An Alaskan’s Guide to the Permanent Fund

APFC
ALASKA PERMANENT FUND CORPORATION
The Alaska Permanent Fund is a globally recognized sovereign wealth fund, established in 1976 by Alaskans. This public trust is meant to preserve and convert the State’s non-renewable oil and mineral wealth into a renewable financial resource for generations of Alaskans.

Forty years ago, on April 8, 1980, Governor Jay Hammond signed SB 161 into law, establishing the Alaska Permanent Fund Corporation (APFC) as an independent state entity tasked with the management and investment of the Alaska Permanent Fund.

APFC’s stewardship of the Fund is based on a model of strong governance that includes fiduciary oversight by a Board of Trustees, an effective management and organizational structure, strategic investment initiatives and partnerships, strict adherence to accountability measures, defined legal and regulatory responsibilities, established policies and procedures, as well as recognized best practice standards.

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

**APFC Mission**
To manage and invest the assets of the Permanent Fund and other funds designated by law.

**APFC Vision**
To deliver outstanding returns for the benefit of all current and future generations of Alaskans.

**APFC Values**
Integrity - Stewardship - Passion
Letter from the Chair

Fellow Alaskans,

Alaska is more reliant than ever on the Permanent Fund. On behalf of the Alaska Permanent Fund Corporation and my fellow Trustees, I am pleased to present the 2020 edition of An Alaskan’s Guide to the Permanent Fund. This booklet offers the basics on the Alaska Permanent Fund, its history, how APFC manages and invests these assets, and its essential role in Alaska’s future.

Historically, the Permanent Fund has been used as a savings device to generate returns through income-producing investments and pay dividends to eligible Alaskans. In recent years, Alaska’s royalty income from oil reserves has declined, and state savings accounts can no longer fill the revenue gap. Today, the earnings generated by the Fund’s investments are distributed according to the Percent of Market Value methodology and used to support essential, statewide services and programs, including the dividend.

For over four decades, Alaskans have benefitted from the financial resources of the Alaska Permanent Fund. As stewards of that wealth, APFC is committed to its prudent investment as a long-term, renewable resource for Alaskan generations – today and in the future.

William G. Moran
Chair
Why Is the Fund Important to Alaska’s Future?

The Alaska Permanent Fund has become a major financial force within the State of Alaska.

Now more than ever, the State of Alaska is reliant on APFC’s investment of the Permanent Fund to generate income given the decline in oil revenues.

Through the Percent of Market Value (POMV) distribution, the Fund now provides annual revenue to support state services and programs.

As oil revenues flowing to the State’s general fund continue to wane due to market factors and production levels, the State of Alaska is confronting the reality that these are no longer sufficient to support state services. The Fund was created knowing an era of declining revenues from resource wealth would be inevitable, and now that we are here, the public’s expectations about the use of the Fund have changed.

In the first 40 years of the Fund’s existence, the Fund was considered the third rail of Alaska politics for anything other than dividends. Today, the earnings from the Fund are the state’s primary source of general fund revenue and are an essential component of the state’s fiscal health.

APFC recognizes this evolution in the Fund’s role to now generate revenue to support state services and programs. As Alaska is now, more than ever, relying on the skilled investment of the Fund to serve as a primary revenue source for the State, APFC looks to the State to ensure that resources are available to support APFC’s investment and management needs for ongoing success in generating long-term returns.

The Board of Trustees has issued Volume 9 of the Trustees’ Papers to provide Alaskans and policymakers an analysis of THE ROLE OF SOVEREIGN WEALTH FUNDS IN SAVING, STABILIZATION, AND GENERATING INCOME. The paper brings forth valuable lessons and practices from other sovereign wealth funds and applies them to Alaska.
Thanks to a strong state constitution, Alaska gained control over many of its resources. But, visionary leaders recognized that the dependence on a non-renewable resource such as oil inevitably leads to a post-boom bust unless a way is found to generate ongoing wealth from a non-renewable resource. That goal is the foundation of the Alaska Permanent Fund.

The creation and prudent management of the Fund represents one of Alaska’s major achievements towards real and lasting economic stability. In a state with primarily a natural resource-based economy, the Fund generates renewable revenue for Alaska—as oil and gas revenues are diminishing, the Fund continues to grow.

The creation of the Fund represents perhaps Alaska’s most important step toward real and long-lasting economic diversification and stability. As time goes on, it may be the size of the Fund more than any other single factor that will determine the state’s level of prosperity.
The relationship between Alaska Permanent Fund realized earnings and General Fund unrestricted royalty revenue. Realized earnings (statutory net income) are available for appropriation.

**Focusing on the Long Term**

- State General Fund mineral royalty revenues
- Fund realized earnings (statutory net income)
- Fund projected realized earnings
How Is the Fund Structured?

In both the creation and stewardship of the Alaska Permanent Fund, Alaskans have successfully converted non-renewable resources into a renewable revenue stream of intergenerational wealth. This has been accomplished by permanently saving a portion of Alaska’s natural resource royalty, protecting its long-term value, and investing it in a well-diversified portfolio of income-producing financial assets.

The Alaska Permanent Fund has two parts: Principal and the Earnings Reserve Account (ERA). This two-account system is unique to the Fund, as most classic endowments are structured as a single account with an annual draw mechanism. The Principal is the savings account that is protected from expenditure, and the ERA is the checking account that can be spent by the Legislature to support state services and programs. Both accounts serve different purposes, but are invested using the same asset allocation and are assigned a pro-rata share of the Fund’s value.

How the Fund Works

- **Contributions**
  - Royalties
  - Special Appropriations
  - Inflation Proofing

- **Principal**
  - Alaska Constitution, Article IX, Section 15

- **Income-Producing Investments**
  - Alaska Permanent Fund Corporation
  - Management and Investment of the Fund
  - Single Asset Allocation (pro-rata shares)
  - Stocks, Bonds, Real Estate, Alternatives

- **Sale and Distribution of Assets**
  - Statutory Net Income AS 37.13.140
  - Cash Flow Income
  - Realized Gains/Losses

- **Earnings Reserve Account**
  - Alaska Statutes AS 37.13.145(a)
  - Realized Gains/Losses from Sale of Assets
  - Pro-Rata Share of Investments and Net Unrealized Gains
Compound Interest
Elmer Rasmuson, the first chair of APFC, called “compound interest” one of our greatest inventions. Compounding interest helps money invested at a rate of interest (or return) grow larger, faster.

The “Thief in the Night” – Inflation
Compound interest makes your money grow faster, but meanwhile, inflation makes prices rise, so your money buys less. Elmer Rasmuson also had a name for inflation—“a thief in the night”—that essentially “steals” your money’s purchasing power at the rate of around 3% per year on average. That’s why people try to find investments that return more than the rate of inflation, or what investors call “real return.”

Total Rate of Return – Rate of Inflation = Real Rate of Return
The Alaska Permanent Fund is invested to earn about a 5% real rate of return. Over time, the Fund has actually beaten that target, averaging a real rate of return of 6.46% since inception.

Saving
To do even better, add more money to your initial investment every month for even faster growth.

The Rule of 72
The rule of 72 estimates how long it takes to double your money at a given compound interest rate. Suppose your interest rate is 5%.

72 ÷ 5 = 14.4 years it will take for your investment to double.

For example: you invest $100 in a bank account that pays 5% interest.

Suppose you had $1,000 invested at 7% return.

72 ÷ 7 = 10.3 In just over 10 years, your $1,000 will grow to $2,000.

An Alaskan's Guide to the Permanent Fund
The Principal is constitutionally established and permanently protected; it can only be used for income-producing investments.

**Contributions to Principal**

*Since inception through FY20*

- **Royalties** | $17.6 B
- **Inflation Proofing** | $18.0 B
- **Special Appropriations** | $11.0 B

The Principal’s value is comprised of:

- **Royalty Deposits**—the State Constitution directs that at least 25% of Alaska’s mineral royalties (primarily oil royalties) be deposited into the Principal.
- **Inflation Proofing**—transfers from the Earnings Reserve Account to the Principal based on statutory calculation and legislative appropriation to protect intergenerational value.
- **Special Legislative Appropriations**—contributions to ‘permanent savings’ appropriated by the Legislature.
- **Unrealized Capital Gains/Losses**—cumulative gain (or loss) on assets from the time they are purchased until they are sold (at which time they are deposited into the Earnings Reserve Account as realized gains/losses).

The Principal does not retain any of the realized gains upon disposition of investments (above the cost basis of the original investment), nor does it receive cash flow income such as real estate properties lease income and bond interest. For the Principal to preserve its future purchasing power, it is essential that it receives an annual appropriation to offset the effects of inflation on its value.

The Earnings Reserve Account is established by Alaska Statute 37.13.145 to hold the net investment earnings, known as statutory net income, of the Fund; it is the portion of the Fund that can be spent.

The ERA is comprised of:

- **Statutory Net Income AS 37.13.140**—net income of the Fund that is computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding all unrealized gains and losses. There are two components to net income:
  1. **Operating Income**—cash inflows from stock dividends, bond interest, and real estate rental fees are available for deposit.
  2. **Realized Capital Gains/Losses**—gain (or loss) on assets from the time they are purchased until the date that they are sold. The ERA receives all net income generated by the investment activity associated with the cash flow and realized returns on investments in stocks, bonds, real estate, infrastructure, and private entities.
- **Unrealized Capital Gains/Losses**—gain (or loss) on assets from the time they are purchased to present.

The ERA can be appropriated (spent) by the Alaska State Legislature for any lawful purpose. The ERA has been used:

- to support the investment management and operations of the Fund;
- to partially fund state agencies involved with collecting royalties and distributing dividends;
- to pay dividends to eligible Alaskans;
- and to support governmental services and programs.

APFC issues financial statements for the Fund that reconcile values for the total Fund, as well as for the Principal and the ERA accounts at the close of each month. The financial statements also include the monthly values attributed to unrealized gains/losses, known commitments of expenditure from the ERA, the net realized earnings that remain unspent, and contributions to the Principal. Residual income remains in the earnings reserve account and is invested with the Fund’s principal.
How Is the Fund Income Used?

Withdrawals from the ERA are subject to a percent of market value (POMV) methodology per Alaska Statute 37.13.140(b). This approach is designed to create a known and manageable withdrawal structure for the Fund. The Board of Trustees has long supported the POMV concept, including as a constitutional amendment. It ensures that no more than a sustainable amount is taken from the annual earnings of the Alaska Permanent Fund to provide benefits for both current and future generations of Alaskans.

The **POMV** draw is based on a percentage of the average market value of the Fund for the first five of the preceding six fiscal years. The POMV methodology provides a structured liability for the management of the portfolio with a stable and predictable payout to support government services and programs on an annual basis. The draw is subject to appropriation and is set in statute at 5.25% for Fiscal Years 2019-2021 and 5.0% from Fiscal Year 2022 onward. The POMV draw in FY19 was $2.7 billion, in FY20 was $2.9 billion and is $3.1 billion in FY21. The POMV draw for the Fund is limited not only by the statutory allowable percentage, but is also limited by the amount that is available for appropriation in the ERA given the two-account structure of the Fund. While the full amount of the Earnings Reserve Account is available for appropriation, the Principal is not.

**Inflation Proofing** as set forth in Alaska Statute 3713.145(c) protects the Principal by providing for the retention of Fund income each year subject to legislative appropriation sufficient to compensate for the effect of inflation. Inflation proofing recognizes that the Principal can only maintain purchasing power through an annual deposit of earnings. It is calculated at the end of each fiscal year by applying the change in the average U.S. consumer price index between the two prior calendar years to the total deposits of Principal balance (excluding unrealized gains).

Given the Fund’s two account system—the permanent Principal and the spendable ERA—all of the realized investment earnings go to the ERA. The prudent reinvestment of a portion of the Funds’ realized earnings to protect the future value of the Principal is essential to maintaining a healthy Fund for all generations of Alaskans and is a critical component of establishing a solid fiscal foundation for the state. The Board of Trustees has affirmed the importance of inflation proofing the Principal of the Fund since the 1980s.

**Value of $1 from 1980 to 2020**

The U.S. dollar experienced an average inflation rate of 2.91% per year during this period, meaning the real value of a dollar decreased. Adjusted for inflation, $1.00 in 1980 is the equivalent of $0.28 in 2020.
**Uses of the Earnings Reserve Account**

Over the course of the past four decades, net income has been used to pay current generations, saved for future generations, and a portion remains undistributed and available for appropriation.

**ERA – Uses of the Realized Fund Income**
*Since inception through FY20*

<table>
<thead>
<tr>
<th>Paid out to Current Generations</th>
<th>Percent</th>
<th>Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>POMV Distributions to General Fund</td>
<td>9%</td>
<td>$6.3</td>
</tr>
<tr>
<td>Dividend Appropriations</td>
<td>36%</td>
<td>$24.4</td>
</tr>
<tr>
<td><strong>Total Paid Out</strong></td>
<td><strong>45%</strong></td>
<td><strong>$30.7</strong></td>
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<thead>
<tr>
<th>Saved for Future Generations</th>
<th>Percent</th>
<th>Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation Proofing Principal</td>
<td>26%</td>
<td>$18.0</td>
</tr>
<tr>
<td>Special Appropriations from ERA</td>
<td>12%</td>
<td>$8.3</td>
</tr>
<tr>
<td><strong>Total Saved</strong></td>
<td><strong>38%</strong></td>
<td><strong>$26.3</strong></td>
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<thead>
<tr>
<th>Undistributed Realized Income</th>
<th>Percent</th>
<th>Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment for POMV Draw to General Fund</td>
<td>5%</td>
<td>$3.1</td>
</tr>
<tr>
<td>Uns pent Earnings</td>
<td>12%</td>
<td>$8.4</td>
</tr>
<tr>
<td><strong>Total Undistributed</strong></td>
<td><strong>17%</strong></td>
<td><strong>$11.5</strong></td>
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**Total Realized Income** | 100% | $68.5 |

**APFC and The Dividend**

There is often a misconception that the Alaska Permanent Fund Corporation is the Permanent Fund Dividend Division, when in fact our roles and responsibilities are very different.

APFC does not administer the Permanent Fund Dividend program. Our team makes money by investing the financial resources of the Fund, and then transfers the earnings from those investments as directed by state appropriation bills.

The dividend program is managed within the Department of Revenue by the Permanent Fund Dividend Division with the mission to administer the permanent fund dividend program assuring that all eligible Alaskans receive timely dividends, fraud is prosecuted, and all internal and external stakeholders are treated with respect.

The dividend program established in 1980 has created a broad and powerful constituency for the Fund by annually distributing to every qualified applicant a portion of the Fund’s earnings. From inception through 2019, the dividend program paid out more than $24 billion to Alaskans through the annual distribution of dividend checks.

Up until 2016, the dividend distribution to Alaskans was made based on the average value of the Fund’s income over five years. There was a direct correlation to the investment activity of the Fund and amount of net realized earnings that were available for distribution for the payment of the dividend to eligible Alaskans. In 2016, Governor Walker vetoed a portion of the appropriation to the dividend fund based on the historical calculation. This veto was made in recognition of the impending fiscal uncertainty for the State of Alaska due to reductions in income from oil revenues, as well as the inability to replenish state savings accounts. It was met by a legal challenge and the Alaska Supreme Court ruled that absent another constitutional amendment, the Permanent Fund dividend program must compete for annual legislative funding just as other state programs do. The constitutional amendment establishing the Fund created an exemption to the anti-dedication clause only for money flowing into the Fund—not the money flowing out into dividend checks or any other program. Thus, use of the income in the Earnings Reserve Account, for any and all purposes, is subject to the powers of legislative appropriation.
Who Manages the Alaska Permanent Fund?

APFC - A Quasi-Independent State Entity

With the establishment of the Alaska Permanent Fund Corporation in 1980, the legislative intent of Senate Bill 161 was made clear in the Free Conference Committee report that accompanied this legislation. The Corporation should reside within the Department of Revenue, but would be considered a separate entity managed by the Board of Trustees:

“It was the aim of the Committee to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in state policy and accountable to the people through their elected representatives. In short, the aim was insulation without isolation. It was agreed that the best way of achieving these ends was not to place the management of the corporation within the Department of Revenue, but to create a public corporation distinct from State government.”

-Excerpt from SB 161 Conference Committee Report

While the legislature wanted APFC to be independent, it also recognized the need for the Corporation to be responsive to changes in state policy and be held accountable to the people of Alaska through their elected representatives. APFC operates as a quasi-independent state entity. The critical balance of independence and accountability is attained through the Board of Trustees setting corporate policy and the State of Alaska retaining oversight in the following ways:

1. The governor makes all appointments to the Board of Trustees. Four of the trustees are public members and must possess recognized competence and expertise in finance, investments and other business management related fields. The four public members are appointed by the governor to staggered, four-year terms, and each year, one of them is elected to serve as chair. The Commissioner of the Department of Revenue, along with one other cabinet member, also hold seats on the Board.

2. The Legislature must approve APFC’s budget under the Executive Budget Act.

3. The Legislative Budget and Audit Committee is charged with oversight of the Fund.

4. State statutes define investment responsibilities.

5. The Corporation must follow state laws with regard to the operations of state government unless granted a specific exemption.

Within these restrictions, the Board may manage the APFC and the Fund as it sees fit.
The Board of Trustees protects and maximizes the Fund by setting policy which, within a statutory framework, requires applying the prudent investor rule in the management and investment of Fund assets, maintaining a reasonable diversification among investment categories, and establishing guidelines for investment.

“A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.”

-Uniform Prudent Investors Act 1994

As the fiduciaries of the Alaska Permanent Fund, the Board of Trustees has a duty to Alaskans to ensure that the Fund is managed and invested in a manner consistent with legislative findings, including:

1. The Permanent Fund should provide a means of conserving revenue from mineral resources to benefit all generations of Alaskans.

2. The Permanent Fund’s goal should be to maintain safety of the principal while maximizing total return.

3. The Fund should be used as a savings device managed to allow the maximum use of disposable income from the Fund for the purposes designated by law.

Due to sound management practices and the expertise, adaptability, and perseverance of APFC to identify and respond to market risks and opportunities, the Fund has grown from the first deposit of oil revenues totaling $734,000 in 1976 to a market value of over $65 billion at the end of fiscal year 2020. The Trustees are proud to direct and oversee a talented group of APFC employees committed to the values of integrity, stewardship, and passion.
Board of Trustees
(Since Inception)

Elmer Rasmuson
1980-1982
Banker*

Thomas Williams
1980-1982
Commissioner of Revenue

Robert Ward
1980-1982
Commissioner of Transportation

Peter McDowell
1980-1982
Economist

Wilson Condon
1980-1982
Attorney General
1995-2002
Commissioner of Revenue

George Rogers
1980-1983
Economist/Historian*

Arnold G. Espe
1980-1986
Banker*

Byron I. Mallott
1982-1991
Business Executive*
1998-2000
APFC Executive Director

Robert D. Heath
1983-1984
Commissioner of Revenue

Steve Cowper
1983-1985
Former Legislator, former Governor*

Norman Gorsuch
1983-1985
Attorney General

Clyde Sherwood
1983-1987
Business Executive*

Mary Nordale
1984-1986
Commissioner of Revenue

Hugh Malone
1985-1986
Former Legislator
1986-1990
Commissioner of Revenue

Grace Berg Schaible
1987-1989
Attorney General
1995-1997
Attorney*

Marc Langland
1987-1991
Banker

John Kelsey
1987-1995
Valdez Business Executive

Doug Bailey
1989-1990
Attorney General*

Charles H. Parr
1989-1991
Former Legislator

Lee E. Fisher
1990-1991
Commissioner of Revenue

Millett Keller
1991 Commissioner of Administration

Darrel J. Rexwinkel
1991-1994
Commissioner of Revenue

Nancy Bear Usera
1991-1994
Commissioner of Administration

* Served as Chair
An Alaskan’s Guide to the Permanent Fund
The Trustees employ an executive director who hires staff to conduct day to day operations of the corporation and implement the policy directive of the Board. By design, APFC operates a lean organization and outsources to external partners and professionals as needed to manage, analyze, and monitor investments and returns.

Our team is given the freedom and responsibility to make meticulously vetted decisions that have immediate and long-term impacts to the Fund. We offer a challenging environment that encourages professional growth and recognizes individual accomplishments. Built on the foundation of trust and respect, we have experts from all over the world working together to challenge the status quo and provide insight into the global investment landscape that is uniquely APFC.

As the steward of Alaska’s largest public fund, APFC takes pride in openly sharing our progress. We have a small team that accomplishes a diverse set of tasks, always with an eye for integrity and efficiency in fulfilling our mandate to generate wealth for Alaska. Our talented staff often surpasses Wall Street investment firms in growing our assets while still making time to fish, climb mountains, and raise families—it’s the Alaskan way.
How Is the Fund Invested?

Investment Strategy

Fund assets are invested to earn income. Investment decisions are based on a long-term investment strategy adopted by the Board of Trustees that is consistent with the Legislature’s findings of Alaska Statute 37.13.020 regarding the purpose of the Alaska Permanent Fund, as well as the Investment Responsibilities set forth in Alaska Statute 37.13.120. Fund assets may be invested under certain parameters:

1. The Fund can only invest in income-producing investments.

   All investments must conform to the prudent investor rule. This fiduciary standard requires that investment decisions be made with prudence, intelligence, and discretion. Central to the prudent investor rule is diversification among many investment types to protect the investor from temporary declines in any one investment class. All investments are made with an eye toward the risk-adjusted return. No investments are made for political or social reasons.

2. A mandate to maintain the safety of the principal and purchasing power of the Fund over time, while maximizing the return from both income and the appreciation of investments.

APFC’s aim is for the Fund to achieve the highest level of investment performance that is compatible with the Board’s risk tolerance and prudent investment practice set forth in the investment policy:

**Investment Performance:** ability to generate an annualized return of consumer price index/Inflation + 5% over a 10-year period.

**Investment Risk:** ability to generate this 10-year return within agreed-upon risk parameters.

The investment strategy is designed to produce an average annual real rate of return of 5 percent over the long term. To achieve the target return, the Trustees regularly review and set a target asset allocation. This asset allocation determines the types and percentages of investments.

The Board’s overriding investment objective for the Fund is to maintain the safety of the principal while maximizing total return. Therefore, it will always act to ensure that the level of investment risk in the Fund is prudent and does not jeopardize that primary objective. Over the long term, there exists a relationship between the level of investment risk taken and the rate of expected investment return. The Board recognizes that a moderate level of risk is reasonable and justified to enhance potential long-term returns. Portfolio diversification amongst public and private market asset classes and exposures is the primary technique used by the Board to reduce risk and enhance returns.
Asset Allocation

Over the past four decades, the Trustees have gradually guided the Fund from a portfolio entirely in bonds to a portfolio that is diversified across eight asset classes that fit within the Fund’s established risk and return targets. APFC Staff assist the Board in conducting an asset allocation study for the Fund at least once every five years to review asset classes, risk-return assumptions, and correlations of investment returns with applicable benchmarks. Additionally, as new investment opportunities appear, the Trustees evaluate these investments to determine if they will complement the Fund’s risk and return targets.

Asset Classes

As provided in APFC’s Investment Policy, each asset class is associated with a benchmark that describes in general terms its opportunity set and return characteristics. Each asset class is also associated with a long-term return objective, which cumulatively reflects the total Fund’s long-term performance return objective of CPI + 5% or better.

Fixed Income—Bonds are a form of loan. A bond “issuer”—a corporation or government—borrows money at a preset interest rate for a preset period of time. The Fund’s bond portfolio is invested in U.S. and non-U.S. bonds. The non-U.S. bonds that the Fund owns are primarily securities issued by overseas governments. The U.S. portion of the portfolio includes U.S. Treasury bonds, corporate bonds, mortgage and commercial mortgage backed bonds, and asset-backed bonds. APFC manages the majority of the bond portfolio in-house, but also uses external managers to increase the portfolio’s diversification and lower risk. The bond portfolio acts as an anchor to the Fund and is expected to provide stability and a source of liquidity during volatile market cycles.

Public Equities—Stocks represent a share of ownership in exchange-traded, publicly owned companies. Stocks make up a significant portion of the Fund’s asset allocation, and on any given day the Fund is invested in more than 11,000 companies around the world. In contrast to bonds, most of the stocks that the Fund owns are managed externally by more than 30 financial management firms. These asset managers are selected based on their specialized knowledge in areas such as investment style (growth versus value stocks) or company size (large cap versus small/mid-cap). This portfolio has a mix of active, quasi-passive, and passive managers. Active management allows the managers to actively buy and sell stocks based on their expert knowledge and research, while passive management mirrors a market index or sector.
Real Estate includes properties across the United States and internationally. APFC has a stake in properties such as office buildings, hotels, retail shopping centers, apartment complexes, and industrial properties that provide a steady flow of regular income to the Fund’s earnings. The Michael J. Burns Building in Juneau, Alaska is part of the Real Estate portfolio and houses our APFC office.

Risk Parity is a multi-asset class strategy. The objective is to realize a higher long-term, risk-adjusted return and diversify risk globally and across asset classes. This portfolio seeks to generate returns that are less correlated to global public markets utilizing allocation of risk rather than allocation of capital.

Cash is an essential aspect of the portfolio for liquidity purposes. The objective is to ensure funds are available to meet operational and distribution requirements. Cash represents a small portion of the Fund and is an asset class that is nearly risk-free and experiences extremely low volatility.

Alternative Investments

Some investments don’t fall into the traditional asset classes of stocks, bonds, or real estate. When added to a portfolio of traditional assets, private market alternative investments can bring diversification and help protect value in changing market conditions. These types of investments are not as liquid as publicly traded securities, so as an incentive for investors, they may offer a better rate of return on investments.

Private equity investments are made directly in private companies (not publicly traded in the stock markets) and take the form of partial ownership of a company or loans made to the company. General partnerships and venture capital firms make private equity investments on behalf of their investors. Investments are accessed through long-term commitments to funds managed by our partners, as well as targeted, direct investments into operating companies.

Absolute return strategies are private investment partnerships that use stock, bond, currencies, and commodities investment strategies to achieve a target return on investments with tightly controlled risk-of-loss. Also known as hedge funds, these assets offer better liquidity than most alternative investments while incorporating a diversified range of geographies, securities, and strategies. Absolute return programs are structured to produce results with low correlation to stocks and bonds and which seek to limit downside risk.

Private Income, Infrastructure, & Credit aims to provide the Fund with a high level of income and limited volatility. Infrastructure investments are often long-lived with inflation protection characteristics and include power generation, timber, electric utility, midstream energy, transportation, water and waste, telecommunications, and others. Investments are made in a large number of assets around the world through pooled funds with other investors. Private Credit investments are often asset-backed and generate high current income. APFC invests through funds into a portfolio of assets that is diversified by strategy, industry, and geography. These strategies include direct lending, mezzanine lending, distressed/opportunistic credit, asset-based lending, and other strategies. While the portfolio is currently focused primarily in the U.S., we evaluate opportunities globally.
Commitment to Alaska

The Fund has always provided benefits to the people of Alaska. APFC’s primary responsibility is to manage and invest the assets of the Alaska Permanent Fund and other funds defined by law, such as the Alaska Mental Health Trust Fund. There are also other ways that APFC provides benefits to the state.

APFC’s Alaska College Student Internship Program—The Alaska Permanent Fund Corporation is committed to nurturing Alaska students and mentoring them for careers in asset management, finance, and related fields through internship programs directly supervised by our team or one of our Fund managers. For over three decades, APFC has invested in the futures of Alaska students, and many return to invest in Alaska’s future with careers at APFC. This Trustee-supported program has resulted in more than 300 high-quality internships filled by Alaska students since 1988.

In-State Investment Program—APFC’s Alaska Investment Program was launched by the Board of Trustees in recognition of the opportunity to earn attractive returns by backing emerging private market fund managers and private market investment opportunities in Alaska. APFC’s Alaska Investment Program is managed by external fund managers and honors Alaska Statute 37.13.120(c) prescribing that if an Alaska investment has equivalent risk and expected return comparable to or better than a similar non-Alaska investment, the Alaska investment should be preferred. In order to provide sufficient risk diversification, Board approval is required for any in-state investment that would exceed 1% of the Fund, at the time of investment.
Historical Timeline

1969

The Fund’s Creation

The Prudhoe Bay Oil and Gas lease sale brings in $900 million in revenues to Alaska. For the state, the first question is, “Should the $900 million be spent or saved?” It is a huge windfall for a government that had just passed a budget for the previous year of only $112 million. This sudden nine-fold increase in state revenues kicks off quite a debate among Alaskans about what to do with all this newfound wealth. A majority of Alaskans agree to spend the $900 million over the next few years on infrastructure projects such as roads and schools, as well as social services and education. Having attained statehood just 10 years earlier, both opportunities and requisites for the young State of Alaska were abundant.

1974

Construction of the trans-Alaska pipeline begins. Alaskans, reflecting on the spending from their last windfall, begin to think differently about future oil revenues. Influenced broadly by the Alaska Constitution, these visionary Alaskans become increasingly in favor of saving at least a portion of the future oil wealth to provide permanent benefits from this non-renewable resource.

Alaska’s Natural Resources

Alaska has always had many natural resources, but in the past, development of these resources seemed more profitable to people who lived elsewhere. For example, in the 1880s, Russians profited handsomely from the sale of Alaska furs in Europe and Russia. At the turn of the century, outsiders poured into the state to make their fortunes in Alaska gold. Later, Alaska seafood, copper, timber, and eventually oil were chosen for resource exploitation, and the benefits flowed primarily to outsiders.

Consequently, in 1955-56, when the delegates to Alaska’s constitutional convention met in Fairbanks to write what would become the new state constitution, they wanted to make sure that Alaskans primarily benefited from the development of Alaska’s natural resources. To accomplish this, they added the following provision to the Alaska Constitution:

Article VIII. Section 2. General Authority - “The legislature shall provide for the utilization, development, and conservation of all-natural resources belonging to the State, including land and waters, for the maximum benefit of its people.”

The philosophy in this constitutional provision helps explain some of the thought that went into the creation of the Alaska Permanent Fund. Because the Fund was created as a consequence of the development of one of the state’s natural resources—oil—this constitutional provision provides the basis for using the income of the Fund for the maximum benefit of its people.
In November, Alaska voters approve a Constitutional Amendment establishing the Alaska Permanent Fund, by a margin of 75,588 to 38,518, based on three arguments:

1. The Fund will help create an investment base from which to generate future income. When oil revenues run out, there will still be a major source of state revenues to pay the costs of basic government services.
2. The Fund will remove a significant portion of the oil revenues from the legislative spending stream, thus reducing the opportunities for excessive spending by the Legislature.
3. The Fund will prudently take some of the non-renewable oil wealth and transform it into a renewable source of wealth for future generations of Alaskans.

The Constitution requires at least 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received by the State to be placed in the Permanent Fund and used only for income-producing investments.

Article IX. Section 15. Alaska Permanent Fund – “At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.”

The Concept of Dedicated Funds

It is worth noting the reason why the Permanent Fund was established through public approval of a constitutional amendment rather than by simple enactment of legislation—

it was due to the concept of dedicated funds. The authors of the state constitution specifically prohibited the dedication of state revenues. They believed it was important that no portion of money received by the state be automatically assigned, on a continuous basis, for any special spending purpose. All revenues were to flow directly into the General Fund, the state’s all-purpose spending account. The dedicated funds prohibition was intended to ensure that the people’s elected representatives would have the right and the ability, each year, to make their own decisions about how best to spend state revenues.

The people, by popular vote through a constitutional amendment, created a specific exception to this prohibition against dedicated funds when they created the Permanent Fund. The principal of the Fund is a dedicated fund set aside specifically for the purpose of investing.

When the voters of Alaska established the Alaska Permanent Fund in 1976, they created an entity unlike any other in the world and embarked on an adventure in innovative but untested public policy. The Permanent Fund offered the prospect of enduring fiscal resources, but it remained for lawmakers to create the investment structure that would accomplish it.
On February 28, the Permanent Fund receives its first deposit of dedicated oil revenues totaling $734,000. At first, the Fund is invested entirely in bonds and managed by the Treasury Division. The Legislature begins four years of public discussions regarding whether the Permanent Fund should be managed as a savings trust and investment fund (with its income distributed and measured over the long term), or if it should be managed as a development bank and used to fuel Alaska’s economy in the short term.

Those arguing in favor of the development bank concept believe that the Fund should be managed to help new and existing businesses in Alaska. This approach will broaden the economy, increase the number of jobs, and make Alaska less dependent on oil revenues by developing other sources of income for the state, primarily by investing the Fund in business loans or grants within Alaska. Others believe the Fund should be considered an investment fund and that the paramount concern should be protection of the principal. They maintain that the prudent investor rule should be adhered to and all investments should be of trust-grade quality and at market rates.

Ultimately, elected representatives accept the trust investment fund concept and a critically important threshold is passed. The Alaska Permanent Fund will be managed independently from the state treasury to separate the saving from the spending function. Investments in Alaska will only be made when the risk level and the expected return are comparable to other available investment opportunities, and Fund earnings will be available for use by the Legislature.

The Legislature decides to promote economic development through creation or expansion of different state agencies designed to leverage a portion of the oil money not deposited in the Fund with additional capital from outside the state. Thus, without using any of the Fund, the Alaska Housing Finance Corporation, the Alaska Industrial Development and Export Authority, and the Alaska Renewable Resources Corporation are established, and billions of dollars in loans become available to Alaska homeowners and businesses.
The Alaska Legislature passes Senate Bill 161, creating the Alaska Permanent Fund Corporation (APFC) to manage the investments of the Fund, and places a list of allowable investments into state law. The bill is signed into law by Governor Jay Hammond, sending $900 million in surplus oil revenues to be deposited in the Fund by special appropriation. The Legislature also approves the Permanent Fund Dividend program.

The Alaska Legislature, at the request of APFC’s Board of Trustees, enacts inflation proofing to protect the Fund’s purchasing power. The first Permanent Fund Dividend check of $1,000 is distributed. The Legislature pays this first dividend, not with Fund income, but with surplus oil revenues.

Following statutory changes to the initial investment vehicle list allowed by lawmakers, the Fund makes its first investment in the U.S. stock market, and later that year, in directly held real estate. APFC is functioning as a strong, viable, and independent organization. For the first time, the Trustees are establishing long-term goals for rates of return and are formally developing an asset allocation policy designed to achieve their goals.

Despite the stock market crash in October 1987, the Fund’s performance ranks in the top 9% of all public funds in the U.S.

The Legislature, again, expands the statutory investment list. The Fund begins to invest in stock and bond markets outside the U.S.

APFC begins managing another fund: the Alaska Mental Health Trust Fund. By 1995, the Corporation is putting money into non-U.S. bonds and has a sizeable staff of about 30. As the Corporation continues to mature, greater emphasis is placed on insulating the management of the Fund from political influence, while maintaining APFC’s ability to remain responsive to changes in state policy, and accountable to Alaskans.
1998

For the first time ever, Fund earnings exceed state oil revenues as the Fund reaches the $25 billion mark.

1999

The Legislature increases the Fund’s investment flexibility to allow up to five percent of the Fund’s value to be invested in alternative investments.

2000

The Trustees remain committed to a long-term, diverse investment strategy as the stock market begins a sharp decline that will last for three years. Trustees further diversify the Fund’s investment portfolio and increase the equity allocation to 53 percent.

2001

25th Anniversary—The Board of Trustees formally endorses a constitutional amendment to change Fund payouts to a percent of the Fund’s total market value (POMV). The first of a series of resolutions that would place this proposed change on a general election ballot are introduced in the Legislature at the Board’s request.

2004

APFC invests in two new asset classes: absolute return strategy funds and private equity. The Legislature changes state law to require cause before any of the four public members of the Board may be removed, furthering the efforts to keep APFC independent.

2005

The Legislature makes a significant change in how Fund investments are determined by removing the allowed investment list from state law so that Trustees make investment decisions solely under the guidelines of the prudent investor rule. Fund assets reach $30 billion.

2007

The Trustees add a new asset class, Infrastructure, to the Fund’s investments. Several years of strong returns carry the Fund’s value to $40 billion.

2008

A correction that began in late 2007 causes markets to drop dramatically and makes 2008 one of the five worst years in the 218-year history of the U.S. stock market.

2009

The Board reorganizes the Fund’s investments into risk-based groups, where investments are grouped by the market condition that those assets are intended to address. These better fit the Board’s goal of building a portfolio that will provide a more stable return under a variety of conditions. Based on this and other innovative risk management activities, APFC is awarded the aiCIO Industry Innovation Award in the Sovereign Wealth Funds category the following year.

2012

Continuing the evolution of the Fund’s investments, the Board works to take advantage of APFC’s growing capabilities. Programs are created to bring international bond and infrastructure co-investments in-house.
The Legislature adopts a mechanism whereby Fund earnings are used not just to pay dividends, but to also contribute to state government under a percent of market value (POMV) methodology. The POMV draw is based on a percentage of the average market value of the Fund for the first five of the preceding six fiscal years.

In recognition of this transition period, when state revenues from oil development were unlikely to fully fund state revenue needs in the future, as a pivotal time for the Fund and Alaska, the Board of Trustees pass Resolution No. 18-04. This resolution affirms the importance of formulaic management of transfers into and out of the Fund to ensure its sustainability and long-term growth. In addition to the POMV structure, other elements are essential in achieving a balance between current demands on the Fund and the protection of intergenerational value: Adherence, Sustainability, Inflation Proofing, and Real Growth.

The Fund reaches a value of over $50 billion. This growth is attributed to APFC staff generating higher returns through active asset allocation, portfolio management and commitment to being world-class investors on a global stage.

The Fund reaches a value of over $60 billion. The Alaska Permanent Fund continues to grow in global stature and emerges as an integral part of our state’s fiscal future. APFC accomplishes significant growth with the support of Alaskans, welcoming 17 new staff and building up internal investment and management capabilities. The investment in staff, systems, and the remodeling of office space to accommodate today’s workflow requirements ensures Alaska has a platform to deliver the results Alaskans have come to expect for the next 40 years.

Now more than ever, the State of Alaska is reliant upon APFC’s investment of the Permanent Fund to generate income. The Fund now provides approximately $3 billion in annual revenue to support state services and programs through the POMV draw. This structured draw from the Earnings Reserve Account (ERA) of the Fund now provides a significant portion of the state’s unrestricted General Fund, given the decline in oil revenues and state savings account balances.

The Alaska Permanent Fund continues to grow in global stature and emerges as an integral part of our state’s fiscal future. APFC accomplishes significant growth with the support of Alaskans, welcoming 17 new staff and building up internal investment and management capabilities. The investment in staff, systems, and the remodeling of office space to accommodate today’s workflow requirements ensures Alaska has a platform to deliver the results Alaskans have come to expect for the next 40 years.
Glossary of Terms

**Absolute return strategies** – An array of investment strategies designed to produce returns uncorrelated with market performance and independent of traditional benchmark indices.

**Alternative asset** – Typically, investments that are not traditional asset classes found in most investment plans. APFC considers alternative investments to be assets other than common stocks, bonds, and real estate.

**Asset** – Anything owned that has cash value such as stocks, bonds, or real estate.

**Asset allocation** – The distribution of investments among different types of assets.

**Bond** – A money-raising mechanism in which the bond “issuer”—a corporation, government, or government agency—borrows money usually at a preset interest rate for a preset period of time.

**Dedicated funds** – Capital set aside for a specific purpose or purposes.

**Diversification** – “Don’t put your eggs in one basket,” is the principle of investment diversity. Diversification reduces risk by putting assets in several categories of investments.

**Equities** – Another name for stocks. Represents a share of ownership in public companies.

**Equity real estate** – A type of investment in real property in which the investor has an ownership position.
**Fiduciary** - A legal obligation of one party to act in the best interest of another. When a party knowingly accepts the fiduciary duty on behalf of another party, they are required to act in the best interest of the principal, the party whose assets they are managing.

**Fixed income** - Interest-bearing investments such as government and corporate bonds which mature at specific times, repaying principal plus interest.

**General Fund** - Alaska’s “checking account.” The General Fund contains money the state receives and distributes by appropriation.

**Income** - The return in money from an investment. Can be derived from interest, dividends, real estate cash flow, capital gains and losses, or appreciation and depreciation of investment market values.

**Inflation** - An increase in the price of goods and services, as happens when spending increases relative to the supply of goods on the market.

**Inflation proofing** - Sufficient monies are appropriated to the Fund’s principal from the Fund’s earnings to fully offset the effects of inflation on the principal balance.

**Infrastructure** - Properties or facilities that have been traditionally operated by governments as public assets, such as toll roads or airports.

**Investment** - The purchase of some form of security with the expectation of achieving some relative gain.

**Lease bonus** - A one-time amount paid by a private company competing for the right to lease a section of public land for development.

**Net income** - The amount of earnings that remain after deducting operating expenses.

**Permanent** - Fixed, changeless, lasting or intended to last indefinitely without change. Stable, enduring, abiding.

**Portfolio** - Collection of stocks, bonds or other investments held by an individual or institutional investor.

**Private equity** - An investment in a privately held, non-publicly traded company.

**Pro Rata Share** - Pro rata is the term used to describe a proportionate allocation. It is a method of assigning a percentage amount to its share of the whole.

**Prudent investor rule** - A standard of judgment and care applied to people who make investments. Under this rule, the investor is to use the same judgment and care that an institutional investor of ordinary prudence, discretion, and intelligence would use in managing large investments.

**Purchasing power** - The value of money in terms of what it can buy at one time compared with another time.

**Rate of return** - Profit from an investment, expressed as a percentage of the amount invested.

**Real rate of return** - Total investment rate of return adjusted for the rate of inflation.
**Realized earnings** - Income from various cash flows, such as stock dividends, bond interest, real estate rental cash flow, or net profit or loss from the sale of an investment.

**Renewable resource** - A natural resource such as timber or fish that may be replenished or restored while being consumed.

**Return** - In typical use, the amount, value or benefit gained from some investment outlay.

**Risk** - The possibility, which can be measured, of losing value or not gaining value.

**Royalty** - Payment to the holder or owner for the right to use property such as a patent, copyrighted material, or natural resources.

**Security** - Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

**Statutory net income** - The Permanent Fund’s net income as defined in law. It includes only net realized earnings and excludes any unrealized gains or losses.

**Stock** - Another name for equities. Represents a share of ownership in public companies.

**Trustee** - A person charged with managing assets in the interest of beneficiaries, such as the residents of Alaska.

**Unrealized earnings** - Current market value of an asset not yet sold minus its original cost.

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**APFC – 40 Years**

**APFC – Integrity, Stewardship, Passion**

The Alaska Permanent Fund Corporation, in providing sound stewardship and prudent investment of the Alaska Permanent Fund based on the constitutional and statutory mandates, is an essential participant in Alaska’s fiscal future.

- APFC manages the Alaska Permanent Fund, one of Alaska’s primary sources of renewable revenue.
- As stewards of the Fund, our team possesses the skill and efficiency to ensure that Alaskans continue to benefit from this resource for generations to come.
- APFC serves as a revenue generator for Alaska.

APFC is a talented, award-winning investment firm that embodies the resiliency, integrity, and pioneer spirit of Alaska. The influence of our dynamic, Alaska-based corporation extends around the world based on APFC’s practices of good governance, transparency, and a long-term investment horizon.