



Alaska Permanent Fund Corporation

# Alaska Permanent Fund

## January 8, 2016



# 1969: The debate begins

Alaska receives  
\$900 million in  
Prudhoe lease  
sale bonuses

Prior year state  
budget: \$112  
million



# 1976 voters guide

*“Alaska’s state government [should] set aside a rainy day fund to benefit this and future generations of Alaskans.”*

Alaska State Chamber of Commerce

*Alaska Voters Agreed:*

*By a margin of 75,588 to 38,518, voters decided to create the permanent fund*



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# The Alaska Constitution

Article IX, Section 15, provides:

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 [Effective February 21, 1977].



# **From 1976 to 1980, Alaskans debated the Fund's purpose:**

**Development bank**

**Or**

**Investment fund**



# 1980: Creation of APFC and the dividend

## Senate Bill 161

- Created Alaska Permanent Fund Corporation to invest and manage assets of the Fund
- APFC overseen by 6 member Board of trustees
- Original investment authority limited to list of approved investments.

## Senate Bill 122

Created the Permanent Fund Dividend program.



# Evolution of Board Governance

- Originally 3 Exec. and 3 public members
- 1982-amended to 2 Exec. and 4 public
- 2004- "for cause" removal provision added for public members
- Goal: find right balance to insulate investment decisions from politics, while not isolating APFC from its state roots

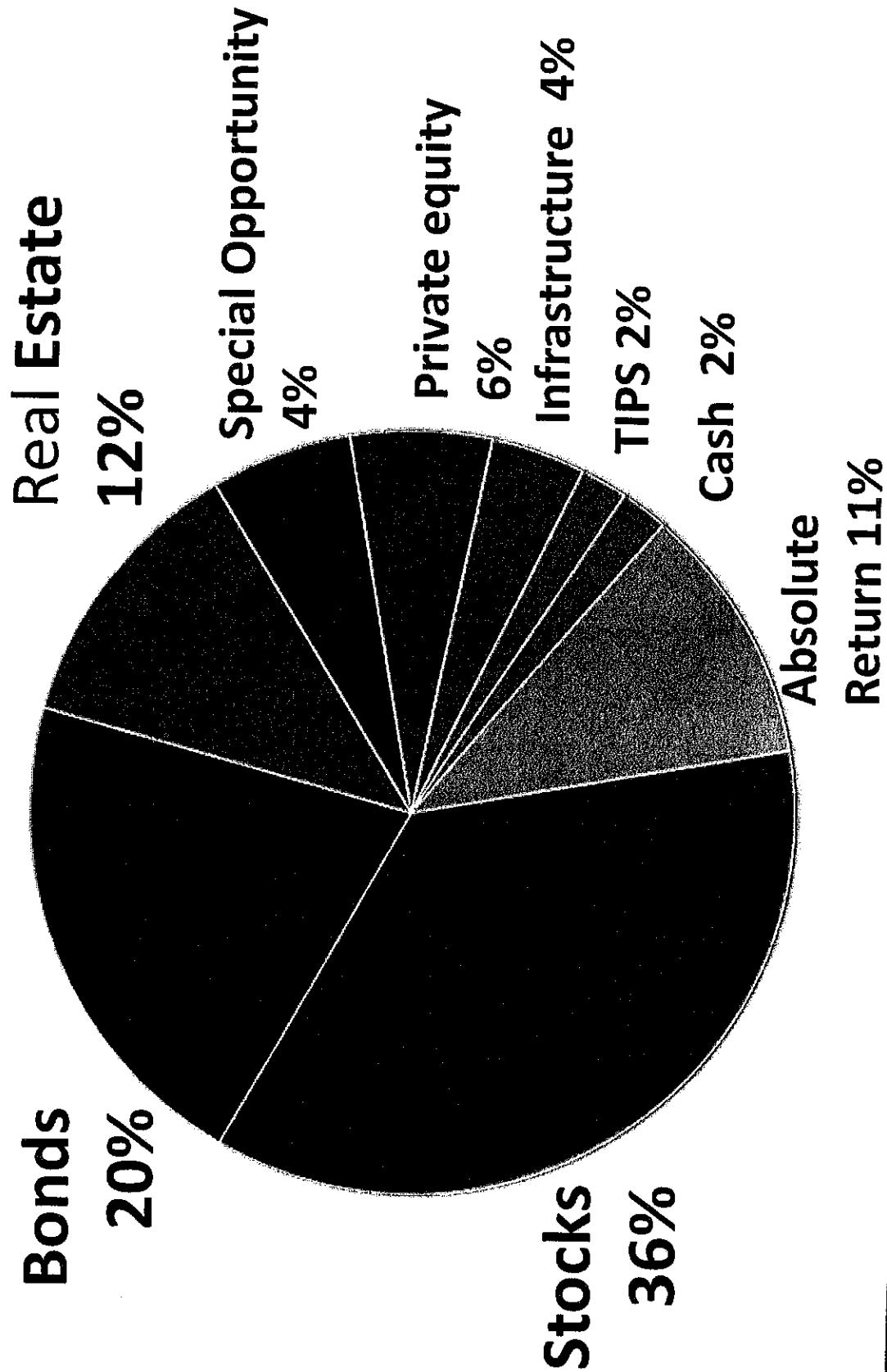


# **Evolution of investment authority**

- Original authority limited to legal list
  - List grew and grew
- 2005-list was replaced with “Prudent-investor rule”
  - Exercise judgment and care of similar institutional investors,
  - while considering both
    - preservation of purchasing power of fund
    - Maximizing total fund return



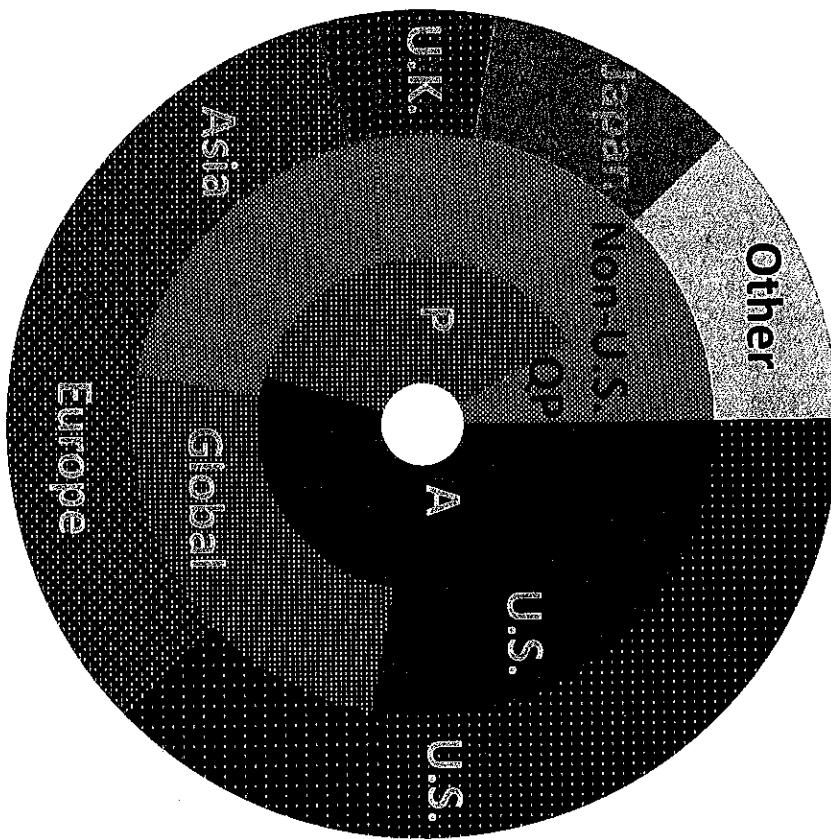
# Target Asset Allocation



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# Stock Portfolio

\$20.9 billion as of  
06/30/2015



■ By country or region

■ By mandate:  
U.S., Global, Non-U.S.

■ By management:  
Active, Passive,  
Quasi-passive

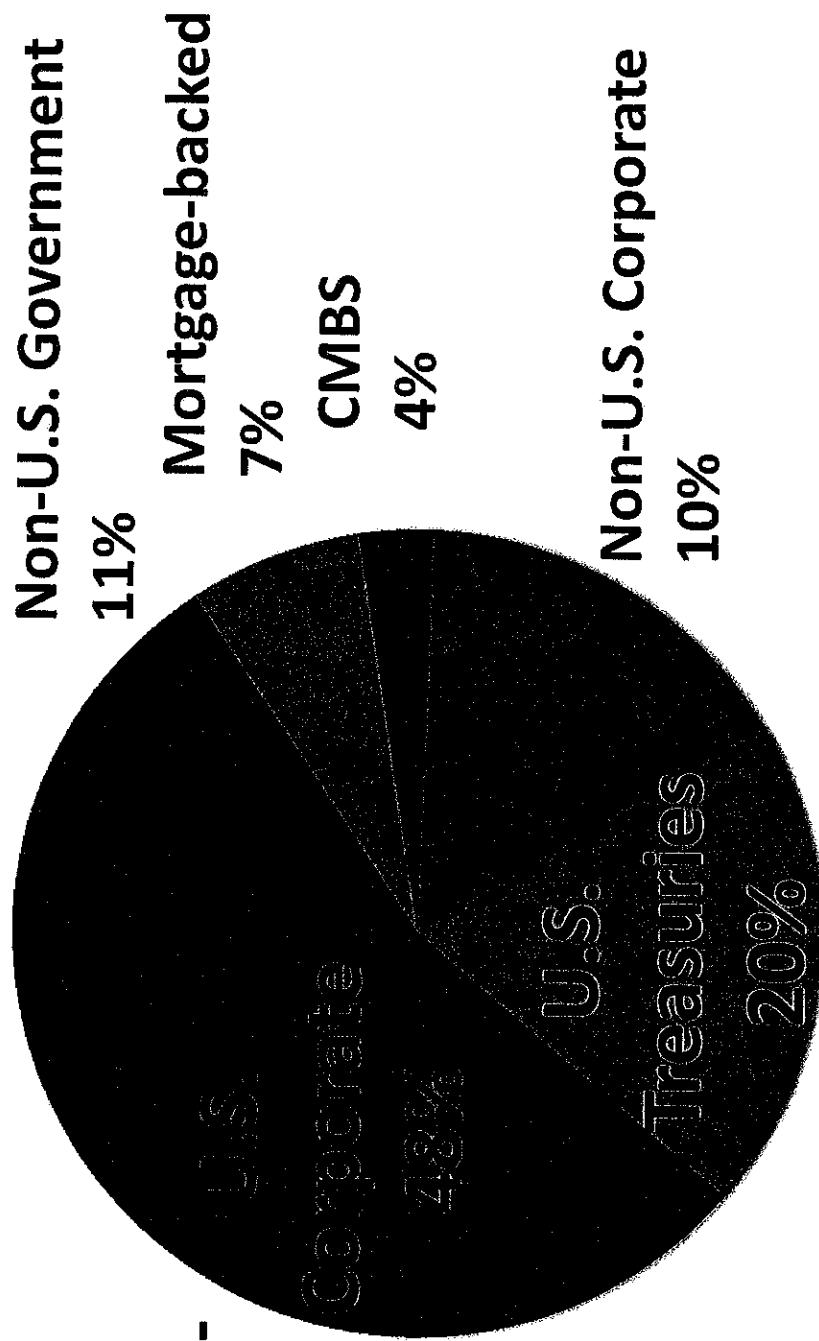


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# Bond Portfolio Composition

\$11.1 billion as of  
06/30/2015

\$9.7 billion in-  
house



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# Real Estate

Industrial

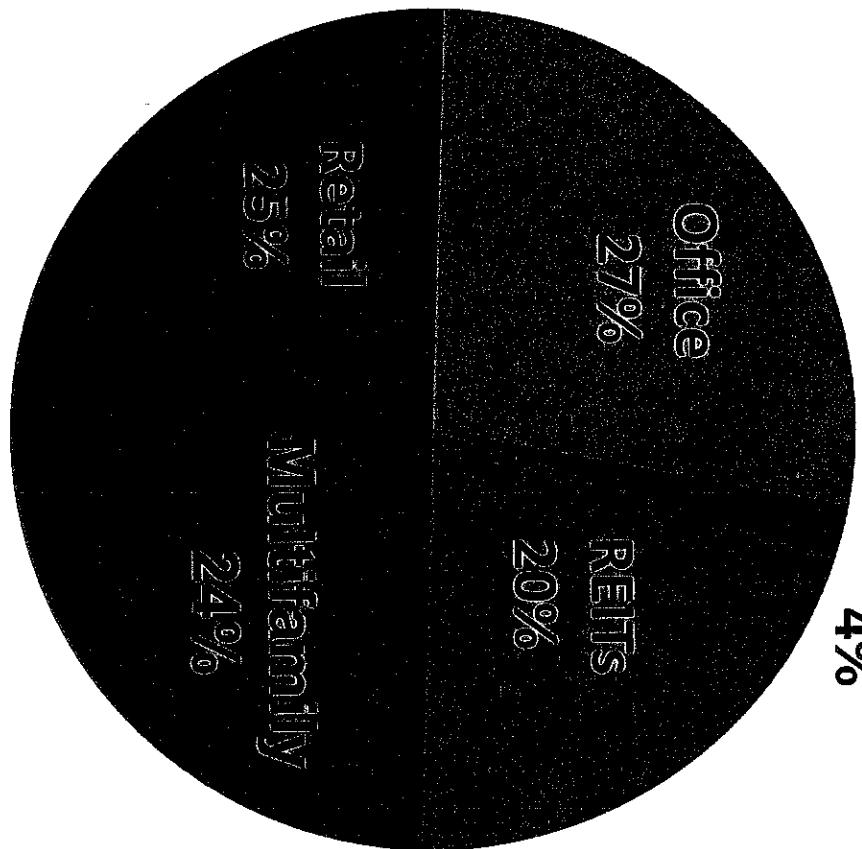
4%

\$6.5 billion as  
of

06/30/2015

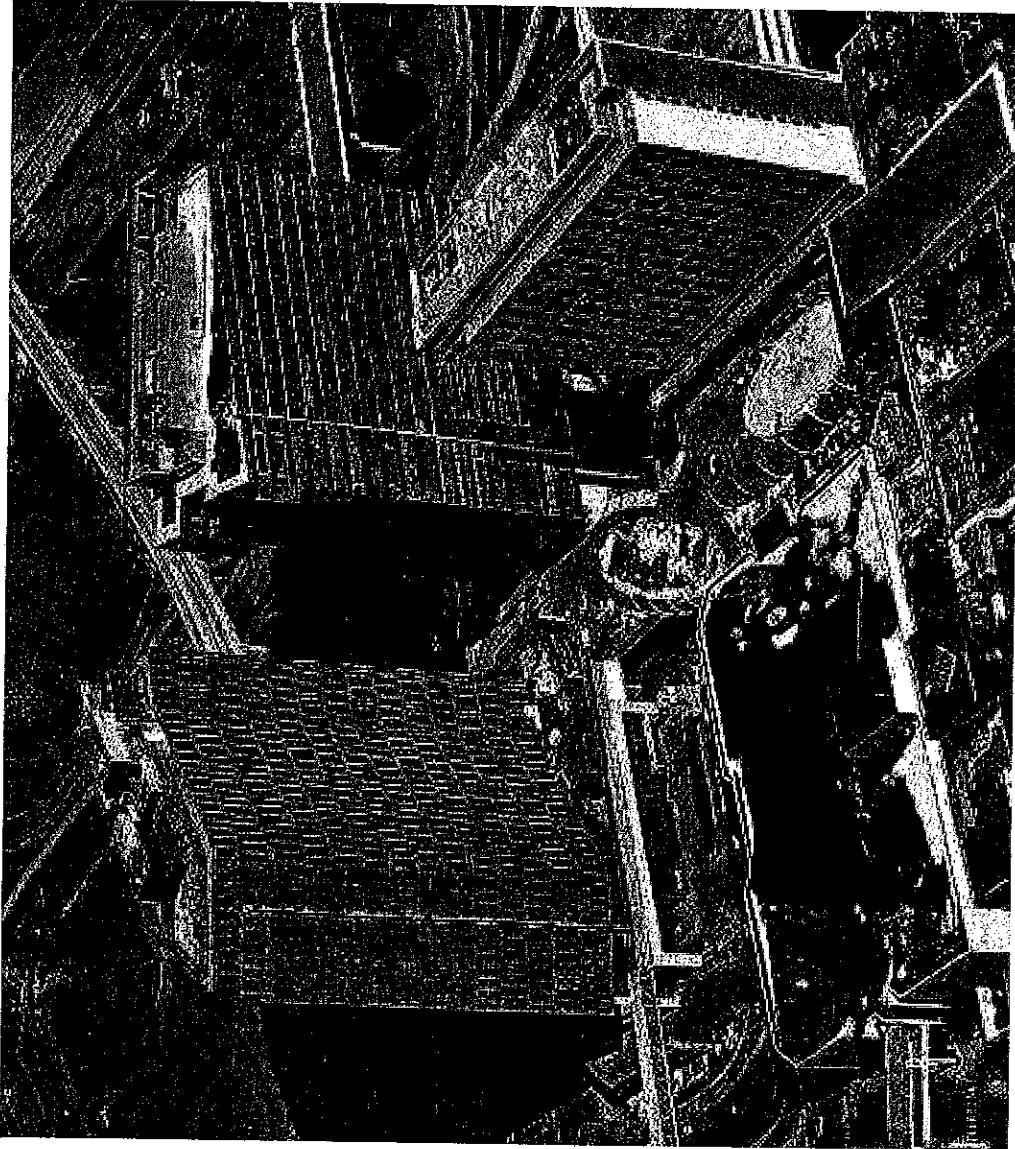
58 directly held  
properties

Exposure to  
Europe growing



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# Tysons Corner Center



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# Absolute Return

\$5.3 billion as of 06/30/2015

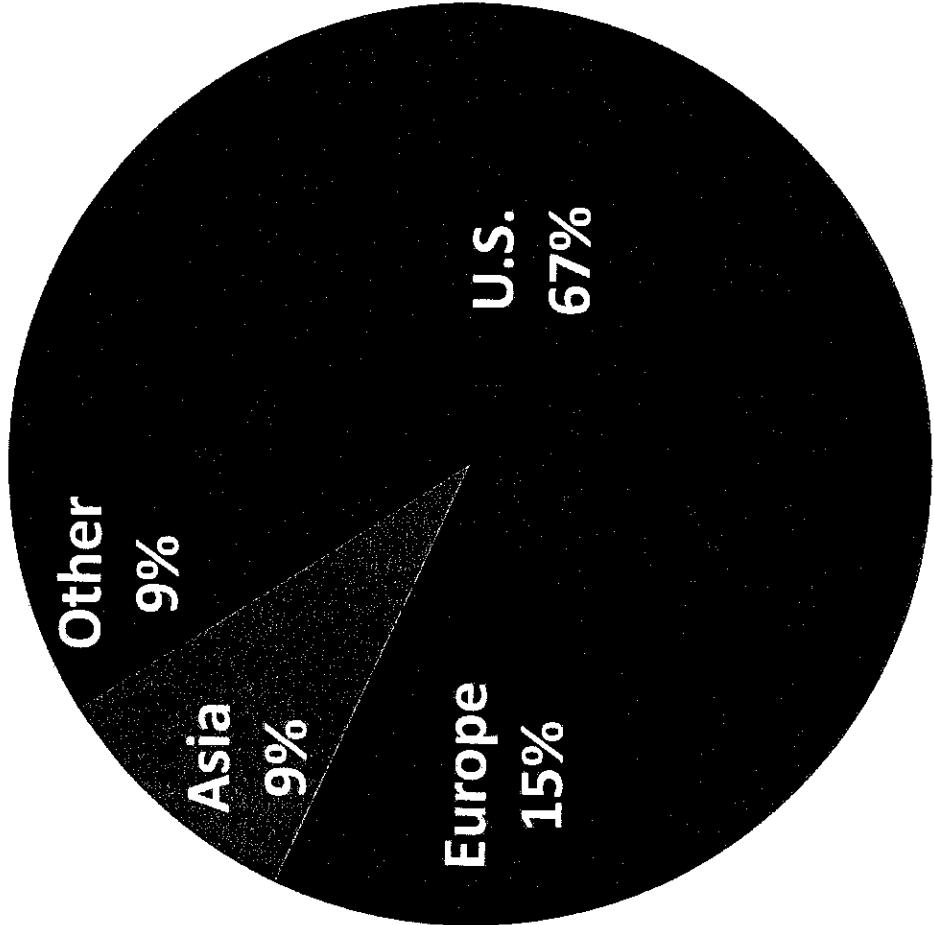
Externally Managed-\$2.5 billion

Internally Managed-\$2.8 billion



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# Private Equity



\$3.2 billion as of 06/30/2015

Avg. annual commitments 20

18.6% net return last 3 years

Benchmark return 15.5%

Direct Co-investment  
program implemented in  
FY2014 \$125 million deployed



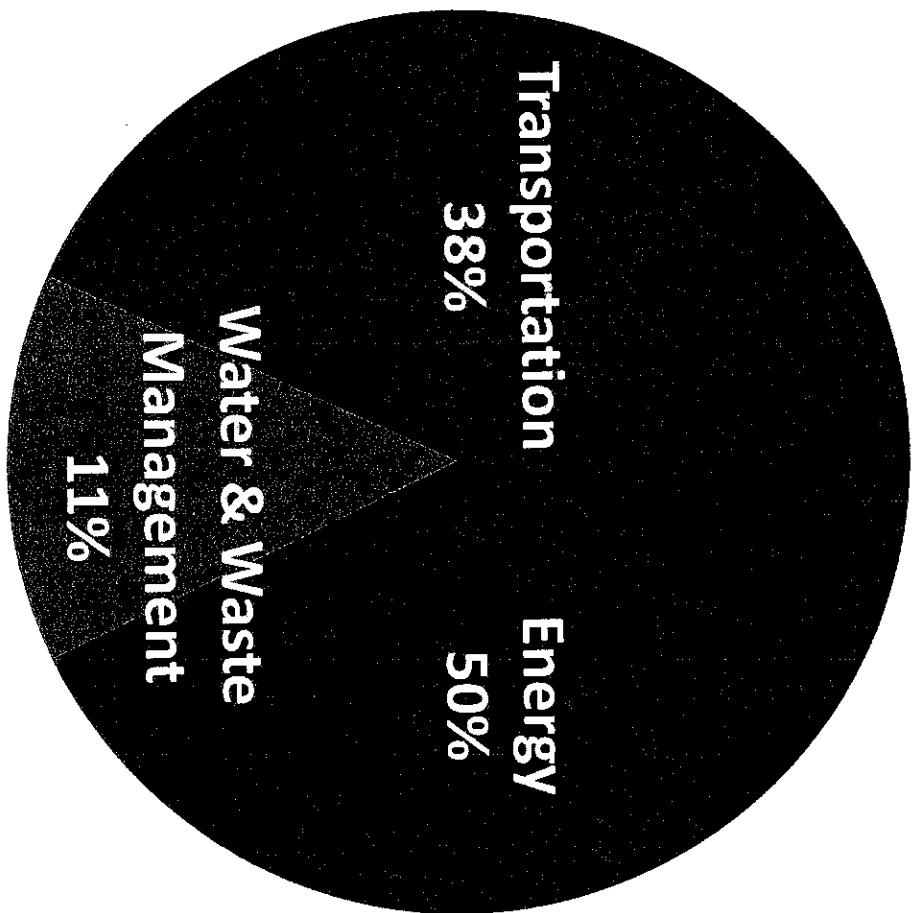
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# Infrastructure Holdings

\$1.5 billion on 06/30/2015  
net return of 9.7% over last  
three years

Ex-S-European airports, port  
terminals, London water  
utilities, and power  
generation

Co-investment program  
implemented in FY14,  
currently at \$35 million



# Special Opportunities

Direct investments in private companies-examples: Juno Therapeutics and Denali Therapeutics

Direct investments in specialized funds-examples: Dyal and Blackstone PE funds

\$1.9 billion as of 06/30/2015

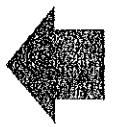


# Statutory Net Income

**Principal** (income-producing investments)



Statutory Net Income (i.e. realized income)  
gets deposited into the ERA

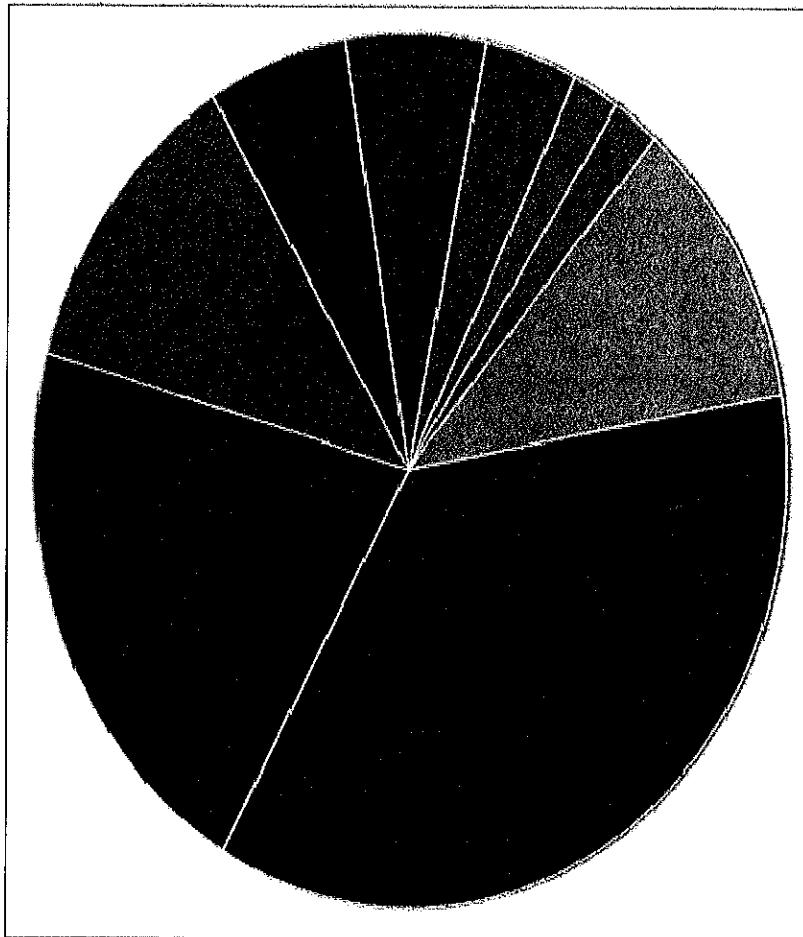


Income in ERA available for  
Appropriation

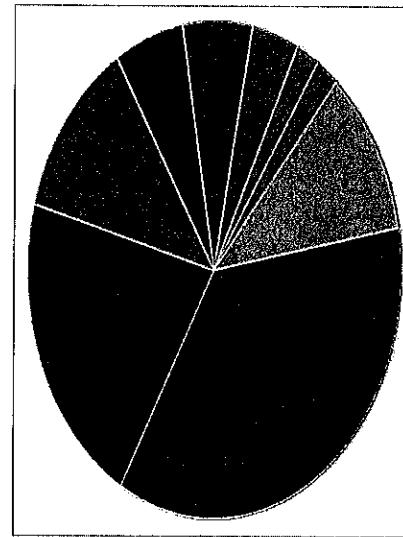


**Pro rata share of main fund assets reflecting  
value of income, not cash, are transferred to  
ERA**

**Main Fund allocation**



**ERA allocation**



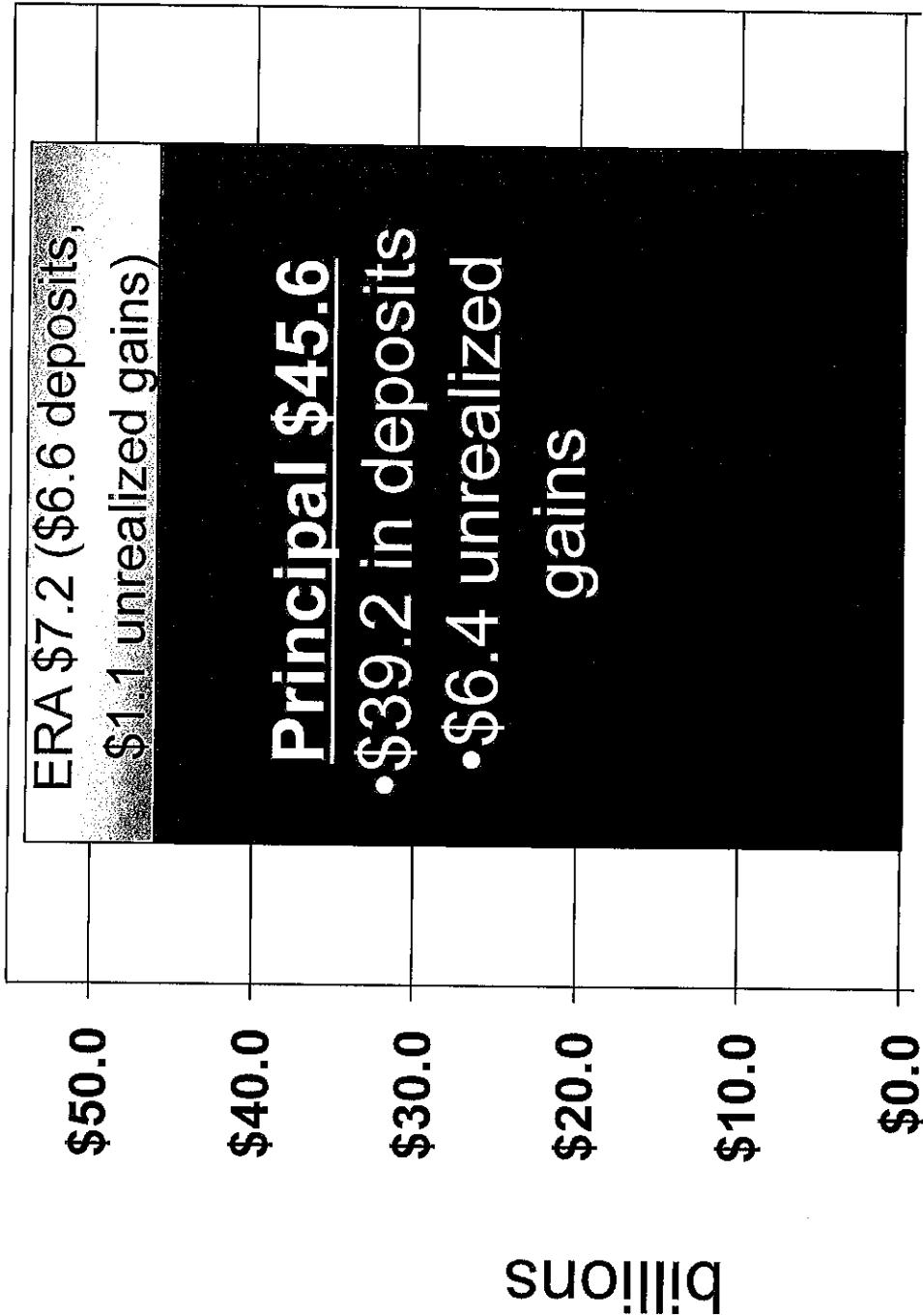
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# **Two forms of income**

- Statutory net income excludes unrealized gains and losses
  - So only realized gains are transferred to ERA
- But, in 1998 definition of “income” for accounting purposes was modified to account for “unrealized gains and losses”
  - unrealized gains earned by principal are a part of principal, and
  - unrealized gains earned by ERA are part of ERA



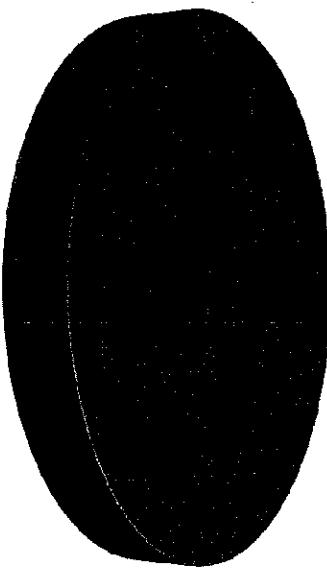
# Accounting for both incomes



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# The Income-Producing Blueberry Pie

- Assume the basic following facts:
  - Fund buys blueberry pie for \$20
  - Earnings reserve reflects 25% of total fund
  - So, \$20 pie was funded with
    - \$15 of principal, and
    - \$5 of earnings



Blueberry pie

- principal
- earnings



# Capital Appreciation

- Assume a horrible storm destroys most of existing blueberry stock
  - Supply goes down, but demand is static
  - Value of our pie appreciates from \$20 to \$40
    - Principal's share now worth \$30 (initial cost \$15)
    - Earnings reserve share now worth \$10
  - But, unless we sell (realize) a portion of the pie,
    - The increased value reflects unrealized gain, not statutory net income
    - No income is transferred from principal to earnings



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# Harvesting Gains

- Assume we learn blueberry supply will recover in 6 months and our unrealized gains will disappear
- So, we sell the whole pie for \$40
  - \$15 remains in principal to cover its cost
  - \$15 realized gain is transferred to earnings reserve
  - Earnings reserve now has \$25
    - \$5 original cost
    - \$5 of its realized gain and
    - \$15 of realized gain from principal



# Capital Depreciation

- Assume a health report comes out announcing that blueberries cause insomnia
- Demand for our pie is decreased and the value drops from \$20 to \$12
  - principal investment is valued at \$9, reflecting unrealized loss of \$6
  - Earnings investment is valued at \$3, reflecting unrealized loss of \$2
- Should we sell or hold?



# Realizing Losses

- Assume we conclude demand will continue to erode, making it prudent to cut our losses
- So, we sell the whole pie for \$12
  - \$12 is returned to principal from sale proceeds
  - \$3 is moved to principal from earnings reserve
  - Leaving earnings reserve with a loss of \$8
- Note: with a long-term time investment horizon, this activity is rare (example-2009)



# ERA Going Forward:

- Liquidity Consideration:
  - Some APFC asset classes, like private equity, are illiquid, making a portion of the ERA illiquid
  - Yet all of the ERA is “available for appropriation”
- Volatility Consideration:
  - Permanent Fund and ERA are subject to ups and downs experienced by capital markets
  - Going forward, is a long-term time horizon for ERA workable?



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# **ERA Going Forward:**

- Counterweight:
  - Net Income in ERA is immediately invested alongside main fund
  - allowing the nominal value of this income to remain deployed and continue earning income until it is appropriated
  - Over the last ten years, the Fund's annualized return was 6.4%
  - Can we have our cake and eat it too?



# Statutory Net Income

Fiscal Year	Realized Net Income	Realized Return
2005	\$1754	6.30%
2006	\$2,689	8.66%
2007	\$3,428	9.96%
2008	\$2,938	7.77%
2009	(\$2,475)	7.86%
2010	\$1,590	4.91%
2011	\$2,143	5.96%
2012	\$1,568	4.02%
2013	\$2,927	6.97%
2014	\$3,530	7.52%
2015	\$2,907	5.67%



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# Use of Realized Net Income

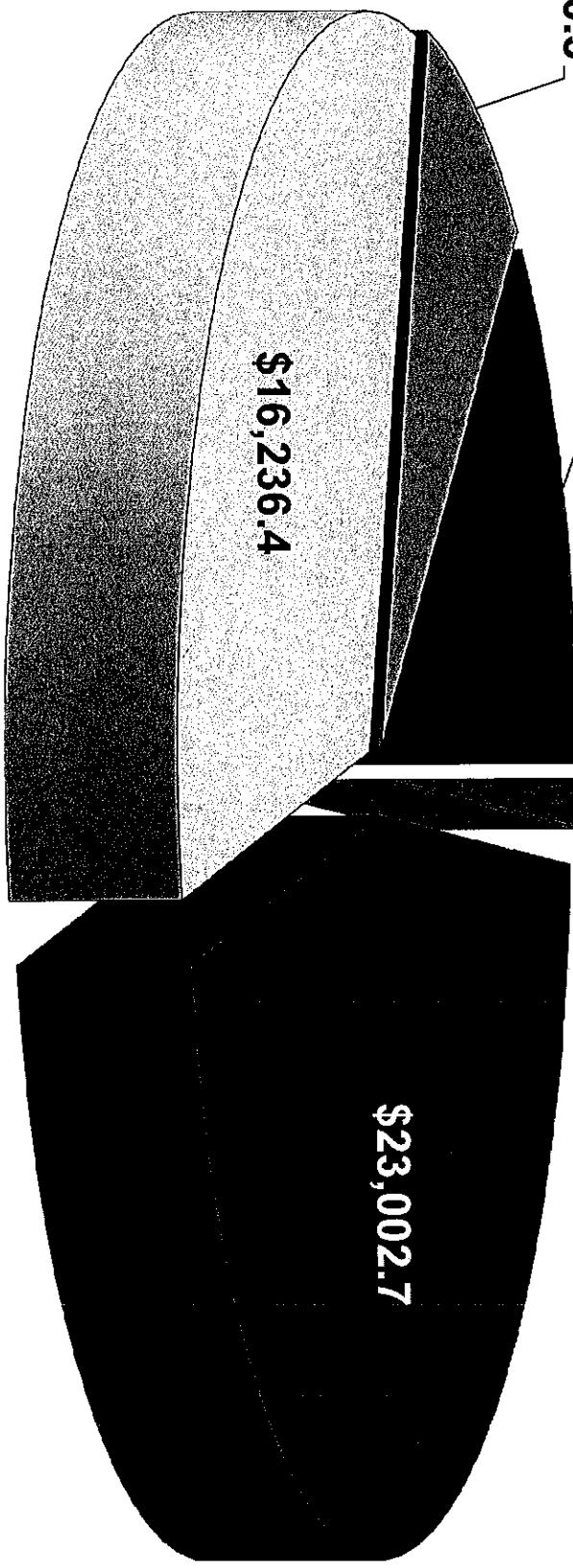
\$536.3

\$4,340.3

\$6,146.5

\$23,002.7

\$16,236.4



- General fund
- Dividend appropriations
- Inflation proofing transfer to principal
- Special appropriations to principal
- Undistributed realized income balance



# Money in and out, and current value

**\$39.2  
billion**

Deposited  
into  
Principal  
(corpus)

**\$45.6  
billion**

Market  
Value of  
Principal

**\$52.8  
billion**

Total Fund  
Value  
6/30/15



# Questions?

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