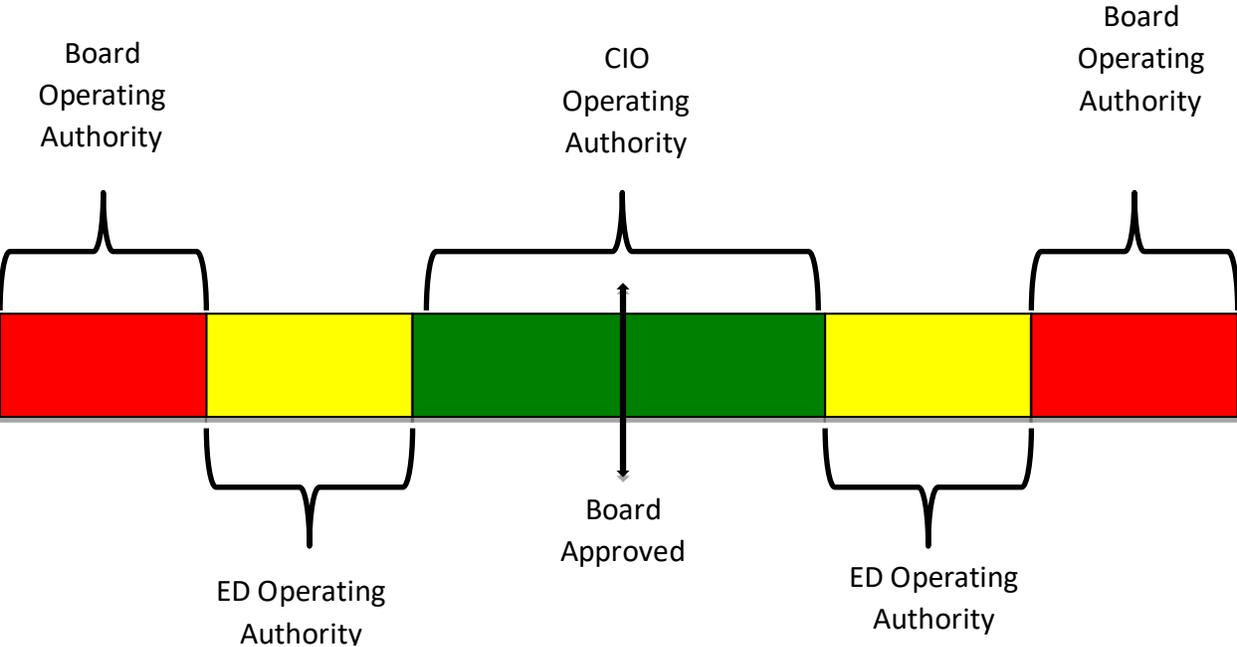
Appendix B: Limit Ranges & Compliance Cure Periods

The Green Zone Operating Range (“Green Zone”) concept is designed to indicate the Board approved operating risk limits.

- A. The Green Zone is the Board-approved CIO operating range.
- B. The Yellow Zone is the Board approved ED operating range.
 - 1. The Chief Risk Officer (“CRO”) will notify the CIO and ED promptly upon entry into a Yellow Zone.
 - 2. The CIO will respond by requesting ED approval to operate within the Yellow Zone.
 - 3. With ED approval, the CIO may operate within a Yellow Zone for up to 90 consecutive days or, if longer, until the next Board meeting following entry into a Yellow Zone.
 - 4. The CRO will notify the Board (i) when approaching 90 days of operating within a Yellow Zone and (ii) monthly thereafter.
 - 5. Following Board notification, a Trustee may request in writing a meeting to discuss an extension to continue operating within the Yellow Zone.
 - 6. The Board may grant the CIO and ED an extension to continue operating within a Yellow Zone. Between Board meetings, unless a Trustee requests a meeting, the Board Chair may grant the CIO and ED an extension to continue operating within a Yellow Zone.
- C. The Red Zone is the operating range that requires Board approval.
 - 1. The CRO will notify the Board upon entry into a Red Zone.
 - 2. The CIO and ED will respond to the Board with an action plan.
 - 3. Absent Board approval, operating within a Red Zone is limited to 30 consecutive days (plus the time needed to notice a Board meeting).
 - 4. The Board has the authority to approve operating within a Red Zone, beyond 30 days.

Even though the Fund is expected to operate most of the time within the Green Zone, the Fund may periodically be within a Yellow Zone, and there may be times when the Fund will be within a Red Zone. The zones are designed to increase transparency and awareness; they should not be viewed as explicit violations. Each year a historical report showing periods of operating within the Yellow and Red Zones will be included in Board meeting packets.

Visual Display of Green Zone Concept



Appendix C: Glossary

AAC means the Alaska Administrative Code.

ADA means the Americans With Disabilities Act of 1990.

Advisors and **Board Advisors** mean the investment professionals who comprise the Board's Investment Advisory Group.

APFC and **Corporation** mean the Alaska Permanent Fund Corporation, established under AS 37.13.040.

AS means Alaska Statutes.

BB means **Bloomberg**.

Board means the Board of Trustees of the APFC.

CMBS means commercial mortgage-backed securities.

CFO means the APFC's Chief Financial Officer.

CIO means the APFC's CIO.

Consultant means the Board's investment consultant(s), not including Board Advisors.

CPI means the Consumer Price Index.

CRO means Chief Risk Officer

Custodian means the APFC's custodian.

Days means calendar days.

ED means the APFC's Executive Director.

FoF means fund-of-funds.

Fund and **Permanent Fund** mean the Alaska Permanent Fund, established under Article IX, Section 15, of the Alaska Constitution, and described in AS 37.13.010.

IMA means investment management agreement.

Investment Manager and Manager mean investment manager(s) retained by the APFC.

IRR means internal rate-of-return.

Long-Term means over one or more business cycles.

MBS means mortgage-backed securities.

RBM means Strategic Risk Benchmark.

Staff means the APFC Investment Staff and, where the context requires, also means or includes the Executive Director and/or other APFC Staff.

TE means Tracking Error.

Trustees means the members of the APFC's Board of Trustees.

VaR means Value at Risk.

Appendix D: Previous Investment Policy Adoption & Amendments

The previous APFC Investment Policy was adopted or amended effective as follows:

Adopted: May 27, 2010

Amended: September 30, 2010 (§14.9 added)

Amended: December 1, 2010 (§9.1 revised; new §11.1 added and prior §§11.1-11.3 and subsections thereunder renumbered; and §18.2.4 revised)

Amended: May 20, 2011 (§18A added)

Amended: September 30, 2011 (§§ 8, 8.2, 8.3, 8.5, 9.2, 9.3.1, 9.4.1, 11.3.1, 15.3, and 15.4 revised)

Amended: December 8, 2011 (§11.3.2 revised)

Amended: February 22, 2012 (§20 revised)

Amended: April 23, 2012 (§§16.3.1 and 16.3.2 revised; and Specific Policy Modifications for Tysons Corner Phase I Project and Mariner Frontier Fund, L.P. added)

Amended: February 27, 2013 (§§ 15.2, 15.3, and 15.4 revised)

Amended: May 22, 2013 (§§9.5.4, 9.5.5,12.4, 12.6, 13.2, 13.3.1, 13.3.3, 14.9.4.10, 16.1.2, 16.1.3, 16.1.4, 16.2, 16.3, 16.3.1, 18A, 23.2, and 23.5 revised; Specific Policy Modification for Mariner Frontier Fund, L.P. revised; Specific Policy Modification for Crestline AK Permanent Fund, L.P. added; and Addendum re Internal Investment Managers added)

Amended: May 23, 2013 (§§ 3.1, 3.3, 5.3, 6, 8 (including Table 8a), 8.1 revised; §8.2 deleted; §§ 8.3-8.5 renumbered (as §§ 8.2-8.4) and newly-renumbered §§ 8.2-8.4 revised; and §§ 9.2, 9.3.1, 9.4.1, 10, 11.3.1, and 22.2 revised)

Amended: February 26, 2014 (§§23.3.1, and 23.2 revised; and Addendum re Internal Investment Managers revised)

Amended: May 21, 2014 (§14.9.4.10 (including Table 14.9.4.10.1) revised)

Amended: December 10, 2014 (§§ 8, 9.3.1, 11.3.2, 14.2.2, and Table 14.5.4.1 revised)

Amended: May 19, 2015 (§§ 15 and 16, including conforming changes in other sections revised)

Amended: September 27, 2016

Amended: December, 2016 (§§ 9, 10 and 12, including conforming changes in other sections revised)

Amended: May 23, 2018, complete re-write of the Policy and Guidelines. Changes to be effective on July 1, 2018

Amended: September 27, 2018 (§ 5, Alaska Investment Policy was revised)

Amended: May 21, 2020, complete rewrite of the Investment Policy