APFC ALASKA PERMANENT FUND CORPORATION

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News Release
For Immediate Release: February 18, 2021
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Trustees Adopt Risk Tolerance Metrics for Long-Term Investment Management

Juneau – The Board of Trustees held its quarterly meeting via webinar on February 17-18, 2021 to consider the Alaska Permanent Fund's mid-fiscal year performance, assess risk appetite for the portfolio, review capital markets insights, and assess the long-term asset allocation.

As of December 31, 2020, the second quarter of fiscal year 2021 (FY21), the Alaska Permanent Fund's total value was $71.8 billion. Financial statements for January 31, 2021 were posted today that reflected the Fund's total value at $72.7 billion, an increase of $938.7 million over the one-month time period. The Principal, the permanent part of the Fund totaled $57.8 billion, of which $11.0 billion was unrealized gains. The Earnings Reserve Account, the part available for legislative appropriation, totaled $14.9 billion and consisted of three parts: $9.0 billion of uncommitted realized earnings, $3.1 billion of committed realized earnings to the FY22 POMV draw, and $2.8 billion in unrealized gains.

The total return for the first half of FY21 of 15.74% and 9.95% for the quarter ended December 31 demonstrated extreme public and private equity markets' performance. As these equity markets climbed, most of the portfolio rebalancing has been trimming equities and redeploying capital into Fixed Income and Cash. This is a reflection of the staff's strict adherence to asset allocation and fortitude in making tough, tactical decisions.

The Board adopted a quantitative risk metric to support its comprehensive asset allocation review. APFC's risk appetite is defined in terms of a Risk Tolerance Portfolio based on an 80/20 Equity/Bond mix and a Liquidity level floor for the combined allocation to Public Equities, Fixed Income and Cash.

Chair Moran noted that "the adoption of this metric provides the Board with an additional benchmark tool for the long-term investment of the portfolio. The Trustees have an established target return level, and we now have identified a risk appetite to provide a framework for the asset allocation and a reference for the overall risk tolerance in the portfolio."

Other items brought forth by APFC's staff, consultants, advisors, and external partners for the Board's consideration:

- A Capital Markets overview by Callan, APFC's performance consultant, noting that during the calendar year 2020, the global capital markets experienced the sharpest and fastest equity market decline ever. The S&P 500 dipped into bear market territory in just 16 trading days and showed a loss of -33% after only 23 days. The V-shaped recovery climbed into positive territory by mid-August and ended the year up more than 18.4%.

- Callan's overview of the Fund's performance concluding that compared to the prior calendar year-end, the Fund increased in value by 8.1%. For the period ending December 31, 2020, the Total Fund outperformed the Performance Benchmark and CPIU+5% return target but underperformed the Passive Benchmark for the quarter and the year. Over the 3-, 5-, and 10-year periods, the Fund outperformed and was ahead of all three targets.

- An asset class update on APFC's Public Equities portfolio brought forth analysis on external and internal management and the positioning of the portfolio. Active Managers have consistently delivered above-average net-of-fee experience, and over the past nine years fee arrangements have been structured to be more incentive-based and favor APFC. Regarding internal management, APFC's primary objective is to generate positive excess returns utilizing a tactical tilt strategy as a diversifier to APFC's active management.

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- A presentation on 'Identifying and Managing Equity Downside Risk' by the Board's investment advisor Ken Frier, Principal with SECOR Asset Management. The economy has historically had the most bearing on what is next for the stock market, as most crashes are linked to economic growth declines. Value, price trend, inflation, credit spreads and volatility are also relevant to outlook.

- An extensive review of Callan's capital market projections and the implications for APFC's expected portfolio returns and asset allocation. Starting in FY22 for the total fund, Callan projects a median 10-year annualized return of 6.20%, a reduction of roughly 55 basis points relative to the current fiscal year. The inflation expectation is reduced from 2.25% to 2.00%. The projected median 10-year annualized real return of 4.20% is a reduction of roughly 30 basis points for the current year's projections. These new projections will be incorporated in APFC's History & Projections report at the start of the new fiscal year in July of 2021.

- A presentation 'How to Maximize Long Term Investment potential in Value Equities' by Lyrical Partners, an external investment manager, focused on large and mid-cap companies. Lyrical's "VQA – Value Quality – Analyzability" framework produces a combination of deep value and quality/growth.

- A presentation by one of APFC's quantitative value equity managers, LSV Asset Management, titled 'Are Value/Growth Cycles Predictable?' The presentation focused on measuring the relative valuation of value vs. growth derived from discounted cash flow models and compared its predictive power to other traditional measures of relative valuation, past value/growth performance and interest rates.

- The adoption of 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.

- An update on APFC's Internship Program that is comprised of both an in-house program and a partnership program with six participating external managers. APFC is actively recruiting for our 2021 interns. To be eligible, the student must be an Alaska resident studying outside of the State or a student attending post-secondary school in Alaska. For more information, go to our Careers page.

As the meeting concluded, Chief Executive Officer Angela Rodell remarked that "asset allocation is the most important undertaking we do. It is the foundation that generates return and minimizes risk. The work done by the Trustees at this meeting, the upcoming asset allocation workshop, and the board meeting in May is instrumental in delivering on Alaskans' expectations. It is equally imperative to note that we rely on Alaskans to provide us with the stability we need to inform our decisions."

The next meeting of the Board of Trustees will be held in Juneau, Alaska, on May 19-20, 2021.

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