

News Release

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Trustees Review First Quarter Performance and Consider Capital Market Insights

Juneau – The Board of Trustees held its quarterly meeting via webinar on December 9-10, 2020 to consider the Alaska Permanent Fund's first-quarter investment performance and associated capital markets insights.

As of September 30, 2020, the first quarter of fiscal year 2021 (FY21), the Alaska Permanent Fund's total value was \$65.1 billion. The Principal, the permanent part of the Fund totaled \$54.2 billion, of which \$7.5 billion was unrealized gains. The Earnings Reserve Account, the part available for legislative appropriation, totaled \$10.9 billion and consisted of three parts: \$6.3 billion of uncommitted realized earnings, \$3.1 billion of committed realized earnings to the FY22 POMV draw, and \$1.5 billion in unrealized gains.

It should be noted that while this meeting focused on first-quarter performance, second-quarter performance thus far into December has portfolio valuations reaching all-time highs, total Fund value being north of \$72 billion this week. This is a growth of more than \$7 billion in Fund value over the past 2.3 months. The second quarter of FY21 closes on December 31, 2020, and as we have seen throughout this year - markets are anything but predictable.

Marcus Frampton, Chief Investment Officer, recognizes that "the expected return environment for institutional portfolios today are challenged by high stock valuations and low-interest rates that are prevailing. Staff's two most notable strategies for achieving the Fund's stakeholders' return expectations are a material overweight to value stocks over growth stocks and the continued growth of our private equity program. As we reviewed at this Board meeting, the ten-year returns on APFC's private equity strategy have been outstanding, and in the fourth quarter of the calendar year 2020, we started seeing markets turn in favor of value stocks."

The full two-day agenda provided opportunities for APFC's staff, consultants, advisors, and external partners to bring forth the following for the Board's consideration:

- A Capital Markets overview by Callan, APFC's performance consultant, where it was noted that for the quarter that the Total Fund underperformed the Performance and Passive Benchmarks, but outperformed the inflation +5% Board objective. Over the 5- and 10-year periods, the Fund outperformed all three targets.
- An overview of APFC's key risk measures that include: Value at Risk (VaR) on a standalone and relative-to-benchmark basis, tracking error, statistics that measure realized volatility and Sharpe Ratios, asset class, and factor contributions to risk scenarios. It also covers Geographic, Currency, and Liquidity risks for the Total Fund. The Board approved a risk-waiver request allowing staff to manage future outstanding private asset commitments below the lower yellow and red zone parameters, thus preventing suboptimal allocation to maintain targeted commitment levels.
- Presentations on APFC's Alternative Investments portfolios: Private Equity, Special Opportunities, Absolute Return, Private Credit, and Infrastructure that focused on investment performance and the competitive landscape. APFC's reputation for adaptability and performance within these private markets enhances deal flow and access, which in turn enhances returns. Success and increasing scale mean it doesn't get easier; rather, they bring greater opportunity, increased resource requirements, and enhanced risk considerations as the Alternatives portfolio grows in scale and complexity.

- Two of APFC's private equity partners, Riverstone Holdings LLC and NGP Energy Capital, offered a sector outlook on the future of oil and gas. Both firms are leading energy-focused private equity firms and currently manage various energy investments on behalf of APFC. It is evident that the energy market continues to transition to meet decarbonization targets, and global energy production and consumption trends are changing. Energy transition investment opportunities are growing, and APFC, in conjunction with our partners, is well-positioned to allocate capital across the energy spectrum in traditional and emerging technologies.
- A sector outlook by L Catterton, one of the largest consumer-focused private equity firms in the world, on the future of hospitality and tourism based on relevant consumer trends. COVID-19 has not changed consumers' fundamental wants and needs, and travel is one of the most missed activities. Noted in the presentation: 'while the future of travel & leisure will be more familiar than not, sectors exposed to adventure & outdoor travel will be permanently advantaged.' This is good news for Alaska, a premier destination for the great outdoors!
- The consideration of a study by John Skjervem, Chief Executive Officer of Allan Biller and Associates, and a member of the Investment Advisory Group for the Board of Trustees. The conclusion being that based on APFC's asset allocation, risk appetite, and market conditions, the Board's long-term return objective of CPI +5% will be difficult to achieve in the future.

Angela Rodell, Chief Executive Officer, remarked that "the presentations highlighted the challenges that APFC faces in our dual role of protecting the Principal of the Fund and in generating revenue to support draws for state services. Currently, the stock market reflects strong growth, but the long-term outlook is tempered at best. Energy and tourism, two sectors Alaska heavily relies on, are both in transition, indicating the state's continued reliance on the Fund in the coming year."

The Board also heard from staff and considered the following items related to corporate operations:

- The adoption of a flexible work policy for APFC's staff based on the success of working remotely and the significantly lower cost compared to the creation of physical offices. The policy is designed to meet the Board's strategic goal to enhance staff motivation and talent recruitment and retention.
- A comprehensive briefing on cybersecurity given the ever-present and sophisticated threats within the information technology space. APFC remains ever diligent in protecting the billions of dollars of financial assets under our stewardship.
- Briefing on the two-phase process for bringing forth changes to state regulations related to real estate investments governed under 15 AAC 137.450 to include foreseeable real estate investment opportunities that are prudent to achieve the risk and return profile for this asset class. Adopting changes to the APFC regulations will occur in two phases, the first being public comment followed by the Board's evaluation of those comments and decision to adopt any proposed changes or some variation at a subsequent meeting.
- Approval of a \$25,000,000 supplemental budget request for the FY21 Investment Management Fee allocation to fund external manager fees. This request is based on current fiscal year portfolio performance that could cause our investment fee obligations to exceed our FY21 operating budget appropriation.

In conclusion, Chair Moran notes that "throughout this pandemic, the APFC team and our global partners continue to deliver results and returns that benefit the portfolio, and thus benefit Alaskans." He encourages Alaskans to learn more about the Permanent Fund's history and APFC's investment management role in the recently released publication ['An Alaskan's Guide the Permanent Fund.'](#)

The next meeting of the Board of Trustees will be held in Juneau, Alaska, on February 17-18, 2021.