ALASKA PERMANENT FUND CORPORATION
SPECIAL MEETING OF THE BOARD OF TRUSTEES

September 6 and 7, 2023
8:30 a.m.

Originating at:
Michael J. Burns Building
David Rose Board Room
801 West 10th Street, Third Floor
Juneau, Alaska 99801

Trustees Present:

Ethan Schutt, Chair
Gabrielle Rubenstein
Adam Crum
Craig Richards
Jason Brune
Ryan Anderson

APFC Staff Present:

Deven Mitchell, CEO
Marcus Frampton, CIO
Chad Brown
Jennifer Loesch
Rachel Price
Jacki Mallinger
Jessica Thornsbury
Elie Jordyn
Michael Prebeg
Norix Mangual
Lara Pollock
Chris LaVallee
Shawn Calhoon
Terek Rutherford
Valeria Martinez
Sebastian Vadakumcherry
Marisa McComas
Allen Waldrop
Val Mertz, CFO
Chris Poag, General Counsel
Alexander Smith
Paulyn Swanson
Fawad Razzaque
Jedediah Smith
Joe Shinn
Larissa Murray
Rachel Zepp
Rafael Ramirez
Sang Won Song
Scott Balovich
Stephen Adams
Youlian Ninkov
Brittney Ortega
Valeria Buschfort
Sarah Struble

Investment Advisors:

John Skjervem

Other Participants:

Amory Lelake
Erin Shine
Jack Peterson
Jon Haghayeghi
Noah Conlon
Steve Moseley
Steven Gagliardo
Anne Rittgers
Gina Romero
Jeff Stepp
Kevin Dee
Alexander Brown
Bruce Botelho
Tristan Walsh
Kayc Ullrich
Matthew Benson
Lorilyn Swanson
Forrest Badgley

PROCEEDINGS

CALL TO ORDER

CHAIR SCHUTT called the Special Meeting of the Board of Trustees to order and asked for the roll call.

MS. LOESCH called the roll and said there was a quorum. She added that Trustee Richards had not arrived.

CHAIR SCHUTT anticipated that Trustee Richards would be calling in shortly. He moved to approval of the agenda.

APPROVAL OF AGENDA

MOTION: A motion to approve the agenda was made by TRUSTEE CRUM.

There being no objection, the MOTION was APPROVED.

SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION.

CHAIR SCHUTT moved to Scheduled Appearances and Public Participation and stated that he did not see anyone in the room. He asked if there was anyone online to provide comments and public participation.

MS. LOESCH stated that Casey Alrich indicated public testimony.

MS. ALRICH stated that she was just monitoring.

MS. LOESCH stated that there was no one else online.

FY24 BUDGET ADJUSTMENT

CHAIR SCHUTT stated that the first item on the agenda was the budget adjustment for the year '24. He recognized CEO Mitchell.

CEO MITCHELL stated that there was a supplement in the packet that included a memo affiliated to this request for budget authority to add $222,000 to the current fiscal year budget from consulting to office rent lease that related to the office located at 555 Cordova Street in Anchorage, which will be discussed as part of the budget development process. This is the first step in that based on the directive of the board from prior meetings. A memorandum of agreement was developed with DEC and the Department of Transportation Public Facilities that allowed entrance into a use agreement for the Department of Environmental Conservation space available at the building they occupy in Anchorage. This is a use agreement, with an extended timeframe for the space for up through May 31, 2029, with the ability to end this agreement with 90 days' notice. We can also exit it if they are successful in finding a more desirable Anchorage office for the corporation. He added that staff is prepared to sign this agreement with the board providing budget support for the item.

TRUSTEE RUBENSTEIN asked if $500,000 was put in the budget for an out-of-state office.

CEO MITCHELL replied that, at this point, nothing has been modified in the budget for anything beyond an Anchorage office. We will be looking for guidance from the board on any additional offices.

A discussion ensued on the office plans that were put in motion.

CEO MITCHELL stated that the board has the support of staff to insure that the office is a success to the extent that is possible.

TRUSTEE RUBENSTEIN asked if any of the new hires had committed to moving to Anchorage since the last board meeting.

CIO FRAMPTON replied that two offers were accepted in private equity, and at least one of the two was very interested in Anchorage. In both cases, the plan was to have them come up, do some training, and see where that went.

TRUSTEE RUBENSTEIN asked about the temporary housing allocation.

CEO MITCHELL replied that it is mandated for training for three months if an employee will be working out of the Anchorage office.

CHAIR SCHUTT continued that they will be provided with housing while they are living outside of the office that they intend to work out of.

TRUSTEE RICHARDS let everyone know that he was on and had been for a bit, but did not want to interrupt.

CHAIR SCHUTT welcomed Trustee Richards, and recognized Trustee Brune.

TRUSTEE BRUNE asked if they were ready for a motion.

> **MOTION:** <u>A motion to execute this agreement between the Department of Transportation and the APFC for a $22,000 budget amendment for establishing an office at 555 Cordova in Anchorage. The motion was made by TRUSTEE BRUNE; seconded by TRUSTEE CRUM.</u>

TRUSTEE RICHARDS stated that he understood the motion to be an approval of an agreement. He noted that he did not read an agreement, and asked where it was.

CEO MITCHELL replied that he did not distribute the agreement to the trustees. It did not seem that it rose to the level of requiring the trustees review it. He continued that they had rates for rents that were established in the agreement that were pretty austere in the scope of the budget for office rents: In general, there was a slight escalator of 1 percent a year, and we have the ability to terminate the lease with 90 days' notice. There is a lot of flexibility.

TRUSTEE RICHARDS thanked him and suggested rewording the motion so that it says that the trustees authorize him to enter into an agreement as opposed to approving a specific agreement.

TRUSTEE BRUNE accepted the friendly amendment.

CHAIR SCHUTT the motion is to consider, with the friendly amendment, an authorization for staff to execute the agreement, instead of authorizing the agreement directly. He asked for any further questions or comments from the trustees.

TRUSTEE BRUNE noted that he wanted to make sure that it was on the record that this is an agreement between the Department of Transportation and the APFC, and that DEC was not involved. This is a leased space. The Compass piece that ran said it was a state-owned building, and it is actually a state-leased building that the DOT oversees.

TRUSTEE RUBENSTEIN wanted to clarify that the headquarters is not moving. There had been some commentary that we are moving the headquarters.

CEO MITCHELL clarified that it is nine offices with a small conference room that will be available to staff, as well. He added that it is not a space that is conducive to being the headquarters of the Permanent Fund Corporation.

TRUSTEE CRUM thanked CEO Mitchell for the clarification. He added that that had never been discussed here in any capacity, and he wanted to make sure that the public is aware of that.

TRUSTEE RUBENSTEIN added great job to the staff.

CHAIR SCHUTT asked for any other comments or questions before the vote. Hearing none, he stated that they were ready for the question, and asked for a roll-call vote.

> *After the roll-call vote, the MOTION was APPROVED. (Trustee Crum, yes; Trustee Brune, yes; Trustee Richards, yes; Trustee Anderson, yes; Trustee Rubenstein, yes; Chair Schutt, yes.)*

CHAIR SCHUTT stated that there was a lot of work and some controversy around this office and appreciated everyone's thick skin and hard work to accomplish the strategic objective of the board that has been on the books here for a few years. Hopefully it will be an exciting new tool to recruit and retain quality employees within the State of Alaska. He thanked CEO Mitchell, and continued to the rest of the budget overview.

FY25 BUDGET OVERVIEW

CEO MITCHELL stated that he had not been through this budget planning process before and asked the board for guidance going through the budget. He continued that he was aware of the funding for the Anchorage office, but he generally did not try to anticipate the goals of the board in the construction of this budget. He began with the presentation and then added that the memo had more detail. He stated that he had jotted down potential strategic funding needs that would be the potential of staffing increases for particular asset classes, and the consideration of bringing management in-house rather than relying on external consultants. He continued that the Board could consider additional funding for public relations and outreach in markets that have not been as active recently. He added that, as discussed earlier, in addition to the Anchorage office proposal, the consideration of offices in other locations around the United States, or potentially internationally, and whether those were items to include in the 2025 budget. He then talked about the general discussion around staff compensation and having an effort placed on strategic increases in salaries to be more in line with what their staffs could be compensated. He continued that, in moving through this, none of that had been included in the budget, but board members should be thinking about it. He then began going through the proposed operating budget, which was adhering to the standards of the Corporation and the mission and vision to insure that they would provide for the needs of the organization, and he believed that the budget requests did. He moved to the summary of the two appropriations: the operations allocation, and the investment management fee allocation operations, and he explained them both. He continued through, explaining and answering questions as he went along. A question was raised on the travel line item which was answered and discussed in more detail. He stated that having a budget that can respond to needs when the need arises is a preference of staff. He continued that they could put together additional detail on the projection of spending for travel in FY2025, and provide that to the board at the annual meeting. He added that if the work was viewed as unsupportive of the increment that was requested, the board could modify the budget at that point. He moved to the Anchorage office summary and stated that Phase 1 is an FY25 appropriation to secure the space and build out. He went through the estimates that may need to be revised as interest in shifting between offices continues to materialize. He continued through the breakdown of contractual services that showed the components of the $596,000 increment. He noted, that estimate was based on some of the vacancy rate diminishment, and that some positions would be filled. He stated that they had a solicitation out now with 26 applicants for the director of HR. There is a solid group that is very qualified based on their experiences; a mix of out of state and in state.

TRUSTEE RICHARDS talked about the big increment from last year on training and education. He would not like to see another large increment after this one without some proof that some real efforts and goals and clearer actions were taken to use the prior big increment before adding on another one.

CEO MITCHELL thanked him for the challenge, and he would see what could be provided in advance of the annual meeting to support the request.

TRUSTEE BRUNE stated appreciation for the conversation. He noted that he believed that every one of the employees is an investment. This is an investment organization, and we need to invest in the employees. There is a need to put development plans in place and to figure out their long-term and short-term goals, and to make a commitment to the employees that they are going to be invested in. Those types of messages to employees are incredibly important in working on improving retention.

CEO MITCHELL moved to commodities and equipment. This was where the workstation equipment was budgeted in the decrement because of the three-year replacement schedule that will take place in the current fiscal year. He explained why the Fairbanks data center was determined to be less reliable than required, which resulted in it being relocated to Anchorage. The new facility has more capability and is perceived as being a much better solution to providing backup to the servers in Juneau.

MR. BALOVICH stated that the disaster recovery center was built to carry the Juneau office in a limited fashion, and when it moved to South Anchorage, it was anticipated that it would be the data center for the Anchorage office and the Juneau office. Some of the equipment would be upgraded to be performant for both of those offices. If the Juneau data center goes down, then they would run off the Anchorage office data center, and vice versa. He added that they were both upgraded simultaneously.

TRUSTEE RICHARDS stated that he thought that the Anchorage office would be the location for the backup.

MR. BALOVICH replied the South Anchorage data center will be the primary data center for Anchorage. That saves from having a big, cooled room and paying a lot more to have a data center in the office. He added, that may change if there is space to have a data center in the space chosen down the road. It would be performant and have a network capability to perform very well. He clarified that the data center for the Anchorage office will be in South Anchorage, and would be the backup data center for Juneau.

CEO MITCHELL moved to the personal services line and talked about the variance increase.

TRUSTEE RICHARDS stated that he had a couple of comments on personal services and shared them before he left the call. He talked about the different discussions on compensation and how it would work. His view, which he had stated many times in the last few board meetings, is that peer groups are not the right solution. He continued that the right solution is to have the budget needed to hire and retain the people that need to be hired. He added that he did approve of the way they were going about getting incremental raises, which is to ask for a percentage or fixed dollar amount, and to let Marcus and his team and operations and their team allocate their individual buckets. That is what had worked best in the past, and would continue to work best. On incentive comp, he has always been a supporter of the staff under the one team concept having incentive comp. That ran into some problems getting that through the OMB and the Governor's Office last year. He would like to see CEO Mitchell have those conversations with OMB and the Governor's Office, and see if there has been a change in position there. Those were his thoughts, and he thanked all.

CEO MITCHELL responded that Trustee Richards was entirely right on the operations staff incentive comp and that OMB Director Steininger did not believe that was a path he was interested in going down. He added that he did not know how Director Sanders will feel about it. He continued that he got from the board to advocate for it at this point, and if the board wants to change directions that will be respected.

TRUSTEE BRUNE agreed with Trustee Richards and added that there was a disconnect with the former OMB director. He hoped that the commissioners could have prior conversations before putting in a final budget.

TRUSTEE CRUM noted that there were two P/E staff that recently accepted offers and asked if the increase in the merit and the incentive comp was a factor.

CIO FRAMPTON replied that, as of the last 12 months, this was the first time the incentive comp was a reliable, fully funded, ongoing thing. Those were important factors in those people's decisions, and we were able to be competitive for those positions. He asked for some data based on peer groups recently discussed. It would help to have a three- or four-year annual growth of like positions, on average. He continued that it took five years from when the policy was made to when it was consistently getting funded and paid out. He stated that in the last 12 months it became very real and tangible and is helping with recruitment, and retention and motivating behavior around the office. This is a good place to be.

TRUSTEE RUBENSTEIN brought up other forms of investment for recruiting and asked why the investment staff could not invest their own personal money alongside some of the deals. She continued that it would be a great recruiting tool if allowed.

MR. POAG replied that he would be happy to reach out to outside counsel and ask if individuals that work for our place become accredited investors because they were investing alongside of us. He did not think that the answer would be that they become accredited investors. He explained that to get into a private market, the need is to be a qualified purchaser and a credit investor, and those representations need to be made. He did not know that whether individual staff could participate. He stated that the reason is that an unregistered security is complex and sophisticated, and the SEC wants only certain accredited investors to be making those investments.

TRUSTEE RUBENSTEIN stated that she was trying to understand if there were enough operations staff and whether they were being well paid enough to actually reduce the consultants. She continued that if consultants were being reduced, that the rest of the staff could take on the workload, which probably means adding more investment ops staff. She would like to see personnel services split out, and if that is called back office, middle office and investor staff, the need would be to do those three categories.

CEO MITCHELL stated that if there was going to be a strategic initiative in this budget, there is the need to plan for them and define that need with a plan of implementation that is workable from a staff and market perspective, with a funding scenario to support that. He added that clear direction is needed if that is where they should be heading. He talked about the board honorarium, which matches the authorization for '24. He then talked about the investment management fees. He stated that the final slide is intended to show the efficient nature of the operation. We have 3 basis points of the assets under management that were relied upon for the '25 proposed budget and matched the '24 proposed budget. He talked about the direction of staff, which is to try to move forward on developing a plan for the potential modification of how to do business. He asked the board to help facilitate pursuing an office outside the state of Alaska, if they are interested in that.

CIO FRAMPTON corrected that performance fees are not paid to any consultants.

MR. POAG interrupted and stated that if the board wanted to discuss more of the details about consultants and the fees, that is proprietary information, and could be done in Executive Session.

TRUSTEE RUBENSTEIN stated that that should be done at the annual meeting.

CEO MITCHELL stated that a staff recommendation on a Phase 1 approach, with the additional phases that would be additive to that, to reach through the entire gamut of potentials for the board could be done.

CHAIR SCHUTT called a short break.

(Break.)

CHAIR SCHUTT stated that the meeting was back on record and added that the structured portion of the agenda had been finished and added that now is the time to discuss future agenda items or trustee comments. A lot of that had been done during the structure discussion. He asked if trustees or staff had any questions or comments to address before adjournment.

TRUSTEE BRUNE no comments.

TRUSTEE ANDERSON stated that it was a real honor to be appointed to the board, and he looked forward to working with everyone.

TRUSTEE CRUM stated appreciation to Commissioner Anderson joining on short notice and that he was glad he was able to make it. He also appreciated having this discussion in advance because of the good conversations to have to get the overall vote and tenor. We are looking to grow the corporation for Alaskans. It is important for Alaskans to know that the intent of the Anchorage office has been talked about for four or five years; long before most of these trustees were even on the board. He was glad to be able to action this in a very fiscally responsible manner in order to put that forward. It is an important thing for the overall growth and health of the whole corporation. He likes the direction they are going in, and it is good to hear about the direct feedback on the benefits of the merit pay and the incentive comp. He wants to make sure it is documented over time for long-term durability.

TRUSTEE RUBENSTEIN added that it was nice to be able to get out of financial numbers in a budget and to put them into action strategically. We will now have ways to look at things that are working. It is exciting to go into many meetings and coming up with strategies. She is most excited that there is the ability to update it for a positive outlook.

CHAIR SCHUTT thanked the staff for the preparation on the budget, and he thought that it will be a good, tight budget ready for the annual meeting. He thanked all, and recessed the meeting.

(Alaska Permanent Fund Corporation Special Full Board meeting recessed at 3:35 p.m.)

September 7, 2023

CALL TO ORDER
CHAIR SCHUTT reconvened the meeting. He noted that all trustees were present. He continued to the first item on the agenda which was the discussion about Trustee Paper No. 10.

DISCUSSION OF TRUSTEE PAPER No. 10
CEO MITCHELL stated that in the packet there was an introduction of a consultant that was selected for the compilation and composition of Trustee Paper No. 10. He introduced Dr. Malan Rietveld. He continued that, from his perspective, he envisioned that a narrative would be developed surrounding the history and evolution of the Fund, with some emphasis on some of the current concerns with the two-account system and the current parity of the POMV with the commitment of providing to the State of Alaska each year the potential of the Earnings Reserve Account having sufficient balance to provide for that transfer. He stated that, in support of that discussion, Callan had a presentation, in addition to CIO Frampton, on the matter that highlights

some of the significant statistical probability of a deficiency in the near-term future that warrants the issue being elevated and discussed. He asked for any trustee comments before moving to Dr. Rietveld's presentation.

TRUSTEE RICHARDS stated that he agreed with that and thought that the other important piece is inflation-proofing, because that is one of the dangers of the low ERA balance. A key thing is that it should be a systematic approach. And whoever is on the committee and staff would work with Dr. Rietveld, who will produce a draft. Then it will go to all of the trustees to view, edit, critique and mark up. There will be plenty of opportunity to provide feedback and comments.

CEO MITCHELL suggested having a working group in place in the coming week or two so that the initial conversation could begin and work towards the product.

TRUSTEE RICHARDS mentioned that he worked with Dr. Rietveld on two different occasions. The first was that he was the state's consultant on the Alaska Permanent Fund Protection Act, which was the bill that introduced the POMV. Then, he was the author of Trustee Paper No. 9. He added that he was glad that he had applied and got selected. He has the background, experience, and the knowledge.

CHAIR SCHUTT welcomed Dr. Rietveld.

DR. RIETVELD began by talking through some elements of his background that were most relevant to this assignment. He then gave some thoughts about the process he would pursue and the key points he thought they would want to hit on for this paper, following on from Trustee Paper No. 9. He stated that he had been working for sovereign wealth funds for the past 17 years. And more recently he had really focused on issues that were quite similar to the ones being addressed in this paper. There were issues of governance, issues of interactions between funds and legislative bodies, the budget process. Basically, fiscal frameworks of the sovereign wealth fund, which was also the topic of his Ph.D. He continued that he had been involved with the Alaska process for a number of years and was familiar with the issues at stake and the basic dynamics, as well as the specifics around the ERA and the problems it could cause the Fund down the road. He stated that the common theme among sovereign wealth funds is an increasing trend towards using asset pools for income purposes and creating rules-based frameworks and governance agreements to make sure that those spending policies are sustainable. He added that not every fund has the same sort of constitutional requirement as a US-based Permanent Fund, but the policy objective is often to keep the purchasing power of the assets at least constant or to hopefully grow it over time. There are familiar issues, and Alaska is not alone in confronting them. He continued that, in terms of the process, he would engage with a working group of trustees and hoped to take the burden off the trustees for the legwork on drafting the paper. He added that they had worked through seven or eight edits and drafts of Trustee Paper No. 9. The final point touched on at a very high level in that paper are concerns around the stability and sustainability of the ERA. There was also an issue of creating a rules-based, procedural process for inflation-proofing. This paper, he thought, is more focused on following up on that last point and looking at it in detail. He stated that the timeline that was agreed to is absolutely feasible. He suggested a history of the Permanent Fund itself and describing, in very broad strokes, how there have been subtle changes in what the Permanent Fund does for the State. A key point to mention would be where the issue of the ERA came from and the shift towards focusing on total returns rather than income-producing assets. And to explain the structural and economic factors behind the changes in interest rates, move towards more private and illiquid assets and why the academical case and theoretical case for a total return approach is very solid compared to focusing on income alone. That story could be told with reference to the Alaska Permanent Fund's own history, but also the practice among institutional investors that produce income more broadly. He suggested looking in detail at some of the historical documents that had framed some of the discussion in Alaska. Generally, he thought to look at trust legislation and the Uniform Prudent Management of Institutional Funds Acts. One of the key purposes of that piece of legislation was to do away with very hard and rigid distinctions between principal and earnings. It replaced the requirement that funds could not spend below what was then called the original value of contributions to the kind of preservation of the real purchasing power of capital. That story fits very well with what Alaska has done. He thought that the key message to really emphasize in this paper is two-fold: One is that the ERA corpus distinction is sort of a historical legacy that can now create problems down the road for the ability to make not just the POMV payment but also regular and scheduled inflation-proofing arrangements. The second message would be quite specific and concrete proposals around how to ensure inflation-proofing or purchasing-power adjustments to the Fund's assets. He stated that those were his thoughts and his background, and he looked forward to working with the working group, and was happy to take any questions.

CHAIR SCHUTT asked, as far as the interaction with the data and the modeling that may take place with Callan, if he was comfortable that he had all the tools and communications there to get what he needs for his purposes.

DR. RIETVELD replied yes. He had spoken to Callan and to Greg during the drafting of Trustee Paper No. 9. He very much sees the modeling and the stress-testing or scenario analysis that Callan does as critical to that message.

CHAIR SCHUTT thanked him and stated that he was looking forward to his work product and interactions during the drafting. He moved to the modeling of the Fund.

MODELING OF THE FUND

MR. ALLEN began with a little presentation by noting that one of the questions that came in was what a worst-case scenario looked like. He thanked Val, who pulled together all of the 6/30 fiscal year-end data that allowed them to project forward from that starting point. In this presentation, he did a little bit of a review of the accounting concepts and took a look at the history of some of the important numbers that drove the ability of the Permanent Fund to support the POMV draw, reviewed the spending and appropriation history from the Fund, talked about some of the key variables that they were focusing on, and then showed some ranges of outcomes. Probability estimates in all of the key variables include market value, earnings reserve balance, principal balance, statutory net income, distributions, et cetera; things that were kind of the outcome variables from the various capital market scenarios that will fire through the model. He continued through his history of statutory net income, which is realized return. It is the sum of any income including coupons from bonds, dividends from stocks, real estate income plus realized gains or losses. The variable component is realized gains. He went through the Earnings Reserve Account, and explained how it was calculated. He stated that his model assumed that unrealized losses are net against unrealized gains. He concluded the distribution history and moved to the ERA relative to the projected distribution in the next year. He added that the smaller the ERA gets, the more vulnerable the whole system is with one or two bad years. As the distribution gets larger relative to the dividend-driven model, that will obviously aggravate the situation.

CHAIR SCHUTT stated that the other corollary issue to deal with is the inflation-proofing. While that does not necessarily need to be constitutionalized, there is a need to produce a rules-based framework that can be adopted as a recommendation for the Legislature to appropriate toward inflation-proofing. He added that, by definition, given the amount of funding that is sent to the State government means that the State government has no money to appropriate without borrowing or something, which is a set-up for a difficult situation if it is not fixed.

MR. ALLEN continued his presentation moving to the volatility in distributions. He stated that the principal balance was pretty stable and growing and growing at or faster than inflation. He went through his models with the whole range of outcomes, including worst-case scenarios. The Permanent Fund is diversified across a bunch of different uncorrelated asset classes and reins in that range relative to equities. That gives an idea of the range of outcomes that are being explored in the capital market space. They actually now ran the model and were tracking statutory net income, which is a much narrower range of outcomes than total return.

DR. RIETVELD shared the basic sovereign wealth fund model which is basically the same as any kind of permanent income endowment model. The POMV, or spending rate, should be equal to the long-run real return. The whole question about inflation-proofing in the Alaska case all rises from this ERA/corpus distinction. In the long run, if the Permanent Fund is able to generate, on average, over the next decade, a 5 percent real return, there would be no real reason to have an inflation-proofing appropriation.

MR. ALLEN stated that that is a really important point. An achievable spending level has to be adopted, and more of that cannot be spent just because you need it or happen to have it. There is a temptation in the good times to forget about the bad times and potentially overspend. To the extent that the constitution changes, it would be handy if, at the same time, a spending rate that is inviolate be locked in. He concluded that the idea is to instruct on probabilities and mechanics.

CHAIR SCHUTT called a break.

(Break.)

CHAIR SCHUTT called the meeting back on the record, and recognized Marcus Frampton.

DISCUSSION OF STRATEGIC PLAN

CIO FRAMPTON stated that the last time he did a kind of comprehensive analysis of the ERA was back in 2020. Back then the Fund was $68 billion, and it is 15 percent bigger today, which is good for the analysis of the ERA. It was $14 billion back then, and is $10 billion today. Back then the approach he did was very different than the approach Callan did. The approach he did was looking at historical capital market scenarios going back to 1900, and he then ran those as scenarios through his model. Back in 2020, there was a POMV shortfall in 65 percent of the scenarios modeled. Today, there is still a 65 percent POMV shortfall in the scenarios. Back then, Callan was 15, and today they are at 25. The other thing he noted, that was not included in the materials, is that he and Trustee Richards worked together on some mitigation strategies for situations like those now with no ERA. He added that they were all rules-based and went through the different models. Also looked at were different asset allocations to the ERA versus the principal, which is another mitigation strategy. The model is still set up and updated where all those things could be looked at. He pointed out the last bullet point of having a more moderate forecast for statutory net income. He went through some thoughts on what the statutory net income might be this year and in the near term, but it was a little bit lower than 5.

MR. ALLEN asked if CIO Frampton's model was only allowed to spend realized ERA balance, and stated that there was some question about actually spending or committing to spend unrealized ERA balance. He did not think or know where it would have to be realized to be spent.

CIO FRAMPTON stated that, on the more optimistic side, all the guts of the model was forecasting statutory net income, all the complexity. If it was assumed that for the next 10 years it would be $3.1 billion of static statutory net income, without inflation-proofing, there would be no problem with ERA durability. That was a conservative statutory net income.

TRUSTEE RICHARDS stated that the trustees had asked for modeling from three different perspectives. Ms. Mertz presented a deterministic, scenario-based analysis. Mr. Allen did the Monte Carlo analysis and updated what he had done. Then, CIO Frampton did the historical, applying the past to the future. They all got different outcomes, and none of them were wrong, because it was modeling. He continued that it was useful to have three different outcomes of three different models because of looking at the problem from different perspectives and sides. He pointed out that, before going forward with whatever would be the presentation, particularly to the Legislature, there is a need to simplistically say what each one showed and why they were showing something a little different.

CEO MITCHELL stated that to him that all said the same thing. They all showed the probability of failure, and that is the concern. There should be a zero probability of failure. The probabilistic modeling where it was 5 percent, should be .005 percent.

CHAIR SCHUTT stated the problem was that a lot of red was highlighted, which pointed out the current risk. There are fiduciary duties and a general obligation to the public to make sure that there are no problems. Looking at this, there is a problem, with too many scenarios where there are problems. They are not based on wild assumptions. They are based on fairly conservative and reasonable assumptions, and there are problems.

COMMISSIONER CRUM stated, from a public education standpoint, the need for a statutory net income and to get that out there. He continued that the statutory net income and how that plays into this, and what it meant about the actual function of the Fund and how that plays into the statutory obligations with the POMV needs the educating.

CIO FRAMPTON stated that the model that talked about the historical capital market scenarios predicted the average annual return by decade for stocks and bonds and then the return on a 70/30 mix, which is the proxy for the portfolio. There have been decades when the market just has not provided the return that was needed. He explained how he did his model with the key assumption being the 20 percent portfolio turnover rate. The capital market projections generate the gains that were available for harvesting. He added that 20 percent was a good average that had been experienced over time. He continued explaining the model.

CHAIR SCHUTT stated that they had this decade of, effectively, free money that they are coming out of rapidly, and the transition effects of that are real. That was part of why this thing was precipitating in front of this transition of all the markets.

CIO FRAMPTON pointed out that in the last 100 years there had been three terrible decades and historically there were three decades with zero real return. That was 30 percent of the time that there was a terrible decade. He continued that he thought there would be a 30 percent change in the next decade and it could be pretty terrible.

TRUSTEE RICHARDS thanked CIO Frampton and Greg Allen.

CHAIR SCHUTT transitioned into the discussion of the strategic plan, welcomed Kevin Dee.

INTRODUCTION OF KEVIN M. DEE, PRESIDENT, KMD SERVICES & CONSULTING, LLC.

CEO MITCHELL stated, from his perspective, that there had been one working group meeting and he hoped that already established a road map leading to the culmination of the plan of having a written document. The target is to have that happen in October. He stated the need for the working group and the entire board to be focused on this on a weekly basis leading up to that. He wanted to touch base in a formal way at the annual meeting and provide an update. He continued that there was an opportunity to use Kevin Dee and his skills to help facilitate the desire of the board in creating this strategic plan. He thanked Mr. Dee for being there.

CHAIR SCHUTT stated that he had spoken with Mr. Dee a couple of times in preparation, and he has the kind of pyramid of things that lead to an actionable plan. He continued that, unless any other trustee disagreed, they were not going to revise the mission and not go through core values or re-articulate a vision. The working group had produced a list of things, and part of it was deciding on a process and then deciding on the consensus, the big-picture strategies that they think were important.

CEO MITCHELL clarified that the focus with consultants was in the private equity space.

MR. DEE had done typical overarching goals for the area which fall under HR, and that was to attract and retain world-class talent. He did some of the recruiting strategic planning out in Kotzebue. They realized that traditional methods of hiring were not working. They needed to find the people that would stay there. He explained that people were showing up on the plane, looked out the window and would not get off the plane; they would leave. They realized that they needed the people that hunt and fish. people who like to travel, dog mush, and all of the above. They had a very focused campaign to find where those people were. They started advertising in hunting magazines, fishing magazines, Outdoor Life; and they had a much higher success rate. He stated that the point was: where they were going and how to get there as a strategic plan. He continued that the Board has identified some very strong themes, and earlier today identified a lot of risk. He hoped that there is clarity within the organization, and how they would carry it out and propose to carry it out, and that there was insight into the cost of that. He talked about strategy mapping and stated that the goals would be more likely to be accomplished in a timely manner. He stated that the clarity on the goals and objectives is the key part. The mission, vision, and values are well in place, and they are not up for discussion at this point.

However, some risks were identified, and risks need to be addressed. They need to be quantified and qualified in mitigating factors. He continued that every goal should have a benefit, and how will that be communicated. Finally, how will it work internal to the staff, and how will they work together to make this all happen,

TRUSTEE RUBENSTEIN asked if there were ever two facilitators when this was done. This corporation did not have a problem making documents, mapping and measures. She genuinely wondered if getting a second facilitator be brought in, instead of trustees getting all of the stuff to get the measures. She stated that the point of the facilitator is to make it less work on the board and the staff that had been working tirelessly all summer in order to get here. That would be someone who had clients where they gave the plans they had written. It is that data that we do not have. She continued that her concern was how to get the input data faster.

TRUSTEE RICHARDS stated that six bullet points were identified, and he suggested putting two staff on each bullet point, breaking it down into work teams, and working each of them as individual problems.

CHAIR SCHUTT stated that the data that follows is in the execution. The exercise, at the board, is to identify strategic objections. He stayed on the compensation and continued that the compensation data set will not get resolved in two months because it had been struggled with for a while, and we are still struggling with who our peers are. He added that the strategy is to be competitive globally for talent, given who we are. He stated the immediate exercise is the need to come to a consensus of what they want that number to be and in what timeframe. Then everything else could follow with a longer tail for getting data and developing plans and things. He continued that part of the exercise will be developing strategic objectives or strategic goals that update where we are, and to communicate that to important stakeholders, including the general public. One of them needs to be an assets-under-management type of goal, and then other things could flow from that.

COMMISSIONER CRUM stated that it will be a long process, not an immediate thing. This is not for this budget cycle. This is something to put forward and lay the groundwork on. This will be a long, deliberate process to make sure we are working on sustainability, and to do it in a thoughtful manner to make sure it is done.

TRUSTEE RICHARDS added that the strategic planning goal is to create the framework to get this done and analyzed over a five-year period.

CHAIR SCHUTT went back to the fact that there are some tasks and tactical objectives that need to be reframed into a strategic goal that would be relevant. He added that goals without schedules never get accomplished because there is nothing to be held accountable against.

TRUSTEE RICHARDS followed up and requested consideration for specific targeted plans for each asset class.

CHAIR SCHUTT asked for any other matters, future agenda items, or trustee comments.

COMMISSIONER CRUM requested that an Executive Session be placed on the agenda for the annual meeting.

MR. POAG stated that it needs to be attached to an agenda item.

COMMISSIONER CRUM stated a kind of a combination of consultant contract to even just personnel matters or items of concern so board members could talk.

CEO MITCHELL noted that there are very specific rules about the use of executive session privileges.

COMMISSIONER CRUM wanted to make sure that they had the process. No decisions are made in executive session, but we need to have the room to sit down and talk with the executive director on items.

CEO MITCHELL stated that the conversations have to be limited, and it needs to be very clear to the public.

CHAIR SCHUTT stated that they have attempted to be very disciplined in the use of executive sessions to stick to just the things noted in executive session, and not masking other conversations. Any other topic would need to be added specifically so that it is also part of the notice and what the discussion would be limited to. He thanked Mr. Dee for his participation. He asked for anything else to come before the board.

TRUSTEE RICHARDS asked if the ability to realize gains in a bad cycle where there were ERA durability issues, if that is a tool that moved the needle. If it is, then it should be communicated to the Legislature as maybe a power that they want to give us. Or, if it is not, tell people so that could be put to bed as being the excuse of why things do not happen.

CHAIR SCHUTT asked for any other topics or requests.

TRUSTEE RUBENSTEIN asked to have the financial media, global, ones come and present at the annual meeting.

TRUSTEE ANDERSON stated that it was a really good presentation and stated his appreciation for all the work everyone put into it.

CHAIR SCHUTT asked for a motion to adjourn.

> **MOTION:** <u>A motion to adjourn the meeting was made by TRUSTEE RICHARDS; seconded by TRUSTEE RUBENSTEIN.</u>
>
> *There being no objection, the MOTION was APPROVED.*

CHAIR SCHUTT adjourned the meeting at 12:07 p.m.

(Alaska Permanent Fund Corporation Special Board of Trustees Meeting adjourned at 12:07 p.m.)