APFC ALASKA PERMANENT FUND CORPORATION
801 W 10TH SUITE 302 | JUNEAU, AK 99801
907.796.1500 | apfc.org

News Release
For Immediate Release: May 20, 2021
Contact: Paulyn Swanson 907.796.1520

Trustees Assess Market Outlook and Opportunities for Real Estate

Juneau – The Board of Trustees held its quarterly meeting at the Elizabeth Peratrovich Hall in Juneau and simultaneously via webinar on May 19-20, 2021, to review the performance of the Alaska Permanent Fund through the third quarter of fiscal year 21 (FY21), review risk metrics, assess the capital markets outlook, incorporate updates in the investment policy, get an update on pacing plans for Real Estate and Alternative Investments, and focus on the Real Estate portfolio.

Chair Bill Moran remarked that "the growth of the Alaska Permanent Fund is unprecedented. We must put this unparalleled growth into context and recognize it is not sustainable. Recessions are likely in our future and will have a negative impact on the Fund, which will impact the State. Knowing that the State now gets more than 70% of its revenue from annual withdrawals from this Fund, we must remain diligent in managing and understanding our portfolio risk."

The total value and the stellar performance of the Alaska Permanent Fund continue to dominate the fiscal year-to-date narrative. Through the third quarter of FY21, a period beginning July 1, 2021 and ending March 31, 2021, the Alaska Permanent Fund continued to exceed established performance benchmarks and projections, increasing to a total value of $76.3 billion, which represents an increase of more than $11 billion since the beginning of the fiscal year. The total Fund return through the third quarter of FY21 was 22.69% and 5.95% for the individual quarter ended March 31; this was fueled mainly by public and private equity markets. Callan reports that this performance placed the Total Fund above the median relative to the performance of other public funds and large endowments/foundations.

Callan, APFC's performance consultant, provided a review of performance. For the period ending March 31, 2021, the Total Fund outperformed the Performance Benchmark, CPIU+5% return target, and the Passive Benchmark for the last quarter, fiscal year to date, and over the 3-, 5-, 10- and 20-year periods. The importance of diversification was also highlighted, recognizing that asset classes perform well during different market cycles. The Public Equity portfolio outperformed its index during the quarter. The Fixed Income portfolio lagged its benchmark over the quarter. In the Alternatives portfolio, Private Equity & Special Opportunities outperformed its benchmarks in the quarter; Real Estate, Private Income and Absolute return underperformed.

The Real Estate portfolio plays a unique and essential role in APFC's investment portfolio in terms of diversification, regular cash flow income, and long-term growth. As an inflation-resistant cash yield, Real Estate tends to embody characteristics of both debt and equity, where lease payments resemble fixed income obligations. At the same time, the property's residual value contains equity-like attributes. While the asset class has struggled in recent years, it remains central to the investment portfolio for the Fund.

"The successful growth of the Fund's Real Estate portfolio up to the ultimate target allocation of 12% over the next four years is a key focus for the Investment Team. High quality private Real Estate investments held directly or through open-ended funds remains one of the most attractive inflation-protection cash yielding investments in the market today," commented APFC CIO, Marcus Frampton.

To get a better look ahead at the direction of the Real Estate market post-covid, the Board heard a presentation by External Manager, Heitman Capital, who shared investing strategies while discussing sector trends, outlooks and implications of potential real estate investment opportunities. Partners Clarion Gables and Realterm provided a deep dive into multi-family and industrial sectors, both of which have a growth outlook.

The FY21 financial update as of March 31, indicates that the Principal received $89 million in mineral royalty deposits in the third quarter for a total of $207 million year-to-date in permanent contributions. Statutory net income is $5.3 billion year-to-date, of which $2.4 billion was generated in the third quarter. This realized net income flows to the Earnings Reserve Account of the Fund and remains invested and available for the Legislature's appropriation. During the third quarter, $750 million was transferred to the General Fund as part of the FY21 POMV $3.1 billion annual draw, bringing the total transferred fiscal year to date to $2.3 billion. APFC works together with the Department of Revenue to keep the funds invested as long as possible while meeting the State's liquidity needs.

Additional topics presented by APFC's staff, consultants, advisors, and external partners included:

- Risk scenarios and dashboards for the total Fund and the underlying asset classes. Three inflation scenarios were considered along with their stressed impact on the asset classes and Total Fund should there be a sudden inflation shock to the portfolio. A risk report was presented that aggregated Fund risk compared to approved risk appetite, along with other strategic risk metrics.
- A lengthy discussion of current inflation concerns. In a transitory inflationary environment, the Fund stands to lose value should there be a severe and sudden inflation shock. Recognizing this eventuality, the Fund is positioned to mitigate potential losses with allocations to Treasury Inflation-Protected Securities (TIPS) and Real Estate.
- A Capital Markets overview by Callan noted that global equity continued to surge in Q3 delivering "eye-popping" year-to-date returns of +56% in the S&P 500, 46% MSCI World +46%, Emerging Markets +58% and US Small Caps up +95%. The APFC portfolio has benefitted from this spike in the markets.
- An overview of SPACs (Special Purpose Acquisition Companies) by Advisor Georg Zinn, serving on the APFC Investment Advisory Group (IAG) for the Board of Trustees. Mr. Zinn presented a general introduction into the appeal and mechanics of SPACs, the potential impacts of SPACs on capital markets, and implications for the Permanent Fund.
- The adoption of a revised Investment Policy to include risk appetite and updates to the risk parameters in the current policy.
- Approved the FY22 Pacing Plan for Real Estate with a targeted annual capital deployment of $800 million for FY22-FY25 and maintaining 15% of the asset class in Real Estate Investment Trusts (REITs).
- Approved APFC's FY22 Alternative Investments Pacing Plan that includes a target of $1.6 billion annual deployment pace for Private Equity and Special Opportunities and a $1.1 billion annual deployment schedule for Private Income. Consistent with prior years, flexibility thresholds to increase or decrease pacing are included in the plan.
- Board approval for the FY21 Supplemental budget for Investment Management Fees given public equity outperformance and the FY22 APFC operating budget based on final passage and enactment of an appropriation bill by the Legislature. APFC's FY22 budget request is $211 million and includes APFC's staff and management costs associated with both internal and external investment of the Fund.

The next quarterly meeting of the Board of Trustees will be the Annual Meeting and held in Kodiak, Alaska, on September 28-29, 2021.

###